Annual Report and Accounts
2008/2009

[dstl]

Defence Science and Technology Laboratory

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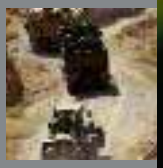

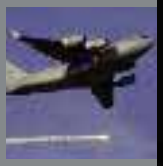

Defence Science and Technology Laboratory

Annual Report and Accounts 2008/2009

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Our Vision, Purpose, Mission and Principles

Vision
Our Vision describes the kind of organisation we aspire to be. It is an expression of how Dstl will build a successful future. It addresses what we are passionate about doing, and what motivates us.

Our Vision is to be the indispensable source of Science and Technology (S&T) at the heart of defence.

Purpose
Our Purpose defines what the organisation is here to do and is a statement of what the Ministry of Defence (MOD), as our Owner, requires from us.

Our Purpose is to deliver value to the UK taxpayer by providing outputs of research and timely advice and solutions to customers' defence and security-related problems.

Mission
Our Mission describes the organisation in terms of the impact we want to make in the world. It reflects how we intend to fulfil our Purpose and achieve our Vision.

Our Mission is to create the winning edge for UK forces and Government through the best use of S&T.

Principles
Our guiding Principles underpin everything we do:

- trust
- focus on outcomes
- working together
- innovate
- impact
- agility
- work safely, securely and sustainably.

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

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The work we do

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

- decision support
- defence enterprise management support
- support to operations
- innovative capability and systems concepts
- innovative technology exploitation
- S&T services.

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

We work extensively with industry and academia to help understand, develop and evaluate a range of options to meet customers' future capability requirements. We also exploit advances in S&T to deliver practical solutions to defence and security-related problems in areas of national and international sensitivity.

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

The breadth of our work means that our highly skilled and professional workforce is operating at the leading edge of defence S&T. We are therefore a key source of specialist staff for MOD and Other Government Departments and our people also work on secondment, or interchange, in these organisations.

Chairman's statement

"MOD has been reshaping its approach to science and innovation to make it more agile and to involve industry and the academic community more effectively, and Dstl has been keen to play its part in this change."

I am pleased to introduce my first Annual Report as Chairman of Dstl.

Throughout this report, you will see evidence of Dstl's impact on our customers' most important problems – from involvement in more than 20 Urgent Operational Requirements as part of our PARSIFAL armour programme through to the development of an innovative antitoxin for ricin poisoning. I have been able to see for myself our work in support of our forces deployed on operations, particularly in their very demanding counter-insurgency role. Here, as elsewhere, I have been much impressed by the professional skills of staff at all levels, their commitment and sense of pride in what they do.

Many other examples of our contributions to innovative and more cost-effective approaches are featured in this report. Dstl supports not only MOD and the Armed Forces but Other Government Departments, as highlighted in the Government's recently published white paper on 'The United Kingdom's Strategy for Countering International Terrorism'. We want to be at the heart of the development of the Government's security policies and programmes.

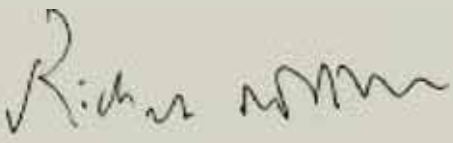
Dstl has a number of roles, not just in research and modifying or introducing new technology, to provide our forces with a competitive edge. The organisation provides advice and decision support across the range of MOD activity and more broadly. Priorities for the Board have been to ensure that Dstl has the skills to fulfil all these roles, and to balance short-term operational demands with the need to sustain the scientific contribution to the long-term success of our defence effort. MOD has been reshaping its approach to science and innovation to make it more agile and to involve industry and the academic community more effectively, and Dstl has been keen to play its part in this change. One consequence is the need to focus Dstl's effort more sharply on those areas where it can make a real, high-quality contribution.

This year has also seen Dstl's transformation programme – i lab (integrated laboratory) – move into its final phase. i lab is delivering state-of-the-art facilities and accommodation at our sites to support new ways of working. These changes will deliver many benefits in terms of making more effective use of our facilities, co-locating teams on sites and providing an enhanced environment in which to work. More than 500 staff have moved to new places of work as part of i lab in the past year and a further 700 staff will move site in the next 12 months. I, and my colleagues on the Dstl Board, fully understand that this has involved considerable disruption for our staff and their families as they relocate to their new places of work and homes. i lab is being delivered to time and to cost and I pay tribute to all those who have contributed to this success.

As the report shows, Dstl has delivered many innovative solutions for its customers, and met its targets while increasing value for money. This result reflects much skill and hard work by our Chief Executive, Frances Saunders, her Executive colleagues, and Dstl's staff at all levels.

This year has seen substantial changes to the Dstl Board. I want to thank my predecessor Richard Maudslay for his contribution and commitment to Dstl's success. Admiral Sir Nigel Essenhigh and Professor Patrick Dowling have both completed their tenures as Non-Executive Directors. They brought a wealth of experience to the Board and I thank them too for their contributions.

Undoubtedly, we will face further challenges as public expenditure comes under pressure in the years ahead. I am confident that Dstl staff will rise to the challenge and continue to play their part as the indispensable source of S&T at the heart of the Government's defence and security efforts.



Sir Richard Mottram
Chairman
2 July 2009

Chief Executive's statement

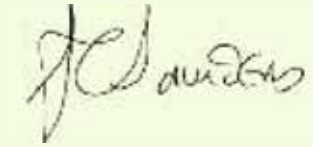
This has been another very successful year for Dstl, both as an organisation and, even more importantly, in the level of support we have provided to our colleagues in MOD and Other Government Departments. Our income has continued to grow, driven primarily by the increase in technical leadership of some of the key areas from which rapid pull-through of technology into Urgent Operational Requirements is most needed; such as armour, platform protection and counterterrorism. Although we are leading many of these programmes, we cannot, of course, deliver successfully on our own. This year has, therefore, seen more work placed through us with industry and academia as we forge the productive relationships MOD needs if we are to keep pace with the rate of technological change and a very challenging operational environment. Our proactive support for the new ways of engaging the wider supplier base (being championed by MOD colleagues) has also been critical to the success of these initiatives. This year has therefore required an increase in responsiveness and innovation from Dstl staff as they play their part in ensuring that MOD makes the most of the opportunities to create new and different solutions to delivering enhanced military capability.

Our people have continued to play an important role in direct support of operations out in Afghanistan and Iraq. More of them are spending part of their time working alongside the senior staff and Integrated Project Teams in Defence Equipment & Support as we co-create a culture of closer working. We have also made good progress in streamlining our interfaces and developing our relationships with other parts of MOD. Taken together, these developments ensure that we can provide more coherent S&T support to all elements of the defence enterprise.

We have also grown the research and technical support we provide to Other Government Departments. Here, again, we do not do this in isolation but continue to work closely with other Government laboratories and strengthen our collaborations in areas such as emergency response through the Interlab Forum.

In parallel, we have had an increased level of dialogue with senior stakeholders concerning our future plans and we have established the key areas in which they can have confidence that Dstl will maintain technical leadership for the long term. The agreement by our Owner's Council of this future positioning has been an important step and a signal to the organisation of our future technical direction and the roles we should take in working with the wider defence S&T supply base.

One of the internal highlights of the year has been the move into our new building at Porton Down. Making this move whilst maintaining such a high level of customer delivery was an immense challenge. Everyone associated with the i lab programme, and those who made the move from other sites, worked incredibly hard to make this a success. Now we are settled in, everyone I talk to likes the new working environment and we are just starting to exploit the potential it offers for creating flexible work spaces where teams from across Dstl, and beyond, can come together to work on the most challenging defence and security problems. The Tiger Team that we are hosting to address detecting Improvised Explosive Devices is just the first example of this approach which, I hope, will enable Dstl's ambition of being a really great place to work, and where to come to do leading edge applied research; not just a great place for our own staff but also for those we work with. This is an important ingredient in achieving our vision of being truly at the heart of Defence, and applying first-class S&T capabilities to deliver the winning edge. This year has been another important step on that road and I would like to thank everyone who has contributed to supporting the efforts of our Armed Forces in operations through their work, as well as an excellent set of results for Dstl.



Frances Saunders
Chief Executive
2 July 2009

"Our income has continued to grow, driven primarily by the increase in technical leadership of some of the key areas from which rapid pull-through of technology into Urgent Operational Requirements is most needed."

Customers and markets

The Ministry of Defence (MOD) and wider Government environment in which we operate has continued to change and we have anticipated these changes to ensure that our programme and capabilities remain focused on the topics of highest impact, consistent with our role of undertaking the work that is best done within Government.

Our top priority, along with the rest of MOD, has been to support our Armed Forces in two theatres of operation, where not only have we continued to deploy scientists, analysts and trial teams but we have directly supported Defence Equipment and Support (DE&S) in the delivery of 33 Urgent Operational Requirements (UORs) and brought research projects directly to bear on operations. Alongside this, we have also given the highest priority to specialist support to Other Government Departments (OGDs) and police forces in security and counterterrorism operations in the UK.

The majority of our income continues to come from defence research, and has increased this year, but income in other areas has also grown, particularly support for DE&S and OGDs. Much of this growth reflects our developing role in working with industry. The volume of subcontracting to industry and universities has grown this year by £3.9 million. We have continued to deliver a wide range of work funded by the defence research budget held by MOD Science Innovation Technology (SIT) staff, drawing on our role as an enabler across the whole MOD research programme and its exploitation, as well as in delivering sensitive research.

The strategic direction of MOD's research programme, and of the means by which it is delivered, has undergone significant change this year. There is, in particular, a greatly increased emphasis on innovation, rapid pull-through to the equipment programme and operations, exploitation through industry and the wider engagement of non-traditional suppliers and Small and Medium Enterprises in the programme. We have successfully developed our programme to reflect this emphasis, ensuring its quality and alignment with these objectives through formal reviews of every project with stakeholders and independent experts.

We have directly supported SIT in the development of the Defence Technology Plan, through a series of Capability Visions to challenge conventional thinking, and through the Centre for Defence Enterprise (CDE), facilitating the exploitation of novel ideas from a wider supplier base across industry and universities. We assessed 300 such proposals for the CDE in its first year.

The contractual interface with SIT was streamlined, replacing 175 separate contracts with just four, for advice, studies and concepts, technology and solutions and specifics. Not only has this significantly reduced transactional costs, it has increased flexibility and responsiveness and given greater focus to the aims of the research programme. This will be used as a model for simplifying the tasking arrangements with other major customer groups.

Our relationship with DE&S is also maturing and we are seeing real value added by the Science Gateways initiative. This involves senior science and technology experts working within the DE&S clusters to enable better access to Science and Technology (S&T) advice from Dstl and more widely. This initiative has been highly praised by DE&S, which has appreciated our impartiality, knowledge and responsiveness, and also the important role that Dstl has played in advising MOD on technical risk, technical assurance and through-life decision support.

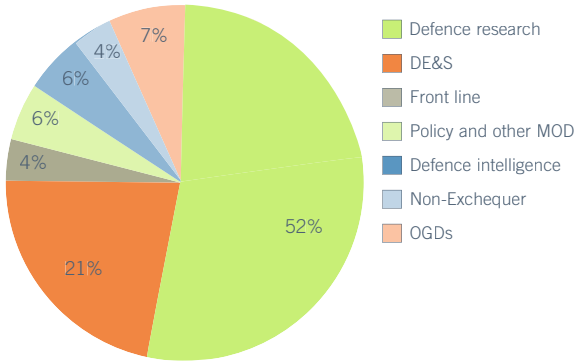
With momentum gathering on Through Life Capability Management, we have worked closely with DE&S as it introduces Programme Boards and pilots its Technology Core function.

Making our capabilities available to OGDs in support of the security and counterterrorism agenda has continued to develop. In fact, the volume of such work has grown by 22 per cent over the past year, while continuing only to do that which is best undertaken within Government. Dstl has a long history of providing support to OGDs in niche areas but this has been increasingly supplemented by the application of our wider capabilities, originally developed for the MOD programme. The additional tasking comes from many departments, especially the Department for Transport and the Office for Security and Counter-Terrorism, as well as a growing demand from preparations for the 2012 Olympics.

For example, a recent horizon-scanning study undertaken with the Counter-Terrorism Science and Technology Centre was presented to the Committee of Government Chief Scientific Advisers. The study generated significant interest on S&T developments potentially applicable to counterterrorism, and drew strong praise from the Government Chief Scientific Adviser, Professor John Beddington.

Non-Exchequer work is conducted for foreign governments or for UK industry. Such work is always undertaken with MOD agreement, supporting UK policy and delivering a defence benefit without undermining our role. This has included, in particular, chemical and biological defence tasks from US government agencies as part of joint UK/US programmes. Together with colleagues in MOD Head Office and other departments, we have used examples from our programme to raise the profile of Government science and technology, securing much positive press and media coverage.

2008/09 Dstl income by market



Key highlights from our programme of work

Support to MOD's major procurement programmes

Future Rapid Effect System (FRES)

The FRES programme will provide the UK Army with a fleet of medium-weight vehicles that will replace ageing manoeuvre support transport. In the past year, the majority of Dstl's support to FRES has focused on the tracked Specialist Vehicle (SV) element. In this area, Dstl has developed an Operational Analysis (OA) programme, which will lead to the down-selection of a single SV prime contractor early in 2010.
Dstl's programme comprises balance-of-investment work, a Combined Operational Effectiveness and Investment Appraisal and support to a series of experimentation events using Niteworks (the MOD/industry decision-support partnership). Dstl staff have also provided significant support to both the requirements-trading and trials-planning activities, and to developing the Invitation to Tender for the SV prime contractor competition.

Carrier Strike

Dstl has a key role to play in the Carrier Strike programme, particularly on the Joint Combat Aircraft (JCA) project. This year, Dstl provided extensive input in the areas of variant risk and OA to underpin investment approval by MOD.
The Dstl CUTLASS simulation facility has been used in three trials to investigate Joint Strike Fighter capability and interoperability and to provide requirements support to Australian and Canadian programmes. Dstl technical expertise has supported the review of critical sub-system design and qualification methods. Dstl has also provided extensive input to help DE&S develop a business case and statement of work for industry to reduce key technical risks. Staff have also been deployed on secondment to the US-based Joint Program Office.
In 2008/09, two Dstl members of staff were seconded to support propulsion-systems and mission-systems activities. In both areas, Dstl has had a significant impact and been commended for its work and approach.

Support to operations

Eagle's summit

Dstl's Scientific Advisers (SciAds) provided support to a major military operation to transport a hydroelectric turbine 180 kilometres by road from Kandahar to the Kajaki dam in Afghanistan. The SciAds advised on how to protect the troops involved in OQAB TSUKA (the Eagle's Summit) and the turbine itself. In particular, an armour scheme was designed to protect vital, but easily damaged, turbine components from insurgent attacks, balancing the need for protection with the need for vehicles to be lightweight enough to cross the rough terrain.

Innovation that saves lives

Delivering life-saving treatments

During the year, Dstl has again demonstrated its world-class technical expertise and innovation in the development of medical countermeasures for chemical and biological warfare agents.
Using specialist capabilities and knowledge, Dstl scientists have developed a promising treatment for ricin poisoning. The antitoxin has been shown to be 100 per cent effective in animal models when administered up to 16 hours after exposure to ricin. The antitoxin was developed for use with military personnel but it is hoped that this antitoxin could also save lives as a treatment for civilians in the event of exposure to ricin following a bioterrorist attack.

Armoured solutions

Building on high-quality scientific research on armour technologies in recent years, Dstl has exploited its knowledge in this field to continue to support the PARSIFAL accelerated development programme.
In the past year, Dstl has provided advice, producing innovative armour solutions and linking together stakeholders from MOD and industry to bring new armour technologies quickly through from research into operational service.
PARSIFAL has now supported more than 20 UORs, most of which have been designed to improve the protection of land vehicles against the evolving threat. The PARSIFAL programme has also been expanded to incorporate physical protection for the dismounted soldier. This advanced armour protection has already been credited with saving the lives of soldiers on operations in Afghanistan and Iraq.

Exploiting our research base

Countering the threat

Dstl is providing key technical support to DE&S in the development of a new generation of infra-red countermeasure (IRCM) flares in collaboration with UK countermeasure (CM) manufacturers. These flares are designed to give platforms increased protection against surface-to-air infra-red threats.

This project has drawn on Dstl's specialist knowledge acquired from previous IRCM Research and Development (R&D) programmes and involves extensive use of the organisation's unique facilities. Dstl works in partnership with DE&S, the Air Warfare Centre and UK CM companies to react continually to evolving threats by ensuring that improved CM flares are available for front-line use to meet demanding timescales.

Flexible future countermeasures

A major investigation on future mine countermeasure capabilities was spearheaded by Dstl in 2008. The aim of the Capability Investigation (CI) was to develop a method for delivering Mine Countermeasure (MCM) capability in a more agile and flexible manner than currently possible.

Dstl brought together a rich mix of MOD and industry stakeholders through regular facilitated workshops to explore key issues. Dstl staff also provided advice and niche systems skills to enable stakeholders to engage in open and honest discussions on a range of technological, financial, commercial and industrial topics.

The CI highlighted the viability of transitioning to a significantly different way of undertaking MCM, focused on unmanned systems and the consequential opportunities and threats across the Defence Lines Of Development, such as training, personnel and equipment. This has provided much-needed clarity to capability management activities, research planning, industrial capability and risks. The investigation has shown the real value that Dstl can bring to MOD's strategic business. In the MCM area, MOD and industry are now in pursuit of a common aim and the format of this work was seen by the MOD Equipment Capability customer as "an exemplar for future CIs".

Partnering with industry and academia

Setting new standards

Dstl is setting the standard for a new generation of Force Protection Electronic Countermeasures (ECM) using novel systems approaches.

The demands placed on the UK's Force Protection ECM capability have increased substantially in recent years. Traditionally, Force Protection ECM equipment has been developed as a standalone capability with limited integration abilities.

Using model-based systems engineering, Dstl has successfully applied a MOD Architecture Framework to explore future capability requirements and enable UK Land Forces to carry out military tasks in the presence of anticipated threats. Within four months, the work provided an Invitation To Tender to enable early teaming with industry, providing suppliers with clear user requirements.

Dstl is now supporting DE&S and the Counter-Terrorism Science & Technology Centre in the procurement of the new capability by working in partnership with industry, providing specialist technical knowledge and defining the systems architecture. This work has received commendation from industry and from the customer, who has requested that the same approach is applied on another programme.

Collaborative thinking

In the past 12 months, Dstl has led the development of the University Defence Research Centre in signal processing, which will provide a focus for cutting-edge activities in the field.

This centre is jointly funded by MOD and the Engineering and Physical Sciences Research Centre. Dstl has selected Imperial College London as its preferred supplier for undertaking core classified research through this centre.

Dstl staff will be working with academic peers and exchanging knowledge to address some of the most pressing signal-processing challenges. Well-aligned research programmes in academia and Dstl will be identified and taken forward as paired delivery programmes.

Dstl staff will gain exposure to the academic programme through exchange arrangements and benefit

"This has been another very successful year for Dstl, both as an organisation and, even more importantly, in the level of support we have provided to our colleagues in MOD and Other Government Departments."

Frances Saunders,
Chief Executive

from external review and guidance. Similarly, the centre will allow academic staff to gain a better understanding of the military applications of their work via Dstl, providing unprecedented access to real-world data sets.

Working across Government and internationally

Radiating ideas

In the past year, Dstl has teamed up with the Health Protection Agency (HPA) on a three-year research programme involving the rapid screening of radioactive particles (radionuclides).

The project is investigating screening methods available on existing radiation detection equipment to enable early prediction of radiation sickness. This, coupled with other bio-assay techniques, will allow triage of mass casualties after a radiological dispersal event. Both organisations are working on computational models to calculate the radiation field outside the body following a radiation incident or accident, and validating this approach against radioactively doped physical models. This can identify the quantity of intakes of threat isotopes likely to require medical intervention. For threat radionuclides that do not produce radiation fields outside the body, the exposure can be estimated using radiochemical analysis of bodily waste and models describing the kinetics of radionuclides in the body to derive appropriate detection limits.

The programme will lead to information and training packages for medical staff for many radionuclides, including screening methods for triage purposes. Both Dstl and HPA are building on previous experience of rapid screening of radioanalytical and detection methods from collaborative work on the investigation into the poisoning of Alexander Litvinenko.

Detection down under

Dstl staff took part in a five-nation underwater harbour security trial in Sydney, Australia in February 2009. Trial Kondari was organised by The Technical Co-operation Program (TTCP) Maritime Action Group 9 – Underwater Force Protection. Dstl chairs this group and was a key partner in the running of the trial. The UK partially funded technology contributions from industry that were used in the trial. These included high-frequency sonars, an unmanned underwater vehicle and the underwater acoustic cats' eyes from Sub-sea Asset Location Technologies Ltd (SALT Ltd) – a Dstl spin-off company. Trial Kondari provided an important opportunity for end-to-end testing, co-ordinating the detection, classification, response and warning systems through a Command and Control centre. The trial also enabled the technologies to be tested in tandem using an integrated systems approach, and participants are now in a much better position to understand the 'art of the possible' in underwater force protection. This work will support the development of the Royal Navy's requirements and capability development.

Forging industrial links

Forging closer links with industry is a key element of Dstl's strategic plan to help MOD manage future programmes of work in the most effective and efficient manner.

In recent months, Dstl staff have been working closely with the Government's Technology Strategy Board (TSB), part of the Department for Innovation, Universities and Skills, and the Department for Business, Enterprise and Regulatory Reform, on a wide range of industry consortium projects. These include the £38 million 'Integrated Wing' project – a three-year programme focused on the validation of complex technologies and systems critical to maintaining UK leadership in wing design. Other projects include the £103 million 'Next Generation Composite Wing' programme, which is a major new R&D project that will improve future wing design processes and help to maximise the eco-efficiency of future aircraft designs.

Dstl has also supported the TSB in the assessment of bids from two recent calls on high-value manufacturing and sustainable materials. Dstl is now applying its impartial expertise, gained from MOD investment, to advise OGDs on all aspects of materials behaviour and application.

Capabilities and collaboration

It is of paramount importance that Dstl maintains and develops the capabilities required to meet customers' current and future needs. This requires us to be proactive in anticipating, and in some cases helping to shape, future requirements and involves staff across all of our 12 Departments. Our programme of work increasingly requires the rapid and effective creation of productive, interdisciplinary teams – drawing on internal expertise and external capabilities in industry, academia, OGDs and overseas organisations where appropriate. Optimising the strength of our resource base, and the efficiency with which we can configure it to meet emerging requirements, will prove fundamental to our future success.

We have developed and implemented a consistent framework to characterise the technical competences of our staff. This technical competence framework has been analysed in relation to Dstl's capabilities and demand trends. The work highlighted the inherent flexibility of our skilled workforce to meet emerging and future demands except in specific identified areas such as OA, where targeted recruitment and development activities are being undertaken at corporate and local levels.

Dstl's Annual Capability Development Planning process, as well as responding to strategic customer demand trends, responds to the capability development needs that are identified by technical benchmarking. The latter has identified significant capability improvements over the financial year, correlating well with observed progress across Dstl in implementing agreed capability planning actions.

We have also reviewed the Dstl-owned facilities that are critical to delivering the programmes of work that our customers require. This has helped us to understand better their maintenance requirements and possible alternatives such as joint ownership or hire that may provide improved cost benefit. The review is due to report in 2009/10 and will be implemented from 2010/11 onwards. Successes to date include the opening of 39 new multi-purpose laboratories within our new building at

Underwater sensing

Osprey is a consortium of 17 academic and industrial partners working together in underwater sensing to advance exploitable technology. Dstl, while remaining outside the consortium, plays an important role in advising and steering the consortium proposals and assessing their outputs. Dstl can then provide impartial advice to the Integrated Project Team (IPT) about the suitability and maturity of the technology to be taken forward into operational systems.
Osprey has recently contributed to a Technical Agreement (TA) between the UK and France, working with Dstl and the Maritime Warfare Centre (MWC) in the UK and Délégation Générale pour l'Armement (DGA) in France. This four-year agreement focuses on demonstrating the benefits of using multiple spatially separated transmitters/receivers (multistatic) and wideband active sonar on UK and French Naval Assets. This will exploit the synergy between the UK Sonar 2087, which is fitted to Royal Navy Type 23 frigates, and the French CAPTAS sonar, which will be fitted to the Franco-Italian multi-purpose frigate FREMM (Frégate Multi-Mission/Fregata Europea Multi-Missione).
Dstl has agreed areas of collaboration and their objectives, advising on technical aspects, including satellite communication between participating surface ships, and will supervise the conduct of a number of at-sea trials using prototype and experimental systems. MWC will focus on securing Fleet assets and identifying suitable tactics for the trials.
Osprey will interface the multistatic processing through a configurable Open Architecture access point to Sonar 2087 and provide wideband prototype sub-systems for the trials. These technologies provide candidate enhancements to the Final Operating Capability (FOC) of Sonar 2087 and the trials will enable the Royal Navy to assess their military benefit.

Porton Down to replace outdated single-purpose laboratories.
Having implemented a structured approach to assessing the current health and future preparedness of our Capability Groups during 2007/08, the results of this exercise have been used to set a target for improvement (Key Target 3 – see page 22). Over the past year, we have reassessed all of Dstl's 56 Groups using the same framework. This showed that we have realised improvements in a number of areas related to our future preparedness, underpinning achievement of our Key Target. For example, we have strengthened our horizon-scanning activities and we are working further to ensure that horizon scanning informs our work programme across Dstl.
The maintenance and further development of our external partnerships is of pivotal importance. A key achievement during the past year has been the development of our external engagement strategy, providing clarity, both internally to staff and to the wider community, about our commitment to harness external capabilities for the benefit of UK defence and security. Implementing this strategy is a priority objective for the coming year.
We have gained significant benefits for MOD by sharing resources with our international partners. One of this year's highlights was the UK/France Early Career Scientists Exchange Programme involving 12 defence scientists from the UK and France. This programme is helping to support the development of staff who may lead key collaborative programmes of the future and it has been very well received in both countries.
Our relationships with academia and industry have continued to flourish and we now have ongoing, productive engagements with more than 50 UK universities and a very broad array of industrial organisations. Of particular note was a joint technical conference for new entrants in Dstl and BAE Systems, which was organised collaboratively by the respective new starters' groups within the two organisations and supported at a senior level. This proved highly successful and is leading to further mutually beneficial activity, such as joint training.
Collaboration with laboratories in OGDs such as Defra and the Department of Health provides Dstl with a wide pool of comparable capabilities on which to draw for surge capacity and mutual back-up during emergency or crisis situations. Through this 'Interlab Forum' we jointly bring together the expertise of more than 9,000 scientists, technologists and engineers with the common aim of sharing best practice and complementary skills and resources.
We have an important role to play in linking with industry and academia through the emerging Centres for Defence Technology (CDTs). Development of the centres that Dstl will lead on behalf of MOD (in areas such as cyber defence and armour) has progressed well. These centres are set to make very significant contributions to developing and facilitating the exploitation of important technology for defence.
All in all, the key aim is to ensure that our capabilities and partnerships best enable us to anticipate and address the defence and security challenges of the future in line with Dstl's agreed positioning.

"Our effectiveness as an organisation relies on our ability to ensure that the work we do makes a real difference to our customers' most important issues."

Technology transfer

Dstl patenting results for 2008/09

New patent applications filed	26
Patent applications published	35
Patents granted	41
Number of Dstl inventors rewarded for patent filing or successful grants	24
Total rewards paid by Dstl to the above	£13,200

During the course of its work for Government, Dstl generates much new Intellectual Property (IP), including patented inventions, software, designs and know-how. Dstl is tasked with ensuring that its IP is exploited for the public good, which is enshrined in the top-level Framework Document. To deliver this objective, Dstl has an advanced capability to protect and exploit its knowledge assets.

The identification, specification and protection of Dstl's IP is mediated by an in-house team of patent attorneys seconded to Dstl from MOD. During 2008/09, the patent attorney team worked closely with Dstl scientists to deliver another excellent out-turn for patenting, maintaining Dstl's position among the most creative public sector research establishments.

The exploitation of Dstl IP in the wider economy, primarily for non-defence purposes, is carried out by our wholly owned technology management company, Ploughshare Innovations Ltd. Since its formation in 2005, Ploughshare has consciously developed its business model to provide the best chance of achieving sustainable income generation in the long term. The main elements are:

- balancing investment of Ploughshare's resources in engaging the market between licensing activities, nurturing spin-out companies/joint ventures and negotiating the disposal of equity
- developing the IP pipeline within Dstl and controlling IP costs
- extending its role for Dstl to the wider MOD.

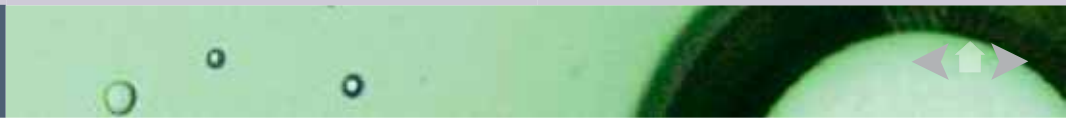
In times of economic recession, the appetite for investment among industry and venture capital investors is severely reduced, and Ploughshare has not been immune from this. Despite the prevailing economic conditions, however, the company has secured a number of valuable licence deals and maintained its level of income from licensed IP and royalties at more than £600,000 in the past year. Moreover, Ploughshare and the Atomic Weapons Establishment (AWE), backed by MOD, have successfully bid for a capacity-building grant from Round 4 of the Government's Public Sector Research Exploitation Fund. This will see Ploughshare support AWE in exploiting its own IP over three years. Altogether, Ploughshare's income totalled £975,000 during 2008/09.

The global drought in investment funds dried up expectations for disposal of equity during the year. This was a disappointment but the companies most likely to be of early interest to investors remain in excellent trading shape and a cause for optimism once the recession has passed.

Looking to the future, Ploughshare created two new spin-outs, bringing the total number of companies owned or part-owned by Ploughshare/Dstl to 10 (see table opposite). Successful funding rounds for three of the newest companies were also completed: start-up funds of £100,000 for Claresys; start-up funds of £570,000 for Sub-sea Asset Location Technologies Ltd (SALT Ltd); and a rights issue of £125,000 by ProKyma.

Stimulating the IP pipeline in Dstl is achieved through reputational gain, rewarding inventors (which encourages others) and funding proof-of-concept work. In addition to rewards for patentable inventions, Dstl inventors also receive a share of the income from successful commercialisation. Around 10 to 15 present and past employees are expected to benefit from payments totalling £60,000 for the year. Ploughshare spent around £250,000 on proof-of-concept work in Dstl and other R&D investment during 2008/09.

With Ploughshare's track record of success, all fed by a healthy IP pipeline, Dstl is well placed to move towards sustainable, profitable income generation from IP exploitation as and when economic conditions improve.



What lies beneath

Locating equipment in the sea is difficult, even with sonar, and industrial ocean users often resort to powered transponders to tag valuable assets. Unfortunately, these products are expensive and require high maintenance, depending on use and battery life, which limits their applicability. SonarBell, a new spin-out solution developed by Dstl, is a passive reflector that has the potential to transform the sub-sea asset location market. A new company, Sub-sea Asset Location Technologies (SALT) Ltd, was launched by Ploughshare in August 2008 to take the technology through development and into production. Shaped like a bowling ball, SonarBell utilises the two materials from its shell and core to create constructive interference that delivers an enhanced and tuneable return signal detectable by sonar at ranges in excess of two kilometres, depending on the frequency of operation. Unique signature peaks in the reflected signal can be used to provide identification data relating to the asset. Manufactured from inert materials and requiring no maintenance, SonarBell should reduce the environmental impact associated with active transponders.
SALT Ltd has already won worldwide recognition for this product and has a number of design and production contracts in place. SonarBell is protected by worldwide patents and has potential applications across many markets – military, oil and gas, subsea telecommunications and power, offshore wind farms, sports diving and even fishing where SonarBell can alert dolphins to the danger of fishing nets.

PLOUGHSHARE SPIN-OUT/JOINT VENTURE COMPANIES (AT MARCH 2009)

Company	Technology	Market application
Spin-out/joint venture companies existing at start of year		
Alaska Food Diagnostics Ltd Adenylate Kinase (AK)	AK/Phage and AK alone	Food pathogen testing across the supply chain
Enigma Diagnostics Ltd	Rapid polymerase chain reaction	Rapid detection of animal diseases, genetically modified entities and clinical pathogens
Porton Plasma Innovations Ltd (P2i Ltd)	Pulse plasma coatings	Repellent coatings for medical devices, automotive components and consumer-wear markets
Remo Technologies Ltd	Telemetry devices	Implantable and surface-mounted telemetry devices
ProKyma Technologies Ltd	Use of ultrasound to handle micro-particulates (eg bacteria and blood cells)	Sample preparation for detection and rapid blood grouping
Sherwood Therapeutics Ltd (joint venture with Nottingham University)	Wound-healing enzymes identified in maggots	Accelerated wound healing, and immuno-modulation in healthcare
Sub-sea Asset Location Technologies Ltd (SALT Ltd)	Sonar reflective materials	Underwater markers military, oceanographic, oil and communications
Claresys Ltd	Camera technology	Surveillance, security and remote survey
New spin-out companies initiated by Ploughshare in 2008/09		
ESROE Ltd	(Target identification) software for Electronic Support Measures systems	Off-the-shelf military Electronic Warfare systems applications
Liponostyx Ltd	Liposomes with a contained signal-generating system	High efficiency in-vitro diagnostics



Our people

One of our Critical Success Factors is to have the right number of committed and motivated people with skills and knowledge at the leading edge of defence and security S&T. This reflects the importance of people in Dstl – what they know and can do, the quality of their thinking, their ability to deliver work on time and to cost, and their willingness to go the extra mile for customers.

The past year has seen us build on earlier work to ensure that we have sufficient numbers of the right people to meet current work requirements while gaining a better understanding of future capability needs and starting to reshape our workforce for the future. The Human Resources team has worked closely with colleagues in the Programmes and Technical Directorates to establish a clearer understanding of future positioning of Dstl's work streams and to define what this means for the number and kinds of people we need in Dstl in future years. As a result, an updated strategic workforce plan that will put the workforce in good shape to meet future customer needs will be published in the next 12 to 24 months.

During 2008/09, we were successful in recruiting nearly 500 people (against our projected requirement of 593). We were particularly keen to increase the number of mid-career recruits to strengthen our technical leadership capability and we welcomed nearly 130 people at mid-career level as well as 156 new graduates. Overall, we increased our headcount by nearly 150 people.

In recent years, one of the critical areas for development has been in the area of systems skills. This means being able to make the links between the range of customer and stakeholder requirements and the different parts of the business, and communicating and working together effectively to provide the best solution for the customer.

We introduced the Accelerated Systems Skills Programme (ASSP) in 2007 and more than 40 people have joined ASSP in the past year. Demand for systems skills is expected to increase in the coming years and ASSP will be expanded to ensure a supply of people to support important customer programmes.

Interchange is an excellent way to grow MOD staff with all-round knowledge of defence. In 2008/09, a total of 98 staff took part in secondments in industry, OGDs and other parts of MOD. We also welcomed 46 inward secondees.

The professional and career development of our staff remains a top priority. 'Fellowship' provides a clear pathway to the most senior levels of the organisation through a non-managerial route for Dstl's top, most influential scientists and engineers. In 2008/09, two Dstl staff were awarded Fellowship, bringing the total to 26 Fellows and nine Senior Fellows. Across the board, more than 300 people successfully achieved promotion through Dstl's career level review process.

Over the past year, we have fundamentally reviewed the pay system and a new approach has been designed and agreed in principle with the Board and Trades Unions (TUs). This will ensure that we can attract and reward technical specialists by being competitive in the market place and focus on recognising and rewarding high performers. Once funding has been approved by the Treasury, the new pay system will be implemented in 2009.

Dstl's aim to achieve organisational excellence is underpinned by the quality of our leaders. In 2008/09, we have invested significantly in developing our leadership capability through a number of development programmes. At the heart of this are the 'New Challenges' programmes for Team Leaders and Group Leaders. So far, more than 240 people have attended the programme and are now engaged in ongoing development.

In addition, we launched a new development centre, as part of our succession planning and talent management plan, to support the growth of our next generation of senior leaders. Two development centres, each with six participants, were run during 2008/09. A further three development centres are planned for 2009/10.

Another initiative supporting organisational excellence was a review of Dstl's Values. As a result, our Values were replaced with a new set of Principles, as shown in the diagram (right).

The purpose of this activity was to capture the basic requirements that

are fundamental to successful delivery, describe them simply and embed them in everything we do. These requirements should impact on the behaviour of every individual in Dstl, and affect the way in which people interact with others, think about delivering outcomes and also encourage them to seek out new ideas and bring greater innovation to our work.

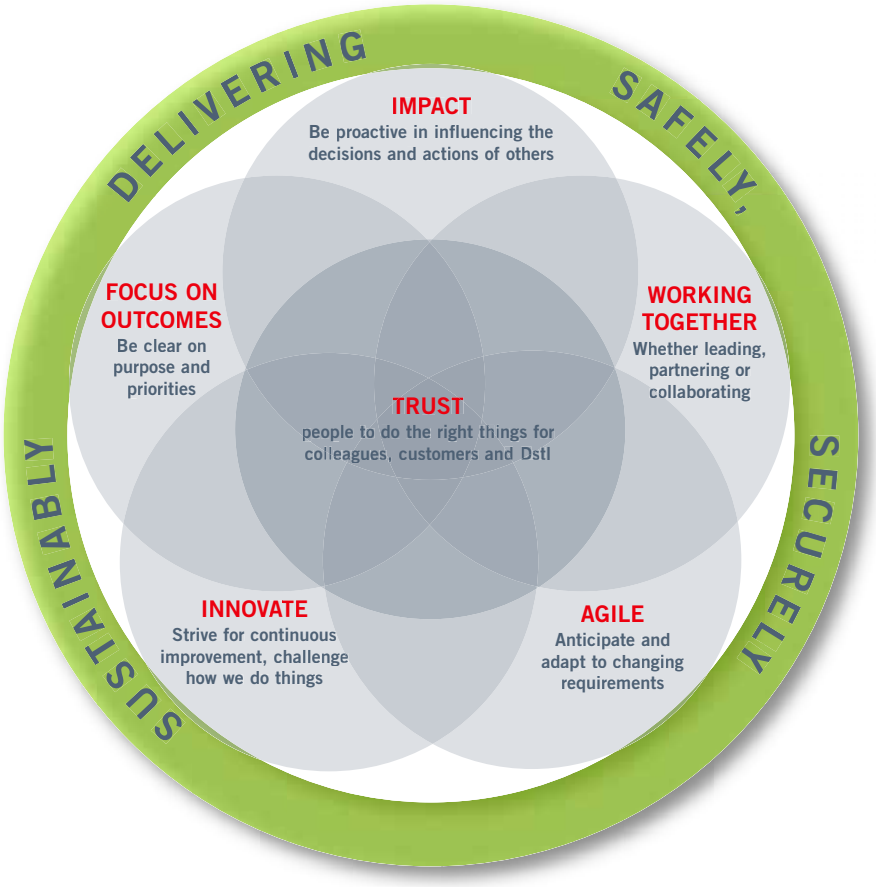
The health and well-being of our staff is paramount. Dstl undertook to review three key areas of health and safety performance in 2008/09. Firstly, we have been working with the Health and Safety Executive (HSE) on developing corporate safety performance indicators, and, secondly, progress has been made on improving data capture. The third objective was to improve reporting of near miss and high potential incidents so that effective action could be taken to prevent these becoming more serious incidents. Encouraging progress has been made in this area.

A culture survey was also completed in the latter part of the year that will inform the health and safety plan for 2009/10 and will help to embed safety as a primary concern for all staff.

The annual stress survey has shown a year-on-year improvement, with all results satisfying the 'good' or 'very good' criteria of the HSE Stress Management Standards. This is reassuring given the high degree of change that staff have faced in the past year, including a significant number of people relocating to new offices.

Dstl employs 3,456 members of staff and monitors staff sick absence as part of its health and safety processes. During 2008/09, there were 18,251 days lost to sick absence; it is not possible to quantify the number of days relating to long-term absences associated with hospitalisation and recuperation periods.

Communication with staff on key issues, such as our reward and recognition programme and i lab, is crucial. This year, we have continued to develop our communications tools (such as the staff magazine, Intranet and team briefings) and we have developed a communications strategy focusing on our internal, external and customer audiences. Our Intranet and Internet sites have been redesigned to provide a more user-friendly interface. We have also started the migration of the Intranet to Sharepoint to enable more collaborative working internally.



The Dstl Principles

Awards and Honours

Winning Warrior
BAE Systems awarded a Chairman's Bronze Award to Ian Pickup, of Dstl's Platform Sciences Group, for his excellent work on mine protection for the Army's Warrior armoured vehicle.

Animatronic award
Physical Sciences Department was awarded a TTCP award for developing a system to quantify the efficacy of Individual Protective Equipment. The system, a result of international collaboration, has led to advanced, fully articulated robotic mannequins, animatronic head forms and other equipment.

Kabul commendation
Julian Starkey, of Joint Systems Department, received a Presidential Award in October from the Islamic Republic of Afghanistan for his contribution to the training and education of military personnel while serving for eight months as a political adviser to the Afghan Ministry of National Defence.

Collateral kings
A team of Dstl staff, from Air and Weapons Systems and Policy and Capability Studies Departments, received a TTCP team achievement award from the Minister for Defence Equipment and Support. The award recognised collaboration on research into estimating the risk of collateral damage, developing the underlying science and creating a tool that can be used by battlefield commanders.

Steel-ing the limelight
Professor Peter Brown won the prestigious John Benjamin Award (and global media coverage) for his invention of Super-Bainite steel armour. Peter's work demanded close collaboration with academia and the industry partners who are now making the steel.

Individual honours
Cliff Todd, of Security Sciences Department at Fort Halstead, and Mark Elson, of Sensors and Countermeasures Department at Porton Down, were recognised in this year's New Year Honours List.
Cliff, who is based at the Forensics Explosives Laboratory (FEL), has become an OBE (Officer of the Order of the British Empire). Cliff has led high-profile forensic explosives investigations including the 2005 London bombings. He is an acknowledged international expert in his field.
Mark was made an MBE (Member of the Order of the British Empire) for his work developing Infra-Red Countermeasure Systems (IRCMs). Developing the level of UK aircraft protection, Mark's work ensures that the UK Armed Forces deployed on operations have the best countermeasures in place to defeat hostile weapon systems. He is a leading world expert on the performance of aircraft IRCMs.

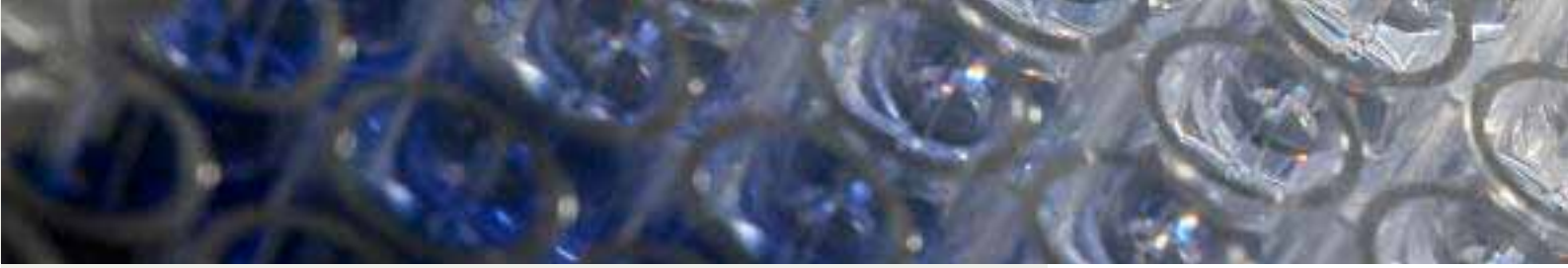
Involving industry
Graeme Symes, Capability Adviser to Director Equipment Capability Above Water Effects, has been awarded the Vice Chief of the Defence Staff/2nd Permanent Under Secretary Commendation for services to defence in 2008 for his part in steering the first Joint MOD Industry Capability Investigation to a successful conclusion.

Stunning science
Martin Hubbard, of Security Sciences Department at Fort Halstead, has received a 2008 NATO Research and Technology Organisation (RTO) Scientific Achievement Award for his work on Non-Lethal Weapon effectiveness assessment. Martin's colleague, Sarah Bowditch, of Human Systems within Information Management Department at Porton Down, was also a recipient of the NATO RTO Scientific Achievement Award.

Data hunter
Nick Westbury, of Land Battlespace Systems Department, has been awarded Commander of Allied Rapid Reaction Corps recognition for his outstanding support to Ex ARRCADE FUSION. In particular, his ability as a data hunter was recognised, with Subject Matter Experts frequently calling on him to obtain background data within their own subject areas.

It's been a long time coming
Joan Harfield, who retired from Porton Down in July 2008, was awarded the Imperial Service Medal for "meritorious services rendered" after more than 40 years' administrative service at Dstl and our predecessor organisations. In January, she was presented with her award by Dstl Operations Director Jill Cook at a special gathering at Porton Down.

CSA Commendations
In 2008/09, a number of Dstl staff were awarded individual or team commendations by MOD Chief Scientific Adviser (CSA) Professor Mark Welland in recognition of their outstanding contributions in applying S&T to defence priorities. CSA Commendations were awarded to:
Incremental Public Order Reaction System team: Owen Ewart, Maurice Atkinson, Pam Jones, Alun Fortes, Scott Young, Terence May, Gillian Rogers, Sharon Trewin, Ray King, Pete Hart, Amy Pullen, Kevin Bird, Phil Homer, Dave Greenslade, Phil Quantick, Philip Whinney, Julian Young, Brian Sainsbury, Mark Laird, Tim Smith, Pete West, Matthew Broome and Iain Smith.
Work on the Defence Technology Plan: Mel Murphy and Colin Johnson.
PARSIFAL research programme: Colin Ham, Michael Dalzell, Daniel Pope, Deborah Fish, Abigail Rose, Bryn James, Paul Bourke, Derry Sharman, Jenny Evans, Christopher Taggart and Roger Kingdon.
Novel technical Electronic Surveillance solution against evolving maritime and coastal threats: Peter Beharrell.
Improving the protection of aircraft deployed on current operations: Jim Wickes.
Submarine escape and rescue team: Sarah Kemp and Michael Piper.
Halo-Falcon II deployment team: Philip Clare and Sean Murphy.
Air Defence Section support to air-to-air missile systems trials: Ben Lambert.



Statement by Dstl Trades Unions

Dstl's ongoing change programmes, including i lab, continue to provide challenges in maintaining good relationships between management and staff, which has led to increased activity for the Trades Unions (TUs) this year.

i lab

The relocation of a large proportion of staff to Dstl's three core sites as part of the i lab change programme has presented many concerns for those involved, particularly given the prevailing economic conditions and the slump in the housing market. TU officers continue to support staff affected by relocation activities by encouraging management to use good policies and practices and by assisting members directly. We are encouraging staff to work with Dstl's 'On The Move' team and we have helped several members through the process of seeking exemption from relocation for personal reasons. Management has appreciated the contribution that the TUs have made to balancing these difficult issues.

Pay

The four-year deal negotiated in 2005 has now come to an end. The TUs have been encouraged by the open and constructive way that management has involved the TUs in discussing the principles of the new pay and reward system, with a national TU Officer represented on the main Pay Board. There is still considerable work to finalise the transition arrangements to the new scheme but we are hopeful of an agreed solution.

Careers

There have been concerns among staff that career paths are less clear for technical posts than for management roles and the TUs have therefore been working with management to transform career opportunities in the past couple of years. While there has been some progress, the final solution has still to be agreed.

Health and safety

The TUs have an important role to play in helping Dstl's management to maintain a safe working environment and improve the safety culture. The TUs share Dstl's concerns about some aspects of safety management, but the TUs also recognise that positive steps are being taken to address these issues. Staff safety representatives are actively engaged with the SHEF Management and Technical Committees and these have become consultative fora.

Capability

The TUs are concerned that the proposed spending cuts in military research, combined with the fall-out of staff leaving the organisation rather than relocating, may have an impact on some capability areas. Unions are working alongside management to mitigate against the possible impact on staff and the customer community.

Employee relations

Compared with many other organisations, Dstl is a good employer and management tries to work with staff in the vast majority of cases. However, in some areas affected by relocation plans, morale has suffered. Management has worked hard to ensure effective communication and consultation with staff but there is still room for improvement.
The new Employee Relations Manager has instituted regular, informal site meetings for TU representatives. These are providing an effective opportunity to debate emerging concerns and are fully supported by the TUs.

Overview

Dstl's ongoing relocation activities and change programmes have led to a significant increase in the need for support to individual members in the past couple of years. There has also been an increase in the level of consultation, which is appreciated. However, there have been instances where consultation has not always been as successful as it should have been. As a result, agreement has been reached on the introduction of a TU representative for each Department.

Organisational excellence

Dstl prides itself on operating at the cutting edge of science and technological developments, and we have taken steps to ensure that we apply the same high standards to the way in which we manage our business functions. There have been many significant achievements over the past year; 'people' highlights were provided in the previous section and some of the others are outlined below.

The integrated laboratory – i lab

The i lab programme is firmly focused on improving our performance by working more effectively, making better use of our facilities and providing an enhanced environment in which to work. i lab will ensure that we deliver the complete solution to our customers' really important problems – through the excellence of our people, our management and our integrated expertise. The programme is well into the final delivery phase, with the new building at Porton Down, the refurbishment of East Court at Portsdown West and two new data centres completed on time. The refurbishment of West Court at Portsdown West is on schedule and the whole project will be completed well within budget.

The first tranche of staff moves required under i lab took place in October 2008, as planned, with approximately 70 per cent of our staff choosing to stay with us when their posts moved. Our 'On the Move' project team is now supporting staff through the second tranche of relocations and staff who are not staying with us are being offered help and advice in seeking alternative employment.

The i lab programme has been commended by auditors for its management and control, with the Office of Government Commerce stating that the programme was in 'very good shape' with a 'very high' likelihood of success.

A dynamic, integrated environment

Dstl's approach to knowledge and information management is a particular strength. Our people and systems have enabled us to continue to meet the expectations of our customers despite the inevitable challenges surrounding the i lab construction and movement activities. Our people have implemented new network services for secure/classified working. We have also refreshed the infrastructure of existing networks, moving to a standard base architecture. Working in collaboration with the Metropolitan Police Service, we have designed the Enterprise Thin Client solution – probably the most advanced system for delivery of multi-level secure services in the UK. This system was installed and activated at Fort Halstead in only eight months – it is therefore not surprising that our innovation in this arena has generated considerable interest across both the public and the private sector.

Smart Information Management, our new documents and information management system, has delivered the underpinning technology that will reduce our dependence on paper files, thus enabling faster and simpler access to our very large knowledge store. We have also delivered a streamlined computer-based Management System, which is now being converted to a process-based format, to simplify its use further.

Sustainability

We recognise that taking responsibility for what we do at work in terms of our impact on each other, our communities and our wider environment is the key to building a sustainable future for our organisation. Our main areas of focus are shown below.

Education outreach

We are committed to inspiring future generations of scientists and engineers. Through the Science and Engineering Ambassador scheme, Dstl staff visit local schools and demonstrate real-world science in fun, exciting and interactive ways. More than 100 staff took part in 57 visits in 2008/09.

Dstl staff also launched a schools engineering competition to design the world's fastest bicycle in conjunction with the national BLOODHOUND Super Sonic Car (SSC) project. Other activities in recent months have included 'Bring Your Child to Work' days and participation in MOD's Defence Dynamics programme for schools.

Charitable activities

In 2008, Dstl staff raised more than £3,500 for various charities, including Children in Need and Jeans for Genes. We now have four designated charity days per year and our staff have nominated the following charities for support in 2009: Cancer Research, Help for Heroes, local air ambulances and the Poppy Appeal.

Environmental

We already exceed Government targets on reducing carbon and waste outputs through measures such as recycling and the use of eco-friendly technical solutions. Over the past year, Dstl has achieved the international standard ISO14001: 2004 for environmental management at Portsdown West. Work is under way to achieve accreditation at Fort Halstead in 2009/10.

We have also been investigating the potential use of on-site renewable

energy. Feasibility studies have been undertaken for a potential wind turbine at Portsdown West and wind conditions at the site will be monitored for the next 12 months. Additionally, the Institute of Energy has awarded Dstl accreditation for achievements in energy efficiency.
We continue to work closely with external bodies, including Natural England, to ensure the ongoing maintenance of the Site of Special Scientific Interest (SSSI) at Porton Down. The majority of the Porton Down SSSI continues to be assessed as being in 'favourable' condition in line with MOD targets. Meanwhile, at Fort Halstead, a tree planting scheme has recently been completed.

Sustainable travel

Dstl actively promotes the use of sustainable modes of transport, with the needs of staff who choose daily travel rather than relocation being supported through coach and minibus services from their former places of work. This has reduced single occupancy car travel by 2,600 miles per day. A pan-Dstl travel plan is being created and we recently launched a five-year travel plan for Porton Down in conjunction with other organisations on the site and Wiltshire County Council.
We are committed to reducing single occupancy commuter travel by seven per cent and business car miles by 10 per cent over the next four years. Around 80 staff have taken up a new cycle-to-work hire scheme since its launch in September 2008. Dstl staff can also now save up to 41 per cent on the cost of a season ticket through a subsidised bus scheme.

Pedal power

As a centre of scientific excellence, Dstl staff are involved in a wide range of activities to inspire future generations of scientists, technologists and engineers. In 2008/09, Dstl launched a schools engineering competition to design the world's fastest bicycle in conjunction with the national BLOODHOUND Super Sonic Car (SSC) project.
Students were asked to apply the same aerodynamic principles used in the design of the BLOODHOUND SSC, and various resources were available on the Dstl website to help participants understand aerodynamics. The competition is split into two categories – one for primary-age and one for secondary, and a winner from each will visit the BLOODHOUND development site to watch the SSC being developed and tested.
This fun and challenging competition aims to engage children with science and engineering in a way that will not only educate them, but will also allow for their own creativity and innovation.
Dstl works throughout the many stages of the education system to ensure that students, teachers, schools, universities and colleges are supported and encouraged to achieve their best in science and technology.

Biodiversity in focus

A novel technique pioneered by estate managers on the Porton Down site is boosting biodiversity around this nationally important conservation area.
Maintaining the quality of grassland on the Porton Down site, which is an SSSI, is a requirement under UK law.
Good quality chalk grassland features short grass swards containing large numbers of flowering herbs. The land is kept short by grazing livestock or rabbits. If grazing is halted, taller, more robust species of grass (together with scrub) invades and reduces the diversity of plants and animals present.
Grazing on 80 hectares of land at Porton Down was halted some years ago. As a result, the short grassland had become dominated by tall, coarse False Oatgrass (*Arrenathrum elatius*) and Hawthorn scrub.
In 2008, glyphosate weedkiller was applied to 16 plots using a machine that treats only taller vegetation and leaves shorter species untouched. The effects on scrub and the height of the grassy vegetation were assessed. At the most effective treatment time in mid-May, vegetation height was reduced to about 5cm to 6cm compared to 20cm to 25cm on untreated plots. Scrub control was almost 100 per cent.
The results indicated that major structural changes can be made to vegetation in the absence of grazing. This technique will prove invaluable for any land managers dealing with an undesirable change in vegetation type, such as farmers experiencing the same problems on arable field margins.
In 2009, the effects on the botanical composition of the trial plots will be explored to determine the quality of the grassland.

Financial highlights

Dstl's trading has performed robustly despite staff charge-rate increases being kept below inflation. The Trading Fund's turnover rose from £378.9 million (in 2007/08) to £404.7 million. Group turnover amounted to £405.2 million. This strong performance reflects the continuing confidence placed in Dstl by its customers. Work carried out for MOD increased by more than 9 per cent during the year, as did work for OGDs, although this was partially offset by a significant percentage decline in work for Non-Exchequer customers.

Trading Fund costs were £407.5 million, including £14.0 million relocation costs connected with the i lab programme. Given the one-off nature of these costs, Dstl decided not to raise its prices to cover them and instead had budgeted for a loss in 2008/09. The actual operating loss of £2.8 million was smaller than had been budgeted for.

During the year, Dstl earned interest amounting to £1.8 million (£4.6 million in 2007/08) from surplus funds being placed on the money markets with HM Treasury-approved institutions. The decrease from last year reflects the diminishing cash position over the year and the significant fall in interest rates. Dstl also incurred £0.9 million interest payable on the loan from MOD that followed the special dividend of £25.0 million that MOD, as the Owner of Dstl, decided to take in addition to the Ordinary dividend of £3 million (2007/08: £3 million). The retained loss after interest and dividends was therefore £30.1 million.

The Group's Return on Capital Employed (ROCE) was 1.5 per cent negative (2007/08: 5.3 per cent).

Cash expenditure on fixed assets was £43.8 million (2007/08: £33.1 million). Dividend payments were partially offset by a MOD loan of £21.5 million. After taking account of net cash flow from operating activities, there was a net decrease in Group funds of £29.2 million in the period.

Group total assets less current liabilities at 31 March 2009 were £252.2 million (compared with £271.8 million at 31 March 2008). The main changes were a decrease in cash of £29.2 million, an increase in Tangible Fixed Assets of £28 million, and short-term creditors increased by £19.4 million.

Charitable donations of £500 have been made during the year.

Credit payment policy and practice

Dstl's policy is to make payments to suppliers within Government guidelines that comply with the requirements of the Late Payment of Commercial Debts (Interest) Act 1998. During the year, Dstl paid 99.25 per cent of invoices within the agreed credit period on receipt of an undisputed invoice or date of confirmation of receipt of an acceptable service. Trade creditors were equivalent to 23.5 days' purchases during the year.

Transition to International Financial Reporting Standards (IFRS)

In March 2008, HM Treasury announced that the public sector will adopt IFRS for the year 2009/10. Therefore, these accounts are the last to be based on UK GAAP (Generally Accepted Accounting Practice). In preparation for the change, the accounts for 2007/08 have been restated (but not published) in IFRS format and audited and 2008/09 accounts will also be converted in readiness for full IFRS reporting next year.

Provisions

The accounts include a provision for certain infrastructure maintenance and upgrades where Dstl is legally responsible for the infrastructure concerned and there is a clear obligation to act, resulting in the transfer of economic benefits. This, one provision for an onerous contract, and two i lab provisions are the only short-term provisions held and amount to a total of £10.1 million. Details of these are included in Note 16 to the accounts. In addition, there is a provision falling due after more than one year amounting to £1.1 million for an onerous contract (Note 18).

Financial risk and Treasury management

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

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

Credit risk The objective is to reduce the risk of loss arising from default by parties engaged in financial transactions. The risk is mitigated to a large degree by the fact that more than 88 per cent of Dstl's turnover is with MOD. All Non-Exchequer parties are credit checked, prior to contract agreement, and are regularly monitored.

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

Financial outlook

The next financial year will see the completion of the rationalisation programme and the challenge will be to maintain delivery to customers and manage cash flows within agreed limits during a period of significant disruption.
A further operating loss is expected in 2009/10 due to transition costs associated with non-capital infrastructure investments and the relocation of staff and equipment. This is in line with Dstl's approved medium-term plan and will not constrain the scale of the programme.

Funding and investment

Following another successful year of operation, Dstl's cash reserves have been reduced by the capital investment associated with site rationalisation and the non-recurring costs related to migration of staff and equipment. Further significant cash outflows are expected as the second tranche of moves takes place during the next year.
Dstl was refinanced in autumn 2008 following the payment of a special dividend, which necessitated an injection of loan funding from MOD. A further loan advance is planned in 2009 to ensure that remaining rationalisation and relocation expenditure remains affordable.
The future investment programme will be funded from internally generated cash flows and prioritised according to business need. Forthcoming major projects will ensure that the Porton Down site remains fit for purpose and complies with current and emerging legislative and regulatory requirements.
Other capital investment is geared towards sustaining and enhancing existing capability. Future development of the Fort Halstead site and improvements to the effectiveness and resilience of the IT infrastructure are among the many issues under review.

Delivering the future

The success of the rationalisation programme can only be measured once the relevant surplus sites have been vacated, savings have been realised, and new ways of working have delivered the expected efficiencies. The benchmarking of corporate support Functions will also highlight areas for potential improvement.
The challenge for Dstl is to deliver a sustainable business that meets the needs of customers both now and in the future, and achieve this against a backdrop of public sector funding constraints. The aim is to develop more innovative and productive ways of delivering customers' requirements so that resources can be released to invest in future developments.

Improving the customer interface

During 2008/09, as detailed on page 6, we adopted a simplified high-level contract structure for the core research programme. We are now looking to improve the way in which Dstl engages with other key customers and offer alternative ways of providing our services through embedded staff and collaborative working arrangements.
This will require a different approach to the pricing and delivery of our services. Our ability to deliver high-impact contributions while maintaining value for money will be key to Dstl's success and this must be demonstrated through strong performance.

External environment

Forward financial plans are underpinned by income assumptions that are subject to policy changes and budget constraints beyond Dstl's control. We will maintain a close working relationship with key customers to ensure that any consequences are mutually understood and managed to mitigate risks to Dstl's financial performance and sustainability.
Additional challenges will result from the introduction of the Carbon Reduction Commitment, under the Climate Change Act, and the need to respond and contribute to other Government initiatives and performance targets. The Trading Fund framework gives Dstl the freedom to adapt to such challenges and balance the conflicting demands without passing the impacts directly to our customers, and we have a successful history of managing such change and uncertainty.

Moving forward

Dstl continues to achieve its Key Target of a sustainable average ROCE of at least 3.5 per cent. The organisation has an affordable investment strategy and an ambition to deliver aspirational goals from our internal resources. The organisation is financially sound and will rise to future challenges with a confidence based on past performance.

Performance against MOD Key Targets 2008/09

Customers

1 Deliver high-quality outputs that have impact on Dstl's MOD customer's 10 benchmark programmes.
Achieved. Dstl has again provided a significant input to MOD's benchmark programmes and has maintained the high quality of outputs seen in previous years. This has been achieved in the face of a major site rationalisation programme within Dstl and significant changes within MOD. While Dstl's contribution has been positive in the majority of areas, there remain areas where the organisation could make an even greater impact. These will be the subject of increased effort in the coming year.

2 Deliver at least 90 per cent of all projects to time and to budget while maintaining the high level of customer satisfaction (an average score of seven or above for the key elements of customer satisfaction for 91 per cent of projects).
Achieved. In 2008/09, Dstl completed delivery of approximately 1,000 projects. The target has been met with 93 per cent of projects achieving completion within budget, 93 per cent achieving timely delivery of customer key deliverables, and 91 per cent gaining an average score of seven or above for the key elements of customer satisfaction. Additionally, 95 per cent of these completed projects received an overall customer satisfaction score of seven or more.

Capability

3 Using technical benchmarking, Dstl will at least maintain the indicators of the health of its current capabilities that are assessed as effective while increasing, by 10 per cent, the number of indicators relating to capability development activity that are assessed as effective.
Achieved. The technical benchmarking assessments demonstrated a 7.5 per cent improvement in the indicators relating to the health of current capabilities and a 30 per cent increase in the indicators relating to capability development activity.

Results

4 Achieve an average ROCE of at least 3.5 per cent over the period 2004/05 to 2008/09.
Achieved. We have now reached the end of the measurement period and we have achieved an average ROCE of 5.9 per cent over the past five years.

5 Deliver the efficiency savings associated with the i lab programme in line with the Dstl Corporate Plan 2008–2013. This will be demonstrated in the short term by delivering the budget profit (loss) while not exceeding the budget indirect cost for 2008/09. It will be achieved by monitoring a range of measures, including:

- corporate indirect cost as a percentage of net income (36 per cent)
- achieving the budgeted profit while reducing the charge-out rate in real terms (loss before interest in 2008/09 of £9.2 million and budget average charge rate of £62.10 per hour)
- indirect cost per hour booked to customer project (£37.82 per hour).

Partly Achieved. Corporate indirect cost as a percentage of net income was achieved (36 per cent). The loss before interest and dividend was smaller than expected (£3.0 million loss), and the actual average charge rate of £63.28 per hour was only 1.9 per cent higher than last year (against estimated Gross Domestic Product Deflator of 2.5 per cent). Therefore, the second measure was also achieved. The third measure of indirect cost per hour booked to customer projects was not achieved (£39.17 per hour) but was marginally lower than the previous year in real terms.

Dstl's Key Targets 2009/10

MOD's Key Targets are used to define Dstl's success criteria and provide assurance that the organisation is performing effectively. These targets are focused around the most important aspects of our business and are used to measure how effectively we are delivering against the Critical Success Factors, as outlined in the Corporate Plan and described below.

The Key Targets also enable us to develop consistent Business Plan targets and define our objectives for the coming year. These targets are the fundamental building blocks for our planning and reporting activities that provide overall strategic direction for Dstl's management, and assurance to our Owner and Parliament, that we will meet customer requirements.

Dstl's Critical Success Factors

- Impact on customers' priority issues
  – agility to respond to changing needs
  – thought leadership in key technical areas
- Skilled, innovative and motivated staff
- Productive external networks
- Resilient and efficient business performance
- An excellent reputation.

For 2009/10, we have developed seven Key Targets that will demonstrate performance against our Critical Success Factors. Progress against these will be reported on a quarterly basis with a target to complete them by the end of the financial year.

Dstl's seven Key Targets for 2009/10 are:

Customers

1 Deliver high-quality outputs that have impact on Dstl's MOD customer's 12 benchmark programmes.

2 Satisfactorily deliver at least 90 per cent of all projects that complete in the financial year 2009/10 to time and to budget.

3 Maintain the current high level of overall satisfaction with Dstl level of service, with at least 93 per cent of project feedback responses achieving a score of seven or above for overall satisfaction.

Capability

4 Using independent and authoritative experts agreed with the MOD CSA, Dstl will complete a benchmark assessment by external peer review of the national and international standing of 10 key Capability Groups in areas where Dstl leads the work for MOD with a view to obtaining 'strong' assessments for at least seven out of the 10 Groups and no 'development needed' assessments for any of the 10 Groups.

Performance

5 Achieve an average Return on Capital Employed (ROCE) of at least 3.5 per cent over the period 2009/10 to 2013/14.

6 Deliver ongoing efficiency savings associated with the i lab programme and other initiatives in line with the Corporate Plan for 2009–2014. This will be demonstrated in the short term by delivering the budget loss before interest for 2009–10, while controlling indirect costs and charge rates to customers. Specific targets are:

- Corporate indirect cost not to exceed 35.7 per cent of net income.
- Achieve the budgeted loss (£2.3 million before interest) while maintaining an average charge rate that is no higher than 2007–08 in real terms; that is, no higher than £64.3 per hour.

Reputation

7 Embed sustainability and responsible management of information into Dstl's business ethics by:

- reducing our total generated waste by at least 5 per cent by the end of 2010.
- reducing energy-related carbon dioxide emissions from buildings on our core sites by 15 per cent by the end of 2010.
- establishing travel plans that reduce Dstl's carbon footprint, including reducing single occupancy commuter journeys to core sites by an overall 7 per cent by October 2009.
- establishing certificated Environmental Management Systems compliant with ISO 14001:2004 at a second Dstl site by March 2010.
- reviewing and improving the condition of all individual areas within the Dstl estate that may be classified as SSSIs by 2010.
- receiving assurance from internal and external audit that Dstl is operating in accordance with the current Cabinet Office requirements for managing personal and other information.

Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Dstl's policies, aims and objectives while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money'.

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

The Corporate Plan, agreed with the Minister, sets out our strategic objectives and the way in which we will deliver impartial and trusted support and advice based on our excellent knowledge and understanding of defence-relevant S&T. The plan also summarises corporate-level risks that could impact on delivery of successful performance, and strategies for risk management. We also have an agreed set of in-year Key Targets that enables us to track the performance of the organisation as it delivers the Corporate Plan. I am responsible for informing Ministers and the Permanent Under Secretary of State as the Principal Accounting Officer of any material issue that may inhibit the effective and efficient performance of Dstl.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Dstl for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk and control framework

Dstl has a well-established corporate approach to risk management, which continues to improve in line with the evolution of the business.

Dstl's risk management process is based around the strategic risk cycle, principles and terminology outlined in 'Management of Risk' (issued by the Treasury in 2004, updated in 2007). The procedure sets out a framework to ensure consistency in the way in which Dstl identifies and assesses risks, reports probability and impact, and develops mitigation and contingency plans. Dstl policy on corporate governance and the management of risk is set out in the Dstl Management System (MS), which is available to all staff electronically. Dstl's risk management and corporate governance policies, encompassing audit and business continuity, are also implemented in line with Dstl procedures in the MS.

The Executive reviews the Corporate Risk Register and the status of controls at regular meetings alongside progress in mitigating the corporate risks prior to updating the risk register. Operations Managers (for both Departments and Functions) meet on a monthly basis and risk management is a fixed agenda item at these meetings. Corporate risks are communicated to Departments and Functions through these meetings, and ownership delegated where appropriate. Ownership of risks is also elevated from the operational to the corporate level, where appropriate.

As Chief Executive, I am responsible for informing the Dstl Board of any significant, emerging risks and for ensuring that Departments are informed about corporate risks that affect their areas. I have ultimate responsibility for the risk management process; I attend the Audit Committee and I have reported progress in both development and implementation of the risk process at appropriate meetings.

Extract from the PKF[1] Annual Report:
Risk management within Dstl permeates through the entire organisation with activities being undertaken at a strategic, directorate, departmental, functional, programme and project level. This approach assists the relevant risk owners in applying the appropriate level of focus and management and is overseen by the Board and the Audit Committee.

The risk management process appears to be working at both the corporate and the operational level. The review process has been revised and, once fully embedded, should ensure that directorate, programme and functional risk registers are more closely linked with business objectives. In addition, the revised process should facilitate the escalation and cascade of risks between the registers.

Business continuity

Dstl's strategy for business continuity is set out in the MS. Drawing on business continuity management guidelines (as outlined in MOD's Joint Service Publication 503) and external good practice, the strategy covers business continuity processes and requirements at corporate and line management level. The most recent Defence Security Standards Organisation report stated that Dstl met and exceeded the requirements of Joint Service Publication 503. The organisation is continuing to work towards full compliance with BS 25999 part 2.

Information management

As a MOD Trading Fund, Dstl is now required by the Cabinet Office to include a statement on information management (comprising personal and non-personal information) within its Statement on Internal Control. Dstl has reviewed the requirements of MOD – Code of Practice on Information Management FOI Act 2000 S.46 for Information Management Assessment and those of the Record Management Code from the National Archives, analysed its status against

[1]Dstl internal auditor 2008/09.

these requirements and formulated a detailed Information Maturity Plan, aimed at fulfilling these requirements. This plan has been well received by Defence Internal Audit (DIA) and MOD's Director General of Information (DGInfo), now the Chief Information Officer (CIO).
In response to the requirements, a Senior Information Risk Owner and Information Asset Owners have been appointed and the risk to Dstl's reputation (due to loss of sensitive information) has been articulated in the Corporate Risk Register. This risk is considered explicitly at Audit Committee meetings. Audit by Dstl's internal auditors and internal assurance is programmed for 2009/10.

Review of effectiveness

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

Audit Committee and audit arrangements

Dstl's audit arrangements comply with Government Internal Audit Standards and details are set out in the MS. The Dstl Audit Committee, which met four times during 2008/09, reports to the Board on the implications of assurances provided in respect of risk and control in Dstl as well as the adequacy of audit arrangements. The Audit Committee also reviews both the internal and external auditing requirements, the adequacy of the financial systems, risk management, control and governance.
The Dstl Board reviews the effectiveness of the system of internal control through reports on an exceptional basis from its committees and those Executive Directors who have responsibility for Dstl's strategic improvement programmes and key risks. Where any control deficiencies are identified, suitable mitigation measures are put in place.
PKF was Dstl's internal auditor for 2008/09. Regular reports to senior management and the Dstl Audit Committee provide independent assessment of the system of internal control and include recommendations for improvement.

Annual assessment of governance

As part of the internal audit process, Dstl's governance arrangements were reviewed by PKF. The auditors reported that: "…the governance structure has remained broadly unchanged and continues to follow governance best practice in many respects. The Board and committees continue to operate coherently". PKF did not identify any high priority findings in this area.

External reviews

Lloyd's Register Quality Assurance (LRQA)

Dstl's Management System was subject to a full re-certification visit by LRQA in June 2008, and a follow-up review in December 2008. In both cases, it was concluded that "…the system continues to meet the requirements of ISO9001:2000 and TickIT Guide issue 5 and re-approval to these standards is recommended". No major non-conformities were raised.
The following comments were made by LRQA during both visits:

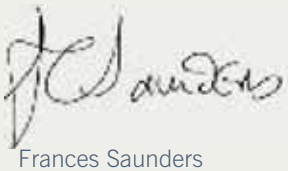
- The Dstl business planning process is now well embedded within the organisation. SMART objectives are in place, which include delivery performance and customer satisfaction.
- Communication of, and alignment with, corporate objectives continues to be well demonstrated in areas sampled by LRQA during the June and December visits. This process had significantly improved since the previous re-certification in 2005.
- The i lab programme is Dstl's major improvement programme and it was particularly impressive to see the new facility at Porton Down now fully occupied and operational.
- Improvements planned to the presentation of key performance measures and the introduction of the Score Card also continue to demonstrate improvement and adoption of best practice. Management system improvements were also noted with regard to electronic project management (ie the Central Projects Area and Sales Order Book).

Defence Internal Audit and MOD's CIO

Dstl's Information Management (IM) arrangements were reviewed by DIA in January 2009 and by MOD's CIO in February 2009.
The DIA lead assessor expressed the view that "…Dstl presented the most effective plans and activities, for the management of information and records, of the 14 organisations previously visited in this study". I understand that there are key examples of best practice in Dstl which DIA intends to pass on to others.
From the draft findings issued by the CIO, the auditors were encouraged by the commitment of Dstl's Board, and the enthusiasm displayed by the IM teams. They were particularly impressed by the robust risk and governance processes in place to support implementation of IM processes and infrastructure.

Significant internal control problems

There are currently no significant internal control problems. Based on the audit work carried out in 2008/09, PKF concluded that its audits support the annual Statement on Internal Control required by the Treasury. PKF's audits were carried out in accordance with Government Internal Audit Standards and other external requirements.



Frances Saunders
Chief Executive
2 July 2009

Statement of Dstl's and Chief Executive's responsibilities

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

In preparing accounts, Dstl is required to:

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

The Treasury has appointed the Chief Executive as the Accounting Officer of Dstl. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Managing Public Money' (The Stationery Office).

Frances Saunders
Chief Executive
2 July 2009

Report of protected personal data-related incidents

The Government has made a commitment to enhance transparency with Parliament and the public about action to safeguard information and the results of that action. As part of this process, departments and their agencies are required to publish details of incidents that have resulted in the unauthorised disclosure of personal data in their annual reports.

An incident is defined as any circumstance (loss, unauthorised disclosure, insecure disposal) of inadequately protected electronic equipment, devices or paper documents from either secure Government premises or outside of secured Government premises; insecure disposal of inadequately protected electronic equipment, devices or paper documents; unauthorised disclosure or any other situation.

Protected data is defined as data that meets the definition of the minimum scope of protected personal data, or data that Dstl considers should receive a similar level of protection because it would put those affected at significant risk of harm or distress.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

During 2008/09 Dstl is unaware of any incidents that have resulted in the unauthorised disclosure of protected personal data. We are similarly unaware of any such incidents that have arisen during the period 2004/05 to 2007/08.

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

Dstl Board and Executive

Dstl has an established governance structure and this is defined in the Laboratory's Framework Document. Governance is achieved through a Board, led by a Non-Executive Chairman, and an Executive Committee.
The Board, which meets bimonthly, constructively challenges the Executive and applies scrutiny both in the development of business strategies, plans, business cases and targets and in assessing business performance in delivering Dstl's Corporate Plan.

The Board*

Richard Maudslay	Non-Executive Chairman Completed term of appointment 31 July 2008
Sir Richard Mottram	Non-Executive Chairman Appointed 01 August 2008
Frances Saunders	Chief Executive
Mark Hone	Finance Director
Peter Starkey	Future Business Director
Michael Steeden	Technical Director
Jill Cook	Operations Director
Ruth Davies	Human Resources and Communications Director Appointed 27 April 2008
Roger Platt	Independent Non-Executive Director Completed term of appointment 01 May 2008
Admiral Sir Nigel Essenhigh	Independent Non-Executive Director Completed term of appointment 01 December 2008
Professor Patrick Dowling	Independent Non-Executive Director Completed term of appointment 01 December 2008
Christopher Swinson	Independent Non-Executive Director
Lord May of Oxford	Independent Non-Executive Director
Huw Walters	Non-Executive Director

The Executive

Frances Saunders	Chief Executive
Mark Hone	Finance Director
Peter Starkey	Future Business Director
Michael Steeden	Technical Director
Jill Cook	Operations Director
Ruth Davies	Human Resources and Communications Director
Nicholas Helbren	Rationalisation Director Retired 05 January 2009
Richard Scott	Programme Director (Science and Technology) Retired 06 February 2009
Christopher Gibson	Programme Director (Systems)
Brian Court	Infrastructure Director Appointed 07 January 2009

*Recruitment activity is ongoing to recruit two new Non-Executive Directors

Directors' remuneration report

Remuneration Committee

The Remuneration Committee includes Richard Maudslay (Chair) (succeeded in year by Sir Richard Mottram), Christopher Swinson and Admiral Sir Nigel Essenhigh (until December 2008). The Dstl Chief Executive, Finance Director and HR and Communications Director attend committee meetings.
The committee met once in the year.

Remuneration policy

The committee applies the following remuneration policy to the employment of its Directors. Three Directors are Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy. Their bonus arrangements fall under SCS rules rather than the Dstl performance-award system.
The remaining Directors are Dstl employees and subject to the same performance-related remuneration policy as all other Dstl staff.

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

Dstl appointments are made in accordance with the Civil Service Commissioners' Recruitment Code and, wherever possible, on the basis of merit and fair and open competition.
Unless otherwise stated, the officials named in this report hold appointments that are open-ended until they reach the standard retirement age of 60. Early termination would result in the individual receiving compensation (except in cases of misconduct) as outlined in the Civil Service Compensation Scheme.
There were no significant awards made to past senior managers.

Dstl Board Directors' remuneration (excluding pension arrangements)

This information has been audited.

Name	Salary Band 2008/09 £'000	Salary Band 2007/08 £'000	Bonus 2008/09 £'000	Bonus 2007/08 £'000	Fee 2008/09 £'000	Fee 2007/08 £'000
Richard Maudslay					10 - 15	35 - 40
Sir Richard Mottram					25 - 30	
Frances Saunders	85 - 90	85 - 90	10 - 15	10 - 15		
Mark Hone	65 - 70	65 - 70				
Peter Starkey	75 - 80	70 - 75	10 - 15	5 - 10		
Michael Steeden	75 - 80	80 - 85				
Jill Cook	70 - 75	60 - 65	0 - 5	5 - 10		
Ruth Davies	70 - 75		5 - 10			
Roger Platt					0 - 5	20 - 25
Admiral Sir Nigel Essenhigh					10 - 15	20 - 25
Professor Patrick Dowling					10 - 15	20 - 25
Christopher Swinson					20 - 25	20 - 25
Lord May of Oxford					20 - 25	20 - 25
Huw Walters						

Bonuses have been awarded as indicated for 2008/09. Fees have been paid as indicated for 2008/09.
No additional remuneration or other allowances were paid to members of the Dstl Board.
No Board members, key managerial staff or other related parties have undertaken any material transactions with Dstl during the year.
The salary bands set out above relate only to emoluments paid during the period of each Director's membership of the Dstl Board.
Prior year comparatives have not been disclosed for Ruth Davies as she was appointed to the Board in-year.
Huw Walters has received no fee; he represented MOD as a Non-Executive Director.

Dstl Board pension provision

This information has been audited.
The information below details the real increase in pension and related lump sum.

Name	Real increase in pension [and related lump sum at age 60] £'000	Total accrued pension at age 60 at 31/3/09 [and related lump sum] £'000	Cash equivalent value at 31/3/08* £'000	Cash equivalent value at 31/3/09 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Frances Saunders[1]	0 - 2.5	40 - 45	658.0	724.0	5.0
Mark Hone	0 - 2.5 [0 - 2.5]	10 - 15 [35 - 40]	173.0	193.0	4.0
Peter Starkey	0 - 2.5 [0 - 2.5]	30 - 35 [90 - 95]	601.0	653.0	3.0
Michael Steeden[1]	0 - 2.5	0 - 5	36.0	71.0	20.0
Jill Cook	0 - 2.5 [2.5 - 5]	25 - 30 [75 - 80]	437.0	494.0	17.0
Ruth Davies[1]	0 - 2.5	5 - 10	64.0	87.0	15.0

*The figure may be different from the closing figure in last year's accounts. This is due to the Cash Equivalent Transfer Value (CETV) factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Michael Steeden's contributions include added years. He also has a preserved pension; value at 31 March 2009 is £26,000, lump sum is £78,000.

Executive committee remuneration (excluding pension arrangements)

This information has been audited.

Name	Salary band 2008/09 £'000	Salary band 2007/08 £'000	Bonus 2008/09 £'000	Bonus 2007/08 £'000
Frances Saunders	85 - 90	85 - 90	10 - 15	10 - 15
Mark Hone	65 - 70	65 - 70		
Peter Starkey	75 - 80	70 - 75	10 - 15	5 - 10
Michael Steeden	75 - 80	80 - 85		
Jill Cook	70 - 75	60 - 65	0 - 5	5 - 10
Ruth Davies	70 - 75	70 - 75	5 - 10	10 - 15
Nicholas Helbren	50 - 55	45 - 50		5 - 10
Richard Scott	75 - 80	75 - 80	5 - 10	5 - 10
Christopher Gibson	70 - 75	70 - 75	5 - 10	5 - 10
Brian Court	10 - 15	-		-

[1]Premium Pension Scheme, only refund of contributions due.

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

Executive committee pension provision

This information has been audited.

Name	Real increase in pension [and related lump sum at age 60] £'000	Total accrued pension at age 60 at 31/3/09 [and related lump sum] £'000	Cash equivalent value at 31/3/08* £'000	Cash equivalent value at 31/3/09 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Frances Saunders[1]	0 - 2.5	40 - 45	658.0	724.0	5.0
Mark Hone	0 - 2.5 [0 - 2.5]	10 - 15 [35 - 40]	173.0	193.0	4.0
Peter Starkey	0 - 2.5 [0 - 2.5]	30 - 35 [90 - 95]	601.0	653.0	3.0
Michael Steeden[1]	0 - 2.5	0 - 5	36.0	71.0	20.0
Jill Cook	0 - 2.5 [2.5 - 5]	25 - 30 [75 - 80]	437.0	494.0	17.0
Ruth Davies[1]	0 - 2.5	5 - 10	64.0	87.0	15.0
Nicholas Helbren	0 - 2.5 [0 - 2.5]	0 - 5 [5 -10]	N/A	N/A	N/A
Richard Scott	0 - 2.5 [0 - 2.5]	30 - 35 [100 - 105]	779.0	873.0	3.0
Christopher Gibson	0 - 2.5 [0 - 2.5]	20 - 25 [65 - 70]	367.0	408.0	8.0
Brian Court	0 - 2.5 [0 - 2.5]	15 - 20 [45 - 50]	219.0	221.0	2.0

*The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

[1]Premium Pension Scheme, only refund of contributions due.

With the exception of Frances Saunders, Ruth Davies and Michael Steeden, who belong to the Premium Civil Service Pension Scheme, all Directors belong to the Classic Civil Service Pension Scheme. Both schemes are part of the Principal Civil Service Pension Scheme. See Note 6 to the accounts.
Disclosure of pension provision for Nicholas Helbren is not required as he has attained pensionable age.
There was no non-cash element of the remuneration package.
No compensation was payable to former senior managers during the year.
There were no amounts payable to third parties for services of a senior manager.
Michael Steeden's contributions include added years. He also has a preserved pension; value at 31 March 2009 is £26,000, lump sum is £78,000.

Frances Saunders
Chief Executive
2 July 2009

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

I certify that I have audited the financial statements of the Defence Science and Technology Laboratory for the year ended 31 March 2009 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Defence Science and Technology Laboratory and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement on Internal Control and Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises pages 2 to 16 and 18 to 23 included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Defence Science and Technology Laboratory has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed. I review whether the Statement on Internal Control reflects the Defence Science and Technology Laboratory's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Defence Science and Technology Laboratory's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the Defence Science and Technology Laboratory's affairs as at 31 March 2009 and of its loss, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information, which comprises pages 2 to 16 and 18 to 23, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria London SWIW 9SS
7 July 2009

Dstl profit and loss account

For the year ended 31 March 2009

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Turnover	**2**	**405.2**	**379.9**	**404.7**	**378.9**
Cost of sales		(113.3)	(106.5)	(113.4)	(106.2)
Net income		**291.9**	**273.4**	**291.3**	**272.7**
Net operating expenses		(294.5)	(259.1)	(293.2)	(257.8)
Operating profit/(loss) before impairments		**(2.6)**	**14.3**	**(1.9)**	**14.9**
Net operating expenses – impairments		**(0.9)**	**(0.6)**	**(0.9)**	**(0.6)**
Operating profit/(loss)	**3**	**(3.5)**	**13.7**	**(2.8)**	**14.3**
Share of operating profit in associate		-	-	-	-
Loss on disposal of fixed assets		(0.2)	-	(0.2)	-
Profit/(loss) on ordinary activities before interest		**(3.7)**	**13.7**	**(3.0)**	**14.3**
Interest receivable	7	1.8	4.6	1.8	4.6
Interest payable	8	(0.9)	-	(0.9)	-
Profit/(loss) for the financial year		**(2.8)**	**18.3**	**(2.1)**	**18.9**
Dividends	9	(28.0)	(3.0)	(28.0)	(3.0)
Retained profit/(loss) for the year	**22**	**(30.8)**	**15.3**	**(30.1)**	**15.9**
Return on Capital Employed (ROCE)	4	(1.5%)	5.3%	(1.2%)	5.5%

All operations are continuing.

Statement of total recognised gains and losses

For the year ended 31 March 2009

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Profit/(loss) for the financial year		(2.8)	18.3	(2.1)	18.9
Unrealised surplus/(deficit) on revaluation of tangible fixed assets	11, 12, 22	(6.8)	7.4	(6.3)	7.7
Total gains and losses recognised since the previous Annual Report		**(9.6)**	**25.7**	**(8.4)**	**26.6**

The notes on pages 35 to 51 form an integral part of these accounts.

Balance Sheet

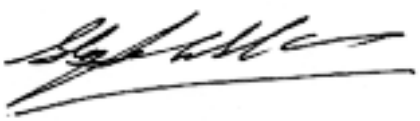
As at 31 March 2009

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Fixed assets					
Tangible assets	11	196.6	168.6	196.6	168.6
Investments	12	2.9	2.9	1.4	0.9
Investment in associates		-	-	-	-
		199.5	171.5	198.0	169.5
Current assets					
Stocks and work in progress	13	2.9	7.6	3.0	7.9
Debtors	14	138.3	132.6	140.4	133.6
Cash and cash equivalents	24	30.4	59.6	30.3	59.4
		171.6	**199.8**	**173.7**	**200.9**
Creditors: amounts falling due within one year	15	(118.9)	(99.5)	(118.8)	(99.2)
Net current assets		**52.7**	**100.3**	**54.9**	**101.7**
Total assets less current liabilities		**252.2**	**271.8**	**252.9**	**271.2**
Financed by:					
Creditors: amounts falling due after more than one year	17	23.1	0.7	23.1	0.6
Provisions for liabilities and charges	18	1.1	5.5	1.1	5.5
		24.2	6.2	24.2	6.1
Capital and reserves					
Public dividend capital	21	50.4	50.4	50.4	50.4
Revaluation reserve	22	39.2	47.2	38.1	45.6
Profit and loss account	**22**	**138.4**	**168.0**	**140.2**	**169.1**
Government funds		**228.0**	**265.6**	**228.7**	**265.1**
Total		**252.2**	**271.8**	**252.9**	**271.2**

The financial statements were signed on 2 July 2009

The financial statements were authorised for issue on 13 July 2009*

Frances Saunders, Chief Executive



Stephen Williams, Acting Finance Director

*This represents the date of despatch by the Trading Fund's Board, to the Secretary of State for Defence, for laying before the Houses of Parliament.

Cash flow statement

For the year ended 31 March 2009

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Cash flow from operating activities					
Net cash inflow from operating activities	31	19.2	3.1	19.4	3.5
Dividends from associate		-	-	-	-
Returns on investments and servicing of finance					
Interest received		1.9	4.8	1.9	4.8
Net cash inflow from returns on investments and servicing of finance		**1.9**	**4.8**	**1.9**	**4.8**
Net cash inflow before capital expenditure		**21.1**	**7.9**	**21.3**	**8.3**
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(43.8)	(33.1)	(43.8)	(33.1)
Payments for investments		-	(0.2)	-	(0.1)
Loan provided to subsidiary undertaking		-	-	(0.1)	-
Amounts received upon sale of tangible fixed assets		-	0.1	-	0.1
Net cash outflow from capital expenditure and financial investment		(43.8)	(33.2)	(43.9)	(33.1)
Dividends paid		(28.0)	(3.0)	(28.0)	(3.0)
Net cash outflow before financing		(50.7)	(28.3)	(50.6)	(27.8)
Financing					
Long-term loan received from MOD		21.5	-	21.5	-
Net cash inflow from financing		21.5	-	21.5	-
Decrease in cash	**24**	**(29.2)**	**(28.3)**	**(29.1)**	**(27.8)**

Notes to the accounts

1 ACCOUNTING POLICIES

(a) Accounting convention

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

Dstl has prepared accounts for the year ended 31 March 2009 in compliance with the accounting principles and disclosure requirements of the Financial Reporting Manual issued by HM Treasury that is in force for 2008/09.

The accounts have been prepared so as:

(i) to give a true and fair view of the income and expenditure, total recognised gains and losses, and cash flows of the Trading Fund and Group, and of the state of affairs as at period ended 31 March 2009

(ii) to provide disclosure of any material income or expenditure that has not been applied to the purposes intended by Parliament, or material transactions that have not conformed to the authorities that govern them.

(b) Basis of consolidation

The consolidated accounts incorporate those of the Trading Fund together with its associate, Tetricus Limited, its joint venture, Enigma Diagnostics Limited, and those of its wholly owned subsidiary undertaking, Ploughshare Innovations Limited, together with all of its joint ventures. Enigma Diagnostics Limited has no material trading income or expenditure.

The subsidiary undertaking has been consolidated using the acquisition method. The associate has been consolidated using the equity method, and all joint ventures have been consolidated using the gross equity method. The accounts are drawn up to 31 March 2009.

(c) Subsidiary and its joint ventures

Ploughshare Innovations Limited was incorporated as a wholly owned subsidiary of Dstl on 6 April 2005.

It was created as a vehicle to manage Dstl's joint venture initiatives.

Various joint ventures exist to allow Dstl's technology to be developed for commercial applications.

Ploughshare Innovations Limited has performed its own valuation of the joint ventures using an independent professional valuer, who is also an Associate Chartered Accountant. These valuations have been adopted by the Board, and have been incorporated into the Group accounts on consolidation of the subsidiary undertaking, with Group adjustments in respect of the Enigma Diagnostics Limited valuation and the P2i Limited valuation. Details are provided in Note 12.

(d) Associate

Tetricus Limited was incorporated on 22 November 1999. It has been consolidated using the equity method. Management accounts are used to consolidate for the 12 months to 31 March 2009. Details are provided in Note 12.

(e) Joint venture

Enigma Diagnostics Limited remains as the only joint venture where the Trading Fund has some direct ownership of beneficial interests. The investment has been valued by an independent professional valuer, who is also an Associate Chartered Accountant. The valuation has been adopted by the Board. Details are provided in Note 12.

(f) Tangible fixed assets

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

Land and buildings:

Porton Down – depreciated replacement cost

Portsdown West – existing use valuation

Portsdown West where a building is of a specialist nature – depreciated replacement cost

For land and buildings that have been declared surplus – market value

Legacy and acquired facilities – net recoverable amount

Plant, machinery, computers and office equipment – net current replacement cost.

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

(i) the estimated net present value of the cash flows deriving from the continued use of the asset less an allowance for profit to be earned in accordance with the Government Profit Formula

(ii) the estimated net sale proceeds of the asset.

In order to meet the Treasury's requirement for modified historic cost accounting, tangible fixed assets are revalued in the years between professional valuations using the following indices:

Land	– Gross Domestic Product Deflator Index
Buildings	– Buildings Cost Information Service All-In Tender Price Index
Other assets	– relevant indices published by the Office for National Statistics.

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

Freehold land	Not depreciated
Freehold buildings	1-40 years
Legacy and acquired facilities	1-12 years
Plant and machinery	1-25 years
Computers and office equipment	1-10 years

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

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

(g) Leased assets
Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the term of the lease.
Rentals are apportioned between reductions in the capital obligations included in creditors and finance charges, which are charged to the profit and loss account.
Expenditure under operating leases is charged to the profit and loss account as incurred.

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

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

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

(k) Pensions
Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer scheme providing benefits based on final salary. Dstl is unable to identify its share of the underlying assets and liabilities. Therefore, as required by FRS17 Retirement Benefits, Dstl accounts for the scheme as if it was a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.
Employees joining after 1 October 2002 could opt to open a partnership pension, with an employer contribution. Details of rates and amounts of contributions during the year are given in Note 6.

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

(m) Corporation tax
Dstl is exempt from corporation tax under Section 829(2) of the Income and Corporation Taxes Act 1988 and consequently the requirements to account for current tax and deferred tax under FRS16 and FRS19 are not relevant for these financial statements.
Ploughshare Innovations Limited is liable to pay corporation tax in the UK on its taxable profits, and is incorporated in the Group financial statements. See Note 10 to the accounts.

(n) Going concern
The accounts have been prepared on the basis that Dstl is a going concern.

(o) Turnover
Turnover represents amounts invoiced to customers (net of VAT), with an adjustment, for all work performed in the year.
For cost-plus contracts, amounts receivable under contract are recognised as turnover, which includes a contract fee. For long-term contracts, an appropriate amount of profit is attributed where there is reasonable certainty of the final outcome.

(p) Implementation of new accounting standards
For the year ending 31 March 2009, the group has implemented the following accounting standards as required by the Financial Reporting Manual:
FRS 23 The effects of changes in foreign exchange rates
FRS 25 Financial instruments: disclosure and presentation
FRS 26 Financial instruments: recognition and measurement
FRS 29 Financial instruments: disclosures
Implementation of these accounting standards has not had a material impact on the financial statements. Further details in respect of financial instruments are given in Note 24.

2 Turnover

Turnover by major class of customer is analysed as follows:

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
MOD:	358.9	327.7	358.9	327.7
Research	210.6	181.7	210.6	181.7
Non-research	148.3	146.0	148.3	146.0
Non-MOD:	46.3	52.2	45.8	51.2
Government departments	28.0	22.9	28.2	22.9
Non-Exchequer income	18.1	29.2	17.6	28.3
Non-Exchequer royalty income	0.2	0.1	-	-
Total	**405.2**	**379.9**	**404.7**	**378.9**

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.

3 Operating profit

This is stated after charging/(crediting):

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Depreciation charge for the year:	8.2	9.2	8.2	9.2
Depreciation of owned assets	7.3	7.1	7.3	7.1
Exceptional costs of impairment of tangible fixed assets	0.9	1.9	0.9	1.9
Adjustment valuation of tangible fixed assets	-	0.2	-	0.2
Operating lease rentals – land and buildings	8.3	7.4	8.3	7.4
– plant and machinery	0.1	0.2	0.1	0.2
Travel, subsistence and hospitality	3.0	3.7	3.0	3.7
Foreign exchange losses	0.1	0.1	0.1	0.1
Other operating income	(7.8)	(8.0)	(8.3)	(8.3)

Operating expenses include a fee of £65,000 (2007/08: £68,250) for the external audit by the National Audit Office (NAO), and a further £16,500 for the external audit of the subsidiary undertaking, Ploughshare Innovations Limited (2007/08: £15,000). During the year, the NAO performed an International Financial Reporting Standards (IFRS) audit for which a fee of £4,000 was paid. The external auditors have not received any remuneration for non-audit services.

4 Key corporate financial target

Dstl has a ROCE, defined as follows:

a) Return – modified historical cost profit on ordinary activities before interest and dividends
b) Capital employed – average net assets, being total assets less current and long-term creditors, but excluding provisions

The target for the year for ROCE was 3.5 per cent.

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Profit on ordinary activities before interest	(3.7)	13.7	(3.0)	14.3
Total assets less current liabilities	252.2	271.8	252.9	271.2
Less: long-term creditors excluding provisions	(23.1)	(0.7)	(23.1)	(0.6)
Capital employed at year end	229.1	271.1	229.8	270.6
Average capital employed during the year	250.1	259.3	250.2	258.4
ROCE	(1.5%)	5.3%	(1.2%)	5.5%

5 Trading Fund Board members' emoluments

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

	2009 £'000	2008 £'000
Salaries, bonuses and fees	**809.9**	**843.6**

6 Employee information

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

	2009 Group Number	2008 Group Number	2009 Trading Fund Number	2008 Trading Fund Number
Professional and technical staff	2,751	2,669	2,741	2,659
Administrative and industrial staff	628	652	626	649
Secondees	89	99	89	99
Total	**3,468**	**3,420**	**3,456**	**3,407**

In addition, there were 995 (2007/08: 912) agency and contract staff utilised during the year at a cost of £19.4 million (2007/08: £14.8 million).

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

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Wages and salaries	122.7	115.4	122.1	114.8
Social security costs	10.2	9.7	10.1	9.6
Other pension costs	23.5	22.2	23.5	22.1
Total	**156.4**	**147.3**	**155.7**	**146.5**

The employees of Dstl are eligible to be members of the Principal Civil Service Pension Scheme (PCSPS), which is a final salary scheme. The PCSPS is an unfunded multi-employer defined benefit scheme, but Dstl is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk). For 2008/09, normal employers' contributions of £23.5 million were payable to the PCSPS (2007/08: £22.1 million) at one of four rates in the range 17.1 per cent to 25.5 per cent of pensionable pay (2007/08: 17.1 per cent to 25.5 per cent). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2009/10, the rates will be in the range 16.7 per cent to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2008/09 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account – a stakeholder pension with an employer contribution. Employers' contributions of £125,988 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to three per cent of pensionable pay. In addition, employer contributions of £8,333, representing 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service, and ill-health retirement of these employees. Contributions due to the partnership pension providers at the Balance Sheet date were £14,531. There were no prepaid contributions at that date. One person retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £2,909 for this individual.

7 Interest received and receivable

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Interest receivable on deposits	**1.8**	**4.6**	**1.8**	**4.6**

Interest received and receivable has arisen from financial assets classified as loans and loan debtors. These are primarily short-term investments held at fixed interest rates.

8 Interest paid and payable

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
	0.9	**-**	**0.9**	**-**

Of this, £15,561 relates to payments made under the Late Payments of Commercial Debts (Interest) Act 1998.
Interest paid and payable has arisen from financial liabilities classified as other financial liabilities measured at amortised cost. This is primarily interest payable on the MOD loan. See Notes 17 and 19 for further information.

9 Dividends paid and payable

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Ordinary	3.0	3.0	3.0	3.0
Special	25.0	-	25.0	-
Total	**28.0**	**3.0**	**28.0**	**3.0**

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

10 Taxation

Dstl 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 FRS16 and FRS19 are not relevant to the Trading Fund. However, Ploughshare Innovations Limited is liable to pay corporation tax in the UK on its taxable profits. During the year, Ploughshare Innovations Limited made a trading loss.

11 Tangible fixed assets

Group and Trading Fund

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

	Freehold land and buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Historic cost, valuations and gross modified historic cost:						
Balance brought forward	108.4	0.3	62.8	1.5	55.3	228.3
Additions	-	-	0.1	-	43.1	43.2
Disposals	(1.0)	(0.2)	(1.1)	(0.4)	-	(2.7)
Transfers	72.8	-	9.0	4.7	(86.5)	-
Revaluations	(12.1)	-	0.4	-	-	(11.7)
Impairment	-	-	-	-	(0.9)	(0.9)
Balance carried forward	**168.1**	**0.1**	**71.2**	**5.8**	**11.0**	**256.2**
Depreciation:						
Balance brought forward	(18.5)	(0.3)	(39.9)	(1.0)	-	(59.7)
Charge for year:						
historical	(3.4)	-	(3.3)	(0.6)	-	(7.3)
supplementary	-	-	(0.4)	-	-	(0.4)
downward revaluation	1.0	-	-	-	-	1.0
Disposals	0.9	0.2	1.0	0.4	-	2.5
Revaluations	4.3	-	-	-	-	4.3
Balance carried forward	**(15.7)**	**(0.1)**	**(42.6)**	**(1.2)**	**-**	**(59.6)**
Net modified historic cost:						
Balance carried forward	**152.4**	**-**	**28.6**	**4.6**	**11.0**	**196.6**
Balance brought forward	89.9	-	22.9	0.5	55.3	168.6

Land and buildings are subject to a quinquennial revaluation by an independent professional valuer in accordance with FRS15. Land at Pyestock is valued annually. The latest valuation was carried out as at 31 January 2009 on a Market Value basis by Knight Frank LLP, Chartered Surveyors. Portsdown Main was valued as at 31 January 2009 on a Market Value basis by Knight Frank LLP, Chartered Surveyors. All other land and building assets at Porton Down and Portsdown West are valued on a rolling basis by GVA Grimley Limited, Chartered Surveyors. A third of all building assets at Porton Down were revalued as at 31 March 2007. A further third of all building assets at Porton Down were revalued as at 31 March 2008. The remaining building assets and the land at Porton Down were revalued as at 31 March 2009. From now on, the revaluation will be performed on a five-year rolling basis.The land and building assets at Portsdown West were revalued as at 31 March 2008. The published figures for land and buildings include:

– a professional external valuation of the land at Pyestock as at 31 January 2009
– a professional external valuation of Portsdown Main as at 31 January 2009
– a professional external valuation of the land and building assets at Portsdown West as at 31 March 2008
– a professional external valuation of a third of the building assets at Porton Down as at 31 March 2009
– a professional external valuation of a third of the building assets at Porton Down as at 31 March 2008
– a professional external valuation of the balance of the building assets and the land at Porton Down as at 31 March 2007.

The basis of the valuation for the land at Pyestock and Portsdown Main was Market Value. Portsdown Main, which is reported as an asset under construction, was impaired by £0.9 million. The basis of the valuation for Porton Down was Market Value using the Depreciated Replacement Cost (DRC) method. The basis of the valuation for Portsdown West was the Existing Use Valuation (EUV) method, but where there are buildings of a specialist design and purpose, the DRC method was applied. Due to the new extensive and specialised building construction under way at the Portsdown West site, and due to the size and location of the site, the independent valuers have stated that valuation on a DRC basis would be appropriate for the next valuation due on 31 March 2013.

In the event of Porton Down and Portsdown West being marketed for an alternative use to their current purpose, it is likely that the values would be materially lower than the reported figures.
During the year, a business-in-use valuation was carried out on the Category 4 facility. The business-in-use valuation was extended over a period of 25 years, and cash flows were discounted at a required rate of return of 4.6 per cent. There was no material difference when compared to its carrying value.

12 Investments

	Trading Fund subsidiary undertaking £ million	Trading Fund joint ventures and associate £ million	Trading Fund total £ million	Group joint ventures and associate £ million	Group total £ million
Cost or valuation:					
At 1 April 2008	-	0.9	0.9	2.9	2.9
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-	0.5	0.5	-	-
At 31 March 2009	**-**	**1.4**	**1.4**	**2.9**	**2.9**
Amount provided	-	-	-	-	-
Net book value					
At 31 March 2009	**-**	**1.4**	**1.4**	**2.9**	**2.9**
At 1 April 2008	-	0.9	0.9	2.9	2.9

During the year ended 31 March 2009, Dstl's shareholding in P2i Limited transferred to Ploughshare Innovations Limited. Ploughshare Innovations Limited has performed its own valuation of the joint ventures using an independent professional valuer, who was also an Associate Chartered Accountant. These valuations have been adopted by the Board, and have been incorporated into the Group accounts on consolidation of the subsidiary undertaking, with Group adjustments in respect of the P2i Limited and the Enigma Diagnostics Limited valuations. The P2i Limited valuation has been reduced by £0.3 million and the Enigma Diagnostics Limited valuation has been reduced by £2.0 million. These represent the joint venture's amortised valuation of the patent licences that have been internally generated by the Trading Fund. Enigma Diagnostics Limited remains as the only joint venture where the Trading Fund has some direct ownership of all beneficial interests. The investment has been valued by an independent professional valuer, who was also an Associate Chartered Accountant. The Board has adopted the valuation, with a Group adjustment made on consolidation for the internally generated patent licence described above. Further details of the joint venture and associate owned directly by the Trading Fund at 31 March 2009 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Aggregate capital and reserves £ million	Profit/(Loss) for year £ million	Nature of business
Joint venture							
Enigma Diagnostics Ltd	Great Britain	10.9%	Ordinary of 10p/ Preferred Ordinary 1p	30 Apr 2008	(1.2)	(5.4)	R&D

Management accounts for 11 months to 31 March 2009, adjusted for 12 months, have been used as audited accounts were not available.

Associate							
Tetricus Limited	Great Britain	33.3%	Ordinary C of £1	31 Mar 2009	0.3	-	Business support to biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2009 have been used for the disclosure because audited accounts were not available.

13 Stocks and work in progress

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Work in progress				
Central government bodies	2.1	5.8	2.2	5.8
Trading funds	0.1	-	0.1	0.3
Non-public sector organisations	0.7	1.8	0.7	1.8
Total	**2.9**	**7.6**	**3.0**	**7.9**

14 Debtors

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Trade debtors	33.6	24.1	33.4	23.9
Central government bodies	29.9	18.6	29.9	18.5
NHS Trusts	-	0.1	-	0.1
Non-public sector organisations	3.7	5.4	3.5	5.3
Amounts recoverable under contracts	97.9	102.8	97.9	102.8
Central government bodies	95.9	102.1	95.9	102.1
Non-public sector organisations	2.0	0.7	2.0	0.7
Other debtors	1.9	1.6	4.2	2.9
Central government bodies	0.5	0.7	0.5	0.7
Trading funds	-	-	2.3	1.3
Non-public sector organisations	0.7	0.4	0.7	0.4
Staff debtors	0.7	0.5	0.7	0.5
Loans due from Ploughshare Innovations Limited	-	-	0.1	-
Prepayments and accrued income	4.9	4.1	4.8	4.0
Central government bodies	-	0.1	-	0.1
Local authorities	0.2	-	0.2	-
Non-public sector organisations	4.7	4.0	4.6	3.9
Total	**138.3**	**132.6**	**140.4**	**133.6**

The loan due from Ploughshare Innovations Limited was put in place from 6 April 2008, set at an interest rate of base plus 2 per cent. The loan arrangement is on demand, with a total limit set at £500,000. The loan will be repayable on the third anniversary of the agreement, which is 6 April 2011. Within the Trading Fund's other debtors is a current account with Ploughshare Innovations Limited of £2.3 million (2007/08: £1.3 million). The balance on this account represents amounts due for services provided. There is no intention to demand payment during the next year.

15 Creditors: amounts falling due within one year

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Payments received on account		12.3	9.4	12.3	9.4
Central government bodies		8.5	5.6	8.5	5.6
Non-public sector organisations		3.8	3.8	3.8	3.8
Trade creditors		24.4	18.6	24.4	18.6
Central government bodies		1.2	0.8	1.2	0.8
NHS Trusts		0.1	-	0.1	-
Non-public sector organisations		23.1	17.8	23.1	17.8
Taxation and social security		6.9	7.6	6.9	7.6
Other creditors		4.2	2.7	4.1	2.5
Central government bodies		3.5	2.2	3.5	2.2
Non-public sector organisations		0.5	0.3	0.5	0.2
Staff creditors		0.2	0.2	0.1	0.1
Accruals and deferred income		57.5	57.5	57.5	57.4
Central government bodies		3.8	3.6	3.8	3.6
Trading funds		-	0.2	-	0.2
NHS Trusts		0.1	-	0.1	-
Local authorities		1.9	1.3	1.9	1.3
Non-public sector organisations		51.7	52.4	51.7	52.3
Provision for liabilities and charges	16	10.1	-	10.1	-
Rationalisation, redundancy and early retirement costs – non-public sector organisations		0.5	0.7	0.5	0.7
Dividend		3.0	3.0	3.0	3.0
Total		**118.9**	**99.5**	**118.8**	**99.2**

16 Provisions for liabilities and charges falling due within one year

Group and Trading Fund

	Infrastructure maintenance and upgrades £ million	Onerous contracts £ million	i lab provisions £ million	Total £ million
Balance brought forward	-	-	-	-
Utilised in year	-	(0.2)	-	(0.2)
Additions in year	-	0.3	4.8	5.1
Released in year	(0.3)	-	-	(0.3)
Transferred from provisions for liabilities and charges falling due after more than one year	4.6	0.9	-	5.5
Balance carried forward	**4.3**	**1.0**	**4.8**	**10.1**

Infrastructure maintenance and upgrades
A provision is recognised for certain infrastructure maintenance and upgrades where Dstl is legally responsible for the infrastructure concerned and there is a clear legal or constructive obligation resulting in an expected transfer of economic benefits. The timing for the transfer of economic benefits for the remaining amount is uncertain, but is expected to be completed before the end of March 2010.

Onerous contracts
Dstl occupies sites at Farnborough and Malvern under terms of an operating lease. On exit from these leases, Dstl has an obligation, under dilapidation terms of the contract, to repair and refurbish the occupied areas of the site. A provision was created for the Malvern dilapidations during the year, a final cost was negotiated and settled, and the provision was utilised before the period end. The Farnborough dilapidations provision is likely to be utilised before the end of March 2010. An onerous contract in relation to a lease of a building on the Winfrith site existed during the year. Early termination terms were negotiated, and the provision was utilised before the period end.

i lab provisions
Onerous contracts exist where Dstl has provided guaranteed selling prices for the homes of qualifying employees who are relocating due to a change in their permanent place of work. Due to current market conditions, selling prices are falling short of their guaranteed price. Due to relocation, particularly from the Farnborough site, there will be redundancies for some non-mobile staff.

17 Creditors: amounts falling due after more than one year

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Long-term loans – central government bodies	19	21.5	-	21.5	-
Accruals and deferred income		0.3	0.1	0.3	-
Central government bodies		-	0.1	-	-
Non-public sector organisations		0.3	-	0.3	-
Rationalisation, redundancy and early retirement costs – non-public sector organisations		1.3	0.6	1.3	0.6
Total		**23.1**	**0.7**	**23.1**	**0.6**

The long-term loan of £21.5 million was provided by MOD on 11 September 2008. The first interest payment is due on 31 March 2009. The first repayment of the principal is due on 30 September 2010, and final repayment is due on 31 March 2020. MOD has made a further £10.7 million available, which Dstl may borrow if required. With the exception of long-term loans, and rationalisation, redundancy and early retirement costs, long-term creditors are held undiscounted.

18 Provisions for liabilities and charges falling due after more than one year

Group and Trading Fund

	Infrastructure maintenance and upgrades £ million	Onerous contracts £ million	Total £ million
Balance brought forward	4.6	0.9	5.5
Additions in year	-	1.1	1.1
Transferred to provisions for liabilities and charges falling due within one year	(4.6)	(0.9)	(5.5)
Balance carried forward	**-**	**1.1**	**1.1**

Infrastructure maintenance and upgrades
A provision is recognised for certain infrastructure maintenance and upgrades where Dstl is legally responsible for the infrastructure concerned and there is a clear legal or constructive obligation resulting in an expected transfer of economic benefits. The timing for the transfer of economic benefits for the remaining amount is uncertain, but is expected to be completed before the end of March 2010. This provision has therefore been transferred to amounts falling due within one year.

Onerous contracts
Dstl occupies a site at Farnborough under terms of an operating lease. On exit from this lease during 2009, Dstl has an obligation, under dilapidation terms of the contract, to repair and refurbish the occupied areas of the site. Since the provision is likely to be utilised before the end of March 2010, it has been transferred to amounts falling due within one year. A new lease for a Dstl facility to remain at the Farnborough site is likely to be put in place. This will defer a further dilapidation obligation under the lease to beyond a year.

19 Long-term loans

Group and Trading Fund

	2009 £ million	2008 £ million
Balance brought forward	-	-
New loan	21.5	-
Repayment of loan	-	-
Balance carried forward	**21.5**	**-**

A £21.5 million loan was received from MOD on 11 September 2008 and is repayable by instalments until 31 March 2020. Interest is charged at a rate of 4.53 per cent per annum. The interest rate is fixed for the duration of the loan. A further loan from MOD of £10.7 million is available from 1 April 2009. The interest rate charged would be the rate in force at the time.

Analysis of repayments:		
Within one year	-	-
After one year but within two years	2.2	-
After two years but within five years	6.4	-
After five years	12.9	-
Total	**21.5**	**-**

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

Balance brought forward	-	-
New loan	21.5	-
Finance charge	0.8	-
Balance carried forward	**22.3**	**-**

20 Operating leases

Group and Trading Fund

Commitments for rental payments under non-cancellable operating leases payable during periods after the Balance Sheet date are analysed as follows:

	2009 £ million	2008 £ million
Buildings		
Leases expiring:		
– within one year	2.2	3.2
– between two and five years	4.2	4.3
– over five years	-	-
Plant and machinery		
Leases expiring:		
– within one year	0.1	0.1
Total	**6.5**	**7.6**

21 Public dividend capital

Group and Trading Fund

	2009 £ million	2008 £ million
Balance brought forward	50.4	50.4
Net movement in year	-	-
Balance carried forward	**50.4**	**50.4**

22 Revaluation and other reserves

	Note	Revaluation reserve Group £ million	Revaluation reserve Trading Fund £ million	Profit and loss account Group £ million	Profit and loss account Trading Fund £ million	Total Group £ million	Total Trading Fund £ million
At beginning of year as previously reported		47.2	45.6	168.0	169.1	215.2	214.7
Retained loss for the year		-	-	(30.8)	(30.1)	(30.8)	(30.1)
Release from revaluation reserve		(1.2)	(1.2)	1.2	1.2	-	-
Revaluation of tangible fixed assets	11	(6.8)	(6.8)	-	-	(6.8)	(6.8)
Revaluation of investments	12	-	0.5	-	-	-	0.5
Balance carried forward		**39.2**	**38.1**	**138.4**	**140.2**	**177.6**	**178.3**

23 Reconciliation of movements in Government funds

Government funds represent reserves

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Retained profit/(loss) for the year	22	(30.8)	15.3	(30.1)	15.9
Movements on revaluation reserve	22	(6.8)	7.7	6.3	8.0
Net movement in Government funds		(37.6)	23.0	(36.4)	23.9
Balance brought forward		265.6	242.6	265.1	241.2
Balance carried forward		**228.0**	**265.6**	**228.7**	**265.1**

24 Analysis of the balances of cash as shown in the Balance Sheet

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Cash at bank and in hand	0.8	0.9	0.8	0.9
Short-term deposits	29.6	58.7	29.5	58.5
Balance carried forward	**30.4**	**59.6**	**30.3**	**59.4**

Analysis of changes in cash and cash equivalents during the year

Balance brought forward	59.6	87.9	59.4	87.2
Increase/(decrease) in cash and liquid resources	(29.2)	(28.3)	(29.1)	(27.8)
Balance carried forward	**30.4**	**59.6**	**30.3**	**59.4**

Financial instruments

Financial instruments do not have a significant effect on the Group's financial position and performance. The Trading Fund and its subsidiary undertaking's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations. The Group has no embedded derivatives that require separation from its host contract and measurement at fair value through profit or loss, as required by FRS26. It has been the Group's policy throughout the year that no trading in financial instruments shall be undertaken.

Categories of financial instruments

Trade and other debtors and cash and cash equivalents have been classified as loans and debtors. Trade and other creditors have been classified as other financial liabilities. The fair value of these financial assets and liabilities approximates carrying value due to the short-term nature of these financial instruments. The loan received from MOD has been classified as other financial liabilities and is held at amortised cost using the effective interest rate method. The carrying value of the loan is shown in Note 19. 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. As required by FRS29, the category of financial instrument that has produced interest received and receivable, and the category of financial instrument that has produced interest paid and payable is disclosed in Notes 7 and 8.

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 creditors, and of trade and other debtors, arising out of normal operations. This is managed through matching of credit terms with suppliers and customers. MOD has agreed to make available a further loan of £10.7 million from 1 April 2009. Details are disclosed in Note 19.

The following is an analysis of financial liabilities by remaining contractual maturity, as required by FRS29:

	Matures within 1 yr £ million	Matures between 1 and 2 yrs £ million	Matures between 2 and 3 yrs £ million	Matures between 3 and 4 yrs £ million	Matures between 4 and 5 yrs £ million	Matures after 5 yrs £ million
Trade creditors	24.4	-	-	-	-	-
Other creditors:						
Other	0.9	-	-	-	-	-
Staff/payroll creditors	2.5	-	-	-	-	-
Accruals	57.4	-	-	-	-	-
Rationalisation, redundancy and early retirement costs	0.5	0.4	0.3	0.2	0.2	0.2
Loan provided by MOD:						
Principal	-	2.1	2.2	2.1	2.2	12.9
Interest	1.7	0.9	0.8	0.7	0.6	1.8
Total financial liabilities	87.4	3.4	3.3	3.0	3.0	14.9

The liquidity risks inherent to this are met by close management of the Group's financial assets. Amounts recoverable under contract are invoiced on a monthly billing cycle, and the receipts are invested on short-term deposit designed to mature when liabilities fall due.

The following is a maturity analysis of financial assets:

	Matures within 1 yr £ million	Matures between 1 and 2 yrs £ million	Matures between 2 and 3 yrs £ million	Matures between 3 and 4 yrs £ million	Matures between 4 and 5 yrs £ million	Matures after 5 yrs £ million
Work in progress	2.9	-	-	-	-	-
Trade debtors	33.6	-	-	-	-	-
Amounts recoverable under contract	97.9	-	-	-	-	-
Other debtors:						
Other	1.2	-	-	-	-	-
Staff debtors	0.1	0.1	0.1	0.1	0.1	0.2
Total financial assets	135.7	0.1	0.1	0.1	0.1	0.2

Market risk

Foreign currency risk:

The Group has limited transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in currencies other than sterling, and for staff who are posted overseas, payment of salaries in the host currency. Foreign currency contracts require approval from the Finance Director. It is Dstl policy to endeavour 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 reserves 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 2009, the Group's exposure to currency exchange movements denominated in sterling is:

	US Dollar £'000	Canadian Dollar £'000	Euro £'000
Assets	1,558.0	416.0	192.0
Liabilities	545.0	-	24.0

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

Interest rate risk
There is no interest rate risk. All investments are short term at a fixed rate. As at 31 March 2009, the Group's investments at fixed rates are:

Counterparty	Maturity Date	Amount invested £ million	Rate %
Lloyds TSB Bank	1 April 2009	6.5	0.20
Debt Management Office	3 April 2009	10.0	0.50
Debt Management Office	3 April 2009	4.0	0.30
Debt Management Office	6 April 2009	3.0	0.30
Debt Management Office	9 April 2009	3.0	0.35
Debt Management Office	9 April 2009	3.0	0.30

Credit risk
Exposure to credit risk is low. All work is performed under contract terms. More than 80 per cent of trading is undertaken with the Group's immediate Owner, MOD, and more than 90 per cent of trading is undertaken with Government departments, including MOD. All Non-Exchequer parties are credit checked prior to contract agreement and are regularly monitored. The standard terms negotiated with both customers and suppliers is a 30-day credit period.

In accordance with FRS29, the following provides details of the Group's trade debtors that are beyond their due date:

	0-90 days £'000	91-180 days £'000	181-270 days £'000	271-360 days £'000	More than 360 days £'000
Trade debtors beyond due date	8,539.1	1,324.6	612.3	64.7	19.8

No provision for bad debt has been made because there are no indications of any improbable recovery.
The maximum exposure to credit risk can be broken down as follows:

	£ million	£ million
Trade debtors		33.6
Amounts recoverable under contract		97.9
Other debtors:		
Other	1.2	
Staff loans, advances and imprests	0.7	
		1.9
Cash and cash equivalents:		
Cash at bank – Lloyds TSB Bank	0.8	
Cash at bank – HSBC Bank	0.1	
Short-term investments – Lloyds TSB Bank	6.5	
Short-term investments – Debt Management Office	23.0	
		30.4
Maximum exposure to credit risk		163.8

This is the technical maximum quantitative exposure, but within this, £113.1 million relates to MOD. Credit risk with MOD is minimal since it is a central Government organisation, and is the Group's immediate Owner.

25 Analysis of changes in financing during the year
Group and Trading Fund

	Note	2009 £ million	2008 £ million
Public dividend capital			
Balance brought forward		50.4	50.4
Net movement in year		-	-
Balance carried forward	**21**	**50.4**	**50.4**
Long-term loans			
Balance brought forward		-	-
New loan		21.5	-
Transfer to creditors within one year		-	-
Balance carried forward		**21.5**	**-**

26 Capital commitments

	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Capital expenditure that has been contracted for but has not been provided for in the accounts	25.2	51.4	25.2	51.4
Capital expenditure that has been authorised but has not been provided for in the accounts	3.3	4.7	3.3	4.7

27 Losses and special payments

There were no losses or special payments exceeding £250,000 in the year.
There was one severance payment made during the year totalling £12,500.

28 Contingent liabilities

There are no contingent liabilities at the Balance Sheet date.

29 Related party transactions

Dstl is a trading fund owned by MOD.

MOD

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

	2009 £ million	2008 £ million
Sales	358.9	327.7
Purchases	22.4	17.2
Debtors	113.1	110.5
Creditors	11.2	7.4

An ordinary dividend payable to MOD of £3 million was agreed. During the year, a special dividend of £25 million was paid to MOD. On 11 September 2008, a loan of £21.5 million was provided by MOD at an interest rate of 4.53 per cent. Interest payable for the year is £863,525. First repayment of the principal is due on 30 September 2010, and final repayment is due on 31 March 2020. MOD has made a further £10.7 million available, which Dstl may borrow if required. See Note 17.

Ploughshare Innovations Limited

Ploughshare Innovations Limited is a wholly-owned subsidiary undertaking of Dstl. Details are provided in Note 1c. Inter-company trading has been eliminated on consolidation using the acquisition method. During the year, the following trading occurred with Ploughshare Innovations Limited, which was carried out under contract terms:

	2009 £'000	2008 £'000
Sales and other operating income	866.4	366.1
Purchases and expenses	267.6	257.3
Debtors	2,275.3	1,271.4
Creditors	-	-

On 6 April 2008, a loan arrangement with Ploughshare Innovations Limited was put in place. Ploughshare Innovations Limited may borrow on demand, with a total limit set at £500,000. The interest rate charged is base plus 2 per cent. The loan will be repayable on the third anniversary of the agreement, 6 April 2011. During the year, Ploughshare Innovations Limited borrowed £100,000, and the interest charged was £1,412. During the year, the Trading Fund transferred all of its joint venture holdings in P2i Limited to Ploughshare Innovations Limited. Ownership of the investment has remained with the subsidiary undertaking during the current year. The Trading Fund's holdings in its joint venture with Alaska Food Diagnostics Limited transferred to Ploughshare Innovations Limited during the reporting year ended 31 March 2006. Ownership of the Trading Fund's holdings in its joint venture with Remo Technologies Limited transferred to Ploughshare Innovations Limited during the reporting year ended 31 March 2007. Ownership of the investments have remained with the subsidiary undertaking during the current year. The Trading Fund's holdings in its joint venture with Enigma Diagnostics Limited remain with the parent. Ploughshare Innovations Limited also has an investment in Enigma Diagnostics Limited. Details are provided in Note 12.

Joint ventures and associate

There has been no related party trading during the current year, or the previous year, with the joint ventures Leading Light Scientific Limited, Subsea Asset Location Technologies Limited, Prokyma Limited and Sherwood Therapeutics Limited. Tetricus Limited is an associate. These entities are considered to be related parties. Details of the joint ventures and associate are provided in Notes 1(c), (d), (e), and 12. During the year, the following trading occurred with these entities, carried out under contract terms:

	Sales		Purchases		Debtors		Creditors	
	2009	2008	2009	2008	2009	2008	2009	2008
	£	£	£	£	£	£	£	£
Alaska Food Diagnostics Limited	20,564	5,622	-	-	5,242	-	-	-
Claresys Limited	-	-	20,000	-	-	-	-	-
Enigma Diagnostics Limited	6,041	1,088	-	263,000	1,606	-	-	-
P2i Limited	-	-	919	-	-	-	-	-
Remo Technologies Limited	-	-	-	87,727	-	-	24,047	-
Tetricus Limited	140,469	133,882	-	12,663	1,039	34,430	-	-

Other public sector bodies (this information is not subject to audit)

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

	Sales		Purchases		Debtors		Creditors	
	2009	2008	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
British National Space Centre	250.9	414.3	-	-	169.8	340.3	-	-
Department for the Environment, Food and Rural Affairs	52.6	-	-	-	-	-	-	-
Department for Business Enterprise and Regulatory Reform	388.8	736.3	-	-	261.6	98.6	-	36.7
Department of Health	-	300.4	-	-	-	109.3	-	-
Department for Transport	3,565.6	2,308.2	-	-	1,887.2	-	-	-
Engineering and Physical Sciences Research Council	-	-	-	2,499.3	-	-	-	-
Food Standards Agency	205.5	33.1	-	-	145.2	44.4	28.5	-
Government Communications Bureau	4,100.2	2,653.8	56.7	75.3	4,569.3	2,478.9	922.7	615.9
Health Protection Agency	1,040.6	541.0	251.3	217.3	205.9	41.4	88.9	73.1
Home Office	12,047.9	12,762.8	16.9	48.4	4,830.7	5,359.4	796.4	1,507.8
HM Revenue and Customs; Employer's & Employee's Income Tax and National Insurance	-	-	41,728.8	39,481.6	-	-	4,264.8	3,504.6
HM Revenue and Customs; Value Added Tax	-	-	29,033.4	19,049.2	-	-	3,461.0	4,353.8
Cabinet Office; Principal Civil Service Pension Scheme	-	-	26,543.8	24,821.7	-	-	2,260.2	2,136.2

30 Post-balance sheet events

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

31 Reconciliation of operating profit to operating cash flows

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
Operating profit as per profit and loss account		(3.5)	13.7	(2.8)	14.3
Depreciation charge on owned tangible fixed assets	3, 11	7.3	7.3	7.3	7.3
Downward valuation of tangible fixed assets	3, 11	0.9	1.9	0.9	1.9
(Increase)/decrease in stocks		4.6	(0.6)	4.8	(0.7)
(Increase) in debtors		(5.9)	(39.1)	(6.8)	(39.1)
Increase in creditors due within one year		19.3	19.7	19.4	19.6
Increase/(decrease) in creditors due after more than one year		0.9	(0.4)	1.0	(0.4)
Increase/(decrease) in long-term provisions		(4.4)	0.6	(4.4)	0.6
Net cash inflow from operating activities		**19.2**	**3.1**	**19.4**	**3.5**

32 Reconciliation of net cash flow to movement in net funds

	Note	2009 Group £ million	2008 Group £ million	2009 Trading Fund £ million	2008 Trading Fund £ million
(Decrease) in cash and liquid resources	24	(29.2)	(28.3)	(29.1)	(27.8)
Changes in net funds		(29.2)	(28.3)	(29.1)	(27.8)
Balance brought forward		59.6	87.9	59.4	87.2
Balance carried forward		**30.4**	**59.6**	**30.3**	**59.4**

33 Analysis of net funds

Group	Note	1 April 2008 £ million	Cash flows £ million	31 March 2009 £ million
Cash	24	0.9	(0.1)	0.8
Short-term deposits	24	58.7	(29.1)	29.6
Cash and cash equivalents		59.6	(29.2)	30.4
Debt due within one year	19	-	-	-
Debt due after one year	19	-	(21.5)	(21.5)
Debt		-	(21.5)	(21.5)
Total		**59.6**	**(50.7)**	**8.9**
Trading Fund				
Cash	24	0.9	(0.1)	0.8
Short-term deposits	24	58.5	(29.0)	29.5
Cash and cash equivalents		59.4	(29.1)	30.3
Debt due within one year	19	-	-	-
Debt due after one year	19	-	(21.5)	(21.5)
Debt		-	(21.5)	(21.5)
Total		**59.4**	**(50.6)**	**8.8**

Five-year summary

This information is not subject to audit.

	Group* 2009 £ million	Group* 2008 £ million	Group* 2007 £ million	Group* 2006 £ million	2005 £ million
Profit and Loss					
Turnover	405.2	379.9	367.1	353.4	353.3
Operating profit/(loss) before impairments	(2.6)	14.3	20.1	18.7	23.2
Impairments/exceptional items	(0.9)	(0.6)	(1.1)	-	(4.7)
Loss on disposal of fixed assets	(0.2)	-	-	-	(0.3)
Interest receivable	1.8	4.6	4.1	3.1	2.0
Interest payable	(0.9)	-	-	-	-
Profit/(loss) for the financial year	(2.8)	18.3	23.1	21.8	20.2
Dividends	(28.0)	(3.0)	(3.0)	(3.0)	(3.0)
Retained profit/(loss) for the year	(30.8)	15.3	20.1	18.8	17.2
Balance Sheet					
Fixed assets	199.5	171.5	134.3	124.6	122.9
Working capital	22.3	40.7	26.4	21.3	22.1
Cash and cash equivalents	30.4	59.6	87.9	78.7	61.9
Creditors: amounts falling due after more than one year	(23.1)	(0.7)	(1.1)	(2.1)	(2.8)
Provisions for liabilities and charges	(1.1)	(5.5)	(4.9)	(4.5)	(5.2)
Government funds	228.0	265.6	242.6	218.0	198.9
Cash Flow					
Cash inflow from operating activities	19.2	3.1	23.3	22.4	43.5
Net cash inflow from returns on investments and servicing of finance	1.9	4.8	4.1	3.0	1.9
Capital expenditure and financial investment	(43.8)	(33.2)	(15.2)	(5.6)	(6.0)
Dividends paid	(28.0)	(3.0)	(3.0)	(3.0)	(3.0)
Cash inflow before financing	(50.7)	(28.3)	9.2	16.8	36.4
Net cash inflow/(outflow) from financing	21.5	-	-	-	(1.1)
Increase/(decrease) in cash	(29.2)	(28.3)	9.2	16.8	35.3
Return on Capital Employed	**(1.5%)**	5.3%	8.1%	8.8%	9.4%

*The Group includes consolidation of wholly-owned subsidiary undertaking, Ploughshare Innovations Limited.

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Dstl Executive at 31 March 2009

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Chief Executive

Mark Hone
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