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Defence Science and Technology Laboratory

Annual Report and Accounts 2013/14

Maximising the impact of science and technology for the defence and security of the UK

HC 95

Defence Science and Technology Laboratory

Annual Report and Accounts 2013/14

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HC 95

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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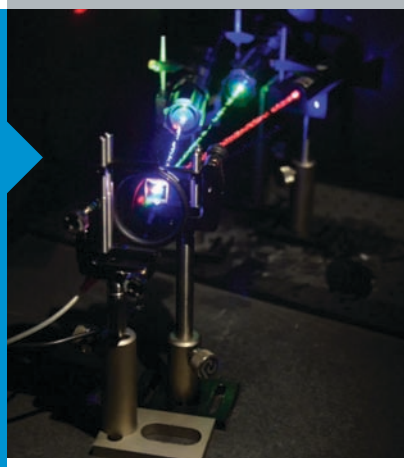
Contents

Highlights 2013/14

Maximising the impact of Science and Technology (S&T) for the defence and security of the UK

Analysis support to the withdrawal from Afghanistan

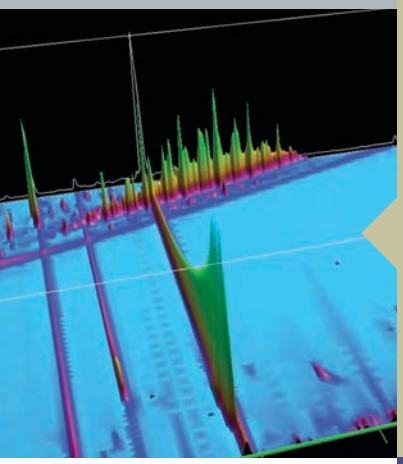
Dstl's Peace Support Operations Model, a decision-support tool, has been used to test the International Security Assistance Force's Afghanistan withdrawal plan by providing senior military and civilian planners with an evidence base that has influenced the size and shape of operations. See page 18 for the full story.



Working with industry to protect against 'white light' dazzle

Dstl has signed a licence agreement through its technology transfer company, Ploughshare Innovations Ltd, to allow a company access to Dstl's patented technology, the Optically Addressable Light Valve, to address the rising laser threat to aircrew and sensors. See page 21 for the full story.

Acting as an S&T hub for defence and security



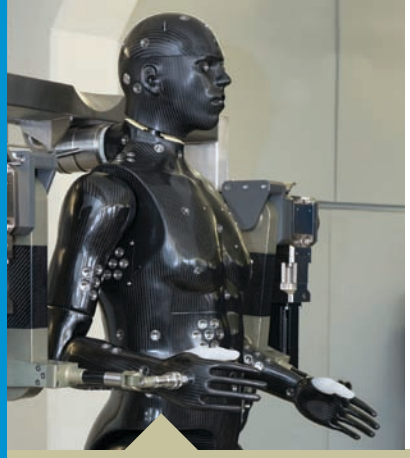
CBR analysis in Syria

Dstl scientists analysed clothing and soil samples from affected areas in Syria, providing evidence to UK and international Governments of the first use of chemical weapons in 25 years. Dstl advised the Organisation for the Prohibition of Chemical Weapons ahead of its inspections and provided expertise to international partners to assist them in gathering their own evidence. See page 27 for the full story.

Understanding erosion-resistant coatings for helicopter engines

Dstl has worked with academia and international allies to protect helicopter engines from sand erosion. In collaboration with allies in The Technical Cooperation Programme, and using expertise from the University of Birmingham, Dstl investigated commercially available erosion-resistant coatings. See page 37 for the full story.

Sustaining S&T capabilities for the future



Improving soldiers' situational awareness

Dstl has worked with industry and academia on the Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance Concepts and Solutions project. This investigated whether technologies common in the civilian market, such as smart phones or tablets, provided any real benefit to soldiers on the ground, informing the Land Environment Tactical Command and Information Systems programme requirements. See page 38 for the full story.

Introducing cutting-edge animatronic mannequin

Dstl has taken delivery of a new robotic mannequin. Used for testing chemical and biological protective equipment, the 'Porton Man' can walk, march, run, sit, kneel and even lift its arms as if to sight a weapon, allowing new equipment to be tested in a realistic but secure environment. See page 35 for the full story.

Maritime S&T on show

Dstl hosted a one-day showcase at Navy Command Headquarters, displaying its maritime environment S&T capabilities. The event provided an opportunity for Dstl experts and industry partners to engage directly with Royal Navy personnel to ensure they understood how to access S&T. See page 21 for the full story.

Exploiting hazard prediction tools across Government

Dstl has worked with other Government departments, including Public Health England, the Meteorological Office, Cabinet Office, Home Office and Department of Health, to develop chemical and biological hazard prediction tools. These tools aid decision-makers by providing an estimate of the hazard area and likely numbers and locations of potential casualties. See page 32 for the full story.

Providing effective solutions to the most critical problems

Protecting intellectual property in cyber defence

Dstl has developed a Cyber Defence Capability Assessment Tool that can be applied to any IT system and provides commercial value and capability for cyber defence. Cyber crime is estimated to cost the UK economy £27 billion a year. See page 30 for the full story.

Chairman's statement

The impact of Science and Technology (S&T) is evident in our daily lives and this impact is no less important in national security and defence, whether in the changing character of the risks we face or the opportunities to use S&T to our strategic advantage.

Sir Richard Mottram

To achieve such advantage, Government needs expert independent advice capable of harnessing the wider knowledge and skills of industry and academia. This is a highly-complex role. Given the pressures on public expenditure, it needs to be delivered in an effective and efficient way.

As a Trading Fund of the Ministry of Defence (MOD), the Defence Science and Technology Laboratory (Dstl) is run on business lines. Our Purpose is to optimise S&T-based advice and support to Government within available resources, rather than to maximise our own turnover or profit.

Dstl is strongly focused on the needs of its customers, whether a new customer organisation within MOD or Defence Equipment and Support as it moves forward as a bespoke Government trading entity. We have continued our own internal transformation to improve customer links and better manage programmes, as depicted in the end-to-end delivery process on page 34. We greatly value the contribution we make to the work of other Government departments and organisations with security responsibilities, as well as our work with international partners.

Dstl's governance reflects its position as a Trading Fund and an agency of MOD. Its Board provides support and scrutiny to the executive management, addresses corporate and business planning, and evaluates performance. See page 59 for Dstl's Governance Statement.

Key issues in the past year have included developing a draft Science Strategy matched to MOD and wider Government priorities, planning for the reshaping of the S&T capabilities to be maintained in-house in Dstl, addressing problems over the timescale for, and cost of, relocating facilities from Fort Halstead, and considering how best to support wider exploitation of Dstl's intellectual property through its subsidiary company, Ploughshare Innovations Ltd. These challenges have been addressed against an encouraging backdrop of widespread recognition from our stakeholders of the excellent contribution of Dstl staff, whether working

in support of our Armed Forces, of the Government's international responsibilities in relation, for example, to possible chemical weapons in Syria, or of better decision-making.

Dstl has highly-committed staff. The Board gives close attention to their professional development and to the infrastructure and other facilities needed to provide appropriate support to their work. It has very high expectations of their conduct in accordance with the values of the Civil Service Code and best practice in health and safety and security. Dstl expects similarly high standards of professionalism and integrity in the performance of its many external suppliers – supplier management and procurement more widely have been the focus of much attention in the past year.

Board membership has seen one change during the year with the departure of Barbara Busby. I want to thank her most warmly for her contribution. The Board's membership, in terms of skills and experience, continues to be well fitted to its role. I have greatly appreciated and enjoyed working with my Board colleagues and Dstl's excellent staff in my term of office as Chairman.

Sir Richard Mottram
Chairman
28 May 2014

> ***"Key issues in the past year have been addressed against an encouraging backdrop of widespread recognition from our stakeholders of the excellent contribution of Dstl staff, whether working in support of our Armed Forces, of the Government's international responsibilities or of better decision-making."***

Chief Executive's Introduction

I am delighted to introduce this Annual Report and Accounts, which documents another successful year in our history.

Jonathan Lyle

Despite stringent limits on our customers' budgets, demand for our services has remained very strong. This year, turnover (£661 million) was at a record level and was ahead of our forecast at the beginning of the year. This revenue is earned from a wide range of customers across the Ministry of Defence (MOD) and the broader Government security sector, delivering a diverse portfolio of projects and independent advice.

There are a number of examples of our work and its impact in this report, and there are many others that we cannot report because of the classified nature of our work in support of national security and defence.

A strong feature of Dstl's work over the past decade or more has been our close support to operations conducted by UK Armed Forces. This year, we have continued to provide direct support to UK Forces in Afghanistan, as well as helping to plan the withdrawal of troops and equipment by the end of 2014 (see page 18). It is important that our technological capabilities, and those in the companies and universities on whom we depend, are developed and attuned to support potential future operations.

This year, we have reviewed global trends and emerging scientific developments to produce, for the first time, a draft Dstl Science Strategy. Summarised in our published Corporate Plan, it sets out nine priority Science and Technology (S&T) capabilities that support our Purpose and identifies 19 potential game-changing technologies. We expect this draft Science Strategy to inform and guide Dstl's development as we plan to support our customers' future requirements, through and beyond the 2015 Strategic Defence and Security Review. We are also alive to the potential for these technologies to generate economic prosperity for the UK.

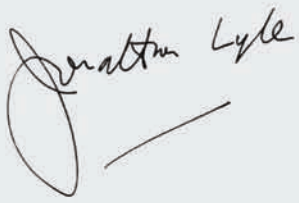
International partnerships remain a key part of how we achieve technological advance and access to the support that our customers need. This year, we have seen significant new collaborative commitments with key partners. In January, we were pleased to host the annual meeting of the five-nation The Technical Cooperation Programme, at Porton Down, which is at a critical juncture as all partners seek more from pressured budgets through greater cooperation and sharing.

Over the past year, we have continued to evolve Dstl in order to serve our customers better. We reorganised the former Programme Office into a new Programme

and Delivery Directorate, bringing together management of the MOD S&T Programme and all other customer projects into a more coherent set of programmes. Our industry and academia suppliers, through whom we deliver half of our total output, are now managed in an integrated way within our internal delivery departments. We have relocated our Land Battlespace Systems Department from Fort Halstead to Portsdown West, and now have our systems and analytical community working together on one site. Planning continues for the relocation of the remainder of our people and our capabilities currently based at Fort Halstead to Porton Down, the Helios Project.This requires a substantial programme of building work to provide modern, well-equipped facilities at Porton Down and includes a new explosives magazine, on which excellent progress has been achieved this year.

This summer, we will say farewell to Sir Richard Mottram, who stands down as Chairman having served the maximum term permitted. Over his six-year tenure, Dstl's turnover has increased by 75 per cent and our standing with our Owner and customers is much enhanced. I pay tribute to his outstanding Chairmanship of our Board and thank him for the invaluable personal support he has given to me and to my predecessor Dr Frances Saunders.

None of our success would be achieved without the wholehearted commitment and professional skill of our workforce. Facing considerable evolution and change across the organisation and MOD, they have continued to deliver impact and value for our customers across a very broad range of projects. I thank them for their outstanding dedication and for the contribution they each make to our continuing success.



Jonathan Lyle
Chief Executive
28 May 2014

"Despite stringent limits on our customers' budgets, demand for our services has remained very strong. None of our success would be achieved without the wholehearted commitment and professional skill of our workforce."

Finance Director's Review

Dstl delivered another year of robust financial performance, with sales up more than 5 per cent to £661 million, and Group operating profit of £26 million (2012/13: £26 million). There was a further 5 per cent increase in work placed with external suppliers, and capital investment amounted to £37 million.

Mark Alexander

Sales

Sales for the year were £661 million (2012/13: £629 million), an increase of 5.1 per cent. The full breakdown is set out in the table below:

	2013/14 £ million	2012/13 £ million
MOD		
S&T Programme	430	421
Other	187	163
	617	**584**
Non-MOD		
Wider Government	27	27
Non-exchequer	11	11
Estates	5	6
Intellectual Property	1	1
Total	**661**	**629**

MOD continued to account for 93 per cent of sales, with the majority attributable to the MOD S&T Programme, where sales increased by £9 million to £430 million (2012/13: £421 million). This represented 65 per cent of total sales (2012/13: 67 per cent), of which more than 60 per cent was contracted directly with suppliers.

Within other MOD sales, Defence Equipment and Support grew by more than a quarter to £115 million (2012/13: £90 million) due to the impact of several large non-recurring projects. Sales to Defence Intelligence (within Joint Forces Command) grew slightly to £39 million (2012/13: £38 million) as demand in relation to emerging threats more than compensated the decline in support to overseas military operations. Business with the rest of MOD remained broadly similar, following last year's 27 per cent increase, at £33 million (2012/13: £34 million).

Non-MOD sales remained unchanged at £44 million with a small decline in non-exchequer funding and international collaborative work offsetting slight growth from other UK Government departments. Funding for security and defence initiatives remains a public sector priority, despite continuing budget constraints.

Cost of sales

Cost of sales increased by £15 million to £319 million (2012/13: £304 million), representing 50 per cent of all work delivered in the year. The increase reflects Dstl's continued intent to deliver more work externally, consistent with Government policy set out in the 2012 Government White Paper: *National Security Through Technology*.

Operating expenses

Operating expenses increased by £17 million to £316 million (2012/13: £299 million). Staff costs have increased by £5 million to £203 million (2012/13: £198 million) and account for 64 per cent of total operating expenses (2012/13: 67 per cent). This results from a 0.8 per cent rise in the average number of staff and a slight shift towards more senior and experienced staff to support the changing nature of Dstl's role. Non-permanent staff at year-end accounted for 14 per cent of total headcount (2012/13: 17 per cent), maintaining our flexibility to meet future challenges.

	2013/14 £ million	2012/13 £ million
Staff costs	203	198
Non-staff costs	103	97
Depreciation and amortisation	15	9
Other operating income	(5)	(5)
Total	**316**	**299**

Non-staff costs increased to £103 million (2012/13: £97 million). This arose from a 7 per cent increase in underlying infrastructure operating costs, due in part to investment in IT and associated running costs, and an increase of £2 million in one-off costs associated with the Helios Project, mainly to cover staff relocations under the first phase of the project. The £6 million increase in depreciation resulted from a higher level of recent capital investment and the non-recurrence of a one-off gain of £4 million from the prior year disposal of the Pyestock site.

Other operating income is offset against operating expenses and remained unchanged at £5 million. This principally comprises the recovery of costs for Dstl staff seconded to other Government departments, both in the UK and overseas.

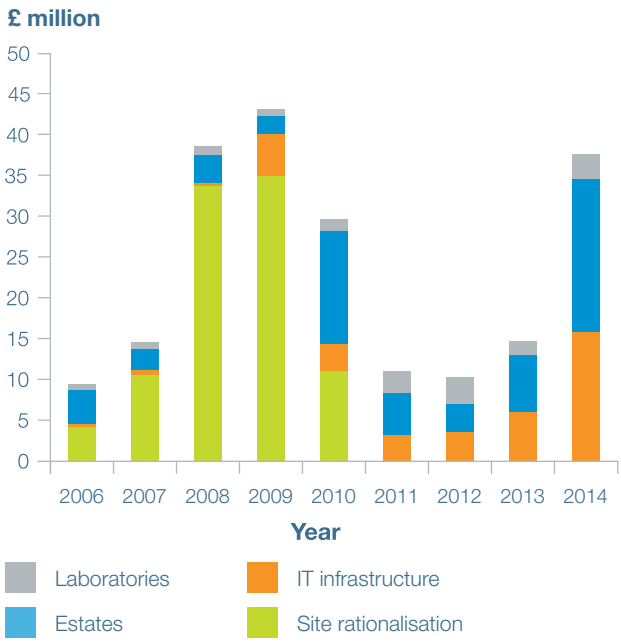
Group operating profit

Group operating profit remained unchanged at £26 million (2012/13: £26 million). The sales increase of £32 million was offset by an increase of £15 million in cost of sales, with the £17 million impact of operating cost increases (as explained in the previous paragraphs) leading to the overall unchanged result. Group operating profit is after eliminating on consolidation provisions made in the Trading Fund's accounts against its investment in a wholly-owned subsidiary, Ploughshare Innovations Ltd.

Capital investment

Capital investment was £37 million (2012/13: £15 million). Ahead of the Helios Project, work has continued on key enabling projects at Porton Down. In-year expenditure included a further £3.0 million related to upgrading the site's incoming electricity supply and a further £12.9 million towards construction of a new explosives storage facility. Both projects are now nearing completion. IT investment included the completion of the desktop equipment and operating system upgrade of £3.6 million, adding to £2.0 million spent in the previous year, and a major hardware refresh programme in our two main data centres of £4.9 million. Investment in software to support project delivery, collaboration and knowledge management amounted to £1.0 million.

Capital investment



Finance Director's Review continued

Funding and treasury management

We have been partially funded by a loan from MOD of £32 million, which was fully drawn down in 2009/10. This followed payment of a £25 million special dividend to MOD in 2008/09. Repayment of the loan commenced in 2010/11 and will be fully repaid over 10 years. The average interest rate on the loan is fixed at 3.9 per cent and the outstanding year-end balance was £19.3 million. We ended the year with cash of £89 million (2012/13: £79 million), reflecting the strong trading performance despite the large increase in capital expenditure. The significant future investment demands related to the Helios Project are expected to be funded principally from internally generated cash.

Supplier payments

During the year, we paid 94 per cent of approved invoices within five days (2012/13: 95 per cent), against the target set by Government of 80 per cent.

Dividends

A dividend of £11.0 million will be paid in respect of 2013/14 (2012/13: £10.0 million), based on our Return on Capital Employed (ROCE) target of 3.5 per cent.

Post balance sheet events

There have been no significant events since the end of the financial year that affect the results for the year or the year-end balance sheet.

Accounting policies

These accounts have been prepared under International Financial Reporting Standards (IFRS), as adapted for the public sector in the Government Financial Reporting Manual (FReM), issued by Her Majesty's Treasury.

There have been no new accounting standards, amendments or interpretations that affect the financial statements and no changes in accounting policy.

Outlook

Demand for our skills and services remains strong and in the short term there remains no sign of a downturn in sales. There remain challenges in placing an increasing proportion of the MOD S&T Programme externally in specialist areas, where there are often few suppliers or no effective commercial market. The ability to share facilities with third parties and work collaboratively on both our own and others' premises will become increasingly important. It is also necessary to continue to attract non-MOD funding to help sustain and grow capabilities that contribute to the wider national defence and security agenda. The requirement to sustain some unique facilities, for which there is no obvious non-Government demand or external supply base, will require a financial commitment to underpin their continued existence.

There will also be a renewed focus on driving value for money in our operating cost-base and, in particular, through our key service providers. This will ensure that we can both afford our investment programme and deliver best value to our customers, while maintaining a high standard of working environment and operational support. Our investment priorities will continue to focus on those projects that first enable, and then deliver, the Helios Project.

We are facing a period of transformation as we reconfigure the organisation during the Helios Project, while preserving continuity of service for those capabilities that are operationally critical and nationally unique. The balance between the permanent and non-permanent workforce will allow greater flexibility in the reshaping of our future capabilities. The challenge lies both in creating new physical infrastructure and retaining staff knowledge. We remain in a strong position to face the opportunities and uncertainties that lie ahead. [ ]

Section one

About Dstl

The Defence Science and Technology Laboratory (Dstl) is an Executive Agency of the UK Ministry of Defence (MOD), operating as a Trading Fund. Our enduring Purpose is to maximise the impact of Science and Technology (S&T) for the defence and security of the UK.

About Dstl

Dstl provides UK Government with sensitive and specialist S&T research, advice, analysis, technical and systems risk management and assurance, all led, developed and delivered by our talented and professional in-house expertise.

Our unique attributes – our independence, understanding of policy and operational needs, and niche expertise – help us to understand the full range of issues faced by our customers across MOD and wider Government.

The solutions that will have the greatest impact for our customers can come from anywhere. We scan the horizon for the emerging technological breakthroughs that could make a significant difference in the defence and security environment. We engage with the best people around the world in our delivery, only undertaking work in-house for reasons of national security or political sensitivity. We work with very small enterprises to world-class universities, defence companies and other Governments to deliver affordable and effective solutions.

We provide the right S&T advice at the right time and in a way that offers value for money for the taxpayer.

We achieve this delivery by acting as an S&T hub across the defence and security community – offering a trusted, safe and collaborative environment in which security and commercial sensitivities can be managed, sustaining Government's access to critical S&T capabilities into the future, and delivering effective solutions to our customers' most critical problems. In support of the UK Government's growth agenda, we ensure that the Intellectual Property (IP) we generate in the course of our work is exploited, through commercial licensing or the creation of spin-out companies.

On behalf of our Owner, MOD, we also lead the formulation, management and delivery of the MOD S&T Programme. The Programme accounts for approximately two-thirds of our total sales, and we ensure that around 60 per cent of the Programme's

funding is spent with external suppliers (see page 36 for our income analysis).

We are currently based at four sites across southern England: Porton Down, Wiltshire; Portsdown West and Alverstoke, Hampshire; and, Fort Halstead, Kent. In 2011, we decided to relocate our capabilities from our Fort Halstead site to our Portsdown West and Porton Down sites and we launched our Helios Project to oversee the move. By bringing together our people and our capabilities, we will offer robust, flexible and resilient scientific support from newer, carbon-efficient buildings, while being able to flex our resources in response to customer priorities.

Working off-site alongside and within our customer, partner and supplier organisations is an integral part of what we do as an organisation. We have our people based at Abbey Wood, Bristol, within the MOD Commands and in Head Office, London. We also have staff at our Centre for Defence Enterprise (CDE) at Harwell, Oxford. Our formal secondment and project-funded placements, both internationally and within industry and academia, are helping to build and to exploit our networks and relationships across the S&T community. [ ]

Our vision and strategy

Dstl is proud to deliver affordable and effective solutions for our defence and security customers that save lives and money.

Our Purpose to maximise the impact of S&T for the defence and security of the UK is enduring but our customers' needs are changing. These changes are driven, in part, by: the withdrawal of UK Armed Forces from Afghanistan; the continuing changes affecting the global defence and security environment; the transformational change taking place within MOD; and, a continuing decade of economic challenges. Current military operations have focused the S&T community's efforts on solutions that are readily exploitable through the Urgent Operational Requirement process. However, this near-term focus has reduced opportunities for wide-ranging future technology research. The withdrawal presents an opportunity to restore the balance and we are working closely with customers to do so.

Our challenge is to ensure that, with the support of our partners and suppliers, we are able to satisfy strong customer demand with the right scientific capabilities, while remaining flexible to any changes that the future may signal for us or for our customers. We believe that we can meet this challenge by realising our Vision, which is to become the first port of call for defence and security-related S&T within Government. Our Corporate Plan 2014–19 sets out how we intend to achieve our Vision through three Strategic Objectives and a set of Critical Enablers:

- **Positioning:** To maximise the impact of S&T we need to understand our customers' problems and the potential for S&T to solve them. As the hub of the S&T community, customers will know to come to us first with their problems and our partners and suppliers will come to us first with their solutions.
- **Capability:** We have a role to play in ensuring the S&T community has the ability to respond to current and future defence and security S&T needs. We do this by growing or sustaining capabilities that must remain within Government while nurturing the development of those that can be managed elsewhere.
- **Delivery:** The solutions that will have the greatest impact for our customers can come from anywhere. We engage with industry and academia in this delivery, only undertaking work in-house for reasons of national security or political sensitivity.
- **Critical Enablers:** Our people form the lifeblood of our work, and the core of our knowledge and our networks. They are essential for delivering our Purpose and our Vision effectively, and for achieving success against our Strategic Objectives. We commit to supporting our people in pursuing fulfilling careers and enabling them to work efficiently, effectively and, above all, safely. [ ]

Dstl's strategic framework

Purpose	**To maximise the impact of S&T for the defence and security of the UK**		
Vision	**The first port of call for defence and security-related S&T within Government** Agile and Interdisciplinary / Entrepreneurial / Employer of Choice		
Strategic Objectives	**Positioning** Acting as an S&T hub for defence and security	**Capability** Sustaining S&T capabilities for the future	**Delivery** Providing effective solutions to the most critical problems
Critical Enablers	Delivering our Purpose and ensuring we operate efficiently, effectively and safely		

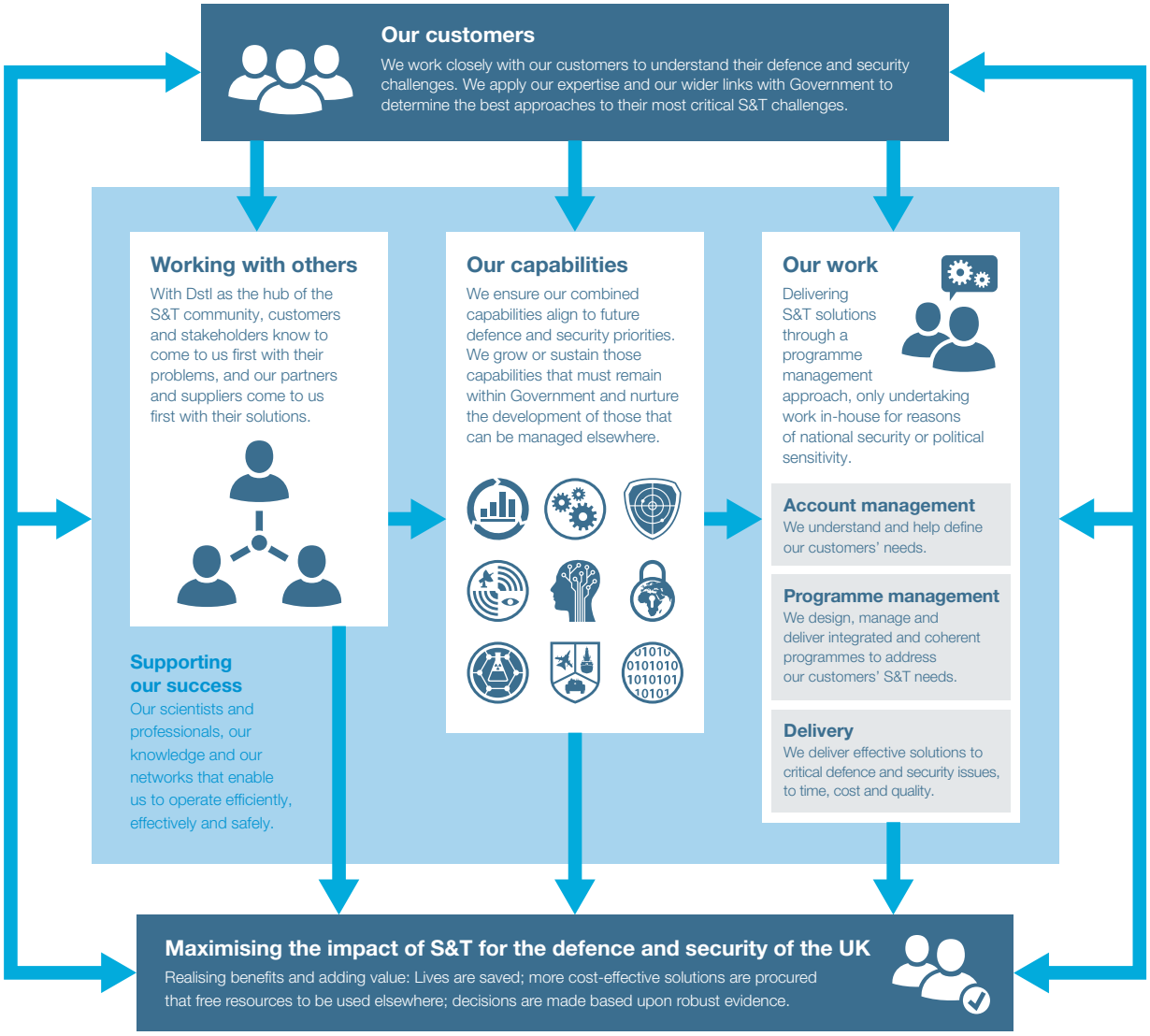
Our business model

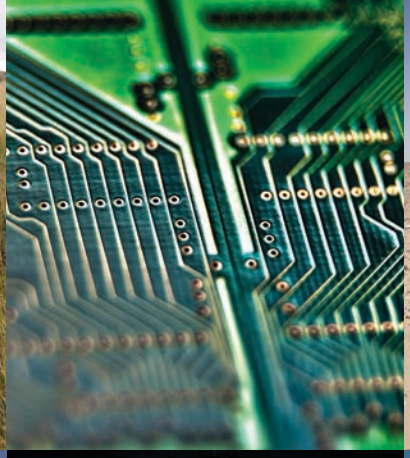
Dstl's business model ensures that we are able to respond to our customers in the ever-changing environment in which we operate.

Our business model supports the delivery of optimal, assured solutions from the best sources to deliver impact for our customers and to help them realise the benefits derived from S&T investment. The model depicts the flow of business from understanding our customers' needs, working in collaboration with our partners and suppliers, shaping and sustaining our capabilities, and delivering our S&T solutions through a programme management approach. [ ]

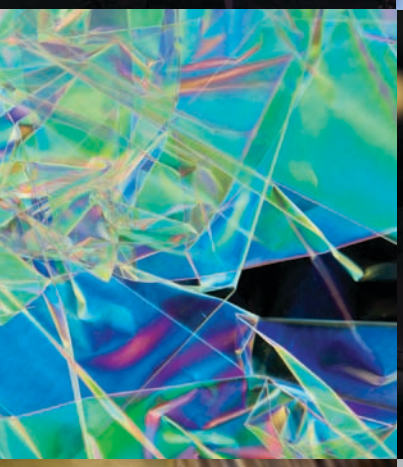
Our talented, respected scientists and professionals work with the best people around the world to access the best possible knowledge, skills and technology.

Dstl's business model



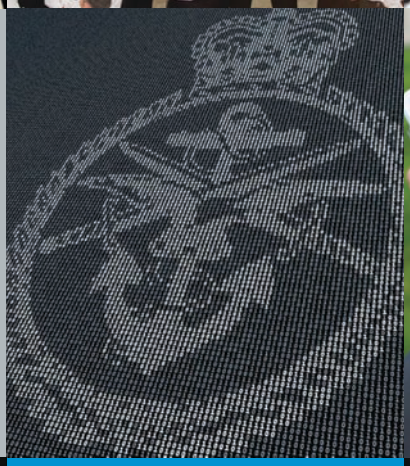





ROYAL NAVY





Ministry of Defence


Measuring our performance

Every month, Dstl assesses its business performance to ensure we continue to deliver against our Vision and our Corporate Plan. Our performance framework includes a detailed performance report, reviewed quarterly by Dstl's Board, and a monthly dashboard on our intranet, to give visibility of our performance to staff. Reporting will continue to evolve and adapt with our business needs to develop an integrated reporting approach. A summary of our non-financial performance, relating to each of our Strategic Objectives, is provided below.

In meeting continued high customer demand, our internal capacity has been stretched; overtime and high utilisation have ensured that we have sustained delivery but this focus on delivery has restricted investment in our capability development. Responding to high customer demand has also affected the rate at which we are expected to reduce our workforce over the term of our Corporate Plan 2014–19; we have continued to maintain a flexible workforce using non-permanent staff.

During 2013/14, there has been a number of organisational changes, we have introduced account management, developed our programme management capability and progressed with our Helios Project. Inevitably, this organisational change has had some impact on our workforce, with a lower employee engagement index and an increase in staff turnover from 5 per cent to 6.5 per cent.

However, we have maintained high delivery performance, based on delivering to time, on cost and to customer satisfaction, and continued to experience high demand for our expertise, with an increase in our net income to £342 million compared to £324 million in 2012/13 and total sales up to £661 million from £629 million last year.

Our limited procurement capability has restricted our ability to contract as much externally delivered work as we expected but revised procurement processes have improved, prioritised and simplified routes to suppliers. We are also developing a supplier engagement strategy to improve ways of working with suppliers.

Positioning

Acting as an S&T hub for defence and security, we have continued to place a significant proportion of the MOD S&T Programme externally. This year, we have undergone organisational change and faced challenges with our procurement capability affecting our ability to meet a 61 per cent target.

	Performance	Threshold
MOD S&T Programme delivered externally	60%	> 60%

Capability

In sustaining future S&T capabilities, our workforce has remained below that required to deliver against customer demand throughout the year. With an increased focus on delivery driving a more heavily utilised workforce than normal, our capability development training has not progressed as expected at the beginning of the year. Maintaining a level of non-permanent workforce has retained our ability to deliver high demand in the short term.

	Performance	Threshold
Total staff (Full-time Equivalent as at March 2014)	3,942	> 3,987
% non-permanent staff	14.4	> 12

Delivery

In delivering effective solutions to the most critical problems, we have seen our customer demand remain higher than expected. Despite a stretched workforce and organisational change, we have maintained high to-time and to-cost delivery performance. However, our high level of customer satisfaction has fallen slightly.

	Performance	Threshold
Overall customer satisfaction with product delivery	93%	> 93%
% products delivered to time	94	> 85
% projects completed to cost	87	> 85

Critical Enablers

We strive to deliver our Purpose and also to ensure we are an employer of choice. This year, our employee engagement index has fallen slightly, remaining below the Civil Service upper quartile, and permanent staff turnover has increased, largely in relation to our Helios Project.

Although we have seen a monthly increase in sickness rates, the 12-month percentage of hours lost to sickness remains well below the public sector average. Our incident and injury rates remain low compared to Health and Safety Executive comparators and similar to the Interlab community (see page 22). We have initiated improved safety performance reporting and processes, and operating safely continues to be our highest priority.

Due to the nature of our activities, we continue to have issues with meeting MOD-wide carbon targets for our Porton Down site. We are developing specific energy reduction works and measures to help address this. [ ]

	Performance	Threshold
Employee engagement index 2013	60%	> 63%
Permanent staff turnover	6.5%	< 7%
% hours lost to sickness absence	2.1	< 2.5
Health and Safety reportable injuries per 100,000 hours worked	0.14	As low as reasonably practicable
Building footprint carbon emissions (kg/m^2)	143	< 140

Note: All figures quoted in this section are for Trading Fund only.

“In delivering effective solutions to the most critical problems, we have seen our customer demand remain higher than expected.”

Analysis support to the withdrawal from Afghanistan

Case study

Dstl's Peace Support Operations Model (PSOM) is a decision-support tool, which examines operations and outcomes in complex environments such as Afghanistan.

Shared with a number of UK allies, including the United States, PSOM was first used in 2011 for International Security Assistance Force (ISAF) wargames in Kabul. Its successful application led to a further request from the US Joint Staff Warfighting Analysis Division to test its ISAF Afghanistan withdrawal plan.

Our analysts, working in collaboration with US colleagues in the Pentagon, used PSOM to test these plans through a wargame involving real-time analysis between ISAF teams in Afghanistan and the team based at the Pentagon.

This analysis has directly influenced the size and shape of operations in Afghanistan today and has contributed to the future Afghanistan campaign plan. It has provided senior military and civilian planners with clear, evidence-based insights on campaign objectives, foreign troop commitments and the proposed timeline of activity to achieve the NATO and Afghan aims for the future of the country.

Detecting explosives and chemicals using infrared technology

Case study

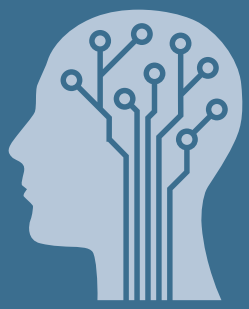
Detecting threats to national security, such as explosives and chemical agents, remains an enduring challenge as adversaries field weapons with ever-increasing sophistication. Dstl has recently collaborated with industry and academia to develop an infrared detector technology that holds promise for both commercial and security applications.

The new design of infrared detectors, which currently operate in the two to three micron band, will support detection of explosives and chemical agents. Amethyst Research (UK), a small company based in Glasgow, was successfully funded under a call for proposals by Dstl's Centre for Defence Enterprise, which funds research into novel, high-risk, high-potential-benefit innovations.

We also introduced Amethyst to Selex ES, a Finmeccanica company and manufacturer of high-performance thermal imagers, so that the two companies could work together to exploit the technology. The companies developed a plan to exploit Amethyst's proprietary detector technology and Selex's expertise in camera read-out circuitry, which allowed a rapid benchmark of the new technology against current state-of-the-art technology. Within four months, the programme demonstrated significant advantages over current products, and a credible supply chain for its manufacture and distribution was established within the UK. Amethyst has now partnered with Lancaster University, CST, in Scotland, and IQE, in Wales, to consider how to take this detector technology to the next level of refinement and production, to support both commercial and defence requirements.

Section two

Working with others



To maximise the impact of S&T, we need to understand our customers' problems and the potential for S&T to solve them. With Dstl acting as an S&T hub for defence and security, customers and stakeholders will know to come to us first with their problems, and our partners and suppliers will come to us first with their solutions.

Working with others

Effective engagement and an increase in working with others is fundamental to the delivery of our Purpose. This is being taken forward by our work to position Dstl to be recognised as an S&T hub for defence and security, an approach that underpins our critical role as the primary S&T agent for non-nuclear defence and security within MOD's Defence Operating Model.

How and where we work with others is informed by understanding our customers' needs and our evolving role within a transforming MOD. This year, we have assisted MOD's Commands and Head Office in their Customer Design programme. This has included providing technical advice to MOD on a new acquisition model to ensure that technical advice and risk reduction is integral to the future acquisition system.

Working with our international partners has also been a key focus over the past year. We have continued to support multi-lateral programmes such as NATO and The Technical Cooperation Programme (TTCP), alongside engagement with new and long-standing partners, for example:

- We have strengthened our bi-lateral engagement with the Defence Science and Technology Organisation in Australia. Taking forward collaborative approaches to enhance mutual reliance, in 2013 we established the first project under the 2011 Cooperative Facilities and Equipment Memorandum of Understanding.
- We signed a joint US/UK communiqué on Enhanced Collaboration in Defence S&T in early 2014. The communiqué identifies cross-cutting topics, including cyber, big data, operational energy and space, which will have benefit for both nations.
- The UK/France summit in January 2014 reaffirmed both Governments' commitment to their defence and security relationship. A Key Technology Plan, outlining how we will work together to better understand long-term developments in S&T and their impact on defence, was recently published through the Anglo-French Defence Research Group.

In engaging with industry and academia, we have improved access to information via our internet presence and implemented specific supplier engagement events.

We recently signed a charter with Research Councils UK to facilitate better alignment of programmes and to create opportunities for future joint funding or shaping of research, postgraduate training, facilities and infrastructure provision. We continue to support productive links with a range of universities whose S&T capabilities are vital to UK defence research. In February 2014, we signed a strategic relationship charter with Cranfield University to enable greater cross-working between our two organisations.

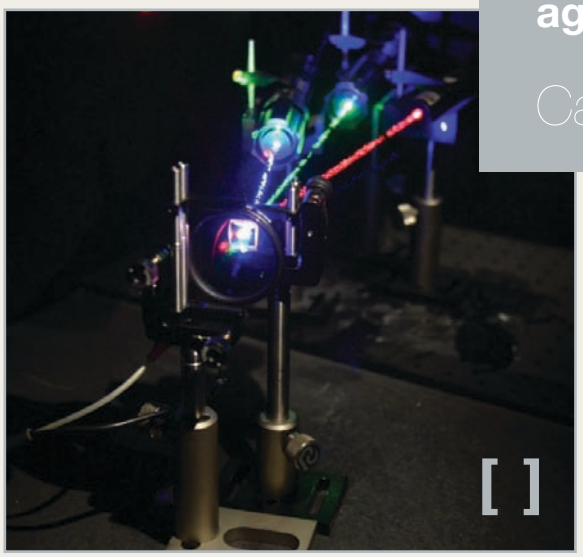
> ***"Effective engagement and an increase in working with others is fundamental to the delivery of our Purpose."***

We have also strengthened our engagement with the national trade associations through formal defence S&T consultative fora, such as the Defence Suppliers Forum Research and Development Group.

continued on page 22 ›

Working with industry to protect against ‘white light’ dazzle

Case study



Dstl has signed a licence agreement through its technology transfer company, Ploughshare Innovations Ltd (PIL), to allow a company access to its patented technology, the Optically Addressable Light Valve (OALV), to address the rising laser threat to aircrew and sensors.

We have worked with Qioptiq, an Excelitas Technologies Company, to protect against dazzle caused by ‘white light’ sources such as sunlight or headlamp glare, as well as narrower sources such as lasers. Traditional laser protection techniques do not block out such light and can leave operators, pilots and drivers vulnerable to the blinding effect of broadband radiation. We signed a licence agreement with global photonics company Qioptiq, through PIL, to commercialise the technology for use across its markets. The agreement will allow the company access to OALV, invented by one of our scientists.

OALV uses a layer of liquid crystal in an electro-optical assembly to effectively block sources of glare and dazzle without affecting the remaining field of vision, therefore allowing sensors to remain effective while being ‘dazzled’. This was developed as part of our electro-optic protection measures research programme, which addresses the rising laser threat to aircrew and sensors. Qioptiq will now consider other situations where the OALV could have benefit, in both military and civilian environments, including potential uses in medical work.

Maritime S&T on show

Case study

In January 2014, Dstl hosted a maritime Science and Technology (S&T) showcase at Navy Command Headquarters, Whale Island.

In the one-day showcase, our experts and industry partners were able to engage directly with Royal Navy (RN) personnel to raise awareness of S&T in the maritime environment and to demonstrate its impact.

A variety of research and capabilities were on display to represent the breadth of maritime S&T, including how virtual reality could be used to help design the next generation of submarine, how there is potential for autonomous underwater vehicles to be used as part of the RN capability mix, and how disruptive technologies could be used for future defence purposes.

The showcase was also an opportunity to ensure RN personnel understood how to access S&T in the future, through our maritime S&T team. Opened by Minister for Defence Equipment, Support and Technology Philip Dunne and First Sea Lord Admiral Sir George Zambellas, the event welcomed several other high-profile visitors including Penny Mordaunt MP, Rear Admiral Mike Wareham, Director Submarines at Defence Equipment and Support, and Commodore Alex Burton, Head of Maritime Capability at Navy Command.

Working with others continued

"Our technology transfer company, Ploughshare Innovations Ltd, seeks to continue to exploit technology and intellectual property developed by Dstl for civilian markets."

We have continued to work with the Technology Strategy Board, following the signing of a charter in 2012, to use its Knowledge Transfer Networks to improve engagement with both industry and academia. Our technology transfer company, Ploughshare Innovations Ltd, seeks to continue to exploit technology and IP developed by us for civilian markets.

Our strategic partners include several other Public Sector Research Establishments. In 2013, we renewed our strategic relationship charter with the Atomic Weapons Establishment and forged a new agreement with Her Majesty's Government Communications Centre. Through our continued support for Interlab, we can take a strategic view of the S&T synergies across Government science laboratories. [ ]

The Interlab community comprises:

- Defence Science and Technology Laboratory (Dstl)
- Food and Environment Research Agency (FERA)
- Centre for Environment, Fisheries and Aquaculture (Cefa)
- Health and Safety Laboratory (HSL)
- Public Health England (PHE)
- Animal Health and Veterinary Laboratories Agency (AHVLA)
- Home Office Centre for Applied Science and Technology (CAST)

Supporting S&T providers new to defence

Case study

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Dstl's Centre for Defence Enterprise (CDE) funds research into novel, high-risk, high-potential-benefit innovations to enable development of cost-effective military capability advantage. CDE works with a range of Science and Technology (S&T) providers and aims to remove barriers for Small and Medium-sized Enterprises (SMEs) to enter the defence supply chain.

Since CDE was established in 2008, it has received more than 5,000 research proposals, with around 800 selected for funding, resulting in a total contract value of £48 million. Almost half (45 per cent) of all CDE contracts go to SMEs, providing a vital mechanism for defence to access their fresh thinking and capabilities. During 2013/14, CDE launched new 'Innovation Networks' – a series of events designed to offer greater support to suppliers in industry and academia, helping create, support and sustain a network of innovators, people from the defence industry and supporting organisations.

The new-style event includes: extensive networking opportunities; face-to-face meetings with our experts to discuss potential proposals; exhibitions of previously successful CDE projects; and, 'enduring challenge' competition briefings. They are free to attend and open to all. Events to-date have featured competitions on cyber defence, integrated computational materials science and engineering, and protecting military platforms.

UK-Japanese collaboration

Case study

The UK and Japan have not traditionally collaborated in defence Science and Technology (S&T) but Dstl recognised that working with Japanese industry and Government could offer real benefit to the UK's defence S&T capability.

Both the UK and Japan carry out similar testing of Chemical and Biological (CB) protective clothing and we believed that it would be mutually beneficial for both nations to investigate this as the first-ever UK-Japan area of collaboration.

Over the past few years, we have built excellent relationships with all the main Japanese MOD S&T departments, as well as with the Internal Bureau and Ministry of Economy Trade and Industry, resulting in the start of a collaborative three-year programme in CB protective clothing.

Relationships have also been developed with several other Japanese industrial companies some of which, due to our strong relationships with the Japanese MOD, are in areas other than CB Protection. We have also begun to have meetings with Tokyo University in order to develop our Japanese academic relationships.

Jason Yarwood, of Dstl's Chemical Biological Protection and Integrated Special Research Projects team, said: "Our growing industrial and academic relationships with Japan will give the opportunity to provide value and impact by growing our two nations' collaboration in more areas across Dstl over the coming years. For example, we are currently looking at Dstl's potential support to Japan with its preparation for the 2020 Tokyo Olympics".

Presenting the full breadth of our work to suppliers in industry and academia

Case study

Dstl hosted its second annual supplier networking day at the Kassam Stadium in Oxford in June 2013. The event was attended by more than 400 suppliers from industry and academia and presented programmes and project portfolios across our entire breadth of work, including the MOD S&T Programme 2013/14. As well as communicating the work, the day provided an opportunity for suppliers to find out how to get involved and work with us.

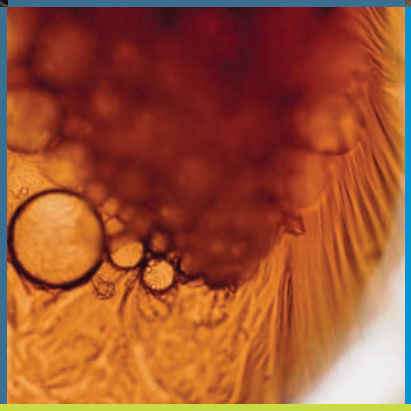
Programme and Delivery Director Richard Brooks opened the event. There were presentations from our account managers on the seven key environments as defined by our customers: air; land; maritime; joint forces information superiority; joint forces specialist users; MOD Head Office; and, wider Government. Our programmes and project portfolios were represented throughout the event in the exhibition hall, with our representatives on hand to discuss individual areas of work, capability requirements, involvement opportunities and routes to contracting.

Our Centre for Defence Enterprise, the Technology Strategy Board, Ploughshare Innovations Ltd, the Defence Supplier Service and our Commercial Support Service also exhibited on the day. Workshop sessions provided a chance for suppliers to engage with our senior decision-makers, addressing themes including the visibility of S&T programmes, engaging in our local-level plans, strategies or opportunities, and engaging with us in formulating the MOD S&T Programme.

More than 300 different organisations from industry, academia and from Small and Medium-sized Enterprises were represented on the day, including those with which we already work in partnership, as well as those new to working with MOD.

Section three

Our capabilities



In sustaining S&T capabilities for the future, Dstl has a role to play in ensuring the S&T community has the ability to respond to current and future defence and security S&T needs. We do this by growing or sustaining capabilities that must remain within Government while nurturing the development of those that can be managed elsewhere.

Our capabilities

Sustaining S&T capabilities for the future means ensuring that our capabilities align to future defence and security priorities.

In 2013, we developed a draft Science Strategy, which sets out our view of the S&T challenges that the defence and security community will face in the future and our approach to addressing them. This strategy will help us to shape the content of future programmes, to inform where these future programmes are sourced, to ensure that the appropriate S&T capabilities are available when needed by the defence and security community, and to remain flexible and agile to respond to future challenges as they emerge.

In shaping this Strategy, we defined nine priority S&T capabilities that will be central to the delivery of our programmes. These are:

Analysis
Assessing impact of alternative national security roles to inform the 2015 Strategic Defence and Security Review, National Security Strategy and wider Government strategies.

Chemical, Biological and Radiological (CBR)
Providing authoritative S&T advice associated with CBR materials and countering the threat associated with them.

Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR)
Developing approaches to improve integration of networks, sensors and intelligence.

Counter-Terrorism (CT) and Security
Maintaining the ability to deliver rapid technical solutions in support of CT and security operations.

Cyber
Developing novel cyber capabilities to defend our digital assets and achieve UK security objectives.

Human Capability
Providing evidence to underpin personnel policies and practices.

Integrated Survivability
Understanding the effectiveness and survivability trade-space for Commercial-Off-The-Shelf systems and sub-systems.

Weapons
Improving modelling and simulation techniques for conducting quantitative predictions of weapon effects.

Systems
Applying Systems Engineering approaches to major platforms, Through Life Capability Management, integration into defence architecture and enterprise, enabling technologies and technology integration into platforms.

The Strategy is underpinned by the recognition that there is a need to re-examine the balance between customer-led S&T and technology-led S&T within future programmes. To this end, we have established a Knowledge, Innovation and Futures Enterprise project portfolio that will change the way we manage, drive and focus our work in this area. The project portfolio team engages widely across Dstl, academia, industry, wider Government and international partners to ensure that we are focused on the emerging technologies that will have the greatest impact on the defence and security of the UK.

In 2013, we developed a draft Science Strategy, which sets out our view of the S&T challenges that the defence and security community will face in the future and our approach to addressing them. In shaping this Strategy, we defined nine priority S&T capabilities that will be central to the delivery of our programmes."

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Countering the small boat threat

Case study

In the past, the threat posed to Navy vessels by incoming small ships was countered by a manually operated small-calibre gun.

However, during development, an Automated Small Calibre Gun (ASCG) system, controlled remotely by a human operator, demonstrated an improved performance compared with the manual variant.

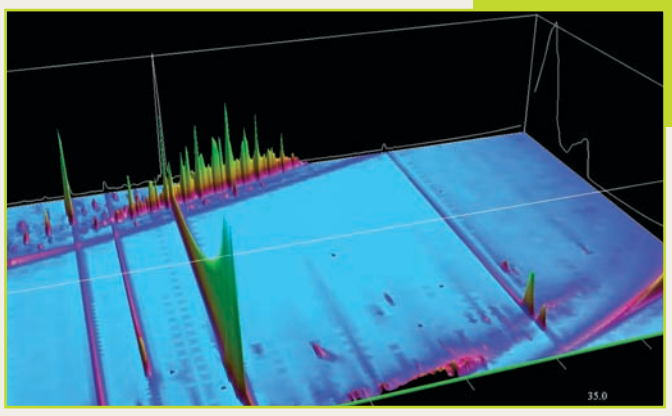
Once in service, operator evidence suggested the ASCG system's initial results were not being replicated, which led to low confidence in its performance and posed a risk that its procurement might be stopped in consideration of alternative systems. This would have had significant impact across the Fleet, as the ASCG was the planned primary small-calibre gun system to counter the high-priority small boat threat.

Following direction from Navy Command, we helped plan a series of trials to test the manual and automatic systems' ability to track and hit a fast, manoeuvring target. The trial was the most comprehensive conducted on this weapon system so far. In addition, we provided remotely operated target boats, trials advice, and quick post-trial analysis.

The trial has helped restore confidence in the ASCG; we made a range of recommendations that informed Navy Command of the system's ability, along with identifying a number of improvements to further increase capability.

CBR analysis in Syria

Case study



In summer 2013, it was suspected that chemical weapons had been used in Syria. Dstl's world-class Chemical, Biological and Radiological (CBR) capability helped to provide evidence to UK and international Governments of the first use of chemical weapons in 25 years.

Our scientists analysed clothing and soil samples from affected areas, and worked closely with the Organisation for the Prohibition of Chemical Weapons (OPCW) to provide S&T advice on CBR materials ahead of the OPCW inspections. This expertise assisted international partners in gathering their own evidence, which later helped the international community come together to begin to remove Syria's chemical weapons capability.

We have been awarded Designated Laboratory status by the OPCW consistently since 1998 and we are one of 21 international laboratories judged proficient for investigating alleged use of chemical weapons. Our CB analytical team was awarded a MOD Chief Scientific Adviser Certificate of Commendation in 2013 in recognition of its 'exceptional contribution' to defence S&T.

Our capabilities continued

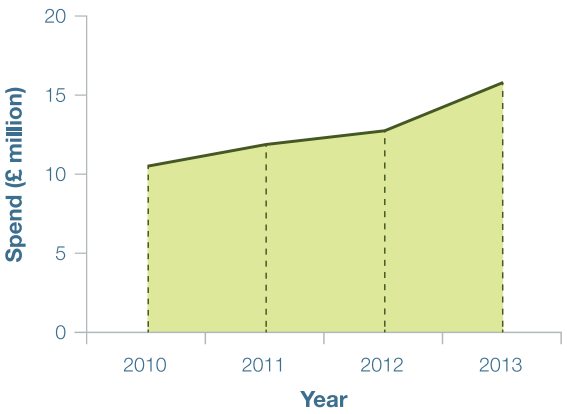
Our Technical Benchmarking process continues to evaluate our internal capabilities with the help of external assessors. We have reassessed our quality assurance process in the light of the increasing reliance on external capabilities and will look to implement this in the coming year. As with the Technical Benchmarking process, external assessors will be a vital component of this process. We continue to recognise the need to maintain the quality of outputs from the S&T programmes.

S&T capability

We define S&T capability as the combination of five components: people (their skills and experience); relationships (collaborating and delivering through partnership); infrastructure (the facilities and equipment we need); knowledge (the generation, collation, accessibility to and exploitation thereof); and, licences to practice (making sure that we operate in a safe and legal environment). The S&T capability can be sourced internally or from our partners and suppliers across industry and academia, in wider MOD, and across UK and allied Governments, or from a combination.

Work with academia

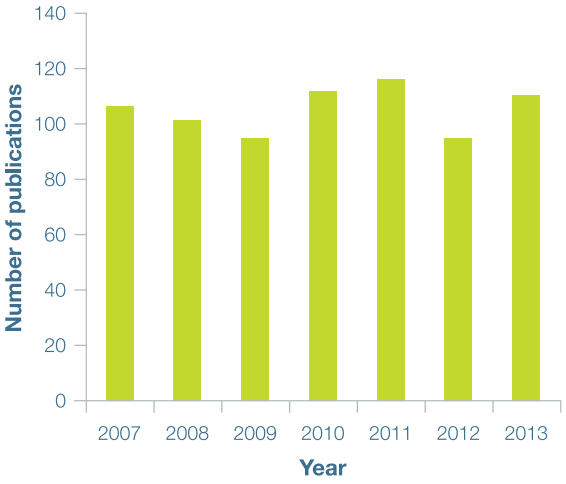
We increasingly manage and develop our capabilities in partnership with external sources. One such example is the growing engagement with academia over the past five years, shown below in terms of spend with academic partners.



"We have continued to publish our internally delivered work in peer-reviewed journals wherever possible. Indeed, staff are encouraged to publish, where appropriate."

Academic publications

We have continued to publish our internally delivered work in peer-reviewed journals wherever possible. Indeed, staff are encouraged to publish, where appropriate. Below, we show that the number of publications has remained at around 100 per year over the past seven years.



High-calibre staff

We continue to ensure that our staff are considered experts of the highest calibre, recognised both nationally and internationally. Through the Chartership and Accreditation Scheme, we encourage our staff to achieve qualifications and professional body memberships that are recognised internationally as benchmarks. In the past 12 months, 40 people from across Dstl have gained chartership accreditation.

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Supporting Army Headquarters

Case study

Following Defence Reform, military Commands now have greater responsibility for prioritising their resources to meet future capability requirements; their ability to prioritise their capabilities within the constraints of limited resources is key to ensuring Defence Reform is successful.

Army HQ inherited a significant amount of capability areas that required improvement, with limited financial resources with which to do so. Our analysts delivered a quick-turnaround task to Army HQ, helping a group of 16 senior staff prioritise more than 100 shortfalls in military capability. The analysts modified an analysis method – Multi-Criteria Decision Analysis – tested it, developed a tool to capture and manipulate the data, supported a group workshop and then produced immediate output.

The work supported Army HQ on around £4 billion of investment decisions, informing the Army Command Plan on prioritising the Army's spend on equipment.

Urban trial allows suppliers to test C4ISR innovations in realistic environment

Case study

As part of Dstl's strategy to broaden its research supplier base, the Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) programme puts research out to a wide community of Small and Medium-sized Enterprises (SMEs) and universities.

This is delivering significant benefits in terms of innovation but since many of the suppliers are new to defence, supplier awareness of the systems, to which the innovative technology contributes, is sometimes low. To address this, we have brought together a number of low Technology Readiness Level research projects under the theme of C4ISR Support to Urban Operations, and created a representative operational environment at Copehill Down, an urban warfare and close-quarters battle Army training centre on Salisbury Plain. The purpose of the trial was to create a realistic mission objective (identification and tracking of suspect people and vehicles for base protection) with which to test the different technologies, which included: person and vehicle detection, recognition and tracking; 3D mapping; Improvised Explosive Device (IED) detection; and, target hand-off.

Key to the trial was the running of different scenarios that integrated the technologies. These scenarios tested the technologies in a realistic way while enabling the assessment of their contribution to a dynamically evolving situation. Suppliers gained vital understanding of the issues of operational deployment while MOD gained early awareness of the operational benefits of low-maturity innovations. An additional benefit was the creation of a threat-activity data-set that could be shared with suppliers and used for future research.

Our capabilities continued

Internationally recognised staff

Dstl Senior Fellow Professor Paul Curtis, of Platform Sciences Group, Physical Sciences Department, has been awarded Fellowship of the Royal Academy of Engineering (FREng). Election to the Academy is for only the most distinguished engineers and is received solely by invitation, following nominations from existing Fellows. Paul was awarded the Fellowship as he is an authority on the performance of composite materials. His work has had a wide impact, reaching both defence and civilian sectors, in areas as diverse as unmanned air vehicles, armour, fire resistance, the underlying fibre/matrix structure and its effect on performance, and structural power. Paul works closely with wider academia and holds visiting professorships at Imperial College London and the University of Bristol.

Since 2009, 16 members of Dstl staff have been recognised in the Queen's Birthday and New Year's Honours list for their contributions to defence science.

Technology Transfer

Ploughshare Innovations Ltd (PIL), is our wholly owned technology transfer company. Since 2005, PIL has licensed more than 75 new technologies to industry and launched a number of spin-out companies in civilian applications, as well as negotiating licences in the defence field resulting in research being pulled through into capabilities and off-the-shelf products. PIL is actively exploring opportunities to exploit all forms of Dstl-owned IP, and is examining options for improving the funding for the commercialisation of IP. [ ]

Protecting intellectual property in cyber defence

Case study

Dstl has developed a Cyber Defence Capability Assessment Tool (CDCAT), which integrates best practice cyber defence approaches from Government and industry sources to create a unique software tool that provides a methodology and audit capability for cyber defence.

It can be applied to any IT system and provides commercial value and capability for cyber defence. Cyber crime is estimated to cost the UK economy £27 billion a year. Engagement with key industry contacts confirmed the significant potential of the CDCAT tool. However, it also confirmed that the technology required further development to reach a minimum specification level before industry would consider investment.

Our scientists worked closely with Ploughshare Innovations Ltd, our technology transfer company, to facilitate this development and to improve its commercial exploitation prospects. As a result, offers for a licence for the CDCAT technology were received from a number of companies.

Our nine priority S&T capabilities

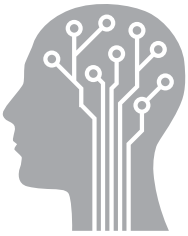
Analysis

Systems

Weapons

C4ISR

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



Human Capability

Counter-Terrorism (CT) and Security

CBR

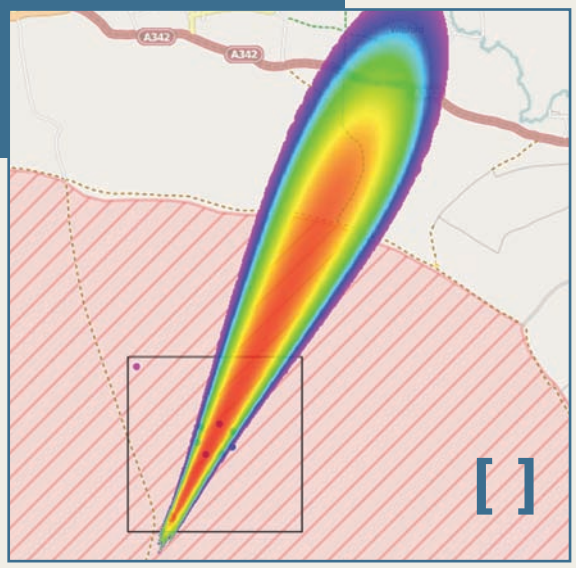
Chemical, Biological and Radiological

Integrated Survivability

Cyber

Exploiting hazard prediction tools across Government

Case study



International terrorism affecting the UK or its interests, including a chemical, biological, radiological or nuclear (CBRN) attack by terrorists is a Tier 1 threat in the National Security Strategy.

In the event of a Chemical or Biological (CB) attack, it is vital that emergency responders have a clear and timely understanding of the CB hazard in order to implement effective mitigation strategies and therefore save lives. We have worked with Public Health England and the Meteorological Office to develop a suite of CB hazard prediction modelling tools that can be used to aid decision-makers in the event of a CB release.

We have also worked with the Cabinet Office, Home Office and Department of Health to develop these modelling tools to provide an estimate of the hazard area and, in particular, the likely numbers and locations of potential casualties. The output of the tools has been further refined through table-top exercises, chaired by the Government's Chief Scientific Adviser, to ensure that it provides time-critical information in an easy-to-digest format. This work has been used by the Department of Health to inform the development of life-saving, evidence-based plans, in the event of a CB attack.

Radiation protection advice for aircraft repairs

Case study

The loss of a large transport, cargo or refuelling aircraft from operations for any period of time could have significant cost implications. This could mean chartering an alternative aircraft to transport assets, or accepting a loss in capability and the consequent impact on operations.

As the appointed Radiation Protection Adviser Body to the RAF, we responded to a request from an RAF repair team to provide expert health physics advice on the removal of a corroded depleted uranium counterbalance from the wing of a Tristar aircraft. A team deployed at short notice to RAF Brize Norton to support the repair, to provide consultation on the radiological hazards involved, and to advise on the appropriate safety precautions to be taken.

Radioactive contamination monitoring was undertaken to enable the safe removal and storage of the radioactive material by RAF ground crew, and its replacement with a safer (tungsten) counterbalance. The technical expertise to enable this consultancy work to be undertaken was provided by our Radiation Protection Adviser Body located in Alverstoke, Hampshire.

The RAF Tristar was returned to front-line service on time for its next deployment.

Section four

Our work

Dstl provides effective solutions to the most critical problems. We engage with partners in industry and academia, with other Government laboratories and with international partners in our delivery, only undertaking work in-house for reasons of national security or political sensitivity.

Our work

Our top priority is to continue to deliver impact in addressing our customers' most pressing issues while also delivering value for money. Our customers benefit from the knowledge that we have developed through coherent investment in research, analytic methods and a profound understanding of their environment. Continuing to grow in importance is our ability to provide intelligent access to a much broader national and international S&T community; this year, we have signed a number of important new agreements (see page 20).

During 2013/14, we invested heavily in a more structured and programmatic approach to the delivery of benefits to customers. Our new account managers, working with our embedded science gateways, ensure that we understand customer priorities, focus on the most important work and deliver benefits that provide real capability. Our programme managers are tasked with formulating programmes across the whole customer base that deliver benefits greater than the sum of the individual parts.

Our customer satisfaction scores remain high with an increasing proportion of customers being converted to 'net promoters'. Our reputation is based upon independence of thought and reliable delivery. For the first time, more than 50 per cent of our work has been carried out with suppliers and partners in industry, but there remains a core of sensitive work that we carry out in-house. This year, we have continued to invest strongly in safety management, giving our customers assurance that we can continue to provide the unique,

critical capabilities needed to give our defence and security customers the technological edge.

> ***"We manage the MOD S&T Programme on behalf of MOD's Chief Scientific Adviser, for a broad range of defence customers."***

We manage the MOD S&T Programme on behalf of MOD's Chief Scientific Adviser (CSA), for a broad range of defence customers. Working with Defence Science and Technology, in London, we have helped reshape the programme to focus around £250 million of investment on 'disruptive capabilities'. These build on our horizon-scanning work and the Government's Eight Great Technologies to provide technological edge and options to meet the continued affordability challenge of maintaining defence capability.

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Dstl's end-to-end delivery process

Advice to help protect against cyber attacks

Case study

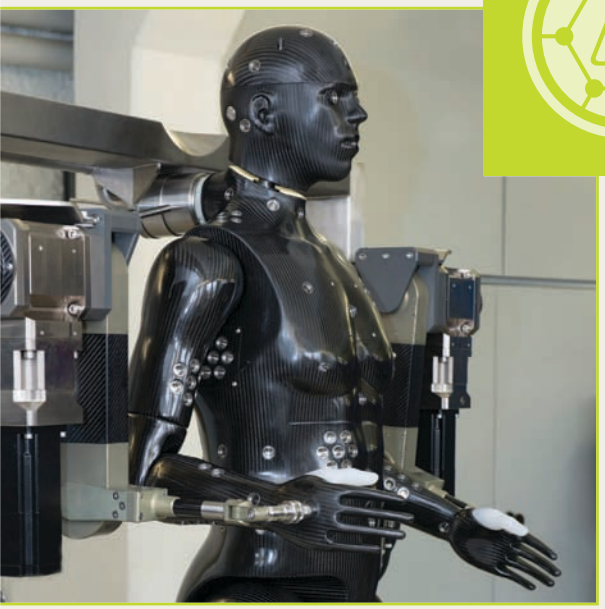
The National Security Strategy (2010) identified cyber attacks on the UK as a severe (Tier 1) threat. The Defence Select Committee has also highlighted the significant risk to UK Forces as a result of cyber attacks. Dstl and the Air Warfare Centre (AWC), worked together to develop a technique – Cyber Vulnerability Investigation (CVI) – to help identify and reduce the risk, and to propose mitigations to MOD.

CVIs are examinations of specific platforms, systems, and systems-of-systems, which identify cyber vulnerabilities, assess their likely impact and suggest ways to control or mitigate them. Together with the AWC, we also developed a new, innovative method for carrying out CVIs, drawing on expertise from across MOD, industry and wider Government.

The work has provided guidance to projects that are developing next-generation military systems; used on an investigation into one of the UK's core platforms, initiated by Air and Joint Forces Commands; and, tested and refined for Land Command, instigated by the 4* Army Command Group. It has also been shared with international partners, influencing their work in this area and leading to requests for closer collaboration.

Introducing cutting-edge animatronic mannequin

Case study



Dstl has taken delivery of a new robotic mannequin to test chemical and biological protective suits and equipment for the UK's Armed Forces.

The 'Porton Man' uses state-of-the-art technology and can walk, march, run, sit, kneel and even lift its arms as if to sight a weapon, just like an infantry soldier. It means new equipment like chemical and biological suits can be thoroughly tested in a realistic but secure environment.

Designed by i-bodi Technology Limited, the robot is built to accurately represent the military user. More than 100 sensors all over the body are able to record data during tests, allowing scientists to carry out real-time analysis.

As the only place in the world that can use chemical warfare agents to assess the effectiveness of complete clothing systems, we have used mannequins before; test results helped influence the final design of the chemical, biological and radiological suits used by UK Armed Forces. However, this animatronic version is a unique capability that puts the UK at the forefront of testing. The updated technology in the new mannequin will help design the next generation of protection equipment.

Our work continued

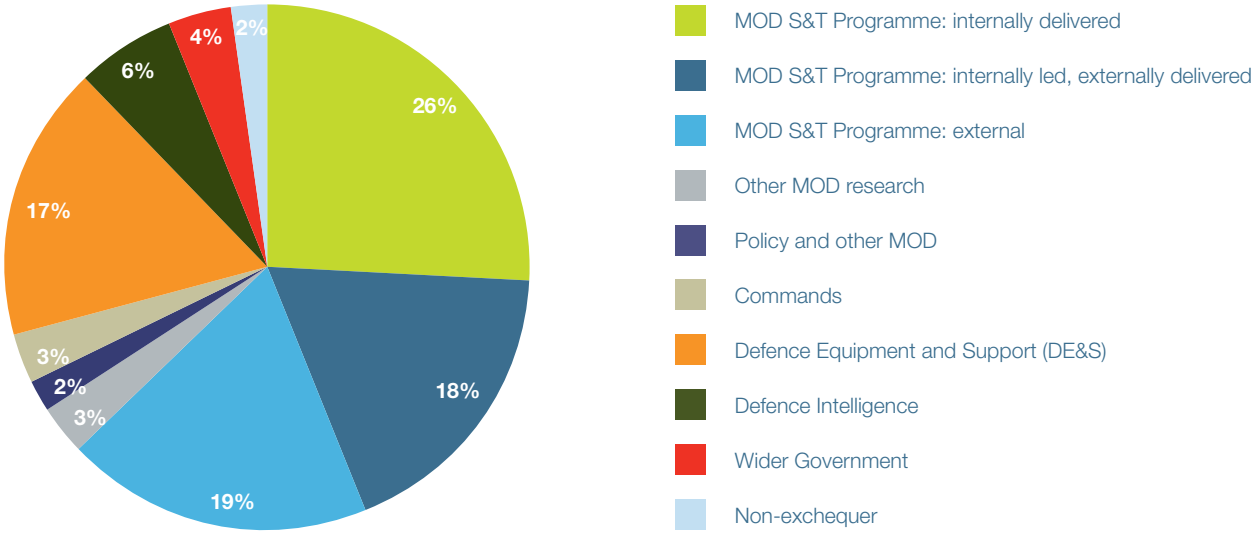
Demand from all of our customers – the defence acquisition community in Defence Equipment and Support (DE&S), Defence Intelligence, and other Government departments – continues to grow, highlighting the success of the drive for more evidence-based decision-making, and positioning us as a leader in the provision of analytical support for major Government decisions. Our revenue has increased from £629 million to £661 million and some of our delivery highlights include:

- policy decision support to the drawdown of capabilities in Afghanistan (see case study on page 18) and how to respond to the crisis in Syria (see page 27)
- successful international trials to develop new capabilities, including ballistic missile defence, autonomous underwater vehicles and radical options for the next generation of air systems
- cost leadership – helping the Commands understand cost drivers and identify savings opportunities. As a result, Land Command at Army Headquarters expect to save £70 million from changing their training model
- building on the successful support to London 2012, our work in national security continues to grow, with a major contribution to the National Cyber Programme and a major security trial on the London Underground.

Increasing productivity remains vitally important to our future, and key to that are our partnerships – with suppliers in industry and academia, other Government agencies and international partners. Transparency of requirement is an important foundation and, this year, we launched a series of programme factsheets to help suppliers, both large and small, understand how they can work with us, co-investing to maximise the impact of S&T.

Our CDE remains an important and successful route to sustain this engagement, placing £10 million of Small Business Reasearch Initiative (SBRI)-compliant work. We plan to evolve CDE's role in the coming year, helping suppliers realise the full benefits of investment. [ ]

Income analysis 2013/14



Working with industry to develop ceramic armour

Case study

Dstl has joined forces with industry to develop the UK's first ceramic armour development centre of excellence, in Newport, South Wales.

Working with Kennametal Manufacturing UK Limited, we jointly funded the new £2 million specialist high-tech facility, the largest in Europe. It will develop full-size ceramic armour components for personnel and vehicle protection, large enough for full-scale impact tests. Specialised manufacturing facilities mean that ideas generated in the development centre can be produced on site in Newport.

Opened in October 2013, the new facility will help to sustain 50 local jobs. We already work with Tata Steel in Port Talbot to develop advanced steel armour and this new ceramic facility will see South Wales become the UK's centre of advanced military armour technology. Improved UK-based development and production will help reduce the reliance on imports of ceramic armour and make it more readily available during the development of any future vehicles or body armour.

Understanding erosion-resistant coatings for helicopter engines

Case study

In desert operations, helicopter gas turbine engines ingest sand-laden air from the surrounding environment, particularly during take-off and landing, which causes erosion of components in the compressor of the engine.

When components are damaged by sand erosion, the engine is forced to work harder, burning more fuel and struggling to produce the required power. Sand-eroded components need to be replaced more often, resulting in costly repair bills and loss of capability as helicopters are taken out of service for maintenance.

A potential technology to mitigate sand erosion and increase helicopter engine life is the use of erosion-resistant coatings, which are available commercially from a number of competing global companies. It was essential that we understood the benefits and drawbacks of erosion-resistant coatings, for example their tendency to reduce the fatigue performance of titanium components, in order to ensure expert and timely advice to our military customer.

We worked with our allies through The Technical Cooperation Programme (TTCP) to design a suite of laboratory methods to investigate erosion-resistant coatings, consequently sharing the burden of testing and pooling our technical expertise. Our contribution was to design and conduct fatigue tests that would indicate the effects different commercially available coatings had on the fatigue performance of some common compressor-blade alloy substrates. We worked with the University of Birmingham to conduct the testing. Tests undertaken in Australia, Canada and New Zealand looked at hardness, adhesion, microstructural uniformity and erosion.

Through this collaboration, we were able to provide the military customer with expert technical advice on the effectiveness and risks of commercially available erosion-resistant coatings and their potential contribution to the wider considerations of helicopter engine protection in severe military environments.

Exploiting research to maximise technical performance and affordability

Case study

© BAE Systems

Dstl has worked with industry to build and fly Taranis, a Low Observable (LO) Unmanned Combat Air System.

During 2013/14, the jointly funded Taranis Technology Demonstrator Programme, led by BAE Systems, saw the culmination of more than 10 years of research and development with the successful flight trials of the Taranis aircraft. We worked as part of a wider MOD and industry team to provide independent S&T advice to support and challenge industry, from setting the original programme requirements, through technical advice, to design and manufacture, and providing direct support to the flight trials. Designed to test the technologies for future unmanned air systems – which when controlled remotely by a human operator could undertake surveillance, gather intelligence, and mark targets in contested airspace – Taranis focuses on Low Observable (LO) systems integration, control infrastructure and autonomy technologies. Its development has played a key role in advancing UK capability in the supplier base in the design, manufacture and integration of LO technologies.

We also exploited MOD research to maximise technical performance and affordability through the LO Assessment and Supportability (LOAS) project, which used the Taranis aircraft to advance the UK's understanding of how to measure the stealth characteristics of LO aircraft. This work helped to increase understanding of LO aircraft and will inform the development and support of next-generation combat-air systems.

Improving soldiers' situational awareness

Case study

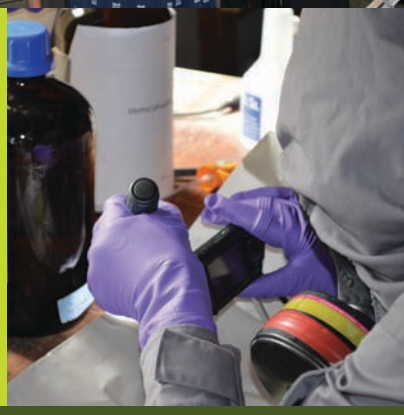
Situational awareness is about having the right information available at the right time. For a soldier on the ground, this is knowing where your friends are but also where your enemies are, with a reasonable level of certainty.

The question of how best to provide information to soldiers in the future, to give them the best possible situational awareness, is a difficult one. The right information at the right time can provide a battle-winning advantage, but how much information is too much information?

The Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance Concepts and Solutions project is a collaborative project led by a team consisting of Dstl, QinetiQ, CGI, Detica and Raytheon, supported by a wider group of defence primes, Small and Medium-sized Enterprises and universities. Through this group, we have been seeking to investigate this difficult question in more detail. To help answer this question, we conducted a trial working with 16 soldiers from the 1st Battalion the Royal Anglian Regiment and 3rd Battalion the Rifles to assess the benefit of future technologies in a realistic military scenario. We spent a number of weeks on the range at Porton Down testing various solutions, working closely with military personnel. This examined whether current or future technologies that are common in the civilian market, such as smart phones or tablets, provided any real benefit to the soldiers on the ground. This work has directly informed the requirements for the Dismounted Situational Awareness project, which is a significant part of the multi-billion pound Land Environment Tactical Command and Information Systems (LE TacCIS) programme that will procure the replacement for the Army's current BOWMAN communications system.

Section five

Supporting our success



In delivering our Purpose, we ensure that we operate efficiently, effectively and safely. Our Strategic Objectives are underpinned by our people, our working environment, how we deliver benefits, our commercial skills and our health and safety processes.

Supporting our success

Our people

A consistent message we hear from our people is how proud and motivated they are by their work. It is important to them to know that what they do makes a difference and can save lives. This pride is reflected throughout the organisation. We recognise the importance of effective working relationships and their impact on delivering high-quality S&T to sustain our people's commitment. We ensure that how people conduct themselves is an element of how we evaluate their performance; we have accentuated this further in our new performance management system, introduced this year, which is aligned to the wider Civil Service.

In this year's Civil Service People Survey, our employee engagement index was 60 per cent, down two per cent on the previous year but two per cent higher than the average across Government. Some previously worrying areas have been addressed by introducing Fair Treatment Advisers; five per cent more people than last year now agree that we take bullying and harassment seriously.

Our launch of Employee Support Networks has resulted in a four per cent increase in people thinking that 'Dstl respects individual differences'. Our new Employee Engagement Champions have also had impact; three per cent more people now believe managers take action based on the survey. And how people view our commitment to investing in skills remained 10 per cent higher than the wider Civil Service and three per cent higher than 'high performing' organisations. The slight decline in the engagement index reflected falls in staff scores for leadership and managing change, understanding of our organisational objectives and Purpose, pay and benefits, and the balance between resources and workload. Concerned by the fall in staff assessment of leadership and managing change, our Executive Committee is responding by improving how we manage and prioritise change, increasing effort to ensure we take people with us on our journey.

We have a long-standing commitment to support our Reservists.

Proactive management of attendance to get staff back to work resulted in a continued low sickness absence rate compared to the rest of the Civil Service at an average of 4.96 days per person per year. We now provide resilience training for managers and an e-learning package for our people to cope better with and manage workplace pressures.

We continue to actively promote inclusion of colleagues with protected characteristics as set out in the Equality Act (Public Sector Equality Duty). We operate the 'Two Ticks' scheme by interviewing all disabled applicants who meet essential job criteria and make reasonable adjustments during the assessment process and during employment to accommodate various conditions.

We also equality impact assess training and promotion activity and key people processes and policies to assure no undue bias. In addition, we have five ongoing Diversity Support Networks with 100 volunteers (one of which promotes the interests of staff with disabilities). In December 2013, we ran a series of promotional events comprising 12 expert speakers covering topics such as inclusive interview-chairing and autism.

As a Trading Fund of MOD and as part of the Civil Service, our people policies, procedures and employment

contracts are in line with the Civil Service Management Code; these all reflect and promote the fundamental principles of the Human Rights Act 2000.

We are using a holistic 'early careers' approach and intelligence gained from thorough analysis to draw together all activities across apprentices, graduates, students, education outreach and any other method of bringing in early career talent. We are aligning all of these together to offer best value for money for the business, while building relationships with a variety of industry and Government partners to ensure sustained delivery for the future. For example, we have recently joined The 5% Club, a group of public and private sector companies pledging to work toward having a minimum of five per cent of the workforce enrolled on formalised apprentice, sponsored students and graduate development schemes within five years. We currently have 266 students, representing seven per cent of our employed workforce, on various schemes across the organisation.

We have also improved the way we support our 250 colleagues who work off site (on formal loans and secondments in MOD, wider Government, industry and academia, or in part-time project work), coupled with enhancing people's understanding of available opportunities and benefits. Additionally, we continue to exploit our Chief Executive's role as MOD's Head of Science and Engineering Profession. We run workshops to help people make better career choices; for example remaining as scientists, or moving into consultancy, management or policy positions. Coupled with an enhanced approach to talent management and succession planning for key roles, we are building a resilient workforce to address future defence and security challenges.

Off-payroll arrangements

In order to cover temporary capacity or to deliver particular niche scientific expertise for which there is no permanent enduring need, we use a number of Contracted Temporary Workers (CTWs). The following information shows the number of non-permanent staff (contractors) at Dstl who are hired under established contingent labour routes. These CTWs are hired through an employment business (agency), predominantly via Crown Commercial Services Capita framework. They are not employees and do not represent off-payroll appointments to public office, for which there is none at Dstl.

All off-payroll engagements	
All off-payroll engagements, at 31 March 2014, for more than £220 per day and that last longer than six months	94
Of which	
Those that have existed for less than one year	79
Those that have existed for between one and two years	15

At the time of reporting, there were no engagements that have existed for: between two and three years; between three and four years; and, between four or more years.

New off-payroll engagements	
New off-payroll engagements, or those reaching six months, from 1 April 2013 to 31 March 2014, for more than £220 per day and lasting longer than six months	79
Of the above, those that include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	79
Those for whom assurance has been requested	79
Of which	
Those for whom assurance has been received	72
Those for whom assurance has not been received	7[1]
Those whose contracts have been terminated as a result of assurance not being received.	0

[1] In line with HMRC tax assurance guidelines, Dstl requests assurance letters from all its CTWs. We do this on a bi-annual basis, giving recipients 28 days from receipt of their letters to provide adequate assurance of their tax arrangements. If individuals do not respond within 28 days, a demand is sent, which gives a further 14 days to respond. If there is still no response, then the contracts are immediately terminated. At the time of reporting, Dstl was still waiting for the assurances from seven individuals, who had been issued final warning letters and given 14 days to respond or face instant termination of contract. It is anticipated that assurances will be received from all seven of these individuals.

Engagements of board members and/or senior officials with significant financial responsibility	
Individuals that have been deemed 'board members and/or senior officials with significant financial responsibility', between 1 April 2013 and 31 March 2014. None of these engagements were off-payroll.	19

Our working environment

We recognise the need to provide an optimum working environment where staff can have access to appropriate facilities and infrastructure. This is challenging during times of financial austerity and economic pressure but we continue to drive efficiency and improve our working environment, making better use of the assets that we have and providing a vibrant environment in which to work.

"Contracts placed by Commercial Services during 2013/14 resulted in payments of £275 million to S&T suppliers that support delivery of our customer programme."

Work has continued to realise the rationalisation of our estate through the planned closure of our Fort Halstead site under the Helios Project. We have completed the first phase of this move away from the site by relocating the capabilities of our Land Battlespace Systems Department to Portsdown West. Our dedicated relocation service saw around 140 staff successfully relocate to join our other systems-related departments. Plans for the design and build of new facilities at Porton Down to move our remaining staff and capabilities from Fort Halstead have also continued. This has shown a significant challenge in building new modern buildings to replace ageing infrastructure built, in some cases, more than 40 years ago. We remain fully committed to minimising the outlay to ensure the UK continues to have access to our key capabilities, integrated into the existing Porton Down site. This is due to complete in 2018.

We have greatly improved the knowledge and information systems infrastructure used in support of our work, replacing ageing and out-of-date systems with modern, fit-for-purpose technology. We continue to modernise our approach to knowledge management and have begun to introduce new business software to enable more efficient operation and better information sharing internally and with our supply base.

Delivering benefits

We are renowned for the quality of our work but delivering with efficiency is an important priority. In the past three years, our Group revenue has grown by 17 per cent, with an increase in sales per staff member also of 17 per cent. We have achieved this through rigorous application of project management principles and control of our cost-base.

Continued investments in improved infrastructure, better management information and training of our staff, facilitated by our Trading Fund status, are important levers in ensuring that we remain responsive to our customers' needs. Our aim is to retain the innovation

and flexibility for which we are renowned, while achieving benchmark levels of efficiency for a complex, in-Government S&T organisation.

Our commercial skills

Contracts placed by Commercial Services during 2013/14 resulted in payments of £275 million to S&T suppliers who support delivery of our customer programme. This was an increase of £10 million on the previous year and reflects growing demands on our Commercial Services team. However, planning and prioritisation of this demand has been enhanced by improvements in management information and pipeline planning.

“As planned, professional training through the Chartered Institute of Purchasing and Supply continues and a structured competency framework now exists.”

Recruitment and development of Commercial Services staff has been a priority to both restore capacity to previous levels in order to meet demand and to build a future surge capability. As planned, professional training through the Chartered Institute of Purchasing and Supply continues and a structured competency framework now exists. There has been an additional focus on contract management, dedicating resources to this task and ensuring pro-active use of corporate vendor rating systems. We have created a contract management team, which means, for the first time, formal contract management plans are created and mobilised at the beginning of significant contracts.

The Commercial Services team continues to process high volumes of transactions and improved forecasting will begin to reduce this workload, freeing resource for more high-impact procurement and commercial sales work. Significant procurement projects delivered in-year include an enabling agreement for niche S&T work with QinetiQ, C4ISR Secure Information

Infrastructure and Services, Materials and Components for Missiles Innovation and Technology Partnership, and Expeditionary Logistics Support.

Working safely, securely and sustainably

Working safely

We have continued to improve our health and safety culture and approach. In response to a safety climate survey in February 2013, we have revamped Executive Director safety visits to demonstrate more visible senior leadership on safety matters and have also introduced an electronic reporting method, which enables colleagues to report incidents and near-misses more quickly and easily.

Our accident rates remain very low, with our reportable accident level of 0.14 per 100,000 hours worked. To complement the reporting of lagging indicators on safety incidents and near-misses, a more proactive set of safety performance indicators – covering topics such as inspection, audit compliance, process and safety culture – have been developed and are reported to the Dstl Executive Committee and to the Dstl Board on a quarterly basis. These underpin an evidence-based approach to safety and environmental risk management, ensuring effort to further reduce safety risk in the organisation is appropriately targeted.

Supporting our success continued

We have robust resilience plans surrounding our operations on all our sites, particularly given the high hazard work we do, coupled with owning several national assets critical to the UK. We have been externally assessed by MOD who found examples of best practice.

We have worked integrally with the Wiltshire Local Resilience Forum in its quinquennial live exercise to test out its ability to respond to an incident that could involve us. This thoroughly tested our plans and ability to respond seamlessly with the Local Authority and emergency services.

Working securely

Our security remains paramount and we have a proactive approach to threat management, which aims to balance perceived risk against possible mitigations, and so achieve a proportionate and appropriate response to potential threats. In the past year, we have responded to the growing cyber threat by strengthening staff awareness, cyber defence posture and incident management processes in a coordinated manner, such that our overall resilience has increased.

"This year, we completed our commitment to fundraising for Help for Heroes, culminating in handing over a cheque for £69,876."

Working sustainably

Environmental

We have continued to maintain an Environmental Management System (EMS) in accordance with ISO14001:2004, which has been externally verified and maintained through two surveillance visits during 2013 covering our core sites, and highlighted areas of good practice and continual improvement. These verified our continuing commitment to preventing pollution and ensuring our legal compliance. See Dstl's Sustainability Report (page 45) for more information.

Travel

During the year, we have continued to enhance our Green Travel Plan measures and, in conjunction with Portsmouth City Council, Hampshire County Council and QinetiQ, we have introduced new dedicated bus services to our Portsdown West site. This coincided with a large department move from our Fort Halstead site and these services are now well supported, currently avoiding an additional 40 cars travelling to Portsdown West each day.

To encourage more staff to car-share, we ran a number of car-share promotions, which have generated an additional 36 new car-share members. This brings our current total of registered car-share members to 783.

Charities

This year, we completed our three-year commitment to fundraising for Help for Heroes, culminating in handing over a cheque for £69,876. During the year, we had activities including cake sales, raffles, book sales, a spring ball, rowing, cycling and individual/group donations. We also supported the collection for the Royal British Legion poppy appeal. Moving forward, our new chosen charity is Soldiers, Sailors, Airmen and Families Association (SSAFA).

Education outreach

Around 150 of our employees are directly supporting the Government's Science, Technology, Engineering and Maths (STEM) agenda as STEM ambassadors. They work in schools to support aspirations for STEM careers – encouraging young people to enjoy STEM subjects and to consider pursuing a STEM career. Over the past year, they have supported more than 40 events in local schools and in our local communities. They have led hands-on activities in primary and secondary schools to help teachers make STEM subjects fun and shared their career experiences with aspiring school-age students, advising on the career pathways into various STEM professions. They have also supported local and regional STEM events, allowing students to consider the defence applications of STEM subjects alongside other STEM-based industries. [ ]

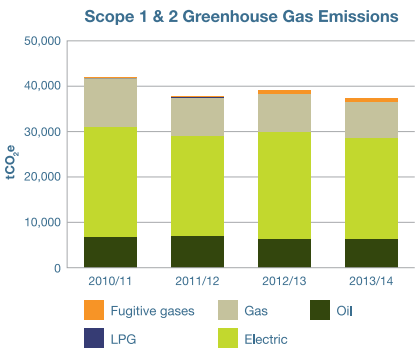
Dstl Sustainability Report

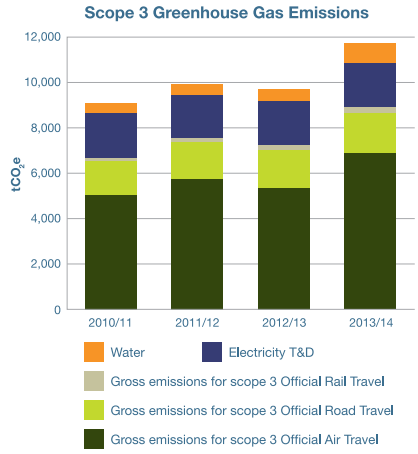
This report, for the year ended 31 March 2014, is produced in line with the latest public sector reporting requirements, as detailed in the FReM. It has not been subject to National Audit Office (NAO) audit but has been internally audited by our Strategy and Governance Function, (see notes 1 - 3). We actively encourage sustainable working and have undertaken a range of green commuter and business travel initiatives. Target setting and monitoring is overseen by our Sustainability Steering Group, which includes senior representatives from the relevant areas and a Sustainability Champion (who is a member of the Dstl Executive Committee). Sustainability performance reporting is also embedded in our balanced scorecard and monitored on an ongoing basis. The following provides a breakdown of performance in the key areas.

Greenhouse gas emissions

Greenhouse gas emissions		2010/11	2011/12	2012/13	2013/14
Non-financial indicators tonnes of carbon dioxide emissions (tCO_2e)	Gross emissions for scopes 1 and 2 energy				
	Oil (Note 4)	6,849	7,127	6,287	6,454
	Electricity consumed (Note 5)	24,283	21,931	23,669	22,317
	Gas	10,664	8,481	8,423	7,753
	LPG	0	100	61	18
	Fugitive Gases	102	117	705	879
	Total gross emissions for scopes 1 and 2 energy	**41,898**	**37,755**	**39,144**	**37,421**
	Gross emissions scope 3				
	Business travel (Note 6)	6,583	7,446	7,167	8,784
	Electricity transmission and distribution (Note 5)	1,955	1,874	1,870	1,908
	Water (Note 7)	398	444	519	858
	Total gross emissions for scopes 1, 2 and 3	**50,835**	**47,519**	**48,701**	**48,971**
	Net emissions for scopes 1 and 2 energy	41,898	37,755	39,144	37,421
	Net emissions for scope 3	8,937	9,764	9,556	11,550
Financial indicators (£'000)	Expenditure on energy	£6,391	£7,144	£7,142	£6,331
	Expenditure on official business travel	£7,155	£7,621	£7,727	£9,555
	Total expenditure on energy and business travel	**£13,546**	**£14,766**	**£14,869**	**£15,886**

Graphical Analysis





Targets and narrative: We are currently working to achieve the 2015 Greening Government Targets. The central target is to reduce greenhouse gas emissions by 25 per cent, from a 2009/10 baseline, from the whole estate and business-related transport. Our success so far has been due largely to a site rationalisation programme and improved energy monitoring and tracking, which has helped to pinpoint opportunities for efficiencies. We are now part way through a further site rationalisation programme and have adopted 80 per cent flexible desking on one of our sites, with another to follow next year. This is helping to ensure greater energy efficiency per head both now and in the future. The site rationalisation programme is planned for completion in 2018, which means that although we will achieve the Greening Government Target reduction, we will not achieve it by 2015.

Direct impact commentary: Our main direct impacts are electricity and fossil fuel consumption. In line with the latest guidance, electricity consumption has now been split out from electricity Transmission and Distribution (T&D), the latter now being reported under Scope 3. Our specialist laboratory work inherently requires a significant level of electricity consumption but focus continues on replacing the older more inefficient plants. Work is continuing on the planning process for a wind turbine project, which could reduce reliance on centrally generated energy.

Overview of indirect impacts: Electricity T&D has been split out from electricity consumption for the first time in line with the latest guidance and is now shown under Scope 3. CO_2 associated with supply and treatment of water is also included for the first time in line with the latest guidance. Significant national and international business travel is required to support operations and demand has increased over the past year. State-of-the-art video conferencing has also been implemented, which is helping to reduce the amount of travel for routine inter-site meetings.

Waste

Waste			2010/11	2011/12	2012/13	2013/14
Non-financial indicators (t) (tonnes)	**Total waste**		**1,661**	**1,777**	**1,642**	**1,701**
	Hazardous waste internal incineration solid		242	190	162	207
	Hazardous waste internal incineration wet		16	79	34	8
	Hazardous waste – external disposal		58	40	71	61
	Hazardous waste – total		316	309	268	276
	Non-hazardous waste	Landfill	109	167	127	106
		Reused/recycled	995	1,052	1,005	1,078
		Internal incineration solid	0	0	0	0
		Incinerated/energy from waste	242	248	243	242
		Composted	0	0	0	0
		ICT Equipment (Note 8)	0	0	0	0
Financial indicators (£'000)	Total disposal cost		£291	£389	£309	£347
	Hazardous waste – total disposal cost		£223	£329	£244	£190

Graphical Analysis

Targets and narrative: We are currently recycling or reusing 95 per cent of our waste arisings – significantly exceeding our, MOD's and wider Government's targets. Future increases will be challenging given the already high level of recycling/reuse, although we will continue to deliver further improvements wherever possible.

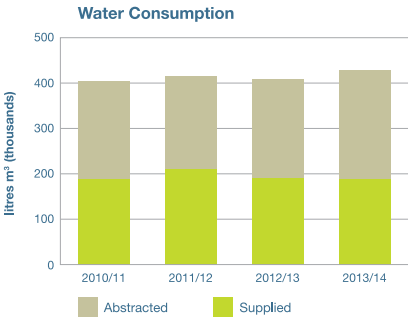
Direct impacts commentary: The main direct impacts of waste relate to business outputs and, in recent years, to construction and site development activities. We also produce quantities of hazardous waste that are either incinerated on site in accordance with Environment Agency approved standards, or disposed of via approved external suppliers.

Overview of indirect impacts: We continue to work with our strategic partner, Serco, to ensure that an efficient and effective waste disposal process is operated across our sites, based on sorting at destination rather than at source. Staff are encouraged to minimise waste wherever possible.

Finite Resource Consumption – Water

Finite Resource Consumption – Water			2010/11	2011/12	2012/13	2013/14
Non-financial indicators	Water consumption (m^3)	Supplied	189,260	210,902	191,291	188,635
		Abstracted	215,644	204,314	217,711	238,631
Financial indicators (£'000)	Water supply costs		£856	£901	£1,113	£1,375

Graphical Analysis



Targets and narrative: Water and sewerage services are delivered via the wider MOD Project Aquatrine contract for two of our three core sites. This contract has a number of targets to reduce leaks and improve infrastructure but the achievement of these are not under our direct control.

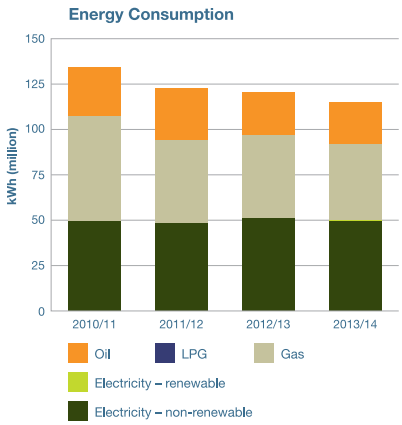
Direct impacts commentary: Our major impact in terms of water consumption is the reliance on local abstraction at one of our sites, which is controlled by Environment Agency licences. Water consumption is closely monitored to ensure that current and future requirements are sustained.

Overview of indirect impacts: We continue to work with our partners to ensure that water is used efficiently and effectively as part of ongoing operations. Staff are encouraged to report any leaks or inefficiencies in local areas.

Finite Resource Consumption – Energy

Finite Resource Consumption – Energy			2010/11	2011/12	2012/13	2013/14
Non-financial indicators	Energy consumption (kWh)	Electricity – non-renewable	50,035,679	48,514,372	51,451,762	50,096,086
		Electricity – renewable	0	2,925	4,145	4,385
		Gas	57,958,275	46,090,211	45,775,057	42,134,973
		LPG	0	14,388	8,764	2,605
		Oil	26,578,647	28,251,840	23,550,447	23,132,249
Financial indicators (£'000)	Total energy expenditure		£6,391	£7,144	£7,142	£6,331

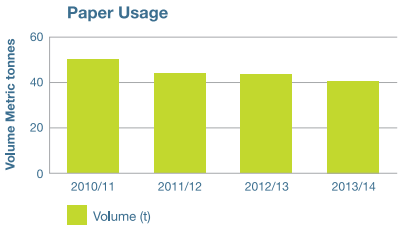
Graphical Analysis



Finite Resource Consumption – Paper

Finite Resource Consumption – Paper			2010/11	2011/12	2012/13	2013/14
Non-financial indicators	Volume (t) (Note 9)	Total	50.31	43.96	43.72	40.71
Financial indicators (£'000)	Total paper expenditure		£61	£57	£56	£48

Graphical Analysis



Targets and narrative: We are working towards the Greening Government target regarding paper use reduction. Over the past six years, we have reduced paper use by more than 27 per cent, although it must be recognised that much of our output is demand-led by our customers, so it may not be always possible to maintain current consumption, or reduce usage further.

Direct impacts commentary: We purchase our paper via the Government Procurement Service contract arrangements and have centralised our internal process for ordering and controlling the use of paper. This has had a positive affect on stock levels and enables pockets of high usage to be quickly identified.

Overview of indirect impacts: New technology and the steady move to a paperless office environment are indirectly influencing the reduction of our paper usage. We operate a comprehensive Electronic Records System and make extensive use of Microsoft SharePoint in support of service delivery and back-office functions.

Notes:

1 The above report has been prepared in accordance with guidance laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at www.financial reporting .gov.uk

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

3 Emissions accounting includes all Scope 1 and 2 emissions along with separately identified emissions related to Scope 3 emissions, which include official travel. Defra conversion rates have been used throughout – where relevant, conversion rates for previous years have been amended to reflect the latest Defra guidance. Where new information has become available, previous years data has been amended.

4 Oil for the current and previous reporting years has been split between heavy and light types – 2010/11 and 2011/12 have been reported as a single average of both fuel types.

5 Electricity emissions now split between consumption and T&D for the first time, in line with updated guidance.
6 Business Travel for 2013/14 now includes European Low Cost Airline travel. Air Travel carbon conversion factors now include radiative forcing, as per the latest guidance.
7 Carbon Emissions associated with the supply and treatment of water are now included in line with the latest guidance.
8 We dispose of all our IT equipment via the MOD Defence Disposals Agency. This information is collated by MOD and is not included in this report.
9 Paper usage and expenditure data relates to our supplies procured via Government contracts. Additional paper is also used by our Strategic Facilities Management Partner but this has not been included as the volumetric data is not available.

Our strategic report

Our approach to the structure and content of our Annual Report and Accounts is in line with the objectives and scope of the Government Financial Reporting Manual (FReM). The FReM is the technical accounting guide for the preparation of financial statements and an interpretation of the Companies Act 2006 for the public sector context.

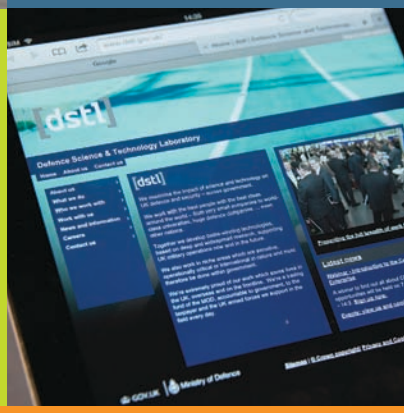
The information presented from page 11 to page 48 of our Annual Report and Accounts 2013/14 (our Strategic Report) has described our strategic information, our business and our performance in a way that I believe to be fair, balanced and understandable. I hope you have found this information helpful to your understanding of our high-level aspirations and intentions, and of our performance.

More information follows in our Remuneration Report (pages 49 to 55), in our Directors' Report (pages 57 to 84), and in our detailed Accounting Information (pages 87 to 114).

Jonathan Lyle
Chief Executive
28 May 2014

Section six

Remuneration Report



Our leadership

Dstl Board and Executive (for the financial year 2013/14)

The Board is responsible for supporting and constructively challenging our Executive Committee in the development of business strategies, plans, business cases and targets, and for monitoring our business performance against our approved top-level strategy, the Dstl Corporate Plan.

The Board

Sir Richard Mottram	Non-Executive Chairman	-
Elisabeth Astall	Independent Non-Executive Director	-
Gerard Connell	Independent Non-Executive Director	-
Dame Wendy Hall	Independent Non-Executive Director	-
David Grant	Independent Non-Executive Director	-
Carole Tolley	Non-Executive Director (MOD)	-
Jonathan Lyle	Chief Executive	-
Richard Brooks	Programme and Delivery Director	-
Peter Thompson	Deputy Chief Executive	-
Mark Alexander	Finance Director	-
Barbara Busby	Human Resources Director	contract ended 31 May 2013

The Executive Committee is responsible for day-to-day leadership and management and for ensuring that our strategic direction is appropriate to meet the scientific requirements of our customers and to deliver our targets.

The Executive

Jonathan Lyle	Chief Executive	-
Richard Brooks	Programme and Delivery Director	-
Peter Thompson	Deputy Chief Executive	-
Christine Hewitt	Human Resources Director	appointed 11 November 2013
Mark Alexander	Finance Director	-
Graham Balmer	Infrastructure Director	-
Andrew Bell	Chief Technical Officer	-
Barbara Busby	Human Resources Director	contract ended 31 May 2013
Mark Fulop	Programme Director Security Science and Technology	left Director post 2 September 2013
Christopher Gibson	Accounts Director	-
Heather Goldstraw	Head of Technology Delivery	-
Jennifer Henderson	Operations Director	-
Nicholas Joad	Programme Director	appointed 2 April 2013

Directors' Remuneration Report

Remuneration policy

The following remuneration policy refers to the employment of its Directors. Four Directors employed during the year 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. There is a fifth Director who is an SCS member but she is on secondment from MOD and is paid by MOD. Her remuneration is set by MOD.

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

Performance conditions

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

"Four Directors employed during the year are Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy."

Service contracts

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

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

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

There were no awards made to past senior managers.

Dstl Board Directors' remuneration

	Salary Band 2013/14 £'000	Salary Band 2012/13 £'000	NCPA* 2013/14 £'000	NCPA 2012/13 £'000	Fee 2013/14 £'000	Fee 2012/13 £'000	Pension benefits 2013/14 £'000	Pension benefits 2012/13 £'000	Total 2013/14 £'000	Total 2012/13 £'000
Sir Richard Mottram					35-40	35-40			35-40	35-40
Elisabeth Astall					15-20	15-20			15-20	15-20
Gerard Connell					15-20	15-20			15-20	15-20
Dame Wendy Hall					15-20	15-20			15-20	15-20
						15-20				*15-20*
David Grant					15-20	15-20			15-20	15-20
						15-20				*15-20*
Carole Tolley[1]										
Jonathan Lyle[2]	150-155	100-105					5	89	155-160	190-195
	125-130	*125-130*							*130-135*	*215-220*
Richard Brooks	80-85	80-85	5-10				0	70	90-95	150-155
		80-85								*150-155*
Peter Thompson	80-85	80-85	5-10	5-10			6	16	95-100	105-110
Mark Alexander	90-95	90-95	5-10	5-10			36	28	135-140	125-130
Barbara Busby[3]	15-20	70-75		0-5			1	28	15-20	100-105
	70-75								*70-75*	

This information is subject to audit. *Figures in italics denote full-year equivalent salary*

*Non-Consolidated Performance Awards (NCPAs). NCPAs have been awarded as indicated for 2013/14. NCPAs are paid based on Performance Evaluation Criteria (PEC) scores that are awarded in line with the performance management rules. Fees have been paid as indicated for 2013/14.

The salary bands set out above relate only to emoluments paid during the period of each Director's membership of the Dstl Board. There was no non-cash element of the remuneration package and no taxable benefits were received.

[1] Carole Tolley has received no fee; she represents MOD as a Non-Executive Director. This is a related party with which Dstl has material transactions. Please see Related Party Note at note 27.

[2] Jonathan Lyle was appointed CE in March 2012, following an open competition with an advertised salary for the post of £140k. In line with the rules MOD was then applying for a successful internal Civil Service applicant, his salary was initially set by MOD within the £100-105k band. The MOD reviewed its policy in summer 2013 to bring it into line with Cabinet Office pay guidance. As a result, his salary was revised and falls within the £125-130k band. This was effective from the date of his appointment and he received backdated pay during 2013/14. The band for 2012/13 has been restated accordingly.

[3] Barbara Busby left under voluntary exit terms on 31 May 2013. She received a compensation adjustment to her pension at a cost of £50,584.

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

	2013/14	2012/13
Band of Highest Paid Directors' Total Remuneration	£150k - £155k	£100k - £105k
	£125k - £130k	*£125k - £130k*
Median Total Remuneration	£34,991	£35,777
Ratio	4.36	2.86
	3.64	*3.56*

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

The banded remuneration of the highest-paid director in Dstl in the financial year 2013/14 was £150k - £155k (2012/13: £100k - £105k). This was 4.36 times (2012/13: 2.86) the median remuneration of the workforce, which was £34,991 (2012/13: £35,777).

In both 2012/13 and 2013/14, no employees received remuneration in excess of the highest-paid director. The median ratio has changed between years as a result of the Chief Executive's salary revision, and the profile of the workforce.

Total remuneration includes salary, non-consolidated performance-related pay, and severance payments. It does not include employer pension contributions, compensation payments and the Cash Equivalent Transfer Value (CETV) of pensions.

Dstl Board pension provision

	Real increase in pension *[and related lump sum at pension age]*	Total accrued pension at pension age at 31/03/14 *[and related lump sum]*	Cash equivalent value at 31/03/13*	Cash equivalent value at 31/03/14	Real increase in Cash Equivalent Transfer Value as funded by employer
	£'000	£'000	£'000	£'000	£'000
Jonathan Lyle	0-2.5	75-80	1,199	1,280	3
Richard Brooks	0-2.5	30-35	483	514	-2
	[0-2.5]	*[90-95]*			
Peter Thompson	0-2.5	20-25	317	343	3
	[0-2.5]	*[65-70]*			
Mark Alexander	0-2.5	15-20	167	207	23
Barbara Busby	0-2.5	10-15	206	213	6

This information is subject to audit.

*The actuarial factors that are used in the CETV calculation were changed during 2013. This means that the CETV in this year's report for 31 March 2013 will not be the same as the corresponding figure shown in last year's report.

With the exception of Jonathan Lyle and Barbara Busby, who belong to the Premium Civil Service Pension Scheme, all Directors belong to the Classic or Nuvos Civil Service Pension Schemes. All schemes are part of the Principal Civil Service Pension Scheme. See Note 7 to the accounts.

Executive committee remuneration

	Salary Band 2013/14 £'000	Salary Band 2012/13 £'000	NCPA 2013/14 £'000	NCPA 2012/13 £'000	Pension benefits 2013/14 Nearest £'000	Pension benefits 2012/13 Nearest £'000	Total 2013/14 £'000	Total 2012/13 £'000
Jonathan Lyle[1]	150-155	100-105			5	89	155-160	190-195
	125-130	*125-130*					*130-135*	*215-220*
Richard Brooks	80-85	80-85	5-10		0	70	90-95	150-155
		80-85						*150-155*
Peter Thompson	80-85	80-85	5-10	5-10	6	16	95-100	105-110
Christine Hewitt[2]	25-30				3		15-20	
	70-75						*75-80*	
Mark Alexander	90-95	90-95	5-10	5-10	36	28	135-140	125-130
Graham Balmer	70-75	75-80	5-10	0-5	10	49	90-95	125-130
Andrew Bell	70-75	70-75			11	12	80-85	80-85
Barbara Busby[3]	15-20	70-75		0-5	1	28	15-20	100-105
	70-75						*70-75*	
Mark Fulop	25-30	70-75		0-5	-6	6	20-25	80-85
	70-75						*65-70*	
Christopher Gibson	75-80	75-80		5-10	7	6	80-85	90-95
Heather Goldstraw[4]								
Jennifer Henderson	70-75	70-75	5-10	5-10	56	10	135-140	85-90
Nicholas Joad[5]	70-75				41		110-115	
	70-75						*110-115*	

This information is subject to audit. *Figures in italics denote full-year equivalent salary/NCPA*

NCPAs have been awarded as indicated for 2013/14. NCPAs are paid based on PEC scores that are awarded in line with the performance management rules.
The salary bands set out above relate only to emoluments paid during the period of each Director's membership of the Dstl Executive Committee.
No Executive Committee members, key managerial staff or other related parties have undertaken any material transactions with Dstl during the year.
There was no non-cash element of the remuneration package and no taxable benefits were received.

[1] See footnote 2 on page 52.
[2] Christine Hewitt joined Dstl on 11 November 2013.
[3] Barbara Busby left under voluntary exit terms on 31 May 2013. She received a compensation adjustment to her pension at a cost of £50,584.
[4] Heather Goldstraw is an inward secondee from MOD. She is paid by MOD – SCS Pay Band 1 (£58,200-£117,800). Dstl is invoiced for her services at a total cost of £95,674.49 for 2013/14.
[5] Nicholas Joad joined the Dstl Executive Committee on 2 April 2013.

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.
Except for payments made to MOD for the secondment of Heather Goldstraw, no amounts were payable to third parties for services of a senior manager.

Executive committee pension provision

	Real increase in pension *[and related lump sum at pension age]* £'000	Total accrued pension at pension age at 31/03/14 *[and related lump sum]* £'000	Cash equivalent value at 31/03/13* £'000	Cash equivalent value at 31/03/14 £'000	Real increase in Cash Equivalent Transfer Value as funded by employer £'000
Jonathan Lyle	0-2.5	75-80	1,199	1,280	3
Richard Brooks	0-2.5	30-35	483	514	-2
	[0-2.5]	*[90-95]*			
Peter Thompson	0-2.5	20-25	317	343	3
	[0-2.5]	*[65-70]*			
Christine Hewitt	0-2.5	20-25	422	431	3
	[0-2.5]	*[70-75]*			
Mark Alexander	0-2.5	15-20	167	207	23
Graham Balmer	0-2.5	20-25	322	351	5
	[-2.5-0]	*[30-35]*			
Andrew Bell	0-2.5	15-20	288	316	6
	[0-2.5]	*[55-60]*			
Barbara Busby	0-2.5	10-15	206	213	6
Mark Fulop	0-2.5	20-25	373	380	1
	[0-2.5]	*[70-75]*			
Christopher Gibson	0-2.5	25-30	531	572	6
	[0-2.5]	*[85-90]*			
Heather Goldstraw[1]					
Jennifer Henderson	2.5-5	15-20	210	258	31
	[7.5-10]	*[55-60]*			
Nicholas Joad	0-2.5	15-20	221	265	27
	[5-7.5]	*[50-55]*			

This information is subject to audit.

*The actuarial factors that are used in the CETV calculation were changed during 2013. This means that the CETV in this year's report for 31 March 2013 will not be the same as the corresponding figure shown in last year's report.
With the exception of Jonathan Lyle and Barbara Busby, who belong to the Premium Civil Service Pension Scheme, all Directors belong to the Classic, Classic Plus or Nuvos Civil Service Pension Schemes. All schemes are part of the Principal Civil Service Pension Scheme. See Note 7 to the accounts.

[1] See footnote 4 on page 54.

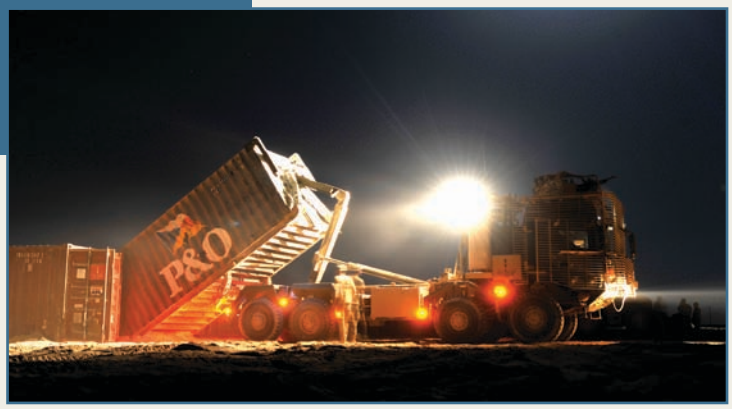
The number of persons of each sex who were directors of the company; the number of persons of each sex who were senior managers of the company and the number of persons of each sex who were employees of the company as at the end of the reporting year were:

Status	Male	Female	Grand Total
Director[1]	11	6	17
Senior manager[2]	19	1	20
Dstl Level 8[3]	107	15	122
Employee	2,482	1,197	3,679
Grand Total	2,619	1,219	3,838

[1] This figure includes Heather Goldstraw and Carole Tolley who are paid by MOD as outlined in this section.
[2] A Senior Manager is taken to be any member of staff at SCS level or equivalent. People at this grade are primarily deep technical specialists or individuals seconded to organisations outside of Dstl.
[3] The majority of senior leaders within Dstl are Level 8.

Analysis informs redeployment of materiel from Afghanistan

Case study



The safety and security of deployed coalition forces at Camp Bastion is paramount. Processes are in place to control aspects such as the flow of vehicles and these are regularly reviewed based on changes to the threat.

Our analysts monitored the flow of vehicles during a time of heightened threats, which informed force protection processes. The modelling and analysis of the flow of traffic identified and quantified the benefits of making use of an alternative route.

During a time of heightened vehicle-borne threats, our experts informed an update to the Force Protection processes by applying modelling and analysis of the flow of traffic through the base's Main Entry Point (MEP). The analysis identified and quantified the benefits of reducing traffic via the MEP by making use of an alternative route, where materiel assigned for disposal could efficiently be sold to local Afghan businesses. This activity supported the Campaign Mission by enhancing economic stability, supported MOD's redeployment strategy and generated an income for the UK from items that would otherwise have incurred a cost for disposal.

The use of the alternative route reduced truck movements through the MEP by more than 65 per cent of a day's volume and as vehicles never entered Bastion, there was a commensurate reduction in security issues.

Advising Government on space weather

Case study

Severe space weather has recently been recognised as posing a significant and increasing risk to human activity, and was included in the UK National Risk Assessment in 2011.

Vulnerability lies in the widespread reliance on sensitive space-based and ground-based systems, and so a robust understanding of space weather impacts is critical to protect both equipment and personnel from the effects of space weather, to sustain resilient capability and to distinguish between naturally occurring effects, malicious or accidental man-made interference, and technical malfunctions.

As a member of the Space Environment Impacts Expert Group (SEIEG) – alongside representatives from the Met Office, British Antarctic Survey, National Grid, Royal Academy of Engineering, and Civil Aviation Authority – we have supported exercises run by the Government Chief Scientific Adviser (GCSA), and focused on developing UK understanding of the likely impacts of a severe space weather event. We reviewed documents and provided technical guidance for use by the GCSA, Government Office of Science and potentially the Cabinet Office Briefing Room, to help formulate the national response to such an event.

We have continued to support the production of guidance on potential space weather impacts for ministerial and cross-ministerial briefings, working with wider Government, space scientists and industry groups to begin to develop the national structures and strategies required to counter this threat.

Section seven

Our governance

Statement of Dstl's and the Chief Executive's Responsibilities

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

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

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

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

Governance Statement

As Accounting Officer, I, Jonathan Lyle, the Chief Executive of Dstl, have responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Dstl's Purpose and Strategic Objectives, while safeguarding the public funds and MOD assets for which I am personally responsible. In doing so, I have ensured that Dstl's governance and control arrangements are designed to comply with Her Majesty's Treasury's (HMT) Code of Good Practice on Corporate Governance in Central Government Departments (July 2011). These arrangements are explained in more detail below.

Corporate governance

Dstl's governance framework

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

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

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

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

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

> ***"We operate as a Trading Fund, following both Government and commercial best practice, for which the Secretary of State for Defence has ultimate responsibility."***

Governance Statement continued

The main role of the Dstl Board is to support and constructively challenge me and members of the Dstl Executive Committee, and to apply scrutiny in the development of strategies and plans. In discharging this role, the Board also has delegated authority to approve certain categories of business decisions. The Board's responsibilities include:

- Ensuring Dstl's strategy and plans reflects its agreed Purpose and the policy and commercial constraints set by MOD and HMT, and that within this framework it adopts relevant best practice from across the Government and private sectors.
- Supporting the development of the Dstl Corporate Plan and endorsing the Plan for approval by the Owner.
- Approving the Dstl Business Plan.
- Reviewing Dstl's performance against its Corporate and Business Plans.
- Reviewing the Dstl Annual Report and Accounts.
- Approving expenditure proposals within its delegated powers or making recommendations to the Owner where appropriate.

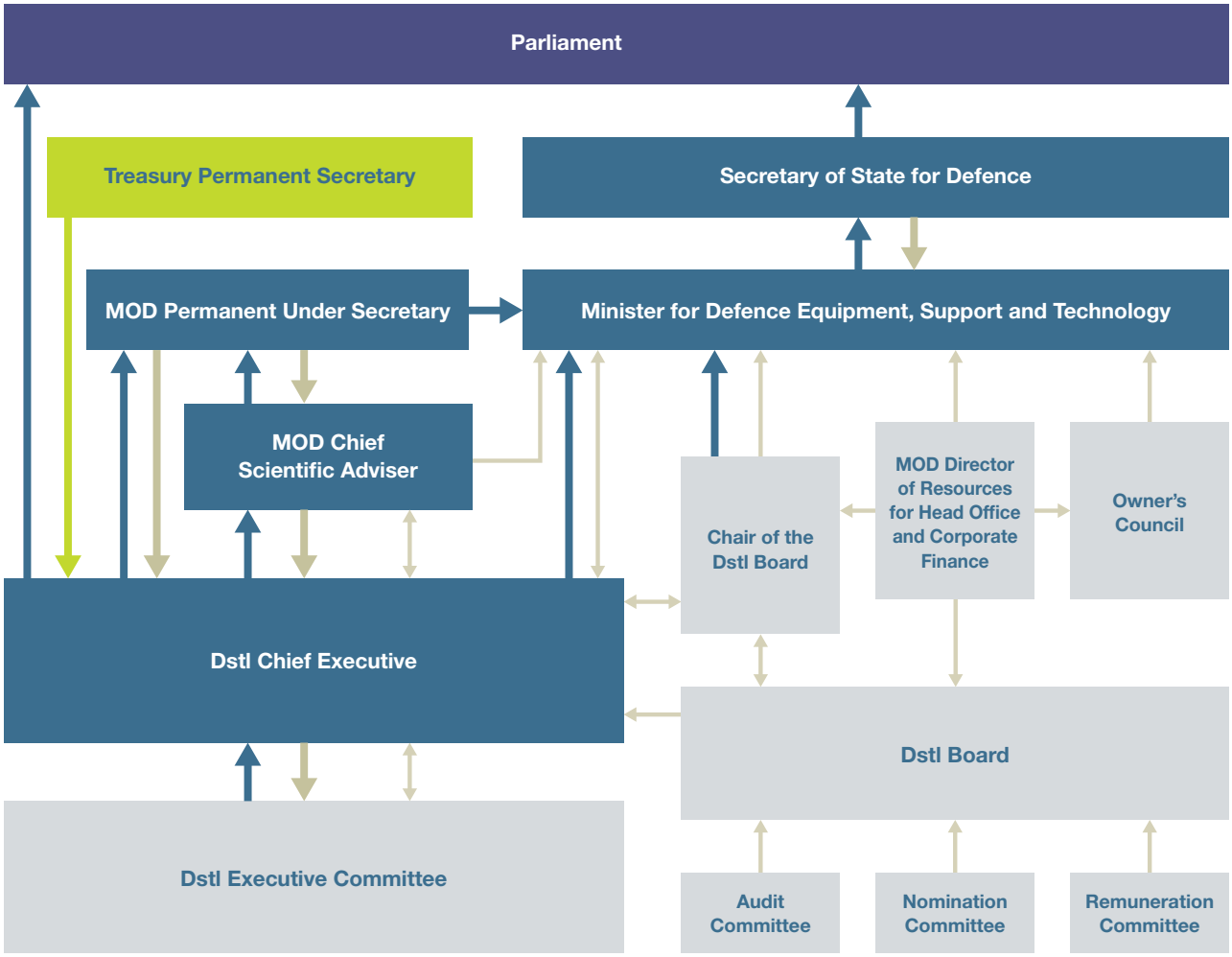
The Board is supported by an Audit Committee, a Nomination Committee and a Remuneration Committee.

More information on these sub-committees is provided on the following pages.

The governance arrangements described earlier are documented in our Framework Document (a revised version of which will be published this year) and are depicted opposite. Overall, I am confident that we have an extremely robust governance framework in place to ensure that Dstl continues to deliver against its Purpose and Strategic Objectives.

> ***"The main role of the Dstl Board is to support and constructively challenge me and members of the Dstl Executive Committee, and to apply scrutiny in the development of strategies and plans."***

Dstl's governance framework



Dstl Board members

During the financial year, the Dstl Board comprised a Chair, four other Non-Executive Directors (NEDs) with external experience relevant to the work of Dstl, a NED from MOD, me as Chief Executive and up to four senior Executive Directors (our former HR Director Barbara Busby left Dstl for personal reasons in May 2013). The Board is of the view that, collectively, members have the appropriate balance of skills, experience and qualities to discharge the Board's role and responsibilities, and that, as currently constituted, the Board has strong independent and diverse characteristics. The Board is satisfied that no individual, or group of individuals, is or has been in a position to dominate the Board's decision-making. A summary of members' key strengths and experiences is provided over the page.

Non-Executive Members of the Board as at 31 March 2014

Sir Richard Mottram
Chairman

Sir Richard took up the post of Chairman 1 August 2008

Key strengths: Leadership; strategy; understanding Government; corporate planning, including in a defence context.

Experience: Sir Richard was educated at Keele University, graduating in international relations. He was a civil servant from 1968 to 2007 working in MOD and the Cabinet Office during the first part of his career. He held top-level appointments (as a Permanent Secretary) from 1992 to 2007, including in the areas of defence, intelligence and security, science policy, and public service and civil service change.

External appointments: Sir Richard is chairman of Amey plc and a member of the international advisory board of GardaWorld. He is a Governor of Ashridge Business School and a trustee of the Royal Anniversary Trust. He is a Visiting Professor in the Department of Government of the London School of Economics and Political Science.

Elisabeth Astall
Non-Executive Director

Appointed to the Board 1 September 2009

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

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

External appointments: Elisabeth is a Non-Executive Director for UK Sport, Hyder plc, and on the Board of Digital Jersey. She is a trustee of the Social Mobility Foundation and Chairman of a Brain Tumour Trust – the PPR Foundation.

Gerard Connell
Non-Executive Director

Appointed to the Board 1 October 2011

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

Experience: Gerard was educated at St John's College, Oxford, and trained as a Chartered Accountant with Price Waterhouse. He spent the first half of his executive career in strategic advisory work in the City, including roles as a Managing Director of Bankers Trust Company and as a Regional Director of Hill Samuel Bank Limited. He subsequently moved into strategic, financial and operational roles in industry, latterly as Group Finance Director and Managing Director Western Europe of Wincanton plc, a then FTSE-250 business services group.

External appointments: Gerard is the Senior Independent Director and Chair of Audit at Pennon Group plc, an Independent Director of the Nuclear Decommissioning Fund Company Limited, a Non-Executive Director at the Land Registry and a Council Member of the Science and Technology Facilities Council. He is also a Governor of King's College School, Wimbledon.

Dr David Grant CBE
Non-Executive Director

Appointed to the Board 1 June 2012

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

Experience: David has held technical and general management roles in international technology businesses in electronics, telecommunications, aerospace and defence sectors. He was Technical Director of General Electric Company plc from 1991 to 2001, and was appointed Vice-Chancellor of Cardiff University from 2001 to 2012. David has served as a Vice-President of the Institution of Engineering and Technology, and from 2007 to 2012 he was a Vice-President of the Royal Academy of Engineering. David was made a CBE in 1997 for his leadership and contribution to the UK Foresight Programme.

External appointments David is a Non-Executive Director of Renishaw plc and IQE plc. He has been a Governing Board Member of the Technology Strategy Board since its foundation in 2007. David is Chairman of STEMNET, the charity that works with schools to encourage youngsters to choose a STEM (Science, Technology, Engineering and Mathematics) pathway.

Dame Wendy Hall
Non-Executive Director

Appointed to the Board 1 June 2012

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

Experience: Dame Wendy has spent her career working in higher education, starting at Southampton as a lecturer in computer science in 1984. She became a professor in 1994, was Head of Department from 2002 to 2007 and is currently Dean of the Faculty of Physical Sciences and Engineering. She has been involved in several start-up and spin-out companies.

External appointments: Dame Wendy has served on several committees related to Government policy in science in education, particularly the Prime Minister's Committee for Science and Technology. She was President of the British Computer Society 2002/03, Senior Vice President of the Royal Academy of Engineering 2005 to 2008, and President of the Association of Computing Machinery 2010 to 2012. She is a Fellow of the Royal Society, a Fellow of the Royal Academy of Engineering and was made a DBE in 2009.

Carole Tolley
MOD's Director Resources for Head Office and Corporate Finance

Appointed to the Board 1 May 2012

Key strengths: Defence experience; finance and investment decision-making.

Experience: Carole joined MOD as an administrative fast streamer in 1978. She is currently MOD's Director of Resources for Head Office and Corporate Finance, with responsibility for MOD's Financial Management Policy and Accounting Team, Business Strategy and Governance Team and the finance and other resources of MOD's Head Office and Corporate Services organisations. She was previously Director of Scrutiny, with responsibility for MOD's internal approvals and scrutiny process for investment decision-making, and was MOD's Director of Financial Management.

Executive Members of the Board as at 31 March 2014

Jonathan Lyle
Chief Executive

Appointed Chief Executive, following an open competition, on 5 March 2012. He joined the Board on 1 March 2010 when appointed to the post of Director Programme Office.

Key strengths: Leadership; engineering; strategic overview; Government relations.

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

Richard Brooks
Programme and Delivery Director

Appointed to the Board 3 April 2012

Key strengths: Change leadership; programme management.

Experience: Richard is a chartered mechanical engineer, a chartered member of the Institute of Personnel and Development, and a member of the Royal Corps of Naval Constructors. He has spent his career in MOD and its agencies in a variety of technical, project management, change leadership and HR roles. In his previous role, he was Chief Operating Officer at the UK Hydrographic Office.

Peter Thompson
Deputy Chief Executive

Appointed to the Board 4 January 2012

Key strengths: Leadership; strategic planning; science and technology; defence and security.

Experience: Peter has worked in the defence and security sector for more than 20 years, since leaving university with a doctorate in Molecular Electronics. He was strategic adviser to MOD's Chief Scientific Adviser, leading the scientific contribution to Defence Reform, MOD's S&T Strategy for Defence and the 2012 Government White Paper: *National Security Through Technology*. His previous roles include Dstl Programme Director (Security Science and Technology), helping to set up the Dstl Programme Office in 2010, and as Head of MOD's Counter Terrorism S&T Centre.

External appointments: Peter is a Governor of South Wiltshire University Technical College.

Mark Alexander
Finance Director

Appointed to the Board 7 December 2009

Key strengths: Financial management; change management.

Experience: Mark trained as a chartered accountant with Binder Hamlyn (now part of Deloitte), qualifying in 1988. He spent three years in corporate finance in the City, working on the electricity privatisation in 1990. He moved into industry in 1991 joining AEA Technology, which he helped to float on the London Stock Exchange in 1996. He has spent 18 years working in technology-based organisations, as well as working in senior financial positions at construction group Bovis Lend Lease and train operator Laing Rail. Prior to joining Dstl, he was Finance Director at Ordnance Survey, Britain's national mapping agency.

External appointments: Non-Executive Director of Dstl's wholly-owned technology transfer subsidiary Ploughshare Innovations Ltd; and Dstl Representative on the Board of Tetricus Limited, a business incubator and associate company of Dstl.

"The Board is of the view that, collectively, members have the appropriate balance of skills, experience and qualities to discharge the Board's role and responsibilities, and that, as currently constituted, the Board has strong independent and diverse characteristics."

Total length of service by the Board's Non-Executive Directors at 31 March 2014								
	1 year	2 years	3 years	4 years	5 years	6 years	Date of most recent appointment	Date of expiry
Sir Richard Mottram							1 August 2011	31 July 2014
Elisabeth Astall							1 September 2012	31 August 2015
Gerard Connell							1 October 2011	30 September 2014
David Grant							1 June 2012	30 May 2015
Dame Wendy Hall							1 June 2012	30 May 2015
Carole Tolley							1 May 2012	N/A

Dstl Board activity

The Board held six scheduled meetings during the financial year ending 31 March 2014. In addition, each September the Board convenes for a special strategy-setting session, at which strategy, external factors and the broad direction of business is discussed in depth. This is attended by my wider Executive Committee.

The majority of Board meetings were held at Dstl's headquarters at Porton Down, Wiltshire, but we also met at our site at Portsdown West, Hampshire. The Chairman and I were present at all meetings and there were high levels of attendance by other Non-Executive and Executive members.

In addition, Director Infrastructure, Graham Balmer, attended all meetings to discuss progress with our Helios Project.

Attendance at Board meetings	
Sir Richard Mottram	7 (7)
Elisabeth Astall	7 (7)
Gerard Connell	7 (7)
David Grant	7 (7)
Dame Wendy Hall	7 (7)
Carole Tolley	6 (7)
Jonathan Lyle	7 (7)
Peter Thompson	7 (7)
Richard Brooks	5 (7)
Mark Alexander	7 (7)
Barbara Busby	2 (3*)

*Barbara Busby left Dstl in May 2013.

Timeline: Key business at Dstl Board meetings throughout the year

The business taken at our Board meetings reflects the responsibilities of the Dstl Board, as set out in our Framework Document. It also reflects the implementation of our Strategic Objectives. Recognising that the Helios Project is not only a critical component of our Corporate Plan but also one of our key corporate risks, we tabled a standing item on the project for every meeting.

May 2013 (Porton Down)	July 2013 (Porton Down)	September 2013 (Porton Down)	November 2013 (Porton Down)	February 2014 (Porton Down)	March 2014 (Portsdown West)
▶ Review end-of-year finance report ▶ Approve Dstl Annual Report and Accounts 2012/13 ▶ Update on the Helios Project ▶ Review Serco/Steria end-of-year report ▶ Review SHEF end-of-year report ▶ Review Business Performance Report ▶ Results of the Dstl Civil Service People Survey 2012 and next steps ▶ *Meeting of the Dstl Remuneration Committee*	▶ Introduction to Dstl's new Chief Procurement Officer ▶ Update on the Helios Project ▶ Update on Dstl's approach to Account Management ▶ Update on Dstl's draft Science Strategy ▶ Dstl's strategic challenges ▶ Review of the Corporate Risk Register ▶ Agreeing new governance arrangements around the implementation of the Dstl Corporate and Business Plans ▶ Review Business Performance Report ▶ *No afternoon programme due to the size of the agenda*	▶ Review of Information Systems (IS) strategic projects ▶ Update on the Helios Project ▶ *This meeting was followed the next day by the annual strategy-setting meeting*	▶ Review Ploughshare Innovations Ltd summary financial data for 2013/14 ▶ Approve Ploughshare Innovations Ltd Strategy 2014-19 ▶ Review of proposed Ploughshare Innovations Ltd investment fund ▶ Update on the Helios Project ▶ Review of draft Dstl Corporate Plan 2014-19 ▶ Review of the financial annex to the Dstl Corporate Plan 2014-19 ▶ Procurement Plan – implementation progress report ▶ Review Business Performance Report ▶ Update from Dstl's Chief Information Office/Senior Information Risk Owner ▶ *No afternoon programme as the Audit Committee was held that afternoon*	▶ Approve Corporate Plan for 2014-19 ▶ Update on the Helios Project ▶ Results of the Dstl Civil Service People Survey 2013 and next steps ▶ Strategic Workforce Planning ▶ Review Dstl Pay and Reward Strategy ▶ Review Business Performance Report ▶ Review of the Dstl Security annual report to MOD ▶ *Visit to the site of the New Magazine*	▶ Approve Ploughshare Innovations Ltd Business Plan 2014/15 ▶ Approve Dstl Business Plan 2013/14 ▶ Approve Dstl Budget 2014/15 ▶ Declare Dstl Dividend for 2013/14 ▶ Review Dstl charging mechanisms ▶ Review Dstl capital projections by project ▶ Update on the Helios Project ▶ Review of IS strategic projects ▶ Strategic Workforce Planning ▶ Approve Dstl Pay and Reward Strategy ▶ Results of the 2014 Board evaluation exercise ▶ *No afternoon programme due to the size of the agenda*

Information flow

Board members receive a regular and controlled flow of information relevant to the fulfilment of their duties. A number of the NEDs also work with members of the Dstl Executive Committee on specific issues, such as the Helios Project or our annual technical capability benchmarking exercise, sitting on in-house project boards as necessary.

Board papers encompass regular reports from the Chief Executive, Audit Committee Chair and a forward-look of the business that is expected to be taken throughout the year. We adopt the principles of evidence-based decision-making when preparing all our papers, particularly when presenting options to the Board for approval. This helps to ensure that the quality of data used by the Board is of an acceptable standard.

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

An afternoon programme is typically scheduled to follow every meeting of the Board to help familiarise our NEDs with different aspects of our work. This year, pressure of business has prevented us from scheduling a programme after every meeting but we intend to maintain a regular schedule of programmes in the next financial year, including, where appropriate, presentation of Dstl's work to help members meet more of our staff and to provide them with a greater understanding of the work we do.

Number of papers

Type of paper	Number
Strategy (including formulation and implementation)	16
Finance	9
Business performance	8
People-related matters	6
Governance	3
Other (Introduction to Dstl's new Chief Procurement Officer and Update from Dstl's Chief Information Officer/Senior Information Risk Owner)	2

Board processes

All key procedures and policies affecting the Board are maintained and operated by the Corporate Secretary.

Liability

The Government has indicated that an individual board member who has acted honestly and in good faith will not have to meet out of his or her personal resources any personal civil liability that is incurred in the execution or the purported execution of his or her board functions, save where the board member has acted recklessly.

Board performance evaluation

We are committed to continuing to improve the effectiveness of our Board and the already strong relationships between myself and the Chairman, and the Non-Executive and Executive Directors. Our means of assessing the effectiveness of our Board and the relationships described above is through our annual Board evaluation exercise. Our Chairman also meets informally with our NEDs to assess their contribution, and the Chairman and I meet on a regular basis to discuss both strategic and topical issues.

This year, our annual board evaluation exercise was deferred from November to February for scheduling purposes. The Chairman decided to field the same questionnaire and conduct the exercise in-house for the third-year running. The design of the process was independently scrutinised by our internal audit provider, Grant Thornton.

The responses were analysed and presented to the Board in March. Once again, there was a positive shift in the results when compared to the previous year's findings, with generally high scores against all the questions. The main findings and actions were as follows:

Area	Main findings	Action
Strategy and plan formulation	▶ The Board is very effective in developing Dstl's future strategies and plans. ▶ Members noted that there was still more they could do, particularly as the organisation shifts its focus from Urgent Operational Requirements to longer-term strategic requirements.	▶ Board to increase its focus on forward-looking activities and to schedule more time to review and discuss the capital investment aspects of its forward-planning **(Programme and Delivery Director, Finance Director and Corporate Secretary)**
Performance	▶ Members' satisfaction in monitoring Dstl's performance dipped slightly. ▶ The Business Performance Report (BPR) continues to be well received but discussion around the BPR has been squeezed at recent meetings.	▶ Improved time-management of agenda items **(Chairman and Corporate Secretary)**
Opportunities and risks	▶ Further progress has been made on the management of risk, with excellent support provided via the Dstl Audit Committee. ▶ Opportunities are not sufficiently addressed but members noted that this was neither easy nor necessarily a reflection of the current state of Dstl business.	▶ See above
Decision-making	▶ There has been a notable improvement in this area, with all members assessing the Board's effectiveness in decision-making as either 'very effective' or 'fully effective'.	▶ Continue to ensure that business coming to the Board is to 'approve' (within the scope of its responsibilities) and that genuine choices are offered when presenting options for approval **(All)**
Utilising Board expertise	▶ Members agree that the Board has a good balance of expertise and experience from a NED perspective. ▶ Members also agree that both the Board and Dstl would benefit from greater engagement with and by the NEDs outside of formal Board meetings.	▶ Executive Directors to continue to ensure that the NEDs are involved in the discussion of key issues between Board meetings, where appropriate, and to sit on key project boards, again where appropriate **(All)** ▶ Include a presentation from the business as a standing item (in addition to the afternoon programmes) **(All)**
Agenda and papers	▶ Members agree that agenda items are focused on relevant issues. ▶ Members feel that the amount of information provided before and during meetings is sufficient for thorough discussion and understanding of matters but several suggested that more can be done to draw out the key issues.	▶ See above ▶ Continual review of the nature, content and length of papers brought to the Board **(Corporate Secretary)**
Leadership from the Chair	▶ Members consider that the Chair provides outstanding leadership.	

Chair of the Dstl Board Sir Richard Mottram commented:

> *This has been a demanding year for the Board. There has been a strong focus on ensuring that Dstl has a draft Science Strategy and is reshaping its S&T capabilities best to match emerging challenges and opportunities, and in accordance with MOD and wider Government priorities. Also, on ensuring that its work is of high quality and delivered to time and to cost. Tackling problems over the programme and project management of the move of facilities from Fort Halstead to Porton Down (as part of the Helios Project) have been a dominant concern. In dealing with these and other issues, I believe the revised composition of the Board and the breadth and quality of experience of its members (described earlier) have shown their worth."*

Board committees

In discharging its role and responsibilities, the Dstl Board delegates some activities to Audit, Nomination and Remuneration Sub-Committees; the Audit Committee being the main Sub-Committee.

Audit Committee

The role of the Audit Committee is to support the Dstl Board and me, as Accounting Officer, in monitoring the organisation's corporate governance and control systems. It primarily advises us on:

- The strategic processes for risk, control and governance, and the Governance Statement
- The accounting policies, the accounts, and the Annual Report, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors
- The planned activity and results of both internal and external audit
- Adequacy of management response to issues identified by audit activity
- Assurances relating to the corporate governance requirements for Dstl
- Proposals for tendering for external audit services or for purchase of non-audit services from contractors who provide audit services
- Anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

The Audit Committee is chaired by Gerard Connell and also comprises Elisabeth Astall, David Grant and Carole Tolley. I attend by invitation, as do my Deputy Chief Executive, my Finance Director, my Head of Finance and my Head of Strategy and Governance. Dstl's Internal Audit provider and the National Audit Office (NAO) also attend every meeting.

We have met four times this financial year, with high levels of attendance from all members.

Members' attendance at Audit Committee meetings	Number
Gerard Connell (Chair)	4 (4)
Elisabeth Astall	3 (4)
David Grant	4 (4)
Carole Tolley	3 (4)

This year, under Gerard Connell's chairmanship, the Audit Committee has continued to oversee the improvement of our audit activities. Dstl uses its Corporate Risk Register, as a solid and intellectually sound basis to build a comprehensive audit plan. Subjects of focus this year have included looking at value for money, particularly in terms of Dstl's strategic partner relationships; Dstl's Helios Project; Dstl's procurement capability; counter-fraud and resilience planning; Safety, Health, Environment and Fire (SHEF) and Security; and, Information Management.

May 2013 (Porton Down)	September 2013 (Porton Down)	November 2013 (Porton Down)	February 2014 (Porton Down)
▶ NAO Audit Completion Report ▶ Endorse Dstl Annual Report and Accounts 2012/13 ▶ Quarterly Assurance Report ▶ Dstl Audit Plan ▶ Cyber Information Compromise – risks and controls ▶ Action points from the Annual Review of Effectiveness 2012/13	▶ Quarterly Assurance Report ▶ New Head of Internal Audit (HIA) review of Dstl Audit Plan ▶ Annual Review of the Corporate Risk Register ▶ Risk Management Maturity Model	▶ NAO Audit Planning Report ▶ Quarterly Assurance Report ▶ Change and Customer Transformation ▶ Dstl's biological high-containment facility ▶ SHEF Incident Corporate Risk	▶ Quarterly Assurance Report ▶ Dstl Audit Plan ▶ Annual Security Report to MOD

Other standing items: The Finance Director's Report; NAO briefing update on cross-Government NAO work; Fraud and Corruption update; and, Information Risk Management update. In November 2013, members of the Audit Committee also attended a bespoke out-of-committee briefing on the potential for our information to be compromised by a cyber attack, following the presentation of a paper at the May 2013 meeting.

Issues of note concerning the internal audit of our Helios Project included the findings that there should be more focus on simplifying the project governance arrangements, on revisiting the procurement strategy, and in tighter management of the design phase. The internal audit of our value-for-money arrangements identified a number of specific and practical actions to improve the value received from our strategic partners. These included:

- For the Serco partnership (Facilities Management Services): a combination of short-term actions, such as revisiting commercial terms, and medium-term critical actions, such as implementing systems to improve understanding of contract costs.
- For the Steria partnership (IT services): actions to redistribute commercial risk and to realign Key Performance Indicators so that they encourage the critical factors that Dstl requires the most.

Internal audit programme undertaken throughout the year

Since 1 April 2013, as well as our regulatory SHEF audit programmes, Dstl carried out 42 internal audits, which were completed by our contracted internal audit provider and by our in-house assurance team.

The majority of these internal audits were considered by the Dstl Executive Committee and the Audit Committee; 27 of these reported high-priority findings (see 'Assure' section for more information).

Annual review of effectiveness

An exercise to evaluate the effectiveness of the Audit Committee was conducted in February 2014. The Chair, the three Committee members and six standing attendees completed the questionnaire. On the whole, there was a high level of satisfaction with the effectiveness of the Audit Committee, although the survey highlighted five main findings that concerned:

a the scheduling of meetings
b the desire for more informed knowledge of broader ministerial and Governmental issues
c maintaining informal contact with relevant stakeholders
d opportunity to explore audits at higher classification
e confirmation of Audit Committee 'deep-dive' reviews.

This year, 90 per cent (2013: 80 per cent) of respondents believed that the Audit Committee effectively supported the comprehensiveness of assurances to satisfy the Dstl Board's needs, and all members (2013: 70 per cent) said they had a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee.

Dstl's audit arrangements comply with the Public Sector Internal Audit Standards and details are set out on the Dstl Management System.

Chair of the Audit Committee Gerard Connell (pictured right) commented:

"This year, the Audit Committee has again worked closely and constructively with the Dstl Executive Committee to ensure that the assurance programme continues to deliver performance improvement and progress towards achieving Dstl's Strategic Objectives. We have maintained an effective and timely focus on high-risk topics, including requesting deep-dive audits as appropriate. Going forwards, the committee will ensure that it retains its focus on the key issue of value for money, and uses its assurance work to drive organisational improvement."

Remuneration and Nomination Committees

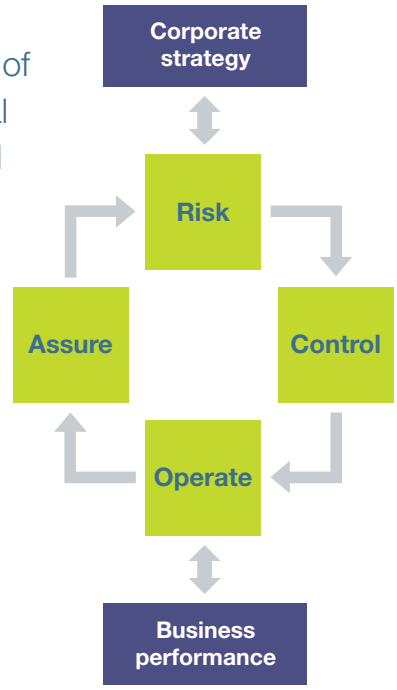
This year, there has been one meeting of the Dstl Remuneration Committee and no meetings of the Nomination Committee. The Remuneration Committee met, as it does every year, in May to discuss the performance of my Executive Directors. It was chaired by Sir Richard and comprised me, Elisabeth Astall, Gerard Connell and Carole Tolley.

At a meeting of the Nomination Committee in March 2013 that considered the restructuring of the Executive Committee (see page 78), it was decided that, when Barbara Busby stepped down from the Board and with the revised Executive responsibilities, there should be four Executive members of the Board including me. As a result, there were no new appointments to the Board in 2013/14 and no requirement for the committee to meet. (The appointment of a new Chair to succeed Sir Richard Mottram, when his second term of office concludes in 2014, is a matter for MOD rather than Dstl's Nomination Committee.)

Internal control

Our system of internal control is based around the simple model that we introduced during 2012/13, which depicts the linkages between the strategy of the organisation, the risks faced as a consequence of adopting that strategy, the ability of our system of control to mitigate the risks, the level of operational compliance to the controls (and any effect on business performance), and the assurance of progress in delivering the strategy through the effective monitoring of risk (see diagram above right).

Dstl's model of internal control



Risk

We promote a mature risk culture, where there is an awareness of a suitable balance between risks, controls and delivery. Our governance framework includes a robust risk management process that assists us in managing our risks (both threats and opportunities) to deliver our Corporate Strategy, to achieve our Strategic Objectives, to ensure the continuity of our business and to drive our short and long-term strategy making.

Risk management

To ensure we operate more effectively and efficiently, we have transformed our risk management approach this year, positioning risk management so that it is present in all aspects of strategic and operational activity, planning and decision-making. My Executive Directors have identified key risks to drive the formulation and delivery of organisational strategy, what they are going to do about those risks and how they decide when, and in what way, to intervene when the risk landscape changes significantly, for better or worse.

Last year, to improve our collective understanding of risk, its effective management and the governance around it, we developed a risk maturity model (RMM) based on good industry practice. The RMM has allowed us to measure, prioritise and focus risk-improvement activities by describing five levels of increasing risk maturity across five specific focus areas: Leadership, Strategy/Policy/Process, People, Stakeholders and Application. Building on last year's assessment of our current risk maturity, the Executive Committee, with Audit Committee support, is committed to achieving Level 4 status while consolidating Level 3 across the organisation over the next two years.

Risk reporting and responsibilities

Corporate risks are defined as those risks that: have the potential to directly impact the achievement of our Strategic Objectives or that can influence our underpinning Critical Enablers; have serious legal, financial viability or reputational implications for us; and/or, have serious impact across the business and require Executive Committee oversight for effective control.

Our Corporate Risks are delegated to the appropriate Executive Director by myself, as Chief Executive, on the basis of their role and/or capability/resource within their Directorate. I hold regular meetings with my Executive Directors that specifically address how key delegated risks are being proactively managed. In addition, a full risk and control assessment is undertaken quarterly by my Executive Directors and comprises an enhanced and focused assessment of key risks against Strategic Objectives.

To ensure we operate more effectively and efficiently, we have transformed our risk management approach this year.

Our Corporate Risk Register is reviewed quarterly at Executive meetings and reviewed annually by our Audit Committee and Board. We believe that the Register now provides an accurate representation of our key organisational risks, while demonstrating that risks are being actively managed through business as usual activity. It underpins the schedule of the Audit Committee to conduct focused reviews, and supports agenda setting for Executive, Audit and Board-level meetings. The corporate assurance capability also now has the means to provide robust stewardship of our risk management framework using the Register to inform the three-year Internal Audit plan.

We continue to manage non-corporate risks at the appropriate level in the organisation, enabling escalation where there may be a wider implication or if the risk cannot be managed properly at the level where management responsibility is assigned. In scenarios where response to the risk has an impact on a strategic decision or requires additional resources, then the risk is escalated for ownership at an appropriate senior level.

All these processes serve to ensure that a culture of effective control and risk management is embedded within our organisation and that the Executive Committee is in a position to react appropriately to new risks as they arise. We are now ensuring that the improvements made at corporate level are embedded across the whole organisation.

Principal corporate risks and opportunities

The following six tables summarise the principal risks to the successful delivery of our Corporate Strategy, as detailed in our Corporate Plan (2013-18); they remain current for the next iteration of our Corporate Plan (2014-19):

Risk	Relevance to Strategy	Mitigation	Progress in 2013/14
Helios Delivery Failure to deliver the Helios Project to time, cost and quality **Risk Owner** ► Executive Committee ► Infrastructure Director	**CRITICAL ENABLERS** Failure to complete and deliver our Helios Project prevents the effective, efficient and integrated operation from our reduced core sites. The Helios Project is expected to deliver its full annual cost reduction of circa £12m from FY2020 onwards, with some partial savings realised in earlier years as vacation of our Fort Halstead site progresses. The consolidation from three to two core sites is a major contributor to our future operational efficiency and running cost reduction.	The business case for site rationalisation remains very strong. Following a review of the technical complexity of the Helios Project, we have decided that the best route to successful delivery is to take direct control of the project, with our strategic facilities management partner, Serco, providing key specialist support services. Once the cost savings from site rationalisation are fully realised, cash recovers and gives us the opportunity to undertake further investment or share the benefits of a reduced cost base with customers and our Owner.	**INCREASED RISK** Total planned capital expenditure to the Helios Project over the next five years is £95 million. Estimated costs have increased as complex requirements have been clarified. Final costed designs for new facilities will not be obtained until late in 2014. Construction is expected to be complete in 2017. Early office-based staff relocations to our Portsmouth site successfully completed in February 2014, using flexible desk-sharing arrangements to ensure they are accommodated within existing working environments.

Risk	Relevance to Strategy	Mitigation	Progress in 2013/14
Procurement Capability Our procurement capability, capacity and awareness is unable to meet demand **Risk Owner** ▶ Executive Committee ▶ Finance Director	**CRITICAL ENABLERS** We undertake a high volume of procurement activity that will continue to rise as we place more work externally with our partners and suppliers. Progress made will lead to greater efficiency in the placing of contracts by reducing the time taken to place contracts, opening up supply markets and encouraging value for money.	Our use of expedient contracting routes, forward budgeting and multi-year contracts will allow us to actively manage challenging timelines while maintaining balance against broader value-for-money considerations. We are creating specific research framework agreements to replace our use of generic frameworks for technical services.	**INCREASED RISK** We have made progress in: ▶ improving forecasting of demand, allowing time to place taut contracts against well-defined statements of requirement ▶ creating a new suite of procurement agreements that provide access to the right suppliers, reduce bureaucracy and enable faster contracting ▶ improving commercial skills and awareness across Dstl.

Risk	Relevance to Strategy	Mitigation	Progress in 2013/14
CI2a – Optimising Dstl Failure to deliver the benefits of the Corporate Intervention 2a – Optimising Dstl Programme **Risk Owner** ▶ Executive Committee ▶ Programme and Delivery Director	**DELIVERY** Failure to deliver the benefits of our Optimising Dstl Programme prevents us from delivering the impact of the MOD S&T Programme and Dstl's overall portfolio of work.	In response to internal assurance audit recommendations in 2013, Optimising Dstl has been formally managed as a change programme, adopting Managing Successful Programmes (MSP®) principles. This allowed benefits to be clearly articulated and measured, and the programme's activities aligned to ensure their realisation.	**DECREASED RISK** At the end of 2013/14, the Executive Committee agreed that the Programme had delivered its outputs, and that appropriate mechanisms were in place to move Account Management, Programme Management, Triage and all delivery through Departments into business as usual. The mechanisms are now in place to embed these changes and provide further integration and improvement at the local level.

Risk	Relevance to Strategy	Mitigation	Progress in 2013/14
Capability Decisions Incorrect capability investment or divestment decisions are taken **Risk Owner** ▶ Executive Committee ▶ Chief Technical Officer	**CAPABILITY** Insufficient knowledge of the wider capability base we can access now, and in the future, leads to incorrect internal divestment and investment decisions.	We have produced a capability informed plan for reducing workforce Full-Time Equivalent (FTE) at the same time as allowing headroom to explore new and emerging technologies. Our draft Science Strategy sets out our view of the S&T challenges the defence and security community will be facing and our approach to addressing them.	**STATIC RISK** We have defined nine priority S&T capabilities that are central to the delivery of our customer programmes. We use them to help shape our draft Science Strategy, which sets out our view of the future need for those capabilities and where they will need to sit across Dstl, our partners and suppliers.

"A full risk and control assessment is undertaken quarterly by my Executive Directors and comprises an enhanced and focused assessment of key risks against Strategic Objectives."

Risk	Relevance to Strategy	Mitigation	Progress in 2013/14
Wealth Creation Dstl contributes to the UK Government growth agenda **Risk Owner** ▶ Executive Committee ▶ Deputy Chief Executive	**POSITIONING** Dstl has a positive impact on the UK Government's growth agenda and our reputation – pro-actively supporting policy and leading across other Public Sector Research Establishments.	By working with our partners, we will be able to access a broader S&T capability range, as well as increasing our support for the Government's Growth Agenda. We are investigating ways to further support MOD's commitment to the Small Business Research Initiative and key Government initiatives such as the Defence Growth Partnership. We will also look to strengthen our role in supporting the growth of the UK economy including through export-led growth.	**INCREASED OPPORTUNITY** We have established the Knowledge, Innovation and Futures Enterprise to consider emerging technologies, to help us reason about S&T futures and to anticipate the longer-term demands for S&T; these demands will typically be unknown and unanticipated by our customers. We continue to support and develop Ploughshare Innovations Ltd and the Centre for Defence Enterprise, to exploit technology for Small and Medium-sized Enterprises.

Risk	Relevance to Strategy	Mitigation	Progress in 2013/14
Workforce Engagement Failure of our leadership to engage our workforce	**CRITICAL ENABLERS** Our failure to engage our workforce will prevent us from delivering our Purpose, achieving our Vision and strategic ambition.	Our leadership team is recognised as key to engagement, delivering change and business success. Our engagement champions and support networks have increased the 'employee voice' in our strategic decisions. We have a comprehensive strategic workforce plan in development and an endorsed Dstl Communications Strategy that underpins delivery of our Vision aligned to the Corporate Plan.	**STATIC RISK** As we transform the shape and size of our workforce, in line with other parts of the public sector, we are engaging, motivating, growing and retaining the skilled people we need for the future, leading them well through what is, undoubtedly, a series of challenging changes. After a number of years of public sector austerity, we are finding it more difficult to provide sufficient reward to recruit and retain the professional and specialist skills that we need.
Risk Owner ▶ Executive Committee ▶ Chief Executive			

Control

Our system of control is designed to ensure the effective mitigation, to tolerable levels, of the risks we face. These controls are a combination of the rules, policies and processes within our Management System (MS), the responsibilities set out in standard role profiles and letters of delegation, and the central role of review in our project and programme governance.

Independent external review has confirmed the effectiveness of our MS controls through our ISO9001, TickIT and ISO14001 accreditations:

- **LRQA – ISO9001: 2008 and Tick IT Guide Issue 5.5.** During the past year, we successfully completed two surveillance audits for our current ISO9001 and (TickIT) Quality Management System (QMS) as certified by Lloyds Registered Quality Assurance (LRQA).
- **LRQA – ISO14001:2004.** We have continued to maintain an ISO14001:2004-certified environmental management system across our three main sites. Overall, the audits reported a high level of compliance, with only two minor non-compliances raised and one remaining open from the previous audit, with clear evidence that we are operating in line with the controls.

Significant tightening of control is highlighted on the next page for four key areas in the delivery of our work and our enabling business processes.

> *"Independent external review has confirmed the effectiveness of our Management System controls."*

Programme and project management

The transformation of our delivery has been a key focus this year. Account Management and Programme Management have been piloted and implemented, working in unison with operational delivery under my Programme and Delivery Director. For the first time, we are able to ensure that we have a combined overview of all customer requirements, and we have implemented responsive prioritisation ('triage') taking account of the capability and capacity of our external supplier base and (where work is best done in Government) of our internal expertise. The triage process is helping to ensure that we do priority work, not try to do every piece of work. It will be tested, alongside our other delivery activities, through our Audit Programme for 2014/15.

Performance management

Taking the opportunity presented by the Civil Service Reform changes to HR policies across Government, we have rewritten our performance management arrangements, and transformed our intervention strategies (improving performance and improving conduct) to give our Line Managers the skills and tools to take appropriate action where an employee needs extra support to meet acceptable standards. We have also updated our resourcing process to utilise the Civil Service e-Recruitment system for both internal and external recruitment, and adopted the Civil Service Competency Framework. The rhythm of our personnel activities constrains our ability to see short-term impact from these changes, and we will be assessing them through upwards feedback surveys and the Civil Service People Survey in 2014/15.

Business planning

Extra depth has been added to our business planning through the establishment of Directorate Implementation Plans, reinforcing the accountability each of my Executive Directors has for business change, with co-ordination provided by the new Transformation Executive Sub-Committee, chaired by the Deputy Chief Executive (see page 80).

Financial controls

Dstl has a mature framework of financial control built around effective delegation and rigorous financial processes. These controls are monitored and audited throughout the year, with all resulting recommendations being evaluated for potential impact and effectiveness prior to being adopted. During the year, all the MS finance documentation was reviewed and brought up to date, and an annual review cycle instigated. Continuing audit activity is built into our programme for 2014/15.

Operate

This year, I have introduced a four-phase approach to the effective implementation and governance of our corporate strategy.

Reshaped Executive Committee

Following discussion at a meeting of the Nomination Committee held in March 2013 (just outside the scope of this Governance Statement), I restructured my Executive Committee. This change came into effect in April 2013, as Table 1 (right).

Implementation plans

We developed eight Implementation Plans (IPs) that captured the range of activities and initiatives required to deliver the Corporate and Business Plans.

My four direct reports, with support from Executive colleagues, were responsible for the delivery of these plans, as Table 2 (below).

To reduce complexity this financial year, we have designed our implementation around our Strategic Objectives and Critical Enablers, assigning leadership to a single director, held to account by me with our major change initiatives coordinated through a Transformation Executive Sub-Committee.

Table 1. Reshaped Executive Committee

Chief Executive	**Deputy Chief Executive**	**Chief Technical Officer**
		Human Resources Director
		*Hd Strategy and Governance**
	Programme and Delivery Director	**Account Director**
		Programme Director
		Operations Director
		Hd Technology and Delivery, DE&S
	Finance Director	*Chief Procurement Officer**
		*Ploughshare Chairman**
	Infrastructure Director	*Chief Information Officer**
		*Senior Information Risk Owner**
		*SHEF Change Leader**

** Denotes non-Executive-level role*

Table 2. Implementation Plans

Implementation Plan	Lead Director	Supporting Director
Strategy	**Deputy Chief Executive**	N/A
People		**Human Resources Director**
Technical		**Chief Technical Officer**
Finance	**Finance Director**	N/A
Customer	**Programme and Delivery Director**	**Account Director**
Supplier		**Programme Director**
Delivery		**Operations Director**
Infrastructure	**Infrastructure Director**	N/A

"We developed eight Implementation Plans that captured the range of activities and initiatives required to deliver the Corporate and Business Plans."

Executive governance

This year, I also restructured my Executive Committee arrangements by implementing a monthly Executive Committee supported by three Executive sub-committees covering both transactional and transformational business. They are the Transformation, Stewardship and Assurance Executive Sub-Committees, and they are designed to increase the efficiency and effectiveness of the Executive Committee through:

- Delegated ***decision-making authority*** according to individual terms of reference.
- Provision of ***assurance*** to the Executive Committee in specific areas of responsibility.
- Provision of ***advice*** for complex issues relevant to expertise in the sub-committee.
- Instruction of ***action*** to be taken where required to support the above.

Below the sub-committees, there are a series of Executive Director-led groups, including the SHEF Committee and People Investment Board. Work is under way to formalise the governance and escalation architecture for these groups to report to their parent sub-committees.

Business performance reporting

Our current approach to business performance reporting has evolved over the past three years. Our ambition is to develop it from a product that records current performance to a process that enables the Dstl Board and Executive to anticipate future issues and make timely interventions to address them.

In the past 12 months, we have taken several strides forward. In particular, we have adopted new performance indicators focused around our Strategic Objectives and Corporate Risks, and have matured our approach to the measurement of our procurement performance. We also – at the request of the Board – now provide an Executive Summary of the most important messages from across the report. Finally, we aligned our reporting schedule with that of the Dstl Board to ensure that it is furnished with information that is up to date and timely.

I am now looking to integrate performance reporting across our governance framework: drawing together different reporting strands to support integrated thinking and decision-making over short-, medium- and long-term objectives.

Assure

Our Annual Report sets out the governance arrangements within Dstl and how they have continued to provide challenge and oversight to me, my Executive Committee and the Dstl Board. The Audit Committee has continued to play a critical role in supporting and advising me in discharging my responsibilities as Accounting Officer during a time when we have significantly reshaped our business.

Audit and assurance arrangements

As Accounting Officer, it is important that I acknowledge and test the shape of our assurance system. In addition to my own assurance needs, our system needs to:

- satisfy many internal and external customers
- take account of an extensive range of suppliers of assurance.

In a period of significant change for the business, the nature of our risks is evolving. It is, therefore, important that our assurance system evolves accordingly. Some of the changes that we have instigated this year include:

- Our creation of an Assurance Executive Sub-Committee (AESC), which I personally lead with my direct reports. In its first year, the AESC has helped us to strengthen the Executive ownership of assurance outcomes and enabled us to improve our focus on implementing changes where they are most needed.
- Our internal assurance process is now complementary to other sources of assurance; aligned to the Dstl Board's annual assessment of Corporate Risk (both threats and opportunities); targeted to identifying the root causes of organisational challenges; and, supporting the business on key strategic change projects.
- Our decision to refresh our assurance capability, via the appointment of Grant Thornton as our independent assurance provider to complement our in-house capability. This refresh is part of a journey to ensure our internal assurance capability adapts to our changing requirements.

In addition to the above, the Audit Committee has set us an appropriate direction of travel for further improvement of our assurance system, which is reflected in our Audit Plan for 2014/15. Key activity within this plan includes:

- balancing across the strategic, operational and financial risk areas
- a reduced number of, but deeper, audit reviews that assess risks and controls across Dstl and our partners to fully understand how risks are being managed
- leveraging resources through combining organisational knowledge of our in-house assurance team with subject matter specialists from our independent assurance provider
- root cause analysis of assurance outcomes, moving on from the current focus on compliance
- developing integrated assurance reporting using information from across the three lines of defence to provide deeper insights into areas of operation that are critical and new threats/opportunities in those areas that are changing.

Assurance reporting

Building on our good work last year, we have changed the focus of our assurance activity towards business processes rather than individual business units. We have continued to develop our understanding of key process vulnerabilities through our Audit Plan, as agreed by the Audit Committee.

This year, 725 days were expended to deliver against our Audit Plan and a total of 42 internal audit reports were delivered for consideration by my Executive Committee, the Audit Committee and our Head of Internal Audit.

These covered the range of Corporate Risks and identified 27 high priority findings. These findings have had appropriate management actions plans agreed that are now proactively monitored through improved tracking tools and active engagement of my AESC.

Impacts of these findings have already resulted in a number of tangible benefits in areas such as value for money and transformational change.

Following on from last year's management action plans, the second year of business unit governance self-assessment has shown improvement in key areas such as Resilience and Business Continuity, Financial Management, Commercial Management and People Management. Furthermore, analysis of the self-assessment results show a five per cent reduction in the total number of Limited and Minimal Assurance responses between 2012 and 2013, highlighting an overall improvement to compliance of processes and the governance of Dstl.

The assurance outcomes provide me with real confidence that we are doing the most critical things well, and that we know and prioritise where more needs to be focused over the coming year (625 days of audit activity is forecast to deliver our Audit Plan for 2014/15):

- Our management of Corporate Risk has been transformed. However, while remaining within our constraints of working within Government, there is more work to do on how innovatively and promptly we respond to some more significant threats and opportunities emerging from changing demands on our business. An important example of this is our procurement capability and capacity (see Risk section).
- We have been pro-active and responded promptly to wider Government learning, gaining assurance over key financial models where Dstl carries inherently high risk given the nature of our business.
- Our continued focus on key business-as-usual risks, such as information assurance and SHEF, have confirmed our key strengths but have also identified areas where our controls have to be refined and our processes reinforced to reflect changes in our business model. Such changes include the fact that we are working with an increasing number and range of commercial partners, impacting our adherence to safety requirements, and technical and quality assurance expectations.
- Progressing transformational projects effectively has required us to implement fundamental changes to our business, while ensuring we learn from experiences of similar projects across Government.

Incident investigations

Dstl actively promotes the reporting of near misses and incidents. Incidents are investigated proportionately, based on the potential the incident could have had and not just proportionate to the actual harm or damage caused. All incidents classified as 'medium' are investigated locally. Incidents classified as 'high' are subject to an independent, corporate investigation.

This year, 36 high-level incidents (Security: 3; Reputation: 1; SHEF: 32) have resulted in 31 corporate investigations, one of which was reported through the Public Interest Disclosure Act 1998 (PIDA) route (see opposite). The difference between the number of high-level incidents and corporate investigations is due to the merger of some incidents under one investigation.

All corporate investigations result in an agreed management action plan, which is actively managed through to completion.

Whistle-blowing

Dstl is committed to achieving the highest possible standards of service and ethics in public life and this is demonstrated by our whistle-blowing process, which is written in line with PIDA, the Fraud Act 2006, and the Bribery Act 2010. This year, we have had four incidents raised via our whistle-blowing process. Dstl takes such incidents extremely seriously and in each instance an assessment of the issues raised was undertaken, followed by a local management investigation or an independent, corporate investigation. The first three incidents were all concluded to the satisfaction of our Audit Committee; the final incident is ongoing.

"Dstl is committed to achieving the highest possible standards of service and ethics in public life."

Information Assurance (IA) incidents

We continue to maintain an effective IA monitoring and reporting regime through my Senior Information Risk Owner (SIRO). All incidents are investigated and, where appropriate, proportional management action is applied as a result of findings. Dstl reports all IA incidents to MOD's Joint Security Coordination Centre (JSyCC) through its Warning and Reporting Point channels. We continue to maintain a very effective operational working relationship with JSyCC capabilities.

Within this reporting period, we have managed one serious IA incident. We coordinated our investigation and the post incident management with a range of stakeholders to ensure effective and proportional risk management. The nature of this incident was a serious breach of policy and process by a member of Dstl staff, which led to disciplinary action being taken. We have subsequently reviewed our process implementation to strengthen any weaknesses.

Sanctions this reporting period include:

- Security Caution Notices Issued – 28
- Written Warnings Issued – 1
- Final Written Warnings Issued – 1
- Dismissals – 1

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 in their Annual Reports of incidents that have resulted in the unauthorised disclosure of personal data.

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

This year, we have focused our Data Protection assurance efforts in reviewing internal controls for management of personal data and, in particular, integrating appropriate technical control measures into our networks in preparation for the implementation of the new Government Classification Scheme (GSC).

Quality assurance of analytical models

We continue to work with MOD colleagues to carry through the implementation of the key findings from the pan-Government Macpherson review that reported in March 2013 on the quality assurance of Government analytical models. Dstl now has a Modelling Champion in place and we have supported the development of MOD's action plan and its implementation within Dstl. Work is in hand to identify formally the current set of Business Critical models within Dstl; this is scheduled to be published in summer 2014 as part of MOD's commitment to annually publish an overall list of its Business Critical Models.

Annual assessment of governance

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

Our independent Head of Internal Audit has concluded that: "Based on the audit work carried out and management's response to the issues raised, 'Substantial' assurance can be provided (in overall terms) on the governance, risk and internal control processes that were reviewed. Dstl's capabilities, systems and processes that require significant further development primarily relate to better positioning the business to meet its long-term Strategic Objectives and business imperatives, as opposed to reflecting any fundamental weaknesses in internal control.

"Dstl, as a business, is responding to significant external changes in expectations that impact both what it does and how it conducts its operations. This inevitably creates significant inherent risks (in many cases common with other peers in Government) that are well known and understood by the Board and management. The key themes that require focus are around:

- transforming commercial capability, capability and processes
- enhancing the business's capacity to more effectively deal with known risks relating to key business change and transformational projects
- making delivery project controls leaner and more appropriate for changing risks that result from the way Dstl's business is conducted.

"Dstl has also invested significantly in further enhancing its assurance system, particularly the focus, capability and processes of the third line of defence functions. There is an increasingly better alignment between key business and strategic risks and the shape of the internal audit plan, and increased emphasis on fewer, deeper and risk-based reviews. The assurance function's plans for making optimum use of the skills of the in-house and out-sourced teams to respond to changing demands also represents the right direction of travel".

> ***'Substantial' assurance can be provided (in overall terms) on the governance, risk and internal control processes that were reviewed."***

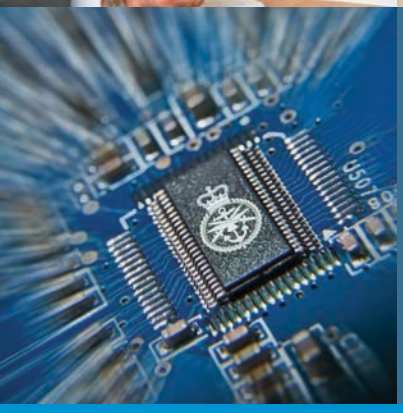
In summary

Our system of internal control, given clear focus through the independently chaired Audit Committee, is essential to enable me to discharge my responsibilities as CE and Accounting Officer for an organisation undergoing significant change in a challenging defence and economic context. Over the past two years, we have created a more integrated and responsive system, informed and driven by our key corporate risks. Our new audit partner is providing us with insightful audit findings and, coupled with the challenge and support of the Non-Executive members, is enabling us to tackle those aspects of the business that need to improve as we seek to deliver impact and value to our customers.

Jonathan Lyle
Chief Executive
28 May 2014

Section eight

Our financial performance



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

I certify that I have audited the financial statements of the Defence Science and Technology Laboratory (Dstl) for the year ended 31 March 2014 under the Government Trading Funds Act 1973. The financial statements comprise the Group and Trading Fund statements: Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of Dstl, Chief Executive and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Dstl's affairs as at 31 March 2014 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Strategic Report and in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

4 June 2014

Accounting information

Statement of Comprehensive Income for the year ended 31 March 2014

	Note	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Turnover	**2**	**660.9**	**628.7**	**660.4**	**628.1**
Cost of sales		(318.7)	(303.7)	(318.6)	(303.6)
Net income		**342.2**	**325.0**	**341.8**	**324.5**
Operating expenses		(315.9)	(299.1)	(321.8)	(294.8)
Operating profit	**3**	**26.3**	**25.9**	**20.0**	**29.7**
Share of associate's income		0.0	0.0	0.0	0.0
Finance income	8	0.4	0.5	0.4	0.5
Finance expense	9	(0.8)	(0.9)	(0.8)	(0.9)
Profit before taxation		**25.9**	**25.5**	**19.6**	**29.3**
Taxation expense	10	0.0	0.0	0.0	0.0
Profit for the year		**25.9**	**25.5**	**19.6**	**29.3**
Dividend	11	(11.0)	(10.0)	(11.0)	(10.0)
Retained profit for the year		**14.9**	**15.5**	**8.6**	**19.3**
Other comprehensive income					
Net gain/ (loss) on revaluation of property, plant and equipment		29.0	(2.5)	29.0	(2.5)
Net gain/ (loss) on revaluation of available-for-sale investments		(3.1)	0.2	0.0	0.0
Derecognition of available-for-sale investment on transfer to subsidiary		0.0	0.0	0.0	(2.9)
Net (loss) on revaluation of intangible assets		(0.1)	0.0	(0.1)	0.0
Total comprehensive income for the year		**40.7**	**13.2**	**37.5**	**13.9**

Statement of changes in taxpayers' equity for the year ended 31 March 2014

Group

	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
Balance at 1 April 2012		**209.8**	**50.4**	**42.2**	**302.4**	
Transfer to retained earnings				(3.5)	(3.5)	(3.5)
(Deficit) on revaluation of properties	12			(3.6)	(3.6)	(3.6)
Surplus on application of modified historic cost accounting to property, plant and equipment	12			4.6	4.6	4.6
Surplus on revaluation of non-current financial asset investments	13			0.2	0.2	0.2
Net losses recognised in the Statement of Comprehensive Income				(2.3)	(2.3)	(2.3)
Net profit for the period		25.5			25.5	25.5
Dividend	11	(10.0)			(10.0)	(10.0)
Transfer from revaluation surplus		3.5			3.5	
Modified historic cost accounting	12, 14	(0.4)			(0.4)	
Balance at 31 March 2013		**228.4**	**50.4**	**39.9**	**318.7**	**13.2**
Transfer to retained earnings				(1.1)	(1.1)	(1.1)
Surplus on revaluation of properties	12			23.4	23.4	23.4
Surplus on application of modified historic cost accounting to property, plant and equipment	12			6.7	6.7	6.7
(Deficit) on revaluation of non-current financial asset investments	13			(3.1)	(3.1)	(3.1)
(Deficit) on application of modified historic cost accounting to intangible assets	14			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				25.8	25.8	25.8
Net profit for the period		25.9			25.9	25.9
Dividend	11	(11.0)			(11.0)	(11.0)
Transfer from revaluation surplus		1.1			1.1	
Modified historic cost accounting	12, 14	0.4			0.4	
Balance at 31 March 2014		**244.8**	**50.4**	**65.7**	**360.9**	**40.7**

Statement of changes in taxpayers' equity for the year ended 31 March 2014

Trading Fund

	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
Balance at 1 April 2012		**212.2**	**50.4**	**40.1**	**302.7**	
Transfer to retained earnings				(3.5)	(3.5)	(3.5)
Sale of non-current financial asset investments to subsidiary	13			(2.9)	(2.9)	(2.9)
(Deficit) on revaluation of properties	12			(3.6)	(3.6)	(3.6)
Surplus on application of modified historic cost accounting to property, plant and equipment	12			4.6	4.6	4.6
Net losses recognised in the Statement of Comprehensive Income				(5.4)	(5.4)	(5.4)
Net profit for the period		29.3			29.3	29.3
Dividend	11	(10.0)			(10.0)	(10.0)
Transfer from revaluation surplus		3.5			3.5	
Modified historic cost accounting	12, 14	(0.4)			(0.4)	
Balance at 31 March 2013		**234.6**	**50.4**	**34.7**	**319.7**	**13.9**
Transfer to retained earnings				(1.1)	(1.1)	(1.1)
Surplus on revaluation of properties	12			23.4	23.4	23.4
Surplus on application of modified historic cost accounting to property, plant and equipment	12			6.7	6.7	6.7
(Deficit) on application of modified historic cost accounting to intangible assets	14			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				28.9	28.9	28.9
Net profit for the period		19.6			19.6	19.6
Dividend	11	(11.0)			(11.0)	(11.0)
Transfer from revaluation surplus		1.1			1.1	
Modified historic cost accounting	12, 14	0.4			0.4	
Balance at 31 March 2014		**244.7**	**50.4**	**63.6**	**358.7**	**37.5**

The notes on pages 92 to 114 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2014

	Note	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Assets					
Non-current assets					
Property, plant and equipment	12	260.0	211.3	260.0	211.3
Financial assets	13	2.5	5.6	0.0	3.0
Investment in associate	13	0.0	0.0	0.0	0.0
Intangible assets	14	7.7	3.6	7.7	3.6
Receivables	17	0.6	0.7	0.7	5.5
Total non-current assets		270.8	221.2	268.4	223.4
Current assets					
Work in progress	16	0.7	2.1	0.7	2.1
Receivables	17	238.7	220.7	239.2	220.5
Short-term investments	17	10.0	0.0	10.0	0.0
Cash and cash equivalents	18	78.5	78.5	77.8	77.4
Total current assets		327.9	301.3	327.7	300.0
Total assets		598.7	522.5	596.1	523.4
Current liabilities					
Trade and other payables	19	219.7	182.0	219.3	181.9
Short-term provisions	20	0.5	0.5	0.5	0.5
Total current liabilities		220.2	182.5	219.8	182.4
Non-current assets plus net current assets		378.5	340.0	376.3	341.0
Non-current liabilities					
Other payables	19	16.1	19.4	16.1	19.4
Long-term provisions	20	1.5	1.9	1.5	1.9
Total non-current liabilities		17.6	21.3	17.6	21.3
Assets less liabilities		**360.9**	**318.7**	**358.7**	**319.7**
Taxpayers' equity					
Public dividend capital	25	50.4	50.4	50.4	50.4
Revaluation surplus		65.7	39.9	63.6	34.7
Retained earnings		244.8	228.4	244.7	234.6
Total taxpayers' equity		**360.9**	**318.7**	**358.7**	**319.7**

The financial statements were signed on 28 May 2014. The Accounting Officer authorised these financial statements for issue on 4 June 2014*

Jonathan Lyle, Chief Executive

*This represents the date the accounts were certified by the Comptroller and Auditor General.

Statement of cash flows for the year ended 31 March 2014

	Note	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Cash flows from operating activities					
Net profit before taxation		25.9	25.5	19.6	29.3
Adjustments for:					
Depreciation	3, 12	13.7	11.5	13.7	11.5
(Profit) on sale of property, plant and equipment	3	0.0	(3.7)	0.0	(3.7)
(Profit)/ loss on sale of non-current financial asset investments	3, 13	0.0	0.0	2.9	(2.9)
Amortisation	3, 14	1.0	0.9	1.0	0.9
Write-down of financial assets held for sale	3	0.1	0.0	0.1	0.0
Operating profit before working capital changes		40.7	34.2	37.3	35.1
Decrease in work in progress		1.3	0.3	1.3	0.3
(Increase) in receivables		(29.9)	(28.6)	(25.8)	(29.4)
Increase in payables		39.4	11.9	39.1	11.9
Use of provisions		(1.7)	(1.0)	(1.7)	(1.0)
Finance income		(0.4)	(0.5)	(0.4)	(0.5)
Finance expense		0.8	0.9	0.8	0.9
Net cash inflow from operating activities		50.2	17.2	50.6	17.3
Taxation paid		0.0	0.0	0.0	0.0
Cash flows from investing activities					
Purchases of property, plant and equipment		(32.4)	(11.3)	(32.4)	(11.3)
Proceeds from sale of property, plant and equipment		0.0	6.0	0.0	6.0
Purchases of intangible assets		(4.2)	(0.8)	(4.2)	(0.8)
Finance income		0.4	0.5	0.4	0.5
Net cash used in investing activities		(36.2)	(5.6)	(36.2)	(5.6)
Cash flows from financing activities					
Repayment of loans from MOD		(3.2)	(3.2)	(3.2)	(3.2)
Interest paid on loans		(0.8)	(1.0)	(0.8)	(1.0)
Dividend paid		(10.0)	(8.5)	(10.0)	(8.5)
Net cash (used) from financing activities		(14.0)	(12.7)	(14.0)	(12.7)
Net increase/ (decrease) in cash and cash equivalents		0.0	(1.1)	0.4	(1.0)
Brought forward cash and cash equivalents		78.5	79.6	77.4	78.4
Carried forward cash and cash equivalents	**18**	**78.5**	**78.5**	**77.8**	**77.4**

Notes to the Accounts

1. Accounting policies

(a) Statement of accounting policies

The financial statements have been prepared in accordance with the 2013/14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the Group for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Group are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The accounts of all Group undertakings are drawn up to 31 March 2014.

(b) Accounting convention

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

(c) Estimation techniques

There have been no revisions of estimation techniques. Accruals are estimated with reference to available documentation, advice from management, information provided by third parties, and from experience gained from similar previous events.

Staff holiday is not recorded on central management information systems and therefore the holiday pay accrual calculation is an area where judgement is exercised. The estimate is based on the application of daily pay, using the mid-point for each pay scale, to the total annual holiday entitlement by pay scale. This provides the estimated total annual holiday pay. An appropriate proportion, derived from sample testing, is applied to the total annual holiday pay to calculate the estimated holiday pay accrual.

Freehold land and buildings are subject to a rolling programme of quinquennial revaluation by an independent, professional valuer.

Depreciation of property, plant and equipment, and amortisation of intangible assets, is based on the useful economic life of the asset. Useful economic lives are reviewed at least annually. The basis for estimating useful economic life includes experience of previous similar assets, the condition and performance of the asset, and knowledge of technological advances and obsolescence. In respect of the depreciation of property, an independent professional evaluation of a property's useful economic life is provided during the quinquennial rolling valuation programme.

Valuations of non-current financial assets are performed by Ploughshare Innovations Ltd (Ploughshare), following the British Venture Capital Association (BVCA) Guidelines. Fair value is derived by applying the price of shareholders' most recent investment, and discounting based on market intelligence.

Where appropriate, a business-in-use valuation based on discounted projected cash flows has been adopted for specialised facilities. Further information on the business-in-use valuation adopted for the Biological High Containment Facility is disclosed in Note 12.

Measurement of provisions are based on third-party estimates.

(d) Basis of consolidation

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

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

(e) Property, plant and equipment

All assets are independently inspected on a three-year rolling programme. The valuation bases for different classes of asset are as follows:

Land and buildings:

Where valuations are carried out, they are performed using Royal Institute of Chartered Surveyors (RICS) methods.

Porton Down

- Depreciated Replacement Cost (DRC)

Portsdown West

- DRC

For land and buildings that have been declared surplus

- Market Value

Specialised facilities

- Lower of DRC and recoverable amount. The recoverable amount is calculated as the greater of:
  (i) the estimated net present value of the cash flows derived from the continued use of the asset in its current state;
  (ii) the estimated net sale proceeds of the asset.

Plant, machinery, computers and office equipment

- Modified historic cost accounting.

A facility is a collection of non-current assets operated together to provide discrete services.

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

Land - Retail Price Index

Buildings - Buildings Cost Information Service (BCIS), All-In Tender Price Index.

Plant, machinery, computers and office equipment assets are revalued using relevant indices published by the Office for National Statistics (ONS).

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

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

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

Details of property, plant and equipment values included within these financial statements are disclosed in Note12.

(f) Intangible assets

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

(g) Impairment

The carrying value of the Group's non-current assets are reviewed

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

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

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

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

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

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

(m) Pensions
Past and present employees are covered by the provisions of the Principle Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer scheme providing benefits based on final salary. The Trading Fund is unable to identify its share of the underlying assets and liabilities and therefore it accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. Details of rates and amounts of contributions during the year are given in Note 7.

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

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

(p) Segmental reporting
The principal activities of the Group are managed through Departments, as disclosed in Note 30 on segmental reporting. The accounting policies of the operating segments are the same as those of the Group. Corporate overheads are allocated to operating segments of the Trading Fund on the basis of headcount with the exception of estates management charges, which are allocated on area of occupation. Inter-segment sales and transfers within the Trading Fund are at cost. Trading with Ploughshare is on an arm's length basis.

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

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

IFRS9 financial instruments
A new standard intended to replace IAS39. The effective date is for accounting periods beginning on or after 1 January 2015.
This new standard is not expected to have a future material impact on the financial statements of the Group.

IFRS13 fair value
A new standard setting out principles for the calculation and disclosure of fair value. The effective date of adoption by HM Treasury is 1 April 2014. The proposals have been reviewed and are not expected to have a future material impact on the financial statements of the Group.

Group accounting standards:
IAS27 separate financial statements (amended)
IAS28 investments in associates and joint ventures (amended)
IFRS10 consolidated financial statements (new standard)
IFRS11 joint arrangements (new standard)
IFRS12 disclosure of interests in other entities (new standard)
These amendments and new standards introduce a single concept of control to clarify the basis for producing consolidated accounts, and improve disclosures. Their objective is to provide

users with a better understanding of the nature, extent and financial effects of the reporting entity's relationship with other entities and joint arrangements, including off balance sheet vehicles. The effective date of adoption by HM Treasury is 1 April 2014. The amendments and new standards have been reviewed and are not expected to have a future material impact on the financial statements of the Group.

2. Turnover

Turnover by major class of customer is analysed as follows:

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
MOD:	616.7	584.5	616.7	584.5
S&T Programme	430.0	421.3	430.0	421.3
Other	186.7	163.2	186.7	163.2
Non-MOD:	44.2	44.2	43.7	43.6
Wider Government	27.7	26.5	27.7	26.5
Non-exchequer income	16.1	17.5	16.0	17.1
Non-exchequer equity sales, royalty income and licensing income	0.4	0.2	0.0	0.0
Total	**660.9**	**628.7**	**660.4**	**628.1**

Turnover is categorised according to the main contracted customer. All turnover relates to the same class of business, which is the supply of scientific and technical services. This is conducted principally in the UK in sterling and no other geographical market has contributed significantly to turnover. See Note 30 for operating segment disclosures.

3. Operating profit

This is stated after charging/ (crediting):

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Depreciation charge for year:	13.7	11.5	13.7	11.5
Depreciation of owned property, plant and equipment	11.9	11.8	11.9	11.8
Exceptional costs of impairment of property, plant and equipment	1.0	0.4	1.0	0.4
Adjustment valuation of property, plant and equipment	0.8	(0.7)	0.8	(0.7)
Amortisation charge for the year:	1.0	0.9	1.0	0.9
Amortisation of software licences	1.0	0.8	1.0	0.8
Adjustment valuation of software licences	0.0	0.1	0.0	0.1
Loss on disposal of owned property, plant and equipment	0.0	0.1	0.0	0.1
(Profit) on disposal of owned property, plant and equipment	0.0	(3.8)	0.0	(3.8)
Impairment of non-current financial asset investment	0.1	0.0	0.1	0.0
(Profit)/ loss on transfer of non-current financial asset investment (see Note 4 for further details)	0.0	0.0	2.9	(2.9)
Operating lease rentals:				
- property	4.1	3.8	4.1	3.8
Travel, subsistence and hospitality (excluding exceptional costs of i lab and Helios – see Note 4 for further details)	2.0	2.2	2.0	2.2
Bad debt provision (see Note 4 for further details)	0.0	0.0	4.6	0.0
Foreign exchange losses	0.1	0.0	0.1	0.0
Auditor's remuneration and expenses[1]	0.1	0.1	0.1	0.1
Costs of i lab (see Note 4 for further details)	1.5	1.4	1.5	1.4
Costs of Helios (see Note 4 for further details)	2.8	4.0	2.8	4.0
Other operating income	(5.3)	(5.3)	(5.8)	(5.8)

[1] During the years ending 31 March 2013 and 31 March 2014, the Group did not contract any non-audit services from its external auditor, the National Audit Office (NAO).

4. Significant operating items

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
i lab[1]	1.5	1.4	1.5	1.4
Helios[2]	2.8	4.0	2.8	4.0
Impairment of Portsdown Main land[3]	0.7	0.1	0.7	0.1
Abnormal waste[4]	0.6	0.0	0.6	0.0
Bad debt provision[5]	0.0	0.0	4.6	0.0
(Profit)/ loss on inter-Group transfer of equity[6]	0.0	0.0	2.9	(2.9)
Total	**5.6**	**5.5**	**13.1**	**2.6**

[1] Costs of withdrawal from the Trading Fund's sites at Farnborough and Malvern under the i lab rationalisation programme.
[2] Costs of withdrawal from the Trading Fund's site at Fort Halstead under the Helios Project.
[3] During the year, land at Portsdown Main previously valued at £1.1 million, was impaired to £0.4 million.
[4] During the year, abnormal waste costs were incurred during the construction of the Magazine Facility, as a result of the prolonged inclement weather.
[5] This relates to the outstanding debt held with Ploughshare. Prospects of settlement in the foreseeable future are considered doubtful.
[6] Equity that had transferred during the previous year at a value of £3.0 million, was revised to a transfer value of £nil. See Note 13.

5. Key corporate financial target

The Trading Fund defines its Return on Capital Employed (ROCE) as follows:
a. Return – modified historical cost profit on ordinary activities before interest and dividends.
b. Capital employed – average capital and reserves, being public dividend capital, long-term loans, and reserves.

The ROCE target set by MOD is to achieve a five-year average of 3.5 per cent during the period from 1 April 2009 to 31 March 2014.

The annual ROCE calculation is:

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Profit on ordinary activities before interest and taxation	26.3	25.9	20.0	29.7
Public dividend capital	50.4	50.4	50.4	50.4
Long-term loan	16.1	19.4	16.1	19.4
Reserves	310.5	268.3	308.3	269.3
Capital employed at year end	377.0	338.1	374.8	339.1
Average capital employed during the year	357.6	331.5	357.0	332.2
ROCE	**7.4%**	**7.8%**	**5.6%**	**8.9%**

The average ROCE for the period 1 April 2009 to 31 March 2014 is:

	1 April 2009		31 March 2014	
	Group £ million	Trading Fund £ million	Group £ million	Trading Fund £ million
Average profit on ordinary activities before interest and taxation for the five years to 31 March 2014			30.0	29.6
Public dividend capital	50.4	50.4	50.4	50.4
Long-term loan	21.5	21.5	16.1	16.1
Reserves	171.1	171.8	310.5	308.3
Total capital employed	243.0	243.7	377.0	374.8
Average capital employed during the period			310.0	309.3
ROCE			**9.7%**	**9.6%**

6. Trading Fund Board members' emoluments

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

	2014 £'000	2013 £'000
Salaries, NCPAs and fees	**1,006.1**	**938.3**

7. Employee information

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

	2014 Group Number	2013 Group Number	2014 Trading Fund Number	2013 Trading Fund Number
Professional and technical staff	2,938	2,901	2,925	2,889
Administrative and industrial staff	709	688	706	685
Secondees	71	89	71	89
Agency and contract staff	189	199	189	198
Total	**3,907**	**3,877**	**3,891**	**3,861**

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

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Wages and salaries	140.8	137.4	140.1	136.8
Social security costs	12.2	11.9	12.1	11.8
Other pension costs	25.9	25.0	25.8	24.9
Agency and contract staff	24.0	24.1	24.0	24.1
Total	**202.9**	**198.4**	**202.0**	**197.6**

During the year, £156.6 thousand staff costs were capitalised (2012/13: £32.7 thousand).

The employees of the Trading Fund are eligible to be members of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme but the Trading Fund is unable to identify its share of the underlying assets and liabilities.

A full actuarial valuation was carried out at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice.gov.uk/pensions). For 2013/14, employer contributions of £25.6 million were payable to the PCSPS (2012/13: £24.7 million) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013/14 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. Employer contributions of £200,953 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £12,184, 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, or ill-health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2014 were £16,390. There were no prepaid contributions at that date.

Three people retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £12,346 for these individuals.

Exit packages

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

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £10,000	0 (2)	2 (0)	2 (2)
£10,000 - £25,000	0 (0)	7 (2)	7 (2)
£25,001 - £50,000	1 (1)	11 (5)	12 (6)
£50,001 - £100,000	1 (1)	9 (0)	10 (1)
£100,001 - £150,000	0 (0)	0 (0)	0 (0)
£150,001 - £200,000	0 (0)	0 (0)	0 (0)
More than £200,000	0 (0)	0 (0)	0 (0)
Total number of exit packages	2 (4)	29 (7)	31 (11)
Total cost of exit packages (£)	129,844 (104,997)	1,139,197 (201,537)	1,269,041 (306,534)

8. Finance income

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Interest received and receivable from bank accounts and short-term deposits	0.4	0.5	0.4	0.5
Total	**0.4**	**0.5**	**0.4**	**0.5**

9. Finance expense

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Interest paid and payable on loans	0.9	1.0	0.9	1.0
Financial instrument remeasurements	(0.1)	(0.1)	(0.1)	(0.1)
Total	**0.8**	**0.9**	**0.8**	**0.9**

No payments were made under the Late Payments of Commercial Debts (Interest) Act 1998 (2012/13: £nil).

10. Taxation

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

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

	2014 Group £ million	2013 Group £ million
Current tax:		
UK corporation tax	0.0	0.0

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

	2014 £ million	2013 £ million
Group profit on ordinary activities before tax	25.9	25.5
less Trading Fund profit (exempt) and consolidation adjustments on ordinary activities before tax	(26.9)	(26.4)
Loss on ordinary activities before tax	**(1.0)**	**(0.9)**
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24 per cent (2012/13: 26 per cent)	(0.2)	(0.2)
Effects of:		
Unutilised trading losses carried forward	0.2	0.2
Current tax charge	**0.0**	**0.0**

Ploughshare has unutilised gross trading losses carried forward of £5.7 million (2012/13: £4.7 million). No provisions for deferred tax have been made.

11. Dividends

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Ordinary dividend payable	11.0	10.0	11.0	10.0
Total	**11.0**	**10.0**	**11.0**	**10.0**

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

12. Property, plant and equipment

Group and Trading Fund

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

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

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic cost:							
Balance at 1 April 2013	25.0	159.0	0.1	88.3	12.5	16.1	301.0
Additions	0.0	0.0	0.0	0.6	0.1	31.4	32.1
Disposals	0.0	0.0	0.0	(0.9)	(0.1)	0.0	(1.0)
Transfers	0.0	0.5	0.0	5.6	3.1	(9.2)	0.0
Downward revaluation	0.0	0.0	0.0	0.0	(0.9)	0.0	(0.9)
Revaluations	16.2	7.5	0.0	(1.1)	0.1	0.0	22.7
Impairment	(0.7)	0.0	0.0	0.0	0.0	0.0	(0.7)
Balance at 31 March 2014	**40.5**	**167.0**	**0.1**	**92.5**	**14.8**	**38.3**	**353.2**
Depreciation:							
Balance at 1 April 2013	0.0	(28.6)	(0.1)	(53.6)	(7.4)	0.0	(89.7)
Charge for year:							
historical	0.0	(5.5)	0.0	(4.1)	(2.1)	0.0	(11.7)
supplementary	0.0	(1.6)	0.0	0.0	0.0	0.0	(1.6)
downward revaluation	0.0	0.0	0.0	0.2	0.4	0.0	0.6
impairment	0.0	(0.3)	0.0	0.0	0.0	0.0	(0.3)
Disposals	0.0	0.0	0.0	0.9	0.1	0.0	1.0
Revaluations	0.0	8.5	0.0	0.0	0.0	0.0	8.5
Balance at 31 March 2014	**0.0**	**(27.5)**	**(0.1)**	**(56.6)**	**(9.0)**	**0.0**	**(93.2)**
Net modified historic cost:							
Balance at 31 March 2014	**40.5**	**139.5**	**0.0**	**35.9**	**5.8**	**38.3**	**260.0**
Balance at 1 April 2013	25.0	130.4	0.0	34.7	5.1	16.1	211.3

Land and buildings are subject to a quinquennial revaluation by an independent, professional valuer in accordance with IAS16: Property, Plant and Equipment.

Portsdown Main is valued annually. The latest valuation was carried out as at 31 January 2014 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 Ltd, Chartered Surveyors. All land and building assets have been valued over five years beginning 1 April 2009.

The published figures for land and buildings include:
- a professional external valuation of Portsdown Main as at 31 January 2014
- a professional external valuation of the land and building assets at Portsdown West as at 31 March 2013
- a professional external valuation of the land at Porton Down as at 31 March 2014
- a professional external valuation of a quarter of the building assets at Porton Down as at 31 March 2010
- a professional external valuation of a quarter of the building assets at Porton Down as at 31 March 2011
- a professional external valuation of a quarter of the building assets at Porton Down as at 31 March 2012
- a professional external valuation of a quarter of the building assets at Porton Down as at 31 March 2014.

The valuation of Portsdown Main resulted in an impairment of £0.7 million. The basis of the valuation for Porton Down and Portsdown West is Market Value using the DRC method. 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.

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

Biological High Containment Facility

This facility enables the Trading Fund to maintain the UK strategic sovereign capability for assessing hazards from current and emerging chemical and biological threats. The facility is a separately identifiable cash-generating unit that consists of a group of assets that is reported within the

figures for freehold buildings and plant and machinery. An annual business-in-use valuation is performed on the facility, which includes cash flows from staff and facility recoveries that are largely independent from other assets. This includes on-going capacity support income from MOD used to under-write any shortfall of customer facility recoveries. Capacity support income is received where there is an under-recovery of costs directly attributable to running the facility. The valuation for the facility is £10.1 million (2012/13: £10.4 million). The facility's remaining useful economic life is estimated to be 21 years (2012/13: 22 years). The discount rate applied remains at 3.5 per cent, representing the required ROCE set by MOD, disclosed in Note 5.

The comparatives for the year ended 31 March 2013 are:

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic cost:							
Balance at 1 April 2012	27.1	163.7	0.1	84.8	8.1	8.7	292.5
Additions	0.0	0.1	0.0	0.1	0.0	13.8	14.0
Disposals	(2.2)	(11.3)	0.0	(0.7)	(0.5)	0.0	(14.7)
Transfers	0.0	1.6	0.0	1.1	3.7	(6.4)	0.0
Revaluations	0.2	4.9	0.0	3.0	1.2	0.0	9.3
Impairment	(0.1)	0.0	0.0	0.0	0.0	0.0	(0.1)
Balance at 31 March 2013	**25.0**	**159.0**	**0.1**	**88.3**	**12.5**	**16.1**	**301.0**
Depreciation:							
Balance at 1 April 2012	0.0	(28.2)	(0.1)	(48.5)	(5.2)	0.0	(82.0)
Charge for year:							
historical	0.0	(6.2)	0.0	(3.7)	(1.9)	0.0	(11.8)
supplementary	0.0	(0.2)	0.0	(1.8)	(0.8)	0.0	(2.8)
impairment	0.0	0.0	0.0	(0.3)	0.0	0.0	(0.3)
Disposals	0.0	0.1	0.0	0.7	0.5	0.0	1.3
Revaluations	0.0	5.9	0.0	0.0	0.0	0.0	5.9
Balance at 31 March 2013	**0.0**	**(28.6)**	**(0.1)**	**(53.6)**	**(7.4)**	**0.0**	**(89.7)**
Net modified historic cost:							
Balance at 31 March 2013	**25.0**	**130.4**	**0.0**	**34.7**	**5.1**	**16.1**	**211.3**
Balance at 1 April 2012	27.1	135.5	0.0	36.3	2.9	8.7	210.5

13. Non-current financial assets

	Trading Fund subsidiary undertaking £ million	Trading Fund investment and associate £ million	Trading Fund Total £ million	Group investments and associate £ million	Group Total £ million
Cost or valuation:					
Balance at 1 April 2013	3.0	0.0	3.0	5.6	5.6
Revaluations	(3.0)	0.0	(3.0)	(3.1)	(3.1)
Balance at 31 March 2014	**0.0**	**0.0**	**0.0**	**2.5**	**2.5**

A valuation of the available-for-sale investments has been performed by Ploughshare. These valuations have been adopted by the Board, and have been incorporated into the Group accounts on consolidation of the subsidiary undertaking. Ploughshare derives fair value by following the British Venture Capital Association (BVCA) Guidelines. Its approach is by application of the price of most recent investment to the number of shares held, and discounting by an appropriate market-based factor. Ploughshare, which manages the Group's equity investments, is able to apply market intelligence to the valuations.

The valuations of holdings in available-for-sale investments owned by Ploughshare, and incorporated within these Group financial statements, include Enigma Diagnostics Ltd (Enigma), P2i Ltd, Subsea Asset Location Technologies Ltd (SALT), Claresys Ltd, and Esroe Ltd.

The valuation of Enigma was reduced from £3.0 million to nil because optimism for an exit strategy through a sale of the entity has diminished. Enigma has difficulties obtaining the investment required to get its product to market.

All available-for-sale investments owned by the Group are held by Ploughshare.

Further details of the subsidiary and associate owned directly by the Trading Fund as at 31 March 2014 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Turnover £ million	Profit/ (loss) for year £ million	Total assets £ million	Total liabilities £ million	Aggregate capital and reserves £ million	Nature of business
Subsidiary										
Ploughshare Innovations Ltd	Great Britain	100.0%	Ordinary of £1	31 March 2014	0.7	(1.0)	3.6	5.7	(2.1)	Technology transfer management

Draft statutory accounts for the year ended 31 March 2014 have been used due to a different timetable for preparing audited accounts.

Associate										
Tetricus Ltd	Great Britain	33.3%	Ordinary C of £1	31 March 2014	0.4	0.1	0.2	0.1	0.1	Business support of biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2014 have been used due to a different timetable for preparing audited accounts.

The comparatives for the year ended 31 March 2013 are:

	Trading Fund subsidiary undertaking £ million	Trading Fund investment and associate £ million	Trading Fund Total £ million	Group investment and associate £ million	Group Total £ million
Cost or valuation:					
Balance at 1 April 2012	0.0	3.0	3.0	5.4	5.4
Additions	3.0	0.0	3.0	0.0	0.0
Disposals	0.0	(3.0)	(3.0)	0.0	0.0
Revaluations	0.0	0.0	0.0	0.2	0.2
Balance at 31 March 2013	**3.0**	**0.0**	**3.0**	**5.6**	**5.6**

Further details of the subsidiary and associate owned directly by the Trading Fund as at 31 March 2013 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Turnover £ million	Profit/ (loss) for year £ million	Total assets £ million	Total liabilities £ million	Aggregate capital and reserves £ million	Nature of business
Subsidiary										
Ploughshare Innovations Ltd	Great Britain	100.0%	Ordinary of £1	31 March 2013	0.7	(0.9)	6.9	4.9	2.0	Technology transfer management

Draft statutory accounts for the year ended 31 March 2013 were used due to a different timetable for preparing audited accounts.

Associate										
Tetricus Ltd	Great Britain	33.3%	Ordinary C of £1	31 March 2013	0.4	0.1	0.5	0.2	0.3	Business support to biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2013 were used due to a different timetable for preparing audited accounts.

14. Intangible assets

Group and Trading Fund

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

	Purchased software licences £ million	Software assets under construction £ million	Total £ million
Gross modified historic cost:			
Balance at 1 April 2013	5.8	0.9	6.7
Additions	0.2	4.9	5.1
Transfers	0.5	(0.5)	0.0
Revaluations	0.1	0.0	0.1
Balance at 31 March 2014	**6.6**	**5.3**	**11.9**
Amortisation:			
Balance at 1 April 2013	(3.1)	0.0	(3.1)
Charge for year:			
historical	(1.0)	0.0	(1.0)
supplementary	(0.1)	0.0	(0.1)
Balance at 31 March 2014	**(4.2)**	**0.0**	**(4.2)**
Net modified historic cost:			
Balance at 31 March 2014	**2.4**	**5.3**	**7.7**
Balance at 1 April 2013	2.7	0.9	3.6

The comparatives for the year ended 31 March 2013 are:

	Purchased software licences £ million	Software assets under construction £ million	Total £ million
Gross modified historic cost:			
Balance at 1 April 2012	5.3	0.7	6.0
Additions	0.7	0.2	0.9
Revaluations	(0.2)	0.0	(0.2)
Balance at 31 March 2013	**5.8**	**0.9**	**6.7**
Amortisation:			
Balance at 1 April 2012	(2.1)	0.0	(2.1)
Charge for year:			
historical	(0.8)	0.0	(0.8)
supplementary	(0.2)	0.0	(0.2)
Balance at 31 March 2013	**(3.1)**	**0.0**	**(3.1)**
Net modified historic cost:			
Balance at 31 March 2013	**2.7**	**0.9**	**3.6**
Balance at 1 April 2012	3.2	0.7	3.9

15. Impairments

Impairments occurring during the year were either charged to Profit or Loss, or Other Comprehensive Income as follows:

Group

	Note	2014 Profit or Loss £ million	2013 Profit or Loss £ million	2014 Other Comprehensive Income £ million	2013 Other Comprehensive Income £ million
Investment in Enigma Diagnostics Ltd	13	0.1	0.0	3.0	0.0
Investment in Subsea Asset Location Technologies Ltd	13	0.0	0.0	0.3	0.3
Portsdown Main site	12	0.7	0.1	0.0	0.0
Biological High Containment Facility	12	0.0	0.2	0.0	0.0
Land (including MHCA*)	12	0.0	0.0	0.0	0.3
Buildings (including MHCA)	12	0.4	0.1	0.0	3.7
Plant and machinery (MHCA)	12	0.0	0.3	0.8	0.0
Computer equipment (MHCA)	12	0.8	0.0	0.0	0.0
Total		**2.0**	**0.7**	**4.1**	**4.3**

*Modified Historic Cost Accounting

Trading Fund

	Note	2014 Profit or Loss £ million	2013 Profit or Loss £ million	2014 Other Comprehensive Income £ million	2013 Other Comprehensive Income £ million
Investment in Enigma Diagnostics Ltd	13	0.1	0.0	2.9	0.0
Portsdown Main site	12	0.7	0.1	0.0	0.0
Biological High Containment Facility	12	0.0	0.2	0.0	0.0
Land (including MHCA)	12	0.0	0.0	0.0	0.3
Buildings (including MHCA)	12	0.4	0.1	0.0	3.7
Plant and machinery (MHCA)	12	0.0	0.3	0.8	0.0
Computer equipment (MHCA)	12	0.8	0.0	0.0	0.0
Total		**2.0**	**0.7**	**3.7**	**4.0**

16. Work in progress

	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Central Government bodies	0.7	1.8	0.7	1.8
Non-public sector organisations	0.0	0.3	0.0	0.3
Total	**0.7**	**2.1**	**0.7**	**2.1**

17. Trade receivables and other current assets

Amounts falling due within one year:	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Short-term investments	**10.0**	**0.0**	**10.0**	**0.0**
Trade receivables	**31.2**	**32.0**	**31.0**	**31.8**
Central Government bodies	30.1	30.6	30.1	30.6
Trading funds	0.0	0.1	0.0	0.1
Non-public sector organisations	1.1	1.3	0.9	1.1
Amounts recoverable under contracts	**199.8**	**182.1**	**199.8**	**182.1**
Central Government bodies	197.9	180.2	197.9	180.2
Non-public sector organisations	1.9	1.9	1.9	1.9
Deposits and advances – staff receivables	**0.5**	**0.2**	**0.5**	**0.2**
Other receivables – Central Government bodies	**0.4**	**0.9**	**1.1**	**0.9**
Taxation	**0.0**	**0.0**	**0.0**	**0.0**
Prepayments and accrued income	**6.8**	**5.5**	**6.8**	**5.5**
Local authorities	0.5	0.3	0.5	0.3
Non-public sector organisations	6.3	5.2	6.3	5.2
Total	**248.7**	**220.7**	**249.2**	**220.5**

Amounts falling due after more than one year:	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Deposits and advances – staff receivables	**0.6**	**0.7**	**0.6**	**0.7**
Other receivables – Central Government bodies	**0.0**	**0.0**	**0.1**	**4.8**
Total	**0.6**	**0.7**	**0.7**	**5.5**

Within the Trading Fund's other receivables falling due after more than one year is a current account with Ploughshare of £5.3 million (2012/13: £4.8 million). The balance on this account represents amounts due for services provided. A provision for doubtful debts has been made, off-setting the current account by £5.2 million, because there is no likelihood of settlement being made in the foreseeable future. The balance of £0.1 million represents VAT on the debt that is less than six months old. There is no intention to demand payment during the next year.

18. Cash and cash equivalents

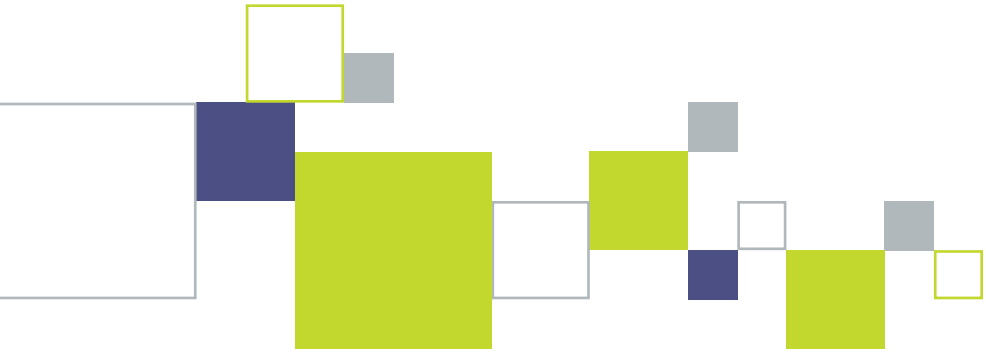
	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Balance brought forward	78.5	79.6	77.4	78.4
Net change in cash and cash equivalent balances	0.0	(1.1)	0.4	(1.0)
Balance carried forward	**78.5**	**78.5**	**77.8**	**77.4**
The following balances were held at:				
Commercial banks – cash	72.5	2.1	71.8	1.0
Commercial banks – short-term investments	0.0	71.4	0.0	71.4
Debt Management Office – short-term investments	6.0	5.0	6.0	5.0
Balance carried forward	**78.5**	**78.5**	**77.8**	**77.4**

19. Trade payables and other liabilities

Amounts falling due within one year:	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Current part of long-term loan payable to MOD	**3.2**	**3.2**	**3.2**	**3.2**
VAT	**(4.7)**	**(4.5)**	**(4.7)**	**(4.5)**
Other taxation and social security	**5.3**	**5.2**	**5.3**	**5.2**
Payments received on account	**18.7**	**10.3**	**18.7**	**10.3**
Central Government bodies	15.3	8.0	15.3	8.0
Non-public sector organisations	3.4	2.3	3.4	2.3
Trade payables	**69.4**	**48.0**	**69.2**	**48.0**
Central Government bodies	2.7	2.9	2.7	2.9
Trading funds	0.1	0.1	0.1	0.1
Local authorities	1.9	0.0	1.9	0.0
Non-public sector organisations	64.7	45.0	64.5	45.0
Other payables	**4.3**	**4.2**	**4.3**	**4.2**
Central Government bodies	4.3	4.1	4.3	4.1
Non-public sector organisations	0.0	0.1	0.0	0.1
Pay and expenses – staff payables	**3.7**	**3.6**	**3.7**	**3.6**
Accruals and deferred income	**108.8**	**102.0**	**108.6**	**101.9**
Central Government bodies	6.1	3.8	6.1	3.8
NHS Trusts	0.1	0.1	0.1	0.1
Local authorities	3.6	1.2	3.6	1.2
Non-public sector organisations	97.6	95.7	97.4	95.6
Staff	1.4	1.2	1.4	1.2
Dividend	**11.0**	**10.0**	**11.0**	**10.0**
Total	**219.7**	**182.0**	**219.3**	**181.9**

Amounts falling due after more than one year:	2014 Group £ million	2013 Group £ million	2014 Trading Fund £ million	2013 Trading Fund £ million
Non-current part of long-term loan payable to MOD	**16.1**	**19.4**	**16.1**	**19.4**
Total	**16.1**	**19.4**	**16.1**	**19.4**

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



20. Provisions for liabilities and charges

Group and Trading Fund

	i lab provisions £ million	Onerous contracts £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2013	1.1	1.2	0.0	0.1	2.4
Provided in the year	0.0	0.0	1.0	0.3	1.3
Provisions utilised in the year	(0.4)	(0.1)	(0.9)	(0.3)	(1.7)
Balance at 31 March 2014	**0.7**	**1.1**	**0.1**	**0.1**	**2.0**

Analysis of expected timing of cash flows:

	i lab provisions £ million	Onerous contracts £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2014 and 31 March 2015	0.3	0.0	0.1	0.1	0.5
Between 1 April 2015 and 31 March 2016	0.2	0.0	0.0	0.0	0.2
Between 1 April 2016 and 31 March 2021	0.2	0.0	0.0	0.0	0.2
Between 1 April 2021 and 31 March 2026	0.0	1.1	0.0	0.0	1.1
Balance at 31 March 2014	**0.7**	**1.1**	**0.1**	**0.1**	**2.0**

No amounts are expected to be called after 1 April 2026 and therefore no further analysis is necessary for amounts after this date. The provisions have not been discounted. The effect of discounting is not material.

i lab (rationalisation programme) provisions

Due to the Trading Fund's withdrawal from the Farnborough and Malvern sites, there have been redundancies for some non-mobile staff. The provision is not expected to be fully utilised until the year ending 31 March 2020.

Onerous contracts

A lease is in place for a facility (owned by the Trading Fund) to remain at the Farnborough site. This defers a dilapidation obligation under the Farnborough lease to beyond a year. During the year an employee dispute went to an Employment Tribunal where a settlement was agreed. This utilised a provision made during the previous year.

Helios Project provisions

Due to a phased withdrawal from the Fort Halstead site, there have been some voluntary redundancies for non-mobile staff. The current obligation is expected to be fully utilised during the year ending 31 March 2015.

Early departure costs

The Trading Fund meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Trading Fund provides for this in full when the early retirement programme becomes binding. Payment values are established by Defence Business Services (DBS).

The comparatives for the year ended 31 March 2013 are:

Group and Trading Fund

	i lab provisions £ million	Onerous contracts £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2012	1.4	1.1	0.4	2.9
Provided in the year	0.1	0.1	0.3	0.5
Provisions utilised in the year	(0.4)	0.0	(0.6)	(1.0)
Balance at 31 March 2013	**1.1**	**1.2**	**0.1**	**2.4**

Analysis of expected timing of cash flows:

	i lab provisions £ million	Onerous contracts £ million	Early departure costs £ million	Total £ million
Between 1 April 2013 and 31 March 2014	0.3	0.1	0.1	0.5
Between 1 April 2014 and 31 March 2015	0.3	0.0	0.0	0.3
Between 1 April 2015 and 31 March 2020	0.5	0.0	0.0	0.5
Between 1 April 2020 and 31 March 2025	0.0	1.1	0.0	1.1
Balance at 31 March 2013	**1.1**	**1.2**	**0.1**	**2.4**

21. Long-term loans

	2014 Group and Trading Fund £ million	2013 Group and Trading Fund £ million
Balance brought forward	22.5	25.8
Repayment of loan	(3.2)	(3.2)
Balance carried forward	**19.3**	**22.6**

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

	2014 Group and Trading Fund £ million	2013 Group and Trading Fund £ million
Analysis of repayments:		
Within one year	3.2	3.2
After one year but within two years	3.2	3.2
After two years but within five years	9.7	9.7
After five years	3.2	6.5
Total	**19.3**	**22.6**

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

	2014 Group and Trading Fund £ million	2013 Group and Trading Fund £ million
Balance brought forward	22.7	26.0
Repayment of principal	(3.2)	(3.2)
Movement in finance charge	(0.1)	(0.1)
Balance carried forward	**19.4**	**22.7**

22. Commitments under leases

Operating leases

Commitments under non-cancellable operating leases to pay rentals after 31 March 2014 are analysed as follows:

	2014 Group and Trading Fund £ million	2013 Group and Trading Fund £ million
Property:		
Due within one year	4.1	3.7
Due after one year but within five years	15.2	13.6
Total	**19.3**	**17.3**

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

23. Capital commitments

	2014 Group and Trading Fund £ million	2013 Group and Trading Fund £ million
Property, plant and equipment:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	12.6	23.7
Capital expenditure that has been authorised but has not been provided for in the accounts	106.4	58.2
Intangible assets:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	0.8	0.3
Capital expenditure that has been authorised but has not been provided for in the accounts	0.9	0.2

The Trading Fund has obtained Ministerial approval for the Helios Project that will result in migration away from the Fort Halstead site and the construction of replacement facilities at Porton Down. The construction element of the Project is in the design phase prior to tendering, and the final approval based on confirmed costs is not expected until summer 2015. The authorised amount of £95.0 million is included as property, plant and equipment that has been authorised but has not been provided for in the accounts. The authorised amount is based on the indicative costs supplied to the Minister for Defence Equipment, Support and Technology when he was briefed during October 2013.

24. Financial instruments

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

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

Categories of financial instruments

Trade and other receivables, and cash and cash equivalents, have been classified as loans and receivables. Trade and other payables have been classified as other financial liabilities. The fair value of these financial assets and financial liabilities approximates carrying value due to the short-term nature of these financial instruments. The loan received from MOD 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 21. Equity holdings of the group are classified as available-for-sale investments and are disclosed in Note 13. The main risks arising from the Group's financial instruments are liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged throughout the year. The category of financial instrument that has produced finance income received and receivable, and the category of financial instrument that has produced finance charges paid and payable, is disclosed in Notes 8 and 9.

Liquidity risk

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

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

	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Trade payables	69.4	0.0	0.0	0.0	0.0	0.0
Other payables:						
Staff/payroll payables	7.8	0.0	0.0	0.0	0.0	0.0
Taxation and social security	0.6	0.0	0.0	0.0	0.0	0.0
Payments on account	18.7	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.0	0.0	0.0	0.0	0.0
Accruals and deferred income	108.8	0.0	0.0	0.0	0.0	0.0
Provisions	0.5	0.2	0.1	0.1	0.0	1.1
Loan provided by MOD:						
Principal	3.2	3.2	3.2	3.2	3.2	3.3
Dividend	11.0	0.0	0.0	0.0	0.0	0.0
Total financial liabilities	**220.2**	**3.4**	**3.3**	**3.3**	**3.2**	**4.4**

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

	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Work in progress	0.7	0.0	0.0	0.0	0.0	0.0
Trade receivables	31.2	0.0	0.0	0.0	0.0	0.0
Amounts recoverable under contract	199.8	0.0	0.0	0.0	0.0	0.0
Prepayments	6.8	0.0	0.0	0.0	0.0	0.0
Other receivables:						
Staff receivables	0.5	0.1	0.1	0.1	0.1	0.2
Other	10.4	0.0	0.0	0.0	0.0	0.0
Total financial assets	**249.4**	**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 the sales or purchases by an operating unit in currencies other than sterling and, for staff who are posted overseas, payment of salaries in the host currency. Foreign currency contracts require approval from the Finance Director. It is the Trading Fund's policy to include a clause that allows for the price of a foreign currency sales contract to be revised if the relevant exchange rate fluctuates by more than 2.5 per cent during the life of the contract. This clause enables the Trading Fund to reserve the right to revise the price but it is not routinely exercised. The Group does not use forward currency contracts to eliminate such exposure to currency losses.

As at 31 March 2014, the Group's exposure to currency exchange movements, denominated in sterling, is:

	US Dollar £'000	Euro £'000
Assets	957.0	103.7
Liabilities	1,583.4	252.8

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

Interest rate risk:
There is no interest rate risk in respect of short-term investments. All investments are at a fixed rate.
As at 31 March 2014, the Group's investments at fixed rates are:

Counterparty	Maturity date	Amount invested £ million	Rate %
Debt Management Office	11 April 2014	6.0	0.25
Lloyds Bank	12 September 2014	5.0	0.55
Lloyds Bank	12 September 2014	5.0	0.55

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

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

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

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

0 - 90 days £ million	91 - 180 days £ million	Over 180 days £ million
8.9	1.3	0.1

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 receivables		31.2
Amounts recoverable under contract		199.8
Other receivables:		
Other	10.4	
Staff loans, advances and imprests	1.1	
		11.5
Cash and cash equivalents:		
Cash at bank – Lloyds Bank	72.5	
Short-term investments – Debt Management Office	6.0	
		78.5
Maximum exposure to credit risk		**321.0**

The amount quoted above is the technical maximum, quantitative exposure but, within this, £217.9 million relates to MOD.
Credit risk with MOD is minimal since it is a central Government department, and is the Group's immediate Owner.

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

25. Public dividend capital

Group and Trading Fund

The FReM interprets public dividend capital as equity.

	2014 £ million	2013 £ million
Balance brought forward	50.4	50.4
Balance carried forward	**50.4**	**50.4**

26. Losses and special payments

As explained in Note 17, a £5.3 million provision for doubtful debts has been made in respect of a receivable from Ploughshare in the Trading Fund financial statements. There were no other losses or special payments exceeding £250,000 during the year ended 31 March 2014. Four severance settlements were made totalling £115,938. Three were out of court settlements where the required HM Treasury approval was received. The fourth settlement followed an Employment Tribunal judgement, which did not require HM Treasury approval.

27. Related-party transactions

Dstl is a Trading Fund owned by MOD.

MOD

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

	2014 £'000	2013 £'000
Sales	620,618.1	589,157.7
Purchases	20,988.1	21,723.8
Receivables	217,883.1	200,826.0
Payables	30,403.6	21,012.9

Sales include £3,952.6 thousand of other operating income (2013: £4,630.2 thousand). In addition to purchases, an ordinary dividend of £11.0 million, payable to MOD, was agreed (2013: £10.0 million). Interest paid and payable on the loans totalled £0.8 million, measured at amortised cost using the effective interest rate method (2013: £0.9 million). Repayments of the principal during the year totalled £3.2 million. Final repayment is due on 31 March 2020. See Note 21. Payables for 2013 has been restated to include the dividend of £10.0 million.

Ploughshare Innovations Ltd

Ploughshare is a wholly owned subsidiary undertaking of the Trading Fund. Details are provided in Note 13. Inter-company trading has been eliminated on consolidation using the purchase method. During the year, the following trading occurred with Ploughshare, which was carried out under standard contract terms:

	2014 £'000	2013 £'000
Sales and other operating income	464.7	468.1
Purchases and expenses	93.0	91.8
Receivables	56.5	4,759.9
Payables	0.0	0.0

The Trading Fund made a provision of £5,251.9 thousand for doubtful debts, off-setting the current account with Ploughshare, because there is no likelihood of settlement being made in the foreseeable future. The balance of £56.5 thousand represents VAT on the debt that is less than six months old. Ownership of the Trading Fund's holdings in its available-for-sale investment with Remo Technologies Ltd transferred to Ploughshare during the reporting year ended 31 March 2007. Ownership of the Trading Fund's holdings in its available-for-sale investment with P2i Ltd transferred to Ploughshare during the reporting year ended 31 March 2009. Ownership of the Trading Fund's holdings in its available-for-sale investment with Enigma transferred to Ploughshare during the reporting year ended 31 March 2013. Ownership of the investments has remained with the subsidiary undertaking during the current reporting year.

Available-for-sale investments and associate

Details of the available-for-sale investments and the associate, Tetricus Ltd, are provided in Note 13. During the year, the following trading occurred with these entities, which was carried out under standard contract terms (see opposite):

	Sales		Purchases		Receivables		Payables	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Claresys Ltd	37.0	37.0	0.0	0.0	89.0	93.6	0.0	0.0
Enigma Diagnostics Ltd	8.6	14.8	0.0	0.0	9.4	1.5	0.0	0.0
Esroe Ltd	96.0	42.5	22.1	72.4	96.0	12.0	0.0	0.0
P2i Ltd	0.0	0.0	7.5	94.3	0.0	0.0	0.0	0.0
ProKyma Ltd	0.0	0.0	0.0	47.0	0.0	0.0	0.0	0.0
Remo Technologies Ltd	0.0	0.0	44.1	32.7	0.0	0.0	0.0	18.7
Subsea Asset Location Technologies Ltd	20.7	26.5	0.0	0.0	0.0	0.0	0.0	0.0
Tetricus Ltd	165.9	222.9	0.0	0.0	0.0	92.4	0.0	0.0

R Drummond is on the Board of Directors of Ploughshare, and is a director in common with RMD 100 Ltd. During the year, Ploughshare made purchases from RMD 100 Ltd of £27.0 thousand (2013: £37.9 thousand), and has a payables balance of £nil (2013: £3.0 thousand).
P Hotten is on the Board of Directors of Ploughshare, and is a director in common with Subsea Asset Location Technologies Ltd.
S Callister is on the Board of Directors of Ploughshare, and is a director in common with Claresys Ltd and Esroe Ltd.

Other public sector bodies

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

	Sales		Purchases		Receivables		Payables	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
UK Space Agency	296.7	406.7	0.0	0.0	67.8	50.4	0.0	0.0
Cabinet Office (excluding PCSPS)	47.1	1.8	134.7	125.7	54.8	0.0	141.2	213.9
Centre for Applied Science and Technology	0.0	0.0	78.6	143.1	0.0	0.0	20.4	0.0
Centre for Protection of National Infrastructure	119.0	74.8	0.0	0.0	23.8	11.3	0.0	0.0
Defence Support Group	83.7	78.7	249.3	108.6	18.3	32.7	40.1	0.0
Department for Energy and Climate Change	105.4	0.0	0.0	0.0	17.0	0.0	0.0	0.0
Department for the Environment, Food and Rural Affairs	148.9	206.9	246.6	104.1	30.4	29.5	66.9	12.2
Department for Business, Innovation and Skills	0.0	92.7	0.0	8.3	0.0	0.0	0.0	0.0
Department for Transport	3,163.5	2,856.5	0.0	0.0	690.3	1,810.3	4.5	0.0
Drinking Water Inspectorate	7.1	61.3	0.0	0.0	0.0	34.6	18.2	25.3
Economic and Social Research Council	0.0	53.0	1,070.0	900.0	0.0	53.0	6.5	0.0
Engineering and Physical Sciences Research Council	0.0	0.0	1,432.9	1,134.5	0.0	0.0	643.2	0.0
Foreign and Commonwealth Office	111.9	21.5	13.9	0.0	35.7	0.2	1.1	37.7
Government Communications Bureau	8,097.3	9,922.0	845.7	482.3	2,730.3	4,319.1	679.9	1,214.4
Government Communications Centre	3,091.5	32.1	422.2	435.4	1,319.5	10.6	529.5	34.1
Health and Safety Executive	0.0	0.0	5.4	1.5	0.0	0.0	0.0	2.6
Health and Safety Laboratory	0.0	0.0	40.1	4.6	0.0	0.0	0.0	0.0
Public Health England	789.3	855.1	1,439.1	2,569.0	235.6	39.9	1,191.0	1,387.2
Home Office	10,092.3	12,734.2	106.5	101.0	3,876.1	3,555.3	290.2	237.7
Meteorological Office	6.1	3.8	1,416.3	1,402.6	1.1	0.0	149.4	58.9
Northern Ireland Department of Justice	273.0	0.0	0.0	0.0	0.0	0.0	87.1	360.0
Technology Strategy Board	2,150.8	0.0	612.5	0.0	455.3	11.0	494.5	175.9
Cabinet Office - PCSPS	0.0	0.0	33,965.2	30,853.9	0.0	0.0	4,064.1	3,700.4
HM Revenue and Customs:								
Employer's and Employees' Income Tax and National Insurance	0.0	0.0	45,254.9	45,132.3	0.0	0.0	6,180.6	5,459.9
VAT	0.0	0.0	42,078.2	54,080.1	4,668.9	4,537.8	0.0	0.0

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

28. Contingent liabilities

There were no contingent liabilities at 31 March 2014 or 31 March 2013.

29. Events after the reporting period

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

30. Operating segments

Group and Trading Fund

All of the Group's business reporting segments are disclosed to enable users of these financial statements to evaluate the nature and financial effects of the Group's business activities. The Group's corporate support functions have been aggregated. All operating segments derive their revenues from the provision of specialist and technical services. The Group derives more than 90 per cent of its revenues from MOD, and more than 95 per cent of its revenues from wider Government. More detailed disclosures can be found in Note 27, related-party transactions.

More than 95 per cent of revenue is derived from UK sources. The Board does not review the business on a geographical basis. A geographical analysis would not be necessary to aid users' understanding of these financial statements.

From 1 April 2013, ownership for delivery of the MOD Chief Scientific Adviser's S&T programme that had previously been delivered by the Programme Office, was devolved to other operating segments. It has not been possible to retrospectively restate the corresponding items for the previous period.

Operating segment analysis for the year ended 31 March 2014:

Operating segment	Revenue (internal and external) £ million	Depreciation £ million	Amortisation £ million	Impairments through profit or loss £ million	Impairments through Other Comprehensive Income £ million	Finance income £ million	Finance expense £ million	Retained profit/ (loss) for the year £ million	Capital expenditure £ million	Total assets £ million	Total liabilities £ million
Air and Weapons Systems	116.4	0.0	0.0	0.0	0.0	0.0	0.0	7.2	0.0	46.5	34.8
Biomedical Sciences	45.6	0.2	0.0	0.0	0.0	0.0	0.0	3.3	0.3	12.4	6.5
Detection	59.1	0.3	0.0	0.0	0.0	0.0	0.0	4.5	0.7	26.6	12.7
Environmental Sciences	22.2	0.1	0.0	0.0	0.0	0.0	0.0	(3.5)	0.1	2.2	3.0
Information Management	63.2	0.1	0.0	0.0	0.0	0.0	0.0	4.1	0.2	24.9	16.2
Joint Systems	11.4	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	3.7	1.4
Land Battlespace Systems	44.9	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0	14.7	9.7
Naval Systems	48.5	0.2	0.0	0.0	0.0	0.0	0.0	2.3	0.0	17.0	11.9
Physical Sciences	55.6	0.2	0.0	0.0	0.0	0.0	0.0	2.8	0.4	23.9	14.7
Policy and Capability Studies	46.6	0.0	0.0	0.0	0.0	0.0	0.0	5.2	0.0	15.6	6.3
Programme Office	33.3	0.0	0.0	0.0	0.0	0.0	0.0	(4.2)	0.0	17.2	1.4
Security Sciences	98.9	0.8	0.0	0.0	0.0	0.0	0.0	5.9	0.6	44.1	21.4
Sensors and Countermeasures	84.1	0.3	0.0	0.0	0.0	0.0	0.0	5.6	0.7	42.2	28.5
Corporate	11.4	11.5	1.0	2.0	3.7	0.4	0.8	(27.0)	34.1	305.1	68.9
Ploughshare Innovations Ltd	0.7	0.0	0.0	0.0	0.4	0.0	0.0	(1.0)	0.0	3.5	5.7
Internal trading group consolidation adjustments	(81.0)	0.0	0.0	0.0	0.0	0.0	0.0	7.3	0.0	(0.9)	(5.3)
Total as per financial statements	**660.9**	**13.7**	**1.0**	**2.0**	**4.1**	**0.4**	**0.8**	**14.9**	**37.1**	**598.7**	**237.8**

Operating segment analysis for the year ended 31 March 2013:

Operating segment	Revenue (internal and external) £ million	Depreciation £ million	Amortisation £ million	Impairments through profit or loss £ million	Impairments through Other Comprehensive Income £ million	Finance income £ million	Finance expense £ million	Retained profit/ (loss) for the year £ million	Capital expenditure £ million	Total assets £ million	Total liabilities £ million
Air and Weapons Systems	45.1	0.0	0.0	0.0	0.0	0.0	0.0	3.4	0.0	9.4	5.0
Biomedical Sciences	41.4	0.2	0.0	0.0	0.0	0.0	0.0	1.3	0.2	9.5	6.8
Detection	49.7	0.1	0.0	0.0	0.0	0.0	0.0	4.9	0.5	16.5	7.1
Environmental Sciences	20.0	0.1	0.0	0.0	0.0	0.0	0.0	(1.1)	0.1	4.1	1.4
Information Management	37.3	0.1	0.0	0.0	0.0	0.0	0.0	1.4	0.1	9.6	5.0
Joint Systems	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	3.3	1.6
Land Battlespace Systems	35.8	0.0	0.1	0.0	0.0	0.0	0.0	1.1	0.0	6.7	3.6
Naval Systems	30.9	0.2	0.0	0.0	0.0	0.0	0.0	1.8	0.0	6.0	3.2
Physical Sciences	40.6	0.2	0.0	0.0	0.0	0.0	0.0	3.6	0.4	13.5	7.0
Policy and Capability Studies	32.1	0.0	0.0	0.0	0.0	0.0	0.0	4.4	0.0	7.4	3.3
Programme Office	194.5	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	87.6	67.6
Security Sciences	98.6	0.7	0.0	0.0	0.0	0.0	0.0	3.1	0.8	33.8	17.0
Sensors and Countermeasures	57.4	0.2	0.0	0.0	0.0	0.0	0.0	2.8	0.1	22.5	14.4
Corporate	10.7	9.7	0.8	0.7	4.0	0.5	0.9	(8.4)	12.6	293.5	60.7
Ploughshare Innovations Ltd	0.7	0.0	0.0	0.0	0.3	0.0	0.0	(0.9)	0.0	6.9	4.9
Internal trading group consolidation adjustments	(78.1)	0.0	0.0	0.0	0.0	0.0	0.0	(2.9)	0.0	(7.8)	(4.8)
Total as per financial statements	**628.7**	**11.5**	**0.9**	**0.7**	**4.3**	**0.5**	**0.9**	**15.5**	**14.8**	**522.5**	**203.8**

A summary of the services provided by the business operating segments are as follows:

Air and Weapons Systems
Provides the focus for systems-level advice, underpinned by comprehensive analysis and detailed technical expertise in support of MOD decision-making on air and weapon systems.

Biomedical Sciences
Provides integrated research, development and advice on biological effects of insults on the human and how these effects can be mitigated through the application of cutting-edge science and technology.

Detection
Conducts research to understand the hazards posed by the misuse of chemical and biological materials, and protection against these hazards. Provides expertise in explosives detection.

Environmental Sciences
Provides MOD with a science and technology base to permit it to manage, monitor and control chemical, radiation and equipment hazards that could damage the environment or the people that work on it.

Information Management
Provides the focus for UK information superiority, planning and decision-making with expertise in information systems and security, information infrastructure, and software systems engineering.

Joint Systems
Leads multi-disciplinary teams for the provision of systems advice issues that cross environmental boundaries.

Land Battlespace Systems
Provides advice on land and C4ISR systems, focused on lethality, protection, mobility, survivability sustainability, reliability, network enabled capability, human performance, tactics, logistics, training, special forces, and missile technology.

Naval Systems
Provides analysis and systems advice to MOD to enable the effective procurement and operation of maritime capability.

Physical Sciences
Provides protection science, dispersion physics, material science and armour physics expertise.

Policy and Capability Studies
Leads on integration of impartial analysis and sensitive decision support to enhance UK defence and security.

Programme Office
Responsible for leading the MOD Chief Scientific Adviser's S&T programme – designing, formulating and commissioning programmes with industry, academia and other research organisations. From 1 April 2013, ownership for delivery was devolved to other operating segments. It has not been possible to restate the comparative period retrospectively.

Security Sciences
Provides support to counter-terrorism and special forces including electro-optic surveillance, explosives engineering, and information operations.

Sensors and Countermeasures
Researches and evaluates a range of sensors for air, land, and sea military platforms.

Corporate
Main functions and activities include:
- corporate governance, and centralised functions such as finance and treasury management, human resources management, and commercial contracting management.
- programme delivery office whose role is to co-ordinate and support project management of customer programmes.
- estate management.
- business information systems.
- knowledge services, providing access to Dstl's internal knowledge base, MOD-funded reports and the wider scientific and technical literature, together with a range of information and analysis services.

Ploughshare Innovations Ltd
It is Government policy to transfer technical knowledge, wherever possible, to the economy for exploitation of its full commercial and social potential. Ploughshare is a wholly owned subsidiary, incorporated on 6 April 2005 as a vehicle for the transfer and management of the Trading Fund's Intellectual Property and joint venture initiatives.

T +44 (0) 1980 613121
F +44 (0) 1980 613004
E centralenquiries@dstl.gov.uk

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

Ministry
of Defence

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