



Annual Report and Accounts  
2006/2007



Large Aircraft  
Fast Jets  
Rotary  
Engines  
Electronics  
Components

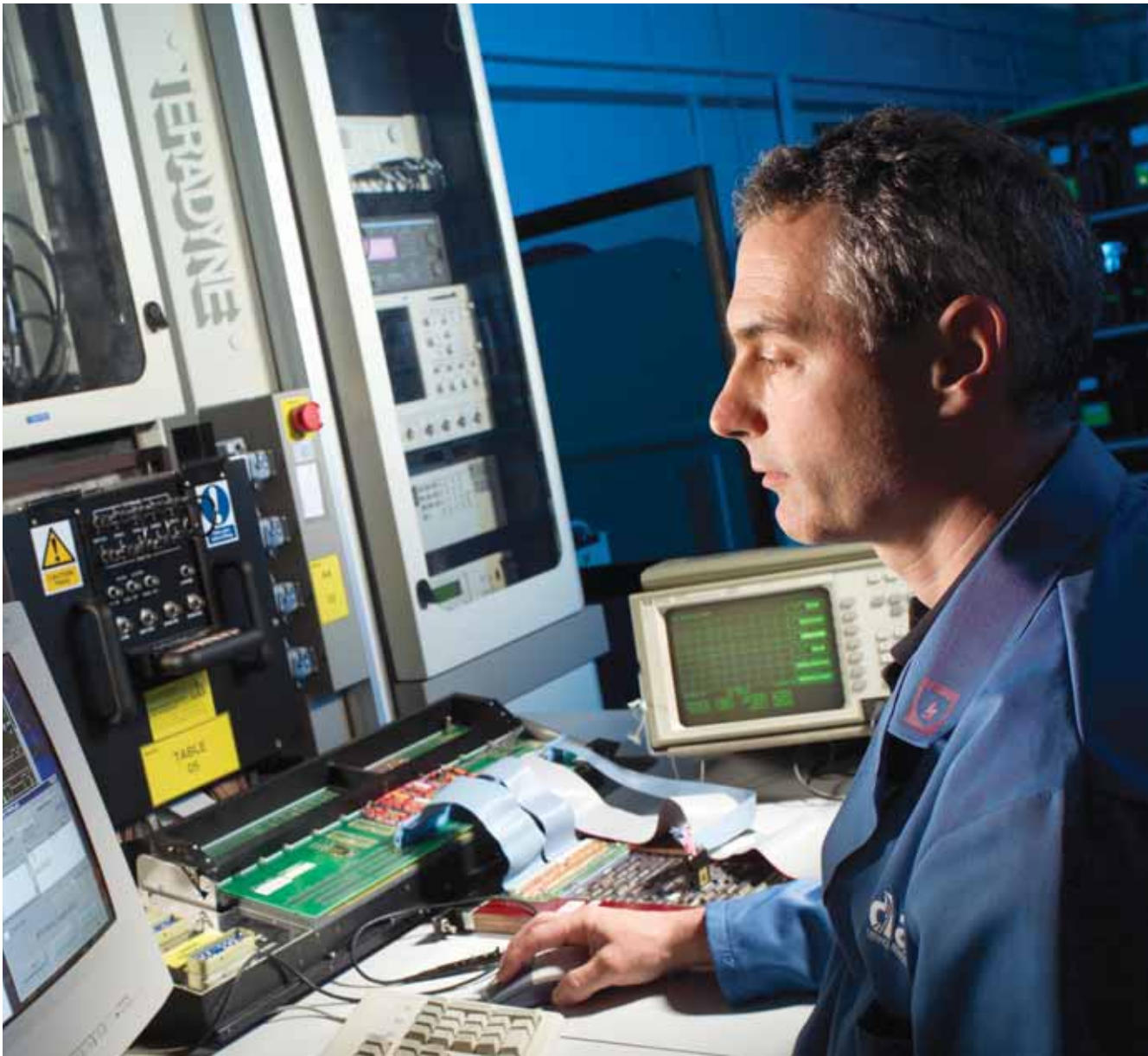




Annual Report and Accounts  
2006/2007



Presented to Parliament pursuant to section 4 (6) of the Government Trading Funds Act 1973 as amended by the Government Trading Act 1990. Ordered by the House of Commons to be printed on 17 July 2007.



© Crown Copyright 2007

The text in this document (excluding any Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified. Any queries relating to the copyright in this document should be addressed to The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ.



## Annual Report and Accounts 2006/2007

### Report

#### Management Commentary

- 04 Statement by the Chief Executive
- 08 The Business, its Mission, its Vision and Strategy
- 10 DARA's Performance against Key Targets
- 12 Financial Review
- 16 Business Review
- 28 Statement of Accounting Officer's Responsibilities
- 30 Statement on Internal Control
- 34 Remuneration Report

### Accounts

- 36 The Certificate of the Comptroller and Auditor  
General to the Houses of Parliament
- 38 Profit and Loss Account
- 40 Balance Sheet
- 42 Cash Flow Statement
- 43 Statement of total recognised gains and losses
- 43 Reconciliation of movements in Government funds
- 44 Notes to the Accounts
- 60 Report of the Comptroller and Auditor General

## Statement by the Chief Executive

Implementation of earlier ministerial announcements affecting DARA's future was the focus for DARA and the MoD's DARA Transformation team during the last twelve months. The consequences of some difficult and far-reaching decisions have had a major impact on our employees as we implement the actions necessary to achieve a final result for DARA's future.



ARCHIE HUGHES  
Chief Executive

The task of retaining one business, closing two businesses and preparing three businesses for possible sale, all within a challenging timeframe, was never likely to prove straightforward. No one underestimated the enormity and complexity of the issues facing DARA and MoD's DARA Transformation team as work began to deliver the final outcomes.

Achieving a closure date of 31 March 2007 for DARA's Fast Jet and Engines businesses was only successfully realised by working closely with employees and the Trades Unions. At this point, I will formally record and recognise the sterling work done by the Consultation Working Groups at both Fleetlands and St Athan. Meeting the many different needs and aspirations of many hundreds of employees affected by the closures was never going to be easy. Also, it would never be possible to achieve an outcome that suited everyone on every occasion. Aiming to be as flexible as possible, the working groups communicated openly and honestly with staff, laying down a transparent system of processes and procedures that were visible to all. To their great credit, the drawdown of manpower was achieved in a highly professional way and did not have any detrimental effect on quality or productivity.

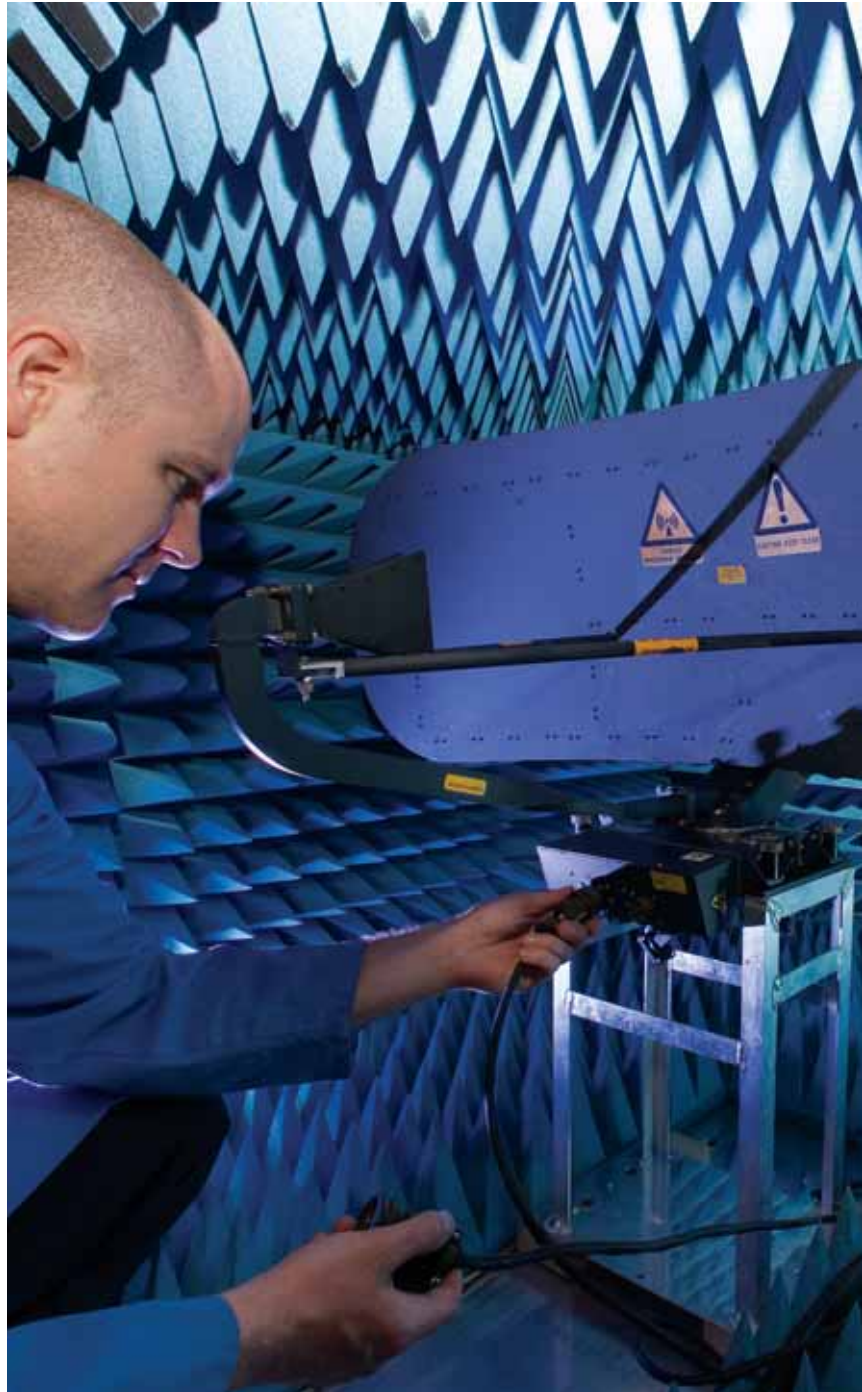
At Fleetlands, many of DARA's Engines staff were able to take up the offer of conversion training, giving them new job opportunities in the Rotary business, which is now beginning to experience the rapid growth in workload anticipated in the End-to-End study of 2004. With this increase in work volumes set to continue, it was important to minimise the impact of job losses resulting from closure of the Engines business by filling vacancies with DARA's own staff where possible.

Conversely, however, no new work was likely to emerge to help mitigate the closure of the Fast Jet business at St Athan and we had to carry on with a redundancy programme, ensuring we met the closure deadline of 31 March. Again, by working closely with individuals and the Trades Unions, we were able to accommodate the requirements of as many affected employees as possible and kept compulsory redundancy levels to a minimum.

Decommissioning plant and equipment from the new St Athan facility was a great wrench and not a fulfilling experience for those involved in the process. It is testament to the professionalism and worth of the employees that this work was carried out efficiently and on time. The same must also be said for the aircraft that have, during the reporting period, left DARA for the last time. The migration of aircraft away from the site began in August when the last Tornado F3 left for RAF Leuchars, followed in November with the successful departure of the last Jaguar back to RAF Coningsby. In the New Year, the final Hawk from the Training Fleet returned to RAF Leeming, followed on 2 March with the last Tornado GR4 flying out from St Athan to return to its base at RAF Lossiemouth. This brought to an end over 25 years of maintenance and repair at St Athan for many of the RAF's fast jet fleet.

Praise has come from various quarters in MoD for the exceptionally high quality standards that have been maintained during the rundown of fast jet maintenance at St Athan. However, none of these plaudits were more gratefully received by the employees on the shopfloor than the words of thanks received from DARA's own test pilots. The pilots were moved to write and thank the various teams for keeping them safe on every test flight through to their final one in the Tornado GR4.

The work involved in preparing DARA's Rotary and Components businesses for possible sale has been intense and a significant strain on resources within both DARA and the Transformation team in MoD. Moving the process forward continues to be a challenge as we move into more detailed negotiations with potential preferred bidders. The possibility of sale brings its own set of uncertainties for employees but, once again, DARA employees have set aside their own concerns and fears to deliver a solid trading performance.



Both our Components and Electronics businesses have once more turned in the types of business performance we have come to expect from these specialist areas. As with Rotary, our Components performance has to be measured against a background of uncertainty for employees, who are understandably seeking closure on what the future holds in terms of ownership. A similar situation faces our staff at Sealand where, although they knew they would be retained within MoD ownership, a final decision was awaited on the future shape, size and management structure of this business.

Following a reshuffle of Ministerial responsibilities in March 2007, the newly appointed Minister for Defence Equipment and Support, Lord Drayson, became DARA's new owner. He immediately took an active interest in the transformation programme concluding that sale of the VC10 business would not offer best value for Defence and that the interests of this business and its employees were best served by being retained in MoD ownership, along with the DARA Electronics business. Both businesses have unique capabilities that will help support the maturing Defence Industrial and Technological strategies. Work will now begin to merge these businesses with MoD's other MRO Trading Fund, ABRO, to form a single defence support organisation. In announcing this major development, Lord Drayson stated that in DARA and ABRO, the MoD owns two businesses that have unique intellectual capital and knowledge of repairing and maintaining land and air based military equipment. The role of the new organisation will embrace the through life support ethos now ingrained in the way MoD does business. It also provides the opportunity to support and protect MoD's position on major procurement and support contracts on equipment such as Typhoon, Joint Strike Fighter and FRES. In his announcement the Minister also stated that work on the sale process of DARA's Rotary and Components businesses was at an advanced stage but if sale could not demonstrate best value for defence then these two businesses would also become part of the new defence support group.

Elsewhere in DARA, the significant increase in work volumes for the Rotary business brings its own set of unique challenges. Increasing the workload by over 50% with only minimal investment to ensure we achieve the cost benefits has proved an ambitious objective. A great deal of work has taken place in transforming DARA's Rotary business at Fleetlands and with throughput set to increase again in 2007, which will have seen our workload double since 2005, we recognise there is still a lot more we have to do. Skilled and experienced staff are at a premium around Fleetlands and the priority for DARA is ensuring we continue to develop and adequately reward our own homegrown talent.

Set against a backdrop of closure and uncertainty it is rewarding to report on significant contract and order gains, which will provide DARA with a healthy volume of work into the future. On the back of the important ATTAC contract between MoD and BAE Systems, DARA's Electronics and Components businesses will play a key role in supporting future work on the Tornado platform. Securing work on major contracts supporting Chinook, through the TLCS contract, Sea King, through the SKIOS phase one and two contracts, Lynx through to its out of service date and the third phase of Javelin for VC10 will all contribute to a buoyant trading outlook for the remaining DARA businesses.

Tempering closures and job losses in some parts of our business with increases in productivity, contract wins and growth in other parts has added pressure to employee and trade union relations. By virtue of the excellent partnership that exists, neither has been adversely affected. I must also give due credit to our employees for delivering an outstanding service to our Armed Forces at this particular time when resources are stretched in the on-going theatres of operation in Iraq and Afghanistan.

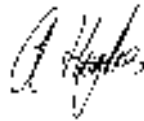
It is an often-used cliché but true nonetheless that our people are our most important asset and this remains the case despite the fact we have recently said goodbye to over 1500 colleagues. We have worked hard with support providers and other Government departments and agencies to help secure new employment for our people. We have also been successful in securing employment for all our graduating apprentices. I am delighted to report that those students from the final intake at DARA's Training Centre at St Athan, which officially closed its doors in February, have secured positions in our VC10 and Rotary businesses, as well as in industry. The sad part is this brings to an end over 70 years of training at St Athan in its present guise.



The Secretary of State for Defence's announcement in January that the Metrix consortium was the preferred future supplier of training for the Armed Forces was welcome news. The Metrix bid is based around developing the St Athan site and ensures defence training, in its widest sense, will remain an integral part of this region of South Wales.

I am pleased to report that even with the high degree of transformation and uncertainty surrounding the various businesses over the last year we have once more met all our Key Targets. Delivering a healthy operating profit, achieving efficiency targets and meeting quality standards at a time of intensive transformation for the businesses is an excellent operational performance.

In conclusion, we know that the transformation of DARA has been difficult and has changed the lives of those who have worked or continue to work in the various businesses. It will face further challenges and change regardless of whether or not its various constituent parts remain in public or private ownership. What remains unchanged, however, are the skills and expertise of the people that can still be found in abundance in DARA's remaining businesses. I take great pride in having been able to work closely with so many gifted and talented people and, although many have gone on to other posts in Government and industry, there remains a wealth of talent helping DARA survive into the future.



Archie Hughes  
Chief Executive  
20 June 2007

## The Executive Board of Directors

JOHN REILLY  
Chief Operating Officer

ALAN LEWIS  
Commercial Director

STEVE HALL  
Finance Director

DEREK OWEN  
Human Resources  
Director

ARCHIE HUGHES  
Chief Executive



## The Business, its Mission, its Vision and Strategy



## Business

The Defence Aviation Repair Agency (DARA) is a Government owned facility for the repair, overhaul and maintenance of military aircraft, systems, avionics and components, benefiting from more than 60 years of experience in direct support to the UK Armed Forces. DARA was launched as an Agency on 1st April 1999 and established as a Trading Fund on 1st April 2001.

## Mission

To deliver outstanding repair support to all our customers.

## Vision

To be responsive, flexible, customer focused and highly competitive in the provision of deep aviation repair and supply in logistics to the UK Armed Forces and other customers.

## Strategy

In 2006/07 the strategy was to continue to be a preferred expert subcontractor in the aerospace maintenance, repair and overhaul (MRO) sector. Major features in 2006/07 were to close Engines and Fast Jets businesses and prepare the VC10, Rotary and Components businesses for sale and the Electronics business for retention within the MoD, whilst shaping resources to meet the requirements of the DARA Strategic Review.

The key strategic goals for 2006/07 were:

- ➔ To achieve all Key Targets and to deliver the Business Plans.
- ➔ To deliver the Rotary Roll Back Programme.
- ➔ To successfully manage the transfer of the Fast Jets business to MOBs and close the Engines and Fast Jets Business Units.
- ➔ To improve customer satisfaction, by following through results of the Customer Review Programme.
- ➔ To secure long term contractual commitments to a future order book.
- ➔ To shape the resources in line with the E2E outcomes and order book.
- ➔ To prepare the VC10, Rotary and Components Business Units for possible sale.
- ➔ To prepare the Electronics Business Unit for retention within MoD ownership.

"I am pleased that I have been able to see for myself the work that has been done by DARA at Fleetlands. Having the opportunity to witness the feeling of energy generating from the pulse lines, I feel validated in my decision to concentrate depth repair on Chinook, Lynx and Sea King at Fleetlands."

Adam Ingram on visiting Fleetlands in 2007.

# DARA's Performance against Key Targets

DARA's Key Targets (KTs) for 2006/07 were agreed with the Minister of State for the Armed Forces, and are designed to provide clear indicators of performance in the areas critical to DARA's success. These KT's, along with other performance measures based on our Critical Success Factors, form the basis of a DARA wide performance management system linking corporate strategy with business and individual performance plans. The agreed Key Targets recognised the impact on DARA efficiency of the drawdown and closures of the Fast Jets and Engines business units and as such are excluded from Key Target 4.

## Performance Against Key Targets 2006/07 were:

---

### → Key Target 1

#### Quality

Achieve less than 15 attributable major Customer Concerns annually, on average financial year 2004/05 – financial year 2006/07.

#### Achieved

There were 2 attributable major Customer Concerns in 2006/07. The three year average 2004/05 - 2006/07 was also 2.

### → Key Target 2

#### Financial Performance

Achieve an annual Return on Capital Employed of at least 3.5%.

#### Achieved

The actual ROCE was 7.84%.

### → Key Target 3

#### Business Transformation

Carry out the actions necessary by April 2007 to effectively drawdown the Fast Jets and Engines businesses.

#### Achieved

Fast Jets and Engines business units closed on 31 March 2007. Residual short term decommissioning work continues.

### → Key Target 4

#### Efficiency

Improve overall efficiency by at least 6% (excluding the Fast Jets and Engines businesses).

#### Achieved

Overall improvement 8.73%.

---

# Future Key Targets

The key targets agreed for 2007/08 are:

---

→ Key Target 1

Quality

---

Achieve fewer than 10 attributable major Customer Concerns.

→ Key Target 2

Financial Performance

---

Achieve an annual Return on Capital Employed of at least 3.5%.

→ Key Target 3

Business Transformation

---

Carry out the actions necessary to support the potential sale of the Rotary and Components businesses and complete the merger of all retained DARA Business Units with ABRO, such that a new combined Trading Fund is fully operational by April 2008.

→ Key Target 4

Efficiency

---

Improve overall efficiency by at least 6%.

---

DARA improved overall efficiency over the last 2 years by

**38.19%**

# Financial Review

2006/07 was a year of substantial change for DARA in its sixth year as a Trading Fund.

Following the Ministerial announcement in November 2005, the closure of Engines Business Unit and Fast Jets Business Unit were both completed on time, and both considerably under the original planned cost. During 2006/07, preparation also continued for the potential sale of VC10, Rotary Wing and Components Business Units.

Overall, DARA's financial performance, compared to its plan, was the most successful since the transition to Trading Fund, despite the closure of two business units with Profit before Interest and Dividend of £10.0m, a considerable improvement on the original planned loss of £1.3m. The profit improved steadily throughout the year at each quarterly forecast review.

## Trading results

All business units achieved higher than planned turnover, through increased volumes delivered in to DARA and improved productivity. Additional revenues were earned from supporting the operations in Afghanistan and Iraq, while still meeting the customers' standard contractual targets.

The decision in 2004/05 to roll back Chinook, Sea King and Lynx work to Fleetlands resulted in a 23% increase in hours for the Rotary Wing business in 2005/06. This workload increase continued in 2006/07 with an additional 184,000 hours, or 26% over the 2005/06 level. Full-scale lean production lines were introduced during the year to support the increase in hours, with a further uplift of 136,000 hours anticipated in 2007/08, bringing the expected hours to over 1 million.

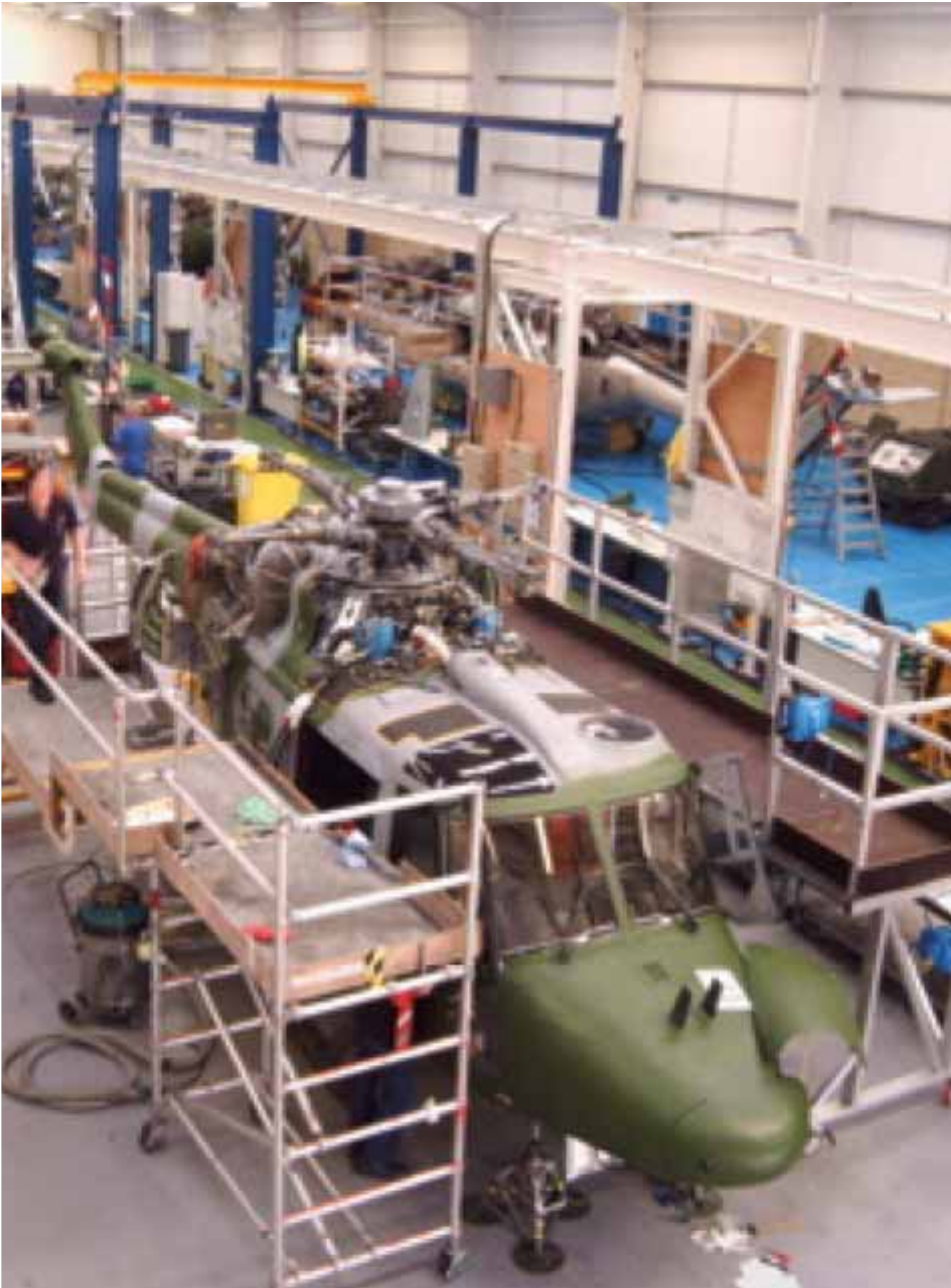
This increase in Rotary hours created the opportunity to transfer some employees from Engines and Fast Jets which, combined with voluntary redundancies, resulted in considerably lower compulsory redundancies than originally anticipated. The transfers resulted in lower staff costs within the closing businesses, helping to reduce their costs by £3.2m below that planned, whilst other business units similarly showed some improvements in their cost base.

In addition, there were notable improvements in Corporate areas, where costs were reduced by £1.2m below that planned.

Advantageous market conditions, coupled with better than planned cash holdings, proved beneficial throughout the year, with interest contributing £1.3m to the improvement to plan.

As in prior years the MoD has continued to meet DARA's redundancy costs and has confirmed that it will continue to do so. It has also confirmed that it will meet all operating and termination costs of the Red Dragon facility as a consequence of DARA's closure of its Fast Jet business at St Athan and withdrawal from the Red Dragon facility. Accordingly no provision has been made for these future liabilities in these Accounts.

All business units achieved higher than planned turnover, through increased volumes delivered in to DARA and increased productivity.



## Cash Flow and Funding

Current liquidity remains very strong with a net cash position of £57.2m (2005/06: £64.2m), showing a decrease of £7.0m in year (2005/06: decrease £6.9m). Once again operational cash flows were very strong and ahead of forecast. Loan repayments and interest of £4.8m and £2.1m respectively were made on time and in line with the loan agreements. No early repayment of loans was made during the year.

Cash is principally held in Sterling (£56.1m) but also in US Dollars (\$1.7m) and Euros ( 0.4m). All cash investment activity is conducted using a combination of Lloyds TSB money market calls and the HM Treasury Debt Management Account Deposit Facility. Currency risks are managed through a combination of natural hedges and forward contracts. There is one outstanding contract for the sale of US\$1.1m through to 2008 originally placed to manage currency exposure on the Honeywell Engines contract, which was paid in US\$. Due to the closure of the Engines business and the cessation of the Honeywell Engines contract, this has now been matched with a purchase forward to remove all currency risk.

The capital structure consists of Public Dividend Capital (PDC), which remained unchanged at £42.3m, and loan capital of £40.5m (2005/06 - £45.4m). The debt is structured through three loans held with the MOD: £29.6m at 4.875% maturing over 14 years, £1.3m at 5% maturing over 4 years and £9.6m at 4.2% maturing over 4 years. All borrowings are at fixed rates of interest.

The Balance Sheet continues to be characterised by the high levels of cash, which is, in part, financed by the short-term creditors. Nevertheless cash resources are clearly sufficient for the business's needs and accordingly a dividend for 2006/07 of £6.0m was declared and paid in December 2006.

## Trading History

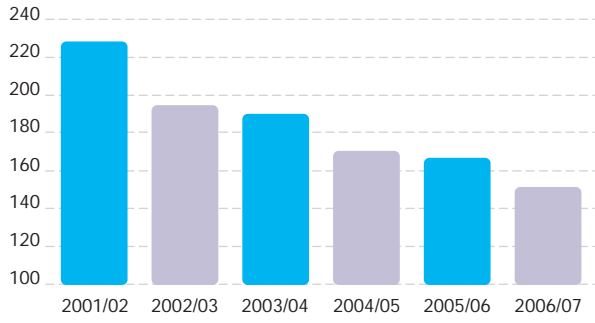
2006/07 saw the continued contraction of DARA's overall business due to the closure of Engines and Fast Jets businesses. This was however partially offset by a 16% increase in Rotary turnover, combined with an 11% increase in Components turnover.

## Future

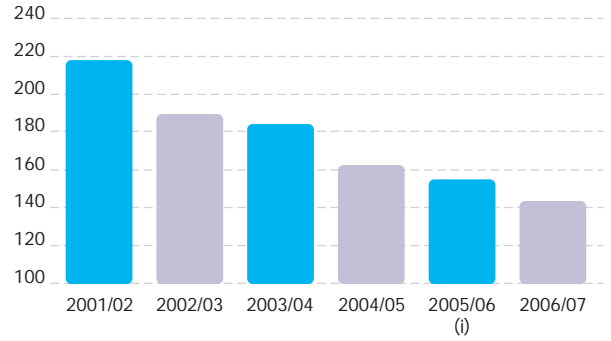
Now two business units have been closed, on the basis that during 2007/08 two businesses will be offered for sale and two businesses will remain within MoD control, the provision of mainstream financial services during 2007/08 will continue to be provided by the centralised finance shared service centre based at Fleetlands in Hampshire. The future provision of financial services will be dependent upon the outcomes of the offers for sale and the preferences of any potential purchasers or new departmental owners.



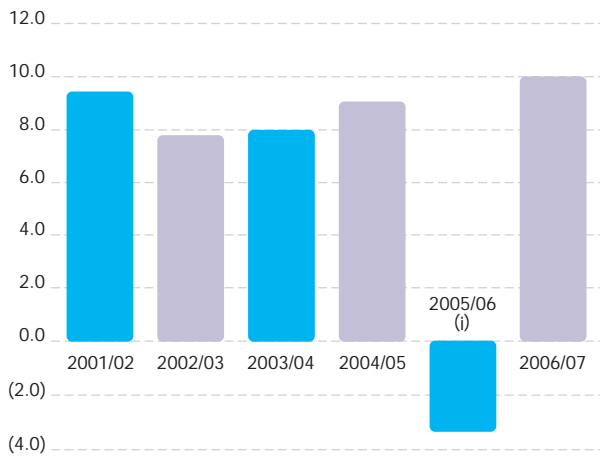
Turnover £m



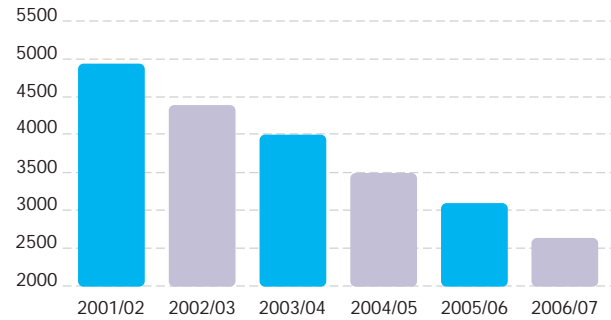
Cost base £m



Profit before interest £m



Headcount



Note

(i) Loss Before Interest and increase in Cost Base for 2005/06 are due to the closure of fast jets and engines businesses, which required the impairment of £13m of Fixed Assets.

# Business Review

## Business Performance – Overview

The six DARA business units have all delivered creditable performances, which in the circumstances are laudable given the uncertain environment in which they have been operating. All DARA's businesses have faced various challenges to their business plans during the year as needs and priorities of our customers changed.

A critical and important achievement for Fleetlands and Almondbank was receiving NADCAP accreditation for various processes to an approved industry standard. This globally recognised standard in the aerospace sector was vital to DARA's continued support of the Chinook TLCS programme and demonstrates the on-going commitment that exists in the business in meeting the needs of customers.

## St Athan – DARA's Fast Jet and Large Aircraft Business Units

Co-ordinating the closure of our Fast Jet facility at St Athan by 31 March 2007 was successfully achieved within the timeframe announced by the Armed Forces Minister in February 2006. Running in parallel with the draw down of work, we were able to release employees electing to leave the business under voluntary redundancy terms.

The timescales for transferring work from DARA to the MoD involved detailed planning with our various DLO customers to ensure no detrimental effect on aircraft availability for Front Line action. The transfers back of MoD assets to their various owners together with the sale and dispersal of DARA-owned assets were achieved in a most professional and cost effective way. The work necessary to establish the Large Aircraft Business Unit as a distinct and separate trading operation by 1 April 2007 was also successfully achieved.

## Tornado F3

After 17 years of maintenance at every level from minors to major upgrades, the last Tornado ADV, ZE200, left St Athan to return to 111 Squadron at RAF Leuchars after completing its minor star maintenance programme in August 2006. Reducing the future size of the Tornado F3 fleet, announced by the Secretary of State for Defence in July 2005, was one of the determining factors influencing the closure of the Fast Jet business at St Athan.



## Hawk

DARA's St Athan operation has had a long association with one of the most iconic aircraft in the RAF's fleet. For almost 25 years, the Red Arrows Display team has sent aircraft to St Athan for complete makeovers. Each aircraft is stripped back to the metal before undergoing a new paint job in, of course, the signature red that is so familiar with audiences all round the world. The paint and media stripping facility also closed its operations by 31 March in line with other support facilities associated with our Fast Jet business.

The RAF's training fleet of Hawks have been maintained at St Athan since 1991 and during that time over 200 aircraft have arrived for various levels of service and upgrade. The Hawk has always been a popular aircraft with engineers and technicians particularly as it was the first contract DARA won in open competition. The Hawk maintenance and repair line closed its doors on 7 February 2007 with the departure from St Athan to RAF Leeming of the last Hawk XX285.

## Jaguar

In the same announcement made by the Defence Secretary, which saw a reduction in the number of Tornado F3 squadrons, it was also announced that the out of service date for the Jaguar fleet was being brought forward to earlier than originally anticipated. The cumulative effect of this news combined with the future support arrangements for both Tornado platforms made DARA's Fast Jet business unsustainable beyond March 2007.

As with the Hawk, the first Jaguar arrived at St Athan in 1991 and has been a continual visitor to the site for the past 15 years. The fleet has undergone various major upgrade and maintenance programmes during this time and the remaining 16 aircraft will now finish their service career with 6 Squadron at RAF Coningsby before they are taken out of service in October 2007. Employees on the Jaguar fleet appreciated the visit paid by the Jaguar IPT Leader, Sarah Morrow, who made time on the occasion of the last aircraft's departure to come to St Athan and personally thank all the employees who had contributed to the success of the programme.



## Tornado GR4

March 2007 saw the final fast jet, a Tornado GR4, leave St Athan to return to its base at RAF Lossiemouth. The departure of ZA547 brings to a close nearly 25 years of Tornado maintenance at St Athan. During this time, the Tornados accounted for the bulk of work carried out at the site and since DARA's formation in 1999, almost 600 aircraft have undergone a variety of maintenance and upgrade programmes. The Tornado has also made a significant impact on DARA's other sites where work on the aircraft's electronics, engines and components are an integral part of each business.

In future, the GR4 will have its deep level maintenance and repair work done at RAF Marham under contract with BAE Systems as part of MoD's far-reaching Defence Logistics Transformation programme.

## Large Aircraft Business Unit

DARA continues to have a presence at St Athan having secured all 2nd and 3rd line 'on-aircraft' work for the RAF's fleet of VC10 aircraft. Having previously partnered with BAE Systems on the first two phases of the 'Javelin' programme, which moved from an initial 'Red' phase through to 'Amber', DARA has now been contracted by BAE Systems to work on phase three. This 'Green' stage, worth £56m to DARA, now secures work on the tanker fleet through to its present out of service date in 2013. It is expected that during 2007 this date will be revised by a further year to 2014.

The teams working on this aircraft have already successfully embraced major changes in their working practices and processes. However, to achieve even greater results it was necessary to introduce new process improvements designed to cut lead times by almost 20%, reduce material returns by 95% and reduce non-value added activities by 70%. By adopting similar 'lean' techniques to those embedded in DARA's Rotary business at Fleetlands we have seen significant improvements that have been the subject of praise from our partners, BAE Systems and, most importantly, our customers in MoD, the Air and Refuelling and Communications (ARC) IPT.

With previous awards in 2004 and 2005 from the Defence Procurement Minister and BAE Systems, DARA's VC10 team was again acknowledged during 2006 with nominations for several Chairman's awards from BAE Systems. Members of the team were flown to Washington for the award ceremony, returning with a silver award for innovation. At the 2006 Aerospace Manufacturer Awards, DARA was delighted to make it into the final three for the top award from an entry of 125 aerospace companies, missing out on the prize but still proud to have reached the final cut.

Work on preparing the VC10 business for possible sale has not distracted the team from turning out an excellent business performance. Establishing the VC10 business as a separate self-contained business unit has enabled the team to remain focussed during the drawdown of work and manpower on Fast Jets.

## Support Areas

The closure of DARA's Fast Jet facility has also had an impact in areas that are often forgotten but totally indispensable. Behind the scenes, hundreds of people over several years have been working on many varied 'off aircraft' support activities.

The range and levels of skills within the support functions are enormous and can often be overlooked. It is therefore important tribute is paid to all the employees in the Aircraft Support Engineering (ASE) and Materials and Logistics Support (MLS) areas, which closed on 31 March 2007. From Painting and Finishing and their long association with the Red Arrows Display team to Manufacturing, Structures and Components in the ASE area. Their complement also includes Armourers, the airfield teams, GSE and NDT. Then there are the MLS staff who handle all sorts of goods from taking delivery of stock items in the warehouse to handling and disposing waste fuel and lubricants. Both ASE and MLS provided a wide range of other services necessary to the successful running of DARA's St Athan businesses.



DARA has now been contracted by BAE Systems to work on phase three of the 'Javelin' programme. Worth £56m to DARA, this now secures work on the tanker fleet through to its present out of service date in 2013.

## Fleetlands – Rotary and Engines Business Units

The rapid pace of change during the first year in adopting a 'lean' culture across the three Rotary platforms at Fleetlands was impressive but also presented significant challenges to the teams. With increased volumes flowing through the 'pulse' lines, DARA was able to further develop close partnering relations with the primary stakeholders. Working in an environment of open cooperation with the customer and OEMs, AgustaWestland and Boeing, we have been able to increase availability of aircraft for Front Line deployment.

Activities and progress at Fleetlands have been the focus of attention of DARA's top military customers. The then Chief of Defence Logistics, Sir Kevin O'Donoghue, visited the site twice to see for himself what progress was being made and how best practice is helping achieve impressive results. Sir Kevin also acted as host for assorted journalists from across industry to showcase the regime in place at Fleetlands supporting the DLO's Transformation Programme. Commodore Ian Tibbitt and Major General Gary Coward, Rotary Cluster leader and Commander of the Joint Helicopter Command respectively, have also paid visits during the reporting period to check on progress and offer invaluable support in prioritising the increases in throughput of work volumes.

### Chinook

Before the Through Life Customer Support (TLCS) agreement with Boeing could go live, US Congressional approval was required. The first five years of the 34-year contract, signed in May 2006, is worth around £69m to DARA and will help secure work on Chinook at Fleetlands, as well as ancillary work carried out at Sealand and Almondbank, for many years to come. This important contract is the culmination of several years work between the Chinook IPT, Boeing and DARA.

DARA has always enjoyed excellent working relationships with Boeing and this latest arrangement further cements the close co-operation that exists between both organisations. It is also important to emphasise the invaluable support and commitment given throughout the process by the key stakeholders, the Chinook IPT and Joint Helicopter Command (JHC).

To ensure the programme delivers what is required, a dedicated office has been collocated at Fleetlands housing DARA and Boeing personnel who will actively oversee delivery of the output. Also located at Fleetlands is Boeing's own team of Quality and Technical representatives working alongside the Defence Quality Assurance Field Force who ensure all aircraft are fit to fly.

### Lynx

The Lynx platform was the first at Fleetlands to fully implement 'pulse' and 'lean' techniques aimed at increasing output and availability of aircraft. Building on an impressive first year since depth maintenance for the Lynx fleet was concentrated back at Fleetlands, DARA has continued to drive through improvements and changes aimed at even greater efficiencies and cost reductions. This is in line with achieving the anticipated benefits outlined in the 2004 End-to-End Review.

The step change in culture and ways of working were always going to be a challenge and the Lynx platform was no exception. Maintaining the levels of skilled workers that are necessary to achieve the increased volumes has been a particularly difficult issue to resolve. In an area with similar industries vying for a limited pool of available talent, DARA is taking all necessary steps to ensure productivity will not suffer. We have already been able to supplement the Fleetlands workforce with employees and apprentices from St Athan wishing to remain working for DARA but who are willing to move from Wales in pursuit of their chosen careers.

Working closely with the Lynx IPT and other key stakeholders, we have acknowledged we are still some way off achieving the output levels required to meet demand. The management team at Fleetlands is now totally focussed on pioneering innovative ideas aimed at delivering the necessary increases in production expected by our customers. Cooperating fully with the Lynx IPT, DARA expects to be signing a single contract for the Lynx programme through to the platform's out of service date in 2013/14.



## Sea King

Providing the necessary skilled staffing levels on the Sea King platform has been a predominant issue affecting the team's performance at Fleetlands. The pressure on the fleet during the period has been great and DARA has worked closely with the Sea King IPT to try to improve availability of this aircraft for Front Line duties.

DARA was able to reduce its reliance on agency personnel by mounting vigorous recruitment campaigns and by working closely with Serco to ensure productivity on the Sea King line improved. As with the Lynx programme, DARA is working to embed relations with AgustaWestland, the Lynx and Sea King OEM, to further exploit best practice and develop long-term through life support partnerships.

We have witnessed significant improvements in the Sea King team's performance by re-introducing focussed events aimed at further driving out waste and non-value added activities. Improvements have also been achieved through the creative management of standard packages of work whilst the aircraft is on the pulse line. DARA's work with AgustaWestland is currently continuing with the aim of delivering an agreed contract for SKIOS Phase 2, which will run for the duration of the aircraft's service life.

## Rotary Business Unit

Next year work volumes will be double those achieved by DARA in 2004/05 and it is clear there is still much more to do if we are to realise the long-term cost and efficiency benefits anticipated and expected by our customers. This transformation of DARA's Rotary business continues to take place in an environment of uncertainty for the workforce who are still awaiting the outcome of the sale process.

The priorities for the Fleetlands staff are to continue focussing on delivering the necessary levels of output whilst constantly developing effective solutions as the tempo rises with even greater pressures on finite resources.

## Engines Business Unit

The work to begin the Engines business closure began immediately following the Minister's announcement with production ceasing by the end of 2006. This allowed the team at Fleetlands to start decommissioning plant and equipment necessary to achieve final closure of the facility by 31 March 2007.

To help mitigate the manpower shortfall in Rotary, a number of employees with relevant skills from the Engines business were given conversion training and are now established in rotary teams and working on the helicopter platforms. With a co-ordinated voluntary release scheme operating, we were able to meet the needs of all employees from the Engines business without the need for any compulsory redundancies. The release of space within the Engine facility now provides much needed additional capacity for future Lynx work and extra storage and warehousing.







## Almondbank – Components Business Unit

Partnering is the key to the Components business's success and the past year has seen Almondbank consolidate many of its existing relationships with industry. With Claverham, DARA is already working on Tornado equipment, supporting BAE Systems and the Tornado IPT. The nine-year contract with Rolls Royce Deutschland covering Secondary Power Systems was signed in 2004, and in 2006 Almondbank reached a milestone by delivering the 100th Tornado starboard gearbox. Constantly seeking ways to improve and add value for the benefit of customers, the Components team at Almondbank took a fresh look at the various processes with the aim of reducing turn round times and improving spares availability. DARA is now working to secure new contracts under the Tornado ATTAC General Systems programme.

As the MoD moves towards more aircraft availability contracts following publication of the far-reaching Defence Industrial Strategy, the Components team is already working to secure additional work as opportunities emerge with Boeing and AgustaWestland on Chinook, Sea King, Lynx and Merlin platforms.

When it comes to the Chinook aircraft, the Almondbank team's net is widening and stretching further around the world. Having already secured components work from Boeing's Chinook customers in Spain, Netherlands, Greece and South Korea, additional work from the Australian Defence Force is further enhancing DARA's growing global reputation for excellence and quality. The Australian customers were so impressed they flew to Scotland to see for themselves Almondbank's operations, which ended with a second tranche of work coming Almondbank's way.

The spectre of sale has not deterred the workforce turning in a respectable business performance and the value of DARA to the local economy has always been an important political topic in Scotland. The possibility of sale was the reason the Scottish Parliament's Deputy First Minister wanted a briefing on the business and to view, for himself, the facilities and meet with the workforce. Joining the Minister on his visit to Almondbank was local politician Roseanna Cunningham, who has taken great interest in DARA throughout her political career. The employees must have been heartened when learning of both the Minister's and the Scottish Executive's commitment to support DARA's long-term success no matter whether this is in public or private sector ownership.



Chief of Defence Logistics, General Sir Kevin O'Donoghue visited Sealand accompanied by the Director General Logistics (Strike), Air Vice Marshall David Rennison to familiarise himself with the business and better understand the capabilities.

## Sealand – Electronics Business Unit

Most of 2006 has been spent working closely with MoD and DLO officials on plans for the future status of DARA's Electronics business as it remains in Government ownership. In April, the Chief of Defence Logistics, General Sir Kevin O'Donoghue visited Sealand accompanied by the Director General Logistics (Strike), Air Vice Marshall David Rennison to familiarise himself with the business and better understand the capabilities of the staff and how these can be fully utilised for the greater benefit of the defence customers in MoD.

The formation of an Electronics Working Group involving all the key stakeholders was presented with a remit to ensure agreement and deliver against core objectives that will identify the long-term future of the Electronics business, define governance structures for the business post April 2007 and optimise the workload through to STP07. Identifying short-term work volumes optimising capacity ran in parallel to the development of a longer-term strategy based on affordable Typhoon availability.

The importance of work on the Typhoon platform is key to Sealand's future success and it was welcome news to learn that the Tornado IPT leader, Air Commodore Alex Deytrikh accepted an invitation to visit the site and spend time touring the various work areas, meeting with employees and left greatly impressed by what he had seen and heard. In particular, he was delighted to learn of DARA's rapid progress in developing the necessary skills and expertise to support the Typhoon platform.

Working with industry partners, DARA's Electronics business is embedding the key objectives of the Defence Industrial Strategy and aims to provide optimised solutions for future avionics support. New partnering agreements complement these aims and build on the solid relationships that exist between DARA and industry.

It was at Farnborough in July 2006 that DARA signed a partnering agreement with the TSS consortium consisting of Thales, Smiths and Selex aimed at drawing on and exploiting the strengths and capabilities of the alliance. The agreement will offer the best value for defence by developing innovative avionic solutions across a range of rotary and fixed wing aircraft platforms. The air show venue was also the occasion for DARA to sign a Memorandum of Understanding with BAE Systems aimed at offering best support solutions for a range of fixed wing platforms.

It was recognised early in the process of defining Sealand's future status in MoD that the Electronics business would have to retain a degree of excess capacity whilst DLO formulated its future avionics support strategy. Carrying excess capacity in the first half of the year was resolved when DLO identified the work streams necessary to ensure the business performed to maximum strength during the rest of the reporting year. However, this has not stopped the team at Sealand turning in a robust performance to win back lost ground and once more improve DARA's financial results.

## People – the cornerstone of DARA

The year has witnessed the loss of hundreds of highly experienced staff across DARA's businesses, and in particular from those based at St Athan and Fleetlands. From 2004, 1825 posts have been lost as we started implementing various decisions affecting DARA's future. The combination of closures, uncertainty about the future and disillusionment was pivotal in helping individuals make the choice to move on.

The draw down of manpower was predominantly achieved by voluntary means with 170 employees moving to other posts within MoD, some to other Government departments and, in some cases, to completely different careers. Many have taken the opportunity of training courses provided by support organisations aimed at enhancing their existing qualifications or retraining for new careers or qualifications. Despite the best efforts of DARA and the Trades Unions, it was necessary to issue 125 compulsory redundancy notices at St Athan.

A key challenge during the year was setting up the new Large Aircraft Business Unit at St Athan. Following a preference survey to employees, this new business unit was subsequently filled almost entirely by volunteers from those areas in St Athan that were closing. This inevitably involved much additional training as many individuals had moved from repairing and overhauling fast jets such as Tornados and Hawks.

Apprentice training has always been integral in DARA's future manpower planning process. The closure of St Athan's Fast Jet facility and the future manpower requirements of the Large Aircraft business have seen the closure of the St Athan Training Centre with the last 23 graduates receiving their Deeds of Apprenticeship in February 2007. Apprentice schemes, however, continue to flourish at all DARA's other sites where new intakes continue to produce an exciting wealth of talent for the future. In a first for Sealand, DARA and MoD, a non-technical apprentice is embarking on a new two-year Supply Chain training programme. This unique scheme is the cause of great interest across the wider defence community and it is likely similar courses will now start to appear elsewhere in MoD.



Relations with all the various Trades Unions have more than weathered the difficulties the past year has presented to DARA. The Partnership Agreement between DARA and the Trades Unions is based on open and honest communications and, although significantly tested, it has never been found wanting or threatened. It is a testament to the excellent relationship that exists that there has been no industrial unrest, any failures to agree or any upheld Civil Service Appeal Boards or Employment Tribunals despite an environment of prolonged periods of job cuts and business closures.

The application of Transfer of Undertakings for Protected Employment (TUPE) to a number of employees caught up in the transfer of work back from DARA to MoD, which was subsequently deemed subject to TUPE regulations, was amicably resolved with Trades Unions, DARA, MoD and industry working together for the benefit of affected employees.

For the first time DARA was able to negotiate a two-year pay deal with the Trades Unions, which ensured the 2007 pay award for employees was delivered with their April 2007 salaries.

A notable event during the year was the announcement from Buckingham Palace that DARA's Chief Operating Officer, John Reilly was to receive an OBE in HM The Queen's New Year's Honours list. Travelling to London in November 2006 to be presented with his award by Her Majesty, he was accompanied by his two teenage children who flew over from America to accompany their father on this special occasion.



DARA employees successfully interfacing with customers was certainly a key factor in helping the business win a major award from Bsquared Consulting, the firm behind DARA's customer survey programme, Talkback. This customer review programme addresses business critical topics in depth and captures the issues that need resolving to ensure consistent improvements are delivered across key areas of the business. This was a significant achievement as DARA was up against major global organisations like EADS and BAE Systems.

Relations with the media, politicians and local communities continue to follow a positive trend despite the difficult circumstances facing DARA during the year. It remains a firm DARA policy to communicate openly and timely with all employees to ensure they have all the information available at the earliest possible time. This is achieved through various communication channels including the popular bi-monthly magazine DARA News, the on-line DARA intranet and through to the more traditional routes of team briefings and top-level corporate briefings.



# Statement of Accounting Officer's Responsibilities

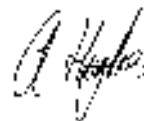
Under Section 4(6) of the Government Trading Funds Act 1973, HM Treasury has directed the Defence Aviation Repair Agency (DARA) to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of DARA's state of affairs at the year end, and of its profit and loss, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by HM Treasury and in particular to:

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

The Accounting Officer of the Ministry of Defence has designated the Chief Executive of DARA as the Accounting Officer for the Trading Fund. The relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for the keeping of proper records and for safeguarding DARA's assets, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in Government Accounting.

As far as I am aware, there is no relevant audit information of which DARA's auditors are unaware and as Accounting Officer, I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that DARA's auditors are aware of that information.



Archie Hughes  
Chief Executive and Accounting Officer  
20 June 2007



# Statement on Internal Control

## Scope of responsibility

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

As Chief Executive of DARA, I am personally accountable to the Secretary of State for Defence for the performance of DARA in accordance with the Framework Document and DARA's Corporate Strategic Plan. The DARA Owners Advisory Council, chaired by the Minister for Defence Equipment and Support as representative of our owners, meets quarterly to review DARA's performance against its key targets and Business Plan objectives.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of DARA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in DARA for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

The DARA Board has provided leadership to the risk management process through the regular consideration of risk, both at main board meetings and in the Executive Governance Review Group and Audit Committee meetings, and by the risk management strategy and policy.

Our procedures for Corporate and Business Unit risk registers, together with our implementation of risk management for major projects, continues to ensure that risk management is embedded in all our business activities. We are continually assessing the approach to risk management, to ensure that all business units and projects continue to operate within Treasury guidelines. The Risk Management software introduced, during the previous year, is now fully operational throughout the Business Units and support directorates. Additional user licences have recently been purchased and additional training rolled out. The recent Internal Audit of the risk management process achieved a Full level of assurance.



## The risk and control framework

DARA complies with HM Treasury instructions and guidelines for Corporate Governance. In order to meet the requirements of an embedded system of internal control, DARA has established a Risk Management system, which consists of: -

**A Risk Management Strategy**, which incorporates the aims, objectives and rationale within DARA for managing risk.

**A Risk Management Policy**, which outlines the approach used within DARA for implementing risk management and includes a risk management reporting structure.

**Appointed Risk Management Committee**, which reviews and evaluates internal standards and procedures relative to the management of risk and disseminates risk information and guidance on best practice.

**Appointed Risk Co-ordinators** within each Business Unit and Directorate who are responsible for the maintenance of local Risk Registers.

**A DARA Corporate Risk Register**, which represents the broad spectrum of corporate risks and is owned and regularly reviewed by the DARA Board.

**Business Continuity Plans**, which are managed by the site risk co-ordinators to facilitate the unity of Risk Management and Business Continuity. All four DARA sites upgraded their Business Continuity Plans in 2006/07 and MoD has highlighted the DARA BCM Action Plan in its Policy Guidance and Good Practice section within Business Continuity Management.

**Insurance Policies** are in place to meet DARA's legal responsibilities and to mitigate certain risks. No insurance is taken against any potential liabilities to the MoD.

**Internal Audit Services**, which have been outsourced since July 2005, provide an annual risk based programme of internal audits. During 2006/07 seven major audits were completed, two of which gained full assurance, four substantial assurance and one limited assurance. The Executive Governance Review Group ensure that all accepted recommendations from these audits are normally implemented within three months.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within DARA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have received satisfactory letters of assurance from executive managers and the DARA Governance Review Group. The Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control. Plans to address control weaknesses and ensure continued improvement of our processes are in place.

DARA has established the following processes to identify, evaluate and control risk: -

**A Board**, which meets each month to consider the plans and strategic direction of the organisation, comprising the Executive Directors of DARA and two external independent Non-Executive Directors, one of whom is Chairman of the DARA Audit Committee, and the other chairman of DARA's Remuneration Committee.

**A Governance Review Group**, which comprises all Executive Board members together with the Head of Internal Audit and other key personnel as required. The primary purpose of the Governance Review Group is to monitor and review all assurance activities being undertaken within DARA. The group also aims to further develop Corporate Governance practices in general.

Periodic reports from the Chairman of the Audit Committee, to the Board, concerning internal control.

Regular reports from each Directorate as part of the performance management regime. An assessment of the key risks and their management/mitigation is included in these reports.

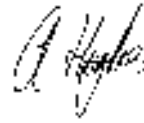
DARA staff and the Board fully understand the Department's approach to Corporate Governance and the management of risk. This approach has produced a robust risk methodology using subjective assessments of Very High/High/Medium/Low/Very Low risks against the impact of a particular risk to DARA objectives as well as a likelihood of the risk maturing. These assessments are updated regularly and form the basis of the decision making process at the Board.

Risk Registers are owned, maintained and managed by the Business Units and Support Directorates with a Strategic Risk Register owned and managed by the Board. The Risk Manager reporting directly to the Finance Director has responsibility for coordinating and managing the Risk Management process.

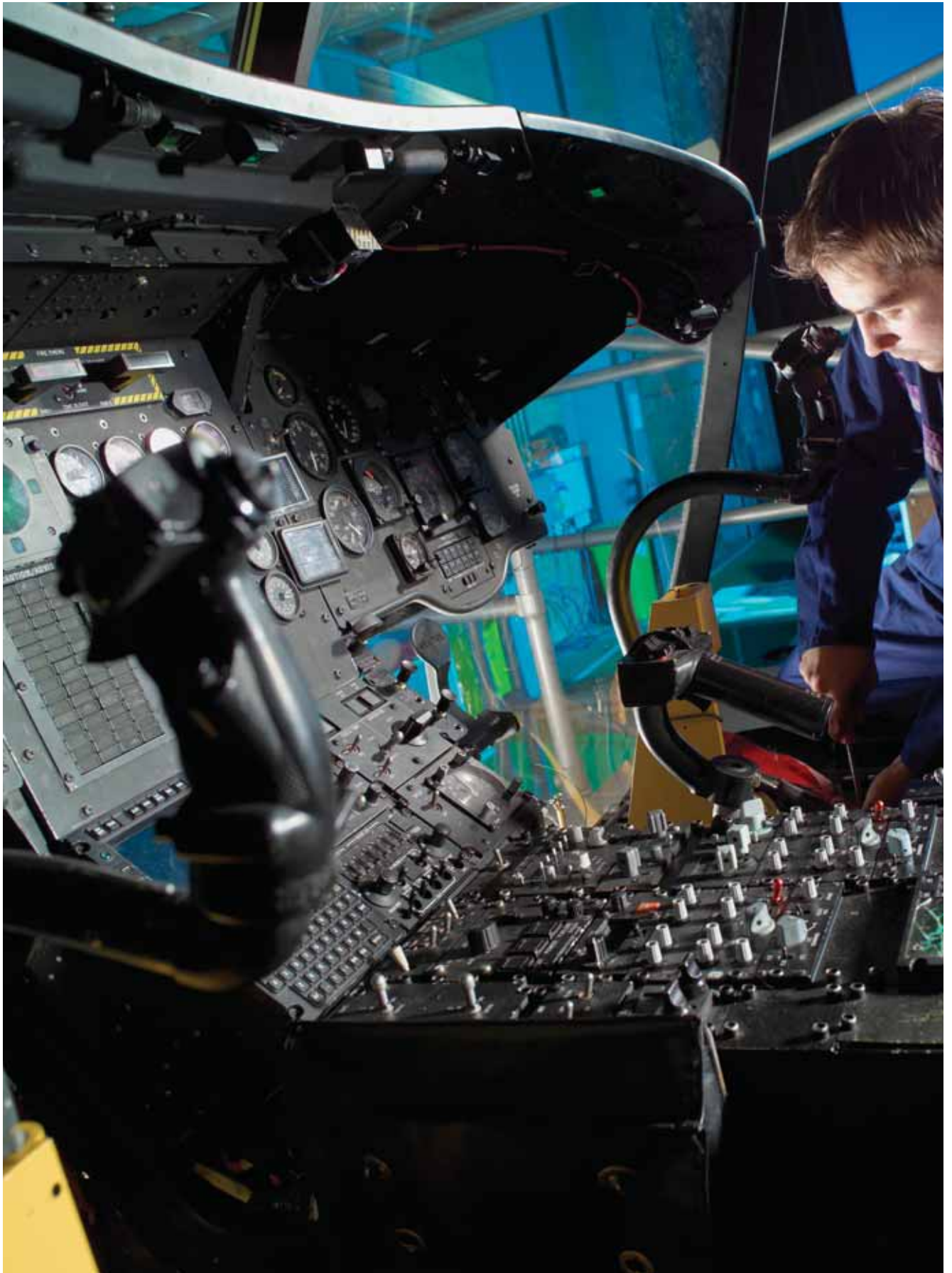
DARA Risk management structure has been designed to ensure that information is communicated upstream and downstream within the organisation. Risk Management is included as a regular agenda item at Site and Directorate meetings with links into the Business Continuity Plans.

## Significant Internal Control Weaknesses

For the financial year 2006/07, the internal audit process did not identify any areas of significant control weakness; this included the closure of two Business Units, which were managed with a project team and its own risk register. However, with the ongoing uncertainty surrounding the future of DARA it is recognised that there will be new and significant risks arising that will need careful management and control, but I am confident that our systems of internal control are more than adequate for the task.



Archie Hughes  
Chief Executive  
20 June 2006



# Remuneration Report

## Remuneration Committee

The purpose of the Remuneration Committee is to agree the strategic policy in relation to the remuneration of DARA employees, consistent with the Personnel Delegations held by the Chief Executive of DARA.

The remuneration of all DARA employees except Senior Civil Servants is set by the Remuneration Committee in agreement with HM Treasury.

A Non-Executive Director (Richard Fenny) is chairman to the Committee and there are three other Members, the Chief Executive of DARA, Finance Director and Human Resources Director. The Committee met as required during the financial year and all recommendations arising from the Committee have been implemented.

The Committee continues to make a positive input into the strategic direction of DARA Pay Settlements prior to ratification by the DARA Board.

There was a second remuneration committee which was a subsidiary of the Ministerial Advisory Board (MAB) and which was chaired by the MAB Non-Executive Director. This committee advised the MAB on the DARA Chief Executive's annual bonus.

## Remuneration Policy

The Chief Operating Officer, Commercial Director, Finance Director (from 2 January 2007) and Human Resources Director are Senior Civil Servants. As such their pay is set through recommendations made by the Review Body on Senior Salaries which provides independent advice to the Prime Minister and the Secretary of State for Defence on remuneration of Senior Civil Servants. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

All other employees have their remuneration determined by a process consistent with MoD and HM Treasury guidelines. The Chief Executive has delegated powers for the setting of terms and conditions of employment, including pay, for all DARA staff. This delegation requires him to consult with the MoD and HM Treasury before agreeing any changes to pay and grading systems and arrangements. This is achieved through the Pay Remit process whereby the DARA Pay Strategy is submitted for MoD and HM Treasury approval before negotiation with staff representatives. The outcome of negotiations is reported back to HM Treasury through the annual outturn statement.

The DARA Pay Strategy is approved by the DARA Board and Remuneration Committee and is designed to achieve the Corporate business strategy having due regard to the financial success of DARA, current Government and MoD policies and targets, and public sector pay guidance.

Pay and changes to conditions of service are approved by the DARA Board and Remuneration Committee prior to the annual pay negotiating process with the Trades Unions and reviewed after implementation.

All pay awards are subject to satisfactory performance of the duties assigned.

## Service contracts of Directors

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

Unless otherwise stated below, the Executive Directors hold appointments, which are open-ended until they reach the normal retiring age of 65. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

Archie Hughes was appointed as Chief Executive on 1 January 2004 on a 3 year fixed-term contract. This contract has been extended until December 2007.

Ian Douglas was appointed as Finance Director on 27 June 2005 on a 2 year fixed term contract. These accounts reflect the salary cost to June 2007 of £58,873 following his departure as Finance Director on 31 December 2006.

Non-Executive Directors are not appointed as Civil Servants. Contracts may be terminated at one month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination will be immediate.

They may be exceptionally extended by mutual agreement at the end of the period for one further period only. There are no compensation entitlements for early termination. Current contractual arrangements applying to the non-executive directors as at 31 March 2007 were as follows:

Richard Fenny was appointed as a Non-Executive Director on a 3 year contract commencing 21 January 2001. This was extended by a further 3 years to January 2007, and further extended to September 2007.

Andy Akerman was appointed as a Non-Executive Director on a 9 month contract commencing on 22 February 2006 which has been extended to September 2007.

## Remuneration Details of Directors (Audited)

|  | Age | Gross Salary, bonuses and allowances<br><br>(last year in brackets) | Real increase in pension and related lump sum at age 60 | Total accrued pension at age 60, at 31/03/07 and related lump sum | Cash Equivalent Transfer Value (CETV) at 31/03/06 | Cash Equivalent Transfer Value (CETV) at 31/03/07 | Real increase in Cash Equivalent Transfer Value (CETV) after adjustment for inflation and changes in market investment factors |
|--|-----|---|---|---|---|---|--|
|  |     | £'000   | £'000   | £'000   | £'000   | £'000   | £'000  |
| <b>Executive Directors</b>                                   |     |   |   |   |   |   |  |
| Archie Hughes<br>Chief Executive Officer                     | 46  | 175 - 180<br>(170 - 175)  | 0 - 2.5   | 5 - 10  | 42  | 65  | 20   |
| John Reilly<br>Chief Operating Officer                       | 53  | 95 - 100<br>(90 - 95)   | 0 - 2.5   | 125 - 130   | 453   | 489   | 8  |
| Steve Hall<br>Finance Director<br>(Commenced 2 January 2007) | 41  | 10 - 15   | 10 - 15   | 55 - 60   | 167   | 174   | 5  |
| Derek Owen<br>Human Resources Director                       | 55  | 85 - 90<br>(85 - 90)  | 0 - 2.5   | 115 - 120   | 492   | 522   | 5  |
| Alan Lewis<br>Commercial Director                            | 50  | 85 - 90<br>(75 - 80)  | 2.5 - 5   | 65 - 70   | 239   | 267   | 13   |
| Ian Douglas<br>Finance Director<br>(to December 31 2006)     | 55  | 65 - 70<br>(75 - 80)  | 0 - 2.5   | 10 - 15   | 133   | 153   | 14   |

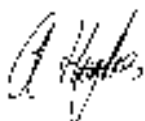
A Cash Equivalent Transfer Value (CETV) is the actuarially capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

None of the directors have opted for a Partnership Account. Therefore there are no employer contributions to such accounts in respect of these directors.

None of the directors have received a payment of compensation for loss of office under the terms of an approved compensation scheme and no awards or compensation have been paid to former directors.

None of the directors have remuneration packages containing non-cash elements. No payments have been made to third parties for the services of a director.

|   | Age | Fees<br>(last year in brackets)<br>£'000 |
|---|-----|--|
| <b>Non-Executive Directors</b>          |     |  |
| Richard Fenny<br>Non-Executive Director | 57  | 0 - 5<br>(0 - 5)                         |
| Andy Akerman<br>Non-Executive Director  | 55  | 5 - 10<br>(0 - 5)                        |



Archie Hughes  
Chief Executive  
20 June 2006

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

I certify that I have audited the financial statements of DARA for the year ended 31 March 2007 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

## Respective Responsibilities of DARA, the Chief Executive and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Statement by the Chief Executive, The Business, its Mission, its Vision and Strategy, DARA's performance against Key Targets, Financial Review, Business Review, Statement of Accounting Officer's Responsibilities, Statement on Internal Control and Remuneration Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities, which govern them.

In addition, I report to you if DARA has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects DARA's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of DARA's corporate governance procedures or its risk and control procedures.

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

### Basis of audit opinion

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

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

## Opinions

### Audit Opinion

#### In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of DARA's affairs as at 31 March 2007 and of its profit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises the Statement by the Chief Executive, The Business, its Mission, its Vision and Strategy, DARA's performance against Key Targets, Financial Review, Business Review, Statement of Accounting Officer's Responsibilities, Statement on Internal Control and Remuneration Report, is consistent with the financial statements.

#### Audit Opinion on Regularity

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

#### Report

My report on these financial statements is at pages 60-62.



#### John Bourn

Comptroller and Auditor General  
22 June 2007

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

The maintenance and integrity of the DARA website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the web site.

## Profit and Loss Account for the year ended 31 March 2007

|   | Note | Continuing<br>'000 | 2006 2007<br>Discontinued<br>'000 | Total<br>'000 |
|---|------|--------------------|-----------------------------------|---------------|
| Turnover  | 2    | 119,032            | 3,570                             | 3             |
| Cost of sales   | 3    | 95,75              | 37,571                            | 33            |
| <u>Gross profit</u>                                       |      | <u>3,7</u>         | <u>3</u>                          |               |
| Operating expenses  | 3    | 11,05              | -                                 |               |
| <u>operatin Profit loss</u>                               |      | <u></u>            | <u>3</u>                          | <u></u>       |
| (Profit) loss on disposal of fixed assets                 | 3    | ( )                | (529)                             | 37            |
| <u>Profit loss on ordinary activities before interest</u> |      | <u></u>            | <u>7</u>                          | <u></u>       |
| Interest receivable                                       |      |                    |                                   | 2,990         |
| Interest payable  |      |                    |                                   | 2,071         |
| <u>Profit loss on ordinary activities before dividend</u> |      | <u></u>            | <u></u>                           | <u>7</u>      |
| Dividend payable  |      |                    |                                   | 6,000         |
| <u>retained Profit</u>                                    |      | <u></u>            | <u></u>                           | <u>7</u>      |
| <u>Return on capital employed</u>                         |      | <u></u>            | <u></u>                           | <u>7</u>      |

The notes on pages 4 to 59 form part of these accounts.

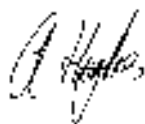


| As Restated 2005 2006 |                      |               |
|-----------------------|----------------------|---------------|
| Continuing<br>'000    | Discontinued<br>'000 | Total<br>'000 |
| 110,175               | 55,5                 | 7 3           |
| ,0 0                  | 73,030               | 7 7           |
| 3                     | 7                    | 3             |
| 11, 7                 | -                    | 7             |
|                       | 7                    | 3 3           |
| 29                    | -                    |               |
|                       | 7                    | 3 3           |
|                       |                      | 3,155         |
|                       |                      | 2,311         |
|                       |                      | 10,000        |
|                       |                      | 3             |

## Balance Sheet as at 31 March 2007

|  | Note | 31 March 2007<br>'000 | 31 March 2006<br>'000 |
|--|------|-----------------------|-----------------------|
| <b>Fixed assets</b>                            |      |                       |                       |
| Tangible                                       | 7    | 61,305                | 60,616                |
|  |      | 3                     |                       |
| <b>Current assets</b>                          |      |                       |                       |
| Stock work in progress                         |      | 9,913                 | 10,323                |
| Debtors and prepayments                        | 9    | 26,900                | 23,677                |
| Cash at bank and in hand                       | 10   | 57,177                | 6,112                 |
|  |      | 3                     |                       |
| <b>Current liabilities</b>                     |      |                       |                       |
| Creditors: amounts falling due within one year | 11   | (27,23)               | (32,00)               |
| Net current assets                             |      | 7                     | 7                     |
| <b>Total assets less current liabilities</b>   |      |                       |                       |
|  |      | 77                    | 7                     |
| <b>Provisions for liabilities and charges</b>  |      |                       |                       |
| Net Assets                                     | 12   | (2,717)               | (3,30)                |
|  |      | 7                     | 3                     |
| <b>Financed by:</b>                            |      |                       |                       |
| <b>Capital and reserves</b>                    |      |                       |                       |
| Public dividend capital                        |      | 2,303                 | 2,303                 |
| Long-term loans                                | 13   | 35,670                | 0,510                 |
| Revaluation reserve                            | 1    | 22,913                | 22,79                 |
| General reserve                                | 15   | 23,69                 | 17,03                 |
| Government funds                               |      | 7                     | 3                     |

The notes on pages 50 to 59 form part of these accounts.



Archie Hughes  
Chief Executive  
20 June 2007

The above date is the date authorised for issue, being the date of despatch by the Trading Funds Board, to the Comptroller and Auditor General, for laying before the Houses of Parliament



## Cash flow statement for the year ended 31 March 2007

|  | Note | 2006 2007<br>'000 | 2005 2006<br>'000 |
|--|------|-------------------|-------------------|
| <b>(a) Reconciliation of operating profit (loss) to net cash inflow from operating activities:</b> |      |                   |                   |
| Operating (profit) loss  |      | 9,511             | (3,23 )           |
| Impairment of fixed assets   |      | (955)             | 13,023            |
| Depreciation charges   |      | 2,361             | 6, 07             |
| (Decrease) increase in provisions for liabilities and charges                                      |      | (663)             | 96                |
| Decrease in stock WIP  |      | 10                | 2, 25             |
| (Increase) decrease in debtors   |      | (3,6 7)           | 1,353             |
| (Increase) in creditors  |      | ( ,069)           | (9,750)           |
| <u>Net cash inflow from operating activities</u>   |      |                   |                   |
| <b>(b) Cash flow statement:</b>  |      |                   |                   |
| Net cash inflow from operating activities  |      | 2,9               | 11,592            |
| Dividends paid   |      | (6,000)           | (12,000)          |
| Returns on investments and servicing of finance  | 16a  | 7                 | 65                |
| Capital expenditure  | 16a  | 13                | (2,57 )           |
| Financing  | 16a  | ( , 0)            | ( , 0)            |
| <u>Increase in cash</u>  |      | <u>7</u>          | <u>7</u>          |
| <b>(c) Reconciliation of net cash flow to movement in net funds:</b>                               |      |                   |                   |
| (Decrease) in cash   | 16b  | (7,005)           | (6,957)           |
| <u>Decrease in borrowings</u>  |      | <u>, 0</u>        | <u>, 0</u>        |
| Movement in net funds  | 16b  | (2,165)           | (2,117)           |
| <u>Net funds at start of year</u>  |      | <u>1 , 32</u>     | <u>20,9 9</u>     |
| <u>Net funds at end of year</u>  |      | <u>7</u>          | <u>3</u>          |

The notes on pages 57 to 59 form part of these accounts.

## Statement of total recognised gains and losses for the year ended 31 March 2007

|   | 2006 2007<br>'000 | 2005 2006<br>'000 |
|---|-------------------|-------------------|
| Profit (loss) for the financial year                            | 10,967            | (2, 19)           |
| Surplus on revaluation of fixed assets credited to the reserves | 1,2               | 19,652            |
| Less: revaluations on assets disposed                           | (9)               | (36)              |
| Transfer out of revaluation reserve                             | (1,120)           | (1,3 5)           |
| Transfer into general reserve                                   | 1,099             | 175               |
| <u>Total recognised gains and losses relating to the year</u>   | <u>7</u>          | <u>7</u>          |

## Reconciliation of movements in Government funds

|  | 2006 2007<br>'000 | 2005 2006<br>'000 |
|--|-------------------|-------------------|
| Government Funds at 1 April                            | 123, 1            | 122,227           |
| Dividends  | (6,000)           | (10,000)          |
| Total recognised gains and losses relating to the year | 12,1 1            | 16,027            |
| Movements in long-terms loans                          | ( , 0)            | ( , 0)            |
| <u>Net movement in Government funds</u>                | <u>3</u>          | <u>7</u>          |
| <u>Balance at 31 March</u>                             | <u>7</u>          | <u>3</u>          |

The notes on pages 47 to 59 form part of these accounts.

# Notes to the Accounts for the year ended 31 March 2007

## 1 Accounting policies

---

### Basis of accounting

The accounts have been prepared in accordance with the Financial Reporting Manual (FRM) issued by HM Treasury, which provides guidance on the application of generally accepted accounting practice in the United Kingdom to Trading Funds, and the Accounts Direction issued by the Treasury. The particular accounting policies adopted by DARA are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### Accounting convention

These accounts have been prepared in accordance with the accruals concept and the historical cost convention, modified to account for the revaluation of land and buildings and other fixed assets, at current costs or value to the business.

### Turnover

Turnover comprises the invoiced and accrued value of services (excluding VAT and other sales taxes).

### Tangible fixed assets

#### Land and buildings

Where DARA is the principal beneficial user of land and buildings owned by Defence Estates, such estate is treated as an asset of the Agency although legal ownership rests with the Secretary of State for Defence. A professional valuation, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards, was carried out by Fuller Peiser during 2005/06. Land and Buildings are revalued in the years between professional valuations, using the Corporate Financial Controller (CFC) Modified Historic Cost Accounting (MHCA) index.

#### Other fixed assets

Plant, equipment, computers and motor transport are capitalised where the useful life exceeds one year and the cost of acquisition exceeds £10,000 excluding VAT. The value of capitalised plant, equipment and motor transport is reviewed annually and adjustments made for technological obsolescence, using the CFC MHCA index in the relevant periods.

### Depreciation

Freehold land is not depreciated. Depreciation on buildings, plant and equipment, motor vehicles and IT equipment is calculated to write off the cost, or valuation, of assets by equal instalments over their estimated useful lives. The lives are periodically reviewed for obsolescence of the assets.

The depreciation rates applied to the main categories of assets are based on the following estimates of useful life.

#### Buildings

Not exceeding fifty years

#### Plant and equipment

Between three and twenty years

#### Motor Transport

Between three and ten years

#### IT equipment

Between three and ten years

Where an impairment loss has occurred with reference to the value in use of an asset, a discount rate of 3.5% has been applied to the cashflows.

### Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and Armed Forces Pension Schemes (AFPS) which are non-contributory and unfunded. Although the schemes are defined benefit schemes, liability for payment of future benefits is a charge to the PCSPS or AFPS appropriately. The cost of pension cover provided is by payments of charges (Accrued Superannuation Liability Charges - ASLC) based on a percentage of salary. Salaries include gross salary, certain performance bonuses and recruitment and retention allowances. It does not include the estimated monetary value of benefits in kind. Payments are made at contribution rates determined by the Government Actuary.

### Foreign exchange

All foreign denominated transactions are translated at the appropriate rate of exchange, being the previous month's average rate.

At 31 March, balances are translated into sterling at a year end spot rate.

Use of financial instruments is explained in note 19.

## Stock

Stock is valued at the lower of cost (including attributable overheads) and net realisable value. The majority of DARA's work for the MoD is on a spares exclusive basis. Material held for this purpose continues to be owned by MoD and is not included in DARA's stock valuation. DARA's stock comprises material purchased to support spares inclusive contracts and spares manufactured and owned by DARA itself. Provisions are made to cover obsolescent items. Items are reviewed for obsolescence on a regular basis and at the end of the financial year.

## Work in progress

Most of DARA's sales contracts exclude the cost of spares, which are provided free of charge by the customer. Therefore, work in progress is valued on the basis of direct labour and indirect production support, plus those business overheads that are directly related to production activity. For spares inclusive contracts, the cost of the spares consumed is also included in the WIP valuation. The rates used to value WIP are reviewed annually.

## Long term contracts

Long term contract (LTC) balances are stated at costs incurred (net of amounts transferred to cost of sales), after deducting related payments on account. Profit on individual long term contracts is taken only when their outcome can be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Turnover on long term contracts is ascertained in a manner appropriate to the stage of completion of the contract.

## 2 Turnover

Turnover is not analysed by market segment because substantially all of the turnover relates to the same class of business: the repair, overhaul and maintenance of military aircraft, systems and components.

## Provision for losses on contracts

When it is known that a contract is forecast to make a loss, a provision is made at the time the loss is identified.

## Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred.

## Return on capital employed

The basis for calculating return on capital employed is the profit before interest for the year, as a percentage of the average capital employed during the year. Capital employed comprises total net assets (fixed assets at net book value, plus current assets, less current liabilities) and adding back the short term loans provided from government sources.

## Provision for bad and doubtful debts

DARA makes provision for bad and doubtful debts based on an aged debtor and debtor category analysis. Bad debts are written off immediately they are deemed to be irrecoverable.

## Value Added Tax

DARA has a single registration for VAT with HM Revenue & Customs and accounts for VAT on an accruals basis.

## Discontinued operations

DARA closed its Fast Jets and Engines businesses during 2006/07, with both business units ceasing operations, as planned by 31 March 2007. This is reflected in the accounts, and all transactions relevant to these two businesses are shown as discontinued operations in the Profit and Loss Account and note 3. The figures for 2005/06 have also been restated to show the appropriate comparisons.

Turnover is stated net of trade discounts, provisions, VAT and similar taxes. Discontinued Operations were the closure of the Engines Business Unit and the Fast Jets Business Unit as announced in the Armed Forces Minister's statement in November 2005.

### 3 Cost of sales, operating expenses and exceptional items

|   |      | 2016               | 2017                 |                |
|---|------|--------------------|----------------------|----------------|
|   | Note | Continuing<br>'000 | Discontinued<br>'000 | Total<br>'000  |
| <b>➤ Cost of sales:</b>                         |      |                    |                      |                |
| Staff costs                                     | 5b   | 69,000             | 21,630               | 90,710         |
| Supplies and services consumed                  |      | 1,630              | ,112                 | 22,750         |
| Accommodation costs                             |      | ,55                | 9,965                | 1,200          |
| Depreciation                                    |      | 1,919              | 36                   | 2,233          |
| Other administration costs                      | 6    | 1,330              | (2,500)              | (1,121)        |
| <b>Total cost of sales</b>                      |      | <b>77,254</b>      | <b>37,133</b>        | <b>114,387</b> |
| <b>➤ Operating expenses: (i)</b>                |      |                    |                      |                |
| Staff costs                                     | 5b   | ,191               | -                    | ,191           |
| Supplies and services consumed                  |      | 501                | -                    | 501            |
| Accommodation costs                             |      | 31                 | -                    | 31             |
| Depreciation                                    |      | 7                  | -                    | 7              |
| Other administration costs                      | 6    | 6,200              | -                    | 6,200          |
| <b>Total operating expenses</b>                 |      | <b>7,120</b>       | <b>-</b>             | <b>7,120</b>   |
| <b>➤ Cost of sales + operating expenses:</b>    |      |                    |                      |                |
| Staff costs                                     | 5b   | 73,271             | 21,630               | 99,905         |
| Supplies and services consumed                  |      | 15,139             | ,112                 | 23,251         |
| Accommodation costs                             |      | ,600               | 9,965                | 1,510          |
| Depreciation                                    |      | 1,997              | 36                   | 2,361          |
| Other administration costs                      | 6    | 7,627              | (2,500)              | 5,123          |
| <b>Total cost of sales + operating expenses</b> |      | <b>97,634</b>      | <b>37,133</b>        | <b>134,767</b> |
| <b>➤ Exceptional items:</b>                     |      |                    |                      |                |
| (Profit) loss on disposal of fixed assets       |      | ( )                | (529)                | (537)          |
|   |      |                    |                      | <b>37</b>      |

(i) Operating expenses are substantially attributed to continuing operations and did not materially change as a result of the closure of the Fast Jets and Engines businesses.



| As Restated 2005 2006 |                      |               |
|-----------------------|----------------------|---------------|
| Continuing<br>'000    | Discontinued<br>'000 | Total<br>'000 |
| 57,62                 | 35,727               | 93,59         |
| 12,7                  | 6,257                | 19,005        |
| 7,693                 | 12,99                | 20,592        |
| 1,755                 | ,925                 | 6,60          |
| 3,92                  | 13,222               | 17,20         |
| <u>73</u>             | <u>3</u>             | <u>7</u>      |
| ,906                  | -                    | ,906          |
| 56                    | -                    | 56            |
| -                     | -                    | -             |
| 127                   | -                    | 127           |
| 6,39                  | -                    | 6,39          |
| <u>7</u>              | <u>-</u>             | <u>7</u>      |
| 62,76                 | 35,727               | 9,95          |
| 13,20                 | 6,257                | 19,61         |
| 7,693                 | 12,99                | 20,592        |
| 1,2                   | ,925                 | 6,07          |
| 10,30                 | 13,222               | 23,602        |
| <u>7</u>              | <u>73</u>            | <u>7</u>      |
| 29                    | -                    | 29            |

### Interest payable and similar charges

|   | 2006 2007<br>'000 | 2005 2006<br>'000 |
|---|-------------------|-------------------|
| On loans wholly repayable within five years     | 550               | 6 7               |
| On loans not wholly repayable within five years | 1,521             | 1,62              |
|   | <u>7</u>          | <u>3</u>          |



## 5 Staff numbers and costs

| ✈ (a) Staff numbers   | 2006 2007<br>Number of<br>employees | 2005 2006<br>Number of<br>employees |
|---|-------------------------------------|-------------------------------------|
| <hr/>   |                                     |                                     |
| The average number of persons employed during the year was: |                                     |                                     |
| Senior management   | 5                                   | 5                                   |
| Service personnel   | 9                                   | 59                                  |
| Civilian personnel  | 2 2                                 | 2, 99                               |
| Agency staff  | 337                                 | 265                                 |
|   | <hr/> 73                            | <hr/> 3                             |

Total number of persons employed at 31 March 2007 (including Agency staff) was 2,691 employees (3,076 as at 31 March 2006), equivalent to 2,67 full time employees (3,060 as at 31 March 2006).

| ✈ (b) Payroll costs              | 2006 2007<br>'000 | 2005 2006<br>'000 |
|----------------------------------|-------------------|-------------------|
| in Cost of sales:                |                   |                   |
| Salaries, wages and allowances   | 65,023            | 69,5 2            |
| Social security                  | ,9                | 5,221             |
| Pension costs                    | 11,23             | 11, 5             |
| Agency staff                     | 9, 73             | 6,932             |
|                                  | <hr/> 7           | <hr/> 3           |
| in Operating expenses:           |                   |                   |
| ✈ Salaries, wages and allowances | 3,03              | 3,6               |
| Social security                  | 267               | 301               |
| Pension costs                    | 5                 | 693               |
| Agency staff                     | 306               | 26                |
|                                  | <hr/>             | <hr/>             |
| Total:                           |                   |                   |
| ✈ Salaries, wages and allowances | 6 ,057            | 73,226            |
| Social security                  | 5,251             | 5,522             |
| Pension costs                    | 11, 1             | 12,5 7            |
| Agency staff                     | 9,779             | 7,200             |
| Total payroll costs              | <hr/>             | <hr/>             |

## 5 Staff numbers and costs continued

### ✈ (c) Pension benefits

Pension benefits for civilian employees are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/60th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded defined benefit scheme and it is not possible to separately identify DARA's share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Employer contribution rates are determined by the Government Actuary at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands.

Employer contributions are reviewed every four years, following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Rates of charge will increase from 1 April 2007. Salary bands are revalorised each year.

Similarly, employers' contributions to the Armed Forces Pension Scheme (AFPS) are determined by the Government Actuary at a rate of 36.3% for Officers and 21.5% for other ranks.

For 2006/2007 employers' contributions of £19,900 were paid to one or more of a panel of appointed stakeholder pension providers (2005/2006: £1,970). Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. Contributions due to the partnership pension providers at the balance sheet date were £1,790 (2005/2006: £1,000).

1 person retired early on ill-health grounds; the total accrued pension liabilities in the year amounted to £6,300 (2005/2006 persons - liabilities amounted to £3,376).

## 6 Other administration costs

|   | 2006 2007 | 2005 2006 |
|---|-----------|-----------|
|   | '000      | '000      |
| <b>✈ in Cost of sales:</b>                                      |           |           |
| Travel and subsistence, including vehicle hire                  | 1,25      | 1,2 2     |
| IT and telecommunications                                       | 10        | 32        |
| Training, recruitment and consultancy                           | 1,376     | 1, 15     |
| Impairment of fixed assets (i)                                  | (961)     | 12,971    |
| Other expenses  | 3, 39     | ,615      |
| Cost reimbursement (ii)   | (5,726)   | (5, )     |
| Creation (utilisation) of provision for loss making contracts   | 1 3       | (167)     |
| (Utilisation) creation of provision for Engines decommissioning | (700)     | 2,100     |
|   | <u>7</u>  | <u>7</u>  |
| <b>✈ in Operating expenses:</b>                                 |           |           |
| Auditors' remuneration (iii)                                    | 96        | 92        |
| Travel and subsistence, including vehicle hire                  | 3 9       | 69        |
| IT and telecommunications                                       | ,100      | ,696      |
| Training, recruitment and consultancy                           | 90        | 565       |
| Insurance   | 1,026     | 1,059     |
| Impairment of fixed assets (i)                                  | 6         | 52        |
| Other expenses  | 270       | 162       |
| Gains on foreign exchange (iv)                                  | ( )       | (39 )     |
| Cost reimbursement (ii)   | (63)      | (299)     |
|   | <u>3</u>  | <u>3</u>  |
| <b>✈ Total:</b>   |           |           |
| Auditors' remuneration (iii)                                    | 96        | 92        |
| Travel and subsistence, including vehicle hire                  | 1,6 7     | 1,751     |
| IT and telecommunications                                       | ,110      | ,72       |
| Training, recruitment and consultancy                           | 2,2 0     | 2,3 0     |
| Insurance   | 1,026     | 1,059     |
| Impairment of fixed assets (i)                                  | (955)     | 13,023    |
| Other expenses  | 3,709     | ,777      |
| Gains on foreign exchange (iv)                                  | ( )       | (39 )     |
| Cost reimbursement (ii)   | (5,7 9)   | (5,7 3)   |
| Creation (utilisation) of provision for loss making contracts   | 1 3       | (167)     |
| (Utilisation) creation of provision for Engines decommissioning | (700)     | 2,100     |
| <b>Total of other administration costs</b>                      | <u>3</u>  | <u>3</u>  |

(i) Impairment of fixed assets relates primarily to the reversal of impairments carried out in 2005/06 following the transfer of Fast Jets and Engines Fixed Assets to other Business Units.

(ii) The total cost reimbursement has been shown separately from other expenses for greater visibility.

(iii) Auditors' remuneration is for the statutory audit fee due to the National Audit Office.

(iv) 2005/2006 reflects US Dollar forward sales hedging transactions during the year. Following the closure of Engines, matching purchase forward contracts have been placed to remove the currency risk exposure of the forward sales contract with the associated gains being recognised in 2006/07.

## 7 Fixed assets

The movements in each class of assets were:

|                              | Land<br>Buildings | Plant<br>Equipment,<br>Motor Vehicles<br>and IT | Assets in<br>course of<br>construction | Total<br>tangible |
|------------------------------|-------------------|---|--|-------------------|
|                              | '000              | '000  | '000                                   | '000              |
| <b>Cost or valuation</b>     |                   |   |  |                   |
| At 1 April 2006              | 13,566            | 3,579   | 27                                     | 169,152           |
| Additions                    | -                 | -   | 6                                      | 6                 |
| Disposals                    | (190)             | (,37)   | -                                      | (,56)             |
| Revaluation                  | 5,162             | 1,011   | 1                                      | 6,17              |
| Reclassification (i)         | 191               | 210   | (01)                                   | -                 |
| <u>At 31 March 2007</u>      | <u>37</u>         | <u>3</u>  | <u>3</u>                               | <u>7</u>          |
| <b>Depreciation</b>          |                   |   |  |                   |
| At 1 April 2006              | 77,05             | 31,91   | -                                      | 10,536            |
| Depreciation charged in year | 1,551             | 10  | -                                      | 2,361             |
| Impairments (ii)             | (257)             | (72)  | -                                      | (999)             |
| Disposals                    | (190)             | (,365)  | -                                      | (,555)            |
| Revaluation                  | ,00               | 916   | -                                      | ,996              |
| <u>At 31 March 2007</u>      | <u></u>           | <u></u>   | <u></u>                                | <u>33</u>         |
| <b>Net book value</b>        |                   |   |  |                   |
| At 1 April 2006              | 57,501            | 3,0   | 27                                     | 60,616            |
| <u>At 31 March 2007</u>      | <u>7</u>          | <u>33</u>                                       | <u>3</u>                               | <u>3</u>          |

(i) Reclassification comprises the capitalisation of assets in the course of construction.

(ii) Impairment of fixed assets relates primarily to a reversal of impairments carried out in 2005/06 following the transfer of Fast Jets and Engines Fixed Assets to other Business Units.

## Stock and work in progress

|   | 31 March<br>2007<br>'000 | 31 March<br>2006<br>'000 |
|---|--------------------------|--------------------------|
| Stock                                   | 2,72                     | 3,006                    |
| Work in progress - net costs incurred   | 7,131                    | 7,317                    |
| <u>Total stock and work in progress</u> | <u>3</u>                 | <u>33</u>                |

## 9 Debtors and prepayments

|                                      | 31 March 2007<br>'000 | 31 March 2006<br>'000 |
|--------------------------------------|-----------------------|-----------------------|
| Trade and other debtors (i)          | 20,922                | 11,769                |
| Bad debt provision                   | ( )                   | (2 )                  |
| Prepayments and accrued income       | 6,066                 | 11,936                |
| <b>Total debtors and prepayments</b> | <b>27,014</b>         | <b>23,691</b>         |

(i) Within Trade and other debtors is a balance of 13,172k for other central government bodies and 7,750k for bodies external to government, (2005/2006 other government bodies 7,72k, external to government 3,97k).

## 10 Cash at bank

|                                | '000         | '000         |
|--------------------------------|--------------|--------------|
| Cash on short term deposit (i) | 5,306        | 62,02        |
| Cash at bank (ii)              | (1,129)      | 2,15         |
| <b>Total cash at bank</b>      | <b>4,177</b> | <b>64,17</b> |

(i) Wherever possible cash is held in interest earning accounts, which are redeemable on demand within one working day.

(ii) Actual cash balance 0.1m. Balance reflects BACS payment of 1.2m clearing bank on 3 April 2007

## 11 Creditors

Amounts falling due within one year

|  | '000          | '000          |
|--|---------------|---------------|
| Trade creditors (i) (ii)                 | 2,633         | 2,360         |
| Taxation and social security (ii)        | 1,771         | 2,321         |
| Accruals                                 | 10,111        | 11,091        |
| Deferred income                          | ,367          | 11,262        |
| Sundry creditors (ii)                    | 51            | 130           |
| Long term loans payable within 12 months | ,0            | ,0            |
| <b>Total creditors</b>                   | <b>14,672</b> | <b>17,164</b> |

(i) DARA's policy is to pay its suppliers within contracted payment terms or general conditions governing the terms for the type of business undertaken or, in the absence of specially agreed terms, within 30 days of receipt of a valid invoice. This complies with HM Treasury guidelines and the Government's Better Payment Practice Code. In 2006/07 96% (2005/06 96%) of invoices, by value, were paid within this target.

(ii) Within trade, taxation and social security and sundry creditors is a balance of 2,036k for other central government bodies and 2,11k for bodies external to government, (2005/2006 central government bodies 2,622k, external to government 2,19k).

## 12 Provisions for liabilities and charges

|                                   | Loss on<br>contracts | Revenue<br>Provision<br>note (i) | Other<br>note (ii) | Total |
|-----------------------------------|----------------------|----------------------------------|--------------------|-------|
|                                   | '000                 | '000                             | '000               | '000  |
| Balance at 1 April 2006           | -                    | 766                              | 2,61               | 3,3 0 |
| Increase (decrease) in provisions | 1 3                  | (660)                            | 709                | 232   |
| Utilised in year                  | -                    | (5)                              | ( 90)              | ( 95) |
| Balance at 31 March 2007          | 3                    |                                  | 33                 | 7 7   |

(i) Revenue provision is in respect of the probable repayment of amounts invoiced to MOD customers, where refunds or partial refunds are likely.

(ii) Other provisions consist of Engines Business Unit Decommissioning 1.1m (2005/06 2.1m), redundancy administration and stock movement provision of 0.7m (2005/06 0.2m).

The liabilities and charges provided for, fall due in the following periods:

|                         | As at 31 March 2007  |                      |       |       |
|-------------------------|----------------------|----------------------|-------|-------|
|                         | Loss on<br>Contracts | Revenue<br>Provision | Other | Total |
|                         | '000                 | '000                 | '000  | '000  |
| Amounts payable within: |                      |                      |       |       |
| Under one year          | 1 3                  | 101                  | 2, 33 | 2,717 |
| One to five years       | -                    | -                    | -     | -     |
| Over five years         | -                    | -                    | -     | -     |
| Total                   | 3                    |                      | 33    | 7 7   |

The MoD has confirmed that it will continue to meet any liabilities in respect of DARA's redundancy costs, and all operating and termination costs of the Red Dragon facility consequent upon DARA's closure of its Fast Jets business at St Athan and withdrawal from the Red Dragon facility. Accordingly, no provision has been made for these future liabilities in these accounts.



### 13 Long term loans

|                                  | 31 March 2007<br>'000 | 31 March 2006<br>'000 |
|----------------------------------|-----------------------|-----------------------|
| Loan repayable by 31 March 2021  | 27,95                 | 29,610                |
| Loans repayable by 31 March 2011 | 1,175                 | 10,900                |
| Total long term loans            | <u>31,125</u>         | <u>40,510</u>         |

Amounts repayable within one year are included in creditors - see note 11.

### 14 Revaluation reserve

|                                       | 2006 2007<br>'000 | 2005 2006<br>'000 |
|---------------------------------------|-------------------|-------------------|
| Balance at 1 April                    | 22,79             | 1,527             |
| Transfer to Profit and Loss account   | (21)              | (1,170)           |
| Transfer to General reserve           | (1,099)           | (175)             |
| Revaluations in year                  | 1,2               | 19,652            |
| Less: revaluations on assets disposed | (9)               | (36)              |
| Balance at 31 March                   | <u>3,79</u>       | <u>18,898</u>     |

### 15 General reserve

|                                   | 2006 2007<br>'000 | 2005 2006<br>'000 |
|-----------------------------------|-------------------|-------------------|
| Balance at 1 April                | 17,03             | 30,07             |
| Retained profit (loss)            | 1,967             | (12,19)           |
| Transfer from Revaluation reserve | 1,099             | 175               |
| Balance at 31 March               | <u>20,109</u>     | <u>18,053</u>     |

## 16 Cash flow statement note

|   | 2006/2007<br>'000 | 2005/2006<br>'000 |
|---|-------------------|-------------------|
| <b>(a) Detailed analysis of gross cash flows</b>    |                   |                   |
| Net returns on investments and servicing of finance |                   |                   |
| Interest received                                   | 2,95              | 3,162             |
| Interest paid                                       | (2,000)           | (2,297)           |
|   | <u>75</u>         | <u>65</u>         |
| Capital expenditure                                 |                   |                   |
| Assets in course of construction                    | (100)             | (2,616)           |
| Disposal of fixed assets                            | 23                | 2                 |
|   | <u>13</u>         | <u>(2,570)</u>    |
| Financing   |                   |                   |
| With the MoD:                                       |                   |                   |
| (Decrease) in borrowings                            | (1,000)           | (1,000)           |
|   | <u>(1,000)</u>    | <u>(1,000)</u>    |

### (b) Analysis of changes in net funds

|                          | At 1 April<br>2006<br>'000 | Cashflow<br>'000 | At 31 March<br>2007<br>'000 |
|--------------------------|----------------------------|------------------|-----------------------------|
| Cash at bank and in hand | 6,120                      | (7,005)          | 57,177                      |
| Debt due within one year | (1,000)                    | -                | (1,000)                     |
| Debt due after one year  | (0,510)                    | 1,000            | (35,670)                    |
| Total                    | <u>3</u>                   | <u>1,000</u>     | <u>7</u>                    |

## 17 Operating leases

|  | 2006 2007<br>'000 | 2005 2006<br>'000 |
|--|-------------------|-------------------|
| Operating profit is shown after charging for operating lease rentals as follows: |                   |                   |
| Lease of buildings at St Athan (i)   | ,095              | 7,969             |
| Lease of vehicles and Other Equipment (ii)                                       | 505               |                   |
| <b>Total operating leases paid</b>   | <b>7</b>          |                   |

(i) Contained within note 3 - accommodation costs

(ii) Contained within note 6 - vehicle hire, and other expenses and within note 3 - supplies and services consumed

Commitments in the next financial year (2007 0 ) are as follows:

|                             | Land<br>Buildings<br>'000 | Vehicles<br>'000 | Total<br>'000 |
|-----------------------------|---------------------------|------------------|---------------|
| Leases expiring within      |                           |                  |               |
| One year                    | -                         | 10               | 10            |
| Two to five years inclusive | 1                         | 312              | 500           |
| Over five years             | 300                       | -                | 300           |
| <b>Total</b>                | <b>301</b>                | <b>322</b>       | <b>623</b>    |

Expected Rental Receipts in the next financial year (2007 0 ) are as follows:

|                             | Land<br>Buildings<br>'000 |
|-----------------------------|---------------------------|
| Leases expiring within      |                           |
| One year                    | 51                        |
| Two to five years inclusive | 1                         |
| Over five years             | -                         |
| <b>Total</b>                | <b>52</b>                 |

There are no finance leases

## 18 Commitments and contingent liabilities

There are no commitments or contingent liabilities at 31 March 2007 (and nil at 31 March 2006). Any liabilities concerning environmental pollution considered to be pre-Trading Fund events fall to the MoD. All other environmental liabilities have been provided for appropriately.

## 19 Financial Instruments

---

Treasury operations are conducted within a framework of policies, mandates and delegations authorised by the Board. DARA uses forward foreign currency sales and purchase contracts as derivative instruments for risk management purposes only. The internal control environment is regularly reviewed.

### Interest Rate Risk

DARA's funding is determined by fixed rate Government loans. There are no floating rate liabilities. The weighted average rate of interest for 2006/07 was 4.72% (2005/06: 4.70%). The weighted average period for which the rate is fixed is 11.31 years (2005/06: 12.00 years).

### Currency Risk

DARA conducts business in sterling, US dollars and euros and is therefore subject to foreign exchange risk. DARA manages this risk by natural hedging and entering into forward foreign exchange contracts. DARA has two active foreign currency bank accounts. DARA policy states that transactions are translated at the prior month average rate. Year-end foreign denominated net assets have been translated at a year end spot rate.

### Liquidity Risk

DARA has a combination of 1 year and 20 year loans, mitigating the risk of significant liabilities maturing at the same time. Current liquidity throughout the year was strong. Cash at bank is available on demand and short term investments are conducted through the HM Treasury Debt Management Account Deposit Facility (DMADF) and the Lloyds TSB Bank plc Money Market.

### Counterparty Credit Risk

DARA's policy is to minimise counter-party risk by only entering into contracts with institutions with long term credit ratings of AA or better. DARA has one forward sales contract arrangement with the Bank of England for total value of US 10.9m (US 1.1m outstanding at 31 March 2007). Structured as 12 biannual contracts for completion in February 2007, this has now been matched with a forward purchase contract to remove any associated currency exposure. The principal customer is the MoD and therefore credit risk is minimal.

## 20 Related parties

---

The Ministry of Defence (MoD) is a related party. During the year, DARA has had material transactions with the Department and with other entities for which MoD is the parent department. None of the DARA Board members or key managerial staff have any related party interests which may conflict with their management responsibilities.

## 21 Post Balance Sheet events

---

On May 22 it was announced in both Houses by the MoD Ministers that ABRO would merge with the retained DARA businesses to create a new single defence support group with the primary objective of supporting MoD and the Armed Forces. Ministers expect the new Trading Fund to be fully operational by 1 April 2007, therefore work is now underway to determine the future shape, size and management structure of the new organisation. In the meantime, both ABRO and DARA will trade independently during the current financial year 2007/08.

## 22 Losses and special payments

---

There were no material losses or any special payments made during the year.

## 23 Redundancy

---

MoD has agreed to pay for DARA's redundancy costs, in 2006/2007 these costs amounted to £19.995m (2005/2006 £12.396m).

## 24 Auditors

---

The Government Financial Reporting Manual (FReM) requires DARA's Annual Report and Accounts to be audited by the Comptroller and Auditor General. DARA's auditor is the National Audit Office (NAO). The cost of this audit is £96k (2005/2006 £92k) and no payments were made to this auditor for any other service. In addition, the Key Targets within the Annual Report and Accounts are audited by the MoD Defence Internal Audit Service.

Internal audit services were provided by BHBI Consultancy Ltd and Defence Internal Audit at a cost of £9k (2005/2006 BHBI £7k).

# Report of the Comptroller and Auditor General Defence Aviation Repair Agency 2006 2007

## Introduction

The Defence Aviation Repair Agency (DARA) was established as a Trading Fund<sup>1</sup> in accordance with the Government Trading Funds Act 1973 in April 2001. The Agency was established to provide aviation and other repair support services to the Ministry of Defence and other Crown bodies. I included a report to Parliament along with my certificate on the 2005-06 accounts of the Agency.

## Restructuring of DARA

On 2 February 2006, the Armed Forces Minister announced to the House of Commons the closure of DARA's fast jet business based at St Athan and its engine maintenance business based at Fleetlands in Hampshire. The engine maintenance and fast jets business units were both closed, as planned, during the financial year ended 31 March 2007.

The Minister also announced plans to test the market for a possible sale of DARA's components business based at Almondsbank, rotary wing business based at Fleetlands and large aircraft business (VC-10) based at St Athan, with a view to gaining increased effectiveness and value for money. At the same time the Minister announced that DARA's electronics business based at Sealand would be retained by the Ministry of Defence. Since then the Ministry of Defence has suspended plans to sell the large aircraft VC-10 business as development plans are prepared for the St Athan site as part of the Defence Training Review. Discussions are currently underway with two bidders who have expressed an interest in purchasing the rotary wing and components businesses, and this will inform a Ministerial decision to be taken later in 2007 which will either result in the sale of the business units, or confirmation that they are to be retained by the Ministry of Defence.

<sup>1</sup> A Trading Fund is defined by Government Accounting as the means of financing the trading operations of a department. They use their receipts to meet their outgoings. Financial control is exercised through the setting of financial targets, usually a level of return on capital employed.

On 22 May 2007, a further Ministerial Announcement, by the Minister for Defence Equipment and Support revealed that plans to sell the VC-10 business unit will not now proceed and, that with effect from 1 April 2007, functions remaining within DARA will be merged with those of the Army Base Repair Organisation (ABRO) to form a new single defence support group. Plans for the size and shape of the new organisation will be developed in the coming months.

The restructuring of DARA has a number of implications for my audit of the financial statements, as well as being of ongoing interest to Parliament. Two of DARA's original six business units have now been closed, and plans are in place for the sale of the rotary and components businesses with a decision on a preferred buyer imminent. I have, therefore, decided to provide a further report to Parliament providing an update on the position I reported last year.

## Compliance with International Standard on Auditing (UK and Ireland) 570 – Going Concern

As part of my audit I am required, under ISA 570, to consider whether or not there are events or conditions which would make the use of the going concern assumption to prepare the financial statements inappropriate<sup>2</sup>. In doing so, I consider the assessment made by management about whether or not the entity will remain a going concern for a twelve month period<sup>3</sup> after the accounts are signed by the Accounting Officer.

DARA's management have provided me with representations that DARA remains a going concern as at the balance sheet date. Their assessment is based on the fact that the organisation has liquid cash reserves of some £57.2 million to meet operating costs, and because the business units which are to be retained (electronics and VC-10) both generate sufficient revenues to meet their normal cost of operations.

The decisions to follow on the possible sale of the rotary and components businesses will materially affect DARA. Although the organisation has cash to meet its operating costs, and a commitment from the Ministry of Defence to meet restructuring costs, within 12 months of the date of the financial statements being signed by the Accounting Officer, two of the four remaining business units may be subject to a possible sale thus ceasing to form part of DARA's operations. Together these account for 0.5 per cent of 2006-07 turnover of £153.6 million, and have contributed £2.9 million of the reported profit for the year.

I accept management's assurances about their assessment of going concern, of DARA as a whole, at the balance sheet date. However, issues affecting the restructuring of DARA mean that this is likely to be of interest to Parliament and I have decided to report accordingly.

## Impairment of Fixed Assets

Fixed assets are valued in accordance with Financial Reporting Standard 11 (Impairment of Fixed Assets and Goodwill), which requires assets to be recorded at no more than their recoverable amount. I have examined whether assets contained within the business units subject to a possible sale have been valued in a way that is compliant with FRS11.

Both the Ministry of Defence and prospective buyers have carried out asset valuations which have been reviewed by my staff. All of the valuations broadly support the value of those assets as recorded in DARA's financial statements. As the sale process moves forward, however, the sale proceeds which are receivable by the Ministry of Defence for the business, may be reduced by the value of indemnities that are required to meet certain costs which would have been met by the Ministry were the business not to be sold, and to cover the cost of civil service pensions which staff within the business units have accrued, and which need to be funded at the point of sale. Although these issues may affect the sale proceeds receivable, I am content that the assets are correctly valued in accordance with FRS11.

<sup>2</sup> ISA 570 paragraph 11 refers

<sup>3</sup> ISA 570 paragraphs 11 and 22 refer

## Reporting Financial Performance

Financial Reporting Standard 3 (Reporting Financial Performance) governs the reporting of transactions in the financial statements, either where a business has been sold or terminated during the period of account, or where a sale or termination is anticipated within three months of the balance sheet date. The financial performance of the fast jets and engine maintenance business units are, therefore, disclosed as discontinued operations.

Although discussions remain ongoing about further possible sales, and Ministers have agreed to discussions with preferred bidders, a formal decision has not yet been taken to dispose of any remaining business units. I am, therefore, content that the financial performance of DARA is correctly reported in accordance with FRS3.

## Provisions and Restructuring Costs

Financial Reporting Standard 12 (Provisions, Contingent Liabilities and Contingent Assets) requires organisations to provide in their accounts for costs to be incurred where there is an obligation (legal or constructive) at the balance sheet date as a result of a past event, which will result in a transfer of economic benefit which can be reliably estimated.

Included within DARA's financial statements are provisions to cover the remaining costs of decommissioning buildings that were occupied by DARA's engines maintenance business. No provisions are included, however, in respect of any redundancy costs for staff, or for the ongoing costs for the Red Dragon facility at St Athan. These costs will be met by the Ministry of Defence.

The Ministry of Defence have provided the Chief Executive and Accounting Officer with a letter of comfort agreeing to meet these costs. The Ministry of Defence has, therefore, made provisions of £22.9 million for redundancy costs to be incurred from April 1 2007 onwards. The Ministry has also agreed to meet liabilities of £2.1 million in respect of decommissioning costs for the St Athan site, and will cover ongoing annual liabilities of £9.5 million relating to the running costs of the Red Dragon facility. In accepting these costs, both DARA and the Ministry have deemed the decommissioning of buildings used in the normal course of DARA's business to be valid costs to be borne by DARA and recorded in the financial statements. However, the other costs are not considered to be in the normal course of business as they are being driven by Department-wide restructuring, and are thus not reflected in these accounts.

I have considered whether DARA's treatment of redundancy and restructuring costs is in accordance with FRS 12. DARA have not provided for the full restructuring costs, based on the assurances to fund such costs provided by the Ministry of Defence, and because the costs represent those incurred in restructuring the services and capability provided to the Ministry rather than in carrying out the day-to-day business of the trading fund. DARA have, however, included within the annual report and accounts, detailed disclosures based on the range of options that will be considered.

I consider that DARA have correctly treated and disclosed restructuring costs within their financial statements for the reasons detailed above. However, I have included the possible financial implications of these options in my report, as set out in the previous paragraphs, as issues likely to be of interest to Parliament. I will continue to report to Parliament as the sale process continues, in the final set of DARA accounts which will be produced for the financial year 2007-08.



John Bourn  
Comptroller and Auditor General  
22 June 2007









are Aircraft  
ast Jets  
otar  
n ines  
lectronics  
Components

General Enquiries:  
DARA Head Office,  
St Athan, Barry,  
Vale of Glamorgan  
CF62 8AD

Telephone: 01 6755000  
Fax: 01 6755737  
[www.daranet.co.uk](http://www.daranet.co.uk)

Published by TSO (The Stationery Office)  
and available from:

Online  
[www.tsoshop.co.uk](http://www.tsoshop.co.uk)

Mail Telephone and Mail  
TSO  
PO Box 29, Norwich NR3 1GN  
Telephone orders General enquiries 0 70 600 5522  
Fax orders 0 70 600 5533  
Order through the Parliamentary Hotline  
Lo-call 0 57 023 7  
Email [bookorders@tso.co.uk](mailto:bookorders@tso.co.uk)  
Textphone 0 70 2 0 3701

Telephone shops  
123 Kingsway, London WC2B 6P  
020 72 2 6393 Fax 020 72 2 639

16 Arthur Street, Belfast BT1 1GD  
02 9023 51 Fax 02 9023 5 01

71 Lothian Road, Edinburgh EH3 9A  
0 70 606 5566 Fax 0 70 606 55

The Parliamentary Bookshop  
12 Bridge Street, Parliament Square  
London SW1A 2J  
Telephone orders General enquiries 020 7219 3 90  
Fax orders 020 7219 3 66  
Email [bookshop@parliament.uk](mailto:bookshop@parliament.uk)  
Internet [bookshop.parliament.uk](http://bookshop.parliament.uk)

TSO Blackwell and other Accredited Agents

