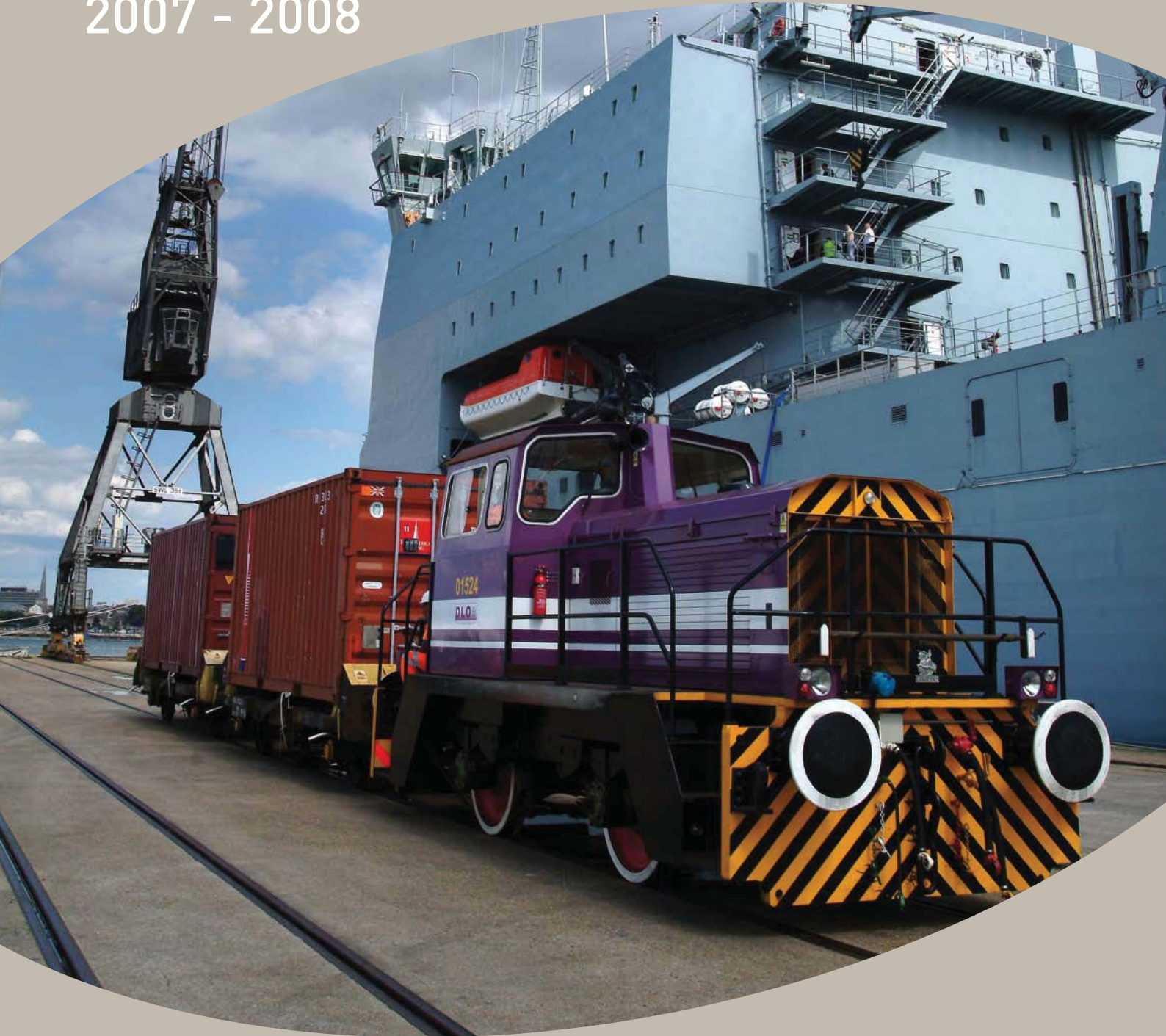


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Annual Report and Accounts

2007 - 2008





Front Cover: DSDA Rail Operations at Marchwood Military Port

Above: Packed fuels at DSDA Westmoors

Opposite: General Stores DSDA Bicester

DSDA Annual Report & Accounts 2007/08



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LONDON: THE STATIONERY OFFICE

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A large industrial crane, likely a ship's deck crane, is the central focus of the image. The crane is a complex lattice structure of metal, painted in a light blue or grey color. It stands on a dark, wet deck. In the foreground, a dark, heavy metal structure, possibly part of a ship's hull or a large container, frames the left side of the image. The background shows a clear sky and a distant building. The overall scene is industrial and maritime.

Located throughout the UK and Northern Germany DSDA manages a range of storage, processing and distribution tasks on behalf of its customers in defence and industry. Our main customer base are the Integrated Project Teams (IPTs) that manage the introduction of defence materials to the MoD. DSDA is a key enabler within the Defence Equipment and Support (DE&S) organisation and our ability to manage this partnership between our customers and the Armed Forces is unique. DSDA is strategically placed at the centre of the Defence Supply Chain and has evolved to provide a unique portfolio of services that are specifically tailored to the Defence supply industry.

This is why DSDA is the preferred supplier to some of the biggest names in defence.

The DSDA Mission

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

The DSDA Vision

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

Operational Ration Packs (ORP)
at DSDA Bicester





Foreword by The Chief Executive

This is the Defence Storage and Distribution Agency's (DSDA) third unqualified Annual Report and Accounts (AR&A) since my appointment as Chief Executive to re-engineer the Agency under the Future Defence Supply Chain initiative (FDSCi). I am pleased to report that this pace of change is being maintained.

The Initiative mandated that the Agency make significant structural change, including the closure of storage complexes in Stafford and Llangennech, as well as staff reductions; these changes are almost complete. The net effect of these changes has been reflected in the Agency's Net Expenditure, which from commencement has shown a reduction from £321M to £285M. We have therefore saved £100,000 each, and every day; these savings will re-occur year on year.

I highlighted in last year's accounts that staff reductions were required of approximately 40% from a base of 5,648: this target was subsequently set at 2,026. I am pleased to report that, with the planned reductions in the forthcoming year, for which redundancy notices have been issued, this target has been exceeded by 90 posts to 31 Mar 2008. The post reductions have therefore been delivered 2 years ahead of schedule.

This year we have closed warehouse complexes at Stafford and Longtown, and we are in the process of closing Llangennech. The closure of Stafford involved the relocation of more than 350,000 stock lines worth about £6 billion, with DSDA relocating the equivalent of 10 truck-loads of stock each day for an 18 month period. We have also closed 9 Regional Distribution Centres (RDCs).

Service levels have improved to the extent that routine demands are now processed and delivered within 7 days, compared to 49 days two years ago, and our transport operation now delivers an overnight service. This has all been achieved at a time of unprecedented operational output as we support the campaigns in Afghanistan and Iraq.

With regard to Agency Key Targets, it should be noted that a more demanding performance target was introduced for 2007-08, and the improvement in service output noted above is not reflected in achievement of the Key Target for non-Explosive issues, thus masking the enormous service improvement. In addition, the scale of stock transfers taking place resulting from the site closures noted above required management decisions to be taken to sequence the put-away of this stock to ensure military output was uninterrupted; this resulted in a failure to achieve the Key Target for stock receipts, however I am able to report that these conscious decisions to "fail" the Key Target ensured that handling items required for issue was prioritised and that there has been no interruption in output for military operations. The first month in which no large-scale stock movements take place will be June 2008, and I would then expect improvements in performance against this Key Target. I note the DSDA performance against the Key Target for munitions, which remains well above target despite large increases in output to serve military deployments, and I am also able to report that despite the relocation of almost half of the Agency stock in the past year that net stock adjustments remain within acceptable limits.

The delivery of the remarkable output service changes and net financial and head count benefits ahead of plan masks the fact that the commercial element of the FDSCi proposition is undeliverable, and it is worth noting why this is the case. In simple terms DSDA has neither the physical capacity nor the governance framework to allow for meaningful external business, as an Agency the organisation cannot trade, invest, contract, organise, equip or compete as a commercial organisation, and opportunities for income generation are limited to exploiting the minimal and reducing spare resources. Moreover, the base level of income generated from contracts with MoD prime suppliers, mainly in the complex weapons sector, is falling in line

Right: Transport by Rail and
Opposite: Technical Services
inspection at DSDA Ashchurch



with Defence spending reductions in these areas, and we expect this base income to be halved over the next 5 years.

The context in which DSDA now exists and operates is also shaped by the dynamics of the defence environment, such as “contracting for availability”, “wider markets initiatives”, “defence industrial strategy” – subjects which are well documented elsewhere – and the overall political pressure to reduce costs and the number of civil servants employed.

We have to ask ourselves how far the strategies of cutting, efficiency and new ways of working can go, and what is the likely and realistic end point of alternative approaches. We are already committed to deliver additional savings above FDSCi which will mean that over a 3-year period the Agency staff will have been reduced by 50%.

I have also considered how sustainable the position is. DSDA has a legacy of lack of investment in facilities and infrastructure over decades, to the extent that I now have to consider withdrawal from facilities to meet my obligations to provide a safe working environment. The funding requirements to remedy the basic infrastructure amounts to almost £1billion, and albeit some initial plans exist to address issues in explosives storage, the funding for the whole-scale problems is at best likely to be spread over the next decade, and at worst may happen only selectively. Other key elements affecting sustainability are the difficulties in attracting and retaining experienced logistics staff and the availability of modern information technology, and it is difficult to see how we can establish a stable organisation within the framework of current MoD policies in these areas.

With these constraints and policy frameworks we are reaching the limit of returns available from this business model. With this in mind, I commissioned work to evaluate the potential

value to Defence of taking alternative governance routes for DSDA, and a number of options are currently under evaluation, from retention of DSDA as a Government department through to divestment of DSDA.

However, irrespective of political doctrine or decisions on funding, IT or HR policies, the key determinant for DSDA future is the impact of DE&S strategies for “contracting for availability” with Original Equipment Manufacturers (OEMs). This is beginning to impact now, but over the next 5 years the majority of our current work will be subject to availability contracts. This means that we will cease to work for MoD as a primary logistics supplier and will need to compete to be the logistics partner for OEMs. Availability contracts transfer performance risk to OEMs and penalise failure. Unless we are able to accept such risk in our contracts to provide services to OEMs and trade with global reach to meet the demands of the OEMs, then we will not be able to exist in our current operational form, OEMs will partner with other global providers of logistics services, and we will be reduced to a rump activity storing commodity products. The implication is that unless DSDA is to significantly reduce in size it needs the freedom to trade freely as a commercial organisation, there being no sense in the MoD seeking to transfer risk via OEMs back to itself.

With these factors in mind next year will be a year of further change as we continue with the improvement programmes and assess potential governance regimes.

Mr N A Firth
Chief Executive
02 July 2008

Annual Report



Achieving Operational Excellence



Right: Operations and
Opposite: Warehousing at DSDA Bicester

Business Review

DSDA's transformation programme has re-focused the business and brought both commercial and professional logistics understanding to the Agency. DSDA is ahead of its targets prescribed by FDSCi.

Non-Explosive Storage was closed at Longtown ahead of plan in September 2007, DSDA withdrew from Stafford on schedule on 31 December 2007 and Llangennech closed on 30 June 2008. Net costs and mandated manpower reductions are on target; output performance has improved and 7-day routine delivery (7DD) commenced on 01 October 2007.

All of these changes along with the consolidation of DSDA's structure, the closure of sites and the rationalisation of stock have been part of the largest transformation programme defence has ever seen, and we have been doing it whilst providing support to an unprecedented number of military operations world-wide.

DSDA has successfully implemented a new storage strategy, which will see us store less and distribute faster. Instrumental to this has been the establishment of the Fast Moving Warehouse (FMW) in Donnington, the introduction of 7DD and the formation of a new distribution strategy. This initiative has helped to identify over £1bn of obsolete stock for disposal.

Central Planning (CP), DSDA's revised storage and distribution strategy, went live on 25 February 2008. CP is at the core of DSDA's transport, warehousing and distribution functions. It provides a top down overall picture of stock locations and distribution requirements across the whole Agency. By centralising control it links the storage and transport functions, the distribution hubs and our operational





Below Left: Technical Services DSDA Germany
 Below: Munitions loading at DSDA Plymouth



requirements to deliver. The revised strategy allows our customers to receive optimum benefit as there is more scope for direct deliveries and the use of third party parcel carriers, Third Party Logistics, (3PL) for smaller consignments. During this reporting period DSDA has also introduced a closure programme to reduce the number of smaller RDCs around the country. These new initiatives are a fundamental part of our ability to achieve the targets set to us by our Key Performance Indicators.

One of the most telling outcomes of our improved ability to deliver, and verifiably measure our performance, is the growing understanding that unacceptable customer wait times now have their roots elsewhere in the supply chain.

DSDA has had an extremely successful year and is about to enter an exciting year with new challenges ahead.

Activity

- DSDA made 2.23 million Non-Explosive issues (less forms and publication issues) during 2007/08.
- 168,278 of these issues were in support of operations; representing 7.4% of the total issues made.
- DSDA made 47,699 issues of explosive materials, of which 11,349 were in support of military operations.

Support to Operations

During 2007/08, DSDA has continued to provide seamless logistical support to the main operations in Iraq and Afghanistan, as well as support to other countries around the world. Some highlights include:

Right: Fast Moving Warehouse (FMW) at DSDA Donnington
Opposite: Vehicle storage at DSDA Ashchurch



Op HERRICK, Afghanistan

- A major outload of Ammunition to our fighting forces in Helmand Province.
- New to service vehicles (Mastiff, Vector, Jackal, ATVs) and spares support.
- Tented Camps, life support and Engineering equipment to improve main Operating Bases and Forward Bases.
- Supply Chain support (Air and Surface).

Op TELIC, Iraq

- Infrastructure and life support equipment for the establishment of the Kuwaiti Support Base.
- Warrior Reactive Armour Plating (WRAP 2) materiel for the upgrade of Warrior vehicles in Kuwait.
- A DSDA presence to oversee the drawdown of equipment from Shaibah Logistic Base (SLB).
- New to service vehicles (Bulldog) and spares support.
- Equipment Support and ammunition for Counter Rocket and missiles (C-Ram).
- Supply Chain support (Air and Surface).

Rest of World

- Primary Equipment Packs (PEPs) to assist the Operational Readiness Force (ORF) deployment to Kosovo
- Support to UK dependencies (Tristan da Cunha).
- Major training exercises both in the UK and overseas.

Business Agreements

- DSDA Key Account Managers work alongside the Integrated Project Teams (IPTs) in order to win any business that they may have considered awarding to either industry or any other service provider. Work undertaken is subject to a Business Agreement (BA).
- BAs have also been established with Front Line Commands for specific services, which develop to allow for the constantly changing needs of the Customers.

Commercial Activity

- DSDA has achieved a Commercial Income of £26.1M for this Financial Year (FY) 2007/08.
- DSDA continues to strive to expand its commercial customer base by consistently providing a commercially competitive, operationally effective and Customer-focused portfolio of services.
- The forecast for DSDA's Income Generation turnover for FY 2008/09, based on current contracts and those in the final stages of negotiation is £22M.
- In addition to this, DSDA Commercial has a number of significant business opportunities currently under consideration, a major factor in future business activities is the work presently underway on the bidding process for major weapons contracts in support of sophisticated munitions projects.
- New MoD guidance on "circular contracting" has the potential to reduce income to DSDA by up to £7m in forthcoming year.



Future Trading Strategy

In 2005 the MoD published its Defence Industrial Strategy which set out the industrial capabilities needed to ensure the requirements of defence can be met. The strategy laid out in this document will be a key determinant of the environment in which DSDA operates, and includes the following direction

- Prime suppliers to be increasingly responsible for front line availability of equipment
- Increased delivery of materiel direct to theatre from industry
- Faster and more reliable delivery service to front line units when required
- The need to reduce stock levels through improved stock visibility, improved forecasting and faster turnaround of materiel returned by military units
- MoD now contracting for 'capability' rather than just 'availability'

Over the next five years, the majority of current DSDA work will be subject to "contracting for availability" arrangements. DSDA will no longer be the primary logistics supplier for the MoD, and will find itself working within an increasingly competitive market. As a result it will need to both co-operate and compete with the commercial

companies who form the materiel supply backbone of MoD. Whilst DSDA has a unique position within the Defence Supply Chain, and can offer support which extends globally into theatre, the Agency will not be able to exploit its position unless it is able to share the performance risks with the OEMs. The 'availability contracts' that MoD engages in with OEMs will transfer performance risk to OEMs and penalise them for delivery failure. They will therefore seek to share that risk with their preferred logistics provider.

The trend to outsourcing is now a global phenomenon where organisations and governments throughout the World are increasingly seeking specialist support services that will improve efficiency and drive down costs. Many of the prime contractors are themselves seeking professional logistics providers to support them in the receipt, storage and distribution of raw materials and finished products to enable them to concentrate on their core activities. This provides opportunities for specialist providers, but DSDA will not be in a position to take advantage of them without appropriate structural changes. Without the commercial freedom to trade DSDA is likely to see significant reductions in its size over the next few years.

DSDA Board



Mr Neil Firth
Chief Executive

Mr Firth joined the Agency on 3 April 2006 and is a career logistician having successfully managed supply chain businesses on both a pan European and global basis. Most recently he was a Director of UPS Supply Chain Solutions with responsibility for transportation.



Mr Paul Wilson
Director Change Management

Mr Wilson joined the Agency on 1 August 2006 bringing with him extensive change management experience. He has worked with leading multi-national companies, creating efficiencies within their supply chains and has held senior roles within some of Europe's most successful logistics businesses.



Mr Neil Rixon
Chief Operating Officer

Mr Rixon joined the Agency on 24 July 2006. He is a Logistics specialist who has experience of directly formulating and managing high profile and complex supply chain strategies. He has held a number of roles in both the manufacturing and retail industry.



Mr Timothy Gall
Director Finance

Mr Gall joined the Agency on 12 February 2007. He qualified as an accountant in 1995 and has experience across the public and private sector, including roles in financial services, manufacturing and the Royal Navy. He has broad experience of change management.



Mrs Patricia Hollis
Director Human Resources

Mrs Hollis joined the Agency Board on 23 April 2007. Mrs Hollis joined DSDA from Threadneedle following a career of 19 years with Alliance & Leicester PLC. Having held a number of operational management and senior specialist and HR roles she was heavily involved in a number of mergers and acquisitions, cost efficiency programmes, relocation and greenfield site initiatives at a strategic level. A Chartered Fellow of the Chartered Institute of Personnel and Development, Mrs Hollis holds a Masters Degree in Human Resource Management from Nottingham Trent University.



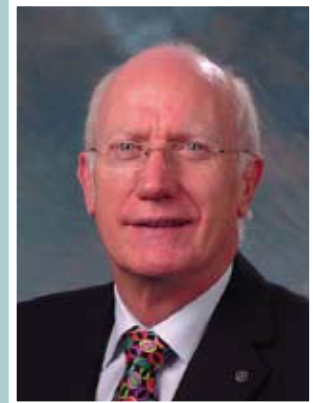
Colonel John Lewis
Director Operations

Colonel Lewis joined the Army in 1982, Commissioning into the Royal Corps of Transport. On promotion to Lt Col he joined the Force Development Team in Director General Doctrine and Development. In 2000, he commanded the Combat Service Support Battalion in Bosnia, before commanding 9 Supply Regiment Royal Logistic Corps (RLC). On promotion to Colonel he joined the Defence Logistics Organisation (DLO) and was involved with the Defence Logistic Transformation Programme. He took command of the UK National Support Element on Op TELIC before becoming Deputy Assistant Chief of Staff Log Support in HQ LAND. He joined DSDA in November 2007 as Director Operations.



Mr Douglas Doherty
Director Commercial

Mr Doherty rejoined the Agency as Interim Chief Operating Officer in March 2006, stepping into bridge a gap pending the appointment of Mr Rixon. Mr Doherty was appointed Director Commercial on 18 September 2006. He was previously the Agency's Director of Explosive Operations.



Mr Michael Maher
Non-Executive Director

Mr Maher joined the Agency Board in July 2006 bringing wide experience in general management and organisational change in manufacturing and supply chain strategies. He has served on other boards in the MoD since 2002. Most recently he was executive chairman of Jarvis Porter Group PLC.

Right: Priming Equipment Packs (PEPs) and Opposite: Warehousing Operations at DSDA Bicester



History and Background

DSDA was created as a result of the 1998 Strategic Defence Review (SDR) which brought together the third line storage and distribution activities of the Ministry of Defence (MoD). A study in 2002 concluded that a merger with Defence Munitions (DM) into the structure envisaged by the SDR would deliver further significant benefits and efficiencies. On 1st April 2003 DM and DSDA were merged into a single Defence Agency under the DSDA banner.

As a result of winning the FDSCi bid in July '05 DSDA's organisation was restructured to include elements of the Supply Chain Services (Customer Support), Rail and Container Services from the Defence Transport and Movements Agency (DTMA) and the road transport functions of the Defence Freight and Distribution Group (DFDG). Last year DSDA incorporated the receipt, storage, maintenance and issue of fuels, oils, lubricants and Tactical Fuel Handling Equipment (TFHE) from Defence Fuels Group based at West Moors.

During this reporting period the non-explosive storage facility at Longtown was closed in September 2007 and DSDA withdrew from Stafford on 31 December 2007 and transferred Engineering services over to ABRO now DSG. The print and storage facility at Llangennech closed on 30 June 2008.

DSDA continues to be an Enhanced Executive Agency within DE&S and is the only remaining Agency in DE&S. The transfer of Engineering services at Stafford to ABRO has been treated as a de-merger and previous years accounts have been re-stated.





Below Tactical Fuel Handling Equipment (TFHE)
at DSDA Westmoors



Resources and Organisation

At 31 March 2008 DSDA employed 3421 civilians, both industrial and non-industrial, and 174 military staff on a permanent basis plus 226 agency staff. The majority of these deliver our storage, distribution and processing services direct to the customers, whilst the remainder provide administrative, financial and managerial support. The storage, processing and distribution services were provided through a network of twelve major installations with a Civilian or Service Director managing each of these. DSDA also had a network of smaller Regional Support Centres and munitions compounds across the country.

Quality Assurance

In line with the Agency's policy of adopting formal quality assurance, DSDA has achieved ISO 9001:2000 accreditation at a majority of its sites. This will act as a mechanism for quality processes within DSDA.

Performance Management

DSDA has a performance management framework document emanating from (but not exclusive to) the formalised Key Targets – see pages 18 to 20. Performance is monitored and reported at all levels, from site level to board level.



Right: Transport of Munitions by Rail at DSDA Longtown
Opposite: Warehousing and Inspection at DSDA Germany

The DSDA Code of Business Principles

Business Partners

DSDA is committed to establishing mutually beneficial relations with our suppliers, customers and business partners. In our business dealings, we expect our partners to adhere to business principles consistent with our own.

Increasingly we are seeing major IPTs applying 'End to End' principles and looking for either Contractor Logistic Support (CLS) or a Contract for Availability, in respect of major weapons systems and equipments. Consequently we can no longer rely solely on traditional relationships with our primary customer base and therefore have to re-position ourselves in relation to those IPT-contractor relationships.

We are working with a number of companies to develop a range of relationships stretching from 'partnerships' to the possibility of joint business ventures. This work is ongoing and developmental, but the imperative is growing in the light of the changes mentioned above. We need to successfully place ourselves in a position to win Defence work. We also need partners to enable us to maximise the utilisation of our assets in order for us to meet our FDSCi income generation targets.

Equality and Diversity

- All Line Managers are encouraged to attend DSDA Disability and Discrimination Act workshops which highlight the Line Manager/employers responsibility to staff with disabilities under the Disability Discrimination Act 95 (DDA 95).
- DSDA ensures that all disabled applicants who meet the minimum

criteria to do the job are given the opportunity to have a guaranteed interview.

- DSDA aims to recruit and retain more people with disabilities, at all bands and within all specialisms.
- DSDA currently employ a total of 647 members of staff with a declared disability, accounting for 19.97% of the total workforce. Disability is now recorded on HRMS on a self declaration basis.

Reasonable adjustments will be made where required to meet the needs of staff with disabilities, at the recruiting stage, in the workplace and on training courses.

Community Involvement

DSDA strives to be a trusted corporate citizen, and an integral part of society. To fulfill our responsibilities, we believe that active involvement in the community is essential. We are committed to working with all our stakeholders to build and maintain





relationships of mutual trust and respect. We also work to improve the quality of life of our employees, their families, and the communities around our operations.

The Environment

DSDA is committed to making continuous improvements to achieve our longer-term goal of developing an environmentally sustainable business. DSDA works in partnership with others to promote environmental care, increase understanding of environmental issues and disseminate good practice. DSDA recognises the MoD's commitment to have an Agency wide Environmental Management System (EMS) compliant with ISO 14001, in accordance with the MoD's Sustainable Development Action Plan 2007-12 by the end of 2008. DSDA is actively working towards meeting this target.

Conflicts of Interests

All DSDA employees are expected to avoid personal activities and financial interests

that could conflict with their responsibilities to the Agency. DSDA employees must not seek to gain for themselves or others through misuse of their positions. All Board members have completed a 'Register of Interests'. This records details of registrable interests through employment, trade, profession, shares and membership of other bodies.

Safety Health and Environment (SHE) Audits

During 2007, 8 Audits were undertaken at sites that were combined Safety and Environment (SHE) Audits. These were carried out by an external contractor as recruitment for a SO2 Auditor was underway. All sites have met the KPI target of 85%. The average scores overall were:

Safety, Health and Fire	91.9%
Environment	90.7%



Far Left: Volumetrics Scanning at FMW Donnington
Left: New to Service Inspections at DSDA Ashchurch

Right: Inloading Vehicles at DSDA Ashchurch
Opposite: Loan Pool and Technical Services DSDA Bicester
Far Right: Distribution Hub DSDA Dülmen



Strategy

To meet the Agency's aims, the following strategies have been identified.

Supporting Customers

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

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

DSDA manages a comprehensive range of storage, processing and distribution tasks on behalf of its customers in Defence and Industry, responsible for an inventory of 1.85 million lines, valued at £12.565 billion.

The Agency's main customers are the DE&S's IPTs managing the support of the UK MoD's fleets of ships, submarines, aircraft and vehicles, their munitions and equipments.

DSDA is increasingly working with Industry Prime Contractors to deliver the most cost-effective and efficient logistics services to the Armed Forces, already acting as a subcontractor for many Defence manufacturers in support of deployed Defence equipment and systems.

DSDA is also able to provide the gateway between the commercial and military supply systems, providing services such





Left: Rail Transport at DSDA Ashchurch
Below: Loading Munitions at DSDA Plymouth



as cross-docking, reverse logistics and onward transmissions.

Managing our Human Resources

The success of the Agency depends on our people having the right skills, motivation, training, information and resources to enable them to meet the challenges and to respond positively to the reality of change.

The Agency will continue to invest in our people, ensuring that all personnel, both civilian and military, have the opportunity to undertake training to enhance their skills in their current employment. The Agency recognises that without supporting and investing in our people we would be unable to fully achieve our aims and objectives.

DSDA staff have been able to take advantage of the wide and varied selection of training opportunities available through the MoD's in-house training organisation DbLearning, and also those provided by external training providers, where the Agency has ensured value for money and a return on investment.

The Agency is fully committed to the creation and maintenance of a working environment, which is free from unfair discrimination, harassment and victimisation. It is a mandatory requirement for all DSDA staff to attend the Bullying and Harassment in the Workplace training course.

Managing our Financial Resources

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

DSDA Installations

The move to Seven-Day Delivery (7DD) for routine issues is one of many FDSCi targets. 7DD was introduced on 01 October 2007 and revised shift patterns, to support same day pick and pack and centralised planning of vehicle routes. The introduction of 3PL and the sequenced loading of vehicles at hubs in Bicester and Donnington have all been part of the 7DD solution. As a result the Agency was able to introduce a closure programme to reduce the number of smaller RDCs around the country and in Northern Germany.

The Non-Explosive Storage facility was closed at Longtown in September 2007 and the Agency withdrew from Stafford on 31 December 2007. The print and storage site at Llangennech also closed on 30 June 2008.

GLEN DOUGLAS

BEITH

LONGTOWN

WEETON

STAFFORD

DONNINGTON

KINETON

ASHCHURCH

SENNYBRIDGE

LLANGENNECH

PUCKRIDGE

TIDWORTH

WARMINSTER

PLYMOUTH

BULFORD

WESTMOORS

GOSPORT

Locations in grey are pre FDSCi sites that DSDA has withdrawn from or closed.



Right: FMW Donnington
 Opposite: Inspection and Maintenance DSDA Germany
 Far Right: Rail Operations DSDA Bicester



Performance Summary

Performance Against Key Targets for FY 2007/08

Key Targets (KT)

Category = Efficiency

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

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

Key Target 1a	Target	2005-06	Target	2006-07	Target	2007-08	Target	2008-09
For explosives materiel; to supply 95% of available maintained munitions within demand timescales.	95%	99.55%	95%	98.32%	95%	98.81%	95%	

Key Target 1b	Target	2005-06	Target	2006-07	Target	2007-08	Target	2008-09
95% of all issues of non-explosives materiel to consumers to meet that element of the Supply Chain Pipeline Time for which DSDA has responsibility.	95%	106.99%	95%	96.72%	95%	93.06%	95%	

In 2006-07 DSDA achieved 96.7% against a 12 day target; this was increased to 10.5 days in April 07 and again to 7 days in October 07. By March 08 DSDA operated at a level of greater than 95% which is above the target.

Key Target 1c	Target	2005-06	Target	2006-07	Target	2007-08	Target	2008-09
98% of all receipts that conform to the specifications laid down in the contract and/or materiel regulations to be processed within the time limits agreed with each individual customer.	98%	103.98%	98%	98.08%	98%	88.62%	98%	

Due to decisions taken to prioritise work during the consolidation of the DSDA estate and subsequent site closures Key Target was not met for 07/08.



Key Target 2

Category = Efficiency

KT 2 is an efficiency measure for continuous performance improvement to achieve a 2.5 per cent (net of 2.5 per cent inflation factor) reduction in the unit cost of output (UCO) in financial year 2007/08 (based on financial year 2006/07) while maintaining an effective level of services to the customers in accordance with the BAs.

The table below shows performance for FY 2007/08 where an average saving in UCO of 5.38% has been achieved.

Key Target 2	Baseline	Target FY 2007/08	Achieved FY 2007/08	Average Savings
Make average saving of 2.5% (5% less 2.5% inflation) year on year on a rolling basis.	2006/07	£.p 195.32	£.p 184.82	% Achieved

Key Target 2 has been achieved, however the exact figure is yet to be fully audited by the Defence Internal Audit.

Performance

Explosives Materiel	2006/07		2007/08	
Unit of Output	Target	Performance	Target	Performance
Receipt Voucher		£452.04	£440.74	£391.49
Storage M3		£65.90	£64.25	£62.72
Processing: M-Hrs		£58.80	£67.33	£54.11
Issue Voucher		£895.79	£873.39	£817.02

Non-Explosive Materiel	2006/07		2007/08	
Unit of Output	Target	Performance	Target	Performance
Receipt Voucher		£53.91	£52.57	£67.35
Storage M3		£10.61	£10.34	£11.17
Maintenance: M-Hrs		£37.76	£36.82	£42.72
Issue Voucher		£27.83	£27.13	£31.95

1. Previous years KT2 has only included costs of DSDA's main sites. Following last years KT2 it was agreed that future calculations should include all of DSDA's costs and reflect the Agency Accounts totals. As a result FY 06/07 has been re-baselined and new targets set.

2. All costs have been taken into account including Conflict Prevention and the additional Freight costs for 7-Day Delivery.



Right: DSDA Rail Operations at Marchwood Military Port
Opposite: Vehicle Storage at DSDA Ashchurch

Key Target 3:

The value of the inventory written off as a result of DSDA's action to be less than the value of materiel written off during the financial year 2005/06.

Key Target 3a	Target	2005-06	Target	2006-07	Target	2007-08	Target	2008-09
This target was introduced in 2003/04 following the merger with Defence Munitions.	0.02%	0.0003%	0.02%	0.00009%	0.02%	0.00001%	0.02%	

Key Target 3b	Target	2005-06	Target	2006-07	Target	2007-08	Target	2008-09
The performance against KT 3b at March 2008 stood at 0.0166% & (YTD) of the value of Receipts, Issue and Storage activity written off as a result of DSDA's actions.	<0.02% of the value of activity	DCSA 0.019% DG Log (Fleet) 0.00% DG Log Land 0.0395% DG Log Nuclear 0.00% DG Log SC 0.189% DC IPT 0.20% DCG IPT 0.011% DFG 0.08% DGM 0.003% GS IPT 0.11% DG Log Strike 0.013% MSA 0.22% TES 0.05%	<0.02% of the value of activity	DCSA 0.0021% DG Log (Fleet) 0.0042% DG Log Land 0.0290% DG Log Nuclear 0.00% DG Log SC 0.827% DC IPT 0.0882% DCG IPT N/A% DFG N/A% DGM N/A% GS IPT N/A% DG Log HQ AIR 0.0087% MSA 0.2476% TES 0.0143%	<0.02% of the value of activity	DG Air Support 0.0229% DG Combat Air 0.0247% DG Helicopters 0.0357% DG IS & S 0.0017% DG ISTAR 0.0213% DG Joint SC 0.1500% DG Land Equipment 0.0341% DG S & E 0.1648% DG Ships 0.0434% DG Submarines 0.0000% DG Weapons 0.0030% HQ Land 0.0043% MED GS IPT 0.1698%	<0.02% of the value of activity	
Overall Performance						0.0166%		

The value of items written off as a result of DSDA's actions is to be less than 0.02% of the overall value of the inventory.

Overall performance on KT3 was 0.0166%, the target being 0.02%.



Remuneration Report (Audited)

Remuneration Policy

Members of DSDA, with the exception of Mr Maher, Mrs Hollis and Mr Doherty, hold substantive civil service contracts or are in the armed forces. Appointments may be terminated in accordance with the Civil Service Management Code or Single Service Military Appointments procedures. Mr Maher receives a fee for attending meetings based on an annual rate. Mrs Hollis and Mr Doherty are employed through specialist recruitment agencies for their services.

The Chief Executive, Chief Operating Officer and Director Change Management are senior civil servants and their pay is set through recommendations made by the review body on senior salaries, which provides independent advice to the Prime Minister. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

The remaining executive directors and all other Non Industrial staff have their remuneration determined by a process consistent with MoD and HM Treasury regulations. The Agency has delegated authority for setting Industrial staff salaries in accordance with MoD Centre and Treasury processes and approval.

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

Performance pay is awarded in line with the laid down procedures adopted across

the MoD. A number of Award Groups are established across the Agency and sit by Business Stream/Enabling Layer and grade. Posts at senior management level are managed on an agency wide basis. Additional performance related pay, via Special Bonus and Minor Awards schemes are available to all civil servants. Both schemes are administered in line with MoD policy.

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

Service Contracts

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

Unless otherwise stated below, the staff covered by this report hold appointments, which are open-ended, until they reach the normal Civil Service retirement age of 60. This is the point at which Civil servants, under the Classic, Premium and Classic Plus schemes are entitled to draw their Civil Service Pension. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Right: DSDA Rail and Container Operations
Opposite: DSDA Plymouth, Munitions at Longtown and DSDA
Multiskilled Railway Operators

Below: Distribution Hub Operations at DSDA Dülmen



Appointments

Neil Firth was appointed Chief Executive, via open competition, and took up post on 3rd April 2006 and is a member of the senior civil service. His contract was re-negotiated at the two-year point for a further 3 years.

Paul Wilson was appointed Change Management Director, via open competition, and took up post on 1st August 2006. He has been appointed on a 3-year contract.

Neil Rixon was appointed Chief Operating Officer, via open competition, and took up post on 24th July 2006. He has been appointed on a 3-year contract.

Doug Doherty was appointed interim Chief Operating Officer on a contract for services with Systems Consultants Ltd on 20 March 2006 until 24 July 2006. Following the appointment of Neil Rixon, Doug Doherty was appointed as the interim Commercial Director on 18 September 2006. The post will be filled on a permanent basis via open competition.

Patricia Hollis was previously appointed interim Human Resources Director on a contract for services with Hays Human Resources. She was subsequently appointed to the Board on 23 April 2007.

Timothy Gall was appointed Finance Director via open competition and took up post on 12th February 2007.

Colonel John Lewis replaced Colonel Mark Dunn as Director Operations on 23 November 2007.

Non-executive directors are not appointed as Civil Servants. Mr M Maher was appointed as a Non Executive Director on 1st July 2006.

The salary and pension entitlements of the Management Board are shown opposite.





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

	Salary including performance pay	Salary including performance pay	Benefits in kind	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/08 and related lump sum (or date left DSDA)	CETV at 31/03/07 (or date joined DSDA)	CETV at 31/03/08 (or date left DSDA)	Real increase in CETV after adjustment for inflation and changes in market investment factors
	06/07 £k	07/08 £k	£00	£k	£k	(nearest) £k	(nearest) £k	(nearest) £k
Current Board Members								
Mr N A Firth Chief Executive	120-125	135-140	-	0-2.5	2.5-5	25	54	25
Mr N Rixon Chief Operating Officer	70-75	120-125	-	0-2.5	2.5-5	14	40	24
Mr P Wilson Director Change Management	65-70	110-115	-	0-2.5	2.5-5	11	32	16
Mr T Gall Director Finance	5-10	65-70	-	0-2.5	0-2.5	1	14	10
Col J Lewis Director Operations	N/A	45-50	34	0-2.5 plus 5-7.5 lump sum	30-35 plus 95-100 lump sum	717 ^x	774	54
Mr D Doherty Director Commercial	145-150	140-145 ⁱⁱ	-	-	-	-	-	-
Mrs P Hollis Director Human Resources	N/A	150-155 ⁱⁱ	-	-	-	-	-	-
Mr M Maher Non-Executive Director	10-15	15-20	-	-	-	-	-	-
Board members who Left in Year								
Col M L Dunn Director Operations	65-70	65-70	68	0-2.5 plus 0-2.5 lump sum	30-35 plus 95-100 lump sum	298 ^x	322	8

- i. The total remuneration for Mr Firth is £137,882. Mr Firth is a member of the Premium Pension scheme.
- ii. Mr Doherty and Mrs Hollis hold interim Board appointments. Payments shown above were made to Employment Agencies, not directly to the Directors for interim services, and include the Agency fee.
- iii. All Board members, with the exception of Mr Doherty, Mrs Hollis, & Mr Maher, are members of the AFPS or CSP.
- iv. Col Dunn and Col Lewis were in receipt of a Continuation of Education Allowance, which is a taxable benefit, settled by the Service Personnel & Veterans Agency under a PAYE settlement agreement. They were also in receipt of a domestic cleaning benefit in kind related to their Garrison Commander duties.
- v. The factors used to calculate the CETV for members of the CSP & AFPS have been revised for 2006-07. The figures for 31 March 2007 have been recalculated using the new factors and this has led to changes to the figures published last year for Mr Firth, Mr Rixon, Mr Wilson and Col Dunn.
- vi. The salary bands exclude pension contributions and ERNIC and are apportioned for part years service with DSDA. CETV values have also been apportioned for part years service with DSDA. Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances or any other allowance to the extent that it is subject to UK taxation.
- vii. No taxable benefits in kind were paid to any member of the Agency Board in either the current or prior year.
- viii. Real increase in pension and total accrued pension for Military members are based on a leaving date of 31 March 2008 (or date left DSDA) as pensions are payable on retirement and not deferred until age 60.
- ix. The amount in respect of Mr Maher is a Non Executive Fee entitlement excluding travel costs.
- x. Col Lewis and Col Dunn are members of different pensions schemes (Col Dunn is a member of the AFPS 05 scheme and Col Lewis is a member of the AFPS75 scheme). The two schemes contain different actuarial assumptions, the CETVs are not calculated in the same way.



Right: Support Centre Waterbeach
Opposite:DSDA Plymouth and Dülmen

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007 civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus) or a 'whole career' scheme (nuvos), Classic, premium and classic plus are now closed to members. These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under nuvos, classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index (RPI). Recent entrants to premium (after 1 October 2002) and nuvos (from 30 July 2007) may choose between membership of the scheme or joining a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account). The accrued pensions quoted above are the pensions the members are entitled to receive when they reach 60 (nuvos 65), or immediately on ceasing to be an active member of the scheme if they are already 60 (nuvos 65).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings 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. Classic plus is essentially a hybrid with benefits in respect of service before October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in Premium. In

nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension agreement. 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 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Armed Forces Pension Scheme (AFPS)

From 6 April 2005, a new Armed Forces Pension Scheme (known as AFPS 05) was introduced for all new members of the Armed Forces; those in service before this date have been given the opportunity to transfer, from AFPS-75, to the new scheme. Both schemes are defined benefit, salary-related, contracted out, occupational pension schemes. The AFPS is non-contributory for members; the



cost of accruing benefits are met by the employer at rates approximately equivalent to 36.3% (Officers) and 21.8% (Other Ranks) of pensionable pay; for regular personnel. Members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Armed Forces at or beyond either the Early Departure Point or the Immediate Pension Point. If a scheme member leaves before these points, they will be entitled to a preserved pension related lump sum.

Further details about Armed Forces Pensions can be found at the website

www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/SPVA/Pensions.htm

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

A full actuarial valuation of the PCSPS was carried out at 31 March 2007 and for the AFPS at 31 March 2005. Details can be found in the Resource Account (of these schemes), which are published and laid

before the House of Commons. The PCSPS accounts are also available on the web at www.civilservice-pensions.gov.uk.

For 2007-08, employers' contributions of **£14,277k** were payable (2006-07 **£15,559k** restated) at rates in the range 17.1 to 36.3 per cent of pensionable pay, based on salary bands as highlighted below.

Employer contributions for the CSP are reviewed every four years following a full scheme valuation by the Government Actuary. Following revalorisation of the salary bands, rates increased in 2006-2007 (and have again increased in 2007-2008).

The AFPS has had a full scheme review and new employer contribution rates were introduced in 2005-2006.

For each class of member the employer's contribution rates for FY 2007/08 and FY 2006/07 were as shown below.

Scheme and class of member	07-08 %	06-07 %
CSP - Non-Industrial Staff	17.1 - 25.5	17.1 - 25.5
CSP - Industrial Staff	17.1 - 25.5	17.1 - 25.5
AFPS - Officers	36.3	34.3
AFPS - Other Ranks	21.8	21.3

Right: Loading Munitions and
Complex Weapons Processing at DSDA Gosport
Opposite: DSDA Dülmen



The Cash Equivalent Transfer Value (CETV)

This is the actuary assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total service, not just their current appointment. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the AFPS or Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The Real Increase in the Value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the member (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Higher Paid Staff

The numbers and remuneration of higher paid staff, excluding the Chief Executive and Management Board members at 31 March 2008 are shown below. The salary bands exclude pension contributions and ERNIC. All staff are members of either the AFPS or the CSP.

Salary Band	07-08	06-07
£40,000 - £49,999	33	38
£50,000 - £59,999	12	9
£60,000 - £69,999	9	8
£70,000 - £79,999	1	2
£80,000 - £89,999	0	0

Mr N A Firth
Chief Executive
02 July 2008



Accounts

Statement of Internal Control

Scope of Responsibility

As Chief Executive of the Defence Storage and Distribution Agency (DSDA) I am the Accounting Officer with the responsibility for maintaining a sound system of internal control whilst operating within the framework of responsibility delegated to me. This control must support the achievement of Agency objectives that underpin the Departmental policies and aims, whilst safeguarding the public funds and departmental assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in Managing Public Money. As the Chief Executive of a Defence Agency I am also responsible for producing annual accounts that are laid before Parliament but that also form part of the Departmental Resource Accounts.

Background

DSDA was restructured as a result of winning the FDSCi bid in July 2007 and, following the formation of DE&S, is now the only agency within that Top Level Budget. The cultural and organisational changes required to meet the transformation programme committed to under FDSCi have continued throughout this financial year. However in this year there has been greater stability within my senior management team that has aided the internal control process. This process is centred on delegation of responsibility at the appropriate level. This is essential to maintaining controls within a changing environment and throughout the year the guiding governance principle applied has been that existing internal controls have remained extant and maintained until replaced.

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The foundation of DSDA's System of Internal Control is based upon four types of control:

Directive Controls - ensure that a particular outcome is achieved by directing and modifying behaviour. In simple terms this is about a formal methodology of telling people what to do and how to do it (JSPs, DSDA PIs, Formal Training etc).

Preventive Controls - limit the possibility of an undesirable outcome by establishing preventative structures (separation of duties, restriction of access, limit of delegation).

Detective Controls - aim to identify occasions of undesirable outcome. These can occur after an event but the system looks to identify occasions before they occur (Internal Compliance Audits, ISO Quality Audits, requests to DIA and DE&S for specific audits, stock checks).

Corrective Controls - aim to correct undesirable outcomes that have occurred and attempt some recovery (Assurance investigations, Discrepancy investigations and reconciliation, Post Project Evaluation Lesson Learned, Boards of Enquiry).

Right: Distribution of Emergency Water Supplies from DSDA Ashchurch
Opposite Muniton Storage at DSDA Plymouth and TFHE at DSDA Donnington



The System of Internal Control is also about responsibility and accountability and to this end I now require my Directors to confirm annually that:

Within their area of responsibility and within their delegated powers they have planned and organised in a manner which provides reasonable assurance that the organisation's objectives and goals will be achieved efficiently and economically and that they have provided the necessary controls to minimise risk to an acceptable level.

The system of internal control has been in place for the year ending 31 March 2008 and up to the date of approval of the Annual Reports and Accounts and accords with Treasury Guidance.

Capacity to Handle Risk

The active management of risk is fundamental to the effective achievement of Agency objectives and is therefore part of the business. The DSDA Board, through the Chief Operations Officer and the Change Management Director, and managers at all levels promote risk ownership and risk management, and ensure its principles are understood and widely adopted in accordance with JSP 525, thus ensuring that risk management is fully embedded in DSDA's management processes. All staff are encouraged to contribute by adhering to regulations, considering risks, highlighting concerns and being encouraged to implement innovative solutions. The DIA have assisted me in this by providing guidance on risk management to my Board.

The Risk and Control Framework

The Agency's Risk Management framework is based upon the Defence Equipment and Support (DE&S) Standing Instruction No2 Performance and Risk Management and is articulated in the Agency's Corporate Governance and Risk Management Handbook. Development of risk management continues within the Agency and this year a Risk Management Process has been issued to ensure that all employees contribute to a systematic approach to managing risk. In accordance with the Standing Instruction the Agency uses the database software mandated by DE&S to record major risks identified within the Agency and therefore there is full visibility of major DSDA risks within DE&S.

The DSDA Board manages the top-level risks with the Agency's Director of Finance & Business Planning the nominated Risk Management lead on the Board. Each Agency level Risk has an Owner at Board level responsible for mitigation action and Agency risks are considered at each Management Board meeting. The Audit Committee, chaired by a Non-Executive Director, also reviews the Agency Risk Register at each meeting.

Lower level risks are managed at the appropriate levels and considered at relevant forums within the business areas. All Business Units maintain their own Risk Registers and the DSDA Risk Management Process details the methodology for elevating management of a risk within the Agency.



Review of Effectiveness

As Chief Executive and Accounting Officer of the DSDA, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Finance Directorate and the Executive Managers within the Agency. They have responsibility for the development and maintenance of the internal control framework, taking cognisance of comments made by the external auditors in their management letters and other reports. The strength of the internal control system is in its ability to identify any weaknesses and take appropriate corrective action. Therefore incidents identifying a potential weakness in internal control systems are fully investigated:

- In this year I have instigated a detailed investigation into inventory management control as a result of stock discrepancies identified on the outload from DSDA Stafford. Initially these discrepancies were identified as being in the region of £41M deficient but subsequent reconciliation activity was able to identify stock for the full value removing the need for write-off. I am satisfied that the controls in place for inventory management were in accordance with the regulations but the fact that an initial discrepancy was suspected prompted me to establish a project team, whose work is ongoing, to identify any additional controls that can be introduced to further improve inventory accounting.
- I also instigated a full investigation of the issue process at DSDA Ashchurch following one incorrect issue of

Snatch Land Rovers. That investigation identified a number of improvements to improve the control system and these have been, or are in the process of being, introduced.

- I have accepted the recommendations made by DIA in an audit on suspected losses of materiel and responsibility for investigation of losses will become the responsibility of my Finance Director.

Personal Data Related Incidents

In accordance with the Cabinet Office guidance I have sought assurance that personal data is fully protected. I can confirm that:

- There were no incidents recorded within the last financial year on DSDA's central register that were formally reported to the Information Commissioners office
- There were no incidents recorded within the last financial year on DSDA's central register that were not formally reported to the Information Commissioners office
- There is limited information available for the previous financial years back to 2004 but there is no information identifying any incidents within DSDA involving personal data in those years

All staff have been made aware of the requirements for protection of personal data through the publication of Security Advice Notices and portable media devices have now been replaced with full disc encryption laptops. To gain further assurance in this area I have commissioned a DIA audit on IS and Data Security within DSDA that will report in the next financial year.

Right: Munitioning HMS Daring at
Glen Mallan Jetty DSDA Glen Douglas
Opposite: Clothing Storage at DSDA Bicester and
Munitions at DSDA Wulfen



Conclusion

Overall I am content that the internal process for identifying risk has been correctly adhered to although I am conscious that loss of personnel within the Agency's assurance team during this financial year has impacted upon the ability to demonstrate internal assurance. However both DE&S Governance and Board Support and the DIA have supported me in evaluating the internal control mechanisms.

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 and the plan to address weaknesses and ensure continuous improvement of the systems is developing. In line with Departmental guidance, the following processes are established:

- A Board, which meets in 10 months of the year to consider and approve the plans and strategic direction of the organisation. It will comprise the senior members of the DSDA and has one external independent member who is the Chairman of the Audit Committee.
- An Audit Committee, chaired by the independent Non-Executive Director with additional independent membership that meets five times a year.
- A bi-weekly meeting between my Executive Directors and myself, to discuss daily business and potential problems.

- A series of bilateral meetings with Head Office Directors and Business Unit Directors.
- An Agency Risk Register that is supported by business area risk registers and which is regularly reviewed.
- A process for managing risk and for elevating that management as appropriate within the Agency.
- Business Continuity plans, that are regularly reviewed and tested, throughout the Agency.
- A Fraud and Theft Policy that is communicated throughout the Agency and reviewed annually.

Internal control delivered through various sources of assurance, including a Munitions Compliance Group, a Corporate Assurance Team (CAT), Finance Health Checks, monthly checks of travel and subsistence/ overtime claims and ISO certifications.

Mr N A Firth
Chief Executive
02 July 2008



Statement of Agency's and Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 HM Treasury has directed the Defence Storage and Distribution Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in their Accounts Direction dated 11 December 2007. The Financial Statements are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

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

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



Munitioning Operations at DSDA Gosport

Right: DSDA Longtown
Opposite: Support Centres Longmoor, TFHE at Westmoors and
Munitioning at Glen Mallan Jetty DSDA Glen Douglas



Foreword to the Accounts

Basis of Accounts and Audit Arrangements

Introduction

The Accounts cover the period from 1 April 2007 to 31 March 2008. They have been prepared in accordance with the Government Financial Reporting Manual (the FReM) and the Direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

Audit Arrangements

The Accounts of the Agency are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. A notional fee of £84,000 has been included in the non-cash costs.

Members of the Board at 31 March 2008

N A Firth – Chief Executive

P Wilson

N Rixon

Col J Lewis

P Hollis

D Doherty

T Gall

M Maher (Non-Executive Director)

Creditor Payment Policy

The Defence Bills Agency is MoD's central payment authority and has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.76% in 2007-2008. No interest payments arose.

Statement on Disclosure to Auditors

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

Mr N A Firth
Chief Executive
02 July 2008



Financial Review

For the Year Ended 31 March 2008

The Total Operating Expenditure of the Agency for the year ended 31 March 2008 was £294.5m. Total income was £26.1m resulting in net operating expenditure of £268.3m; this represents a decrease of £17.1m over the re-stated position for the previous year. DSDA's staffing levels have reduced as a result of the FDSCi redundancy programme and overall staff costs have reduced by £7.1m. The re-stated figures reflect the de-merger following the transfer of engineering services at Stafford to ABRO.

Staff costs remain a high proportion (45.8%) of the Agency's operating expenditure and reflect the manpower intensive nature of the work. Permanent employee numbers have reduced from 4,175 (re-stated) at 31 March 2007 to 3,595 at 31 March 2008; this represents a 13.9% reduction in numbers during the period. A total of 334 staff left the Agency under year 2 of the FDSCi redundancy scheme. A further 83 left

under the MoD Early retirement scheme. The number of casual employees has risen from 80 to 169 to cover increased levels of support to in-theatre operations. DSDA also currently employs 226 staff through Recruitment Agencies.

The income generated from a range of third parties, reflects DSDA's continuing drive to market our facilities and expertise in receipt, storage, maintenance and distribution during the last year. However, due to DSDA's reducing footprint, the availability of irreducible spare capacity has reduced; this is reflected in the income fall from £29.3m to £26.1m.

The net interest payable reflects the unwinding charges from the redundancy provisions. The cost of capital charge of £16.1m, as disclosed in the accounts, has decreased due to the full impact of the introduction of Single Balance Sheet Owners (SBSO) being applied to both opening and closing balances.



Right: FMW at DSDA Donnington

The overall cost reduction in the Operating Cost Statement is £18.1m; this does not demonstrate the full impact of the re-engineering of the Agency. A number of significant price increases (Petrol/Diesel) and the additional cost to implement

7 day delivery (third party distribution) have been absorbed by the Agency and nullify the efficiencies in staff costs, IT and consultancy support. The table below highlights those cost areas of note.

Efficiencies	FY 07/08 £'000	FY 06/07 £'000	Difference (£'000)
Staff Costs	122,835	129,890	(7,055)
Consultancy Support	1,395	4,374	(2,979)
Information Technology related expenditure	1,692	6,344	(4,652)
Fixed Asset write off/on - IT/P&M/Transport	(71)	1,840	(1,911)
Stock	6,159	8,388	(2,229)
Domestic Fuels	15,445	17,045	(1,600)
Beneficial use charges - Land & Buildings	6,722	7,256	(534)
Impairment from Quinquennial Valuation - Land & Buildings	0	8,768	(8,768)
Charges for Provisions	1,708	6,518	(4,810)
Cost of Capital Charge	16,068	17,215	(1,147)
Additional Costs Absorbed			
Third Party Distribution	20,563	11,670	8,893
Petrol, Oils and Lubricants	4,429	2,572	1,857
Fixed Asset write on/off - Land & Buildings	5,606	3,672	1,934
Income	(26,150)	(29,354)	3,204
Communicated Costs			
Works, Estate Maintenance and Property Management Fees	18,805	12,885	5,920
Share of MoD Overheads	5,503	9,802	(4,299)
Net Movement			(18,176)

Mr N A Firth
Chief Executive
02 July 2008

Defence Storage and Distribution Agency

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

I certify that I have audited the financial statements of the Defence Storage and Distribution Agency for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and Auditor

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

My responsibility is to audit the financial statements 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 HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report

to you whether, in my opinion, certain information given in the Annual Report, which comprises the Foreword by the Chief Executive, Business Review, DSDA Board, History and Background, DSDA Code of Business Principles, Strategy, DSDA Major Installations, Performance Summary and the 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 the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made

thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008 and of the net expenditure, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the Foreword by the Chief Executive, Business Review, DSDA Board, History and Background, DSDA Code of Business Principles, Strategy, DSDA Major Installations, Performance Summary and the Remuneration Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
07 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

Operating Cost Statement

For the period ended 31 March 2008

	Note	07-08 £000	Restated 06-07 £000
OPERATING COST			
Staff costs	2	122,835	129,890
Supplies and Services consumed	3	83,657	85,507
Accommodation costs	4	75,289	77,493
Administration costs	5	12,712	21,827
TOTAL OPERATING EXPENDITURE		294,493	314,717
INCOME			
From non-MoD customers	8	(24,131)	(27,565)
From MoD Trading Funds & OGDs	8	(2,019)	(1,789)
NET OPERATING EXPENDITURE		268,343	285,363
Net Interest payable	13	748	717
Cost of Capital Charge	6	16,068	17,215
NET EXPENDITURE	14	285,159	303,295

Statement of Recognised Gains And Losses

For the period ended 31 March 2008

	07-08 £000	06-07 £000
Unrealised surplus on revaluation of fixed assets	22,718	104,550
Movement on Donated Asset Reserve	(667)	(13,496)
RECOGNISED GAINS AND LOSSES FOR THE YEAR	22,051	91,054

The notes on pages 40 to 58 form part of these accounts

Balance Sheet

as at 31 March 2008

	Note	07-08 £000	06-07 £000
FIXED ASSETS			
Tangible fixed assets	9	508,432	527,829
Non-Operational Heritage Assets	10	75	0
TOTAL FIXED ASSETS		508,507	527,829
CURRENT ASSETS			
Debtors	11	4,624	6,618
TOTAL CURRENT ASSETS		4,624	6,618
CURRENT LIABILITIES			
Creditors : amounts falling due within one year	12	(18,537)	(13,303)
NET CURRENT LIABILITIES		(13,913)	(6,685)
TOTAL ASSETS LESS CURRENT LIABILITIES			
Provisions for Liabilities & Charges	13	(22,805)	(33,996)
NET ASSETS		471,789	487,148
TAXPAYERS' EQUITY			
General Fund	14	(264,477)	(281,854)
Revaluation Reserve	15	(187,249)	(184,564)
Donated Asset Reserve	16	(20,063)	(20,730)
GOVERNMENT FUNDS	17	(471,789)	(487,148)

The notes on pages 40 to 58 form part of these accounts

Mr N A Firth
Chief Executive
02 July 2008

Cash Flow Statement

For the year ended 31 March 2008

	Note	07-08 £000	Restated 06-07 £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	18	177,754	178,730
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire Tangible Fixed Assets		1,120	1,194
Receipt from Sale or Disposal of Tangible Fixed Assets		0	0
Receipts from Disposal of Tangible Fixed Assets		0	0
Net Cash Outflow from Capital Expenditure		1,120	1,194
NET CASH OUTFLOW BEFORE FINANCING		178,874	179,924
FINANCING			
Net Cash Inflow from Defence Resource Account		178,874	179,924
Net Cash Inflow from Financing		178,874	179,924
NET CHANGE IN CASH		0	0

The notes on pages 40 to 58 form part of these accounts

Notes to the Accounts at 31 March 2008

1. Accounting Policies

BASIS OF ACCOUNTING

The accounts for the Defence Storage and Distribution Agency (DSDA) have been prepared in accordance with the Accounts Direction issued by HM Treasury on 11 December 2007 pursuant to Section 7(2) of the Government Resources and Accounts Act 2000. The accounts have been prepared under the historical cost convention, modified to include revaluations of fixed assets in accordance with the Government Financial Reporting Manual and applicable accounting standards. Without limiting the information given in the accounts, and subject only to compliance with the requirements set out in the Accounts Direction, they also;

- a. comply with the accounting and disclosure requirements of the Companies Act 1985, in so far as they are consistent with the status of an Executive Agency of the MoD; and
- b. comply with accounting standards issued by the United Kingdom Accounting Standards Board, except to the extent they are advised as inapplicable by HM Treasury.

De-merger – transfer of Engineering Services, Stafford to ABRO (now DSG)

With effect from 31 December 2007 DSDA relinquished command and control of Engineering Services, Stafford to ABRO (now DSG).

This resulted in a reduction of £4.973m in operating costs for FY 2006-2007, and £2.804m for FY 2007-2008.

VALUE ADDED TAX

The Agency is not separately registered for Value Added Tax (VAT) as VAT is accounted for centrally by MoD. Amounts included in

the Operating Cost Statement and Balance Sheet are exclusive of VAT where it is recoverable from HM Revenue & Customs in respect of certain contracted out services as directed by the Treasury. All other input VAT is considered irrecoverable by the Agency and therefore is included in the cost of the related expenditure or asset.

INCOME

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

NOTIONAL CHARGES

- a. Interest on Capital
A notional charge for interest on capital is included in the Operating Cost Statement. This is calculated as 3.5% of the simple average of total assets, exclusive of Donated Assets, less liabilities at the start and end of the year.
- b. Audit Fee
DSDA is not charged an audit fee by the National Audit Office. The audit fee in these accounts represents a notional charge to reflect the cost of the service provided.
- c. Communicated charges
Notional communicated charges are included in the Operating Cost Statement in respect of services provided from and to other areas of the MoD. The amounts so charged are calculated to reflect the full cost of providing these services.

PENSIONS

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

FIXED ASSETS AND VALUATION

On 1 April 2006 the MoD transferred responsibility for accounting for fixed assets from DSDA to other parts of the Department. Where the Agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In all other cases the costs of the use of these assets are communicated to DSDA by the SBSOs and charged to the operating cost statement.

LAND AND BUILDINGS – DWELLINGS AND NON DWELLINGS

All the UK land is freehold. Legal ownership rests with the Secretary of State for Defence. Land and buildings are capitalised when the cost of acquisition is greater than £10,000 and where the useful life is greater than one year. The principle of SSAP 21 applies to land and buildings.

PLANT AND MACHINERY

Plant and machinery, which includes non-leased mechanical handling equipment railway track and rail wagons are capitalised when the cost of acquisition, inclusive of installation, is greater than £10,000 and where the useful life is greater than one year. The principle of SSAP 21 applies to plant and machinery.

TRANSPORT

Transport equipment (including railway locomotives) is capitalised when the cost of acquisition, inclusive of installation, is greater than £10,000 and where the useful life is greater than one year. The principle of SSAP 21 applies to transport.

IT

All computer hardware expenditure is capitalised when the cost of acquisition, including installation, is greater than £10,000. The principle of SSAP 21 applies to IT.

ASSETS UNDER CONSTRUCTION (AUC)

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

DONATED ASSETS

Fixed assets that have been donated in the UK or by foreign governments have been accounted for in accordance with the Government Financial Reporting Manual. Depreciation charges are matched in the Operating Cost Statement (OCS) with an equal release from the donated asset

reserve. The effect of releasing an amount equal to the depreciation charge means that no charge is borne for the use of the asset through the OCS. Legal ownership of donated assets rests with the Secretary of State; these are managed through the Single Balance Sheet Owner (Defence Estates). Donated land used by DSDA in Germany is subject to restrictions on its use by the German Government; this includes the requirement to have the authority of the Bau-und Liegenschaftsbetrieb to make any alterations and for improvements to buildings. The land is subject to recall at any time and its use is restricted to military use.

DEPRECIATION

Freehold land is not depreciated. Depreciation on fixed assets is calculated to write off the cost, or valuation, less any estimated residual value, of assets by equal installments over their useful lives. The life span of each asset has been assessed by professional surveyors, in accordance with the Royal Institute of Chartered Surveyors valuation manual and is periodically reviewed. Depreciation details of assets, where the Agency is the beneficial user, are communicated via the SBSO.

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

Permanent Buildings -	<i>between 6 and 60 years</i>
Standard Plant & Machinery -	<i>between 5 and 15 years</i>
Transport -	<i>between 5 and 30 years</i>
IT Equipment -	<i>between 3 and 7 years</i>

PRIVATE FINANCE INITIATIVE (PFI) COMMITMENTS

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

STOCKS

DSDA no longer holds a consumable stock balance on its accounts. The charge reflected in the restated accounts is based upon the premise that all stocks used by DSDA in carrying out its business are consumable stock and are therefore consumed at the point of delivery. All other stocks remain on the Balance Sheet of the owning IPT until issued.

The change brings the Agency into line with the MoD's stock accounting policy and provides greater consistency in accounting treatment within the Department. The impact of these changes does not materially affect the Operating Cost Statement, Balance Sheet and Cash Flow Statement.

CASH/IMPREST ACCOUNT

Apart from minor transactions through local imprest accounts, which are cleared

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

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the appropriate Official General Accounting Rate. In respect of unsettled transactions or other monetary assets and liabilities as at 31 March 2008, these have been recorded at the spot rate for the year ending 31 March 2008, the rate at which these assets and liabilities will be settled.

RESERVES

Taxpayers' equity comprises the General Fund, Revaluation Reserve and Donated Asset Reserve. The General Fund represents the total net assets of the Agency to the extent that they are not represented by

other reserves. Net funding from MoD and realised gains and losses are reflected in the General Fund. The Revaluation Reserve represents the unrealised element of the cumulative balance of revaluation and indexation adjustments to fixed assets.

PROVISIONS FOR LIABILITIES AND CHARGES

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

NON-OPERATIONAL HERITAGE ASSETS

The Agency has a number of Non-Operational Heritage assets which do not appear on the balance sheet. The historic gun collection, has recently been revalued, by Defence Disposal Services Authority at £75,000. This valuation is included in the accounts at note 10. Whilst for Edgehill Battlefield, Fort Elson and Ernesettle Fort, due to their nature it is not practical to obtain a valuation. Non-Operational Heritage Assets are not depreciated.

2. Staff Numbers and Costs

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

	07-08	Restated 06-07
Permanent employees		
Service (Officers)	36	48
Service (Other Ranks)	143	158
Civilian (Non Industrials)	1,321	1,519
Civilian (Industrials)	2,457	2,763
Sub Total	3,957	4,488
Casual employees		
Civilian (Non Industrials)	12	0
Civilian (Industrials)	116	79
Sub Total	128	79
Total employees	4,085	4,567

There were 3,595 permanent staff and 169 casual staff employed at 31 March 2008.

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

	07-08	Restated 06-07
	£000	£000
Wages and Salaries	102,186	106,907
Social Security Costs	6,224	6,870
Superannuation and Other Costs	14,425	16,113
Total	122,835	129,890

- Staff costs for casual employees, included in wages and salaries above, were **£1,796,735** for the year.
- Staff Costs for short term temporary employees, included in wages and salaries above, were **£7,546,922** for the year
- Other costs include charges for additional staff leaving on redundancy for whom no provision existed. These amounted to £433K in 06-07 and £30K in 07-08.
- The de-merger with ABRO has removed 175 staff from previous year's published numbers, at a cost of £3.9m

3. Supplies and Services Consumed

	07-08	Restated 06-07
	£000	£000
Office and Administration Supplies	1,721	1,917
Consultancy Support	1,395	4,374
Third Party Distribution	20,563	11,670
Security and Fire Service Costs	25,446	25,569
Externally Procured Stores and Services	4,144	4,519
Supplies and Services provided by the MOD	247	156
Petrol, Oils and Lubricants	4,429	2,572
Information Technology related expenditure	1,692	6,344
Vehicles and Equipment Supply and Maintenance	8,312	8,702
PFI Contract	6,412	5,924
Depreciation - IT/P&M/Transport (see Note 7)	2,709	2,843
Beneficial use charges - IT/P&M/Transport	429	510
Impairment from Quinquennial Valuation - P&M/Transport	0	90
Fixed Asset write off/on - IT/P&M/Transport	(71)	1,840
Stock	6,159	8,388
Permanent Diminution in value - Information Technology	70	89
Total	83,657	85,507

Notes:

- a. Decrease in Consultancy Support expenditure was result of FDSCi implementation finalisation in 06-07.
- b. There has been an increase in freight distribution expenditure due to the implementation of 7 day delivery.
- c. Security and Fire Service Costs are communicated directly from external agencies.
- d. POL serviced out to DSCOM last year, now forms part of DSDA.
- e. IT expenditure has decreased due to a £1.883m budget transfer to LAIPT for BODMS/WTMS and the Fast Moving Warehouse.
- f. Stock misbookings have been identified and cleared to IPT owners.

4. Accommodation Costs

	07-08	Restated 06-07
	£000	£000
Accommodation Services	663	4
Works, Estate Maintenance and Property Management Fees	18,805	12,885
Accommodation Services provided by the MoD	220	248
Domestic Fuels	15,445	17,045
Non Domestic Rate Demand	7,244	7,437
Depreciation - Land & Buildings (see Note 7)	20,584	20,178
Beneficial use charges - Land & Buildings	6,722	7,256
Impairment from Quinquennial Valuation - Land & Buildings	0	8,768
Fixed Asset write off/on - Land & Buildings	5,606	3,672
Total	75,289	77,493

- Refurbishment of Headquarters buildings, C16, and C2 Annex on centralisation.
- Works costs have been serviced in from DE from 06-07.
- Domestic fuels costs have fallen due to reduced prices and site closures.
- Rates are actual costs this FY, reduction due to loss of Stafford and Donnington reduction.
- The Quinquennial valuation was incorporated into 06-07. There has been no valuation in 07-08.
- Disposal of assets following transfer to Donnington Rail Project.

5. Administration Costs

	07-08	Restated 06-07
	£000	£000
Medical and Welfare	198	235
Education and Training	2,733	2,308
Travel and Subsistence	2,202	2,377
Share of MoD Overheads	5,503	9,802
Charges for Provisions	1,708	6,518
Other Administration Costs	283	503
Foreign Currency Losses	1	4
Audit Fee	84	80
Total	12,712	21,827

- Medical and Welfare higher formation charge reduction due to reduced headcount.
- Education and Training - Upskilling programme.
- MoD Overheads have reduced due to TLB review of costs apportioned following re-organisation into DE&S.
- Previous years charges for provisions includes establishment of the Engineering Wing provision (see Note 13).

6. Cost of Capital Charge

	07-08	06-07
	£000	£000
Cost of Capital	16,068	17,215

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

7. Depreciation Charges

	07-08	06-07
	£000	£000
Buildings excl dwellings	20,997	20,596
Plant and machinery	2,101	2,099
Transport equipment	224	151
Information technology	384	593
	23,706	23,439
Less total charges for Donated Assets	(413)	(418)
Total	23,293	23,021

a. Depreciation charges for Balance Sheet assets has fallen due to the introduction of SBSO.

Depreciation charges for beneficial charges are shown under notes 3 and 4.

8. Income

	07-08	06-07
	£000	£000
Storage Facilities	2,963	4,858
Miscellaneous	21,168	22,707
From non-MoD customers	24,131	27,565
Other Government Departments	2	30
Agreed Reverse Tasking with Trading Funds	2,017	1,759
From MoD Trading Funds & OGDs	2,019	1,789
Total	26,150	29,354

a. Within miscellaneous income £15.9m relates to processing contracts with BAe Systems & MBDA. Whilst these are non-MoD customers, our contractual relations are with prime contractors who are part of MoD. Therefore these flows will be changed by the introduction of circular contracting; this will reduce DSDA's future income for some munitions processing work.

b. Agreed Reverse Tasking relates to the Army Base Repair Organisation (ABRO), which was granted Trading Fund Status on 01 April 2002, and the Defence Scientific Technology Lab (DSTL) which was granted Trading Fund status on 01 July 2001.

9. Fixed Assets

	Land and buildings excl dwellings £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Assets Under Construction £000	Total £000
COST OR VALUATION						
As at 01 April 2007	648,940	36,046	3,598	3,539	1,478	693,601
Transfers	(24,044)	(2,365)	(182)	0	0	(26,591)
Additions	510	49	0	0	647	1,206
Disposals	(15,009)	0	(131)	0	0	(15,140)
Reclassifications	0	773	0	619	(1,392)	0
Revaluation in year	27,842	855	36	(188)	(18)	28,527
At 31 March 2008	638,239	35,358	3,321	3,970	715	681,603

DEPRECIATION						
As at 01 April 2007	149,063	12,889	1,304	2,516	0	165,772
Transfers	(8,504)	(1,790)	(129)	0	0	(10,423)
Additions	0	0	0	0	0	0
Disposals	(9,403)	0	(127)	0	0	(9,530)
Revaluation in Year	3,476	299	11	(140)	0	3,646
Charged during year	20,997	2,101	224	384	0	23,706
At 31 March 2008	155,629	13,499	1,283	2,760	0	173,171

NET BOOK VALUE						
As at 01 April 2007	499,877	23,157	2,294	1,023	1,478	527,829
At 31 March 2008	482,610	21,859	2,038	1,210	715	508,432

Additions to Fixed Assets comprise:	£000
Capitalised Spend	559
Reclassifications	0
Transfer from other Management Groups	0
	559

Disclosure Note:

1. Land and Building assets shown above represent the core business being storage and distribution. All other Land and Building assets have been transferred to other management groups.
2. Only Land and Building assets that are surplus to requirement are valued at open market value of which DSDA has none. All other Land and Buildings are valued on a combination of depreciated replacement cost and the existing use value. This reflects the nature of the estate as many of our specialist buildings are not normally traded on the open market.

10. Non-Operational Heritage Assets

As at 31 March 2008 the Agency had the following non-operational heritage assets:

Historic Gun Collection, DSDA (North) Donnington

The Agency currently has responsibility for a collection of 750 items and includes many types of small arms of British and Foreign origin. Examples of the items held are pistols, revolvers, flintlocks, rifles, air rifles, sub-machine guns, shotguns, humane killers, chain guns, anti-tank weapons, bayonets, knives, grenade dischargers, sabres and swords together with a replica of the Victoria Cross Medal. Located outside the DSDA (North) (Donnington HQ Building) also forming part of the Agency holdings are larger items which consist of a 3.7 Howitzer, Harrier Jet, 25lb Field Gun and a Royal Navy Sea Mine. The collection has recently been valued at £75,000 by the Defence Disposals Services Authority.

COST OR VALUATION	£000
As at 01 April 2007	0
Transfers	0
Additions	75
Disposals	0
Reclassifications	0
Revaluation in year	0
At 31 March 2008	75
NET BOOK VALUE	
At 01 April 2007	0
At 31 March 2008	75

Edgehill Battlefield, DSDA Kineton

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

Fort Elson, DSDA Gosport

Fort Elson lies within the boundary of DSDA Gosport. It was constructed between 1858 and 1860 as part of the Palmerston Fortifications built to defend against a land attack on Portsmouth Harbour and is the oldest remaining fortification of its type. The current management plan for the Fort commenced in 2007 and runs for the next four years.

Ernesettle Fort, DSDA Plymouth

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

11. Debtors

	07-08	06-07
	£000	£000
Trade Debtors	2,175	4,691
Prepayments and accrued income	2,449	1,927
Total	4,624	6,618

- a. 100% of all Agency Debtors at 31 March 2008 are due within one year.
- b. The reduction in Debtors reflects a proactive approach to reducing aged debtors.

12. Creditors

	07-08	06-07
	£000	£000
Trade Creditors	4,241	3,351
Capital Accruals/Creditors	86	626
Other Accruals	14,210	9,326
	18,537	13,303

- a. Accruals for provision and bonus payments have been made in the current financial year (£3.4m). Additional accruals have been incurred for Freight costs as a result of 7 day delivery.
- b. Trade creditors for utilities and estates costs have risen compared to last year.

13. Provisions for Liabilities and Charges

	DSDA Early Retirement	FDSCi Scheme	Eng Svcs Scheme	Total
	£000	£000	£000	£000
Balance as at 01 April 2007	4,650	27,187	2,159	33,996
Charge for year (unwinding)	102	598	48	748
Increase	710	(534)	1,710	1,886
Utilised	(1,829)	(9,724)	(2,272)	(13,825)
Balance as at 31 March 2008	3,633	17,527	1,645	22,805

- DSDA Early Retirement Provision represents the future liability to pay early pensions and lump sum payments for personnel who have left the Agency under initiatives funded by MoD.
- The impact of the DLO Early Release Scheme is not included in the DSDA schemes shown above. The impact of the 83 who left under Year 2 is assessed at an in-year charge of **£3,391K and a provision of £5,139K**.
- As part of the IAB endorsed solution to the Future Defence Supply Chain Initiative (FDSCi), DSDA were allocated a redundancy provision to implement the closure of 2 sites and the manpower savings required to achieve the savings target of £441m over 10 years.
- The transfer of Engineering Services to Army Base Repair Organisation (ABRO) has been completed, resulting in 78 redundancies this financial year.
- The charge for year (unwinding) equates to the interest payable shown in the OCS.
- No provision for remediation work, which could be required to enable any future site closures, has been provided.

14. General Fund

	£000
Balance at 31 March 2007	281,854
Net cash inflow from financing	178,874
Non Cash Charges:	
Auditor's Remuneration	84
Cost of Capital	16,068
Other Notional Charges	65,957
Merger Accounting Adjustment	2,680
Transfer from Revaluation Reserve	4,791
Transfer from Realised Revaluation Reserve	6,178
Net Transfer from SBSO	(6,850)
Net Operating Cost	(285,159)
General Fund at 31 March 2008	264,477

a. Merger Accounting adjustment relates to a write back of cost deducted in year.

15. Revaluation Reserve

	£000
Balance at 31 March 2007	184,564
In Year Revaluation of Fixed Assets	22,972
In Year Realised Element	(6,178)
Transfer to SBSO	(9,318)
Transfer to General Fund	(4,791)
Transfer from General Fund	0
Revaluation Reserve at 31 March 2008	187,249

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

16. Donated Asset Reserve

	£000
Balance at 31 March 2007	20,730
In Year Revaluation	(254)
Transfer to General Fund	0
Release to OCS	(413)
Donated Asset Reserve at 31 March 2008	20,063

17. Reconciliation of Movement In Government Funds

	General Fund	Revaluation Reserve	Donated Asset Reserve	Total
	£000	£000	£000	£000
Government Funds at 31 March 2007	281,854	184,564	20,730	487,148
General Fund Movement	(17,377)	0	0	(17,377)
Revaluation Reserve Movement	0	2,685	0	2,685
Donated Asset Reserve Movement	0	0	(667)	(667)
Government Funds at 31 March 2008	264,477	187,249	20,063	471,789

18. Reconciliation Of Net Expenditure To Net Cash Outflow From Operating Activities

	07-08	Restated 06-07
	£000	£000
NET EXPENDITURE	285,159	303,295
Non Cash Items		
Depreciation	23,293	23,021
Impairment of Fixed Assets	70	8,946
Movement in Bad Debt Provision	(179)	(31)
Cost of Capital Charge	16,068	17,215
Write off/on of Fixed Assets	5,535	5,511
Auditors Remuneration	84	80
Unwinding of Discount on Provisions	748	717
Movement in Provisions	1,886	5,345
Notional Items		
Notional Costs	65,957	65,728
Total Non Cash and Notional Items to be deducted	113,462	126,532
Other Movements		
(Increase) / Decrease in debtors	1,994	(611)
Increase / (Decrease) in creditors	5,234	5,123
(Increase)/Decrease in Capital Creditors	540	(626)
Use of Provisions	(13,825)	(5,853)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	177,754	178,730

19. Related Party Transactions

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

20. Private Finance Initiative (PFI) Commitments

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

Project Title and Description	Contract Start Date	Contract End Date	Charges to OCS in 2007-08 £000
Pathfinder - Barloworld contract for the provision of Material Handling Equipment.	1-Aug-02	31-Jul-10	6,412
			6,412

The Agency is committed to making the following payments during the next year in respect of operating leases expiring:

Commitment expiring within:	less than 1 year
Pathfinder	6,717
	6,717

The estimated capital value for the Pathfinder contract is £7,288k.

21. Commitments Under Leases

Operating Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	07-08 £000	06-07 £000
Obligations under operating leases comprise:		
Expiry within one year	15	8
Expiry after one year but not more than 5 years	111	110
Expiry thereafter	0	0
Total	126	118

22. Financial Instruments

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

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

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

Interest Rate Risk

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

Currency Risk

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

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

Liquidity Risk

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

23. Intra-Government Balances

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central Government bodies	-	-	2	-
Balances with local authorities	19	-	150	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	528	-	1	-
Total Intra Govt Balances	547	-	153	-
Balances with bodies external to Government	4,077	-	18,384	-
Total as per Note 11 (debtors) and 12 (creditors) at 31 March 2008	4,624	-	18,537	-
Balances with other central Government bodies	5	-	-	-
Balances with local authorities	8	-	9	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	1,315	-	15	-
Total Intra Govt Balances	1,328	-	24	-
Balances with bodies external to Government	5,290	-	13,279	-
Total as per Note 11 (debtors) and 12 (creditors) at 31 March 2007	6,618	-	13,303	-

24. Losses

During the year constructive losses amounted to £3,280, fruitless payments amounted to £1,472 and claims abandoned and waived amounted to £3,196.

25. Contingent Liabilities

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

DSDA is treating the Coroner's finding, that the death of a local woman was as a result of a fire at Donnington in 1983, as a contingent liability.

MoD Claims are currently considering the implication of this verdict on the outstanding litigation, and therefore the financial implication of this remains unquantifiable at this time.

26. Capital Commitments

	07-08 £000	06-07 £000
Contracted Capital Commitments at 31 March 2008 for which no provision has been made	10	14
Total	10	14

27. Post Balance Sheet Events

Post 31 March 2008 the following are disclosed as having an effect on the Agency:

The accounts were authorised for issue on 07 July 2008 by the Accounting Officer.

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