Warship Support Agency

ANNUAL REPORT & ACCOUNTS 2004/2005

WARSHIP SUPPORT AGENCY
Defence Logistics Organisation

Warship Support Agency

ANNUAL REPORT & ACCOUNTS 2004 / 2005

Presented to the House of Commons pursuant to Section 7
of the Government Resources & Accounts Act 2000

Ordered by the House of Commons
to be printed 20 July 2005

HC 398 London: The Stationery Office £15.90

Contents

An Introduction to the WARSHIP SUPPORT AGENCY

Role

The role of the Warship Support Agency (WSA) was to provide logistic support to the Fleet and to other in-service maritime elements of the Armed Forces in support of the mission of the Defence Logistics Organisation (DLO), which is 'to sustain UK Military Capability, current and future'.

The Agency was responsible for the identification of the strategic requirements associated with the support, maintenance and repair infrastructure for ships and submarines and their associated systems and equipments. It was also the ultimate authority for all materiel support to the Fleet with the exception of aircraft, clothing, food and fuel.

Status

The WSA was vote funded and therefore operated under the relevant guidance of HM Treasury and MoD departmental accounting procedures. It was headed by a Chief Executive (CE), Mr John Coles, who was responsible for both the overall management and performance of the Agency. The head of the DLO, the Chief of Defence Logistics (CDL) was the owner of the Agency and therefore the Agency was wholly accountable and directly responsible to him.

History

The WSA, as part of the DLO, was formed on 2 April 2001 from the Ships Support Agency (SSA) and the majority of the Naval Bases and Supply Agency (NBSA). As part of an internal restructuring of the DLO, the Agency was disestablished with effect from 1 April 2005 in order to produce a more streamlined DLO structure, and its work has been subsumed into the new defence logistics structure under the Director General Logistics Fleet and Director General Nuclear.

Statement by the ACCOUNTING OFFICER

Overview

2004/2005 has remained a very challenging year for the Warship Support Agency (WSA) which ended with the removal of Agency Status and the transition to the DLO (Defence Logistics Organisation). Through incremental yet radical changes the WSA evolved over several years into a successful and envied model for support. The move to the DLO is seen as a positive step to achieve the most effective support solution across Defence.

The diverse work of the organisation continued apace and ranged from high priority deployed operations in the Gulf in support of Operation IRAQI FREEDOM and Operation ENDURING FREEDOM to the everyday business of generating ships from Upkeep and Refit. It also included the responsibility for Aviation and Royal Marine support required by their Customer, the Commander in Chief FLEET.

The year has also seen a review of the size, composition and role of the Fleet to align it with future requirements. The early retirement of HMS GLASGOW, HMS NEWCASTLE, HMS NORFOLK and three Mine Countermeasures vessels has coincided with a very restrictive financial position within the organisation. Substantial resource reductions across the majority of Integrated Project Teams (IPTs) and Naval Bases have been implemented to balance the books. The continuing high availability of the remaining Fleet assets is a testament to the ingenuity, resourcefulness, and innovation of the people across the organisation. It is the quality of its people that enabled to WSA to be so successful; I have no doubt that the same people will ensure the success of the Maritime organisation within the DLO.

Of the 7 Agency Key Targets, 3 were achieved. Whilst 2 of the missed targets, Targets 4 and 5, did not have a significant ongoing impact during the year, performance shortfalls on the remaining 3 (Targets 1b, 2 and 3) were more significant as they relate to the Agency's ability to meet the agreed levels of readiness and upkeep agreed with the customer, CinCFleet. These latter targets proved to be more ambitious than could be achieved with the reduced resources provided over the last two years. The progressive hollowing out of our spares position, combined with the need to manage in year programmes in line with increasingly constrained funding, impacted on our ability to deliver these critical targets. Within Key Target 3 (Timely completion of upgrades) the teams displayed their flexibility by carrying out a significant number of high priority unplanned upgrades, however the target cannot be adjusted to reflect such success.

Operations

Last year saw Operation ARGONAUT, a sizeable deployment to the Eastern Seaboard of the USA and this year MARSTRIKE 05, involved HMS INVINCIBLE and a number of supporting ships in the Gulf Of Oman. The latter included the support of Air Operations over Afghanistan from RAF Harrier GR7 aircraft embarked and launched from INVINCIBLE's flight deck. Staying abroad, the Landing Platform Dock HMS ALBION completed Cold Weather Trials off the Atlantic coast of the USA and her sister ship, HMS BULWARK, was transferred from the DPA to join the Amphibious Centre of Gravity in Devonport.

Operational Support has been particularly effective and diverse. Counter-Drugs operations in the Caribbean continue to achieve a highly effective deterrent. The successful recovery of the crippled HMCS CHICOUTIMI from the Northern Atlantic was a notable success; while our support to HMS CHATHAM and RFA DILIGENCE enabled them to provide sterling humanitarian relief operations after the Tsunami calamity in the Indian Ocean.

Naval Bases

The WSMI organisation within each of the Naval Bases continues to be refined and has shown considerable benefits since it's adoption. It has allowed flexibility and improvements in Fleet support unimaginable at its inception. Of particular note was HMS ILLUSTRIOUS' return to Portsmouth after completing an extensive refit in Rosyth. The huge maintenance package, including a substantial number of improvements was completed within programme and on budget. This project was reviewed by the NAO and the partnership approach was seen as good practice.

Integrated Project Teams

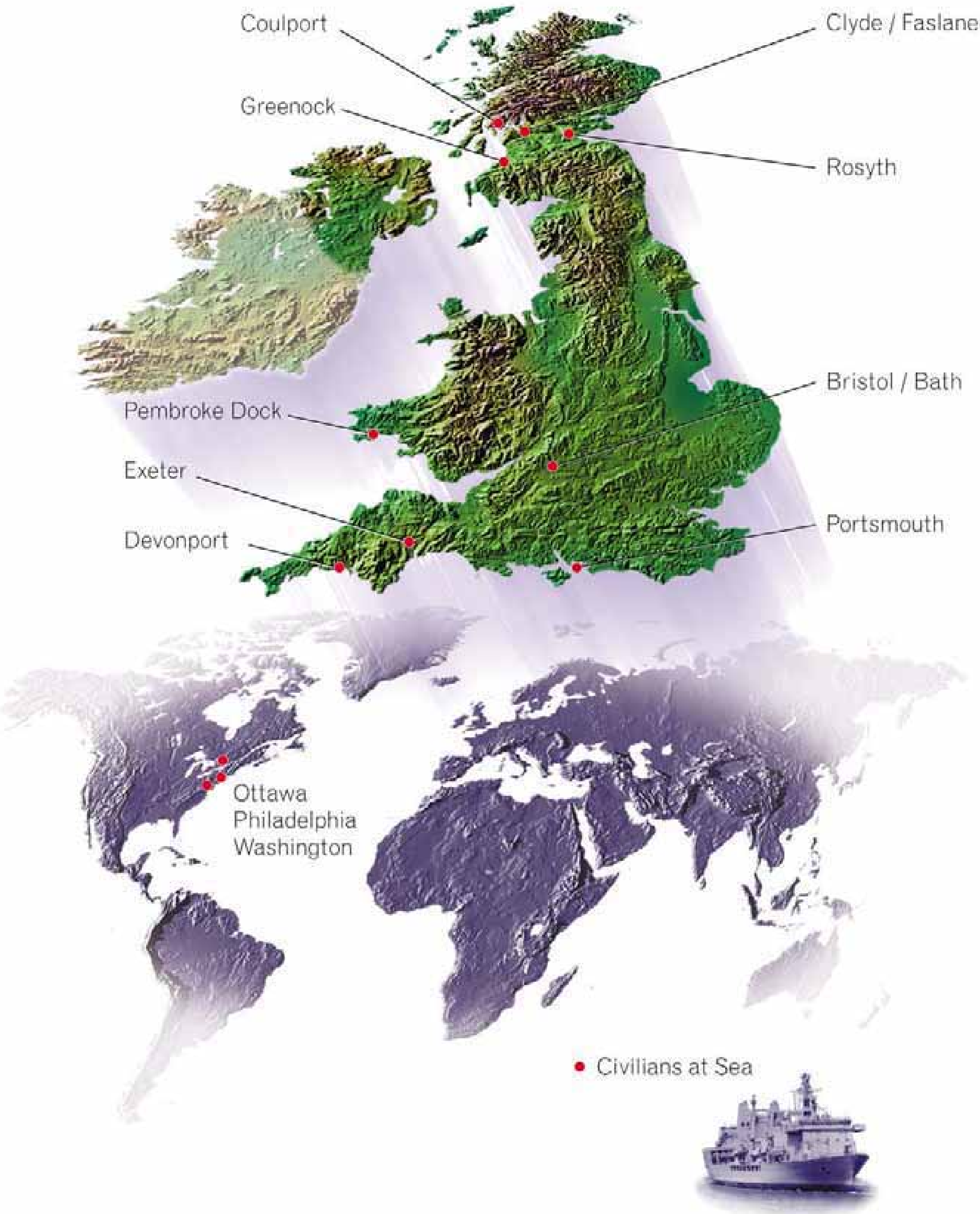
Central to the Agency's output –focused approach is the IPT. With close to 30 reporting directly to myself or my deputy, their roles and responsibilities range from ensuring the availability of major and minor warships and submarines through to the provision of marine engineering equipment, and from in-service support to above water warfare systems to the provision of equipment to support the Trident Weapon System. The close integration of these teams meant we were well placed to meet the challenge of further reduced resources by greater innovative solutions with industry, supported by effective, detailed prioritisation between the Platform and Equipment IPTs. Early focus on rectification was successful in reducing the number of outstanding defects and mitigated the full impact of reduced material availability of ships. In addition, progress up the transformation staircase, aimed at further moving the Agency from a provider of logistics support to a decider on how industry can fulfil the role, has seen contractor logistics support explored for Royal Fleet Auxiliaries, sonars and marine propulsion systems.

11 July 2005

J D Coles, CB

Accounting Officer, Warship Support Agency

Warship Support Agency
LOCATIONS



Agency Locations

The Agency's staffs were based at a number of locations throughout the United Kingdom, with the majority working at the MoD sites at Abbey Wood in north Bristol, Foxhill in Bath and the Naval Bases at Devonport, Portsmouth and Faslane. The Agency also had elements located at Coulport, Rosyth, Pembroke Dock, Exeter, Marchwood and Greenock.

The Agency in Focus

Mission

"Supporting the Fleet World-wide"

Vision

"World-Class Support for a World-Class Navy"

Strategic Aims and Goals

The strategic aims of the WSA supported those defined in the DLO Strategic Plan and were confined to improving our effectiveness and efficiency. The WSA intended to make a significant contribution to the DLO target of reducing output costs by 20 per cent by 2005/06 without reducing the quality of service to customers. The Agency intended to achieve its aims by seeking continuous improvement and further develop a professional and suitably qualified workforce.

Our Key Outputs

The Agency had prime responsibility for a number of significant outputs:

- Support to in-service ships, submarines and other vessels of the Royal Navy and Royal Fleet Auxiliary.
- Decommissioning and disposal of ships, submarines and equipments.
- Services to other customers.
- Business support services to the agency.
- Upgrades to naval military capability.
- Support to future ships, submarines and equipments.

Our Budget

During 2004/2005, the Agency was a Higher Level Budget (HLB) holder within the Top Level Budget (TLB) of the Defence Logistics Organisation. All Agency expenditure is on Vote. In resource terms, the Agency's net operating cost for the Financial Year 2004/2005 was £2.037 bn. The Agency was continually striving to deliver increased levels of efficiency and cost effectiveness in conducting its business.

Our Assets

The Agency had net assets of £6.522 bn as at 31 March 2005. The details behind this figure can be found within the Accounts section of this report.

Our Staff

The average number of whole time equivalent persons employed during the year was 6,885 (2003/04 7,713) comprising 4,552 civilians (66%) (2003/04 5,134 civilians (67%)) and 2,333 military personnel (34%) (2003/04 2579 military personnel (33%)).

The Board

The Board of the WSA during the period 01 April 2004 through to 31 March 2005 was as follows:

Mr John Coles, CB	*Chief Executive*
Rear Admiral Jonathon Reeve, CB	*Deputy Chief Executive (until 5 Sept 04)*
Rear Admiral Paul Boissier	*Deputy Chief Executive (from 6 Sept 04)*
Mr John Clayton	*Director Finance and Communications (until 4 July 04)*
Mr Martin White	*Director Finance and Communications (from 5 July 04)*
Mr Trevor Strong	*Director Commercial*
Mr Allan Howell	*Non-Executive Director*
Ms Moira Black, CBE	*Non-Executive Director*

Brigadier Jean Dowson was nominated as a Non-Executive Director on behalf of the Defence Logistics Organisation.

The Agency
& ITS PEOPLE

Learning & Development

The Agency recognised the importance of development activities for staff across the Agency, which continue to support the achievement of personal and business objectives. WSA Learning and Development activities were focused on building the skills that would positively impact our ability to meet the business objectives, maintain professionalism and provide opportunities for personal development for the future.

Learning and Development objectives for 2004/2005 had included a greater emphasis on improving skills in Risk Management, Equipment Project Management and the Evaluation of Learning & Development activities. The introduction of the Learning Management System across the DLO is expected to provide a cohesive tool for gathering reliable and consistent data to help inform decision making for the future.

Employee Relations

Effective employee relations continued to play an important role in the transition to new working methods and in the development of organisational change. In keeping with the Agency's commitment to the Partnership Approach, Trades Unions (TUs) were fully engaged and made a valuable contribution to the decision making process. Key to this was mutual trust which the Agency had sought to sustain through early engagement with TUs on new initiatives and maintaining dialogue as proposals developed in order to prepare the ground for formal consultation. This activity existed alongside the formal Whitley structure where committee meetings at local and HLB level had been held at regular intervals throughout the year.

People Issues

The Agency continued to make a significant contribution towards the MoD Human Resources (HR) Transformation Programme, to ensure future systems capability matched WSA business needs and to prepare the organisational changes necessary for transition to the Service Delivery and HR Business Partner roles.

The Agency having joined with the Defence Procurement Agency (DPA) in implementing a pilot scheme for an Advanced Modern Apprenticeship scheme at the Abbey Wood site in Bristol saw the first intake of apprentices in September 2004. Those completing the apprenticeship will join the MoD at Abbey Wood as junior managers.

The Agency, like UK's nuclear industry, continued to experience a shortage of Nuclear Suitably Qualified, Experienced Personnel (NSQEP). In order to minimise these shortages a strategy had been developed and was being pursued by MoD's Head of Profession for NSQEP, who reported to CE WSA. This strategy was aimed at ensuring that an adequate population of NSQEP was maintained and that an efficient and effective process was evolved for succession planning. This included the representation of Defence NSQEP interests at the Government and Industry Nuclear Skills Group for the development and operation of an appropriate Sector Skills Council.

Awards for Personal/Team achievement

The WSA recognised significant personal or team achievements by way of awards. The main awards were as follows:

CE WSA Commendation. This was the Chief Executive's recognition of excellence. Achievements must be beyond the normal demands of duty and beneficial for the organisation. Nominations could be made on behalf of individuals and teams.

Special Bonus Awards of between £100 and £2000 can be awarded to individuals or teams in recognition of exceptional performance at any time of the year. There are no limits to the number of bonuses that may be awarded, although the total must not exceed 0.4% of the Non-Industrial pay bill.

Minor award scheme "Acclaim", which gives line managers the opportunity to recognise one-off individual or team achievement through non-cash awards. The value of the award is limited to £50 for an individual or £50 per head in a team award.

Employment Policies

The Agency was a committed equal opportunities employer recognising and embracing the principles of 'Diversity' in the workplace. As such, all external appointments to the WSA were made on merit, founded on the basis of fair and open competition, regardless of gender, marital status, sexual orientation, race, nationality, ethnic origin, age, religion or belief, physical or mental disability. This also applied to internal appointments and was subject to MoD regulations.

The Agency promoted family friendly policies by providing access to childcare facilities for its staff. Part-time and job share opportunities, homeworking and flexible working hours were all available. The Agency fully subscribed to the Disability Discrimination Act by considering and making reasonable adjustments. Additionally, by offering support for staff with disabilities and their line managers.

The zero tolerance policy of 'unacceptable conduct and behaviour' (harassment and bullying) continued to be implemented through an awareness campaign that included a 'mandated' training programme. Full compliance of anti–discrimination legislation was promoted through training mediums and embraced in casework. Updating HR policies and processes reflected recent new statute legislation and changes to existing legislation. This included raising awareness of and dealing with 'stress in the workplace'.

Communication

The Agency placed great emphasis on the importance of both internal and external communication. The internal communication methods were continually reviewed to improve their effectiveness and to ensure that all our staffs were kept informed of the key issues that affected them. An important element of internal communication was the Agency Intranet site that was both a key business tool and a very successful communication medium. Monthly Team Dialogue sessions were held throughout the Agency on Agency and DLO wide policies and issues in order to cascade information to all staff. In addition, the Agency's in-house magazine ***Ships Telegraph*** promoted the Agency's activity both within the Agency and beyond and all staff had access to the DLO magazine.

A look at the AGENCY'S BUSINESS

Parliamentary Business

In 2004/05, the Agency provided information to Ministers to assist them in responding effectively to Parliamentary Questions and Ministerial Correspondence relating to our business on over 270 occasions. The issues ranged from support provided in recovery of the Canadian submarine CHICOUTIMI to competition for refit work in the commercially owned shipyards as well as the costs of supporting the fleet. Providing this support within the tight deadlines imposed was a priority task and we achieved this on 94% of occasions. An additional 35 submissions were provided to Ministers to advise them on various aspects of Agency business.

Dealing with the Public

The Agency recognised the importance of dealing with the public in an open and effective way. At the beginning of 2005, the Freedom of Information Act 2000 came into force (together with the Environmental Information Regulations). As with Parliamentary business, tight time-scales were placed on responding to enquiries raised under the legislation. The Agency received 77 enquiries and responded within the 20-day deadline on 85% of occasions. Improvements continued to be made to the handling process to improve performance against this new legislation.

Project ISOLUS (Interim Storage of Laid-Up Submarines) continued to provide a conduit for public consultation on the long-term strategy for the storage of decommissioned nuclear powered submarines. Industry provided broad proposals for the long term strategy that will be taken forward together with associated work sponsored by DEFRA and on the requirements for storage of nuclear waste from civilian nuclear facilities.

Managing the Agency's
KEY SUPPLIERS

The Warship Support Agency spent the majority of its budget each year with industry. As such, understanding our relationship with our key suppliers, and working with them to jointly improve that relationship, was key to driving up performance and ensuring that the Agency can meet is objectives.

WSA was not alone in recognising the importance of Key Supplier Management, and to meet the aspiration for an MOD-wide approach to this work, the Supplier Relations Group (SRG), an MOD corporate resource and focal point for Key Supplier Management activities, developed and introduced the Supplier and Customer Performance Measurement (S&CPM) process. Launched in April 2004, and mandated for use in all new contracts over £5M, the S&CPM process was an objective based approach to performance measurement. It provided information on the actual performance achieved against agreed activities throughout the life of a contract. Assessments were made by both the MOD and Supplier and included a measure of both hard (e.g. time, quality and cost) and soft (e.g. communication and managerial behaviours) issues. The joint outputs generated under this process would allow a corporate view of the overall performance of both the supplier and MOD which could be used to support the activities of Key Supplier Management. These outputs would be shared with the supplier with the aim of informing and improving the relationship between the supplier and the customer (IPT/Project Team) at the contract level. The outputs would also be shared with other IPTs in order to inform and help them in doing their business with a particular supplier.

During 2004/2005, WSA has supported SRG in the rollout of the S&CPM process across the Agency. Recognising the difficulty in cascading information to staff situated in a number of locations, the WSA sponsored a series of awareness briefings to ensure that all Agency stakeholders were aware of the process and how they would need to be involved. The briefings were held at Abbey Wood, Faslane, Rosyth, Devonport and Portsmouth. Feedback from these sessions indicated that the aim of the scheme and the processes involved were understood and generally well received. WSA continued to support SRG in this initiative and had been proactive in offering assistance with 'teething difficulties' encountered across the Agency.

In time it was expected that the S&CPM process would cover much of the vendor rating work currently undertaken by the WSA. However, it was acknowledged that it would take time for information to accumulate and in the meantime the Agency had continued to focus on establishing mechanisms for monitoring the 'hard' issues of timeliness, quality and cost and, importantly, the 'soft' aspect of relationship management which could be fundamental to performance in the other three areas. Following the success of the first round of WSA "soft issues" questionnaires conducted with Key Suppliers during 2002/2003, the exercise was repeated during 2004/2005, albeit on a smaller scale. The aim was to capture changes within the relationship as a result of the improvement actions previously put in place. Questionnaires were issued to DML, FSL, BSSL, BNS, A&P and BAE Systems and the results indicated that in most cases there was a marked improvement in the relationship. This confirms that there were direct business benefits to be gained from the Relationship Management and Key Supplier Management activities undertaken to date.

Performance Against
KEY TARGETS

Key Target 1a – Provision of Available Vessel Days

This is the primary measure of platform material availability, quantifying the Agency's ability to provide Fleet with vessels in a material condition that enables them to complete their scheduled tasks. The FY04/05 target of 81% reflects the inclusion of an agreed allowance of 19% for Unplanned Unavailability Factor (UUF). The UUF growth since FY03/04, and the consequent reduction in performance from 95% in 2002/03 to 84% in 2004/05, is due to the reduction in Resource Control Totals and the subsequent introduction of the Reduced Support Period (RSP).

				2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	✓	UU Factor	%	5%	5%	5%	7.5%	19%
		Requirement	Days	31721	32027	29263	30892	29339
		Target	%	95%	95%	95%	92.5%	81%
			Days	30135	30172	27713	28176	23758
		Performance	%	95%	97%	95%	88%	84%
			Days	30244	29287	26333	27302	24645

Following the failure to meet this Key Target in 2003/4, faced with increased funding challenges, building on experience and using trend information now building from previous years, an improved target setting process was instituted for FY04/05. This has resulted in better prediction of performance and is in part responsible for a return to satisfactory performance compared to target.

Key Target 1b – Provision of Ready Force Element Days

This is the primary measure of platform material readiness, quantifying the Agency's ability to provide Fleet with vessels in a material condition that enables them to meet their assigned Readiness category (R0-12). The FY04/05 target of 72% reflects the inclusion of an agreed allowance of 28% for Readiness Shortfall Factor (RSF). Faced with significant funding reductions in Resource Control Totals and the subsequent introduction of the Reduced Support Period (RSP), to ensure that support was targeted at the customer's, CinCFleet, highest priority vessels (in excess of 75% of the Fleet), RSF was increased from FY03/04 levels. Delivery of planned levels of Readiness is highly sensitive to funding availability. Constrained in year funding, combined with hollowing out of spares over the last two years, has contributed to the significant performance shortfalls compared to our target.

				2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	✗	RSF Factor	%				20%	28%
		Requirement	Days				36976	35474
		Target	%	Key Target introduced in 03/04			80%	72%
			Days				30061	25543
		Performance	%				65.5%	63%
			Days				23993	22349

The Agency did not deliver the agreed number of vessels at the required material readiness. This target is still relatively immature and continues to be stretching in the light of available resources, known equipment problems and the metric's sensitivity to both major one-off system failures and persistent key equipment problems. The improved target setting process instituted from FY04/05 has not yet delivered the expected performance improvement, particularly for submarines, and so Agency staffs continue to work, in conjunction with Customers, to improve the rigour and value of this metric which will continue to be of ongoing importance even after the cessation of the Agency.

The targets for Key Targets 1a and 1b were refined in consultation with the WSA customer CinCFleet after the audit of the WSA 2003/04 Annual Report and Accounts and will differ from those previously reported.

Key Target 2 – Upkeep Period Timeliness

Timely completion of the Upkeep programme to the quality required by the Customer, and specified in the project contract is a key component of the Agency's ability to deliver Available Capable Vessels. This indicator measures the variation between actual and planned upkeep completion dates.

			2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	X	Requirement	0%	0%	0%	0%	0%
		Target	<7%	<7%	<7%	<6.5%	<6%
		Performance	11.1%	7%	5.4%	13.3%	18.2%
		Upkeep factor	7%	7%	7%	6.5%	6%

The Fleet is gradually ageing, more defects are found during Upkeep periods that were not included in the project plans. Whilst the consequential additional work lengthens upkeep periods, the project target is not renegotiated. Constrained funding availability has also meant that we have had to prioritise, with CinCFleet, the timing of specific Upkeep programmes.

Due to the protracted length of some upkeep programmes, annualised performance in terms of Upkeep Timeliness is derived from a statistical analysis of historical data. Consequently, performance recovery takes time and is not expected before FY06/07. Of twenty-two Upkeeps completed, twelve were significantly delayed. In the submarine area, a significant delay to the first of class SSBN LOP(R) and first use of the D154 facility contributed to under performance in the early part of the year although the WSA has been on track to achieve the revised programme for the last 10 months.

Key Target 3 – Timely Completion of High Priority Upgrade Programme

This measure assesses the Agency's performance in delivering capability upgrades to platforms to meet the requirements and priorities of Customer 1, the Equipment Capability Customer (ECC), and Customer 2, the Commander in Chief Fleet, which are articulated in an agreed programme of upgrades. Agency performance is assessed against this agreed baseline.

The target once set is inflexible. Whilst a significant number of high priority additional upgrades have been delivered this additional work cannot be reflected as part of our delivery of target.

			2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	X	Requirement	Introduced in 2001/2	100%	100%	100%	100%
		Target		95%	95%	95%	87%
		Performance		95%	91%	97%	83%

This measure had been changed from April 2004 to incorporate the fitting of high priority capability upgrades during Fleet Time Support Periods as well as in Upkeep, however the target may still be optimistic. The move towards fitting of Alterations and Additions (As&As) in Fleet Time continues to bring key capabilities into service earlier than might otherwise be possible. However, it also adds significant risk that planned fits will not be achieved due to changes to vessels' operational programmes; to accommodate this additional risk the target for FY04/05 was reduced to 87%. At AP12 the Agency had fitted 74% of programmed upgrades (222 out of 300 planned fits). The main contributor to the shortfall has been the increased use of FTSP and the programme changes resulting in lost fitting opportunities being greater than anticipated. Although there were some 78 fits that missed their intended date, the majority have been rescheduled for later this year. The Agency has also inserted some 33 high priority additional upgrades that were not identified in the original baseline programme. In the submarine area whilst more Fleet Time fits than ever before have been achieved, the targets have not been met due in part to RAMP overrun into FY05/06 and the inability to complete the necessary trials.

Key Target 4 – Provision of Single Living Accommodation to Naval Personnel

The provision of Single Living Accommodation (SLA) is vital to the well being, morale and retention of naval personnel and is highlighted as a critical issue to Ministers, Customers and the Navy Board. This target measures the Agency's success in delivering the quantity and standard of SLA demanded by the Customer.

			2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	X	Requirement	Revised Key Target introduced in 03/04			100%	100%
		SLA at Grade 1 (%)				13%	19%
		Performance				13%	27%
		Requirement				100%	100%
		Utilisation of Grade 1/2 SLA (%)				90%	95%
		Performance				91%	89.3%

This Key Target was revised to monitor more closely the progress in the introduction of Grade 1 SLA through the Naval Base SLA upgrade programmes and maximising the allocation and use of available Grade 1/2 SLA in the interim period. The Agency has been successful in meeting, and exceeding, its targets for introducing Grade 1 SLA.

The target to maximise the allocation, and use, of available Grade ? SLA was however not achieved. This was primarily as a result of our lack of success, in some areas, in directing Naval personnel to use the new accommodation.

Work has commenced during the year which will deliver increased numbers of upgraded accommodation units in all three Naval Bases.

Key Target 5 – Operational Support Services – Meeting the Customers' Needs through the Naval Bases

This Key Target seeks to capture the quality of service provision to Naval Base customers against agreed volumes and to the standards and times defined in Provision of Services to Fleet documents, highlighting those occasions when requirement are not met. To reflect the varying importance of services these are assessed under the following broad groupings:

Group 1 Provision of Berths.

Group 2 Maintenance of a safe working environment

Group 3 Provision of support services.

This is complemented by a Customer Satisfaction Survey to provide an overall assessment of service provision.

				2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	✗	Requirement	Gp 1		0 Failures	0 Failures	0 Failures	0 Failures
			Gp 2		0 Failures	0 Failures	0 Failures	0 Failures
			Gp 3		<5% Failure	<5% Failure	<5% Failure	<5% Failure
		Target	Gp 1	≥92% to std; > 42% more than satisfied	0 Failures	0 Failures	0 Failures	0 Failures
			Gp 2		<1% Failure	<1% Failure	0 Failures	0 Failures
			Gp 3		<5% Failure	<5% Failure	<5% Failure	<5% Failure
		Performance	Gp 1		0	0	0	1
			Gp 2	>95%	0	0.01%	0	6
			Gp 3	>42%	0.9%	2.34%	3.34%	<5%

For the first time, the Agency been unable to meet this Key Target, failing against Group 1 and Group 2 targets. The specific failure against Group 1 was a 6-hour delay in berthing a frigate. There were six failures against Group 2 – three very minor failures at Naval Base Devonport with process already implemented to prevent a re-occurrence and a succession of two major incidents and one minor incident at Naval Base Portsmouth with short and medium term action being taken to avoid further occurrences. The apparent year over year deterioration in performance on the minor incidents is, in part, attributed to improved monitoring and reporting.

Key Target 6 – Capacity to Support the Naval Force Generation Plan

This Key Target assesses the Agency's ability to support the Naval Force Generation Plan and provide a high level assessment of any risk to the plan. To arrive at the overall assessment four areas of capability are considered:

- Preparing ships.
- Deploying Salvage and Mooring assets.
- Deploying forward support through two Forward Support Units.
- Providing Afloat Support.

			2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	✓	Requirement			Satisfactory for all elements		Satisfactory for all elements
		Target					
		Performance					✓

Despite difficulties and weaknesses in some areas, in particular, CDBA, T23 Gearboxes, gapping in key S&MO posts plus the impact of the introduction of the Reduced Support Period, it is considered the Agency has been able to meet the NFGP in most respects and has therefore achieved a satisfactory performance.

Key Target 7 – Cost / Efficiency

This Key Target reports progress in improving the efficiency of the Agency's output delivery and delivery of the Agency's contribution to the DLO's Strategic Goal.

			2000/1	2001/2	2002/3	2003/4	2004/5
Target Achieved	✓	Requirement (£M)	Key Target introduced in 03/04			112	198.4
		Target (%)				90%	90%
		Target (M)				100.5	178.6
		Performance					189.5

Although the Agency's actual performance is marginally below the initial 04/05 Key Target goal, the Agency's required contribution to the DLO's Strategic Goal has subsequently been reduced to £198.4M. Therefore, actual performance exceeds the revised Key Target by £10.9M (6%).

The actual efficiencies delivered have been achieved through a combination of continuous IPT-led business improvement programmes and a number of strategic level efficiency initiatives, e.g. the application of 'lean' principles supported by LSCIT. Overall, since FY 00/01, the WSA has contributed approximately 39% towards the existing DLO's Strategic Goal target (£1.262Bn by Mar 06) – although the results of the 03/04 audit are still not known, and the total 04/05 claim remains to be audited.

Further work to report effectiveness improvements, directly related to logistics transformational activity, is planned.

Following audit, the performance figure for 2003/04 was reduced from £110m to £107.7m as shown here. The target for 2004/05 was amended too as a result.

Review of OUTPUTS

Output 1 – Support to the Deterrent Capability

Supporting Outputs:

- Integrated Deterrent Capability
- Nuclear Weapons Movements & associated Nuclear Accident Response Organisation (NARO)
- Strategic Deterrent Support Services

Associated Key Targets:

- Key Target 1
  a. Available Vessel Days
  b. Ready Force Element Days
- Key Target 2 – Upkeep Period Timeliness

The WSA, through the Chief Strategic Systems Executive (CSSE), is responsible for the availability of the UK's Strategic Deterrent capability. CSSE is accountable to CE WSA and answerable directly to the Navy Board for managing the Trident programme to ensure Continuous At Sea Deterrence and for meeting UK obligations under the Polaris Sales Agreement (a Treaty under International law), as amended for Trident.

Notable achievements in this area during 2004/5:

- Continuous At Sea Deterrence (CASD) has been maintained throughout this period however, due to requirements for SSBN maintenance, only 2 available SSBNs are temporarily supporting this stance.
- Negotiations have completed on HMS VICTORIOUS' LOP(R) which is currently underway in Devonport following conduct of an additional patrol.
- HMS VANGUARD's revised programme has remained on track for the last 10 months. A comprehensive Post LOP(R) Sea Trial programme is progressing well and due to complete at Fleet Date currently planned for 24 May 05.

Output 2 – Materially Available Capable Vessels at the Required Readiness

Associated Key Targets:

- Key Target 1
  a. Available Vessel Days
  b. Ready Force Element Days
- Key Target 2 – Upkeep Period Timeliness

The Agency ensures that RN ships and submarines, RFA vessels and supporting craft and equipment are in a material state that enables them to maintain an agreed Readiness Category and carry out the Operational tasks assigned by Commander-in-Chief. This encompasses Fleet Time and non-Fleet Time Upkeep, Update and Upgrade activity and the provision of stores support through the Naval Bases.

Notable achievements in this area during 2004/5:

- Delivery of RAMPs for SPARTAN, SOVEREIGN, SUPERB and TORBAY
- Support to prolonged deployed operations for TURBULENT, TRAFALGAR, SPARTAN and SCEPTRE
- Acceptance of the ALAMANDA capability in service.
- Full support was provided to the deployment of a large number of Platforms to the East Coast of the United States as part of the Aurora 04 task group taking part in Exercise Rapid Alliance.
- HMS NOTTINGHAM returned to service (Fleet Date 6 Jul), 3 days earlier than originally planned after 18 months undergoing repairs.
- MCMV Sonar 2193 Fleet Time fitting progressing to schedule.
- A Performance Improvement Tiger Team (PITT) made a number of recommendations to achieve an improvement in Fleet Domain AFED and RFED performance, principally through a renewed focus on the tighter management of OPDEFs.

- Phase 1 of the Surface Ship Support Study, a multi-phase, strategic project, recommended (Nov 04) a number of options for further examination. Phase 2 commenced in Jan 05 with the objectives of identifying the best value for money option for the maintenance and repair of surface warships from now until circa 2020 and providing an outline plan for implementation.

Output 3 – Capability Improvements

Supporting Outputs:

- Upgrade of Capability (Vessels & Equipment)
- Upgrade of Capability (Facilities & Infrastructure)
- Engineering & Logistic Advice to Future Vessels & Equipment
- Support to In Service Date (ISD) Acceptance

Associated Key Targets:

- Key Target 3 – Timely Completion of High Priority Upgrade Programme

The Agency is responsible for the embodiment of capability enhancements to RN ships and submarines, RFA vessels, associated upgrades to facilities and infrastructure and for the purchase of supporting craft as specified by the Equipment Capability Customer (ECC). The Agency also provides engineering and logistics advice to the ECC and Defence Procurement Agency (DPA) in support of the procurement of future vessels and equipment.

Notable achievements in this area during 2004/5:

- In the submarine area whilst more Fleet Time fits than ever before have been achieved, the targets have not been met due in part to RAMP overrun into FY05/06 and the inability to complete the necessary trials. The major s/m capability enhancement accepted in FY04/05 was that of ALAMANDA dry deck hangar.
- Fitting of 40 type 'A' fits to HMS ILLUSTRIOUS during RP2, including the fitting of a third mast, 12 degree Aircraft ramp & Merlin capability.
- Sonar 2087 fit to HMS WESTMINSTER
- Merlin Servicing capability added to RFA FORT VICTORIA
- Transportable Compression chambers on HMS LEDBURY & CATTISTOCK
- Mk 8 Gun fitted to HMS YORK

Output 4 – Operational Support Services

Supporting Outputs:

- Berths and Harbour Services
- Lodger Unit Support
- Personnel Services
- UK Sea Mounting Centre Marchwood
- Out of Port Marine Services
- Salvage, Mooring & Towing
- Nuclear Fuel Movements & Associated NARO
- Equipment Support to Training
- Analysis of In-Service Weapon System

Associated Key Targets:

- Key Target 4 – Operational Support Services – Single Living Accommodation
- Key Target 5 – Operational Support Services – Meeting the Customer Needs

The Agency directly supports vessels at the waterfront through the provision of harbour services, secure berths and engineering support. The Naval Bases additionally provide the capability for 'physical' supply of materials to vessels. The WSA also delivers personnel services to uniformed staff at the Naval Bases and provides Lodger Unit support to a wide variety of Customers. Furthermore, the Agency contributes to the activities of other TLBs through the provision of Out of Port Marine Services and the co-ordination of emergent salvage requirements.

Notable achievements in this area during 2004/5:

CLYDE NAVAL BASE

- CDL Commendation for HMS VIGILANT's RAMP (largest fleet maintenance package ever completed at Clyde, completed to date and below budget, excellent collaboration, DLO/fleet/contractor)
- 3 Concurrent SSN RAMPs (HM Submarines SPARTAN, SCEPTRE returned to fleet service and SUPERB regenerated after prolonged period alongside and difficult Steam Generator problem)
- Forward Support to Submarines Deployed world-wide (HMS SCEPTRE OPDEF support in Singapore, SSN support in Gulf during 2nd Gulf War, SSBN Support in USA)
- Extension of Nuclear Capabilities (Core H justification, S Boat Hot Lifts)
- Rosyth Upkeep Projects delivered (HMS ILLUSTRIOUS, HMS WALNEY delivered early. HMS Westminster refit completed with new sonar fit)
- Support to 3 JMCs
- HMCS CHICOUTIMI recovery and support

DEVONPORT NAVAL BASE

- HMS VANGUARD completed the first V-Class refit in the D154 facility and HMS VICTORIOUS is now docked down.
- Significant enhancements to the communications and aviation capabilities of the amphibious capital ships are being undertaken.
- Demolition of former accommodation blocks under Project Armada is now complete and the construction phase for new single living accommodation is underway.
- Completion of the Devonport Distribution Facility has enabled work to commence in preparation for the return of the South Yard Enclave to the City of Plymouth.

PORTSMOUTH NAVAL BASE

- Waterfront activity levels have remained buoyant across the year (30% higher than CSA forecast) at very high levels of reported satisfaction. Service quality has been enhanced significantly with the completion of the Vehicle Washdown Facility at Marchwood (Jun 04) and through the completion and occupation of all remaining EMMA Phase 1 accommodation blocks (Jul 04).
- Security posture across the Base has been increased through Restricted Jetty Access (Dec 04) and through the imminent conversion of East Gate to four lane flow with duplicate Base Entry Permit Office, surveillance systems, including automatic vehicle recognition and base/waterfront-wide CCTV (Apr 05). At a lower level, the establishment of the charity-funded Volunteer Harbour Patrol in Summer 2004 has substantially improved security awareness across all harbour users.
- The combination of FLEET and 2SL TLBs in a new Headquarters on Whale Island will significantly re-shape the number and profile of Lodger Units on site but early indications are that there are many potential customers for the newly available space as further Hampshire-wide Defence co-location focuses on Portsmouth.
- Significant levels of activity are now building in all areas towards delivery of TRAFALGAR 200, of which successful outcome at Exercise GOLDEN FOX's demonstration of the NARO in early November was a key foundation.

Output 5 – Force Generation Capacity and Sustainability

Supporting Outputs:

- Capacity to prepare Force Elements: Personnel, Equipment, Infrastructure
- War Maintenance Reserve (WMR) Armoury
- WMR Non-Armoury
- Deployed Afloat Support Inventory
- Forward Support Deployment: Manpower Augmentation & Forward Support Unit (FSU) No. 3
- Salvage & Mooring Asset Deployment

Associated Key Targets:

- Key Target 6 – Capacity to Support the Naval Force Generation Plan

The Agency maintains the capacity, capability and logistics holdings to bring to readiness any Naval Force Elements that are activated in support of contingent operations. The Agency contributes material, personnel and certain naval armoury items to support the Naval Force Generation Plan.

Notable achievements in this area during 2004/5:

- Notwithstanding difficulties in several key areas during the past year the capacity to meet the varying requirements of generating and sustaining platforms to meet contingent operations has remained satisfactory.
- The introduction of the RSP in Jun 04 added a further dimension to the Force Generation and Sustainability challenge. Equipment Support continued unabated with both Platform and Equipment IPTs managing problems as they arose throughout the year.
- Portsmouth Fleet Support Unit deployed over the Christmas period for three weeks in support of disaster relief operations around Sri Lanka and the Maldives

Output 6 – Disposals

Supporting Outputs:

- Disposal of Nuclear Submarines and Related Infrastructure
- Disposal Support Services (Surface Ships & Materiel)

The Agency provides services to the Disposal Agency and Defence Equipment Sales for the disposals of conventional (non-nuclear) naval vessels. The Agency also provides under Project ISOLUS (Interim Storage and Lay-up of Submarines), care and essential maintenance for decommissioned nuclear submarines and related infrastructure.

Notable achievements in this area during 2004/5:

Project ISOLUS

- MOD's response to Consultation on ISOLUS Outline Proposals was released through Min (DP) in Feb 05. This response entailed significant adjustment to project time-scales to align with the Committee on Radioactive Waste Management programme for civil nuclear disposal, and to embed more demonstrable MOD direction of the outcomes. Down selection of the preferred contractor and their solution was postponed, and the revised project strategy is now under consideration with potential industrial partners. This revised strategy also accommodated a £50M funding reduction through the STP as part of the 2nd PUS savings measures.
- Support of decommissioned nuclear submarines has been progressed satisfactorily.

Foreword to the ACCOUNTS

Introduction

Under Section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury have directed the Warship Support Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction dated 16 February 2005. These accounts, for the period from 1 April 2004 to 31 March 2005, have been prepared on this basis.

History

The Warship Support Agency (WSA) was formed on 2 April 2001 from the Ships Support Agency (SSA) and the majority of the Naval Bases and Supply Agency (NBSA) and is part of the Defence Logistics Organisation (DLO). The head of the DLO, the Chief of Defence Logistics (CDL) is the owner of the Agency and therefore the Agency is wholly accountable and directly responsible to him.

The decision to establish the WSA followed a detailed review into warship support and it concluded that in order to optimise the delivery of cost effective support to the Fleet, the SSA and NBSA should merge. On launching the WSA, the two former agencies ceased to exist.

Future

The DLO has conducted a restructuring exercise to bring the organisation more in line with the requirements of its customers. It has also looked to reduce the size of some support functions by half.

The introduction of a completely new structure for the DLO has resulted in the decision to remove Agency status from the WSA with effect from 1 April 2005. Although the Agency has closed, all activities have continued as part of the Defence Logistics Organisation.

Aims and Objectives, Business Developments and Review of Activities

These are fully described in the foregoing report.

Financial Review

The Agency has again been able to manage its activities within its centrally agreed financial controls. This is the third year that the Agency had produced its accounts under an Accounts Direction. During the year, further progress had been made on improving the accuracy of accounting data and achieving reliable stock information. The stock management system was now well established and enabled stockowners to regularly review and validate their stock values and movements.

In resource terms, the Agency's net operating cost for the Financial Year ending 31 March 2005 amounted to £2.037 bn. Further detail is shown in the statements at page 32.

Staff finance training and awareness had continued to be a high priority within the finance and accounting community and the wider business areas. The MoD Finance Licence Scheme has focused attention on the requirement for finance staff, in particular, to have a solid appreciation of Government finance. A representative suite of available finance training courses, provided 'in house' and through Defence Business Learning, was regularly advertised to all who needed finance competences in their work.

Capital Works

Under the terms of the respective Dockyard Sale Agreements, WSA staff managed an extensive MoD funded capital works programme for the upgrade of existing facilities.

Fixed Assets

The movement in Fixed Assets during the year is detailed in notes 8 and 9 of the Accounts.

Research and Development

Expenditure on research is not capitalised. Expenditure in connection with a product or service that is supplied on a full cost recovery basis is capitalised if it meets the criteria specified in Statement of Standard Accounting Practice (SSAP) 13. Further information on this topic can be found at note 1.20 to these accounts.

Human Resources

The Agency's policies with regard to Equal Opportunities, Disabled Employees and Consultation with Employees can be found in the main body of the report at page 9.

Pension Arrangements

Details of Pension arrangements are set out in note 2 and note 4 to the Accounts.

Owner's Advisory Board

The Agency's owner, the Chief of Defence Logistics, chairs the Owner's Advisory Board. The Owner is responsible for monitoring the progress, performance and strategic direction of the Agency. On 31 March 2005, members of the Owner's Advisory Board were as follows:

Chief of Defence Logistics

Director General – Equipment Support (Air)

Chief of Staff, Second Sea Lord

Controller of the Navy – Defence Procurement Agency,

Executive Director 4

Deputy Commander-in-Chief Fleet

Director General Resources, DLO

Agency Board

Details of the Agency's Board members and their remuneration may be found on page 45/46 of this report and note 3 to the accounts.

The Chief Executive of the Warship Support Agency was appointed for a period of at least three years from the formation of the Agency. Subsequent appointments would have been made by open competition had the Agency continued to operate.

Customer Satisfaction

Delivery of the Agency's outputs to meet customers' needs was supported by Customer Supplier Agreements (CSAs), which, as part of the resource allocation process, were re-negotiated annually with the Agency's principal Royal Navy customers. The agreements contained a wide range of performance indicators through which the efficiency, effectiveness and quality of the services were monitored. Additionally, the Agency had sought to complement these objective measures of performance by introducing a perception-based Corporate Customer Satisfaction survey, providing a deliberately subjective assessment of customer satisfaction.

Creditor Payment Policy

The Agency's suppliers were paid through the Defence Bills Agency (DBA). As the MoD's central bill payment authority, DBA has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt.

Actual performance against this target was 99.98 % in 2004-05. In 2004-05, under the Late Payment of Commercial Debts (Interest) Act 1998, no interest payments arose.

Auditors

The accounts of the Agency are audited by the Comptroller and Auditor General under Section 7(3)(b) of the Government Resources and Accounts Act 2000.

A notional fee of £190,000 was charged by the National Audit Office (NAO) for this service and no other services were undertaken by the NAO for the WSA.

11 July 2005

J D Coles, CB

Accounting Officer, Warship Support Agency

Statement of Agency's and ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 7(2) of the Government Resources and Accounts Act 2000; the Treasury has directed the Warship Support Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction dated 16 February 2005. The accounts were prepared on an accrual 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 was required to:

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

The Departmental Accounting Officer for the Ministry of Defence had designated the Chief Executive of the Warship Support Agency as Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, were set out in the Accounting Officers Memorandum issued by the Treasury and published in 'Government Accounting'.

Accounting Officer, Warship Support Agency
STATEMENT ON INTERNAL CONTROL 2004/05

Scope of responsibility

As Chief Executive (CE), I had responsibility for maintaining a sound system of internal control that supports the achievement of Warship Support Agency's (WSA) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I was personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The WSA operated in accordance with the Business Plan and the Framework Document. This defined the Agency's operating and financial accountability, and the arrangements for risk management.

The Framework Document also defined the roles, responsibilities and accountability arrangements of the relevant policy groups within the Agency.

The Chief Executive was responsible for ensuring satisfactory corporate governance. The Board provided policy and strategic direction for the Agency; consistent with that provided by the Chief of Defence Logistics (CDL) and the Defence Logistics Organisation (DLO) Management Board. Its membership comprises the Chief Executive (DGNuc) (Chairman), Deputy Chief Executive (DGLog (Fleet)), Director Sea Business Group, Director Logistics Procurement (Nuc/Fleet), two Non-Executive Directors, Non-Executive Director DLO. In attendance: Assistant Director Human Resources. Other WSA Directors may be invited to attend as required by Chief Executive.

The role of the Board was to ensure that the Agency fulfilled its purpose as agreed with the Owner in a timely, cost effective manner and in accordance with the requirements of good corporate governance and the strategic aims of the wider DLO. As Chief Executive I was personally accountable to CDL, the Agency Owner, and reported to the Owners Board which met twice a year and would issue a formal written End of Year Report.

The Fleet Logistics Management Group (FLMG) was accountable to the Chief Executive through the Deputy Chief Executive (DCE), and was responsible for the in-year management of the Agency. The FLMG comprised: Deputy Chief Executive (DG Log (Fleet))(Chairman), Director Sea Business Group (DSBG), Director Logistics Procurement (Fleet/Nuc), Director Technical, Director Logistics Operations Marine Equipment, Director Logistics Marine Platforms, Submarine Integrated Project Team Leader, Director Waterfront Operations, Naval Base Commander (Devonport), Naval Base Commander (Portsmouth), Director Naval Base Clyde, Chief Strategic Systems Executive, Director Human Resources. Other WSA Directors would be invited to attend from time to time as required by DCE.

The WSA supplied a monthly financial report to DLO; setting out expenditure to date and forecast for the full financial year against its annual resource allocations, and the Director Sea Business Group regularly attended meetings with senior DLO Finance personnel.

The purpose of the system of internal control

The system of internal control was 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 was based on an ongoing process designed to identify and prioritise the risks to the achievement of WSA policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. The system of internal control had been in place in WSA for the year ended 31 March 2005, and accords with HM Treasury guidance in so far as it is applicable.

Capacity to handle risk

The Agency's approach to risk was detailed in the WSA's 'Business Risk Management Handbook' and was reviewed and updated annually. It set out the way in which the risk management policy was to be implemented within the WSA and was endorsed by the Board and Audit Committee. (Note: An additional handbook 'WSA Business Risk Management Process Guide' provided a step by step guide to implementing risk management within the Agency.)

The WSA has established a Risk Improvement Initiative lead by the Agency Risk Champion and Risk Improvement Manager (RIM) to address the risk process and risk management activity across the Agency's business units.

The Agency's Deputy Chief Executive championed the cause of risk management, through membership of the FLMG and Board, where risk management as part of governance was a standing agenda item.

The Business Risk Management Handbook provided extensive guidance to staff on the definitions, criteria and methods available for risk assessment, and was made available to all personnel in hard copy and via the WSA Intranet. Individual training was provided upon request to all staff via DPMT, dB learning and other training providers. A series of specific training courses had been made available to WSA staff and at the end of 2004 approximately 120 staff from Integrated Project Teams (IPTs) and Business Units (BUs) had attended these courses. The WSA Risk Improvement Manager also provided guidance and advice to risk owners individually and by risk management presentations at team briefings when requested. WSA's RIM received external update training as required, as well as refreshing skills through networking internally and externally.

In the last quarter of 2004/05, the WSA assurance team carried out a review of the risk management across the Agency as part of its audit activity and as directed by the Audit Committee in December 2004. An evaluation of the effectiveness of this approach, and an analysis of the feedback from the assessment is to be made in order to support further work to improve risk management within the Fleet and Nuclear domains as part of DLO.

The assessment model used is based on work completed and addresses recommendations from proceeding independent review carried out by an external facilitator in March 2004. The risk management system was reviewed annually in-house to establish whether it was still fit for purpose, and appropriate revisions were made as approved by the WSA Board and FLMG. The Agency Assurance Team also audited elements of the system on an annual basis. During 2004/05, risk management in the DLO had been subjected to a review by the Risk Workstrand of the DLO Governance restructuring workstream in preparation for the move to 'One DLO'. The WSA RIM had been fully involved in this review and the DLO risk process draws heavily on the process developed and implemented for the WSA.

The WSA Board had examined the issue of Risk transfer and was content that the Risks have been transferred or retained as applicable by DG Fleet and DG Nuclear.

The Risk and Control Framework

The key elements of the Agency's risk management strategy were set out in its corporate governance and business risk management policy.

The WSA established its corporate risk register in March 2002, based on guidance published by HM Treasury. Since then the register had been managed dynamically, with a number of new risks being introduced whilst other risks have been removed or merged, reflecting the changing nature of the business environment in which the Agency works. The RIM had reviewed the functionality of the corporate risk register and had been working with the Defence Communication Services Agency (DCSA) to improve visibility of risk information and to facilitate better risk management within the Agency through the introduction of a new risk tool. This revised tool was rolled out to BUs at the beginning of 2005 and had been well received with its graphical interface and ability to provide a better view of cross Agency risk exposure. It is intended to use this new tool to collect risk information from across the Fleet and Nuclear domain BUs to support DLO risk management in the absence of a DLO wide risk and performance management IS tool.

The Agency 'Top X' risks were reviewed and reported to the FLMG on a monthly basis. The WSA Board carried out an in-depth review of two of the 'Top X' risks at its bi-monthly meetings and on a rolling basis. All risks were reviewed at least 12 monthly and whenever significant changes occurred.

The Agency had not stipulated a corporate level for its risk appetite. Business Units were required to assess risks individually by reference to potential business impact, availability of resources and the value for money of stakeholder benefits as well as against pre-defined performance levels detailed in Customer Supplier Agreements with the front line commands. Risks were reported against individual BU performance indicators on a quarterly basis.

All projects and initiatives requiring approval were subject to thorough investment appraisal including cost analysis and risk impact. Checks were carried out on application of analysis and risk impact assessment as part of the Health of Financial Systems stewardship monitoring process.

Where used within the Agency, ISO 9001:2000 quality management system and the balanced scorecard were all reflected in and fed by, the WSA's corporate risk register and risk management system. Risk assessment was part of Performance Indicator reporting by each business unit in the quarterly Performance Review report to the FLMG.

All major projects were subject to approved project management methodology, e.g. Smart Acquisition Management System, including the use of project risk registers.

The WSA subscribed to the ' Principles of Managing Risks to the Public' as published by HM Treasury.

Public stakeholders were involved when the local authority's planning process is invoked.

When instructed (by CE, CDL or Ministers,) the WSA also carried out public consultation exercises such as that put in place for Project ISOLUS (Interim Storage of Laid-Up Submarines.)

Review of effectiveness

As Chief Executive, I had responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was informed by the work of the internal auditors and the executive managers within the WSA who had responsibility for the development and maintenance of the internal control framework, and comments made by external auditors in their management letter and other reports. I had been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee and continuous improvement of the system was in place.

The Board

Membership of the Board included two independent non-executives, and risk management for corporate governance was a standing agenda item at all Board meetings. All decision papers for the Board included explicit consideration of risk issues, and any potential new corporate risks were referred to the RIM for full consideration. All members of the Board received a copy of Audit Committee minutes.

Fleet Logistics Management Group

The Fleet Logistics Management Group (FLMG) ensures that the conduct of the business is coherent and integrated to best effect and is in accordance with the corporate aims and goals of the WSA.

Audit Committee

The Audit Committee comprised 2 Non-Executive Directors, Director Technical, IPTL, NBC as Members, and DSBG, Hd Agency Assurance, WSA Risk Improvement Manager, and representatives from NAO, DIA and DLO as attendees. The terms of reference were broadly in line with those recommended in HM Treasury's Audit Committee Handbook.

Internal control, risk management, and audit plans and reports were standing Agenda items at the four meetings which take place each year.

Risk Improvement Manager

The RIM worked closely with the Main Board and the FLMG to keep the Agency's risk management processes under regular review, maintaining them as fit for purpose and reflecting current practice in risk management. He also supported risk management activity at the business unit and project level to ensure there is a true Top down – Bottom up recognition and appreciation of risks to the Agency.

Internal Audit

The Agency Assurance Team operated to the standards defined in the Government Internal Audit Manual. The work of the Agency Assurance Team was informed by an analysis of the risks to which the Agency was exposed, and the annual internal assurance programme was based on this analysis. Annually, the Head of Agency Assurance provided an audit opinion on the level of internal audit activity carried out within the Agency.

Other explicit review/assurance mechanisms

On an annual basis, the Agency produced a corporate stewardship report, which provided a framework for evaluating internal control, and set out the evidence, subject to audit underpinning such evaluation. In addition there were a number of additional Stewardship reports produced by the Corporate Directors and Business Units that were used in support of the Statement Of Internal Control (SIC). The reports indicated both strengths and weaknesses, where weaknesses occurred or challenges arose, management addressed the issues or escalated the risk according to Agency practice, thus control was maintained. The Agency was disestablished on 1 April 2005 but the actions arising from the Stewardship reports which were circulated within the DLO enabling layer will be taken up within the DLO as part of the work of the successor organisation. The Board of the WSA had ensured that all risks would either be managed within the DG Fleet or DG Nuclear or escalated upwards to the relevant DLO Board.

Business Continuity Planning

Following the guidelines outlined in the overarching DLO TLB Strategy (Issue 3, dated August 2004) and JSP503, WSA BCM Policy and Strategy had been formally endorsed by the WSA Board and Fleet Logistics Management Group respectively. These documents defined the approach and scope within which the WSA business continuity planning processes would be developed and operated.

Recognising that BCM was a core management function and a key strand of Corporate Governance the WSA had appointed a Business Continuity Manager (full time) to co-ordinate and implement BCM policy, guidance and awareness across the WSA. This post is due to continue within the Secretariat as part of the DLO enabling layer following restructuring.

Major sites[1] (significant presence or site owner) occupied by the WSA have appointed a Lead Business Continuity Co-ordinator (LBCC) to act as the local focal point for all matters relating to BCM.

The WSA BCM Strategy clearly set out the Critical Business Outputs to be maintained, as a minimum, during a disruptive event. This document had been circulated to all WSA Business Continuity Co-ordinators and had been placed on the Corporate Web-site for wider awareness.

Business Continuity Plans (BCPs) are held for the majority of WSA major sites. Irrespective of this shortfall in formal planning arrangements, all sites have Incident Control and Emergency Plans.

These Incident Control and Emergency Plans are the first stage of Business Recovery following an incident. They involve the immediate response to controlling the incident, Incident Control and Emergency Response, which form the basis for managing the incident and providing an interface between the MoD and civil emergency authorities.

Continuity of Business is not directly addressed or focussed upon in the above plans. However, it is evident that consideration would be made to critical business outputs whilst implementing these plans and there is no evidence to suggest that the WSA Business would suffer unduly. The development of formal Business Continuity Plans is being actively pursued as a matter of priority for those sites currently with draft or informal BCPs in place.

[1] Abbey Wood, Clyde/Faslane, Devonport, Ensleigh, Foxhill, Pembroke Dock and Portsmouth.

No Key areas of significant risk to Business Continuity have been identified. Risk mitigation measures have been included into BCM Plans to ensure business continuity risks can be managed effectively. Based on current planning assumptions no resilience weaknesses have been identified, however plans are considered sufficiently robust to manage these should they arise. WSA Business Continuity Plans are subject to a bi-annual review or upon any significant change to the business structure or activities.

Corporate Governance requires that the annual Statement of Internal Control (SIC) include BCM as a specific type of risk management measure. All BC plans, irrespective of which level of the business they represent, will be tested[2]/exercised at least once a year (as a minimum) to validate each individual plan and the interaction and dependencies between plans (i.e. between business units and service providers etc.)

No major incidents have been reported in the last year. Incidents that have occurred are considered minor in nature and were resolved without any significant disruption to business. Lessons learnt from these incidents have been included in the respective plans as part of the BCM continuous process.

J.D. Coles

11 July 2005

J D Coles, CB

Accounting Officer, Warship Support Agency

[2] Testing can be as simple as a desktop exercise to test assumptions are still valid and individuals understand their BC roles.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 32 to 64 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 36 to 44.

Respective responsibilities of the Agency, the Accounting Officer and Auditor

As described on page 24 the Agency and Accounting Officer are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Accounting Officer are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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 certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 25 to 29 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with the other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Warship Support Agency at 31 March 2005 and of the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- 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.

I have no observations to make on these financial statements.

John Bourn

19 July 2005

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

OPERATING COST STATEMENT
for the year ended 31 March 2005

	Note	2004 / 2005	2003 / 2004
		£000	£000
Operating Costs			
Staff Costs	2.2	270,384	280,796
Other Operating Costs	5	1,812,502	2,437.368
Gross Operating Costs		**2,082,886**	**2,718,164**
Operating Income	6	(45,748)	(51,232)
Net Operating Cost		**2,037,138**	**2,666,932**

All activities undertaken during the year are continuing, however as the WSA has been de-agencified, the activities will continue as part of the One DLO.

No material acquisitions or disposals took place during the year.

The MoD Agencies do not allocate income and expenditure between administration and programme headings, as the MoD counts all cost as programme costs.

Statement of recognised gains and losses for the year ended 31 March 2005

	2004 / 2005	2003 / 2004
	£000	£000
Net (Gain)/Loss on Revaluation of Fixed Assets and Stocks	**(405,402)**	**(405,402)**

The results above are in respect of continuing activities, which will continue as part of the One DLO.

The Notes to the Accounts on pages 36 to 64 form part of these accounts.

BALANCE SHEET
as at 31 March 2005

	Note	2004 / 2005		2003 / 2004	
		£000	£000	£000	£000
Fixed Assets					
Intangible Fixed Assets	8	1,222,340		1,176,738	
Tangible Fixed Assets	9	5,291,539		5,205,511	
			6,513,879		**6,382,249**
Current Assets					
Stocks and work-in-progress	11	527,931		535,474	
Debtors	12	456,601		471,814	
Cash at bank and in hand	13	(143)		376	
			984,389		**1,007,664**
Creditors: amounts falling due within one year	14		(344,778)		(336,698)
Net Current Assets			639,611		670,966
Total Assets Less Current Liabilities			7,153,490		7,053,215
Creditors: amounts falling due after more than one year	15	(10,646)		(12,305)	
Provisions for liabilities and charges	16	(621,181)	(631,827)	(632,195)	(644,500)
Net Assets			6,521,663		6,408,715
Taxpayers' Equity					
General Fund	18	4,299,216		4,145,184	
Revaluation Reserve	17	2,222,447		2,263,531	
			6,521,663		6,408,715

The Notes to the Accounts on pages 36 to 64 form part of these accounts.

J.D. Coles

J D Coles, CB
Accounting Officer
Warship Support Agency
11 July 2005

CASH FLOW STATEMENT
for the year ended 31 March 2005

	Note	2004 / 2005	2003 / 2004
		£000	£000
Net cash outflow from operating activities	See CF.1	1,220,821	771,917
Net cash outflow from capital expenditure	See CF.2	486,925	448,603
Payments made against provisions	See CF.3	31,436	27,904
Net cash outflow before financing		1,739,182	1,248,424
Financing: Payments & receipts from Defence Resource Account		1,738,663	1,247,229
Increase/(decrease) in cash	13	**(519)**	**(1,195)**

CF.1 Reconciliation of net operating cost to net cash outflow from operating activities for the year ended 31 March 2005

	Note	2004 / 2005	2003 / 2004
		£000	£000
Net operating cost		2,037,138	2,666,932
Non-cash transactions			
- Depreciation and amortisation charges	8 & 9	(442,075)	(491,917)
- Notional costs	7	(236,641)	(286,045)
- Provision to reduce value of stock to its realisable value		(4,652)	(18,305)
- Surplus / (deficit) on disposal of fixed assets	5	7,928	4,381
- Depreciation on Capital Works projects		22,366	25,221
- Release of Provision for restitution of Land & Buildings		0	(28,584)
- Reversal of impairment resulting from L & B revaluation		86,592	0
- Intra MoD transfers of fixed assets		(98,675)	(573,462)
- Impairment		(132,999)	(233,439)
- Miscellaneous reclassifications		0	(45,721)
Adjustments for movements in working capital other than cash			
- Increase / (decrease) in stocks/works in progress		(7,543)	84,447
- Increase / (decrease) in debtors		(15,213)	(110,837)
- (Increase) / decrease in creditors		(6,421)	(8,188)
- (Increase) / decrease in provisions for liabilities and charges (excluding capitalised provisions)		11,016	(212,566)
Net cash outflow from operating activities before interest		1,220,821	771,917

CF.2 Analysis of net capital expenditure for the year ended 31 March 2005

	Note	2004 / 2005	2003 / 2004
		£000	£000
Payments to acquire fixed assets			
- Intangible Fixed Assets	8	3,053	1,900
- Tangible Fixed Assets		497,304	457,935
- Less Capitalised Provisions	16	(2,729)	(2,727)
Total Payments to acquire Fixed Assets		**497,628**	**457,108**
Receipts from sale of fixed assets		(10,703)	(8,505)
Net cash outflow/(inflow) from capital expenditure		**486,925**	**448,603**

CF.3 Payments made against provisions for the year ended 31 March 2005

	Note	2004 / 2005	2003 / 2004
		£000	£000
Payments made against provisions	16	31,436	27,904

The Notes to the Accounts on pages 36 to 64 form part of these accounts.

Notes to the AGENCY ACCOUNTS for the year ended 31 March 2005

1. Statement of Accounting Policies

1.1 Introduction

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury dated 16 February 2005 and comply with the requirements of the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected.

The Agency's accounting policies, which are listed below, have been applied consistently in dealing with items considered material in relation to the accounts.

1.2 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs.

1.3 Value Added Tax

The Warship Support Agency was not separately registered for Value Added Tax (VAT) as VAT is accounted for centrally by the Ministry of Defence (MoD). Figures in the Operating Cost Statement and the Balance Sheet are shown exclusive of VAT for certain contracted-out services where this is recoverable by the MoD from Customs and Excise.

1.4 Intangible fixed assets

Development costs are capitalised where they contribute towards defining the specification of an asset type, e.g. class of ship, on a straight-line basis. Amortisation commences when the asset type first enters service within the Department and the cost is amortised over the life of the equipment, which is generally twenty years but may exceed that in some cases. These asset lives are reviewed annually.

Development costs are transferred from the Defence Procurement Agency (DPA) with the associated assets, and are capitalised at the value at which they are transferred. The values of Intangible Assets are restated to current value each year.

If it is decided to withdraw from service a whole asset type, or part thereof, then any unamortised development costs are written off to the Operating Cost Statement along with the underlying asset.

Pure and applied research costs are charged to the Operating Cost Statement in the period in which they are incurred.

Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

1.5 Tangible Fixed Assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £10,000 is capitalised. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition.

All tangible fixed assets (with the exception of Capital Spares and Assets under Construction) are restated to current value each year.

Land and buildings are restated to current value using professional valuations in accordance with Financial Reporting Standard 15 (FRS15) every five years and in the intervening years by the use of published indices appropriate to the type of land or building.

The latest valuation, by the Valuation Office Agency, a government agency independent of the Ministry of Defence, was in 2004/05.

Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

Residual interests in Private Finance Initiative (PFI) properties are included in the tangible fixed assets at the amount of the unitary charge allocated for the acquisition of the residual as estimated at the start of the contract and its estimated fair value at the balance sheet.

1.6 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets under construction are not depreciated until the asset is brought into use. No depreciation is provided on freehold land.

The estimated useful economic lives are reviewed annually. The principal asset categories and their estimated useful economic lives are as follows:

	Category	Years
Land and Buildings (non dwelling)	Land Permanent Buildings Buildings, temporary Leasehold	Indefinite, not normally depreciated 50 5-20 Shorter of expected life and lease period
Single Use Military Equipment (including Guided Weapons, Missiles and Bombs)		Effective operational life (on a pooled basis for GWMB)
Plant and Machinery	Plant and Machinery Specialist Plant and Machinery	3-10 years Effective operational life
Fighting Equipment – Transport		Effective operational life
Transport – Other		3-5 years
IT and Communications	Computers Communications Equipment	3-7 Effective operational life
Assets Under Construction		Not depreciated
Capital Spares	Capital Spares (rotables) are items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion.	Effective operational life (on a pooled basis, consistent with the effective operational life of the prime equipment supported).

1.7 Disposal of Tangible Fixed Assets

Assets declared for disposal and intended to be sold in bulk, and where necessary subject to refurbishment prior to sale, are transferred to stock at the net recoverable amount. The remaining assets are eliminated from the tangible fixed assets only on disposal to a third party and any surplus or deficit is shown in Other Operating Costs.

1.8 Leased Assets

Rentals due under operating leases are charged over the lease term on a straight-line basis or on the basis of actual rentals payable where this fairly reflects usage.

1.9 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No. 1 (Revised), entitled 'How to Account for PFI Transactions' as required by the RAM. Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Agency has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the Agency, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI property is borne by the Agency, the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.10 Investments

The Warship Support Agency does not directly hold any investments. However, as part of the agreement for the sale of the Devonport and Rosyth dockyards, a special preferential 'Golden' share in each of the Dockyard companies was issued to the Secretary of State for Defence. The Chief Executive of the WSA held these shares, which had a nominal value of £1.

These shares confer on the Secretary of State for Defence special rights regarding ownership, influence and control, including voting rights in certain circumstances, under the individual articles of association of the relevant companies in which the shares are held.

1.11 Stocks

Stocks are stated at either current replacement cost or net realisable value. Current replacement cost applies to stocks expected to be used or sold in the ordinary course of business, and represents the cumulative revaluation of stock using latest cost of acquisition or indexation. Net realisable value applies to stock, which are not expected to be used or sold in the ordinary course of business, and have been identified for disposal. Where appropriate, provision is made for obsolete, surplus and defective stock. Provisions are also made to reduce the value of certain stock items over their estimated useful economic life. Current cost comprises purchase price and/or cost of conversion, and includes expenses incidental to acquisition, including irrecoverable VAT. Net realisable value is the estimated disposal sale value less the incidental costs chargeable to the sale.

Stocks and work in progress are valued as follows:

- Finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used.
- Work in progress is valued at the lower of cost, including appropriate overheads and net realisable value.

1.12 Provisions for Liabilities and Charges

The Agency provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 3.5 %).

Provisions for liabilities and charges have been established to recognise a realistic and prudent estimate of the expenditure required to settle future legal or constructive obligations.

Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of the underlying facility where the expenditure provides access to current and future economic benefits. In such cases the capitalised provision will be depreciated as a charge to the Operating Cost Statement over the remaining estimated useful economic life of the underlying asset.

Where appropriate, provisions have been discounted to a current price base using HM Treasury's discount rate. The discount for each material class of provision will be unwound over the remaining life of the asset class as an interest charge to the Operating Cost Statement. Provisions for restructuring and redundancy have been made only where the Agency has a detailed formal plan from which it cannot realistically withdraw.

Provision made for early departure costs arising from retirement programmes and redundancies is charged to the Operating Cost Statement in the year in which the programmes are announced.

1.13 Reserves

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments on fixed assets and stocks.

The General Fund represents the balance of the Taxpayers' Equity.

1.14 Pensions

The provisions of the Principal Civil Service (PCSPS) and Armed Forces Pension Schemes (AFPS) which are described at note 4 to these accounts cover past and present employees. The defined benefit elements of the schemes are unfunded and are non-contributory, except in the respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees services by payment to the Principal Civil Service Pension Schemes and Armed Forces Pension Scheme of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the respective schemes.
In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

1.15 Capital Charge

A charge, reflecting the cost of capital utilised by the Agency, is included in the operating costs. The charge is calculated at the real rate set by HM Treasury (2004/05: 3.5 %) on the average carrying amount of all assets less liabilities, except for:

Tangible and intangible fixed assets where the cost of capital charge is based on opening value, adjusted pro rata for in-year:

- Additions at cost
- Disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal)
- Impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure)
- Depreciation of tangible and amortisation of intangible fixed assets;

Donated assets and cash balances with the Office of the Paymaster General, where the charge is nil.

1.16 Foreign Exchange

Transactions that are denominated in a foreign currency and which are covered by a related forward contract are translated into sterling at the exchange rate specified in the contract. Transactions which are not covered by a related forward contract are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which cases an average rate for the period is used. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the Operating Cost Statement.

1.17 Notional Costs

Notional amounts are included in the Operating Cost Statement for charges in respect of services provided from other areas of the Ministry of Defence. The amounts charged are calculated to reflect the full cost of providing the services to the Agency.

The Agency is not charged an audit fee by the National Audit Office (NAO). The audit fee shown represents a notional charge to the Operating Cost Statement based on the cost of the services provided.

1.18 Operating income

Operating income is income that relates directly to the operating activities of the Agency. It principally comprises fees and charges for services provided on a full- cost basis to external customers, as well as public repayment work; but it also includes other income such as that from investments. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the RAM is treated as operating income. Operating income is accounted for by the Agency in the Operating Cost Statement net of VAT.

1.19 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Agency discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- Items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Agency entering into the arrangement.
- All items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.20 Research and development

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service that is supplied on a full cost recovery basis is capitalised if it meets the criteria specified in SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the RAM, which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure that does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

2. Staff numbers and related costs

2.1 The average number of whole time equivalent persons employed during the year was as follows:

	2004 / 2005	2003 / 2004
	Persons employed	Persons employed
Service	2,333	2,579
Civilian Industrials	706	752
Civilian Non-Industrials	3,846	4,382
Total	**6,885**	**7,713**

2.2 Staff costs comprise:

	2004 / 2005	2003 / 2004
	£000	£000
Salaries and wages	204,887	220,406
Social Security Costs	16,539	18,063
Other pension costs	31,936	33,766
Redundancy and severance payments	17,022	8,561
Total staff costs	**270,384**	**280,796**

Other Pension Costs

Employees joining after the 1 October 2002 could opt to open a Partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3% to 12.5 % of pensionable pay. Employers also match employee contributions up to 3 % of pensionable pay. In addition 0.8 % of pensionable pay is payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

No contributions were due to the partnership pension providers at the balance sheet date.

For Service personnel, employers' contributions of £16,964,668 (2003-2004 £17,643,930) were payable to the AFPS based on rates of 33.8% of pensionable pay for Officers and 18.2% for other ranks, as determined by the Government Actuary. Employer contributions to the AFPS were reviewed during 2002-2003.

The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and reflect past experience of the schemes. Further information is available from the Annual Report and Accounts of the Armed Forces Personnel Administration Agency.

Further details of the schemes are given in Note 4 to the accounts.

2.3 Early Retirement Costs

The Agency provides in full for the cost of meeting pensions up to the normal retirement age in respect of early retirement programmes and redundancies announced in current or previous years. The Principal Civil Service Pension Scheme meets pensions payable after normal retirement age for civilian personnel and the Armed Forces Pension Scheme for service personnel. However, the additional element payable beyond the normal retirement age, which derives from the enhancement of reckonable service, continues to be met by the Agency.

The Agency may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Office of the Paymaster General account for the credit of the Civil Service Superannuation Vote. The amount provided is shown net of any such payments. See also Note 16 for provisions for future expenditures.

3. Board Remuneration

3.1 The Board

The WSA Board was composed of senior civil servants, senior officers of HM Forces and two independent contracted non-executive directors. Where appointments to the Board were made after the beginning of the Financial Year (1 April 2004) details are disclosed relating to their period of office only. Similarly, where Board members left before the Financial Year-end (31 March 2005) only details up to departure are disclosed. Remuneration of Board members is in line with normal Civil Service and Armed Forces rates of pay for the rank/grade held.

3.2 Chief Executive

The Chief Executive of the Warship Support Agency, previously the Chief Executive of the Ships Support Agency, was appointed for a period of not less than three years from the formation of the Agency.

3.3 Salary and pension entitlements of the WSA Board during the year

	Salary including performance pay (£K)	Benefits in kind (to nearest £100)	Real increase in pension and related lump sum at age 60 (£K)	Total accrued pension at age 60 at 31/3/05 (AFPS 55) and related lump sum (£K)	CETV at 31/3/04 (nearest £K)	CETV at 31/3/05 (nearest £K)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £K)	Employer contribution to partnership pension account including risk benefit cover (nearest £100)
Mr John Coles Chief Executive	110-115	–	0-2.5 plus lump sum 0-2.5	50-55 plus lump sum 150-155	814	851	-1	
Rear Admiral Jonathon Reeve Deputy Chief Executive (until 5 Sept 2004)	35-40	–	0-2.5 plus lump sum 0-2.5	45-50 plus lump sum 135-140	920	n/a		
Rear Admiral Paul Boissier Deputy Chief Executive (from 6 Sept 2004)	50-55	–	0-2.5 plus lump sum 0-2.5	40-45 plus lump sum 120-125	920	926	-2	
Mr John Clayton Director Sea Business Group (to 4 July 2004)	Consent for disclosure withheld							
Mr Martin White Director Sea Business Group (from 5 July 2004)	35-40	–	2.5-5 plus lump sum 10-12.5	15-20 plus lump sum 55-60	228	299	55	
Mr Trevor Strong Director Proc (Fleet/Nuc)	60-65	–	0-2.5 plus lump sum 0	25-30 plus lump sum 80-85	466	506	12	
Mr Allan Howell Non-Executive Director	10-15							
Ms Moira Black Non-Executive Director	5-10							

Brigadier Jean Dowson was nominated as a Non-Executive director on behalf of the DLO. She received no extra benefits for this service.

'Salary' includes gross salary, performance pay or bonuses, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

The Serving Naval Officers were part of the AFPS and the Civilian members were part of the PCSPS.

No member of the Board received benefits in kind.

The Non-Executive Directors had separate contracts in respect of their services to the Agency, under which they are entitled to claim fees and expenses. Their fees for the financial year are disclosed above. The Agency makes no pension contributions on their behalf.

Salary and pension entitlements of the WSA Executive Board reported in 2003/04

	Salary including performance pay (£K)	Benefits in kind (to nearest £100)	Real increase in pension and related lump sum at age 60 (£K)	Total accrued pension at age 60 at 31/3/04 (AFPAA 55) and related lump sum (£K)	CETV at 31/3/03 (nearest £K)	CETV at 31/3/04 (nearest £K)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £K)	Employer contribution to partnership pension account including risk benefit cover (nearest £100)
Mr John Coles Chief Executive	105-110	–	0-2.5 plus 2.5-5 lump sum	45-50 plus 125-130 lump sum	779	814	30	–
Rear Admiral Jonathon Reeve Deputy Chief Executive	85-90	–	2.5-5 plus 7.5-10 lump sum	40-45 plus 130-135 lump sum	885	920	29	–
Mr John Clayton Director Finance and Communications (Premium)	60-65	–	2.5-5	30-35	331	385	42	–
Mr Trevor Strong Director Commercial (Classic Plus)	60-65	–	0-2.5	25-30 plus 75-80 lump sum	446	466	15	–
Mr Allan Howell Non-Executive Director	10-15							
Ms Moira Black Non-Executive Director (from November 2003)	0-5							

4. Pensions

The Principal Civil Service Pension Scheme (PCSPS) and the Armed Forces Pension Scheme (AFPS), of which most of the Agency's employees are members, are unfunded multi-employer defined benefit schemes, but the WSA is unable to identify its share of the underlying assets and liabilities. A full Actuarial valuation was carried out at 31 March 2003 for the PCSPS and at 1 April 2001 for the AFPS. Details, for the PCSPS, can be found in the resource accounts of the Cabinet Office: Civil Superannuation. www.civilservice-pensions.gov.uk.

For 2004-2005, employers' contributions of £14,971,284 (2003/04: £16,112,815) were payable to the PCSPS at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme revaluation. Rates will increase from 2005/06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

For Service personnel, employers' contributions of £16,964,668 (2003/04: £17,643,930) were payable to the AFPS based on rates of 33.8% of pensionable pay for Officers and 18.2% for other ranks, as determined by the Government Actuary. Employer contributions to the AFPS were reviewed during 2002-2003.

The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and reflect past experience of the schemes.

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, Civil Servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership Pension Account).

Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three year's pension is payable upon retirement. Members pay contributions of 1.5 % of pensionable earnings.

On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow (er) pensions.

Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the classic scheme, there is no automatic lump sum, but members may give up (commute) some of their pension to provide a lump sum. This can be up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 % of pensionable earnings.

On death, pensions are payable to the surviving spouse or eligible partner, at a rate of 3/80ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them from undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Partnership Pension Account

This is a stakeholder type arrangement where the employer pays a basic contribution of between 3 % and 12.5 % (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute, but where they do make contributions, these will be matched by the employer up to a limit of 3 % (in addition to the employer's basic contribution). Employers also contribute a further 0.8 % of pensionable pay to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25% of the fund as a lump sum.

Armed Forces Pension Scheme (AFPS)

This is a statutory, defined benefit scheme that provides benefits on a 'final salary' basis at a normal retirement age of 55. Benefits accrue from the age of 21 for Officers and age 18 for Other Ranks, up to a maximum of 34 or 37 years respectively of reckonable service (aged 55) at which the pension benefit will equate to 50% of Representative pay. In addition a lump sum equivalent to 3 years pension is payable on retirement. Pensions are linked to the Retail Prices Index. On death, pensions are payable to an entitled surviving spouse at the rate of either a third or a half of the member's pension. On death in service, the scheme pays a lump sum benefit of between 97% and 150% of pensionable pay depending on the length of service. Where the death is attributable to service causes dependants benefits may be significantly enhanced at the discretion of the Defence Council.

Cash Equivalent Transfer Value

Columns 5 & 6 of Table 3.3 above show the member's cash equivalent transfer value (CETV) accrued at the beginning and end of the reporting period. Column 7 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 employee (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.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by member at the particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to any member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

5. Other Operating Costs

	Note	2004 / 2005	2003 / 2004
Operating Expenditure		£000	£000
- Fuel		2,254	2,567
- Stock consumption and valuation provisions		70,779	79,536
- Utilities		14,892	11,574
- Property management		32,689	42,939
- Hospitality & entertainment		182	241
- Accommodation charges		11,460	11,295
Depreciation and amortisation - Intangible fixed assets	8	65,574	62,475
- Tangible fixed assets	9	376,501	429,442
Reversal of impairment resulting from L&B revaluation		(86,592)	0
(Surplus)/Deficit on disposal of assets		(7,928)	(4,381)
Notional costs	7	236,641	286,045
Research and development expenditure		10,222	20,918
Equipment support and post design services		867,986	976,003
Expenditure on PFI transactions	22	11,606	5,907
Increase/(decrease) in provisions	16	(4,227)	(8,279)
Change in Treasury Discount Rate effect on unwinding of provisions		0	182,587
Unwinding of provision discounts	16	21,920	22,356
Impairment of fixed assets	8,9	132,999	233,439
Abortive Capital expenditure		(24)	(228)
Legal and Professional fees		15,471	40,960
Other expenditure		40,097	41,972
Total other operating costs		**1,812,502**	**2,437,368**

6. Operating Income

	2004 / 2005	2003 / 2004
	£000	£000
From external customers, Other Government Departments and Trading Funds	(45,748)	(51,232)
Total Operating Income	**(45,748)**	**(51,232)**

7. Notional Costs

Other operating costs include notional costs for services provided by other parts of the MoD, Audit services, and cost of capital.

	2004 / 2005	2003 / 2004
Notional Costs:	£000	£000
Share of TLB costs	(12,003)	15,265
Share of MOD central costs	15,541	12,547
Accommodation costs for Abbey Wood	9,721	11,482
Audit fee	190	175
Cost of Capital	223,192	246,576
Total Notional Costs	**236,641**	**286,045**

The cost of capital is calculated for 2004/2005 at 3.5% based on the average value of net assets held during the year.

The reason for a credit amount as the share of TLB costs is because a Hydrographic Agency dividend payment of £19.627m was received by the DLO and credited wholly to the WSA.

8. Intangible fixed assets

	Development Expenditure 2004 / 2005	Development Expenditure 2003 / 2004
	£000	£000
Cost or Valuation at 1 April	**1,595,886**	**1,433,389**
Additions	3,053	1,900
Disposals	(36,221)	0
Transfers of assets in/(out)	112,861	1,250
Revaluations	21,611	35,914
Reclassifications	(913)	129,659
Impairment	(534)	(6,226)
At 31 March	**1,695,743**	**1,595,886**
Amortisation at 1 April	**(419,148)**	**(353,294)**
Charged in year	(65,574)	(62,475)
Revaluation	(99)	(3,379)
Disposals	11,418	0
At 31 March	**(473,403)**	**(419,148)**
Net Book Value		
At 31 March 2005	**1,222,340**	
At 1 April 2004		**1,176,738**

The transfers are Development costs transferred from the Defence Procurement Agency. Capitalised Development costs are written off over the life of the Tangible asset associated with the Development costs.

Reclassifications represent recategorisation of assets within intangibles, tangible fixed assets and stocks.

9. Tangible fixed assets

	Land and Buildings Non Dwelling	Single Use Military Equipment	Plant and Machinery	Fighting Equipment Transport	Other Transport	IT & Comms Equipment	Capital Spares	Assets Under Construction	TOTAL 2004 / 05
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation	1,270,042	2,705,092	287,127	0	0	19,573	3,733,655	712,277	8,727,766
As at 1 April 2004									
Additions	592	126	2,070	0	55	214	123,790	384,008	510,855
Disposals	0	0	0		(690)	0	(3,753)	0	(4,443)
Revaluations	252,777	40,923	48,005	18	0	72	81,200	10,278	433,273
Transfer of assets in/(out)	(8,839)	(1,418)	3,978	849	0	0	(15,453)	(201,690)	(222,573)
Impairments	(41,393)	(209,552)	(15,342)	0	1,169	(1,757)	(117,450)	(20,911)	(405,236)
Reclassifications	14,891	(47)	(33,733)	0	37,078	1,320	(101,783)	17,720	(64,554)
At 31 March 2005	1,488,070	2,535,124	292,105	867	37,612	19,422	3,700,206	901,682	8,975,088
Depreciation									
As at 1 April 2004	(91,011)	(1,239,932)	(54,639)	0	0	(3,631)	(2,133,042)	0	(3,522,255)
Charged in year	(71,017)	(112,538)	(24,114)	(33)	(1,328)	(2,152)	(165,319)	0	(376,501)
Revaluation	(27,383)	24,742	(24,781)	0	(5)	(89)	(45,256)	0	(72,772)
Disposals	0	0	0	0	0	0	1,642	0	1,642
Transfers of assets in/(out)	1,609	117	127	0	0	0	9,184		11,037
Impairments	31,546	158,690	8,236	(438)	(1,052)	0	75,789	0	272,771
Reclassifications	0	(84,494)	4,760	298	(5,058)	0	87,023	0	2,529
At 31 March 2005	(156,256)	(1,253,415)	(90,411)	(173)	(7,443)	(5,872)	(2,169,979)	0	(3,683,549)
Net Book Value at 31 March 2005	1,331,814	1,281,709	201,694	694	30,169	13,550	1,530,227	901,682	5,291,539
Net Book Value at 1 April 2004	1,179,031	1,465,160	232,488	0	0	15,942	1,600,613	712,277	5,205,511

The major asset transfers are in Assets Under Construction and are the transfer of completed Major Refits, under FRS 15, to CinCFleet. These transfers were £202m. The remaining balance on Assets Under Construction consists of balances on ongoing refits to be transferred in future years and Capital works projects at the Naval Bases.

Reclassifications represent recategorisation of assets between intangibles, tangible fixed assets and stocks.

All land and buildings are held on freehold.

Independent external valuers, The Valuation Office Agency, valued the freehold properties occupied by the Agency as at 1 April 2004. The valuers are members of the Royal Institute of Chartered Surveyors (RICS) and the valuations were undertaken in accordance with the RICS Appraisal and Valuation Manual. These operational properties were valued on the basis of existing use value or, where this could not be assessed because there was no market for the asset, the depreciated replacement cost subject to the prospect and viability of occupation and use.

The Accounting Officer has advised the Board that in his opinion there are no significant differences between the current market value of land held by the WSA and its book value.

Details of on balance sheet PFI deals included in Land and Buildings Non-Dwelling are shown at Note 22.

10. Investments

Investments were held, on behalf of the Secretary of State for Defence, in the following companies at 31 March 2005:

Investments	Preferential Shares
Devonport Royal Dockyard Ltd, HMNB Devonport, Plymouth	1 share
Babcock Naval Services, Rosyth Dockyard, Edinburgh	1 share

The WSA did not directly hold any investments. However, as part of the agreement for the sale of the Devonport and Rosyth dockyards, a special preferential 'Golden' share in each of the Dockyard companies was issued to the Secretary of State for Defence. The Chief Executive of the Warship Support Agency held these shares, which have a nominal value of £1.

These shares confer on the Secretary of State for Defence special rights regarding ownership, influence and control, including voting rights in certain circumstances, under the individual articles of association of the relevant companies in which the shares are held.

With the demise of the Warship Support Agency, these shares will now be held on behalf of the Secretary of State by Director General Logistics (Fleet).

11. Stocks and work in progress

	2004 / 2005
	£000
As at 1 April 2004 – Raw materials and consumables	535,474
Net receipts/additions	(21,891)
Stock write-off/on	(44,865)
Stock provision charged in year	(4,652)
Reclassifications	62,936
Stock revaluations	23,389
Net disposals	(1,123)
Stock Consumption	(21,337)
As at 31 March 2005 – Raw materials and consumables	**527,931**

Reclassifications represent recategorisation of assets between intangibles, tangible fixed assets and stocks.

12. Debtors

	31 March 2005	1 April 2004
	£000	£000
Amounts falling due within one year		
Trade debtors	5,782	5,394
VAT	0	0
Other debtors	7,045	6,164
Prepayments and accrued income	49,682	44,582
Staff loans and advances	619	754
Total debtors: amounts falling due within one year	**63,128**	**56,894**
Amounts falling due after one year		
Trade debtors	0	0
Prepayments and accrued income	393,473	414,920
Total debtors: amounts falling due after one year	**393,473**	**414,920**
Total debtors	**456,601**	**471,814**

The majority of the prepayment balance relates to the Nuclear Submarine Facility (D154) at Devonport. Amortisation of D154 totalled £22.366m in year.

Debtors balances with Other Government Departments are not significant.

13. Cash and cash equivalents

	2004 / 2005	2003 / 2004
	£000	£000
At 1 April	376	1,571
Net cash Inflow/(Outflow)	(519)	(1,195)
As at 31 March	(143)	376
Represented by:		
- Office of HM Paymaster	0	0
General (OPG)	147	229
- Sterling Cash in Hand	474	500
- Foreign Currency	(764)	(353)
- Commercial Banks		
As at 31 March	**(143)**	**376**

At the year-end, a larger than usual overdraft was held in commercial banks, along with a lower level of cash in hand, thereby producing a negative balance.

14. Creditors: amounts falling due within one year

	31 March 2005	1 April 2004
	£000	£000
Trade Creditors	(58,038)	(43,806)
Taxation and Social Security	0	0
Other Creditors	(22,525)	(29,678)
Annual Compensation Payments	(2,435)	(3,060)
Other Accruals and deferred income	(261,780)	(260,154)
Total Creditors: amounts falling due within one year	**(344,778)**	**(336,698)**

Creditor balances with Other Government Departments are not significant.

15. Creditors: amounts falling due after more than one year

	31 March 2005	1 April 2004
	£000	£000
Trade Creditors	0	(1,305)
Other Creditors	(6,095)	(5,356)
Annual Compensation Payments	(4,551)	(5,644)
Total Creditors: amounts falling due after more than one year	**(10,646)**	**(12,305)**

16. Provisions for liabilities and charges

	Nuclear decommissioning	Early retirement costs	Other	Total 2004 / 2005
	£000	£000	£000	£000
At 1 April 2004	**(624,025)**	**(7,915)**	**(255)**	**(632,195)**
Utilisation of provisions	19,522	11,914		31,436
Unwinding of discount	(21,764)	(156)		(21,920)
Amounts capitalised	(2,729)	0		(2,729)
Increase/(Decrease) in provisions	23,764	(17,852)	(1,685)	4,227
Transfer to creditors				
Transfers				
At 31 March 2005	**(605,232)**	**(14,009)**	**(1,940)**	**(621,181)**

16.1 All provisions for liabilities and charges reported within these accounts have been recognised in accordance with the principles of FRS 12. The liabilities have been estimated at current prices and discounted using HM Treasury discount rate of 3.5%.

All existing provisions have been reviewed and, where appropriate, adjusted to reflect the current best estimate.

16.2 The nuclear decommissioning provisions within these accounts relate to the following areas:

- Decommissioning of nuclear submarines
- Decommissioning of nuclear cores (Nuclear Propulsion IPT)
- Decommissioning of RD83 facility at Rosyth
- Decommissioning of the nuclear submarine facility (D154) at Devonport
- Decommissioning of REDEF at Rosyth.
- Decommissioning of Depleted Uranium.

These provisions relate principally to the costs of decommissioning, treating and storing of nuclear waste. The liabilities include the costs associated with decommissioning and the care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials), research and development and the procurement of capital facilities to handle the various waste streams.

Calculation of the liabilities is based on technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are based on the latest technical knowledge and commercial information available, taking into account current legislation, regulations and Government policy. The amount and timing of each obligation are therefore sensitive to these factors. These sensitivities and their likely effect on the calculation and amount of the liabilities are reviewed on an annual basis.

The latest estimate of the undiscounted cost of dealing with the WSA's nuclear decommissioning liabilities is £ 1,612m.

The estimate of £ 605m at 31 March 2005 represents £ 1,612m discounted at 3.5% to the balance sheet date.

The closing balance at 31 March 2004 was estimated at £ 624m representing £ 1,835.3m discounted at 6% at the balance sheet date.

The timescale over which the discounted provision will be spent is as follows:

	2004 / 2005
	£000
Up to 3 years	93,133
From 4 to 10 years	211,301
Beyond 10 years	300,798
Total	605,232

16.3 Early departure costs

The Agency met the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retired early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Agency provided for this in full when the early retirement programme became binding on the Agency by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5% in real terms. In past years the department paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining was treated as a prepayment.

16.4 Other Provision

The other provision relates to de-equipping Polyrey boards from HMS Ark Royal.

17. Revaluation Reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	Revaluation Reserve 2004 / 2005	Revaluation Reserve 2003 / 2004
	£000	£000
At 1 April	**(2,263,531)**	**(2,202,198)**
Arising on revaluation during the year (net)	(405,402)	(196,844)
Reversal of impairment resulting from L & B revaluation	86,592	0
Backlog Depreciation	0	(5,035)
Transfers of assets (in)/out	144,028	41,194
Transfer of realised elements to General Fund	215,866	99,352
At 31 March	**(2,222,447)**	**(2,263,531)**

Transfer of assets (in)/out relate to the revaluation elements of assets transferred to and from other MoD departments. Components include Torpedoes transferred from the DPA and assets capitalised under FRS 15 and subsequently transferred to front line commands.

18. Movements in general fund

	2004 / 2005	2003 / 2004
	£000	£000
General Fund at 1 April	**(4,145,184)**	**(5,179,490)**
Net Financing from the Defence Resource Account	(1,738,663)	(1,247,229)
Notional costs	(236,641)	(286,045)
Transfer of realised element from Revaluation Reserve	(215,866)	(99,352)
Net Operating Cost	2,037,138	2,666,932
General Fund as at 31 March	**(4,299,216)**	**(4,145,184)**

19. Capital Commitments

Capital commitments as at 31 March 2005, for which no provision has been made in these financial statements totalled £480,822k.

	2004 / 2005	2003 / 2004
	£000	£000
Contracted but not provided for:		
Submarine Long Overhaul Periods	311,221	212,285
(Refuelling)		
Project EMMA (Junior Rates Single	700	3,035
Living Accommodation Portsmouth)	97,162	122,691
Clyde Submarine Berthing Project		
Nuclear Cores	25,235	
Spearfish Replacement ATE	19,089	
Other projects	27,415	11,263
Total	**480,822**	**349,274**

20. Commitments under leases

The Warship Support Agency held no assets under finance leases during 2004/2005.

21. 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 Departments 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. In line with FRS 13, short-term debtors and creditors have been excluded from these disclosures.

Liquidity risk

The Agency's net revenue requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. The WSA is not therefore exposed to significant liquidity risks.

Interest rate risk

A significant proportion of the Agency's financial assets and liabilities carry nil or fixed rates of interest. The exposure to interest risk is therefore not significant.

Foreign currency risk

The Ministry of Defence 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 the Departmental Resource Account.

Fair values

Fair values of financial assets and liabilities approximate to their book values.

22. Commitments under Private Finance Initiative (PFI) contracts

The payments made during the year in respect of on and off balance sheet PFI transactions were £11,606,000 (2003/04 £5,907,000).

The payments, which the WSA was committed to make during the year 2005-06, are analysed below by timebands specifying the period in which the individual commitment expires:

The following information is provided for off and on balance sheet schemes.

	31 March 2005	31 March 2004
	£000	£000
In the first year	21,740	6,579
In years 2 to 5	99,359	26,128
In years 6 to 10	95,323	12,887

The following information is provided for both on and off balance sheet schemes.

	Estimated Capital Value	Contract Start Date	Contract End Date
Project Description	£000	£000	£000
Marine support to Ranges and Aircrew Training	11,413	December 2001	March 2012
Astute Class Submarine Training Service	494,000	September 2001	January 2037
(The above are Off Balance Sheet)			
ARMADA Project (Devonport SLA) (On Balance Sheet)	44,513	October 2004	March 2029

23. Related party transactions with the WSA

The Warship Support Agency was an Executive Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. During the period 1 April 2004 to 31 March 2005, the Warship Support Agency had various material transactions with the Ministry of Defence and with other entities for which the Ministry of Defence is regarded as the parent Department. These included the Defence Science and Technological Laboratory, the Hydrographic Office and Meteorological Office. Other related parties include the three Dockyard companies, Babcock Naval Services, Devonport Management Ltd and Fleet Support Ltd, who are now operating partnering agreements as a result of the Warship Support Modernisation Initiative (WSMI). This started in FY 2002/03. Under the initiative, the commercial opportunities to spread best practice across the Naval Bases were tested against a benchmark of in-house efficiencies and against proposals from the Trades Unions. Measured strictly against Treasury guidelines the conclusion was reached that partnering arrangements between the dockyard companies and the Naval Bases would offer the best overall value for money over the term of the initial contracts, with the potential for continued savings beyond that time.

During the year none of the Executive Board members, senior and other key management staff or other related parties had undertaken any material transactions with the Warship Support Agency.

24. Contingent Liabilities

The Warship Support Agency had not increased its level of contingent liability during the year.

25. Post balance sheet events

The Warship Support Agency ceased to exist on 1 April 2005, but all of the Agency's assets and activities continued as part of the Defence Logistics Organisation, a part of the MoD.

26. Losses and special payments

A Losses Statement, details of Special Payments, Gifts, Loans and Other Notes as described in 'Government Accounting' are required to be included in these financial statements. The purpose of the Losses Statement is to report all defined losses that have been brought to account during the year. In addition, any individual loss, which exceeds £100,000, is noted separately.

Losses Statement		2004/2005
		£000
Total Losses	607 cases	230,537

Details of cases over £100,000

Remote Ammunitioning Facility, Tamar (RAFT) £25,000,000

The decision to suspend, and seek cancellation, of the Remote Ammunitioning Facility, Tamar at HMNB Devonport resulted in a constructive loss of £25m. The project was suspended in May 2002 following a Defence Ordnance Group study showing that the effects of potential ammunition explosions were as low as reasonably possible. It was concluded that a satisfactory facility could be provided at the submarines' current berths within the Naval Base, without the need to construct a remote facility. Since then Devonport has established confidence those existing facilities can be used and full costs of the cancellation have become clearer. Ministerial approval has been given to cancel the project. The value of RAFT was written off in the FY 2002/03 Annual Accounts.

Aircraft Lifts £6,500,000

Notification that a loss of £6.5m has been incurred through the procurement of new aircraft lifts, some years ago, that were to be fitted to Royal Naval Aircraft Carriers. A more cost-effective solution has been found which takes advantage of technical advances and the lifts are no longer required. There has been a subsequent sale and the lifts have been dismantled and removed.

Oasis Stores and Engineering Enhancement £1,255,069

Notification that a loss of £1.25m has been incurred by the cancellation of the Oasis Stores and Engineering Project (OSEE). The development of the IT project was subject to delays and was not deemed fit for purpose in its current form when trials were undertaken in mid 2002. At the same time a review of DLO projects carried out by McKinsey & Co found that OSEE did not meet the new recommended criteria for the continuation of IT projects. It was therefore recommended that the project should be suspended. There has been some mitigation of the loss through an arrangement to purchase licences for a different product in use in the MoD.

Marine Consultants International Ltd £160,000

A claim for £160k has been abandoned against a company that went into liquidation in 2002. The claim arose from the subsequent deterioration of work completed by the company on the watertight hatches on a Royal Maritime Auxiliary Vessel. The MoD have sought re-dress through the Receivers' solicitors, but there is little in the way of company assets remaining to meet the MoD's legitimate claim.

Advance Notification

Navy Days 2004, Devonport £166,232

A cash loss of £166,232 has been incurred as a result of the Navy Days 2004 event, which took place in Devonport Naval Base during August 2004. A forecast of income and expenditure for Navy Days 2004 assumed a breakeven position with 60,000 visitors attending. Although good control of expenditure against budget was exercised, income was lower than anticipated, mainly due to reduced visitor numbers (46,000).

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID 181404 11/05

For further information contact the Editor,
DLO Press Office, Spur 5,
Block E, Ensleigh, Bath BA1 5AB.
Telephone 01225 468819

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

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline *Lo-Call* 0845 7 023474
Fax orders: 0870 600 5533
E-mail: book.orders@tso.co.uk
Textphone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9-21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18-19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

TSO Accredited Agents
(see Yellow Pages)

and through good booksellers

ISBN 0-10-293534-3