

d s d a

Annual Report and Accounts

2008-2009



JOINT SUPPORT CHAIN



MINISTRY OF DEFENCE

Defence Storage and Distribution Agency



Front Cover: Loading munitions onto HMS Cornwall at DSDA Plymouth

Above: Jetty operations at DSDA Plymouth

Opposite: Munitions storage DSDA Glen Douglas

DSDA Annual Report & Accounts 2008-09



Presented to the House of Commons pursuant to section 7(2)
of the Government Resources and Accounts Act 2000

Ordered by the House of Commons
to be printed 16 July 2009

© **Crown Copyright 2009**

The text in this document (excluding the Royal Arms and other departmental or agency logos) may be reproduced free of charge in any format or medium providing it is reproduced accurately and not used in a misleading context.

The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to
Office of Public Sector Information, Information
Policy Team, Kew, Richmond, Surrey TW9 4DU
or e-mail: licensing@opsi.gov.uk

Contents

Foreword by the Chief Executive	1
Business Review.....	4
DSDA Board	8
History and Background	12
DSDA Code of Business Principles	13
Strategy	15
DSDA Installations	16
Performance Summary.....	18
Remuneration Report	21
Statement on Internal Control.....	27
Statement of Agency's and Chief Executive's Responsibilities	31
Foreword to the Accounts	32
Financial Review.....	33
The Certificate and Report of the Comptroller and Auditor General to The House of Commons.....	34
Notes to the Accounts.....	39

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

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

Technical Services at
DSDA Support Centre Longmoor





General Stores DSDA Dülmen



DSDA Chief Executive Mr Neil Firth

The DSDA Mission

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

The DSDA Vision

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

Foreword by The Chief Executive

This is the Defence Storage and Distribution Agency's (DSDA) fourth unqualified Annual Report and Accounts (AR&A) since my appointment as Chief Executive. I was appointed to re-structure the Agency under the Future Defence Supply Chain initiative (FDSCi) and I am pleased to say that at the close of this Financial Year FDSCi has been completed ahead of schedule.

DSDA has successfully delivered a significant change programme. The Agency was faced with a challenging target to reduce its headcount and I noted in last year's report that we were on target to achieve the mandated 2,026 reductions. I am pleased to report that we have exceeded this target and achieved total post reductions of 2,097 under FDSCi. Three non-explosive storage sites have been closed and at the same time DSDA has managed to achieve a remarkable improvement in its performance. Three years ago routine deliveries were measured against a 49 day delivery, now over 96% of routine non-explosive issues are delivered within seven calendar days. Over the life of the FDSCi project total net savings attributable to DSDA equate to £431.6m.

I also commented in last year's report about the changing dynamics of the defence environment specifically with regard to our main customer base moving towards 'contracting for availability' or 'capability' with Original Equipment Manufacturers (OEMs) and the overall pressure to reduce costs. Post FDSCi the question remained as to how far efficiency strategies and new ways of working could go and how sustainable the Agency's current business model is. The Agency's outdated and failing infrastructure is still an issue with an estimate of over £500m required to cover basic remedial work. With this in mind, I commissioned work to evaluate the potential value for Defence of business models routes for DSDA. Project Deep Sea evaluated a range of options from the retention of DSDA as a Government owned organisation to the divestment of the Agency's services and assets.

Project Deep Sea was put on hold at the end of July 2008 and with revised priorities the Agency

continued to develop and implement initiatives in order to provide further improvements to service levels and achieve additional cost reductions. I instigated a full review of its ongoing and future business requirements, which highlighted opportunities for business relocation, and the potential for wider exploitation of its infrastructure. As a result work was undertaken to develop a new storage strategy and implementation of the recommendations is now underway. DSDA's future business strategy continues to evaluate the potential; for further commercial opportunities, growing third party revenues, partnering, the potential disposal of surplus assets and alternative methods of ownership to fund the capital investments that the Agency requires.

Other initiatives that the Agency has been involved with include the Carrier Logistic Support Programme, New Clothing Solution, Maritime Integration, the Bicester Development, as well as Project Hadrian and the Complex Weapons Study. DSDA's involvement with these initiatives is a direct result of the Agency's drive to identify further efficiencies within the defence supply chain.

Irrespective of Defence initiatives the Agency is also responsive to wider political influences and in November 2008 the Treasury announced that DSDA would be included as part of its Operational Efficiency Programme (OEP). The OEP forms a key part of the Government's drive to achieve greater efficiency savings across public spending. This can be seen as a natural progression from the work initiated post FDSCi. We are committed to ensuring that DSDA is cost effective and the OEP work will provide us with the opportunity to assess in more detail our business needs and identify the potential for wider exploitation of our infrastructure. The work to identify future logistic requirements is nearing completion and from this a selection of options are being worked up to address the need.

The Treasury, MOD and ourselves are working hard to define the best way for DSDA and

Right: Complex Weapons Processing
DSDA Beith

Opposite: DSDA's Customer
Helpdesk at Bicester



Government to deliver the support that Defence needs and to provide a sustainable DSDA organisation. The OEP provides a welcome opportunity to build on all the hard work that has gone into transforming the agency over the last three years, we must now see how we can build on this success and deliver further benefits for Defence and those it serves on operations.

Throughout all of this activity the provision of services and materiel to defence has continued with the delivery of over 2.2 million issues of equipment during this year. The operation in Afghanistan has seen a continuing increase in outload activity to meet the developing operational needs. The Agency has responded to a number of Urgent Operational Requirements (UORs) to increase operational flexibility and including the outload of engineer resources to Forward Bases in Afghanistan.

The drawdown of UK forces from Iraq has seen a shift in DSDA's activity from issue to recovery and managing the return of equipment and materiel. This year has seen the establishment of a DSDA deployable capability to assist in specific tasks to improve the reverse supply chain's efficiency under the name Op ANVIL. These multi-skilled teams have proven DSDA's contribution by returning equipment in good order and saving time and costs.

As I write, the Agency is preparing to position itself within the revised Joint Support Chain (JSC) that was launched on 1st April. The new JSC will

have more clearly defined 'Decider' and 'Provider' functions that will differentiate between deciding what needs to be done, the 'Decider' and completing the activity, the 'Provider'. The delivery of further efficiencies can only now be achieved by taking a wider perspective across the DE&S organisation and by exploiting the synergies that exist between similar organisations. One of the principal manifestations of the provider function is the formation of the Integrated Provider Group (IPG) that brings together DSDA, the British Forces Post Office (BFPO), the Disposal Services Authority (DSA) and elements of the Defence Supply Chain Operations and Movements (DSCOM) organisations. The IPG will optimise use of MOD owned infrastructure, capabilities and skill sets of its people to enhance efficiency. The creation of this cluster group is an essential next step in realising the future vision for the JSC and is complimentary to other work being done. As the business model evolves it will provide a clearer and more defined focus on the activities within the group and the way in which the different business functions within it can be managed together.

Whatever happens we must stay cost effective to compete with industry and remain committed to providing the highest levels of support to our customers. The foundations for a much more robust and capable organisation have now been laid. As part of the IPG the transformation of DSDA will continue.

A handwritten signature in black ink, appearing to read 'N A Firth'.

Mr N A Firth
Chief Executive
07 July 2009

Annual Report

A man in a military uniform, wearing a headset and glasses, is focused on his work at a computer. The background is blurred, showing an office or control room environment. The man's uniform features a name tag that reads "LIVINGSTON".

Achieving Operational Excellence

Business Review

DSDA's Transformation Programme has re-focussed the business and has brought both commercial and professional logistics understanding to the Agency.

FDSCi is now complete, with DSDA having successfully delivered challenging headcount reduction targets and financial cost savings ahead of schedule. Overall, a total headcount reduction of 2,097 posts has been made that are attributable to FDSCi, a performance that exceeds the adjusted target of 2,026 posts. Over the life of the project, financial savings attributable to DSDA equate to £466.2m (Gross), with costs of £34.6m, giving a total net benefit from DSDA of £431.6m

Operating Activity

- DSDA made 2.2 million Non-Explosive issues (less forms and publication issues) during 2008/09.
- 204,755 of these issues were in support of operations; representing 9.3% of the total issues made.
- DSDA made 29,650 issues of explosive materiel, of which 4,890 were in support of military operations.

Support to Operations

During 2008/9 DSDA has continued its support to operations worldwide, principally Afghanistan and Iraq, but also numerous other locations around the world. The fielding of new equipments as Urgent Operational Requirements has challenged DSDA and the JSC to the full with particular pressure on the main vehicle depot at Ashchurch. Some operational highlights are:

OP HERRICK

- A very rapid out-load of artillery natures to meet developing operational needs in support of the operations to move a second turbine to the Kajaki Hydro Electric Power Station in Northern Helmand.
- Fielding of new Mine Resistant and Protected (MRAP) and Protected Patrol (PP) vehicles in support of expanding stabilisation operations.
- Introduction of new Integrated Ground Manoeuvre assets such as Jackal and Quad Bikes as UORs to increase operational flexibility across the theatre.
- Out-load of engineer resource to improve living conditions in Forward Bases in Afghanistan.



OP TELIC

- Active support in force reposturing in line with the evolving mission.
- Fielding of new equipments including the Support Vehicle to replace legacy types.
- DSDA assistance to force rebalancing in Kuwait

OP OCULUS

- Deployment of DSDA Operational Support Group to rationalise stock holding in Kosovo resulting in considerable Joint Supply Chain efficiencies.
- Deployment of DSDA Operational Support Team to assist in recovery of Op VALERO stocks on mission drawdown.

OP ANVIL

- 2008 saw the establishment of a DSDA deployable capability to assist in specific tasks to improve JSC efficiency under the name Op ANVIL. The capability was proven on Op OCULUS and remains available for subsequent tasks and is earmarked for a number of activities throughout 2009.

Other Operations

- Support to increased maritime anti-piracy operations
- Support to OSCE mission in Georgia.

Business Agreements

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

Commercial Activity

- DSDA has achieved a commercial income of £19.89m for this Financial Year (FY) 2008/09.
- DSDA continues to strive to expand its commercial customer base by consistently providing a commercially competitive, operationally effective and Customer-focused portfolio of services.



Opposite: Munitions loading at DSDA Plymouth

Left: Processing at
DSDA Glen Douglas

- The new MOD guidance on “circular contracting” will reduce the amount of income DSDA can generate as some of this work will be tasked directly.
- The completion next year of a number of complex weapon tasks and uncertainty of future weapon requirements will further effect the potential for Commercial Income.
- The forecast for DSDA's Income Generation turnover for FY 2009/10, based on current contracts and those in the final stages of negotiation is £21m.
- In addition to this, DSDA Commercial has a number of significant business opportunities currently under consideration.

Future Trading Strategies and Current DSDA Initiatives

The completion of the FDSCi Transformation Programme does not mean the end of transformation within DSDA. DSDA has a number of internal and external initiatives that are underway in order to provide further improvements to service levels and to achieve cost reductions.

The Chancellor's Pre-Budget announcement in November 08 advised that DSDA has been selected by the Treasury to be examined

as part of the Government's Operational Efficiency Programme (OEP). The OEP will look at the potential for alternative business models, commercialisation and new market opportunities.

Future Business Strategy

The key objective of this project is to recommend a future operational strategy that meets the needs and requirements of customers and consumers now and in the future.

In parallel a further programme to understand the commercial opportunities of the Bicester rail connected site is underway.

Other DSDA Initiatives

Performance Improvements continue to be made following the successful implementation of Central Planning and 7 Day Delivery into the organisation. Work has also been undertaken to develop a new DSDA Storage Strategy, which was agreed by the DSDA Board in December 08. Implementation of the agreed recommendations is now underway.

Wider Defence Support Chain Initiatives

DSDA is also involved in a number of Projects in support of the wider Defence Support Chain. The most significant of these

Right: Munitioning HMS Cornwall at DSDA Plymouth

Opposite: Munitions handling at DSDA Longtown and operations at DSDA Crombie



is the formation and development of the Integrated Provider Group (IPG).

Intergrated Provider Group (IPG)

The IPG will see the integration of DSDA, British Forces Post Office (BFPO), Disposal Services Authority (DSA) and Movement Support Services (MSS) into a single operating structure. The IPG officially launched on 1 April 2009 and is the focus for the 'provider' element of the JSC and will optimise the effective, efficient and common use of MOD owned infrastructure, capabilities and the skill sets of its people.

Ultimately the IPG will retain 'Brand Names' ie DSDA, BFPO, DSA and will continue to deliver products and services to customers.

Performance Agility Confidence Efficiency (PACE)

PACE is a DE&S Initiative with the objective of reducing the number of people within the Organisation by March 2010. In accordance with the PACE Project, DSDA has been set FTE (Full Time Equivalents) reduction targets for FY 08/09 and FY 09/10. Currently, DSDA has achieved it's target of 153 FTEs for FY 08/09 and is now concentrating on achieving the reduction of 197 FTEs by the end of FY 09/10.

Other Projects supported by DSDA include Carrier Logistic Support, New Clothing Solution, Maritime Integration as well as Project Hadrian and the Complex Weapons Study.



DSDA Board



Mr Neil Firth
Chief Executive

Mr Firth joined the Agency on 03 April 2006 and is a career logistician having successfully managed supply chain businesses on both a pan European and global basis. Most recently he was a Director of UPS Supply Chain Solutions with responsibility for transportation.



Mr Neil Rixon
Chief Operating Officer

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



Brigadier David Martin
Director Strategy and Development

Brigadier David Martin joined DSDA in March 2009 on secondment from the Joint Supply Chain. He has held a number of key logistic appointments in Great Britain, Northern Ireland, Germany, Belize, Bosnia and Kosovo. He has experience of complex global supply chains and extensive experience of change management.



Mr Timothy Gall
Director Corporate Services

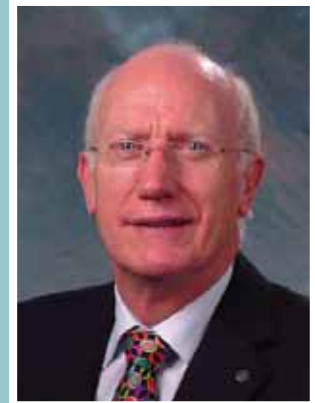
Mr Gall joined the Agency on 12 February 2007. He qualified as an accountant in 1995 and has experience across the public and private sector, including roles in financial services, manufacturing and the Royal Navy. He has broad experience of change management.



Mr Paul Wilson
Non-Executive Advisor

Mr Wilson joined the Agency on 01 August 2006 bringing with him extensive change management experience. He has worked with leading multi-national companies, creating efficiencies within their supply chains and has held senior roles within some of Europe's most successful logistics businesses.

From 01 February 2009 Paul Wilson was seconded to DE&S Andover working to DG JSC, but retains a seat on the Board in an advisory capacity.



Mr Michael Maher
Non-Executive Director

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

The Board and Committees

During this reporting period on 09 July 2008, CE DSDA announced a re-structured Board and revised reporting procedures.

DSDA Board

The DSDA Board will deal only with governance, strategy, compliance and overall performance. The Board comprises Chief Executive, Chief Operating Officer, Director Strategy and Development, Director Corporate Services, and a Non-Executive Director. As of 02 March 2009 the Director Strategy and Development post is held by a serving Military 1*. Whilst on secondment, Paul Wilson continues to attend DSDA Board meetings as a Non-Executive Advisor.

Executive Committee

The Executive Committee deals with the day to day running of the organisation. This Committee comprises the Executive Directors from the Board plus Director Commercial, Director HR and Director Operations.

Operations Committee

The Operations Committee manages the parts of DSDA that are directly involved in delivering output and reviews output performance and cost.

Programme Committee

The Programme Committee deals with all projects within DSDA. Primarily a decision making forum, it determines priorities, agrees objectives and outputs, allocates resources and funding and reviews progress.

Stakeholder Committee

The Stakeholder Committee deals with all aspects of service, and client and consumer relations. It also manages DSDA's external communications strategy. This committee

comprises Chief Executive, Director Strategy and Development, Director Development, Director Commercial, and Director Operations. In addition the Committee also includes 2-3 representatives from DSDA's clients or consumers as non-Executive members, and also includes a non-Executive member who is a communications specialist.

The Audit Committee

The Audit Committee is chaired by the Non-Executive Director. It fulfils the role of supporting the Chief Executive in discharging his responsibilities, relating to risk control, governance and all associated assurance programmes. In the discharge of this role it is responsible for agreeing the annual assurance programme.



Organisational Structure

Chief Executive					
Director Strategy and Development		Chief Operating Officer		Director Corporate Services	
Implementation	Director Development	Operations	Director Commercial	Director HR	Director Finance
Solutions		Explosives	Account Directors	Director IT	Legal & Audit
Transformation		Logistics	Contracts	Business Information	
		Tech Services			



Left and opposite:
Rail and road operations at
DSDA Longtown

History and Background

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

As a result of winning the FDSCi bid in July 2005 DSDA's organisation was restructured to include elements of the Supply Chain Services (Customer Support), Rail and Container Services from the Defence Transport and Movements Agency (DTMA) and the road transport functions of the Defence Freight and Distribution Group (DFDG). DSDA has also incorporated the receipt, storage, maintenance and issue of fuels, oils, lubricants and Tactical Fuel Handling Equipment (TFHE) from Defence Fuels Group based at West Moors.

The formation of the IPG, as part of the Future Joint Support Chain strategy was agreed in November 2008 and on 01 April 2009 CE DSDA took on the additional responsibilities as Chief Operating Officer.

DSDA continues to be an Enhanced Executive Agency within Defence Equipment and Support (DE&S) organisation and is the only remaining Agency in DE&S.

Resources and Organisation

As at 31 March 2009 DSDA employed 2,984 civilians, both industrial and non industrial (including 245 Locally Employed Civilians (LECs)) plus 174 military staff, on a permanent basis. DSDA also employed an additional 422 Agency Staff on a temporary basis. The majority of staff were engaged in delivering our storage, distribution and processing services direct to the customers, the remaining staff provided administrative, financial and managerial support. In all, DSDA staff were employed over some 38 separate sites.

Quality Assurance

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

Performance Management

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



Right: Technical services workshops at DSDA Bicester and munitions handling at DSDA Plymouth

The DSDA Code of Business Principles

Business Partners

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

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

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

Equality and Diversity

All DSDA employees are required to undertake Equality & Diversity Training, including a programme specifically related to Bullying & Harassment. All DSDA staff with Line Management responsibility are required to attend specific programmes covering Disability Discrimination.

As of 31 March 2009 DSDA employed a total of 551 members of staff with a declared disability. Disability is recorded on the Human Resources Management System (HRMS) on a self-declaration basis. Reasonable adjustments are made, as appropriate.

DSDA operates a Guaranteed Interview Scheme for all disabled applicants meeting the minimum recruiting criteria.

Community Involvement

DSDA strives to be a trusted corporate citizen, and an integral part of society. To fulfil our responsibilities, we believe that active involvement in the community is essential. We are committed to working with all our stakeholders to build and maintain relationships of mutual trust and respect. We also work to improve the quality of life of our employees, their families, and the communities around our operations.





The Environment

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

Conflicts of Interests

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

Safety Health and Environment (SHE) Audits

During 2008 there were 4 internal audits conducted and a number of follow-up audits from 2007. Sites have still maintained a Key Performance Indicator (KPI) target of 85%. Average score overall for Safety and Environment (which is combined) was 88.1%.

DSDA also had DIA & Directorate of Safety and Claims (DS&C) external audits. The DIA audits resulted in a substantial recommendation with regards to DSDA Safety Management Systems. The DS&C audit was part of an overall DE&S audit, which was reported at a higher level, there were no observations made to DSDA.

Sickness Absence Reporting

The sickness absence rate at the end of March 2009 was 11.37 days per FTE, compared to the annual target set by the Defence Plan of 13.92 days.



Strategy

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

Supporting Customers

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

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

DSDA manages a comprehensive range of storage, processing and distribution tasks on behalf of its customers in Defence and Industry, responsible for an inventory of 796,148 lines, valued at £13.099 billion.

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

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

DSDA is also able to provide the gateway between the commercial and military supply systems, providing services such as cross-docking, reverse logistics and onward transmissions.

Managing our Human Resources

The success of the Agency depends upon staff having the right skills, training, information and resources.

The Agency will continue to invest in its people to ensure all personnel, military and civilian, have the opportunity to undertake training to enhance their skills in their current employment and prepare them for the future.

The Agency is fully committed to the creation and maintenance of a working environment free from unfair discrimination, harassment and victimisation.

Managing our Financial Resources

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



Left: General stores at DSDA Dülmen

Opposite: General stores at DSDA Donnington

DSDA Installations

As a result of FDSCi and the rationalisation of the DSDA estate, major non-explosive storage sites at Llangennech, Stafford and Longtown (non-Explosive) have been closed. As the Agency introduced third party carriers and a revised reverse supply chain procedure the network of Regional Distribution Centres (RDCs) have also been closed.

GLEN DOUGLAS

BEITH

LONGTOWN

WEETON

STAFFORD

DONNINGTON

KINETON

ASHCHURCH

SENNYBRIDGE

LLANGENNECH

PUCKRIDGE

TIDWORTH

WARMINSTER

PLYMOUTH

BULFORD

WESTMOORS

GOSPORT

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



Performance Summary

Performance Against Key Targets for FY 2008/09

Key Targets (KT)

Category = Efficiency

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

Key Target 1a	Target	2006-07	Target	2007-08	Target	2008-09	Target	2009-10
For explosives materiel; to supply 95% of available maintained munitions within demand timescales.	95%	98.32%	95%	98.81%	95%	92.55%	95%	
Key Target 1b	Target	2006-07	Target	2007-08	Target	2008-09	Target	2009-10
95% of all issues of non-explosives materiel to consumers to meet that element of the Supply Chain Pipeline Time for which DSDA has responsibility.	95%	96.72%	95%	93.06%	95%	96.61%	95%	
Key Target 1c	Target	2006-07	Target	2007-08	Target	2008-09	Target	2009-10
98% of all receipts that conform to the specifications laid down in the contract and/or materiel regulations to be processed within the time limits agreed with each individual customer.	98%	98.08%	98%	88.62%	98%	93.92%	98%	

Due to continued prioritisation of work as a result of DSDA site closures and estate consolidation during the first four months of the year Key Targets 1a and 1c have not been met for 08/09.



Key Target 2

Category = Efficiency

KT 2 is an efficiency measure for continuous performance improvement to achieve a 2.5 per cent (net of 2.5 per cent inflation factor) reduction in the unit cost of output (UCO) in financial year 2008/09 (based on financial year 2007/08) while maintaining an effective level of services to the customers in accordance with the BAs.

The table below shows performance for FY 2008/09 where an average saving in UCO of 3.00% has been achieved.

Key Target 2	Baseline	Target FY 2008/09 £.p	Achieved FY 2008/09 £.p	Average Savings %
Make average saving of 2.5% (5% less 2.5% inflation) year on year on a rolling basis.	2007/08	184.05	178.15	Achieved

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

Performance

Explosives Materiel	2007/08		2008/09	
Unit of Output	Target	Performance	Target	Performance
Receipt Voucher		391.49	381.70	734.69
Storage M3		62.72	61.16	59.18
Processing: M-Hrs		54.11	52.75	51.60
Issue Voucher		817.02	796.60	1261.28

Non-Explosive Materiel	2007/08		2008/09	
Unit of Output	Target	Performance	Target	Performance
Receipt Voucher		67.35	65.67	48.62
Storage M3		11.17	10.89	13.68
Maintenance: M-Hrs		42.72	41.66	35.30
Issue Voucher		31.95	31.16	25.11

1. Previous years KT2 has been calculated upon standard averages. Following last years KT2 it was agreed that future calculations should be based upon weighted averages. As a result FY07/08 has been re-baselined and new targets set.

Key Target 3:

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

Key Target 3a	Target	2006-07	Target	2007-08	Target	2008-09	Target	2009-10
This target was introduced in 2003/04 following the merger with Defence Munitions.	0.02%	0.00009%	0.02%	0.00001%	0.02%	0.00001%	0.02%	

Key Target 3b	Target	2006-07	Target	2007-08	Target	2008-09	Target	2009-10
The performance against KT 3b at March 2009 stood at 0.0157% & (YTD) of the value of Receipts, Issue and Storage activity written off as a result of DSDA's actions.	<0.02% of the value of activity	0.0149%	<0.02% of the value of activity	0.0166%	<0.02% of the value of activity	0.0157%	<0.02% of the value of activity	

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

Overall performance on KT3 was 0.0157%, the target being 0.02%

Remuneration Report (Audited)

Remuneration Policy

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

The Chief Executive, Chief Operating Officer, Director Corporate Services & Director Strategy and Development (to the end of January 2009) are senior civil servants and their pay is set through recommendations made by the review body on senior salaries, which provides independent advice to the Prime Minister. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

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

The Chief Executive has delegated authority for the personnel management of the civilian staff within the Agency. He has the authority to create or abolish posts, and change the mix of ranks and grades (both

military and civilian); this is set against his delegated complementing powers.

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

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

Service Contracts

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

Unless otherwise stated below, the staff covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Appointments

Neil Firth was appointed Chief Executive, via open competition, and took up post on 03 April 2006 and is a member of the senior civil service. His contract was re-negotiated at the two-year point for a further 3 years.

Neil Rixon was appointed Chief Operating Officer, via open competition, and took up post on 24 July 2006. He was originally appointed on a 3-year contract, which has now been extended to 31 March 2012.

Brigadier David Martin replaced Paul Wilson as Director Strategy and Development and took up post on 02 March 2009.

Timothy Gall was appointed Finance Director via open competition and took up post on 12 February 2007. As a result of the Board restructure, Timothy Gall was appointed Director Corporate Services in July 2008.

Paul Wilson was appointed Change Management Director, via open competition, and took up post on 01 August 2006, on a 3-year contract. As a result of the Board restructure, he was appointed Director Strategy and Development in July 2008, until his transfer to Supply Chain Services at the end of January 2009. Paul Wilson still continues to attend DSDA Board meetings.

Non Executive Directors are not appointed as Civil Servants. Michael Maher was appointed as a Non Executive Director on 01 July 2006.

Executive Board

Air Commodore Dai Williams was appointed Military Advisor to the Board on 06 August 2008 until his transfer to Air Command in December 2008.

Colonel John Lewis was appointed as Director Operations on 23 November 2007.

Doug Doherty was appointed as the interim Director Commercial on 18 September 2006. The post will be filled on a permanent basis via open competition.

Sara Bramley replaced Patricia Hollis as Director Human Resources and took up post on 02 February 2009.

As a result of the Board restructure the posts of Director Operations, Director Commercial and Director Human Resources were removed from the main Board to the newly formed Executive Committee in July 2008. The Executive Directors from the Board are also Executive Committee members.

The salary and pension entitlements of the DSDA Board and Executive Committee are shown opposite.



Weapons processing at DSDA Beith

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

	Salary including performance pay	Salary including performance pay	Benefits in kind	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/09 and related lump sum (or date left DSDA)	CETV at 31/03/08 (or date joined DSDA)*	CETV at 31/03/09 (or date left DSDA)	Real increase in CETV after adjustment for inflation and changes in market investment factors
Current DSDA Board Members	07/08 £k	08/09 £k	£00	£k	£k	(nearest) £k	(nearest) £k	(nearest) £k
Mr N A Firth ¹ Chief Executive	135-140	175-180	-	0-2.5	5-10	50	82	23
Mr N Rixon Chief Operating Officer	120-125	140-145	-	0-2.5	0-5	51	87	28
Brig D Martin ² Director Strategy and Development	-	5-10	-	0-2.5 plus 0-2.5 lump sum	40-45 plus 120-125 lump sum	456	477	3
Mr T Gall Director Corporate Services	65-70	80-85	-	0-2.5	0-5	13	26	10
Mr M Maher ³ Non-Executive Director	15-20	20-25	-	-	-	-	-	-
Mr P Wilson ⁴ Non-Executive Advisor	-	-	-	-	-	-	-	-
Executive Committee Members	£k	£k	£00	£k	£k	£k	£k	£k
Col J Lewis ⁵ Director Operations	45-50	130-135	10	0-2.5 plus 0-2.5 lump sum	30-35 plus 100-105 lump sum	774	765	8
Mr D Doherty ⁶ Director Commercial	140-145	155-160	-	-	-	-	-	-
Mrs S Bramley ⁷ Director Human Resources	-	5-10	-	0-2.5 plus 0-2.5 lump sum	5-10 plus 20-25 lump sum	88	88	4
Board/Executive Committee members who left in year								
Mr P Wilson ⁴ Director Strategy and Development	110-115	115-120	-	0-2.5	0-5	30	49	12
Mrs P Hollis ⁸ Director Human Resources	150-155	150-155	-	-	-	-	-	-
Air Cdre D Williams ⁹ Non-Executive Director	-	-	-	-	-	-	-	-

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

1 The total remuneration for Mr Firth is £177,675. Mr Firth is a member of the Premium Pension scheme.

2 Figures quoted are for the period 02 March 09 to 31 March 09. The full year salary equivalent is £95,390.

3 The amount in respect of Mr Maher is a Non-Executive Fee entitlement excluding travel costs.

4 Mr Wilson was employed by DSDA as Director Strategy and Development up to 31 January 2009 until his transfer to Supply Chain Services on 01 February 09. Mr Wilson still continues to attend DSDA Board Meetings. Figures quoted are for the period 01 April 08 to 31 January 09. The full year salary equivalent is £138,390

5 Col Lewis was in receipt of a Continuation of Education Allowance, which is a taxable benefit, settled by the Service Personnel & Veterans Agency under a PAYE settlement agreement. Col Lewis was also in receipt of a domestic cleaning Benefit in Kind related to his Garrison Commander duties.

6 Mr Doherty holds an interim Board/Executive Committee appointment. Salary payments shown above were made to an Employment Agency and include the Agency fee.

7 Figures quoted are for the period 02 February 09 to 31 March 09. The full year salary equivalent is £59,445.

8 Mrs Hollis held an interim Board/Executive Committee appointment until 02 February 09. Salary payments shown above were made to an Employment Agency and include the Agency fee.

9 Air Cdre Williams held the appointment of Military Advisor to the Board from Aug-08 to Dec-08, but was employed by Supply Chain Services during this period. DSDA received this service at nil cost.

The salary bands exclude pension contributions and ERNIC. Salary and CETV values are apportioned for part years service on the DSDA Board or Executive Committee.

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.

No taxable Benefits in Kind were paid to any member of the DSDA Board or Executive Committee in either the current or prior year.

All Board and Executive Committee members, with the exception of Mr Maher, Mr Doherty and Mrs Hollis are members of the AFPS or CSP.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension agreement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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

Armed Forces Pension Scheme (AFPS)

From 6 April 2005, a new Armed Forces Pension Scheme (known as AFPS 05) was introduced for all new members of the Armed Forces; those in service before this date have been given the opportunity to transfer, from AFPS-75, to the new scheme. Both schemes are defined benefit, salary-related, contracted out, occupational pension schemes. The AFPS is non-contributory for members; the cost of accruing benefits are met by the employer at rates approximately equivalent to 36.3% (Officers) and 21.8% (Other Ranks) of pensionable pay; for regular personnel. Members are entitled to a taxable pension for life and a tax-free pension lump sum if

they leave the Armed Forces at or beyond either the Early Departure Point or the Immediate Pension Point. If a scheme member leaves before these points, they will be entitled to a preserved pension related lump sum.

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

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

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

A full actuarial valuation of the PCSPS was carried out at 31 March 2007 and for the AFPS at 31 March 2005. Details can be found in the Resource Account (of these schemes), which are published and laid before the House of Commons. The PCSPS accounts are also available on the web at www.civilservice-pensions.gov.uk.

For 2008-09, employers' contributions of £12,614k were payable (2007-08 £14,277k restated) at rates in the range 17.1 to 36.3 per cent of pensionable pay, based on salary bands as highlighted opposite.

Employer contributions for the CSP are reviewed every four years following a full scheme valuation by the Government Actuary. Following revalorisation of the salary bands, rates increased in 2006-2007 & 2007-2008, and have remained the same in 2008-2009.

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

For each class of member the employer's contribution rates for FY 2008/09 and FY 2007/08 were as shown below.

Scheme and class of member	08- 09 %	07- 08 %
CSP - Non-Industrial Staff	17.1 - 25.5	17.1 - 25.5
CSP - Industrial Staff	17.1 - 25.5	17.1 - 25.5
AFPS - Officers	36.3	36.3
AFPS - Other Ranks	21.8	21.8

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV



General Stores DSDA Bicester



Jetty Operations at DSDA Crombie

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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Armed Forces or Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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.

Higher Paid Staff

The numbers and remuneration of higher paid staff, excluding the Chief Executive and Board and Executive Committee members at 31 March 2009 are shown below. The salary bands exclude pension contributions and ERNIC. All staff are members of either the AFPS or the CSP.

Salary Band	08- 09	07-08
£40,000 - £49,999	59	33
£50,000 - £59,999	23	12
£60,000 - £69,999	8	9
£70,000 - £79,999	1	1
£80,000 - £89,999	1	0

Mr N A Firth
Chief Executive
07 July 2009

Accounts

Statement on Internal Control

Scope of Responsibility

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

Background

The internal control system is centred upon delegation of responsibility at the appropriate level. With the value for money review of the FDSCi programme complete DSDA has delivered the programme's benefits of cost reduction and service improvement ahead of plan. However at the same time the organisation has had to contend with significant change and problems associated with, amongst other things, an ageing infrastructure and under funded IS. Against this background, the effectiveness of internal controls may be weakened. With a desire to prevent this and to identify and address any existing weaknesses I have exposed the Agency to significant scrutiny from both internal and external sources. I have, for this year, requested a number of, DSDA specific, Defence Internal Audit (DIA) audits that have been supported by, DSDA Audit Committee endorsed, internal assurance reviews. I will detail these in my effectiveness review later.

Purpose of the System of Internal Control

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives. It evaluates the likelihood of those risks materialising, the impact should they occur, and to mitigate them efficiently, effectively and economically. The system provides reasonable assurance of effectiveness and is based upon four types of control:

- **Directive Controls** - ensure that a particular outcome is achieved by directing and modifying behaviour. In simple terms this is about a formal methodology of telling people what to do and how to do it (JSPs, DSDA PIs, Formal Training etc).
- **Preventive Controls** - limit the possibility of an undesirable outcome by establishing preventative structures (separation of duties, restriction of access, and limit of delegation).
- **Detective Controls** - aim to identify occasions of undesirable outcome. These can occur after an event but the system looks to identify occasions before they occur (Internal Assurance Reviews, ISO Quality Audits, DIA and DE&S specific audits, stock checks).
- **Corrective Controls** - aim to correct undesirable outcomes that have occurred and attempt some recovery (Discrepancy investigations and reconciliation, Post Project Evaluation, Lessons Learned, Boards of Enquiry).

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

Within their area of responsibility and within their delegated powers they have



Right: Tactical Fuel Handling Equipment (TFHE) and stored fuel at DSDA West Moors

Opposite: Hub Operations and Engineer Stores at DSDA Bicester

planned and organised in a manner which provides reasonable assurance that the organisation's objectives and goals can be achieved efficiently and economically and that they have provided the necessary controls to minimise risk to an acceptable level.

The system of internal control has been in place for the year ending 31 March 2009 and has remained in place up to the date of approval of the Annual Report and Accounts and accords with Treasury Guidance.

Capacity to Handle Risk

The active management of risk is fundamental to the effective achievement of Agency objectives and is therefore part of the business. The DSDA Board, through the Chief Operating Officer, Strategy & Development Director and the Corporate Services Director, and managers at all levels promote risk ownership and risk management, and ensure its principles are understood and widely adopted in accordance with JSP 525, thus ensuring that risk management is fully embedded in DSDA's management processes. All staff are encouraged to contribute by adhering to regulations, considering risks, highlighting concerns and being encouraged to implement innovative solutions.

The Risk and Control Framework

The Agency's Risk Management framework is based upon the Defence Equipment and Support (DE&S) Standing Instruction No2 Performance and Risk Management and is articulated in the Agency's Corporate Governance and Risk Management Handbook. In accordance with the Standing Instruction the Agency uses the database software mandated by DE&S to record major risks identified within the Agency and therefore there is full visibility of major DSDA risks within DE&S.

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

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

Review of Effectiveness

As Chief Executive and Accounting Officer of the DSDA, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Corporate Services, the Executive Managers within the Agency, the observations and recommendations made in DIA audits and internal Corporate Assurance reviews.

The DIA have looked across a broad range of DSDA activities, with specific audits being undertaken in seven areas:

- Government Procurement Card (GPC) Regulations & Effectiveness Controls
- IT & Data Security
- Procurement Policy Adherence
- Safety Governance
- Security of Access and Entry
- Transfer of Records from Llangennech
- Transport Management



These audits have identified good practice, but have also drawn my attention to areas that need to be addressed to enhance the overall control framework. I have already commenced taking these enhancements forward and will continue to push these ahead proactively over the coming months to further enhance the overall control framework. In this respect, two recent events are worthy of note, namely Defence Fraud Analysis Unit investigation and stock management.

A review carried out by the Defence Fraud Analysis Unit during the financial year identified some material areas where procurement had not been carried out in accordance with MOD Commercial procedures resulting in off-contract spend. Although the review concluded that there was no evidence of fraud having taken place, off-contract procurement may have increased the risk of DSDA being exposed to fraud. A further investigation headed by the former MOD Finance Director confirmed that DSDA had incurred off-contract spend which is in breach of MOD procurement rules but noted that there was no evidence of wilful misconduct. I acknowledge this position and note that the off-contract spend originally occurred in circumstances where there were no extant compliant enabling contracts or payment processing arrangements, particularly so in the case of recruiting interim managers and agency staff which I highlighted in my foreword to the 2006-2007 AR&A. From the beginning of the 2007-2008 accounting period DSDA has been working to reduce off-contract spend and has recently established compliant contracts for Manpower with Capita and Pertemps and, accordingly, off-contract spend is expected to fall to minimal levels in 2009-2010 to bring DSDA into full compliance with MOD Commercial procedures.

During the financial year a failure to comply fully with the Department's stock management requirements for the non-explosive inventory was identified and therefore a weakness in the internal control system for managing stock existed during the financial year; this was due to the omission of management re-performance and snap checks to verify stock balances. Once identified, a retrospective request for dispensation from DE&S Supply Chain Management was submitted to cover the period of non-compliance. This was granted and full compliance with MOD stock management procedures was reinstated from 1 January 09.

Personal Data Related Incidents

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

- There were no incidents recorded within the last financial year on DSDA's central register that were formally reported to the Information Commissioners office.
- There were no incidents recorded within the last financial year on DSDA's central register that were not formally reported to the Information Commissioners office.

All staff have been made aware of the requirements for protection of personal data through the publication of Security Advice Notices and portable media devices have been replaced with full disc encryption laptops. To gain further assurance in this area I commissioned a DIA audit on IS and Data Security within DSDA. Whilst no breaches of security occurred, the results of the audit identified a fragmented approach to Information Management and asset control and although this is now being addressed there was a failure of control here.



The Internal Corporate Assurance Reviews that have been undertaken have addressed:

- Business Continuity
- Documented Delegations
- Flexible Working Hours
- Hospitality Gifts and Rewards
- Risk Management Process
- Stock Deficiencies on Outload of DSDA Stafford

Like the DIA audits these reviews have also identified areas that need to be addressed and I am taking these issues forward to support the broader activity of enhancing the control framework.

The Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control and the plan to address weaknesses and ensure continuous improvement of the systems is developing. In line with Departmental guidance, the following processes are established:

- A Board, which meets in 10 months of the year to consider and approve the plans and strategic direction of the organisation. It will comprise the senior members of DSDA, a Military Advisor and has one external independent member, who is the Chairman of the Audit Committee.
- An Audit Committee that meets five times a year, with two independent Non-Executive Directors, one of whom is the Chair. With representation from DE&S Governance & Board Support and additional independent membership.
- A bi-weekly meeting between my Executive Directors and myself, to discuss daily business and potential problems.

- A series of bilateral meetings with Head Office Directors and Business Unit Directors.
- An Agency Risk Register that is supported by business area risk registers and which is regularly reviewed.
- A process for managing risk and for elevating this to management as appropriate within the Agency.
- Business Continuity plans, that are reviewed and tested, throughout the Agency.
- A Fraud and Theft Policy that is communicated throughout the Agency and reviewed annually.
- Internal control delivered through various sources of assurance, including a Munitions Compliance Group, a Corporate Assurance Team (CAT), Finance Health Checks, monthly checks of travel and subsistence/overtime claims and ISO certifications.

Overall from my review I can identify that there are specific areas where there has been a failure of control and where improvement is required. Equally there are areas of strong control, notably in safety, and overall I am content that the internal control system provides reasonable assurance of effectiveness. However I also recognise that there are significant areas that require improvement and that the work undertaken to improve the system must be ongoing.

Mr N A Firth
Chief Executive
07 July 2009

Left: Vehicle Storage at DSDA Ashchurch

Below: General Storage DSDA Wülfen

Statement of Agency's and Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 HM Treasury has directed the Defence Storage and Distribution Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in their Accounts Direction dated 18 December 2008. The Financial Statements are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- Observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;

- State whether the Government Financial Reporting Manual and applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- Prepare the financial statements on the "going concern" basis, unless it is inappropriate to presume that the Agency will continue to operate.

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



Foreword to the Accounts

Basis of Accounts and Audit Arrangements

Introduction

The Accounts cover the period from 1 April 2008 to 31 March 2009. They have been prepared in accordance with the Government Financial Reporting Manual (FReM) and the Direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

Audit Arrangements

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

Members of the Board at 31 March 2009

N A Firth – Chief Executive

N Rixon

Brig Martin

T Gall

P Wilson (Non-Executive Advisor)

M Maher (Non-Executive Director)

Creditor Payment Policy

The Financial Management Shared Service Centre is MOD's central payment authority and has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.84% in 2008-2009. No interest payments arose.

Statement on Disclosure to Auditors

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



Mr N A Firth
Chief Executive
07 July 2009

Below Left: Munitions Handling at DSDA Plymouth
Centre: Conventional Munitions Storage at DSDA Glen Douglas
Right: Ceremonial Stores at DSDA Bicester



Financial Review

For the Year Ended 31 March 2009

The Total Operating Expenditure of the Agency for the twelve-month period ended 31 March 2009 was £274.63m. Total income was £22.97m resulting in net operating expenditure of £251.66m; this represents a decrease of £16.7m over the position for the previous year at AP12. DSDA's staffing levels have reduced as a result of the FDSCi redundancy programme and overall staff costs have reduced by £7m.

Staff costs remain a high proportion (42.2%) of the Agency's operating expenditure and reflect the manpower intensive nature of the work. Permanent employee numbers have reduced from 3,595 at 31 March 08 to 3,158 at 31 March 09; this represents a 12.2% reduction in numbers during the period.

A total of 209 staff left the Agency under the FDSCi redundancy scheme; this was primarily as a result of the closure

of DSDA Llangennech. The number of casual employees has fallen from 169 to 21 with 422 staff being employed through Recruitment Agencies.

Permanent Staff costs continue to fall in line with the number of employees as well as a reducing foot print.

The overall cost reduction in the Operating Cost Statement is £17.1m; this does not demonstrate the full impact of the re-engineering of the Agency.

The income generated from a range of third parties, reflects DSDA's continuing drive to market our facilities and expertise in receipt, storage, maintenance and distribution during the last year. However, due to the reducing foot print, irreducible spare capacity is falling and correspondingly, so is income, from £26.2m to £23.0m.

Efficiencies	FY 08/09 £'000	FY 07/08 £'000	Difference £'000
Security and Fire Service Costs	24,519	25,446	(927)
Staff Costs	115,831	122,835	(7,004)
Consultancy Support	860	1,395	(535)
Externally Procured Stores and Services	3,876	4,144	(268)
Education and Training	1,262	2,733	(1,471)
Stock	3,599	6,159	(2,560)
Depreciation Charges	21,899	23,293	(1,394)
Charges for Provisions	(2,474)	1,708	(4,182)
Fixed Asset write off/on - Land & Buildings	0	5,606	(5,606)
Accommodation Services	164	663	(499)
PFI Contract	6,156	6,412	(256)
Additional Costs Absorbed			
Third Party Distribution	22,126	20,563	1,563
Domestic Fuels	17,261	15,445	1,816
Information Technology related expenditure	3,566	1,692	1,874
Petrol, Oils and Lubricants	5,459	4,429	1,030
Income	(22,967)	(26,150)	3,183
Communicated Costs			
Works, Estate Maintenance and Property Management Fees	20,814	18,805	2,009
Share of MOD Overheads	2,011	5,503	(3,492)
Net Movement			(16,719)



Mr N A Firth
Chief Executive
07 July 2009

Defence Storage and Distribution Agency

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

I certify that I have audited the financial statements of the Defence Storage and Distribution Agency for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain

information given in the Annual Report, which comprises the Foreword by the Chief Executive, Business Review, DSDA Board, History and Background, DSDA Code of Business Principles, Strategy, DSDA Major Installations, Performance Summary and the Remuneration Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2009 and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the Foreword by the Chief Executive, Business Review, DSDA Board, History and Background, DSDA Code of Business Principles, Strategy, DSDA Major Installations, Performance Summary and the Remuneration Report, is consistent with the financial statements.

Opinion on Regularity

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

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
09 July 2009
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

Operating Cost Statement

For the year ended 31 March 2009

	Note	08-09 £000	07-08 £000
OPERATING COST			
Staff costs	2	115,831	122,835
Supplies and Services consumed	3	83,606	83,657
Accommodation costs	4	71,758	75,289
Administration costs	5	3,430	12,712
TOTAL OPERATING EXPENDITURE		274,625	294,493
INCOME			
From non-MOD customers	8	(18,167)	(24,131)
From MOD Trading Funds & OGDs	8	(4,800)	(2,019)
NET OPERATING EXPENDITURE		251,658	268,343
Net Interest payable	13	502	748
Cost of Capital Charge	6	15,944	16,068
NET OPERATING COST	14	268,104	285,159

Statement of Recognised Gains And Losses

For the year ended 31 March 2009

	08-09 £000	07-08 £000
Net gain/(loss) on revaluation of Tangible Fixed Assets	33,306	22,718
Receipts of Donated Assets and gain/(loss) on revaluation	578	(667)
RECOGNISED GAINS AND LOSSES FOR THE YEAR	33,884	22,051

The notes on pages 39 to 58 form part of these accounts

Balance Sheet

as at 31 March 2009

	Note	08-09 £000	07-08 £000
FIXED ASSETS			
Tangible fixed assets	9	505,088	508,432
Non-Operational Heritage Assets	10	75	75
TOTAL FIXED ASSETS		505,163	508,507
CURRENT ASSETS			
Debtors	11	5,200	4,624
TOTAL CURRENT ASSETS		5,200	4,624
CURRENT LIABILITIES			
Creditors : amounts falling due within one year	12	(18,569)	(18,537)
NET CURRENT LIABILITIES		(13,369)	(13,913)
TOTAL ASSETS LESS CURRENT LIABILITIES		491,794	494,594
Provisions for Liabilities & Charges	13	(12,221)	(22,805)
NET ASSETS		479,573	471,789
TAXPAYERS' EQUITY			
General Fund	14	257,710	264,477
Revaluation Reserve	15	201,647	187,249
Donated Asset Reserve	16	20,216	20,063
GOVERNMENT FUNDS	17	479,573	471,789

The notes on pages 39 to 58 form part of these accounts



Mr N A Firth
Chief Executive
07 July 2009

Cash Flow Statement

For the year ended 31 March 2009

	Note	08-09 £000	07-08 £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	18	178,636	177,754
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire Tangible Fixed Assets		447	1,120
Receipts from Sale of Tangible Fixed Assets		0	0
Receipts from Disposal of Tangible Fixed Assets		0	0
Net Cash Outflow from Capital Expenditure		447	1,120
NET CASH OUTFLOW BEFORE FINANCING		179,083	178,874
FINANCING			
Net Cash Inflow from Defence Resource Account		179,083	178,874
Net Cash Inflow from Financing		179,083	178,874
NET CHANGE IN CASH		0	0

The notes on pages 39 to 58 form part of these accounts

Notes to the Accounts

at 31 March 2009

1. Accounting Policies

BASIS OF ACCOUNTING

The accounts for the Defence Storage and Distribution Agency (DSDA) have been prepared in accordance with the Accounts Direction issued by HM Treasury on 18 December 2008 pursuant to Section 7(2) of the Government Resources and Accounts Act 2000. The accounts have been prepared under the historical cost convention, modified to include revaluations of fixed assets in accordance with the Government Financial Reporting Manual and applicable accounting standards. Without limiting the information given in the accounts, and subject only to compliance with the requirements set out in the Accounts Direction, they also;

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

FIRST TIME ADOPTION OF FRS - FINANCIAL INSTRUMENTS

These accounts have been compiled to implement FRS 25, 26 and 29 - Financial Instruments. This is the first time adoption of these Financial Instruments Standards.

In preparation for this disclosure, DSDA contracts have been reviewed for Embedded Derivatives and all new contracts will be reviewed in future.

All Bad Debt Provisions are specific, there are no general bad debt provisions.

There are no long term Debtors and Creditors to discount.

VALUE ADDED TAX

The Agency is not separately registered for Value Added Tax (VAT) as VAT is accounted for centrally by MOD. Amounts included in the Operating Cost Statement (OCS) and Balance Sheet (BS) are exclusive of VAT where it is recoverable from HM Revenue & Customs in respect of certain contracted out services as directed by the Treasury. All other input VAT is considered irrecoverable by the Agency and therefore is included in the cost of the related expenditure or asset.

INCOME

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

NOTIONAL CHARGES

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

services provided from and to other areas of the MOD. The amounts so charged are calculated to reflect the full cost of providing these services.

PENSIONS

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

FIXED ASSETS AND VALUATION

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

Basis of Valuations

In accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual, asset valuations were

completed on the basis of existing use to the Department.

Due to the specialised nature of the Department's estate, assets were valued on a Depreciated Replacement Cost method. Three valuations of the estate were undertaken on 01 November 2008, as part of the Quinquennial Review; DSDA Crombie £36.271m, DSDA Ernesettle £16.891m and DSDA Bicester £57.871m.

Valuations in the UK were undertaken by the Valuation Office Agency, which is a Government Department, and overseas valuations were undertaken by GVA Grimley, a private company

LAND AND BUILDINGS – DWELLINGS AND NON DWELLINGS

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

PLANT AND MACHINERY

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

TRANSPORT

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

IT & COMMS

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

ASSETS UNDER CONSTRUCTION (AUC)

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

DONATED ASSETS

Fixed assets that have been donated in the UK or by foreign governments have been accounted for in accordance with the Government Financial Reporting Manual. Depreciation charges are matched in the OCS with an equal release from the donated asset reserve. The effect of releasing an amount equal to the depreciation charge means that no charge is borne for the use of the asset through the OCS. Legal ownership of donated assets rests with the Secretary of State; these are managed through the SBSO (Defence Estates). Donated land used by DSDA in Germany is subject to restrictions on its use by the German Government; this includes the requirement to have the authority of the Bau-und Liegenschaftsbetrieb to make any alterations and for improvements to buildings. The land is subject to recall at any time and is restricted to military use.

DEPRECIATION

Freehold land is not depreciated. Depreciation on fixed assets is calculated to write off the cost, or valuation, less any estimated residual value, of assets by

equal installments over their useful lives. The method of depreciation applied is Modified Historic Cost Accounting. The life span of each asset has been assessed by professional surveyors, in accordance with the Royal Institute of Chartered Surveyors valuation manual and is periodically reviewed. Depreciation details of assets, where the Agency is the beneficial user, are communicated via the SBSO.

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

Permanent Buildings	between 6 and 60 years
Standard Plant & Machinery	between 5 and 15 years
Transport	between 5 and 30 years
IT & Comms Equipment	between 3 and 7 years

PRIVATE FINANCE INITIATIVE (PFI) COMMITMENTS

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

STOCKS

DSDA does not hold a consumable stock balance on its accounts. The charge reflected in the accounts is based upon the premise that all stocks used by DSDA in carrying out its business are consumable stock and are therefore consumed at the point of delivery. All other stocks remain on the BS of the owning IPT until issued. It is in respect of these stocks that the reference to the weakness in the internal control system for managing stock was made in the Statement on Internal Control.

CASH/IMPREST ACCOUNT

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

FOREIGN CURRENCIES

Transactions in foreign currencies were recorded at the appropriate Official General Accounting Rate up to 01 September 08. In respect of unsettled transactions or other monetary assets and liabilities as at 31 March 2009, these have been recorded at the spot rate, the rate at which these assets and liabilities will be settled.

RESERVES

Taxpayers' equity comprises the General Fund, Revaluation Reserve and Donated Asset Reserve. The General Fund represents the total net assets of the Agency to the extent that they are not represented by other reserves. Net funding from MOD and realised gains and losses are reflected in the General Fund. The Revaluation Reserve represents the unrealised element of the

cumulative balance of revaluation and indexation adjustments to fixed assets.

PROVISIONS FOR LIABILITIES AND CHARGES

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

NON-OPERATIONAL HERITAGE ASSETS

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

2. Staff Numbers and Related Costs

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

	08-09	07-08
Permanent employees		
Service (Officers)	38	36
Service (Other Ranks)	136	143
Civilian (Non Industrials)	1,098	1,321
Civilian (Industrials)	2,017	2,457
Sub Total	3,289	3,957
Casual employees		
Civilian (Non Industrials)	28	12
Civilian (Industrials)	47	116
Sub Total	75	128
Total employees	3,364	4,085

There were 3,158 permanent staff and 21 casual staff employed at 31 March 2009.

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

	08-09	07-08
	£000	£000
Wages and Salaries	97,115	102,186
Social Security Costs	5,485	6,224
Superannuation and Other Costs	13,231	14,425
Total	115,831	122,835

- Staff costs for casual employees, included in wages and salaries above, were **£1,021,432** for the year, for 07-08 these costs were **£1,796,735**.
- Staff Costs for short term temporary employees, included in wages and salaries above, were **£12,036,353** for the year compared with **£7,546,922** in 07-08.
- Other costs include charges for additional staff leaving on redundancy for whom no provision existed. These amounted to £30K in 07-08 and £499K in 08-09.

3. Supplies and Services Consumed

	08-09	07-08
	£000	£000
Office and Administration Supplies	2,009	1,721
Consultancy Support	860	1,395
Third Party Distribution	22,126	20,563
Security and Fire Service Costs	24,519	25,446
Externally Procured Stores and Services	3,876	4,144
Supplies and Services provided by the MOD	245	247
Petrol, Oils and Lubricants	5,459	4,429
Information Technology related expenditure	3,566	1,692
Vehicles and Equipment Supply and Maintenance	8,271	8,312
PFI Contract	6,156	6,412
Depreciation - IT/P&M/Transport (see Note 7)	2,497	2,709
Beneficial use charges - IT/P&M/Transport	423	429
Fixed Asset write off/on - IT/P&M/Transport	0	(71)
Stock	3,599	6,159
Permanent Diminution in value - Information Technology	0	70
Total	83,606	83,657

Notes:

- Increased postal charges for forms and publications following relocation to Bicester has increased expenditure on Office and Administration Supplies.
- Decrease in Consultancy Support substituted by Agency staff expertise.
- There has been an increase in freight distribution expenditure due to the implementation of 7 day delivery and air freight container fuel surcharge.
- Security and Fire Service Costs are communicated directly from external agencies. These have reduced due to site closures.
- Additional information from DFG has resulted in increased serviced in POL charges, also unit cost for fuel has increased.
- Better planning and completion of IT projects in 2008-09 following loss of funding for incomplete projects in 2007-08.
- Gun Collection was written on to the Balance Sheet in 2007-08. There were no fixed assets written on or off this year.
- Closure of DSDA Stafford and Llangennech and transfer of some funding to land has resulted in a significant reduction in stock consumption.

4. Accommodation Costs

	08-09	07-08
	£000	£000
Accommodation Services	164	663
Works, Estate Maintenance and Property Management Fees	20,814	18,805
Accommodation Services provided by the MOD	247	220
Domestic Fuels	17,261	15,445
Non Domestic Rate Demand	7,160	7,244
Depreciation - Land & Buildings (see Note 7)	19,402	20,584
Beneficial use charges - Land & Buildings	6,710	6,722
Fixed Asset write off/on - Land & Buildings	0	5,606
Total	71,758	75,289

Notes:

- 2007-08 Accommodation Services costs include the refurbishment of Headquarters buildings.
- Works and Rates costs have been serviced in from DE.
- MOD capitation rates for Accommodation Services provided by the MOD have increased in 2008-09.
- Domestic fuels costs have increased due to increased prices.
- There was a disposal of assets following a transfer to Donnington Rail Project in 2007-08.

5. Administration Costs

	08-09	07-08
	£000	£000
Medical and Welfare	207	198
Education and Training	1,262	2,733
Travel and Subsistence	2,063	2,202
Share of MOD Overheads	2,011	5,503
Charges for Provisions	(2,474)	1,708
Other Administration Costs	275	283
Foreign Currency Losses	2	1
Audit Fee	84	84
Total	3,430	12,712

Notes:

- Education and Training costs have reduced due to a change in the methodology used to calculate Military training costs.
- MOD Overheads have reduced due to a MOD wide review of apportionment methodology.
- A release has been made from the FDSCi provision.

6. Cost of Capital Charge

	08-09	07-08
	£000	£000
Cost of Capital	15,944	16,068

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

7. Depreciation Charges

	08-09	07-08
	£000	£000
Buildings excl dwellings	19,827	20,997
Plant and machinery	2,019	2,101
Transport equipment	227	224
Information technology	251	384
	22,324	23,706
Less total charges for Donated Assets	(425)	(413)
Total	21,899	23,293

a. Depreciation charges for Balance Sheet assets have fallen due to the closure of Llangennech.

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

8. Income

	08-09	07-08
	£000	£000
Storage Facilities	3,241	2,963
Miscellaneous	14,926	21,168
From non-MOD customers	18,167	24,131
Other Government Departments	2,632	2
Agreed Reverse Tasking with Trading Funds	2,168	2,017
From MOD Trading Funds & OGDs	4,800	2,019
Total	22,967	26,150

a. Within miscellaneous income £11.5m relates to processing contracts with BAe Systems & MBDA. Whilst these are non-MOD customers, our contractual relations are with prime contractors who are part of MOD. Therefore these flows now reflect the introduction of circular contracting; this has reduced DSDA's income for some munitions processing work.

b. Agreed Reverse Tasking relates to the Defence Support Group (DSG), which was granted Trading Fund Status on 01 April 2002, and the Defence Scientific Technology Lab (DSTL) which was granted Trading Fund status on 01 July 2001.

9. Fixed Assets

	Land and buildings excl dwellings £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Assets Under Construction £000	Total £000
COST OR VALUATION						
At 01 April 2008	638,239	35,358	3,321	3,970	715	681,603
Transfers	(15,731)	(1,103)	0	0	0	(16,834)
Additions	0	0	0	0	713	713
Disposals	0	0	0	0	0	0
Reclassifications	0	679	0	0	(679)	0
Revaluations	44,655	1,333	34	(2,371)	12	43,663
At 31 March 2009	667,163	36,267	3,355	1,599	761	709,145

DEPRECIATION						
At 01 April 2008	155,629	13,499	1,283	2,760	0	173,171
Transfers	(4,825)	(603)	0	0	0	(5,428)
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Revaluations	15,919	496	13	(2,438)	0	13,990
Charged in year	19,827	2,019	227	251	0	22,324
At 31 March 2009	186,550	15,411	1,523	573	0	204,057

NET BOOK VALUE						
At 31 March 2008	482,610	21,859	2,038	1,210	715	508,432
At 31 March 2009	480,613	20,856	1,832	1,026	761	505,088

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

Disclosure Note:

1. Land and Building assets shown above represent the core business being storage and distribution. All other Land and Building assets have been transferred to other management groups.
2. Only Land and Building assets that are surplus to requirement are valued at open market value of which DSDA has none. All other Land and Buildings are valued on a combination of depreciated replacement cost and the existing use value. This reflects the nature of the estate as many of our specialist buildings are not normally traded on the open market.
3. The DSDA estate continues to include DSDA Crombie which was previously planned to be transferred back to Centre MOD, a decision which has now been reversed.

10. Non-Operational Heritage Assets

As at 31 March 2009 the Agency had the following non-operational heritage assets:

Historic Gun Collection, DSDA (North) Donnington

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

COST OR VALUATION	£000
At 01 April 2008	75
Transfers	0
Additions	0
Disposals	0
Reclassifications	0
Revaluations	0
At 31 March 2009	75
NET BOOK VALUE	
At 31 March 2008	75
At 31 March 2009	75

Edgehill Battlefield, DSDA Kineton

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

Fort Elson, DSDA Gosport

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

Ernesettle Fort, DSDA Plymouth

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

11. Debtors

	08-09	07-08
	£000	£000
Amounts falling due within one year:		
Trade Debtors	1,508	2,175
Prepayments and accrued income	3,692	2,449
Total	5,200	4,624

a. 100% of all Agency Debtors at 31 March 2009 are due within one year.

12. Creditors

	08-09	07-08
	£000	£000
Amounts falling due within one year:		
Trade Creditors	4,128	4,241
Capital Accruals/Creditors	266	86
Other Accruals	14,175	14,210
Total	18,569	18,537

a. Accruals for provisions and bonus payments have been made in the current financial year (£3.9m).

13. Provisions for Liabilities and Charges

	DSDA Early Retirement £000	FDSCi Scheme £000	Eng Svcs Scheme £000	Total £000
Balance at 01 April 2008	3,633	17,527	1,645	22,805
Unwinding of discount	80	386	36	502
Increase	576	0	0	576
Release	0	(2,931)	(2)	(2,933)
Provisions utilised in the year	(1,671)	(6,787)	(271)	(8,729)
Balance at 31 March 2009	2,618	8,195	1,408	12,221

- DSDA Early Retirement Provision** represents the future liability to pay early pensions and lump sum payments for personnel who have left the Agency under initiatives funded by MOD.
- The impact of the **DLO Early Release Scheme** is not included in the DSDA schemes shown above. The impact of the 10 who left under Year 3 is assessed at an in-year charge of **£341K** and a provision of **£40K**.
- As part of the Investment Appraisal Board endorsed solution to the Future Defence Supply Chain Initiative (FDSCi), DSDA were allocated a redundancy provision to implement the closure of 2 sites and the manpower savings required to achieve the savings target of £441m over 10 years.
- The unwinding of discount charge equates to the interest payable shown in the OCS.
- No provision for remediation work, which could be required to enable any future site closures, has been provided.

14. General Fund

	£000
Balance at 31 March 2008	264,477
Prior Period Merger Accounting Adjustment	(4,242)
Adjusted Opening Balance	260,235
Net cash inflow from financing	179,083
Non Cash Charges:	
Auditor's Remuneration	84
Cost of Capital	15,944
Other Notional Charges	62,966
Transfer from Revaluation Reserve	0
Transfer of Realised Revaluation Reserve	11,686
Net Transfer from SBSO	(4,184)
Net Operating Cost	(268,104)
General Fund at 31 March 2009	257,710

15. Revaluation Reserve

	£000
Balance at 31 March 2008	187,249
In Year Revaluation of Fixed Assets	33,306
In Year Realised Element	(11,686)
Transfer to SBSO	(7,222)
Transfer to General Fund	0
Transfer from General Fund	0
Revaluation Reserve at 31 March 2009	201,647

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

16. Donated Asset Reserve

	£000
Balance at 31 March 2008	20,063
In Year Revaluation	578
Transfer to General Fund	0
Release to OCS	(425)
Donated Asset Reserve at 31 March 2009	20,216

17. Reconciliation of Movement In Government Funds

	General Fund	Revaluation Reserve	Donated Asset Reserve	Total
	£000	£000	£000	£000
Government Funds at 31 March 2008	264,477	187,249	20,063	471,789
General Fund Movement	(6,767)	0	0	(6,767)
Revaluation Reserve Movement	0	14,398	0	14,398
Donated Asset Reserve Movement	0	0	153	153
Government Funds at 31 March 2009	257,710	201,647	20,216	479,573

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

	08-09 £000	07-08 £000
NET OPERATING COST	268,104	285,159
Non Cash Items		
Depreciation	21,899	23,293
Impairment of Fixed Assets	0	70
Movement in Bad Debt Provision	(117)	(179)
Cost of Capital Charge	15,944	16,068
Write off/on of Fixed Assets	0	5,535
Auditors Remuneration	84	84
Unwinding of Discount on Provisions	502	748
Movement in Provisions	(2,357)	1,886
Notional Items		
Notional Costs	62,966	65,957
Total Non Cash and Notional Items to be deducted	98,921	113,462
Other Movements		
(Increase) / Decrease in debtors	(576)	1,994
Increase / (Decrease) in creditors	32	5,234
(Increase)/Decrease in Capital Creditors	(180)	540
Use of Provisions	(8,729)	(13,825)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	178,636	177,754

19. Related Party Transactions

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

20. Commitments Under PFI (Private Finance Initiative) Contracts

The following information is provided for all off Balance Sheet PFI schemes.

Project Title and Description	Contract Start Date	Contract End Date	Charges to OCS in 2008-09 £000
Pathfinder - Barloworld contract for the provision of Material Handling Equipment.	1 Aug 02	31 Jul 11	6,156
			6,156

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

Commitment expiring within:	less than 1 year
Pathfinder	5,886
	5,886

The estimated capital value for the Pathfinder contract is £5,952K.

21. Commitments Under Leases

Operating Leases

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

	08-09 £000	07-08 £000
Obligations under operating leases comprise:		
Other:		
Expiry within 1 year	25	15
Expiry after 1 year but not more than 5 years	63	111
Expiry thereafter	0	0
Total	88	126

There are no operating leases for Land and Buildings.

The operating leases included in this note relate to photocopiers.

Expenditure in year was £304K.

22. Financial Instruments

FRS 29 Financial Instruments – Disclosures requires Agencies to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Agency is exposed and how these risks are managed. For each type of risk arising from financial instruments, the Agency is also required to provide summary quantitative data about its exposure to the risk at the reporting date.

As the cash requirements of the Agency are met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little liquidity risk.

The Agency is subject to some credit risk. The carrying amount of debtors, which is net of impairment losses, represents the Agency's maximum exposure to credit risk, £4,994k at 31 March 2009. Trade and other debtors consist of a large number of diverse customers spread over a diverse geographical area. Debtors are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that the customer will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. An analysis of debtors details those past their due date and the impairments made:

Debtors Past Due Date	0 – 3 months £000	3 – 6 months £000	6 – 12 months £000	Over 12 months £000
Debtors past due date - not impaired	432	4	3	3
Debtors past due date - impaired	0	0	0	1
Total debtors past due date	432	4	3	4

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 1 to the financial statements.

Categories of Financial Instruments

Details of the Financial Instruments, by category, were:

	Carrying Value 31 March 2009 £000	Carrying Value 31 March 2008 £000
Financial Assets		
Loans and Debtors (including cash and cash equivalents)	4,994	4,432
Financial Liabilities		
Creditors and Accruals	18,370	18,285

The net gains and losses in respect of Financial Instruments are taken through the Operating Cost Statement.

Interest Rate Risk Management

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

Foreign Currency Risk

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

The Ministry of Defence, through whose Resource Account the Agency is financed, enters into forward purchase contracts for Euros and the US dollar 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 contracts are given in its Departmental Resource Account.

Liquidity Risk

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

Embedded Derivatives

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the operating cost statement in accordance with FRS 26. The Agency operates a commercial framework whereby it does not currently hold financial risks of this nature, and places restrictions on doing so in the future.

Fair Value of Financial Instruments

Details of the financial instruments by valuation method are:

	Carrying Value 31 March 2009 £000	Carrying Value 31 March 2008 £000
Financial Assets		
Historic Cost	4,994	4,432
Financial Liabilities		
Historic Cost	18,370	18,285

The valuation difference when measuring at historic cost rather than amortised cost is not considered material.

23. Intra-Government Balances

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central Government bodies	10	-	41	-
Balances with local authorities	19	-	82	-
Balances with NHS Trusts	-	-	10	-
Balances with public corporations and trading funds	463	-	365	-
Total Intra Govt Balances	492	-	498	-
Balances with bodies external to Government	4,708	-	18,071	-
Total as per Note 11 (debtors) and 12 (creditors) at 31 March 2009	5,200	-	18,569	-
Balances with other central Government bodies	-	-	2	-
Balances with local authorities	19	-	150	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	528	-	1	-
Total Intra Govt Balances	547	-	153	-
Balances with bodies external to Government	4,077	-	18,384	-
Total as per Note 11 (debtors) and 12 (creditors) at 31 March 2008	4,624	-	18,537	-

24. Losses

During the year fruitless payments amounted to £5,294 and claims abandoned and waived amounted to £65,567. There were no constructive losses.

25. Contingent Liabilities

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

DSDA has the following Contingent Liability:

Historic Gun Collection

The Combined Military Services Museum has indicated that they will be seeking compensation from the Department in respect of the gifting of the historic gun collection. Discussion is ongoing with the Combined Military Services Museum.

26. Capital Commitments

	08-09 £000	07-08 £000
Contracted Capital Commitments at 31 March 2009 for which no provision has been made	8	10
Total	8	10

27. Post Balance Sheet Events

Post 31 March 2009 the following are disclosed as having an effect on the Agency:

The accounts were authorised for issue on 07 July 2009 by the Accounting Officer.

d s d a



MINISTRY OF DEFENCE



JOINT SUPPORT CHAIN



Information & publishing solutions

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

Online

www.tsoshop.co.uk

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: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders / General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshops@parliament.uk

TSO@Blackwell and other Accredited Agents

Customers can also order publications from

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

Design: DE&S Graphics, Bath Tel: 01225 467240

Photography: DSDA Photography

Job Reference Number: BTH 0002572

ISBN 978-0-10-296208-6



9 780102 962086