

ANNUAL REPORT AND ACCOUNTS  
2013/2014



Warthogs on Operations.



## **DEFENCE SUPPORT GROUP**

### **ANNUAL REPORT AND ACCOUNTS**

2013/2014

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Ministry  
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# DEFENCE SUPPORT GROUP

## Annual Report and Accounts

### 2013/2014

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## INTRODUCTION FROM THE CHAIRMAN

As Chairman of the Defence Support Group's (DSG) Trading Fund Board (TFB) it is my responsibility, along with my fellow Non-Executive Directors (NEDs), to provide the DSG Management Board with advice, guidance and challenge using the skills and expertise developed in our various careers at senior management level in both the public and private sectors. My role as Chairman extends to supporting DSG's Chief Executive on the Ministerial Owner's Advisory Council (OAC) chaired by MOD's Minister for Defence Equipment, Support and Technology (Min (DEST)), Philip Dunne, who has this delegated responsibility on behalf of the Secretary of State for Defence.

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**ALEX JABLONOWSKI**  
DSG Chairman

This latest Annual Report and Accounts covers the 2013/14 financial year and provides a useful insight into DSG's trading performance. It is commendable that every DSG employee remains focussed on delivering outstanding service in a climate of uncertainty and within continued tight budgetary constraints. I have every confidence that the pride shown by everyone in DSG will continue regardless of the ownership arrangements in place in the future. The sale of DSG's Land businesses and retention of DSG's Electronics and Components Business Unit (ECBU) including the activities undertaken at DSG Stafford, within MOD ownership are understandably occupying the thoughts of the employees. However, this has not stopped them producing an excellent performance and for this, they deserve the highest praise.

There is clear support for DSG from across all areas and at every level in the UK's Armed Forces and I expect to see DSG's role consolidated in the Army of the future. DSG's excellent reputation in both the home and operational environments is one that is richly deserved and will continue to grow across the broader customer base as it continues providing innovative and effective solutions for the future equipment support needs of our Armed Forces.

In conclusion, I offer thanks to my fellow Directors for their continued and valued advice, expertise and support, which they all share to great effect. My thanks also extend to DSG's Chief Executive, Archie Hughes, the Executive Directors and the DSG senior management team who all remain focussed and committed to shaping a better DSG for the future. I am proud to have played my small part in DSG's successful performance this year and stand ready to support the business during the challenging next twelve months ahead.

A handwritten signature in blue ink that reads "Alex Jablonowski". The signature is written in a cursive style with a long horizontal line underneath.

**Alex Jablonowski**  
Chairman  
Defence Support Group  
27 June 2014

## STATEMENT BY THE CHIEF EXECUTIVE

This is DSG's sixth Annual Report and Accounts since its creation in 2008 and records another strong trading performance during the reporting period 2013/14. This is an admirable feat and demonstrates the focus of the business and its employees on continuous improvement enabling the delivery of greater efficiencies and providing the very best value for money, in a challenging environment.

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Parliament measures DSG's performance against four distinct business activities set by Ministers. The first assesses Quality in both the Air and Land environments where DSG must achieve no more than one and fewer than six major customer concerns respectively over the reporting period. The second area measured is Delivery. DSG must achieve 96% delivery of all Air programmes; and 94% of the Land Critical Programme Lines in September and December respectively, and finish the year with 97%; and 92% of all Land Load tasks. The third measure is Efficiency and Transformation; DSG must support MOD's Business Strategy and Governance (BSG) Team and their appointed advisors in preparing DSG for sale in accordance with the DSG sale strategy and timetable. The final measure is Financial Performance, DSG must deliver a minimum 5% return on capital employed (ROCE). This year I can report that once again DSG achieved or exceeded all the targets set by Ministers.



**ARCHIE HUGHES**  
Chief Executive

The dominant factor uppermost in the minds of DSG's employees surrounds the sale of DSG's Land business activities and separation of the work undertaken by ECBU, including DSG Stafford, from the sale, in order to retain this capability within MOD ownership. The effort required to support MOD and DSG's Sale and Separation teams is significant for all key functional areas. MOD acknowledges there are challenges ahead in order to deliver a successful sale outcome within the timescale. However, the teams in MOD have every confidence they will achieve their aims of concluding the sale and separation processes by the due dates. MOD is utilising DSG's established channels of communications keeping all employees fully informed throughout the key stages of the sale and separation programmes of activities.

The sale of DSG has provided an opportunity for the management team to explore and define the potential future market-operating environment, which will be both challenging and changing in equal measures. In an open forum in November 2013 one of DSG's key customers in the Land domain, Major General Paul Jaques said, "It's DSG that makes the Army work." This recognition of the value placed on DSG's contribution in supporting the UK's Armed Forces offers a great boost to morale within a workforce that has concerns about what the future holds for them and their colleagues. DSG is shaping itself to embed its equipment support capabilities across a range of emerging defence strategies that include Army 2020, Materiel Strategy, Equipment drawdown from Operations and changing Core Fleet requirements to name just a few.

With focus on sale, MOD worked with DSG and its customer community to establish a Service Provision Contract (SPC) that would attract serious interest from potential bidders. Developing a robust SPC has allowed DSG to move closer to achieving its earlier vision to be an agnostic, spares inclusive, fleet-wide provider delivering even greater benefits to Defence.

Embedded within Army HQ's Fleet Management cell in Andover, DSG is enhancing its reputation as an organisation centred on adding value to the services it provides to its customers. Outside the parameters of the SPC, DSG is exploring future opportunities in areas such as expanding the Training Uplift Fleet (TUF) concept, supporting British Forces in Germany and the British Army's Training Units in Canada and Kenya, placing DSG in a unique position to compete successfully for future equipment programmes.



Above: Donnington team member repairing a Warrior hull using the Elgar mill.

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Opportunities include the Warrior Capability Sustainment Programme (WCSP), Challenger 2 (CR2) Life Extension Programme and support to the Armoured Battlefield Support Vehicle.

DSG's presence at Camp Bastion in Afghanistan is another example of our commitment to provide an excellent service, a positive attitude and the willingness to go the extra mile. Achieving this in a hostile and dangerous environment is not lost on those who are witnessing DSG's employees working long and arduous hours in testing conditions. The drawdown of the Armed Forces' equipment is now underway and DSG is playing a significant role in both Camp Bastion and back home in the UK. As well as supporting the return of equipment to DSG Warminster by creating a refurbished facility on site, DSG has taken on responsibility for facilities at MOD Lyneham, as the tempo and numbers of equipment returning from operations increase.

I am always mindful that the employees contribute a huge amount to DSG's success and I take great pride in leading a workforce of impeccable pedigree and absolute commitment. This is most evident when I host visits by Government Ministers, senior Armed Forces figures, politicians, and industry, all of whom are unequivocally impressed and leave with a greater understanding of DSG and the reason for its success in supporting our Armed Forces.

The Minister with responsibility for DSG's daily activities is Philip Dunne who has shown a keen interest in DSG matters since his arrival to the post of Min(DEST) in 2012. He has visited a number of DSG sites during the year, including our facility in Camp Bastion in Afghanistan, to better understand and appreciate the breadth of capability that DSG has to offer and meet as many of the employees as possible. Having met some of our staff in Camp Bastion, he was particularly keen to present campaign medals to DSG employees on their return from deployment.

In conclusion and against a backdrop of uncertainty for many employees, DSG has once more produced impressive financial and operational performances in a challenging environment. The cooperative and adaptable outlook of its employees bodes well for the future success of the business and it is their expertise; resilience; and adaptability that will secure the success of the business now and into the future.

**Archie Hughes**  
Chief Executive  
27 June 2014

## BOARD OF DIRECTORS



**ARCHIE HUGHES**  
Chief Executive



**GERAINT SPEARING**  
Chief Operating Officer



**RICHARD ATKINSON**  
Commercial Director

### ARCHIE HUGHES

Chief Executive

Archie Hughes is responsible to the Owner and Parliament for delivering the strategic aims and objectives of the business and providing corporate governance leadership.

Archie was Defence Aviation Repair Agency's (DARA) Chief Executive from January 2004 until he assumed responsibility for the merger of ABRO and DARA in July 2007 to form DSG when he took on the role of Chief Executive. He has extensive experience in changing business culture; delivering improved business performance; and acquiring, integrating and managing high technology engineering and manufacturing businesses in the Defence and Aerospace industries. An honours graduate from Strathclyde University, he was previously Chief Executive of Vickers Defence Systems (VDS), encompassing Specialist Engines and Vickers OMC as well as the Main Battle Tank and Military Bridging businesses.

### GERAINT SPEARING

Chief Operating Officer

DSG appointed Geraint Spearing as DSG's Chief Operating Officer (COO) in February 2012.

Geraint began his career as a dual trade airframe/engine technician apprentice at St Athan in

1989 and graduated following a four-year apprenticeship with MOD in 1993. His career path followed various management roles including the management of Major Maintenance and Upgrade programmes for the Harrier fleet and Hawk Training Fleet before becoming Business Director at DARA Almondbank, Scotland. Following the DARA and ABRO merger, he managed the DSG Sealand business unit before taking on the post as Head of DSG's Support Functions, where he also led the project to merge the activities undertaken by the former Defence Storage and Distribution Agency into the DSG Land business.

### DAVID MORGAN

Commercial Director  
(To Sep 2013)

David Morgan was responsible for DSG's customer and supply chain activities across the various business interests.

### RICHARD ATKINSON

Commercial Director  
(From Sep 2013)

Richard Atkinson, Commercial Director (CD) has overall responsibility for all customer contracts and commercial and procurement activities in support of the DSG Business Units.

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**STEVE HALL**  
Finance Director



**JANE WILLIAMS**  
Human Resources  
Director



**KEITH NORRIS**  
Strategy Director

Richard started his career with Royal Ordnance and has extensive commercial experience in the Defence sector having held a number of senior commercial roles in Marconi, AWE and BAE Systems. Before joining DSG, he was Head of Commercial for the Joint Strike Fighter and Aircraft Carrier projects for BAE Systems.

**STEVE HALL**  
Finance Director

Steve Hall, Finance Director (FD) is responsible for financial strategy, propriety and governance and the delivery of high quality management information to the business.

Steve was previously FD at DARA until he assumed the role of FD in DSG. He has extensive experience in finance, change management and project management gained from over 20 years in a variety of senior roles in MOD and its Agencies. Prior to joining DARA, Steve was FD for Military Survey.

**JANE WILLIAMS**  
Human Resources Director

Jane Williams, Human Resources (HR) Director is responsible for the full HR function as well as internal communications, parliamentary business and security policy.

Jane has a wealth of senior management experience in the HR environment covering a number of government departments including MOD's Defence Equipment and Support (DE&S); Department for Communities and Local Government; and the Department for Transport.

Apart from a short secondment to Price Waterhouse Coopers prior to joining MOD, Jane is a career civil servant. Her past roles include Acting Head of Unit for the Stabilisation Unit, which is HM Government's civilian response to conflict affected countries and in her first Senior Civil Service (SCS) post, she was Head of HR services with specific responsibility for the merger of the Strategic Rail Authority and Department for Transport (Rail).

She is a Chartered Fellow of the Chartered Institute of Personnel and Development.

**KEITH NORRIS**  
Strategy Director

Keith Norris was appointed as DSG's Strategy Director (SD) in January 2008. He previously led the DARA Rotary and Components sales team in MOD Centre having previously conducted a number of strategic reviews of ABRO and DARA. He has worked extensively overseas, including Hong Kong as Assistant Civil Secretary - British Forces; Germany as secretary to the Tornado Board; Saudi Arabia on the Al Yamamah Project and more recently as Project Director of the UK/ South African Strategic Defence Equipment Programme.



**ALEX JABLONOWSKI**  
Chairman



**JANET BAKER**  
Non Executive Director



**DAVID BARRASS BSC.  
(MECH ENG), FCMA, FRSA**  
Non Executive Director



**DAVID ENGLISH**  
Non Executive Director

## ALEX JABLONOWSKI

### Chairman

As Chairman of DSG, Alex Jablonowski is responsible for leading the Board to ensure it operates efficiently and effectively and to oversee and scrutinise the organisation's plans and performance.

Alex had a 30-year career with Barclays retiring as CEO Barclays International. He has considerable experience of managing technology based operational service businesses and of strategic planning having served as Barclays Group Strategy Director. For the past 8 years, Alex has had a portfolio of interests across the public and private sector.

## JANET BAKER

### Non Executive Director

Janet Baker worked as a management consultant at Coopers and Lybrand, Ernst and Young and then as a Senior Partner at PA Consulting Group. She is expert in all forms of organisational and commercial structuring and restructuring, including outsourcing and sale processes. Janet was appointed as Crown Commercial Lead by the Cabinet Office in Jan 2012, advising on a range of new commercial models and commercial matters. She is a NED

of the Behavioural Insights Team, a joint venture company partly owned by the Cabinet Office. Janet is also a member of the Board of the Audit Commission, and its Audit Committee (AC), as it enters its final year before closure. Janet is also a Crown Representative.

As a NED to the DSG TFB, Janet's role is to provide expert advice, guidance and challenge to the DSG Management Board. She is a member of the AC and Chair's the Remuneration Committee.

## DAVID BARRASS BSC. (MECH ENG), FCMA, FRSA

### Non Executive Director

David Barrass's experience covers a broad range of industries both in the UK and internationally. He is currently Chairman of CastleCare Group Ltd, Gabbro Precision Ltd, Watkins Hire Ltd and SGX Sensortech Ltd. He is also an Operating Partner of Baird Capital.

As a NED to the DSG TFB, David's role is to provide expert advice, guidance and challenge to the DSG Management Board. He Chairs the AC and is a member of the Remuneration Committee.

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### **PETER SHORTT**

Non Executive Director  
(To Jul 2013)

Peter's role was to represent MOD on the DSG TFB; and provide expert advice, guidance and challenge to the DSG Management Board. David English replaced Peter.

### **DAVID ENGLISH**

Non Executive Director  
(From Jul 2013)

David English is Head of BSG in MOD and joined MOD in 1996 as a Fast Stream Engineer having completed a Bachelor of Engineering in Avionic Systems degree at Bristol University, with work experience at GEC Marconi, working on Typhoon defensive aids. He took a secondment as Head of Libya Operations Policy in 2011 until the successful conclusion of the NATO-led operation.

David was responsible for approvals and performance management in MOD's DE&S. He also led the team that delivered the 2008 Government White Paper on support to the Armed Forces and their families. He was previously Private Secretary to the Secretary of State for Defence.

In 2005, he completed a Masters in Business Administration at Imperial College London.

As a NED to the DSG TFB, David's role is to provide expert advice, guidance and challenge to the DSG Management Board.



Top: CVR(T) MkII Scimitar. Above: Foot soldier on patrol.

## BUSINESS, MISSION, VISION AND STRATEGY

### MISSION

To be a trusted partner in the delivery of assembly, maintenance repair and overhaul (MRO), upgrade and support services for the UK Armed Forces.

### VISION

Excel in supporting Defence.

### STRATEGY

DSG pursues a strategic goal of achieving 'best value for Defence' through focusing on and delivering, where appropriate, cost reduction, efficiency and productivity improvements as well as improved delivery to the customer across all areas of the business. In support of this, the strategic aims of DSG are to:

- Go forward as a trading fund until the point of sale, which is currently planned to be by the end of FY14/15 at the latest;
- Operate ECBU as a separate division of DSG from 1 April 14;
- Transition ECBU to a standalone MOD Executive Agency based model in line with DSG Sale, but no later than 1 Apr 15;
- Work closely with all four customer pillars, Fleet, Land, Air and Joint Enablers plus industrial partners to explore new development opportunities. This will be supported by the Seedcorn Programme to sustain and wherever possible grow capabilities to support legacy platforms and associated systems;
- Be lean, agile and flexible to meet MOD's evolving operational requirements throughout the UK, overseas and in-theatre;
- Actively pursue opportunities in adjacent markets, commercial and military export, where doing so is demonstrably in the wider interest of UK MOD;
- Work closely with MOD customers to ensure that it is appropriately incentivised and funded to enable it to retain the required capacity and capability to support planned future acquisition and support strategies;
- Build upon and grow its engineering capability and knowledge base in support of Defence assets including its ability to utilise MOD free user rights of third party Intellectual Property Rights (IPR);
- Operate the Land business as a separate division of DSG from 1 Apr 14 until the point of Sale;
- Continue to contribute to the transformation of the Land Equipment support including the development of customer initiatives such as the Director Land Equipment Strategy for Land Equipment Support in an Army Enterprise Land Change Portfolio and the Total Support Force (TSF);
- Continue to work closely with our Land Customer to ensure that the future strategic direction and Capability Growth, which DSG pursues is in line with what they require;
- Be agile, flexible and provide its services directly to MOD or indirectly through industrial primes/ Original Equipment Manufacturers (OEMs) where it will position itself to be the partner of choice on major Land equipment acquisition and support programmes;
- Maximise and where necessary sustain utility to provide a core capability to support the UK Armed Forces, working closely with MOD customers to ensure that it is appropriately funded to enable it to retain the required capacity and capability to support planned future acquisition and support strategies;

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Above: DSG team member inspecting a MAN vehicle under careful scrutiny of the Army.

- Continue to provide a flexible response to meet evolving operational requirements, particularly in terms of surge and urgent operational requirements (UORs) support to deployed operations, training for operations and develop its capabilities to provide support to customers at their preferred locations;
- Provide physical Assembly, Integration, Test and Upgrade capabilities as required by the customer/industry;
- Actively explore opportunities for supporting MOD, either on its own or in partnership with industry, in the management of current and future Land equipment fleets;
- Focus on developing the necessary capabilities to enable it to be deployed in a flexible manner as part of planned future procurement and support strategies;
- Be a modern, lean organisation, and seek to optimise the Land business structure supported by a slim line Head Office;
- Continue to deliver Receipt Inspection Issue and Storage activity during the period of this plan. DSG will work with Defence Infrastructure Organisation (DIO) and Army HQ to ensure continuity of output during the phased withdrawal from the Ashchurch site, to an alternative location, between 2014 and 2016.
- Work with Army HQ and DIO to ensure continuity of support in line with the recommendations of the Army Regular Basing Plan; and
- Take forward any DSG specific recommendations of the Strategic Defence and Security Review (SDSR) and Defence Transformation as well as embracing appropriate elements of the Civil Service Reform agenda.

## PERFORMANCE AGAINST INTERNAL BUSINESS MEASURES

DSG will continue to work with the Customer focal point in FY13/14 to subsume the ‘Customer’ Internal Business Measures (IBM) 1 and 2 within the body of new commercial arrangements and reflect any changes to these measures in FY14/15 IBMs where appropriate. FY 13/14 business measures are:

### PERFORMANCE AGAINST BUSINESS MEASURES

#### Business Measure 1: **Quality** **Achieved**

Deliver an improved quality performance by:

- Air - achieving no more than 1 attributable Major Customer Concern; and
- Land – achieving no more than 6 attributable Major Customer Concerns.

---

#### Business Measure 2: **Delivery** **Achieved**

Meet delivery standards as agreed with the Customer as follows:

- Air Business – achieve 96% delivery of Customer Programmes; and
- Land Business – achieve: 94% (Sep 13 and Dec 13) and 97% (Mar 14) delivery on Critical Programme Lines; and 92% of all Land Load Tasks.

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#### Business Measure 3: **Efficiency and Transformation** **Achieved**

To support MOD’s BSG, and their appointed advisors, in preparing DSG for sale in accordance with the DSG sale strategy and timetable.

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#### Business Measure 4: **Financial Performance** **Achieved**

Achieve at least a 5% ROCE.

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Above: Chinook in support of Ground Troops on Operations.

DSG's vision is to excel in supporting Defence. Key to this aspiration is our aim to deliver a fleet management solution for the UK Armed Forces' 'A' and 'B' vehicles and associated mission systems, the 'green fleet'.

In line with its core mission and vision, and in order to maintain Trading Fund efficiency, structural alignment with MOD planning assumptions and strategic priorities (including the announced intention to sell DSG), DSG has agreed these business measures in consultation with the MOD Owner and Customer focal points for FY14/15.

#### Business Measure 1: **Quality**

Deliver an improved quality performance by:

- Air - achieving no more than 1 attributable Major Customer Concern; and
- Land – achieving no more than 4 attributable Major Customer Concerns.

---

#### Business Measure 2: **Delivery**

Meet delivery standards as agreed with the Customer as follows:

- Air Business – achieve 96% delivery of Customer Programmes; and
- Land Business – achieve: 94% (Sep 14 and Dec 14) and 97% (Mar 15) delivery on Critical Programme Lines; and 92% of all Land Load Tasks.

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#### Business Measure 3: **Efficiency and Transformation**

To support MOD's BSG, and their appointed advisors, in preparing DSG for sale in accordance with the DSG Sale strategy and timetable.

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#### Business Measure 4: **Financial Performance**

Achieve at least a 5% ROCE.

## BUSINESS PERFORMANCE REVIEW

### OPERATIONAL PERFORMANCE

DSG's operating units produced another solid performance during the 2013/14 reporting period in an environment of changing priorities and challenging customer requirements. Business Streams 1, 2 and 3 together with the Land Supply Business Unit (LSBU) constitute DSG's trading arm producing the income and output required to enable the business to perform successfully.

DSG's largest operational site in terms of employees and turnover is Donnington, which also houses LSBU. Working with the main contractor, Lockheed Martin, Donnington, as DSG's Business Stream 1, delivered extensive modifications during the year on turrets in support of the WCSP. The team at Donnington also worked on uplift programmes to enhance the Warrior platform aimed at improving performance and survivability on future operations.

Investment in the site during the year included commissioning a new Ultra High Pressure Wash facility replacing the ageing existing building. This new facility has produced significant Health and Safety benefits for the site including reduced pressure systems, as well as improving lifting and manipulation of hulls and equipment.

The Light Weapons Department also based at Donnington provided the necessary support to the British Forces' Nordic Skiing and Biathlon event. This required DSG employees travelling to three events taking place in France and Germany aimed at challenging the proficiency and skills of personnel in live firing and skiing, with DSG supporting the maintenance and repair of the competitors' equipment.



Above: Roy Williams receives MBE from HRH The Duke of Cambridge.

The largest business unit in Business Stream 2 in terms of employee numbers and turnover (the 2nd largest in DSG) is Bovington and its satellite sites around the south west of England and south Wales. During the year, the team at Bovington faced a high priority challenge to return two Beach Recovery Vehicles into active service as they represented 50% of the current fleet with both having been rendered inoperable within weeks of each other. The focus during the year was in establishing Bovington as DSG's Centre of Excellence for all heavy armour activity. This included initiating a pilot Economic Base Repair Programme on CR2, Titan and Trojan heavy armour platforms.

The satellite sites that make up the remainder of Business Stream 2 are all of a similar size and turnover, although DSG Warminster is playing an increasingly important role as it increases its responsibilities and grows its capabilities. This site's focus continues to be the support of the Army's Land Training Fleet, delivering the Operational Training Equipment Pool Fleet to deploying Armed Forces personnel. Through its In-Barracks Equipment Support (IBES) activities at Tidworth, the site is delivering support to the Army's Real Life Support Fleet at Ludgershall as part of the new TUF concept.

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Above: DSG team members working on Husky Protected Mobile Support Vehicles in Warminster.

The Warminster Business Unit plays a significant role in DSG's delivery of the HERRICK Exchange Point (HXP) capability at both this site and from the new DSG HXP facilities at MOD Lyneham, allowing DSG to achieve full operating capability during the year. This is an important aspect to DSG's growing capability offering, with work stepping up to receive the broad range of equipment platforms returning from operational duties in theatre and presented in a state of readiness for the future use of the Armed Forces.

It is a similar picture at DSG Colchester where this business is increasing its responsibilities and capabilities by supporting its teams around the east and south east of England from Wattisham in East Anglia to Longmoor on the Hampshire and Surrey border where work is moving forward to develop Fleet Management again within the TUF concept. Colchester's work helps deliver the Army's Front Line Command Activity as well as providing support to Project Teams in areas such as re-engineering of runway matting and the Land Rover Remus Programme.

Despite continued uncertainty over the timeframe for the drawdown of facilities and services at MOD Ashchurch and no clear plan indicating where the DSG activities will transfer to, the DSG employees based there continued delivering improvements in performance and output. During the year, the team at Ashchurch delivered over 200 vehicles for onward transit to the Army's training unit in Canada. The BOWMAN activity produced cost

avoidance savings in spares of over £1m in-year and grew capability across 84% of the completed equipment schedules. Implementing the MOD's Joint Asset Management Engineering Solution (JAMES) technology across the Ashchurch site gives DSG and its Army HQ customer great visibility when managing its various fleets.

DSG Catterick is gaining in reputation continually meeting demands from the customer, and of particular note is the previously successful Pinzgauer 6x6 Gun Towing Vehicle Conversion Programme, and sees the site now in the process of converting a further 28 vehicles. As with other sites within the Business Stream 2 family, Catterick is playing its role in supporting the Army's TUF Programme and the range of vehicles and platforms is wide and varied from trailers and Land Rover ambulances through to six-ton MAN trucks and Leyland DAF DROP vehicles. Incorporated within the Catterick business structure is DSG Kinnegar, an IBES facility in Northern Ireland where the team provide 2nd line repair to the Army stationed in the province. During the year, the small team in Kinnegar completed an urgent task for the customer to service, inspect and carry out modifications on 52 SNATCH Land Rovers.

In Scotland, DSG Stirling is the only Land business in DSG serving the needs of the Armed Forces north of the Border. The site is on a continuous improvement journey aimed at strengthening its service and delivery to its customers. Mirroring other sites in Business Stream 2, the Stirling

site also holds part of the recently formed TUF comprising six and 15-ton MAN trucks, Leyland DAF DROPS vehicles as well as trailers, quads and Land Rovers. The site delivered 13 Land Rovers to the Army in Edinburgh during the year destined for royal guard duties at Balmoral. However, it is with its work on the 105 Light Gun that Stirling has established its reputation for excellence. Since 1999, the site has carried out an extensive programme, which sees the guns stripped, examined through non-destructive testing prior to a full rebuild. During the year, the team at Stirling carried out mobile support to live firing camps throughout the UK.



Above: The Stafford team refurbish and test flying equipment.

For DSG's ECBU, which includes activities undertaken at DSG Stafford and other military locations around the country, the priority during the year was in preparing for the separation of its business from the rest of DSG. This was as a direct consequence of the Ministerial decision to retain this part of DSG in Government ownership whilst MOD prepares the remaining Land businesses for sale. It is the intention that ECBU will remain in MOD ownership from April 2015, subject to the necessary approvals from Ministers, the Cabinet Office and HM Treasury.

In a difficult economic and market environment, ECBU has arrested the trend for demand decline and delivered a workload increase above plan for the second year in succession and has also developed its relationships with MOD and Industry customers to consolidate its reputation by delivering against a range of commercial contracts, offering best value to the customer and Defence.

ECBU continues to enhance its reputation for delivery, maintaining actual performance above the

Customers' target of 96% On Time in Full across the product range as well as continuing to invest in capability growth. This is an on-going programme, which has included the provision of a £100k state of the art Co-ordinate Measuring Machine to enhance capabilities and improve efficiency in the mechanical calibration laboratory. During the year, the business continued developing its military legacy support export market, winning new orders for both Sealand and Stafford with a variety of industry primes supporting a range of countries in Europe and beyond.

ECBU has started developing a presence in the Land and Maritime pillars of UK defence support, moving beyond its traditional Air focused customer base with successes in new work on maritime communications equipment and new work on land platforms working with Defence Science and Technology Laboratory (Dstl). At DSG Stafford, ECBU implemented a successful site optimisation programme, which has already delivered significant cost savings. A key highlight during the year was the successful customer day event held at Sealand for key decision-makers in the customer community of DE&S.

DSG's role in Camp Bastion remains pivotal in providing support to the front line, as well as redeploying equipment back to UK in readiness for the conclusion of deployed operations in Afghanistan. The skill, professionalism and flexibility of the many DSG volunteers who operate on six and 12-monthly tours continue receiving plaudits from all quarters but most importantly from the men and women who DSG support on the ground. Whilst we are now firmly in the drawdown phase of the operation, over the year the facility was operating at full capacity producing over 70 platforms a month, regenerating and latterly redeploying vehicles and major equipment. Over and above the original requirement was the establishment of the separate Equipment Redeployment Hub Forward (ERHF) facility in Camp Bastion. This facility provides the Permanent Joint Headquarters (PJHQ) and Army HQ with the required assurance that returning platforms and equipment from theatre are in a known pre-determined state and fully accounted for prior to their return to strategic bases in the UK.

DSG Bastion has continued contributing cost avoidance savings in excess of £120m to MOD since 2009 (as advised by Army HQ) with over 800 platforms completed. As we are now in the

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Above: CR2 in silhouette.



Above: Member of the British Forces' Nordic Skiing Team using equipment maintained by the Light Weapons Department, Donnington.

drawdown phase of the project the contract will conclude in September 2014. DSG numbers are now reducing commensurately with the withdrawal of UK Armed Forces from Afghanistan over the next six months. However, the ERHF remains until the contract ends in April 2015.

DSG's largest site at Donnington is home to LSBU where the impetus this year was in growing the business by expanding its capabilities by handling spares provisioning, procurement and inventory management. The team has diversified into other areas, broadening its capabilities by identifying areas of activities, which not only have synergies with existing capabilities, but also provide opportunity for growth as well as fitting in with DSG's continuous aim of delivering intelligent provider support solutions to defence. Additional capabilities now include repair management, traditionally carried out by MOD project teams and contracting arrangements to manage activities including introduction into service and through-life support. Growth continued this year by providing a successful integrated supply chain solution with the transfer of Cougar (Protected Mobility) spares from industry to LSBU, retaining its ability to remain impartial and protecting the legitimate interests of MOD, industry and taxpayers whilst pursuing best value for defence.

During the year, LSBU improved its internal audit processes and demonstrated the potential

benefits these improvements could deliver to MOD's Process and Governance Team, if adopted by the wider MOD commercial organisation. LSBU initiated its first apprenticeship scheme this year with five apprentices undertaking a rolling eight-week programme as part of a wider apprentice development syllabus.

## COMMERCIAL OVERVIEW

The focus for DSG's Commercial Team during the year was implementing and managing the New Commercial Arrangement (NCA), which came into force in April 2013. In the latter part of 2013/14 DSG's Commercial Team has been leading the bidding and negotiation of the second year of the NCA with the Land Equipment customer including the agreement of prices for year-two. The Team has implemented changes to the way we work including a new meeting structure with the introduction of a senior level quarterly planning and performance board and a 360-degree customer feedback programme. In addition, the Commercial Team continued supporting Army HQ with its aspirations for implementing Army 2020 and its future fleet management programmes, as well as working closely with DE&S on its future transformation programmes.

The Commercial Team continued supporting MOD's BSG Team, which is leading on all aspects of the DSG sale process.

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## STRATEGIC OVERVIEW

The DSG Strategy Team's emphasis this year was supporting the work undertaken previously to grow DSG's capabilities incrementally both horizontally and vertically across the whole Fleet Management concept through to today's TUF model, which involved DSG support to around 1200 vehicles.

As part of DSG's Capability Growth Programme (CGP), the Strategy Team and LSBU continue to pursue growth of inventory and repair management capabilities from DE&S and improvements to the management and value for money of MOD contracts.

Importantly, the Strategy Team's focus this year was on developing DSG to suit the future requirements of its Land customers, both pre and post DSG sale, through the development of a robust SPC to reflect the ever-changing defence priorities emerging from SDSR, Army 2020 and the potentially nominated roles of the new SPC.

In support of the emerging SPC, the Strategy Team has worked on developing DSG's CGP and leveraging its role in support of the Training Fleets, the Light Weapons support role and the expanding role of the LSBU footprint aligned to current and future Army requirements and the Army 2020 outcomes. In October 2013, DSG moved the Light Weapons Strategic Support Solution into initial operating capability, shadow reporting against a revised set of key performance indicators whilst continuing to pursue improvements in the delivery of end-to-end support of light weapons.

Additionally, DSG's strategy remains to support the development of the TSF concept and is actively developing a Power Pack Repair capability to utilise Sponsored Reserves helping the Army deliver its part of the Reserve Force 2020 agenda. However, the Team spent a significant amount of time during the year, along with teams from DSG's Finance and Commercial Departments, supporting MOD in its sale plans for DSG, by furnishing MOD and its external advisors with detailed and key information designed to give potential bidders a clear and concise picture of DSG's future prospects.

## BUSINESS SUPPORT OVERVIEW

During the reporting period, DSG retained full accreditation status for its computer network and systems to May 2015 and continues to ensure that security policy for its systems meet the MOD and software vendors' recommendations. In keeping with its commitment to an active role by participating in MOD's Green Information Communications Technology forum, DSG rolled out 'thin client'

solutions to 40% of its user community. This enabled DSG to reduce the need for regularly refreshing hardware, deal with more user issues remotely, provide a faster solution to desktop performance and deliver reductions in power consumption using 'thin client' devices.

In recent months, DSG's IS Department supported the HXP facilities at Warminster and Lyneham to ensure both sites had a fully functioning and supported IS infrastructure allowing them to deliver their required outputs. Supporting these facilities at Warminster and Lyneham was a significant element of DSG's Estates Department output during the year. The Estates Team worked alongside MOD and industry partners to realise the requirements of the facilities to allow them to achieve full operating capability within the agreed timeframe. In support of DSG's commitment to environmental sustainability, the business worked with Babcock, its main service provider, to deliver energy surveys for the DSG-managed estate. This enables the business to better manage and inform decision-making in the future regarding energy usage and potential savings.

Maintaining the integrity of DSG's processes, technical and data models during the year was the main-focus for the Business Support Services Team. This involved working closely with internal and external partners to optimise the information systems of both DSG and MOD. The Team with the support and involvement of key representatives from across the business tested and implemented a number of upgrades to DSG's Enterprise systems, which include Baan Enterprise Resource Planning, ACT Customer Relationship Management and our Asset Management system. The continued investment in our systems, maintain and protect the integrity and capability of our strategic information systems.

## PEOPLE

The focus for DSG's HR Department during the year was putting in place a robust and targeted HR structure aimed at delivering best value for the business in the longer-term through an HR Business partnering regime. This root and branch review of the services delivered by HR across all areas of the business impacts all DSG's employees and challenged the status quo in a way that will deliver a more efficient and effective HR function for the future.

There are a number of key elements to the new HR partnering scheme including helping the business plan and deliver manpower requirements to meet changing customer demands, project managing the HR aspects of business changes required with any restructuring and partnering with line managers on the management and resolution of any HR issues.

DSG lays great store in developing its greatest asset, its people. Learning and development is a crucial element of DSG's future training strategy, which aims to equip the business with a workforce that has the right skills at the right time. An integral part of any development and learning strategy rests in the area of succession planning. Nurturing and growing in-house talent is an aspiration that DSG is delivering now and into the future and it remains a key priority as DSG continues its programme of bespoke training for employees at every level. This will meet the growing demands of the business as it continues on its transformation journey.

DSG once again devoted significant time and resources during the year supporting the Government's Civil Service People Survey. Although DSG witnessed a rise in the employee engagement index from 49% in 2012 to 51% in 2013, there was a fall in the overall response rate from 60% in 2012 to 54% in 2013. However, this drop in responses mirrored a similar drop across the wider MOD and DSG recognises that pay freezes, changes to terms and conditions of employment and other measures that include an individual's pension arrangements all played their part in creating an atmosphere of ambivalence towards the survey.

DSG is proud of its tradition in supporting apprentices of all ages. During the year, DSG's Apprenticeship Scheme had 49 individuals undergoing training across a range of disciplines from those working on the Army's various vehicle platforms to a number working in an office environment learning the skills required in procuring a myriad of items required by our Armed Forces.

DSG continued working closely with the various Trades Union (TU) representatives during the year. The DSG senior management team recognises how essential it is to ensure that officials can accurately articulate the challenges and issues facing the business during the year to their members, particularly with regard to what the future holds for DSG, which is naturally uppermost in the minds of many. Everyone in DSG was delighted to learn that one of its longest serving members of staff and a local TU representative from DSG Colchester, Roy Williams, received an MBE in the New Year's Honours list. Roy was a great advocate of the

apprentice scheme and mentored many during his 50-year career. He was also the recipient of an Imperial Service Medal, which is only within the gift of HM The Queen and recognises meritorious and loyal service to the Crown.

DSG's Public Affairs Department handles all DSG's Ministerial and Parliamentary business as well as media relations and communications, which was kept busy during the year with Ministerial and MP visits to various DSG sites as interest in the business from politicians and media grew as work on the sale and ECU separation gained momentum. DSG continues providing its employees with accurate and timely communication on a range of business related matters through a variety of means. The business's corporate magazine, Digest, gains widespread coverage across MOD and the Defence industry and is an important tool in DSG's arsenal of communication mediums. DSG's Chief Executive makes it his policy to visit all DSG's main sites at least twice yearly to fully brief employees on how the business is performing operationally and financially as well as addressing the key issues facing the business.

## OFF-PAYROLL APPOINTMENTS

The Review of Tax Arrangements of Public Sector Appointees established by the Chief Secretary to the Treasury on 23rd May 2012 requires disclosure of the following information on higher paid and/or senior off-payroll engagements:

### All off-payroll engagements as of 31 March 2014, at a rate exceeding £220 per day and a contract length exceeding six months

<b>No. of existing engagements as of 31 March 2014</b>	<b>2</b>
<b>Of which:</b>	
No. that have existed for less than one year at time of reporting	1
No. that have existed for between one and two years year at time of reporting	1
No. that have existed for between two and three years year at time of reporting	0
No. that have existed for between three and four years year at time of reporting	0
No. that have existed for between four or more years year at time of reporting	0

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**All of the engagements overleaf have been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and where necessary assurance has been sought.**

**New off-payroll engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014, at a rate exceeding £220 per day and a contract length exceeding six months**

<b>No. of new engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014</b>	<b>5</b>
No. of the above which include contractual clauses giving the right to request assurance in relation to income tax and National Insurance obligations	5
No. for whom assurance has been requested	5
<b>Of which:</b>	
No. for whom assurance has been received	1
No. for whom assurance has not been received. The engagements of all four individuals for whom assurance was not received were terminated at 31 March 2014 at the end of their respective contracts.	4
No. that have been terminated as a result of assurance not being received	0

## EMPLOYMENT OF DISABLED PERSONS

DSG is an accredited user of the 'two-ticks' scheme as part of its commitment to employment of disabled people. The 'two-ticks' scheme is a recognition given by Jobcentre Plus to employers based in Great Britain who have agreed to take action to meet five commitments regarding the employment retention, training and career development of disabled employees. Staff are encouraged to declare their disability on the HR system so that we can ensure we meet our legal obligations and fully pursue our equality and

diversity policies thus ensuring we do not unlawfully discriminate against protected groups. It is DSG policy that we make reasonable adjustments in terms of employment for all staff with a disability and we are committed to embedding disability issues into our policies and practices.

A diverse workforce is vital to our success and all of our staff complete an Equality and Diversity e-Learning package when they join or when they change role to increase their understanding of the benefits of this approach thereby attracting and retaining the best staff.

## ENVIRONMENTAL SUSTAINABILITY

### Greenhouse Gas Immissions Data

The sustainability element of this year's report concentrates on the performance of DSG against MOD measures and IBMs for sustainability. Both Greenhouse Gas (GHG) emissions and generated waste are measured against 2009/10 baselines. The Disposals Services Authority (DSA) waste is not included as DE&S report on it. The baseline data for the Business Travel Performance Target is 2011/2012; data from previous years is incomplete and therefore, unsuitable for performance measurement purposes.

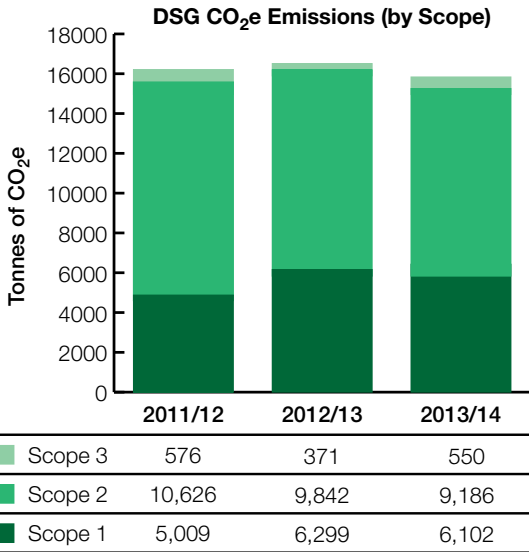
The 3 scopes of GHG emissions are:

- Scope 1 – Direct GHG Emissions (includes gas usage, fuel oil, LPG and fuel from vehicles owned and operated by DSG).
- Scope 2 – Energy Indirect Emissions (usage of electricity supplied to DSG).
- Scope 3 – Other Indirect Emissions (includes business travel by air, rail and hire/private car use).

The table below contains the breakdown of the various emissions, by scope, for this financial year. The target for the Emissions Reduction

GHG	FY2013/14		FY2012/13		FY2011/12		FY2010/11	
	CO <sub>2</sub> e Tonnes '000	£'000	CO <sub>2</sub> e Tonnes '000	£'000	CO <sub>2</sub> e Tonnes '000	£'000	CO <sub>2</sub> e Tonnes '000	£'000
<b>Scope 1 Direct GHG Emissions</b>								
Natural Gas	4,949	971	5,062	628	4,213	1,299	NR	621
Fuel Oil/LPG	985	251	1,118	263	618	232	NR	188
DSG Fleet Vehicles	168	424	119	333	178	429	NR	308
<b>Scope 2 Energy Indirect Emissions</b>								
Electricity	9,186	1,849	9,842	808	10,626	1,837	NR	1,883
<b>Scope 3 Official Business Travel Emissions</b>								
Domestic Air Travel	45	103	26	112	45	177	NR	103
Rail Travel	4.6	48	1	39	1	42	NR	24
Hire/Private Car	500	499	344	350	530	286	NR	NR

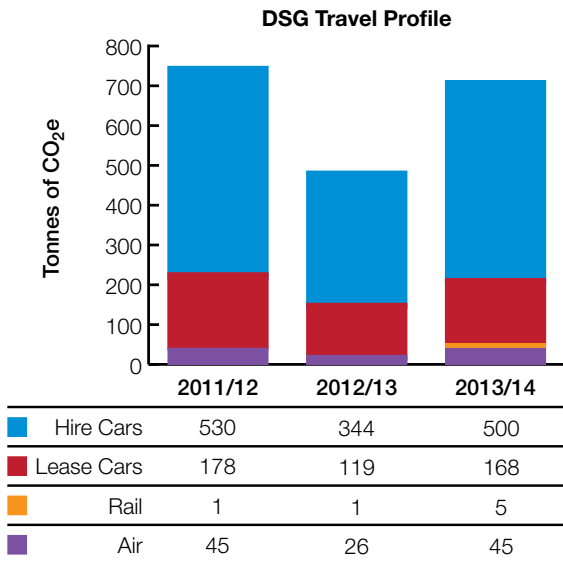
NR = Not recorded



Measure is to reduce GHG emissions by 25% by 2015, against the 2009/10 baseline. At the end of this financial year, DSG exceeded the target and reduced its emissions by 32%. The graph above depicts the breakdown by Scope.

**DSG BUSINESS TRAVEL PROFILE**

There has been an increase in domestic travel in this financial year; contributory factors are increased customer/regulatory meetings and the requirement to attend meetings in support of the potential sale of DSG. The use of video conferencing is encouraged and used whenever practicable. The total number of miles travelled by car this year is 2,230,541 miles, which includes



vehicles on long-term lease and short-term hire. There were just under 500 train journeys made this year compared to just over a hundred in the previous financial year. Air travel resulted in 547 domestic flights, which is below the target of 552 and DSG aims to reduce this even further by the end of FY2014/15. The graph below (bottom left) shows the CO<sub>2</sub>e breakdown by mode of travel.

**DSG WASTE PROFILE**

The DSG business performance target is a 25% reduction in waste generated by 2015 against the baseline established in financial year 2009/10. In financial year 2013/14, DSG reduced its generated waste by 39%. The reported data does not include material supplied through DE&S, which DSA collects and reports upon separately. Hazardous Waste to landfill has fallen this year due to the identification and use of recycling options for hazardous waste.

Although non-hazardous waste to landfill has increased, the effect on the environment has reduced through the introduction of proactive waste carriers, recovering almost 100% of waste produced through a sift process. Future areas for attention are the potential to increasing the ability for reuse/recycling, which currently sits at 68% due to the majority of non-hazardous recyclable waste being disposed of through DSA i.e. product related waste such as meta with DSA taking more waste types this year than any previous year. DSG does not record the financial data for waste disposal.

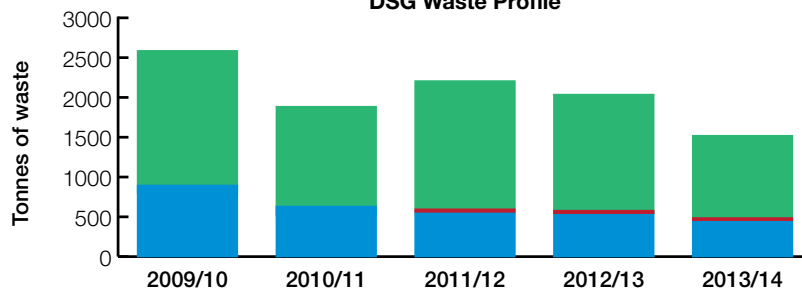
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**DSG Waste Profile**

Above: CR2 live firing.



<span style="color: green;">■</span> Reuse/Recycle	1,671	1,295	1,637	1,473	1,069
<span style="color: red;">■</span> Incineration	7	10	32	30	15
<span style="color: blue;">■</span> Landfill	895	596	565	540	484

Waste Category	FY2013/14 Tonnes	FY2012/13 Tonnes	FY2011/12 Tonnes	FY2010/11 Tonnes	FY2009/10 Tonnes
<b>Hazardous</b>					
Landfill	40.73	134.68	97.90	158.20	300.50
Incinerated	13.88	30.33	31.90	9.80	6.96
Reuse/Recycle	473.72	444.13	436.90	364.60	406.4
<b>Non-Hazardous</b>					
Landfill	443.17	405.17	467.00	437.50	594.46
Incinerated	1.18	0	0	0	0
Reuse/Recycle	595.37	1,028.47	1,200.00	930.00	1,264.6
Composted	0	0	0	0	0
<b>Total Waste</b>	<b>1,568.05</b>	<b>2,042.78</b>	<b>2,233.70</b>	<b>1,900.10</b>	<b>2,572.92</b>

## FINANCIAL PERFORMANCE REVIEW

DSG successfully completed its sixth year as a trading fund with a very satisfactory outcome of good profits for the year and a strong Balance Sheet at the year-end.

Overall, DSG's financial performance exceeded its plan with a Profit before Interest and Dividend of £15.6m.

### TRADING RESULTS

DSG achieved better than plan profit, which entitled MOD to a gain-share of £2.8m.

ROCE achieved was 9.04%.

### CASH FLOW AND FUNDING

The capital structure of DSG on formation was defined in the DSG Establishment as a Trading Fund Entry Terms document.

At 31st March 2014, DSG had Public Dividend Capital (PDC) of £23.3m and Government Loans of £23.3m.

Liquidity was strong throughout the year with a closing net cash position at 31st March 2014 of £67.1m.

### CAPITAL INVESTMENT

Investment relating mainly to H&S improvements in Buildings and various Plant and Equipment amounted to £1m.

### DIVIDEND

DSG has provided in the accounts to pay MOD a dividend of £7m in respect of the year 2013/14.



Above: 105 light guns live firing.  
Right: Soldiers in a defensive posture.

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## APPROVAL OF THE STRATEGIC REPORT

The Strategic Report is approved.

A handwritten signature in white ink, appearing to read 'A. Hughes', is positioned above the printed name.

**Archie Hughes**  
Chief Executive  
27 June 2014



Above: Foxhound Light Protected Patrol Vehicle on Operations.

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## DIRECTORS' REPORT

### PENSION LIABILITIES

Details of the pension liabilities and their treatment is included in the Remuneration Report and in the Notes to the Accounts (Note 5).

### COMPANY DIRECTORSHIPS AND OTHER SIGNIFICANT INTERESTS HELD BY BOARD MEMBERS

No director of the DSG Board, including NEDs, holds any company directorships or other significant interests which may conflict with their DSG management responsibilities. Details of individual directors are in the Strategic Report (pages 10 -13).

### REMUNERATION PAID TO THE AUDITORS FOR NON-AUDIT WORK

DSG made no remuneration to the auditors for non-audit work in the financial year 2013/14.

### SICKNESS ABSENCE

The total number of days lost due to sickness absence was 26,994, which equates to 10.11 days per employee. The comparative figures for 2012/13 were 22,240 and 8.23 respectively.

### FUTURE DEVELOPMENTS AFFECTING DSG

Information in respect of likely future developments affecting DSG, the employment of disabled persons and consultation and engagement with employees is in the Strategic Report.

### REPORTING OF PERSONAL DATA RELATED INCIDENTS

There are no reported personal data related incidents for the financial year 2013/14.



**Archie Hughes**  
Chief Executive  
27 June 2014



## REMUNERATION REPORT

### REMUNERATION COMMITTEE

The Remuneration Committee is a sub-Committee of the TFB and exists to advise its owner, MOD, DSG's Chairman, Chief Executive and the TFB on matters relating to employee remuneration; and to ensure consistency with the Personnel Delegations held by the Chief Executive of DSG.

The remuneration of all DSG employees except senior civil servants (SCS) is set within the Civil Service Pay Guidance issued annually by HM Treasury.

The Remuneration Committee consists of the independent NEDs of DSG's Board, an MOD representative and a representative from HR to act as secretary. One of the NEDs acts as Chairman and other Executive Directors attend meetings to assist the committee in their deliberations as appropriate. The Committee met as required during the financial year and implemented all recommendations arising from the meetings.

The Committee continues to make a positive input to the strategic direction of DSG pay settlements prior to sharing these with the TU. The terms of the DSG Corporate Bonus Scheme are agreed by the Remuneration Committee and endorsed by the TFB who then, having taken due consideration of the performance of the business, approve any bonus to be paid, the amount of which is presented to and endorsed by the OAC.

### REMUNERATION POLICY

The Chief Executive salary increases are determined by MOD centre and DSG is advised of any change accordingly.

The FD, COO and HR Director are SCS and as such, their pay is set through recommendations of the Review Body on Senior Salaries. The Review Body on Senior Salaries provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration of the SCS taking account of evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body is at [www.ome.uk.com](http://www.ome.uk.com).



All other employees have their remuneration determined by a process consistent with MOD and HM Treasury guidance.

The Chief Executive has delegated powers for the setting of terms and conditions of employment, including pay, for all DSG employees below SCS. The delegation requires him to consult with MOD and HM Treasury before agreeing to any changes to pay, grading systems and arrangements. DSG achieves this through the business case and pay remit process whereby DSG submits pay proposals for MOD and HM Treasury approval, before negotiation with staff representatives. DSG reports the outcome of negotiations back to HM Treasury through the annual outturn statement.

For the 2013/14 pay settlement year the majority of employees received a pay increase of 1% together with a consolidated payment of £123, consistent with the Public Sector Pay Policy.

The DSG Board and Remuneration Committee approves the DSG Pay and Grading Structure which is designed to ensure the Corporate Business Strategy has due regard for the financial success of DSG, current Government and MOD policies and targets, and public sector pay guidance.

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Above: Soldiers on routine patrol.

Performance Pay for staff is dependent firstly on DSG meeting agreed IBMs at a corporate level and then on individuals meeting agreed targets cascaded from the Corporate Plan. Achievement is by individual assessment within the line management chain. The DSG Board and Remuneration Committee may approve changes to conditions of service prior to commencing the pay negotiating process with the TU.

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

### **SERVICE CONTRACTS OF DIRECTORS**

Directors who are substantive members of the SCS hold appointments that are open-ended and made in accordance with the Constitutional Reform and Governance Act 2010, which requires appointment to be on merit and based on fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners is at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk). Members of the SCS recruited or promoted to the grade before 2 April 1990 have a 3-month notice period, members recruited or promoted to the grade after this time have a 1-month notice period.

Early termination of an Executive Director's appointment, other than for misconduct, would

result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Details of the Civil Service Compensation Scheme is at [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)

MOD re-appointed Archie Hughes Chief Executive on 1 August 2011 on a fixed-term contract until September 2015.

David Morgan left DSG on 6th September 2013 having resigned as CD. Richard Atkinson assumed responsibility for commercial and contractual activities reporting to the Chief Executive and representing those functions on the XMB.

MOD appointed the independent NEDs for a fixed-term, but not as civil servants. Contracts may be terminated at one-month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination will be immediate. Extensions to contracts may be possible by mutual agreement.

Remuneration for each NED is set at a fixed annual rate determined by the MOD Permanent Under Secretary. Fees are set on the basis that the role should require around 40 days work per year. This excludes the NED representing the interests of the MOD's FD whose services are free to DSG. NEDs are not involved in any discussion about their own remuneration and all payments made are non-pensionable. There are no compensation entitlements for early termination.

## THE FOLLOWING INFORMATION IS SUBJECT TO AUDIT

### SINGLE TOTAL FIGURE OF REMUNERATION

#### 2013-14

	Salary and allowances <sup>1</sup> £'000	Performance Bonus £'000	Pension Benefits <sup>7</sup> £'000	Total £'000
<b>Executive Directors</b>				
<b>Archie Hughes</b> Chief Executive <sup>2</sup>	155-160	60-65	35-40	255-260
<b>Steve Hall</b> Finance Director	70-75	–	10-15	85-90
<b>Geraint Spearing</b> Chief Operating Officer <sup>3</sup>	75-80	0-5	(10)-(15)	70-75
<b>Jane Williams</b> Human Resources Director (from 1 November 2012)	65-70	–	0-5	65-70
<b>Keith Norris</b> Strategy Director <sup>3</sup>	70-75	5-10	0-5	75-80
<b>David Morgan</b> Commercial Director <sup>5</sup> (to 6 September 2013)	40-45	–	15-20	60-65
<b>Richard Atkinson</b> Commercial Director <sup>6</sup> (from 6th September 2013)	40-45	–	0-5	45-50

#### 2012-13

	Salary and allowances <sup>1</sup> £'000	Performance Bonus £'000	Pension Benefits <sup>7</sup> £'000	Total £'000
<b>Executive Directors</b>				
<b>Archie Hughes</b> Chief Executive <sup>2</sup>	155-160	60-65	50-55	265-270
<b>Steve Hall</b> Finance Director	65-70	–	(5)-(10)	60-65
<b>Geraint Spearing</b> Chief Operating Officer <sup>3</sup>	80-85	–	20-25	100-105
<b>Jane Williams</b> Human Resources Director <sup>4</sup> (from 1 November 2012)	25-30	–	0-5	25-30
<b>Keith Norris</b> Strategy Director <sup>3</sup>	65-70	5-10	0-5	75-80
<b>David Morgan</b> Commercial Director <sup>5</sup> (to 6 September 2013)	95-100	5-10	45-50	150-155
<b>Richard Atkinson</b> Commercial Director <sup>6</sup> (from 6th September 2013)	–	–	–	–

- Gross salary includes: salary; reserved rights to London Weighting or London allowances; recruitments and retention allowances; travel and subsistence allowances, compensation packages and any other allowance to the extent that it is subject to UK taxation. No taxable benefits in kind were paid to any Director.
- Performance Bonuses are part of the overall performance appraisal process, the outcome of which is not usually known until after the publication of the Annual Accounts. The value reported for this Executive Director reflects the estimated bonus in year for the individuals' performance for that same year which has been accrued at the maximum value payable whilst awaiting formal approval. One of the NEDs consults with the MOD centre and others on the Chief Executive's performance against his specific objectives set by the MOD centre and proposes a bonus for approval by DSG's Remuneration Committee. Bonuses exceeding £50,000 in the public sector require further approval by the Chief Secretary to the Treasury prior to payment.
- The performance bonus value reported for this Executive Director reflects the actual bonus payable for the individuals' performance for that same year.
- The full year equivalent salary for this appointment was £60k-£65k in 2012/13.
- The performance bonus value reported for this Executive Director reflects the actual bonus payable for the individuals' performance for that same year. The full year equivalent salary for this appointment was £95-£100k.
- The full year equivalent salary for this appointment is £75k - £80k in 2013/14.
- The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

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Above: Quad bike used on Operations.

Pension Benefits	Accrued Pension at pension age as at 31/03/14 and related lump sum	Real increase/ (decrease) in pension and related lump sum at pension age	CETV at 31/03/14	CETV at 31/03/13 <sup>1</sup>	Real increase/ (decrease) in CETV	Employee contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Archie Hughes</b>	20-25	0-2.5	388	331	26	–
<b>Steve Hall</b>	20-25 Plus lump sum of 70-75	0-2.5 Plus lump sum of 0-2.5	391	358	8	–
<b>Geraint Spearing</b>	20-25 Plus lump sum of 70-75	(2.5)-0 Plus lump sum of (2.5)-0	326	311	(8)	–
<b>Jane Williams</b> (from 1 November 2012)	30-35 Plus lump sum of 90-95	0-2.5 Plus lump sum of 0-2.5	588	551	1	–
<b>Keith Norris</b>	30-35 Plus lump sum of 90-95	0-2.5 Plus lump sum of 0-2.5	684	640	2	–
<b>David Morgan</b> (to 6th September 2013)	5-10	0-2.5	90	77	8	–
<b>Richard Atkinson</b> (from 6th September 2013)	5-10	0-2.5	145	133	0	–

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

## PAY MULTIPLES

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid Director in DSG in the financial year 2013/14 was £220,000 - £225,000 (2012/13; £215,000 - £220,000). This was 9.72 times (2012/13; 9.75 times) the median remuneration of the workforce, which was £22,645 (2012/13; £22,300).

No employees in either 2013/14 or 2012/13 received remuneration in excess of the highest-paid Director. Remuneration fell in ranges from £10,000 - £15,000 to £220,000 - £225,000 (2012/13; £10,000 - £15,000 to £215,000 - £220,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the CETV of pensions.

**The higher median remuneration multiple in the previous year was as a result of a compensation package temporarily increasing the highest paid Director band to that payable to a former Director.**

## CIVIL SERVICE PENSIONS

A 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 members' accrued benefits and any contingent spouses' pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued resulting from 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 civil service pension arrangements. They also include any additional pension benefit accrued to the member resulting from 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.

The real increase in CETV represents the amount 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.

Further details relating to the civil service pension arrangements are in Note 5 to these accounts and at the website [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)

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

No other Director has received a payment for compensation for loss of office under the terms of an approved compensation scheme and no awards or compensation has been paid to former Directors.

None of the Directors has remuneration packages containing non-cash elements or other benefits-in-kind. No payments have been made to third parties for the services of a Director.

Right: Mastiffs awaiting collection at Warminster.

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### Non-Executive Directors

	Fees 2013/14 £'000	Fees 2012/13 £'000
<b>Alex Jablonowski</b> (from January 2012)	20-25	20-25
<b>David Barrass</b>	15-20	15-20
<b>Janet Baker</b>	15-20	15-20
<b>Peter Shortt</b> <sup>1</sup> (until June 2013)	–	–
<b>David English</b> <sup>1</sup> (from July 2013)	–	–

<sup>1</sup> Appointed in conjunction with responsibilities at MOD, for which there is no entitlement to receive separate remuneration in undertaking DSG duties.

### APPROVAL

The Directors' Remuneration Report is approved.

**Archie Hughes**  
Chief Executive  
27 June 2014



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## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

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

The AO of the Ministry of Defence has designated the Chief Executive as AO of DSG. The responsibilities of an AO, including responsibility for the propriety and regularity of the public finances for which the AO is answerable, for keeping proper records and for safeguarding DSG's assets, are set out in Managing Public Money published by HM Treasury.

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



**Archie Hughes**  
Chief Executive and AO  
27 June 2014

## GOVERNANCE STATEMENT

### SCOPE OF RESPONSIBILITY

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

As Chief Executive of DSG, I am personally accountable to the Secretary of State for Defence for the performance of DSG in accordance with the Framework Document and DSG's Corporate Strategic Plan (CSP).

In the preparation of this statement, I have sought the views and support of the Executive Board, NEDs, AC and the senior management of DSG.

### GOVERNANCE FRAMEWORK

From the reviews I have undertaken, I believe the Governance Structure and systems of Internal Control within DSG, to the extent that it is deemed relevant and practical, have followed the requirements of the Corporate Governance Code of Good Practice. The Governance Policy and Process are subject to regular review and Internal Audit on a frequent basis. The governance structure is defined as follows:

- **OAC**, chaired by the Min (DEST) as representative of our owners, is scheduled to meet up to 3 times a year to review DSG's performance.
- **TFB**, which is chaired by an independent NED and whose members comprise the four NEDs, one of whom is the representative of the shareholder, AO, FD and SD and should meet 6 times a year. The main responsibilities are to review and manage the performance of DSG, review the Risk Management Policy and Process, the Corporate Risk Register, and to review the Information Asset Management Process.
- **Executive Management Board (XMB)**, which meets every month and comprises the Executive directors of DSG and whose main responsibilities are to manage the performance of DSG against its targets and review and manage the Corporate Risk Register.
- **AC**, which is chaired by an independent NED with two other NEDs as members and Defence Internal Audit (DIA): NAO, FD and Head of Internal Audit (HIA) DSG are attendees and meets at least four times a year. The AC is a sub-committee of the TFB. The role of the committee is to support the Board and to advise the AO on the adequacy and effectiveness of governance, risk and control arrangements within DSG.
- **Executive Governance Group** The AO chairs the Group and includes all XMB members and the HIA. The main responsibilities are to review the Governance Policy and Processes of DSG and manage the Internal Audit and Risk Management Policies and Processes.

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## Schedule of meetings and attendance

Meeting	Members	No. of Members	Scheduled frequency	Meetings held	Attendance
OAC	Min (DEST), CDM, DGF, DES LE-Dir, BSG, DSG Exec Directors	8	Up to 3 times annually	0	0%
TFB	Independent NEDs, MOD NED, DSG AO, FD and SD	7	6	5	95%
XMB	Exec Directors	6	Monthly	10	80%
Remuneration Committee	Independent NEDs, DSG Executives	4	3	3	Full
Audit Committee	Independent NEDs, MOD NED, (NAO, DIA, DSG FD & DSG HIA in attendance)	3	4	4	92%
Executive Governance Group	DSG Executive Directors & DSG HIA	7	4	4	86.7%

There are subsidiary committees that report to the XMB in respect of Compliance, Health & Safety, Environmental Control, Information Asset Management, Remuneration, Internal Audit and Risk Management (the following paragraphs cover the latter two in detail).

Minutes are taken at all of the meetings above and there is a requirement to report to the AO any significant issues/risks should they arise, demonstrate how they are being managed, assign owners, and enter on the appropriate risk register.

NEDs continue to make a valuable contribution to the board meetings and governance of DSG.

There is a register of member's interests maintained by the TFB Secretariat for the NEDs and this includes the Executive Board members.

### BOARD PERFORMANCE

The OAC has not met in the last twelve months, however the AC and the TFB noted that despite the lack of formal meetings there has been significant Ministerial attention focussed on DSG as a result of the sale; however TFB, XMB and AC have met 5, 10 and 4 times respectively during the last year. The XMB and AC have received regular reports from Compliance, Internal Audit, Security, Business Continuity, Risk Management and Finance. Specifically Compliance, Internal Audit and Risk Management provide reviews of Corporate Governance issues that may have arisen. All meetings were quorate and the Board Secretariat records minutes and actions.

The TFB reviews and assesses its own performance each year. This year the TFB

determined that it had performed satisfactorily. The TFB has reviewed the Corporate Governance Code of Good Practice; and believe there were no departures from this Code. During this assessment, TFB also reviewed the effectiveness of the AC and Remuneration Committee and found that they had also performed satisfactorily.

### HIGHLIGHTS OF BOARD COMMITTEE REPORTS

The AC, Remuneration Committee, Risk Management and Compliance Meeting minutes are circulated to the Executive Board along with any relevant reports. Significant items from these meetings are:

#### Audit Committee

- The AC has been proactive in reviewing the Internal Audit activities and attending to process improvements for both Internal Audit and Risk Management; approving the annual internal audit plan and monitoring its progress during the year; and approving the terms of reference of the Risk Management Committee.
- The principal audits carried out in year were:
  - IBMs – DIA carried out the audit, which confirmed that DSG met its targets for FY2012/13 and the audit of the FY2013/14 targets will be completed by June
  - Agency and Interim Appointments – to ensure that the management of Agency and Interim appointments is in line with central government policies and that the policies in place are effective - Substantial Assurance
  - Vehicle Management – to ensure the effective, safe and efficient management and use of vehicles in DSG – Limited Assurance



Above: Live firing from a Weapon Mount Installation Kit Land Rover Modified by DSG Colchester.

- Inventory Management – to confirm the Goods Received Not Invoiced (GRNI) account is regularly reviewed and reconciled with all appropriate actions taken to clear outstanding actions – Substantial Assurance
- Information Assurance – Security and Data Management – to verify that those working in DSG can access appropriate electronic data to ensure efficient and effective operation of business processes without compromising security– Substantial Assurance
- Board Governance – that the DSG Board are effective in the strategic and operational leadership of the organisation – Substantial Assurance
- DSG Business System – Change Process
  - DSG system and process changes are applied in an effective, controlled and accountable way – Full Assurance
- Fraud – Management and awareness of Fraud policies and process – follow up audit from Limited Assurance last year.
- In addition, DSG internal auditors carried out compliance audits across all sites with no significant findings or non-conformances.

The AC and the Executive Governance Meeting paid particular attention to the Limited Assurance

from the vehicle management audit. There were 25 recommendations which required substantial review across all sites, all but 5 recommendations have now been implemented; the remainder are part of a major review of vehicle driver training and records. The AO has tasked the HIA to personally review the actions taken and confirm to the Executive Governance Meeting that the actions taken satisfy the recommendations of the DIA Report; this will also be presented to the AC.

- The AC approved the Annual Report and Accounts for 2012/13 with no significant issues raised and the accounts for FY2013/14 will be reviewed at the June Committee meeting.
- The AC reviewed and amended its TOR, as it does each year and prepared a report on its own effectiveness to the AO. The report highlighted the principal activities of the Committee which included:
  - Approval of the Annual Report & Accounts
  - Approval of the revised processes and procedures for Risk Management and Governance.
  - In-depth review of the recommendations from Internal Audit reports with special emphasis on the improvements to the procurement process

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and impact of the Fraud audit. The AC received a presentation from the senior staff of LSBU to demonstrate the improvements to the procurement process, which showed substantial progress.

- The AC is now currently reviewing the actions taken to rectify the issues raised from the vehicle management audit.

### **Remuneration Committee**

The Committee has met as required during the year and its core activity has been to approve the policy in relation to the remuneration of DSG employees. In addition, the Committee approved targets and payments for XMB members.

### **Risk Management**

Both the TFB and XMB carried out in-depth reviews of the Corporate Risk Register and identified new risks relating to the proposed sale of DSG.

### **Compliance Meeting**

This met 4 times and issued a report to the XMB primarily dealing with quality issues, including Health & Safety (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) and accident data), results from Compliance audits, customer and supplier concerns, and data on other operational issues. There were no Air or Land major attributable customer concerns, which is an improvement from the two last year. There

has been a significant increase in the number of internal audits undertaken by Compliance, which, whilst leading to an initial increase in the number of non-conformances, has highlighted more areas with opportunities for improvements, which are now being implemented. DSG has maintained all its external accreditations.

## **CORPORATE GOVERNANCE**

The structure of Corporate Governance in DSG, highlighted at section 1 above, has worked well in practice and is regularly reviewed both internally and periodically externally. DIA carried out a risk-based internal audit, which achieved Substantial Assurance, with the two remaining issues passed to BSG for comment as they related to the performance of the NEDs. In the Board's opinion DSG, to the extent that it is deemed relevant and practical, has followed the Code's requirements. All meetings have been held as scheduled with no significant issues arising.

## **INFORMATION REPORTING**

The Integrated Business Reporting (IBR) Department controls IBR, which aims to handle all data requirements supplied to the Board to assist in decision-making. DSG enhanced this by consolidating into one enterprise resource planning system, Baan. The TFB, XMB and senior management review reports generated on a regular basis. Both the TFB and XMB have expressed their satisfaction with the levels of data

generated to assist management decision-making. There is frequent review by the Board of the quality and suitability of the data and reports generated in order to optimise the effectiveness and suitability for use and management action.

## RISK MANAGEMENT

The focus of Risk Management in DSG during the last year has been to consolidate the good work done in previous years and concentrate on embedding risk management culture throughout the organisation. In addition, there has been increased focus on Project Risk Management in support of bids and proposals.

There have been maturity reviews and peer reviews, using matrixes from the Institute of Risk Management, to examine the progress, which in terms of the Institute of Risk Management's Risk Maturity Matrix Model, is at the Risk Defined stage approaching Risk Managed. This demonstrates that DSG has passed the median point and is achieving an improved level of maturity. The HIA prepared and submitted a report to the XMB. The maturity exercise showed an improved awareness of risk management and processes, with an increased response percentage (66% as opposed to 59% for last year) and a greater percentage of knowledge of the policies and processes, which was especially rewarding as the whole of operations was included for the first time.

The DSG XMB accepts that some degree of business risk is inevitable, being a normal part of the operation of an organisation. Within the in-depth reviews of the Corporate Risk Register, the XMB has demonstrated its tolerance with the different categories of risk and through its Directors has given guidance to the functional heads for the functional and site risk registers. Similar decisions are likely in respect of new business, key projects and business plans. Decisions on risk levels will be communicated to those responsible for managing those risks or risk areas.

### Risk Management in DSG is structured as follows: -

- Corporate Risk Register – owned and reviewed by the TFB and reviewed regularly by the XMB. Risks included are those identified as affecting DSG as a whole and requiring Board members

to manage them. The key risks identified within this register are: -

- Business restructuring - as a result of changing customer requirements
  - Sale of DSG – as DSG is now operating within the context of a sale the risks of adverse effects on core functions and the delivery of the business plan are now included
  - Compliance failure – failure to adhere to compliance measures could result in loss of accreditation
  - Loss of personal or key data
  - Loss of control of the business – failure to recognise targets are not being met or over achieved
  - Inaccurate data – data not available or inaccurate
  - Failure to deliver the Business Continuity Plan
  - Major security breach
  - Adverse customer perception/opinion of DSG
  - Future business strategy – failure to secure strategic development opportunities for DSG
  - Unable to maintain profitability - failure to achieve Cost Reduction Programme
  - Key staff – loss of key individuals
- Functional Risk Registers – owned by Board members or Heads of Site and cover all the functions in DSG. Risks are identified as those not affecting DSG as a whole and include risks that have been downgraded due to mitigation actions.
  - Site Risk Registers – these are owned and managed by Heads of Sites and are reviewed regularly at Senior Management Team meetings.
  - Project Risk Registers – are required for all major projects and proposals.
  - Information Asset Management Risk – is managed by HR and reviewed regularly.

### The Risk Management Process is structured as follows:

- TFB – owns the Corporate Risk Register and is responsible for ensuring mitigation is in place and reviewing the actions of the XMB.
- XMB – carry out more frequent in-depth reviews of the corporate risks and recommend downgrading or approving and accepting upgrades of risks.

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- AC – Approved the Risk Policy and Process and, through HIA, receives regular updates to incorporate central government advice and recommendations; and implement recommendations from Internal Audit activity.
- Risk Management Committee – meets at least 4 times a year, manages the policy and process for the AC and has recently reviewed its TOR, which the AC approved. The chair is the FD or his delegated deputy and members are Board directors or their deputies and functional heads. Proposals for upgrading or downgrading of risks will normally be handled through this committee who will make the recommendations.
- Risk Coordinators Committee – meets at least 4 times a year, handles the management of the site registers and manages the software package, Active Risk Manager (ARM), which controls all risks throughout DSG and provides regular reports on risk activity for management. All new proposals/bids must include a risk assessment with a report from ARM. It is here that risks are identified for possible elevation through the Risk Management Committee if considered serious or becoming significant across most sites.

## FRAUD AND INFORMATION ASSURANCE

DSG has ensured that all its Information Asset Owners (IAO) have undertaken the annual assessments to the required levels. Whilst DSG is not currently receiving annual audits from MOD centre in this respect, steps are in hand to ensure that DSG is putting policies and progress in place to ensure that DSG remains at Level 3 from the Information Assurance Maturity Model (IAMM) as introduced by the Information Handling and Assurance Team set up by the Defence Board. The HR function maintains the Risk Register. There has been no breaches of the Information Management Asset Process and no loss of corporate data.

DSG has implemented the recommendations from the audit of the management of fraud in DSG and DIA carried out a follow-up review, which found satisfactory progress. There have been substantial reviews of the policy and processes with improvements introduced, which will be ongoing during the next six months after which there will be further activity to embed the revised processes across DSG. There have been no reported incidents of Fraud during the year.

## HEALTH & SAFETY

There has been a 15% reduction in work-related incidents reported (515, down from 609 last year) and currently averages less than 10 per 1000 employees, down from over 10 in 2012/13. There were 3 major RIDDOR reports compared to 6 last year (major definition taken from RIDDOR 2012) and overall, there were a total of 21 RIDDORs reported for 2013/14, down from 22 in 2012/13. These were reviewed in-depth at Compliance meetings where the cause, impact and resulting actions were reviewed. The most common injuries being muscle strain/sprain.

## SUMMARY

The HIA issued his annual statement, which is a comprehensive view of the overall level of Assurance of DSG and includes the evaluation of reports from compliance on incidents involving individuals, Health & Safety, Quality and HR; and the overall opinion is that DSG has been making steady progress and improvement and as such, HIA has proposed a Substantial level of Assurance.

The control weakness identified within the procurement area from previous years has been rigorously reviewed and all identified actions implemented and further external reviews have been carried out. As mentioned above, the procurement team presented their actions and process improvements, which were well received by the AC. Further monitoring will continue to ensure the bedding-in of these actions.

Further action will be required during 2014/15 to monitor the effectiveness of the improvements introduced to the Vehicle Management Policies and Processes and the Fraud Policy and Processes.

The proposed Sale of DSG is still ongoing with formal confirmation of the exclusion from sale of the Electronics and Components division of DSG. The TFB and XMB consider the impact on DSG of the sale on a regular basis.



**Archie Hughes**  
Chief Executive  
27 June 2014

## 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 Support Group for the year ended 31 March 2014 under the Government Trading Funds Act 1973. The financial statements comprise Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows; 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 DEFENCE SUPPORT GROUP, ACCOUNTING OFFICER AND AUDITOR

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

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate. I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities, which govern them.

### OPINION ON REGULARITY

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

### OPINION ON FINANCIAL STATEMENTS

In my opinion:

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

### EMPHASIS OF MATTER – GOING CONCERN

Without qualifying my opinion, I draw attention to the disclosures made in Note 1 to the financial statements concerning the application of the going

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Above: Soldiers on patrol.

concern principle in the light of the MOD's SDSR announcement that the majority of DSG would be offered for sale. The sale is expected to be completed by 31st March 2015, but is dependent on the MOD approval process and the approval of Parliament and there is, therefore, material uncertainty as to the ability of DSG to continue to operate in its current form. The financial statements do not include the adjustments that would result if the DSG was unable to continue as a going concern.

## OPINION ON OTHER MATTERS

In my opinion:

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

## MATTERS ON WHICH I REPORT BY EXCEPTION

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

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

## REPORT

I have no observations to make on these financial statements.

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

3 July 2014

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

		2013/14	2012/13
	Note	£'000	£'000
Turnover	2	179,478	182,492
Cost of sales	3	(153,568)	(154,670)
<b>Gross profit</b>		<b><u>25,910</u></b>	<b><u>27,822</u></b>
Operating expenses	3	(10,294)	(10,546)
<b>Operating profit</b>		<b><u>15,616</u></b>	<b><u>17,276</u></b>
Large Aircraft business closure provision	13	–	137
<b>Profit on ordinary activities before interest</b>		<b><u>15,616</u></b>	<b><u>17,413</u></b>
Interest receivable		347	359
Interest payable	4	(1,129)	(1,205)
<b>Profit on ordinary activities before dividend</b>		<b><u>14,834</u></b>	<b><u>16,567</u></b>
Dividend Payable		(7,000)	(7,000)
<b>Net Income after interest and dividend</b>		<b><u>7,834</u></b>	<b><u>9,567</u></b>
<b>Other comprehensive Income/(Expenditure)</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Net gain/(loss) on revaluation of Property Plant & Equipment		1,754	770
<b>Total comprehensive Income/(Expenditure) for the year</b>		<b><u>9,588</u></b>	<b><u>10,337</u></b>
<b>ROCE</b>		<b>9.04%</b>	<b>10.58%</b>

All operations are continuing.

The notes on pages 52 to 71 form part of these accounts.

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## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

		31 March 2014	31 March 2013
	Note	£'000	£'000
<b>Non-current assets</b>			
Property, Plant and Equipment	7	82,508	84,601
<b>Total non-current assets</b>		<b>82,508</b>	<b>84,601</b>
<b>Current assets</b>			
Inventories and work in progress	8	26,150	21,184
Trade and other receivables	9	31,692	35,352
Cash and cash equivalents	10	67,173	63,718
<b>Total current assets</b>		<b>125,015</b>	<b>120,254</b>
<b>Total Assets</b>		<b>207,523</b>	<b>204,855</b>
<b>Current liabilities</b>			
Trade and other payables	11	(33,301)	(37,494)
Loans	12	(1,663)	(1,663)
Provisions	13	(200)	(1,263)
<b>Total current liabilities</b>		<b>(35,164)</b>	<b>(40,420)</b>
<b>Non-current liabilities</b>			
Loans	12	(21,635)	(23,299)
<b>Total non current liabilities</b>		<b>(21,635)</b>	<b>(23,299)</b>
<b>Net Assets</b>		<b>150,724</b>	<b>141,136</b>
<b>Financed by:</b>			
<b>Capital and reserves</b>			
Public dividend capital		23,324	23,324
Revaluation reserve		67,414	66,088
Retained earnings		59,986	51,724
<b>Taxpayers' equity</b>		<b>150,724</b>	<b>141,136</b>

The notes on pages 52 to 71 form part of these accounts.



**Archie Hughes**  
Chief Executive  
27 June 2014

These accounts have been authorised for issue by the AO on the same date as the Comptroller and Auditor General's Audit Certificate.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2014

		2013/14	2012/13
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Operating profit	Statement of Comprehensive Income	15,616	17,276
<b>Adjustments for:</b>			
Losses on disposals of non-current assets	7	24	22
Permanent Diminution and Reclassification of non-current assets	7	8	(389)
Depreciation charges	7	4,855	4,901
Decrease in Large Aircraft closure costs		–	137
Decrease/(increase) in inventories	8	(4,966)	360
(Increase)/decrease in receivables	9	3,660	(2,392)
(Decrease)/increase in payables	11	2,806	(14,055)
(Decrease) in provisions for liabilities and charges	13	(1,063)	770
<b>Net cash inflow from operating activities</b>		<b>20,940</b>	<b>6,630</b>
<b>Cash flows from investing activities</b>			
Payments to acquire property plant and equipment	14a	(1,040)	(659)
Interest received	14a	347	359
<b>Net cash (outflow) from investing activities</b>		<b>(693)</b>	<b>(300)</b>
<b>Cash flows from financing activities</b>			
Decrease in borrowings	14a	(1,663)	(1,663)
Dividends paid		(14,000)	(4,500)
Interest paid	14a	(1,129)	(1,205)
<b>Net cash (outflow) from financing activities</b>		<b>(16,792)</b>	<b>(7,368)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	14c	<b>3,455</b>	<b>(1,038)</b>
Cash and cash equivalents at start of year	14b	63,718	64,756
Cash and cash equivalents at end of year	14b	67,173	63,718

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**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY  
FOR THE YEAR ENDED 31ST MARCH 2014**

	<b>Public Dividend Capital</b>	<b>Revaluation Reserve</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Taxpayers' equity at 31st March 2012</b>	<b>23,324</b>	<b>66,504</b>	<b>40,971</b>	<b>130,799</b>
Comprehensive income for the year	–	770	9,567	10,337
Realised element of revaluation reserve	–	(1,186)	1,186	–
<b>Taxpayers' equity at 31st March 2013</b>	<b>23,324</b>	<b>66,088</b>	<b>51,724</b>	<b>141,136</b>
Comprehensive income for the year	–	1,754	7,834	9,588
Realised element of revaluation reserve	–	(428)	428	–
<b>Taxpayers' equity at 31st March 2014</b>	<b>23,324</b>	<b>67,414</b>	<b>59,986</b>	<b>150,724</b>

The notes on pages 52 to 71 form part of these accounts.

# NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

## 1 ACCOUNTING POLICIES

### Basis of accounting

The accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM) for 2013/14 and the Accounts Direction, both issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of DSG for the purpose of giving a true and fair view was selected. The particular policies adopted by DSG are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### Going Concern

These accounts have been prepared on a going concern basis.

In autumn 2010, MOD's SDSR announced that DSG would be one of the MOD owned assets to be offered for sale. Work is progressing in MOD Centre to bring about the sale of DSG by 31 March 2015 and, as part of the process, DSG's existing Electronics and Components business will separate from the rest of the business and remain in MOD ownership.

The sale of DSG is dependent on approval through the MOD Approval process and Parliament. After the sale it is proposed that all of DSG's functions will continue either under the new owners, or in the case of Electronics and Components, under MOD ownership.

The Chief Executive as AO has considered the impact of the announcement and associated separation on DSG's ability to continue as a going concern. In his view, whilst there remains uncertainty about the future ownership of the organisation, in the absence of the passage of legislation necessary for the closure of the Trading Fund, it is appropriate that the financial

statements have been prepared on a going concern basis.

### Discontinued Operations

On 29th March 2010 the then Secretary of State for Defence, Bob Ainsworth, laid before Parliament a Written Ministerial Statement about Defence Equipment, which concluded with a statement confirming the intention to close the Large Aircraft Business Unit (LABU) facility at St Athan by June 2013 at the latest. Whilst the major production line ceased in December 2010, DSG continued to operate these facilities until the minor production stream ended during 2011/12. In alignment with IFRS 5, LABU was presented as discontinued in the 2011/12 accounts. All provisions and costs associated with this closure were accounted for in the 2012/13 accounts.

### Accounting Convention

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

### Turnover

Turnover comprises the invoiced and accrued value of services (excluding VAT and other sales taxes) and is recognised in line with the underlying sales contract, which may result in turnover and costs recognised prior to job completion.

### Property, Plant and Equipment

#### Basis of Valuation

Property Plant and Equipment are carried at fair value. A professional quinquennial valuation, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards Red Book, was carried out by GVA Grimley Ltd as at 31st March 2011 and covered all classes of non-current assets. Due to the nature of the business assets a market valuation is difficult to determine therefore, the basis of valuation applied is generally Depreciated Replacement Cost (DRC) or Existing Use where DRC is not appropriate. Property, Plant

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and Equipment is revalued in the years between professional valuations, using the Corporate Financial Controller (CFC) Modified Historic Cost Accounting (MHCA) indices produced by the Defence Statistics, and is carried at valuation as at the end of the accounting period.

### **Basis of Recognition**

Expenditure on plant, equipment, computers and transport equipment is reviewed periodically and capitalised where the useful life exceeds one year and the cost of acquisition exceeds the threshold of £10k excluding VAT. The value of capitalised plant, equipment and transport equipment is reviewed annually and adjustments made using the CFC MHCA Index in the relevant periods.

Individual items valued at less than the threshold are ordinarily capitalised only if they constitute integral parts of a composite or grouped asset that is in total valued greater than £25k. A composite or grouped asset is intended only to encompass items that are purchased to operate together rather than bulk purchases of items that can, or would ordinarily, operate in an individual capacity.

Non-current assets are recognised initially as Assets in the Course of Construction which are not depreciated. At the point that an asset becomes fully available for use, it is re-categorised appropriately and depreciation commences.

### **Land and Buildings**

Where DSG bears the risks and rewards of using Departmental Estate, such estate is treated as an asset of the Trading Fund although legal ownership rests with the Secretary of State for Defence.

### **Depreciation**

Freehold land is not depreciated. Depreciation on buildings, plant and equipment, transport equipment and IT equipment is calculated to reflect the consumption of economic benefit of assets by equal instalments over their estimated useful lives. The lives of the assets are reviewed periodically with reference to obsolescence and continued asset usage.

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

<b>Buildings</b>	Not exceeding sixty years
<b>Plant &amp; Equipment</b>	Between three and twenty years
<b>Transport Equipment</b>	Between three and twenty years
<b>IT Equipment</b>	Between three and ten years

Where an impairment loss has been identified when reviewing the cashflows arising from the existing use of an asset, a discount rate of 3.5% has been applied to the cashflows.

### **Pension Costs**

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

### **Foreign Exchange**

All foreign denominated transactions are translated at the average exchange rate for the previous month, being a proxy rate for that ruling at the time of the transaction. At 31 March, balances are translated into sterling at a year-end spot rate. Foreign exchange differences are taken directly to the Statement of Comprehensive Income.

### **Inventories**

Inventory is valued on a first in first out basis (FIFO) and at the lower of cost or net realisable value. Following periodic reviews, inventory is written down to address obsolescence, surpluses and defective items using two main criteria, which are redundancy and technical validity.

Redundant inventory is written down to its net recoverable value and disposed of. Items that are technically valid, but for which DSG has no current forecast requirement, are also written down to their net recoverable amount and disposed of unless a justification is made for retention due to a definable imminent contractual requirement.

Where provision is made it is based on 100% provision against the value of the appropriate items. This calculation can include any significant surplus inventories based on projected consumption using historical trends and review by management.

### **Work in Progress**

Work in progress (WIP) is valued on the basis of direct labour, where this is applicable to the

contract, and indirect production support, plus those business overheads that are directly related to normal levels of production activity. For spares inclusive contracts, the cost of the spares consumed is also included in the WIP valuation. The value is reviewed monthly to reflect the lower of cost or net realisable value and the rates used to value WIP are reviewed at least annually.

### Long-term Contracts

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

### Provisions

At the point any contract is foreseen to become loss-making a provision is made for the future losses identified. Other provisions represent liabilities of uncertain timing or amount. Provisions are discounted where the effect of the discount would be material.

### Provision for bad and doubtful debts

DSG makes provision for bad and doubtful debts as soon as they are deemed to be irrecoverable based on analysis and reviews of aged receivables.

### Operating leases

Rentals under operating leases are charged to the Statement of Comprehensive Income as incurred.

### ROCE

ROCE is expressed as the profit before interest for the year calculated as a percentage of the average capital employed during the year. Capital employed comprises the total net assets (non-current assets at net book value, plus current assets, less current liabilities, less non-current liabilities) and adding back the short and long-term loans provided from government sources.

### Value Added Tax

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

### Employee Benefits

DSG accrues for untaken employee leave entitlement at the end of the financial year. For permanent employees the leave year runs to 30th April and employees are able to carry forward an element of entitlement at the end of the financial year. These amounts fall due within one year and the value of the liability is calculated using records of actual untaken leave and average pay rates to comply with IAS 19.

## SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

DSG management makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results, but are based on historical experience and expectations of future events. The risk generated by these judgements and estimates is therefore materially only cost related and is mitigated as far as is practical. The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

### Provisions

Provisions have been made for obsolete stock, expected future legal / employment tribunal costs and other relevant events. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

### Accounting Accruals

Accruals for the costs of goods and services received are recognised based on the best information available at the reporting date. Accruals include significant balances related to reimbursement for utilities payable to MOD. Any difference between accounting accruals and the actual liability when presented will be accounted for in the period when such determination is made.

### CFC Indexation rates for the Quinquennial Non-Current Asset Review

Indices are provided by the CFC for revaluing non-current assets under the MHCA regime.

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Whilst these indices predict a valuation as at the end of the accounting period they also include corrections for previous periods. In these accounts, DSG has applied the professional external revaluations of its non-current assets from GVA Grimley at as 31 March 2011.

### **Impairment of Assets**

Assets are reviewed for impairment on an annual basis. Management judgements with regard to the impairment of buildings and equipment in ECBU in 2012/13 were made on the basis of the approved business case for rationalisation of that site. A review of the previous impairment of the Bicester site proved that the intended cessation of the workflow for that site was no longer extant and the impairment was therefore, reversed in 2012/13.

### **Inventory Revaluation Reserve Realisation**

DSG has historically used standard costing to value its inventory, but where the standards are subject to annual or periodic revaluation, does not track the realisation of this revaluation on an item-by-item basis. As a proxy, the realisation has previously been accounted for by applying an aged inventory analysis to the inventory revaluation reserve. At 31 March 2014 the value of the reserve was no longer material and was therefore, realised in full.

### **IFRS's amendments and interpretations in issue but not yet effective or adopted**

#### **Amendments to IFRS 10, IFRS 11, IFRS 12, IAS27 and IAS28**

The International Accounting Standards Board issued amended standards that affect the consolidation and reporting of subsidiaries. These revised standards, effective for accounting periods beginning on or after 1 January 2014, will have no effect on DSG's accounts.

#### **IFRS 13: Fair Value Measurement**

This sets out an IFRS framework for measuring fair value such as on property, plant and equipment and is expected to be applicable for accounting periods commencing on or after 1 January 2013 requiring affected entities to increase the disclosure for non-financial items held at fair value. This standard has not been applied for 2013/14 as it is subject to further review by HM Treasury. Its impact on DSG's accounts, whilst is not yet clear, is not expected to be material.

#### **Further Considerations**

Other changes to, and new issues of, IFRS, which are not yet in effect or applied, do not have a material impact on the accounting or disclosure of these annual accounts.

## 2(a) TURNOVER AND SEGMENT ANALYSIS

Turnover is stated net of trade discounts, provisions, VAT and similar taxes. There were no acquisitions and the majority of turnover arose from UK sources.

Where the substance of the transaction is such that DSG effectively operates as an agent, turnover represents the net revenue receivable and due to DSG in accordance with contractual terms.

Although substantially all turnover relates to the same class of business, MRO of military equipment, DSG is able to analyse its operating profit by activity depending on the type of equipment platform being worked on. The major segments are Land platforms, Air and Electronic platforms and specialist procurement and supply operations carried out by LSBU.

### Analysis of turnover and operating profit by segment:

<b>2013/14</b>	<b>Land</b>	<b>Air and Electronics</b>	<b>Land Supply</b>	<b>Total</b>
	£'000	£'000	£'000	£'000
<b>Turnover (i)</b>	139,494	27,794	12,190	179,478
<b>Cost of sales</b>	123,215	20,701	9,652	153,568
<b>Administrative expenses</b>	7,403	1,943	948	10,294
<b>Operating profit</b>	<b>8,876</b>	<b>5,150</b>	<b>1,590</b>	<b>15,616</b>

(i) £179,117k relates to MOD customers.

<b>2012/13</b>	<b>Land</b>	<b>Air and Electronics</b>	<b>Land Supply</b>	<b>Total</b>
	£'000	£'000	£'000	£'000
<b>Turnover (i)</b>	139,473	28,872	14,147	182,492
<b>Cost of sales</b>	121,646	23,881	9,143	154,670
<b>Administrative expenses</b>	7,544	2,034	968	10,546
<b>Operating profit</b>	<b>10,283</b>	<b>2,957</b>	<b>4,036</b>	<b>17,276</b>

(i) £177,079k relates to MOD customers.

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## 2(b) BUSINESS SEPARATION OF ECBU

In autumn 2010, MOD's SDSR announced that DSG would be one of the MOD owned assets offered for sale. Work is progressing in MOD Centre to bring about the sale of DSG by 31 March 2015 and it is likely that, as part of the process, DSG's existing ECBU will separate from the rest of the business and remain in MOD ownership.

The Profit on ordinary activities before interest for ECBU to be separated is shown below:

	<b>2013/14</b>	<b>2012/13</b>
	<i>£'000</i>	<i>£'000</i>
Turnover	27,794	28,872
Cost of sales	<u>(20,701)</u>	<u>(23,881)</u>
<b>Gross profit</b>	<b><u>7,093</u></b>	<b><u>4,991</u></b>
Operating expenses	(1,943)	(2,034)
<b>Operating profit</b>	<b><u>5,150</u></b>	<b><u>2,957</u></b>
<b>Profit on ordinary activities before interest and dividend</b>	<b><u>5,150</u></b>	<b><u>2,957</u></b>

### 3 COST OF SALES AND OPERATING EXPENSES

		2013/14	2012/13
	Note	£'000	£'000
<b>Cost of sales:</b>			
Staff costs	5b	87,298	87,603
Supplies and services consumed		52,804	53,314
Accommodation costs		3,873	4,217
Depreciation and impairment		4,757	4,470
Cost reimbursement (i)		(248)	(470)
Other administration costs	6	5,084	5,536
<b>Total cost of sales</b>		<b>153,568</b>	<b>154,670</b>
<b>Operating expenses:</b>			
Staff costs	5b	8,215	8,173
Supplies and services consumed		(261)	99
Accommodation costs		125	(8)
Depreciation and impairment		106	102
Cost reimbursement (i)		–	(135)
Other administration costs	6	2,109	2,315
<b>Total operating expenses</b>		<b>10,294</b>	<b>10,546</b>
<b>Cost of sales &amp; operating expenses:</b>			
Staff costs	5b	95,513	95,776
Supplies and services consumed		52,543	53,413
Accommodation costs		3,998	4,209
Depreciation and impairment		4,863	4,572
Cost reimbursement (i)		(248)	(605)
Other administration costs	6	7,193	7,851
<b>Total cost of sales &amp; operating expenses</b>		<b>163,862</b>	<b>165,216</b>

(i) Cost reimbursement primarily relates to various facility management and other costs recharged to units lodging on DSG sites of £248k (2012/13 £446k). These reimbursements are shown as a separate line to assist visibility.

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#### 4 INTEREST PAYABLE AND SIMILAR CHARGES

	<b>2013/14</b>	<b>2012/13</b>
	£'000	£'000
On loans wholly repayable within five years	–	–
On loans not wholly repayable within five years	1,129	1,205
	<b>1,129</b>	<b>1,205</b>

#### 5 STAFF NUMBERS AND COSTS

	<b>2013/14</b>	<b>2012/13</b>
	Number of employees	Number of employees
<b>(a) Staff Numbers</b>		
The average number of persons employed during the year was:		
Senior Management	6	6
Service personnel	1	1
Civilian personnel	2,403	2,484
Agency staff	256	212
	<b>2,666</b>	<b>2,703</b>
<b>(b) Payroll Costs</b>		
	£'000	£'000
in Cost of sales:		
Salaries, wages and allowances	64,453	65,886
Social security	4,878	4,994
Pension costs	10,364	10,629
Agency staff	7,603	6,094
	<b>87,298</b>	<b>87,603</b>
in Operating expenses:		
Salaries, wages and allowances	6,391	6,011
Social security	547	534
Pension costs	899	875
Agency staff	378	753
	<b>8,215</b>	<b>8,173</b>
<b>Total:</b>		
Salaries, wages and allowances	70,844	71,897
Social security	5,425	5,528
Pension costs	11,263	11,504
Agency staff	7,981	6,847
<b>Total payroll costs</b>	<b>95,513</b>	<b>95,776</b>

## 5 STAFF NUMBERS AND COSTS (CONTINUED)

(c) Pension benefits for civilian employees 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 and Classic Plus) or a whole career scheme (Nuvos). These statutory schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus and Nuvos are increased annually in line with Pensions Increase Legislation. Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 1.5% and 6.25% of pensionable earnings for Classic and 3.5% and 8.25% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2014. 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' initial 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 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 their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the members' earned pension is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pension Increase Legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee 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.

The PCSPS is an unfunded multi-employer defined benefit scheme and it is not possible to separately identify DSG's share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details are in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk/pensions](http://www.civilservice-pensions.gov.uk/pensions)). For 2013/14, employers' contributions of £11,286,114 were payable to the PCSPS (2012/13 £11,501,192) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013/14 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

For 2013/14 employers' contributions of £43,915 were paid to one or more of a panel of four appointed stakeholder pension providers (2012/13 £41,160). In addition, employer contributions of £1,959 were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in-service and ill health retirement of these employees (2012/13 £2,654). Contributions due to the partnership pension providers at the statement of financial position date were £4,723 (2012/13: £4,759).

2 employees retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £4,678 (2012/13 - 3 persons additional pension liabilities amounted to £7,538).

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#### (d) Reporting of Civil Service and other compensation schemes - exit packages

Exit costs are accounted for in full in the year of departure except for the annual compensation costs of certain packages, which fall into future years and are accounted for in the year of payment.

Comparative data is shown in brackets for 2012/13.

Exit package cost band	Number of Agreed Departures	
<£10,000	2	(4)
£10,000 - £25,000	8	(29)
£25,000 - £50,000	11	(26)
£50,000 - £100,000	1	(5)
£100,000- £150,000	0	(1)
<b>Total number of exit packages for in-year departures</b>	<b>22</b>	<b>(65)</b>
<b>Total cost of in-year departures £'000</b>	<b>4,188</b>	<b>(4,452)</b>

There were no compulsory redundancies in 2013/14 (and none in 2012/13).

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are funded directly by the MOD and are therefore, not accounted for in DSG.

Where early retirements have been agreed, the additional costs are met by DSG and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

The total cost includes £3,610k for pre-1 April 2013 leavers, which fell into financial year 2013/14 (£2,619k for pre-1 April 2012 leavers costs which fell into 2012/13). The total cost also includes £nil for pre-1 April 2014 leavers, which will fall into financial year 2014/15 (£1,299k for pre-1 April leavers costs falling into 2013/14).

## 6 OTHER ADMINISTRATION COSTS

	2013/14	2012/13
<i>in Cost of sales:</i>	£'000	£'000
Travel and subsistence, including vehicle hire	1,999	1,949
IT and telecommunications	2,746	3,007
Training, recruitment and consultancy	711	588
Insurance	44	34
Other expenses	(216)	(105)
Movement in provisions	(200)	63
	<b>5,084</b>	<b>5,536</b>
<i>in Operating expenses:</i>	£'000	£'000
Auditors' remuneration	83	85
Travel and subsistence, including vehicle hire	449	463
IT and telecommunications	203	372
Training, recruitment and consultancy	65	101
Insurance	940	872
Other expenses	368	423
(Gains)/Losses on Foreign Exchange	–	(1)
Movement in provisions	1	–
	<b>2,109</b>	<b>2,315</b>
<b>Total:</b>	£'000	£'000
Auditors' remuneration	83	85
Travel and subsistence, including vehicle hire	2,448	2,412
IT and telecommunications	2,949	3,379
Training, recruitment and consultancy	776	689
Insurance	984	906
Other expenses	152	318
(Gains)/Losses on Foreign Exchange	–	(1)
Movement in provisions	(199)	63
<b>Total of Other administration costs</b>	<b>7,193</b>	<b>7,851</b>

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## 7 PROPERTY, PLANT AND EQUIPMENT

The movements in each class of assets during 2013/14 were:

	Land (i)	Buildings	Plant & Machinery	Transport Equipment	IT	Assets in Course of Construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation:</b>							
At 31 March 2013	21,946	68,014	3,708	197	521	442	94,828
Additions	–	512	476	–	–	52	1,040
Donations	–	–	–	–	–	–	–
Disposals	–	–	(29)	(16)	(38)	–	(83)
Impairment / Reversal of Impairment	–	–	(8)	–	–	–	(8)
Reclassification	–	115	261	–	66	(442)	–
Revaluation (i)	–	1,935	31	1	69	–	2,036
<b>At 31 March 2014</b>	<b>21,946</b>	<b>70,576</b>	<b>4,439</b>	<b>182</b>	<b>618</b>	<b>52</b>	<b>97,813</b>
<b>Depreciation:</b>							
At 31 March 2013	–	8,966	998	82	181	–	10,227
Depreciation charged during the year	–	4,321	417	25	92	–	4,855
Disposals	–	–	(13)	(6)	(40)	–	(59)
Impairment	–	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–
Revaluation	–	267	(1)	–	16	–	282
<b>At 31 March 2014</b>	<b>–</b>	<b>13,554</b>	<b>1,401</b>	<b>101</b>	<b>249</b>	<b>–</b>	<b>15,305</b>
<b>Net book value:</b>							
<b>At 31 March 2014</b>	<b>21,946</b>	<b>57,022</b>	<b>3,038</b>	<b>81</b>	<b>369</b>	<b>52</b>	<b>82,508</b>
At 31 March 2013	21,946	59,048	2,710	115	340	442	84,601
<b>Asset financing:</b>							
Owned	21,946	54,853	3,038	81	369	52	80,339
Donated	–	2,169	–	–	–	–	2,169
<b>NBV as at 31 March 2014</b>	<b>21,946</b>	<b>57,022</b>	<b>3,038</b>	<b>81</b>	<b>369</b>	<b>52</b>	<b>82,508</b>

(i) No revaluation to Land has been carried out in 2013/14 as there were no suitable indices available from Defence Statistics for revaluation calculations.

## 7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The movements in each class of assets during 2012/13 were:

	Land	Buildings	Plant & Machinery	Transport Equipment	IT	Assets in Course of Construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation:</b>							
At 31 March 2012	21,473	67,685	3,216	240	310	675	93,599
Additions	–	–	334	–	43	282	659
Donations	–	–	–	–	–	–	–
Disposals	–	(14)	(514)	(82)	(97)	–	(707)
Impairment / Reversal of Impairment (i)	–	207	122	–	–	–	329
Reclassification	–	208	100	–	268	(516)	60
Revaluation	473	(72)	450	39	(3)	1	888
<b>At 31 March 2013</b>	<b>21,946</b>	<b>68,014</b>	<b>3,708</b>	<b>197</b>	<b>521</b>	<b>442</b>	<b>94,828</b>
<b>Depreciation:</b>							
At 31 March 2012	–	4,482	1,094	138	179	–	5,893
Depreciation charged during the year	–	4,401	375	25	100	–	4,901
Disposals	–	(14)	(492)	(82)	(97)	–	(685)
Impairment	–	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–
Revaluation	–	97	21	1	(1)	–	118
<b>At 31 March 2013</b>	<b>–</b>	<b>8,966</b>	<b>998</b>	<b>82</b>	<b>181</b>	<b>–</b>	<b>10,227</b>
<b>Net book value:</b>							
<b>At 31 March 2013</b>	<b>21,946</b>	<b>59,048</b>	<b>2,710</b>	<b>115</b>	<b>340</b>	<b>442</b>	<b>84,601</b>
At 31 March 2012	21,473	63,203	2,122	102	131	675	87,706
<b>Asset financing:</b>							
Owned	21,946	56,710	2,710	115	340	442	82,263
Donated	–	2,338	–	–	–	–	2,338
<b>NBV as at 31 March 2013</b>	<b>21,946</b>	<b>59,048</b>	<b>2,710</b>	<b>115</b>	<b>340</b>	<b>442</b>	<b>84,601</b>

(i) These figures include the reversal of a previous decision to impair the Bicester site in 2010/11 following a re-appraisal of expected future workloads totalling £1.981m, split between revaluation of £1.415m and reversal of impairment of £0.566m. In addition, following a decision to reduce the number of buildings utilised at ECBU at the Sealand site, a total impairment of £2.625m was posted in 2012/13, split between revaluation of £2.400m and impairment of £0.225m.

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## 8 INVENTORIES AND WORK IN PROGRESS

	31 March 2014		31 March 2013	
	£'000	£'000	£'000	£'000
Gross Inventories	15,077		15,255	
Less inventory provision	(184)		(2,424)	
		14,893		12,831
Work in progress - net costs incurred		11,257		8,353
<b>Total inventories</b>		<b>26,150</b>		<b>21,184</b>

During 2013/14, inventory with a value of £26.653m was charged to cost of sales along with the creation of an in-year provision of which £0.184m remained at year-end. Inventory with a value of £2.558m was written off against previously created provisions. During the same period, £10.822m of WIP was expensed to cost of sales.

## 9 RECEIVABLES AND PREPAYMENTS

	31 March 2014	31 March 2013
	£'000	£'000
Trade and sundry invoiced receivables	29,010	26,811
Other receivables	778	289
Bad debt provision	(25)	(6)
Prepayments and accrued income	1,929	8,258
	<b>31,692</b>	<b>35,352</b>

Current assets are further analysed by debtor category as noted below:

	31 March 2014	31 March 2013
	£'000	£'000
Other central government bodies	27,641	31,686
Bodies external to government	4,051	3,666
	<b>31,692</b>	<b>35,352</b>

All the above balances fall due within 1 year.

Aged Trade and Sundry Invoiced Receivables Analysis	Not Yet Due	30 to 60 Days	60 to 90 Days	90 to 120 Days	120 Days +	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2014	23,282	4,347	495	65	821	29,010
At 31 March 2013	10,969	13,249	1,951	117	525	26,811

## 10 CASH AT BANK AND IN HAND

	<b>31 March 2014</b>	<b>31 March 2013</b>
	<i>£'000</i>	<i>£'000</i>
Cash on short term deposit and at bank (i) (ii)	67,172	63,715
Cash in hand	1	3
	<b>67,173</b>	<b>63,718</b>

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

(ii) Other than cash in hand all deposits and balances were held in a commercial bank.

An analysis of change in net funds is at note 14(b).

## 11 PAYABLES

Amounts falling due within one year:

	<b>31 March 2014</b>	<b>31 March 2013</b>
	<i>£'000</i>	<i>£'000</i>
Trade payables	1,260	2,017
Taxation and social security	1,636	1,739
Value Added Tax	6,520	4,991
Accruals	16,111	11,695
Dividend payable (i)	–	7,000
Deferred income	4,417	6,772
Sundry payables	3,357	3,280
	<b>33,301</b>	<b>37,494</b>

(i) The dividend for 2013/14 was paid in-year

Payables are further analysed by creditor category as below:

	<b>31 March 2014</b>	<b>31 March 2013</b>
	<i>£'000</i>	<i>£'000</i>
Other central government bodies	21,204	24,210
Bodies external to government	12,097	13,284
	<b>33,301</b>	<b>37,494</b>

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## 12 SHORT AND LONG-TERM LOANS

	31 March 2014	31 March 2013
	£'000	£'000
Current portion of long-term borrowings	1,663	1,663
Loan repayments due within 2 and 5 years	6,658	6,658
Loan repayments due after 5 years	14,977	16,641
	<b>23,298</b>	<b>24,962</b>

The non-current portions of the long-term loan may be repaid within the next 12 months as part of progress towards the sale of DSG.

As of 31st March 2014 no definite decision has been made regarding this.

## 13 PROVISIONS FOR LIABILITIES AND CHARGES

	Aged MOD Liabilities	Other	Total
	£'000	£'000	£'000
Balance at 1 April 2013	861	402	1,263
Increase/(decrease) in provisions	–	(75)	(75)
Utilised in year	(861)	(127)	(988)
<b>Balance at 31 March 2014</b>	<b>–</b>	<b>200</b>	<b>200</b>

### Other Provisions

These provisions are to meet a variety of obligations, including £124k for the estimated replacement cost of a small number of Government Furnished Assets, for which documentation indicates are in DSG's custody and £31k for the estimated costs for future legal/employment tribunal cases where evidence of potential claims exist.

The liabilities and charges provided for are expected to fall due within one year.

MOD has confirmed that it will continue to meet any liabilities in respect of DSG's redundancy costs and accordingly no further provision has been made for these future liabilities in DSGs accounts.

## 14 CASH FLOW STATEMENT NOTE

<b>(a) Detailed analysis of gross cash flows</b>	<b>2013/14</b>	<b>2012/13</b>	
	<i>£'000</i>	<i>£'000</i>	
<b>Returns on investments and servicing of finance</b>			
Interest received	347	359	
Interest paid	(1,129)	(1,205)	
	<b>(782)</b>	<b>(846)</b>	
<b>Capital expenditure</b>			
Non-current assets in the course of construction	(52)	(282)	
Purchase of non-current assets	(988)	(377)	
	<b>(1,040)</b>	<b>(659)</b>	
<b>Financing</b>			
With the MOD:			
Decrease in borrowings	(1,663)	(1,663)	
	<b>(1,663)</b>	<b>(1,663)</b>	
<b>(b) Analysis of changes in net funds/(debt)</b>	<b>At 31 March 2013</b>	<b>Cash flow</b>	<b>At 31 March 2014</b>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	63,718	3,455	67,173
Debt due within one year	(1,663)	–	(1,663)
Debt due after one year	(23,298)	1,663	(21,635)
<b>Total</b>	<b>38,757</b>	<b>5,118</b>	<b>43,875</b>
<b>(c) Analysis of changes in cash and cash equivalents</b>			
	<i>£'000</i>		
<b>Balance at 31st March 2013</b>	<b>63,718</b>		
Net change in cash and cash equivalent balances	3,455		
<b>Balance at 31st March 2014</b>	<b>67,173</b>		

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## 15 OPERATING LEASES

Operating Lease payments recognised as expenses in the period were:

	<b>2013/14</b>	<b>2012/13</b>
	<i>£'000</i>	<i>£'000</i>
Leases of other Land and Buildings (i)	15	15
Leases of vehicles & Other Equipment (ii)	371	452
<b>Total operating leases paid</b>	<b>386</b>	<b>467</b>

(i) Contained in note 3 - Accommodation costs

(ii) Contained within note 6 - Vehicle hire and Other expenses and note 3  
- Supplies and services consumed

None of these payments were contingent rents or sublease payments.

Future minimum lease payments under non-cancellable operating leases are due as follows:

	<b>31 March 2014</b>	<b>31 March 2013</b>
	<i>£'000</i>	<i>£'000</i>
Not later than one year	165	305
Later than one year and not later than five years	16	16
Later than five years	-	-
	<b>181</b>	<b>321</b>

None of DSG's leasing arrangements have renewal or purchase options. Rentals are payable on fixed instalments over the duration of the lease.

There are no restrictions imposed by lease arrangements on dividends or further debt.

Future minimum lease payments under non-cancellable operating leases where DSG is acting as lessor are:

	<b>31 March 2014</b>	<b>31 March 2013</b>
	<i>£'000</i>	<i>£'000</i>
Receivable within one year	325	325
Receivable after one year	-	-
	<b>325</b>	<b>325</b>

This relates to a short-term lease on facilities at the Sealand site.

There are no finance leases.

## 16 COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Whilst not yet committed, £391k of capital expenditure has been authorised but not provided for in the accounts as at 31 March 2014 (2013 £844k). Capital commitments of £11k existed and were not provided for as at 31 March 2014 (2013 £81k).

There are no contingent assets at 31 March 2014 (nil at 31 March 2013).

There are no contingent liabilities at 31 March 2014 (nil at 31 March 2013).

Any liabilities concerning environmental pollution are considered to be pre-Trading Fund events and the liability therefore falls to MOD.

## 17 FINANCIAL INSTRUMENTS

DSG's treasury operations are governed under the Government Trading Funds Act 1973(a) as supplemented by DSG's Framework Document and are conducted within a framework of policies, mandates and delegations authorised at the top level by the Board and regularly reviewed. DSG's financial instruments comprise cash deposits, debtors, creditors and loans. DSG uses forward foreign currency sales and purchase contracts as derivative instruments when required for risk management purposes only, although none have been utilised during 2013/14 (nil during 2012/13). The main purpose of these financial instruments is to finance DSG's operations and DSG has limited powers to borrow or invest surplus funds. The main risks that would arise from the financial instruments are foreign currency, liquidity and interest rate risks. DSG's policies for managing these risks are set to achieve compliance with the regulatory framework including the rules contained within Managing Public Money.

### Interest Rate Risk

DSG's funding is determined by fixed rate Government loans. There are no floating rate liabilities and DSG has only one loan with an interest rate of 4.6% fixed for the remaining 14 years of the loan term.

### Currency Risk

DSG conducts business in Sterling, US Dollars, Euros and Swedish Krone and is therefore subject

to foreign exchange risk. At 31 March liabilities existed of SKr84k. An adverse movement in foreign currency exchange rates of 10% for this currency would give rise to additional liabilities of £6.7k.

DSG manages this risk by natural hedging and entering into forward foreign exchange contracts where amounts are material. DSG has one active foreign currency bank account which held US\$Nil at 31 March 2014 (US\$23k at 31 March 2013). DSG policy requires that transactions are translated at the prior month average rate and year-end foreign denominated net assets are translated at a year-end spot rate.

### Liquidity Risk

In excess of 64% of DSG's loans outstanding at the year-end are repayable in more than 5 years. Current liquidity throughout the year was strong. Cash at bank is available on demand and short-term investments are conducted through the Lloyds Bank plc Money Market.

### Counter-party/Credit Risk

DSG's approach is to minimise counter-party risk by aiming only to enter into contracts with institutions with long-term credit ratings of AA or better.

### Capital Management

The financial strategy of DSG supports its aim of sustaining its manufacturing capability and achieving the return on capital objectives set by its owner. The key elements of the strategy are:

- Sufficient flexibility for the funding of necessary capital expenditure and working capital required for any expansion of the business.
- Avoidance of risk and compliance with HM Treasury policies.
- Funding of dividend payments as agreed with the owner.
- Funding of loan repayment schedules.

The Capital structure of DSG is based on management's judgement of the balancing of all the elements of its financial strategy in order to meet its day-to-day and strategic needs. DSG, together with its owner, considers the amount of Public Dividend Capital in proportion to loans, and retained earnings, and manages

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the capital structure, making adjustments to it if necessary in the light of changes in economic conditions and risk characteristics of the underlying assets.

DSG is not subject to covenants in any of its financing agreements.

### Categories of Financial Instruments

#### Financial assets

	<b>31 March 2014</b>	<b>31 March 2013</b>
	<i>£'000</i>	<i>£'000</i>
Trade, sundry and other debtors	29,788	27,100
Cash on short term deposit, at bank and in hand	67,173	63,718
	<b><u>96,961</u></b>	<b><u>90,818</u></b>

#### Financial liabilities

	<b>31 March 2014</b>	<b>31 March 2013</b>
	<i>£'000</i>	<i>£'000</i>
Trade and other payables	17,190	25,799
MOD loans	23,298	24,962
	<b><u>40,488</u></b>	<b><u>50,761</u></b>

DSG does not retain any assets classed as held to maturity investments or available for sale financial assets, or any financial assets or liabilities held for trading. For all assets and liabilities, amortised cost is a proxy for fair value due to the short-term nature of the instrument.

### Embedded Derivatives

In accordance with IAS 39 - Financial instruments: Recognition and measurement, DSG has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No instances were found that required embedded derivatives to be recognised at their fair value separately from the non-derivative host contract. For the contracts reviewed, the economic characteristics and risks were closely related to those of the host contract.

## 18 RELATED PARTIES

MOD is a related party and has a representative on the DSG Board. During the year, DSG has had material transactions with the Department and with other entities for which MOD is the parent department. None of the DSG Board members or key managerial staff have declared any related party interests, which may conflict with their management responsibilities.

## 19 EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period. These accounts have been authorised for issue by the AO on the same date as the Comptroller and Auditor General's Audit Certificate.

## 20 LOSSES AND SPECIAL PAYMENTS

Other than the inventory write off disclosed in note 8, there were no material losses or special payments made during the year.

## 21 AUDITORS

The Trading Fund Act 1973 requires DSG's Annual Report and Accounts to be audited by the Comptroller and Auditor General. DSG's auditor is the National Audit Office and the cost of this audit is £83k (2012/13 £85k). The IBMs in the Strategic Report section of this Annual Report and Accounts are audited by DIA.

## 22 THIRD PARTY ASSETS

In connection with contracts held with the Jordan Armed Forces, DSG holds in its name a bank account, controlled by a member of the Jordan Armed Forces, with a balance of £743k as at 31 March 2014 (£546k as at 31 March 2013).

## LIST OF ACRONYMS AND ABBREVIATIONS

<b>Acronym</b>	<b>Description</b>
AC	Audit Committee
AO	Accounting Officer
A Vehicles	Tracked or wheeled armoured combat vehicles
AFPS	Armed Forces Pension Scheme
ARM	Active Risk Manager
ASLC	Accrued Superannuation Liability Charges
BSG	Business Strategy and Governance
B Vehicles	Tracked or wheeled vehicles, not designed for offensive purposes
CD	Commercial Director
CDM	Chief of Defence Materiel
CETV	Cash Equivalent Transfer Value
CFC	Corporate Financial Controller
CGP	Capability Growth Programme
COO	Chief Operating Officer
CR2	Challenger 2
CSP	Corporate Strategic Plan
CVR(T)	Combat Vehicle Reconnaissance (Tracked)
DARA	Defence Aviation Repair Agency
DE&S	Defence Equipment and Support
DGLS&E	Director General Land Equipment and Support
DIA	Defence Internal Audit
DIO	Defence Infrastructure Organisation
DRC	Depreciated Replacement Cost
DSA	Disposal Services Authority
DSG	Defence Support Group
Dstl	Defence Science and Technology Laboratory
ECBU	Electronics and Components Business Unit
ERHF	Equipment Regeneration Hub Forward
FD	Finance Director
FIFO	First In First Out
FReM	Financial Reporting Manual
GHG	Greenhouse Gases
GRNI	Goods Received Not Invoiced
HIA	Head of Internal Audit
HR	Human Resources

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<b>Acronym</b>	<b>Description</b>
HXP	Herrick Exchange Point
IAMM	Information Assurance Maturity Model
IAO	Information Asset Owner
IBES	In-Barracks Equipment Support
IBM	Internal Business Measures
IBR	Integrated Business Reporting
IFRS	International Financial Reporting Standards
IPR	Intellectual Property Rights
JAMES	Joint Asset Management Engineering Solution
LABU	Large Aircraft Business Unit
LSBU	Land Supply Business Unit
MHCA	Modified Historic Cost Accounting
Min(DEST)	Minister for Defence Equipment, Support and Technology
MRO	Maintenance, Repair and Overhaul
NCA	New Commercial Arrangement
NED	Non-Executive Director
OAC	Owner's Advisory Council
OEM	Original Equipment Manufacturer
PCSPS	Principal Civil Service Pension Scheme
PJHQ	Permanent Joint Headquarters
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
ROCE	Return on Capital Employed
SCS	Senior Civil Service
SD	Strategy Director
SDSR	Strategic Defence and Security Review
SPC	Service Provision Contract
TFB	Trading Fund Board
TOR	Terms of Reference
TSF	Total Support Force
TU	Trades Union
TUF	Training Uplift Fleet
UOR	Urgent Operational Requirement
WCSP	Warrior Capability Sustainment Programme
WIP	Work in Progress
XMB	Executive Management Board





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