



The Science Inside

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Defence Science and Technology Laboratory

# Annual Report and Accounts

2019/2020



Ministry  
of Defence

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Defence Science and Technology Laboratory

# Annual Report and Accounts

2019/2020

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**Notes:**

On 1 July 2001, in accordance with the Statutory Instrument 2001 No. 1246, the Defence Science and Technology Laboratory (Dstl) was created as a result of the separation of the Defence Evaluation and Research Agency (DERA); Dstl continuing as the Trading Fund.

On 1 April 2017, in accordance with the Statutory Instrument 2017 No. 148, the Defence Science and Technology Laboratory Trading Fund Order 2011 (S.I. 2011/1330) was no longer operating as a Trading Fund.



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# Performance

Our Performance Report contains two sections:

- **Overview**

Provides information on Dstl, our purpose – what we do and why we do it and our key risks. The overview provides information showing how we performed in 2019/20.

- **Performance Analysis**

Explains how we measure our performance. It uses information from other parts of our Annual Report and Accounts and provides longer-term trend analysis.

These pages complement the detail in our financial statements, which begin on [page 135](#).

# Overview

## Chief Executive's statement



Gary Aitkenhead, Chief Executive

**I am delighted to introduce our annual report and accounts for 2019/20 at the end of my second year as Chief Executive.**

In leading this talented organisation, I aim to provide clarity around Dstl's purpose and role, as well as place Dstl at the forefront of UK defence science and technology (S&T), in short putting the science inside UK Defence and Security.

We have delivered significant transformation following the creation of our strategy in 2018. We have grown income, strengthened strategic customer relationships, expanded our range of partners and increased capital investment in infrastructure and IT. Building on this momentum, we have launched phase two of our strategy, which clarifies and simplifies our S&T products and services and introduces a broader range of strategic capabilities to reinforce our S&T Planning.

We have identified 22 key capability areas throughout the land, sea and air domains, from cyber to human performance. We are in the process of developing technology roadmaps for each area so we are able to more purposefully make decisions about investments and partnerships, with the overall objective of ensuring we invest in game-changing technologies for the future.

Last year, we worked hard to capture the spirit of the Dstl culture through our values “innovative, impactful and collaborative”. This has begun to show real results, with our people feeling more engaged and having confidence in the future direction of Dstl. I am particularly pleased as this has contributed to the organisation maintaining its high performance.

Our capabilities and expertise span four areas:

- **Research** – Original research and concepts, creating new capabilities for Defence and Security;
- **Requirements and Evaluation** – S&T support to assess, evaluate and deliver current and next generation capabilities;
- **Specialist Advice and Services** – Knowledge and facilities at readiness to meet priority needs;
- **Operational Support** – Rapid and deployed S&T to meet the urgency of operations.

Dstl delivers all this and more in collaboration with industry, academia and international partners. We are the science inside UK Defence and Security. Through scientific research, from the earliest concepts to working prototypes, we are honing applications to real Defence challenges. When our troops deployed to Afghanistan, it was our work that improved the vehicle armour which saved soldiers’ lives. We drive requirements and evaluate industry offerings, assessing how they will be used in practice and how they will interact with existing or upcoming technology. We provide expert advice, offering 24/7 consultation to Government. For example, when the Syrian chemical weapons crisis drew the attention of the world, it was our experts who advised the Government. Much closer to home, we also played a critical role in the UK’s response to, and subsequent decontamination of, the Salisbury and Amesbury Novichok incidents. We deploy on exercise and operations with British forces; offering operational analysis and practical

support. Of course, these are just a few examples from the vast array of work that Dstl delivers. Further high-impact S&T examples can be found throughout this report.

As part of a Government-wide commitment to place more contracts with small and medium-sized enterprises (SMEs), we have been running an initiative, known as Searchlight, since April 2019. This initiative is designed to bring in non-traditional suppliers to ensure we are looking in the right places for that strategic advantage, and to invest in emerging technology and talent. Searchlight has introduced Dstl to a new audience and will ensure we continue to grow the proportion of our spend with SMEs.

Throughout the last year, it has been a privilege to see our staff members receive external recognition for their endeavours. Dr Norman Govan received an OBE for his many years of expertise in the decontamination of chemical weapons. Phillippa Spencer was named as Woman of the Year at the Woman in Defence UK Awards 2019, during which she also picked up the Outstanding Contribution Award. Paula Holbrook-Witt won a Civil Service Award in the Inspirational Leadership Award category for her work as Dstl's Hearing Network Lead, which has seen her passionately champion the provision of workplace adjustments for hearing loss and wider awareness in Dstl.

I am incredibly proud of the skills and passion of the people who are at the heart of our organisation. It is their expertise and knowledge that ensures Dstl remains at the centre of the future of UK Defence S&T, providing our customers with innovative thinking and world-leading capabilities.

We are working to invest in UK skills and our more-than 4,400 staff members are the lifeblood of our organisation. Without them, there would be no Dstl. Our workforce remains skilled, passionate and, above all, dedicated to our purpose.

A handwritten signature in black ink, appearing to read 'Guy Hill', written in a cursive style.

■ 9 September 2020

# Who we are and what we do

## **Dstl – the science inside UK Defence and Security**

**We are Dstl – we are the science inside UK Defence and Security. Our cutting-edge S&T is a proven national asset not only to the Ministry of Defence (MOD) but to the wider UK.**

Since we were formed in 2001, our talented scientists and technologists have built an enviable reputation for innovating world-class S&T. We are able to deploy our inside knowledge and understanding of government to interpret and connect requirements and stakeholders.

We have a deep operational understanding of Defence and Security needs. This allows us to deliver sensitive and specialist S&T solutions through expert research, analysis and assurance.

We are an Executive Agency of MOD and a well-proven national asset giving the UK advantage over our adversaries across science, technology, cyber and information.

We strengthen, protect and care for our Armed Forces – and we also work more widely across UK Government to innovate the science inside UK Defence and Security.

We are a globally-leading centre of excellence for science, technology, cyber and information, operating as a trusted partner to demystify and harness the application of S&T.

The Dstl brand represents a ‘mark of assurance and quality’ on the products and services we develop, giving our customers clear military and security advantage.

We offer credible, impartial and evidence driven advice and solutions enhancing UK Defence and Security.

We serve a wide range of customers, the main is the MOD Chief Scientific Adviser who placed £350m of S&T research work with us in 2019/20.

We also provide in-Government S&T support on highly-sensitive issues of national security. Indeed, our analysis work and advice has been deployed to assist with the national response to the COVID-19 pandemic.

We operate from a number of sites across the South of England. Most familiar will be Porton Down, Wiltshire, which was again in the headlines during 2020 following the BBC dramatisation of the Novichok incidents in Salisbury and Amesbury.

Our other sites are less well known, but just as important and we carry out defence critical work at Portsdown West and Alverstoke in Hampshire and Fort Halstead in Kent.

We also work off-site alongside our partners, suppliers and customers. We continue to have a significant presence on other MOD sites, including: Defence Equipment and Support (DE&S), Bristol; within the FLCs; and in MOD Head Office in London.

Meanwhile, we continue to build and maximise our networks as a key connector in S&T putting our people in international, industrial and academic secondments and project-funded placements.

In 2005, we established our wholly-owned technology transfer company, Ploughshare Innovations Limited (PIL), to maximise the benefit of any new technologies and knowledge that we develop during the course of our defence work. Since that time, and in partnership with Dstl's Intellectual Property Group, PIL has commercialised more than 127 technologies and created 14 spin-out companies. PIL's activities have also led to £75m of exports and £170m of inward investment attracted by the spin-out companies or invested by licensees.

We continue to develop new technologies that can be protected and exploited. This year, we filed 28 new applications for patents, secured the grant of 16 new patents and, through

the Dstl-PIL Rewards to Inventors scheme, we paid more than £46,000 to 61 members of our staff in recognition of their inventions and their contributions to exploitation.

Dstl also hosts the Defence and Security Accelerator (DASA). DASA is a cross-Government organisation that finds and funds exploitable innovation to support UK Defence and Security quickly and effectively and support UK prosperity.

# Our plans for the future – Our strategy

**The three strategic objectives set out in the Dstl Strategic Direction 2018-2022 continue to be at the core of Dstl's strategic planning.**

In the past year we have made substantial progress toward achieving our strategy, including enhancing our key relationships with stakeholders, increasing the amount of S&T work delivered with new suppliers and putting in place key workforce and infrastructure improvements.

The three Dstl Strategic Objectives 2018-2022 are:

- through our S&T, we will **shape the future of Defence and Security via a relentless focus on our customers' challenges and needs;**
- we will continue to **ensure Defence and Security can exploit the best science and technology capabilities on demand;**
- we will **become a more agile organisation that is fit for the future.**

As Dstl delivers on the 2018 strategic direction we are increasingly examining the future direction for our S&T. This year, Dstl has embarked on the journey towards the next phase of our strategy by launching our new internal S&T Planning Framework, which will underpin our strategic planning and ensure we continue to put the very best science inside our Defence and Security.

The Dstl S&T Planning Framework 2020-2024 consists of:

- Dstl's guiding principles, building on the fundamentals of our purpose and strategic objectives to indicate our business priorities;
- Introductions to the core elements of the new framework: our S&T products and services and our 22 S&T Strategic Capabilities;
- Priorities for the subsequent development of our S&T planning, based around our products and services and strategic capabilities.

The next phase of our strategic planning will see the development of an S&T Plan that will give direction across the 22 strategic capabilities and help prepare and shape Dstl for the future.

Further information on the capabilities can be found on [page 15](#).

### **Achieving our Strategic Objectives: what good looks like:**

- **Strategic Objective 1: Shape the future of Defence and Security via relentless focus on our customers' challenges and needs.**
  - **Strategic Imperative 1:** Make customer focus central to our delivery process.
    - Clarify our purpose and use this and the S&T products and services to help customers understand when and how to use Dstl most effectively to meet their challenges.
  - **Strategic Imperative 2:** Improve the communication of our work.
    - Use S&T products and services as primary descriptors to improve communication of our work.
  - **Strategic Imperative 3:** Drive impact and exploitation of our work.
    - Clarify our approaches to rapid exploitation and futures to maximise overall impact and exploitation.
  
- **Strategic Objective 2: Ensure Defence and Security can exploit the best science and technology capabilities on demand**
  - **Strategic Imperative 4:** Identify the capabilities Dstl requires internally and externally to deliver the S&T strategy.
    - Clarify those areas where Dstl adds unique value and better understand the strengths of the external supply base.
  - **Strategic Imperative 5:** Collaborate more effectively with our suppliers and partners to deliver impact and support international relationships through S&T.
    - Collaborate more effectively using a clearer vision of Dstl's role in delivery and communicate our priorities with partners and suppliers, using products and services.

- **Strategic Objective 3: Become a more agile organisation that is fit for the future**
  - **Strategic Imperative 6:** Improve leadership, accountability, empowerment and decision-making.
    - Clarify and communicate Dstl's S&T priorities, for internal and external delivery, to lead and guide our work.
  - **Strategic Imperative 7:** Develop our people, provide exciting career opportunities and improve knowledge management.
    - Use our S&T Strategic Capabilities as communities of practice to enable technical career development and the advertisement of opportunities.
  - **Strategic Imperative 8:** Ensure safe, secure, sustainable and fit-for-purpose infrastructure and IT.
    - Clarify our priorities for internal investment to enable longer-term infrastructure planning.
  - **Strategic Imperative 9:** Drive up the efficiency of our operations.
    - Through clearer prioritisation, be prepared to cease lower value work to enable delivery of higher impact work.

## Our 22 S&T Strategic Capabilities

### S&T products and services and Strategic Capabilities

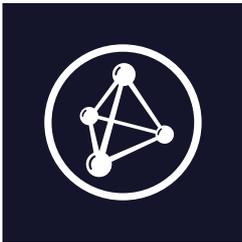
Guided by our strategic objectives and with a focus on setting clarity around S&T for our current and future capabilities, during 2019 Dstl introduced our **S&T products and services** and, along with DST, the **S&T Strategic Capabilities**.



### Above Water Systems

Above Water Systems delivers the capabilities for the development, evaluation and demonstration of systems and concepts in the Above Water domain. It links the broader

S&T and systems capabilities to the Above Water domain by providing the expertise to ensure the S&T is exploitable and relevant to this environment.



### **Advanced Materials**

Advanced Materials covers all aspects of materials and structures research including materials selection and performance, manufacture, integration into structures, material ageing, operating environment, shock and impact resistance, corrosion, design and living. The capability covers most types of materials including electronic devices, metallics, polymers, ceramics, composites and functional materials. Energetic materials and CBR protection materials are covered by their SCAs respectively.



### **AI & Data Science**

AI and Data Science covers the understanding and development of a broad spectrum of techniques for performing tasks intelligently and discovering insights from data using automatic process in addressing Defence and Security challenges safely and responsibly. This could include military decision making, autonomous platforms, computer network defence, sensing, defence logistics, policing and security, streamlining back-office functions.



## **Air Systems**

Air Systems delivers the capabilities for the development, evaluation and demonstration of systems and concepts in the Air domain. It links the broader S&T and systems capabilities to the Air domain by providing the expertise to ensure the S&T is exploitable and relevant to this environment.



## **CBR**

Chemical, Biological and Radiological (CBR) Sciences capability is a unique government led capability to deliver integrated research, development and advice on all aspects of counter-CBR Defence and Security. The capability provides authoritative advice and supports a wide range of work from policy, support to operations, and support to acquisition through to long-term research for a wide range of customers in MOD, and across Government. The capability draws upon a diverse and highly specialist skillset and facilities that enable work with experimental animals and highly toxic chemicals and pathogens in their most dangerous physical forms, in order to develop S&T solutions that deliver benefit under operational conditions.



### **Communications & Networks**

Communications and Networks covers a range of areas, spanning Command and Control, information management and exploitation, security and crypto.



### **Cyber**

Cyber covers a number of capabilities including defensive cyber in order to allow freedom of manoeuvre in the presence of sustained cyber attack.



### **Electromagnetic Activities**

Electromagnetic Activities encompasses S&T capabilities that support and develop electromagnetic environment and mitigate threats from our own or other's use of that environment. It includes Electronic Warfare and support to MOD's Spectrum awareness and Management capability.



### **Explosives & Energetics**

Explosives and energetics comprises scientific expertise across all aspects of conventional and improvised explosive materials including: design, safety through life, prototyping and small scale manufacture, trials and evaluation, analysis and advice, sensing and detection. Numerous other capabilities are reliant upon an underpinning SQEP in energetics and explosives, including; threat evaluation, conventional weapons, forensic exploitation, air platform protection and explosive ordnance disposal.



### **Homeland Security & Counter Terrorism (CT) Systems**

Homeland Security and CT Systems includes capabilities specific to the Homeland Security and CT domain. It includes capabilities such as Forensic Intelligence, Counter-Improvised Explosive Devices, Specialist User and Crime and Policing.



### **Human & Social Sciences**

Human and Social Sciences encompass a broad range of S&T capabilities which, in accordance with UK Government's moral and ethical values and standards, expands our understanding of human behaviour, enables the generation of options to enhance

capability and to meet the challenges posed by complex socio-technical systems in Defence and Security.



### **Information Systems**

Information Systems encompasses S&T capabilities that develop, demonstrate or support options for Command, Control, Computing, Planning, Targeting, Information Processing and intelligence Production. This includes enabling capabilities such as those that improve the defence and protection of digital data and the supply chain or provide situational awareness and understanding to decision makers. It also includes development and implementation of tools and techniques to directly support intelligence operations, including support to the intelligence analyst.



### **Land Systems**

Land Systems delivers the capabilities for the development, evaluation and demonstration of systems and concepts in the Land domain. It links the broader S&T and systems capabilities to the Land domain by providing the expertise to ensure the S&T is exploitable and relevant to this environment.



## **Operational Research**

Operational Research helps Users with complex policy, planning and operational problems using analytical methods and techniques. It enables evidence-based decision-making through the development and application of rigorous analysis and decision support approaches. It comprises single and multiple disciplinary methods, models, techniques and tools (drawn from the applied sciences, formal sciences, humanities, natural sciences and social sciences) to inform evidence-based decisions across Defence and Security.



## **Robotics & Autonomous Systems**

Robotics & Autonomous Systems is the ability to understand, evaluate, integrate and demonstrate the tools, techniques and approaches of robotics and AI technologies to create effective and trustworthy Defence and Security unmanned platforms and autonomous systems. This includes the understanding and evaluation of threat RAS capabilities and systems.



## **Sensing**

Sensing encompasses a broad range of sensing approaches to: detect, track, recognise and identify threats; quantify threat materiel; support situational awareness; and provide information to tactical and strategic decision-makers.



## **Space Systems**

Space Systems covers a broadrange of science, technology and advice associated with capabilities provided from, and operating in the space domain.



## **S&T Futures & Incubator**

S&T Futures & Incubator identifies, explores and incubates potentially-high-value technical areas and to develop these in ways that facilitate their early exploitation by Defence and Security. Typically these high-risk and high-reward technologies will be cross-cutting, highly-speculative and/or associated with disputed claims.



## **Strategic Systems**

Strategic Systems maintains and develops an impartial and credible national capability to assess system capability and effectiveness of a range of scenarios for strategic weapons and Ballistic Missile Defence (BMD) (national and allied systems) by providing authoritative advice to Defence policy on BMD and Nuclear Deterrence, covering topics such as: threat reduction and characterisation; system survivability; re-entry vehicle deployment and performance; systems and architectures; novel technologies and future concepts; and special projects.



## **Survivability**

Survivability assesses the threats to our Defence and Security systems and develops the measures necessary to achieve optimum survivability at an affordable cost, enabling a mission to be completed successfully in the face of a hostile man-made environment. A systems approach is taken to optimise technical and non-technical measures in order to defeat the threat weapon engagement sequence and mitigate the effects to our systems and personnel.



## **Underwater Systems**

Underwater Systems delivers the capabilities for the development, evaluation and demonstration of systems and concepts in the Underwater domain. It links the broader S&T and systems capabilities to the Underwater domain by providing the expertise to ensure the S&T is exploitable and relevant to this environment.



## **Weapons**

Weapon systems encompasses a broad range of S&T capabilities that support the development, assessment, testing and advice on weapons technologies and systems. It considers all aspects of the weapon engagement cycle and system integration by the assessment of operational effectiveness including effects based targeting and collateral damage with expertise in support of service evaluation trials, platform/weapon integration for current systems in-service and future concept development. The S&T capabilities include strategic systems, general munitions, missiles, novel; weapons and effects and non-lethal weapons.

Note: The 22 Dstl S&T Strategic Capabilities support the 17 MOD capabilities, where the MOD 'Systems Capability' has been expanded out as in the icons above with a cog.

## S&T products and service areas

To deliver to our customers, the S&T capabilities shown on [pages 15 to 24](#) are divided into four main S&T product and service areas.



### 1. Research

Original research and concepts to create new and enhanced capabilities for Defence and Security.



### 2. Requirements and Evaluation

S&T support to the assessment, evaluation and delivery of current and next generation capabilities.



### **3. Specialist Advice and Services**

Specialist knowledge and facilities at readiness to meet priority needs.



### **4. Operational Support**

Rapid and deployed S&T to meet the urgency of operations.

During 2019 the division of our work against the products and service was:

### **Our Products and Services linked to some of our recent high impact work**

Defence and Security Science and Technology “Assured by Dstl”.

#### **7% Operational Support:**

- Support to the Salisbury and Amesbury incidents
- Forensic support to the Home Office on Parson’s Green bomber

#### **17% Specialist Advice and Services:**

- Analysis on Type 31e Frigate basing
- Advice on corrosive substances for Government Offensive Weapons Bill
- Rapid expert advice on impact of UK strikes on Syrian chemical weapons facilities

#### **32% Requirements and Evaluation:**

- F-35 into-service and airworthiness support
- Demonstration of autonomous vehicles to detect chemical hazards
- Radio Frequency impact assessment for 5G bandwidth sale

#### **44% Research:**

- Underpinning S&T research for fighter aircraft concept
- Polymer ammunition S&T
- MAPLE autonomous vehicle C2 software
- UK autonomous last mile supply challenge

### **The next steps for our strategy – 2020 and beyond**

We plan to build on our achievements so far and go further, developing our brand and reputation to make Dstl the acknowledged Centre of Excellence for Defence and Security S&T by 2024.

## Emerging drivers and the impact of COVID-19:

As with all organisations Dstl will need to adapt its strategy as the world emerges from the COVID-19 pandemic crisis and its economic and social implications become clearer.

In the nearer term, we expect to see an increased need for Dstl support to cross government collaboration linked to national resilience, already reflected in our support to the Government on COVID-19. We also recognise that we will need to do our part in ensuring that Defence and Security S&T acts as an enabler for UK capability and prosperity, as part of the national recovery from COVID-19.

In the longer term we will need to respond to the forthcoming MOD S&T Strategy and the Integrated Review of Security, Defence, Development and Foreign Policy. The Integrated Review has been described as the biggest review of our foreign, Defence and Security policies since the Cold War, and has the potential to see significant increase in investment in UK Research and Development.

The MOD S&T Strategy will place an increased emphasis on driving S&T that can:

- Transform at pace and prepare for the future;
- Accelerate the adoption of the next generation of capabilities;
- Understand and shape 'generation after next' capabilities by investing in high risk and cutting edge S&T.

Our S&T Planning Framework has set out the foundations to ensure that Dstl can rapidly respond to the direction from these higher-level strategies. As we look to the future we will balance our Products, Services and Strategic Capabilities to ensure they make better access and use of the strengths in the supplier base. We will continue to prioritise S&T solutions that have greater potential for **rapid exploitation**, responding to customer initiatives in prototyping and rapid acquisition, and position **future S&T**, leading the way in identifying and developing game-changing capabilities for Defence and Security.

# Barriers to achieving our objectives

**Risk exists where future events may affect the achievement of our objectives. While it is uncertain whether risk events will occur or what their impact may be, it is important that we actively manage our risks so that we can minimise the threats, and maximise potential opportunities, in order to deliver our strategic objectives.**

Risk forms an integral part of all business and Dstl is no different. Acknowledging how and when to take risk is how we grow and develop as an organisation, and by doing this well we achieve our goals. We focus on the active management of risks – in our dynamic and fast-paced environment, some risks may evolve quickly. It is our considered approach to these uncertain events that enables us to identify risk events and develop plans to manage the likelihood of them occurring and the impact of them should they occur.

Our approach to risk management complies with MOD risk management policy and draws on best practice. We seek to identify internal and external factors and influences that may positively or negatively affect whether, when and the extent to which we achieve our strategy. By understanding our appetite for taking, tolerating or treating the uncertain events that face us, and by identifying, planning and delivering a range of activities that achieves that intent, we actively manage risk through awareness of changing circumstances and their effect on our risk profiles and on the control measures we have put in place. We acknowledge that managing our risks well requires an ongoing approach continually reshaping what we are doing and how we are doing it depending on the changing environment around us.

## Our Corporate Risks

Our 'corporate risks' are events that have the potential to impact (positively and negatively) on the delivery of strategic objectives. As at year end, our Corporate Risk Register comprised 14 risks as summarised on [pages 31 to 35](#). Of our 14 corporate risks, three have reached their target risk rating, two are being tolerated at their current residual risk rating and nine continue to be actively managed to realise the targets that have been set.

Each of our corporate risks is owned by an Executive Director; the risk owner is accountable for the management of the risk and appoints a risk manager who is responsible for developing and delivering the risk management plan to achieve this.

A sub-committee of the Executive Management Committee was established in 2019/20 in order to understand and manage the associated Brexit-related risks and impact on Dstl; this sub-committee will continue to operate until the transition period, outlined by HMG is complete.

At the end of March 2020, work was undertaken to identify the effect of the COVID-19 pandemic on Dstl and it was concluded that four COVID-19 related risks should be included in the Corporate Risk Register. The risks shown in full on [pages 36 to 37](#) relate to: impact to the delivery of our Capital Expenditure; impact to the delivery of our internally and externally delivered research and impact to the external supply base used by Dstl.

For more information on our risk management, [see page 95](#).

The following table summarises our corporate risks (CR) at the end of Q4 2019/20, the targets we are progressing towards, our risk response and the key activities we are undertaking to address the risks. In FY20, CR7 (Regulatory Challenge or Change) was assessed to no longer be a corporate risk and was removed from the corporate risk register. This risk continues to be managed within Dstl at an operational level.

| Risk  | Risk Rating<br>(Likelihood<br>and impact)<br><br>Target | Risk Rating<br>(Likelihood<br>and impact)<br><br>Risk Rating | Risk Rating<br>(Likelihood<br>and impact)<br><br>Target<br>Timeframe | Risk<br>Response | What we are doing to<br>manage the risk?   |
|---|---|--|--|------------------|--|
| <p><b>CR 1a: Major health and safety event harms the public.</b><br/>Risk Owner: Chief Operating Officer.<br/>Risk Manager: Head of Health and Safety</p> | <p><b>Very Low<br/>Severe</b></p>                       | <p><b>1D</b></p>   | <p>Target achieved in 2019/20</p>                                    | <p>At Target</p> | <p>No mitigating activities ongoing – target achieved.<br/>Risk continues to be monitored.</p> |

|  |                                   |                  |  |                 |   |
|--|-----------------------------------|------------------|--|-----------------|---|
| <p><b>CR 1b: Health and safety event causes life-threatening injury to a worker.</b><br/> Risk Owner: Chief Operating Officer<br/> Risk Manager: Head of Health and Safety</p> | <p><b>Medium<br/>Moderate</b></p> | <p><b>3B</b></p> | <p>January 2021</p>                        | <p>Treat</p>    | <p>Continuing to implement improvements around:</p> <ul style="list-style-type: none"> <li>▪ Health and safety software</li> <li>▪ Risk assessment and training</li> <li>▪ Error Management</li> <li>▪ System Safety</li> </ul> |
| <p><b>CR 2: Significant drop in sales.</b><br/> Risk Owner: Chief Finance Officer.<br/> Risk Manager: Head of Finance</p>  | <p><b>Low Severe</b></p>          | <p><b>2D</b></p> | <p>Not applicable risk being tolerated</p> | <p>Tolerate</p> | <p>No mitigating activities ongoing – risk is being tolerated. Risk continues to be monitored.</p>  |
| <p><b>CR 3: Key infrastructure component fails.</b><br/> Risk Owner: Chief Operating Officer.<br/> Risk Manager: Head of Internal Portfolio</p>                                | <p><b>Low Major</b></p>           | <p><b>2C</b></p> | <p>January 2024</p>                        | <p>Treat</p>    | <p>Pursuing funding avenues to upgrade our infrastructure. Managing and maintaining the infrastructure we have.</p>   |

|  |                               |                  |  |                 |  |
|--|-------------------------------|------------------|--|-----------------|--|
| <p><b>CR 4: Inability to meet current or future customer demand.</b></p> <p>Risk Owner: Chief Technical Officer.<br/>Risk Manager: Head of Capability Stewarding</p> | <p><b>Low Major</b></p>       | <p><b>2C</b></p> | <p>January 2022</p>                        | <p>Treat</p>    | <p>Identifying how we access greater capacity (internal and external) to overcome “spread too thinly”. Improved decisiveness and focus on what we need to do to be most effective with the capacity we have.</p> |
| <p><b>CR 5: Failure to embrace key technology changes.</b></p> <p>Risk Owner: Chief Technical Officer.<br/>Risk Manager: Technical Director (SPC)</p>                | <p><b>Low Major</b></p>       | <p><b>2C</b></p> | <p>July 2020</p>                           | <p>Treat</p>    | <p>Increasing our exposure to external ideas on emerging technology. Improving our agility to adapt what we do to exploit emerging technology.</p>   |
| <p><b>CR 6: Loss of US special relationship.</b></p> <p>Risk Owner: Chief Technical Officer.<br/>Risk Manager: Head of Strategic Engagement</p>                      | <p><b>Very Low Severe</b></p> | <p><b>1D</b></p> | <p>Not applicable risk being tolerated</p> | <p>Tolerate</p> | <p>No mitigating activities ongoing – risk is being tolerated. Risk continues to be monitored.</p>   |

|   |                                  |                  |                                    |                  |  |
|---|----------------------------------|------------------|------------------------------------|------------------|--|
| <p><b>CR 8: Poor advice and sub-standard products/services.</b><br/> Risk Owner: Chief Technical Officer.<br/> Risk Manager: SPC Change Programme Leader</p>                    | <p><b>Very Low<br/>Major</b></p> | <p><b>1C</b></p> | <p>January 2021</p>                | <p>Treat</p>     | <p>Improving processes for quality control (internal and external) and increasing our focus on assuring their effectiveness.</p> |
| <p><b>CR 9: Major information security breach or loss.</b><br/> Risk Owner: Chief Operating Officer.<br/> Risk Manager: Chief Information Officer</p>                           | <p><b>Low<br/>Moderate</b></p>   | <p><b>2B</b></p> | <p>January 2021</p>                | <p>Treat</p>     | <p>Implementing strong cyber defences.</p>   |
| <p><b>CR 10: Our core capabilities are not exploited, recognised or trusted.</b><br/> Risk Owner: Chief Technical Officer.<br/> Risk Manager: Head of Capability Stewarding</p> | <p><b>Low<br/>Moderate</b></p>   | <p><b>2B</b></p> | <p>Target achieved in FY 19/20</p> | <p>At Target</p> | <p>No mitigating activities ongoing – target achieved. Risk continues to be monitored.</p>                                       |
| <p><b>CR 11: Adverse change to our operating conditions.</b><br/> Risk Owner: Chief Finance Officer.<br/> Risk Manager: Head of Risk, Assurance &amp; Governance</p>            | <p><b>High<br/>Moderate</b></p>  | <p><b>4B</b></p> | <p>July 2020</p>                   | <p>Treat</p>     | <p>Increased engagement of our Executive Management Committee with our senior stakeholders and customers.</p>                    |

|   |                               |                  |                  |              |   |
|---|-------------------------------|------------------|------------------|--------------|---|
| <p><b>CR 12: Loss of talent and critical skills.</b><br/> Risk Owner: Chief People Officer.<br/> Risk Manager: Head of HR</p>                   | <p><b>Low Major</b></p>       | <p><b>2C</b></p> | <p>July 2020</p> | <p>Treat</p> | <p>Attracting people with specialist skill sets. Planning for resilience in the workforce. Raising brand awareness.</p>   |
| <p><b>CR 13: Insufficient access to critical suppliers.</b><br/> Risk Owner: Chief Operating Officer.<br/> Risk Manager: Head of Operations</p> | <p><b>Low Moderate</b></p>    | <p><b>2B</b></p> | <p>July 2020</p> | <p>Treat</p> | <p>Improving our acquisition system to increase the volume of work we can deliver externally. Improving our contract and supplier management.</p>   |
| <p><b>CR 14: Failure to deliver our strategic direction.</b><br/> Risk Owner: Chief Technical Officer.<br/> Risk Manager: Head of Strategy</p>  | <p><b>Medium Moderate</b></p> | <p><b>3B</b></p> | <p>Jan 2021</p>  | <p>Treat</p> | <p>Prioritisation of Executive Management Committee time for leading and delivering the key actions that will deliver our strategy. Resourcing the delivery of our priority activities with our top talent.</p> |

| COVID-19 related risks  | Risk Rating<br>(Likelihood<br>and impact)<br><br>Target | Risk Rating<br>(Likelihood<br>and impact)<br><br>Risk Rating | Risk Rating<br>(Likelihood<br>and impact)<br><br>Target<br>Timeframe | Risk<br>Response | What we are doing to<br>manage the risk?   |
|---|---|--|--|------------------|--|
| <b>CVDR1: Capital expenditure delivery shortfall</b>              | <b>High Major</b>                                       | <b>4D</b>  | April 2021   | Treat            | Identifying alternative approaches and using scenario based forecasting.   |
| <b>CVDR2: Intramural shortfall due to COVID-19 work practices</b> | <b>Medium Major</b>                                     | <b>3C</b>  | April 2021   | Treat            | Re-scoping of existing work to reflect COVID-19 work practices; exploring ways to increase capacity working on Dstl sites within COVID-19 working practices; controlling future sign up of taskings to focus on work that can primarily be delivered remotely. |

|   |                         |           |            |       |   |
|---|-------------------------|-----------|------------|-------|---|
| <b>CVDR3: Extramural delivery shortfall</b>         | <b>Medium<br/>Major</b> | <b>3C</b> | April 2021 | Treat | Re-plan and re-focus extramural research to align with where supply base has capacity; identify alternative delivery approaches; increase levels of contract management undertaken. |
| <b>CVDR4: Failure and fragility of supply chain</b> | <b>Low<br/>Moderate</b> | <b>2B</b> | April 2021 | Treat | Working with prime suppliers to understand their supply chain concerns; ensuring early payment of suppliers.  |

## How do we know we are doing the right things to mitigate our risks?

The management of risk done well is a recurrent process that requires a good knowledge of the environment we work in, how it is changing and whether this affects our risk profiles. A risk management plan is only a good plan if it is modified and adapted as our environment changes to ensure that we still realise the outcome we intended. Therefore, we test whether we are doing the right things to manage the uncertainties that face us, identify gaps in our plans and address them.

Our Board has a role not only in identifying the corporate risks of our organisation but in assuring itself that our approach to managing our risks is effective. During 2019/20, we increased our focus in this area by embedding two key improvements:

- better alignment of our corporate risks with our strategic objectives, establishing the role of risk management in achieving our strategy through identifying and managing threats and opportunities to its delivery
- continued implementation of a risk deep-dive assessment framework to enable our Board and our Audit and Risk Assurance Committee to understand how we are managing risks and to assure themselves that the action being taken will deliver the desired outcome.

At year end, 11 of our 14 corporate risks have undergone an in depth 'deep-dive' review; reviews will continue into 2020/21 to ensure each corporate risk has been appropriately scrutinised. This will include re-reviewing those that were previously assessed.

# Our performance summary

**Dstl experienced a second consecutive year of significant growth in response to sustained demand for our S&T products and services. Total operating income increased by 14 per cent to £722m, and we invested a record £77m in new capital assets to provide future specialist capabilities.**

2019/20 was another year of strong demand for our S&T outputs, with cumulative sales growth over the last two years exceeding 30 per cent. Coupled with record levels of capital investment to support site rationalisation and future capability, we have responded to the challenges and maintained our financial performance alongside effective governance and controls.

## **Operating income**

Total operating income for the year was £722m (2018/19: £630m). The majority of the income growth arose within the MOD customer base, but from areas outside the centrally-funded core S&T programme. The total includes a £15m contribution from customers towards specific capital investments.

Our charge rates increased in line with underlying inflation, absorbing a disproportionate increase in employer pension costs from savings in other areas. There were no changes to fees and charges policies.

An analysis of our key top-level customer groups is set out in the table below:

|                        | 2019 / 20<br>£ million | 2018 / 19<br>£ million |
|------------------------|------------------------|------------------------|
| <b>MOD:</b>            |                        |                        |
| Core S&T Programme     | 350                    | 346                    |
| Other                  | 291                    | 212                    |
|                        | <b>641</b>             | <b>558</b>             |
| <b>Non MOD:</b>        |                        |                        |
| Wider Government       | 46                     | 56                     |
| Non-Exchequer          | 17                     | 12                     |
| Other Operating Income | 18                     | 4                      |
| <b>Total</b>           | <b>722</b>             | <b>630</b>             |

MOD accounted for 91 per cent of the £703m customer contract sales (2018/19: 89 per cent). The majority of MOD sales are attributable to the core S&T Programme, where sales increased by £4m to £350m (2018/19: £346m). This programme represented 50 per cent of total sales (2018/19: 55 per cent).

Other MOD sales reflect the increasing demand for defence work that remains managed within Government. The largest element relates to Defence Equipment and Support (DE&S), with sales of £85m (2018/19: £75m). This has restored DE&S demand to the levels seen in previous years, despite more work now being placed directly through the Front Line Commands (FLCs). Sales to Strategic (formerly Joint Forces) Command increased to £70m (2018/19: £59m), representing nearly double the revenue received in 2016/17. This reflects the importance associated with rapid evaluation of, and defensive response to, a continuing proliferation of diverse threats.

Business with the rest of MOD, covering the other FLCs, Head Office and Nuclear, increased by 74 per cent to £136m (2018/19: £78m) with significant growth in all areas. There is strong demand for innovation and rapid capability development, as all areas of the Armed Forces seek to incorporate modern technologies into older systems and

platforms. In addition there is growing interest in exciting new capabilities illustrated by case studies elsewhere in this report.

Non-MOD sales reduced to £63m (2018/19: £68m). It was fully expected that there would be a decline this year in sales to other UK Government departments, following the exceptional level of support given to the Salisbury and Amesbury incidents in the previous year. Support to wider Government remains an area of opportunity in which we expect to contribute more in the future, and currently in relation to COVID-19 response and support activities.

Non-Exchequer income relates mainly to collaborative and jointly-funded work with our defence allies and alliances, and estates income of £6m (2018/19: £2m).

Other operating income increased to £18m (2018/19: £4m). This includes £15m in respect of customer-funded and donated assets, and £2m of income from the Home Office as a contribution towards operational integration costs. Other elements were individually immaterial.

### **Cost of sales**

External cost of sales comprising subcontracted work and purchases of materials and services increased by 15 per cent to £322m (2018/19: £280m), representing 46 per cent of all S&T work delivered in the year (2018/19: 45 per cent). Continued improvements in the timeliness of requirement definition and contract award enabled our commercial team to manage the increased throughput with little change to their underlying resources, and we also ended the year with a higher value of future work already committed.

### **Operating expenses**

Operating expenses increased by £25m to £384m (2018/19: £359m). Staff costs increased by £34m to £256m (2018/19: £222m) and account for 67 per cent of total operating expenses (2018/19: 62 per cent). This reflects annual pay inflation, an 11 per cent increase in the average number of staff employed, plus a large imposed increase in employer pension contributions. The proportion of non-permanent staff increased slightly, and at year end accounted for 8.6 per cent of total headcount (2018/19: 8.0 per cent).

|                               | 2019/20<br>£ million | 2018/19<br>£ million |
|-------------------------------|----------------------|----------------------|
| Staff costs                   | 256                  | 222                  |
| Non-staff costs               | 118                  | 114                  |
| Depreciation and amortisation | 10                   | 23                   |
| <b>Total</b>                  | <b>384</b>           | <b>359</b>           |

Non-staff costs increased to £118m (2018/19: £114m). The significant increases occurred in two main areas. We have increased our emphasis on estate and specialist facility maintenance and repairs, in order to sustain and assure safe working environments for high hazard activities. We have also experienced the full-year cost of commercial services now received from the Government Commercial Office, previously classified as staff costs. Depreciation decreased to £10m (2018/19: £23m). This is the net impact of multiple factors including retirement of old assets, newly commissioned infrastructure improvements and in-year revaluations.

### Net operating income

Our income arises principally from charges to customers. Our MOD customers are charged at rates representing the recovery of cash operating costs only, in accordance with the department's policy for internal charging. Charges to non-MOD customers continue to reflect full economic cost and include a contribution towards our capital costs in the form of a fee based on a representative proportion of our annual non-cash depreciation and financing charges. The proportion is based on estimates of projected sales to non-MOD customers at the time when budgets are finalised.

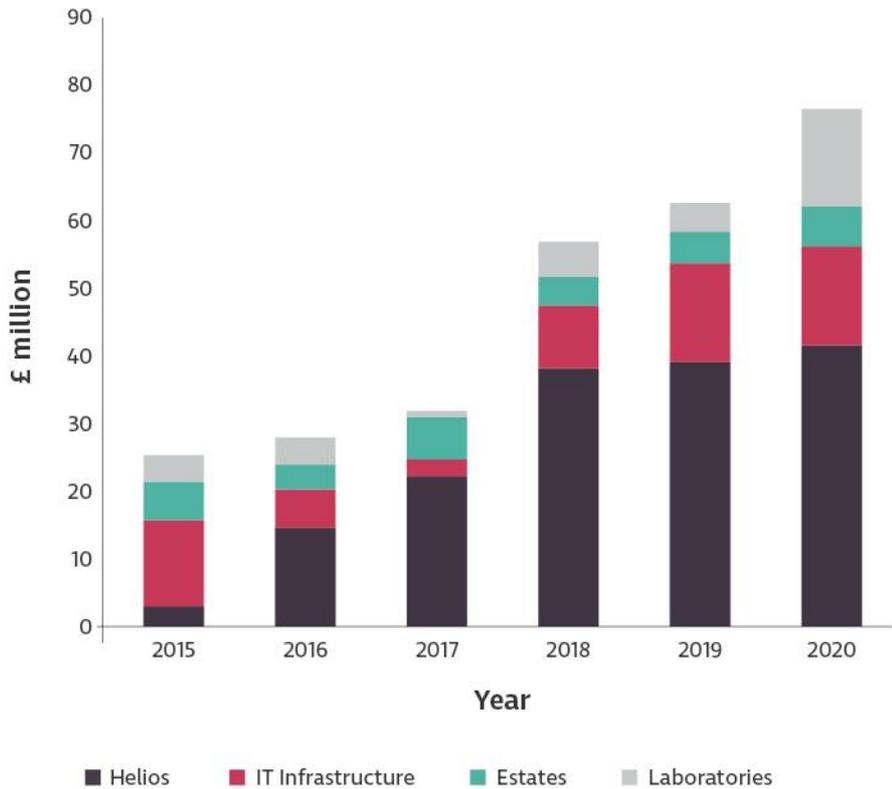
|   | 2019/20<br>£ million | 2018/19<br>£ million |
|---|----------------------|----------------------|
| Operating Income                                      | 722                  | 630                  |
| Cost of sales – purchase of direct goods and services | -322                 | -280                 |
| Other operating expenditure                           | -384                 | -359                 |
| <b>Net operating income / expenditure</b>             | <b>16</b>            | <b>-9</b>            |

When the full non-cash costs of depreciation and amortisation are included, the result is net operating income of £16m (2018/19: net expenditure of £9m). The apparent improvement in performance versus prior year is due principally to the accounting treatment of customer-funded and donated assets which create net income of £15m (2018/19: £0.4m), coupled with the £13m reduction in depreciation/amortisation charges. The underlying operating performance of the business was not materially different to the prior year, and the sudden imposition of COVID-19 restrictions during March 2020 did not have any significant impact on the results for the year.

### Capital investment

Capital investment was £77m (2018/19: £60m), which included £15m of assets donated by MOD customers, Home Office or funded by wider Government. The Helios Project – our site rationalisation programme – accounted for £42m (2018/19: £39m), with substantially all the expenditure related to facility construction and associated infrastructure enhancements at Porton Down. This will accommodate transfer of capabilities from Fort Halstead, and incorporates provision of the new Chemical Weapons Defence Centre.

## Capital Investment



IT investment of £14m covered improvements to network resilience and security, upgrades to operating systems and a range of enhancements to services, including those required to support remote working and external collaboration with our partners. Other estates projects (£6m) related to the upgrade of site services and utilities infrastructure, and included modifications and new construction to accommodate work transferred from the Home Office’s former sites at Sandridge and Langhurst.

Laboratory expenditure of £15m represents the acquisition of new instruments and specialist S&T equipment across a range of in-house capabilities, £9m of which was funded by customer contributions towards high priority requirements.

### Funding and treasury management

Net funding received from MOD is disclosed in the Statement of Cash Flows on [pages 141 to 143](#). The funding requirement arises from a combination of cash and non-cash transactions. We operate within the departmental control framework as described in the

Parliamentary Accountability and Audit Report on [pages 125 to 134](#). We receive cash directly from non-MOD customers and retain responsibility for settling external liabilities with the exception of payroll, which is funded directly by MOD. This gives rise to a net cash outflow which requires MOD financing.

### **Supplier payments**

During the year, we paid 98 per cent of invoices within five days of being approved and cleared for payment (2018/19: 97 per cent), against the target set by Government of 80 per cent.

### **Group entities**

Related group entities remain immaterial to the agency's accounts and have not been consolidated.

### **Distorting factors**

There were no significant distorting factors affecting our primary financial statements. A full explanation of our accounting policies and other explanatory information can be found within the notes to the financial statements on [pages 148 to 216](#). We continue to prepare our financial statements on a going concern basis, based principally on funding projections.

### **Events after the reporting date**

There have been no significant events since the end of the financial year that affect the results for the year or the year-end financial position. The potential future impacts of COVID-19 are covered in the Financial outlook section below.

### **Accounting policies**

These accounts have been prepared under International Financial Reporting Standards (IFRS), as adapted for the public sector in the Government Financial Reporting Manual (FRoM), issued by Her Majesty's Treasury. There were no new accounting or reporting standards adopted in year.

Our accounting policies, including the likely impact from future adoption of new accounting and reporting standards, are outlined in Note 1 to the financial statements commencing on [page 148](#).

## **Financial outlook**

Our core purpose and role remain unchanged as a supplier of S&T services to Defence and Security customers, mainly within Government. We continue to operate principally in specialist areas where there are often few private sector suppliers or no effective commercial market.

Demand for our work has seen a strong resurgence in recent years which is expected to be sustained. The future threat landscape continues to evolve rapidly and unpredictably, requiring agile and innovative S&T responses where we are well placed to research, evaluate and advise. The importance of our work has been highlighted by positive media exposure related to recent events.

We are contributing to a number of activities in relation to COVID-19, covering support to wider public sector response activities, development and evaluation of treatments, and enhancements to the UK's laboratory testing capacity. This will naturally necessitate some diversion of resources from our intended core activities.

Whilst Defence and Security demand remains unabated, the disruption caused by COVID-19 working restrictions, coupled with the re-prioritisation of work to support the Government's disease control and recovery strategies, has required us to re-evaluate near-term financial plans. It is too early to provide an accurate assessment of the eventual net financial impact on Dstl. The full extent to which current response and support efforts will be funded by other parties is still being determined.

Capacity to deliver our own core activities has also been compromised in the short term. Much of what we provide cannot be delivered effectively from anywhere other than the specialised licensed and secure S&T working environments on our sites. The ability of our external partners in industry and academia to provide all that we require of them has also been impacted by lockdown restrictions and a delayed return to normal economic activity.

Some ongoing capital projects for both the built environment and IT infrastructure have also been disrupted, but we have been able to prioritise alternative IT improvements that increase our capacity to work remotely. We will complete our site rationalisation programme in order to realise the running cost benefits from consolidating onto two core sites, while removing significant obsolescence and maintenance risks in our existing facilities. We have completed the migration of staff and work from the Home Office former sites at Sandridge and Langhurst, and these capabilities are now becoming fully integrated into our Porton Down campus.

The growth experienced over the last two years, in both our internal workforce and the capacity of our supply chain, leaves us well placed to recover quickly from current restrictions. Previous investments in IT enablement and office environments should provide the flexibility for us to regain a substantial part of our internal operating capacity as we continue our site return plan following the easing of lockdown restrictions.

The longer-term outlook for S&T remains highly positive. It is a key factor supporting the Government's future prosperity and growth agenda, and continues to make a vital contribution to national defence, security and resilience challenges. Our customers are continuing to commission S&T research and advice to support their own priorities, recognising the long-term value and operational advantage that can be derived from such investment. We remain well placed to help realise those benefits.

# Performance Analysis

## Our performance headlines

### Our key performance headlines (KPIs) 2019/20

**Strategic Objective 1:** Shape the future of Defence and Security via relentless focus on our customers' challenges and needs.

| Performance Area         | What we measure  | 2019/20 Target   | 2019/20 Achieved  |
|--------------------------|--|--|---|
| Financial performance    | Our total sales delivered  | £686m  | <b>£703m</b>  |
| Delivering for customers | Delivery of S&T programme outcomes benefitting Defence and Security from the baseline portfolio plan | Deliver 85% of planned S&T programme outcome                       | <b>Delivered 80% of planned S&amp;T programme outcomes</b>                |
| Delivering for customers | Customer satisfaction ratings via survey   | 95% of customers are satisfied with the service they have received | <b>97% of customers are satisfied with the service they have received</b> |

**Strategic Objective 2:** Ensure Defence and Security can exploit the best science and technology capabilities on demand.

| Performance Area                     | What we measure   | 2019/20 Target                            | 2019/20 Achieved                                 |
|--------------------------------------|---|---|--|
| Exploitation of Science & Technology | Exploitation of our S&T into IP submissions   | 40 Patents, 300 subs                      | <b>28 Patents, 303 subs</b>                      |
| Health of S&T capabilities           | Regularly updating and assessing the status of our nine S&T capabilities (see footnote 1) | 8 capabilities at amber level, 1 at green | <b>8 capabilities at amber level, 1 at green</b> |
| External collaboration               | % of external delivery  | 46%                                       | <b>46%</b>                                       |

**Strategic Objective 3:** Become a more agile organisation that is fit for the future.

| Performance Area          | What we measure  | 2019/20 Target                                       | 2019/20 Achieved |
|---------------------------|--|--|------------------|
| Operational effectiveness | Safety of our operations                                 | Green  | <b>Green</b>     |
| Operational effectiveness | Security of our operations                               | Green  | <b>Green</b>     |
| Operational efficiency    | The progress of our capital plan (see footnotes 2 and 3) | £87m (control total as advised by Defence resources) | <b>£77m</b>      |
| Operational efficiency    | How our enabling costs compare to our delivery           | 19.6%  | <b>19.3%</b>     |

|                        |  |                                |  |
|------------------------|--|--------------------------------|--|
| Operational efficiency | Chargeable utilisation of our staff (Dstl level) | 56.9%                          | <b>57.1%</b>                           |
| Our workforce          | Workforce profile                                | Size – Amber<br>Skills – Green | <b>Size – Green<br/>Skills – Green</b> |
| Our workforce          | Level of staff engagement                        | 60%                            | <b>62%</b>                             |

**Footnote 1:** At the beginning of 2020 we moved from nine capabilities to the 22 shown on [pages 15 to 24](#).

**Footnote 2:** During the course of the year Dstl’s initial Control Total of £71m was uplifted to £87m, to incorporate the budget transfer of proposed MOD Funded Donated Assets.

**Footnote 3:** The procurement of MOD Funded Donated Assets is subject to change in customer requirement and therefore is not fully controlled by Dstl.

# Measuring how we are doing

## Performance reporting

**Dstl monitors its performance every month to advise the Dstl Executive Management Committee and Dstl Board on current and future performance. This means that we take timely and appropriate action to ensure that we are on track to deliver our strategic objectives.**

Dstl continues to work closely with our Board and MOD sponsor to develop our performance reporting. During 2019/20 we developed a new balanced scorecard and range of key performance indicators that use a variety of metrics and link our performance back to the three strategic objectives of our strategy. The balanced scorecard is reported regularly to our Executive Management Committee and our Board.

## Key performance indicators

Dstl tracks its performance across all aspects of the organisation through a comprehensive range of measures and indicators. They are used to inform management decisions at all levels of the organisation.

Our recently published Corporate Plan 2020-2025 sets out the range of areas where we measure performance.

The progress of the performance against the KPIs is reported on a quarterly basis to the Dstl Board. Also, our MOD sponsor assesses our performance tri-annually as part of their Performance and Risk Reviews. Our risk appetite will inform our targets and thresholds, in consultation with our Board and sponsor, as we assess the effectiveness of our strategy through these KPIs.

## Key performance messages 2019/20

“Shape the future of Defence and Security via relentless focus on our customers’ challenges and needs.”

### Customer sales

Dstl continues to meet increasing levels of demand for its products and services. The increase in demand since 2017/18 has been 30%, and we have demonstrated significant agility in growing capabilities where they are required. In 2019/20, we delivered £703m S&T products and services to our customers and our total operating income increased by 14 per cent to £722m. Although the impacts of COVID-19 on the organisation are yet to be fully understood, we started the 2020/21 financial year anticipating that there would be a continued growth in customer demand over the next five years.

Our recently published Corporate Plan 2020-2025 outlines how we will meet the demands over the period. As the UK navigates through the global pandemic we will reprioritise and budget, actively managing the risks posed by the pandemic accordingly.

### Customer satisfaction

Customer satisfaction is measured through feedback obtained from customer satisfaction forms (CSATs). We are extremely proud to report a continued rise in our customer satisfaction levels, a trend that has continued over the past few years. Customer satisfaction has risen from 93 per cent in 2018/19 to 97 per cent in 2019/20. Work will be undertaken in the next period to ensure the rate of return continues to increase.

### Working in partnership

To help meet the sustained growth in demand for Dstl S&T products and services, we continue to work hard to grow the volume of work that can be delivered through external partnerships. Partners are sourced from the worlds of academia, industry and wider Government, including overseas partners and Governments. In 2019/20, £322m (46 per cent) was delivered externally through this route.

Externally delivered work has grown by 14 per cent over the previous year, as a result of sustained efforts in building links with industry and academia. The overall percentage of externally delivered work as a proportion of sales has also risen.

This is now 46 per cent compared with 45 per cent in the previous year, reflecting Dstl's commitment to growing the wider science and technology ecosystem through collaboration and partnership.

### **Employee engagement**

Our Employee engagement index has increased for the third year running, making significant progress towards the Civil Service average. This improvement represents a 4 per cent rise from the previous year.

### **Sustaining capability**

“Ensure Defence and Security can exploit the best science and technology capabilities on demand.”

### **Developing capability**

As part of phase two of our strategy outlined on [page 13](#) and with a focus on setting clarity around S&T for our current and future capabilities, in November 2019 Dstl and DST agreed a revision to the set of capabilities that Dstl stewards in order to deliver for its customers. These have been set out in detail on [pages 15 to 24](#) and, as in previous years, the assessment of the health of the capabilities examines 12 separate dimensions and utilises best-practice methodology, evidence and expert judgement. A RAG rating is then applied to each capability and reported in the capability sustainment KPI.

Following agreement of the capabilities with DST, for the remainder of 2019/20 there was a dual running assessment of capability health. The 2019/20 KPI was measured against the nine capabilities agreed at the beginning of the year and in 2019/20 we met our target of eight capabilities at amber level and one at green. The overall picture reflects the ongoing challenge to ensure investment to improve our capabilities and make certain they are in good health.

## Intellectual Property

In exploiting our S&T services into intellectual property, we have recorded a record number of 28 patents this year, resulting from 303 patent submissions.

Ploughshare was set up as Dstl's wholly owned technology transfer company. The value of intellectual property managed by Ploughshare is reflected in their financial statements and is not material in the context of Dstl.

## Ensuring Dstl is fit for the future

“Become a more agile organisation that is fit for the future.”

### Efficiency

Through our KPIs, we measure efficiency in a number of ways that include:

- The utilisation of our S&T people on S&T delivery
- How our enabling costs compare to delivery
- The capital investments we are making.

### Our people and their utilisation

Dstl FTE has increased over the previous three years in parallel with the increase in demand for our services. Utilisation has remained within the range of historic averages despite the increase in new staff and the associated training and development time.

**Enabling costs over Dstl total costs:** Dstl has seen a continued reduction in the percentage of enabling costs as a proportion of the Dstl total, reflecting increases in the operational efficiency of the cost base. Performance was better than the business plan target of 19.6 per cent, with Dstl's support services providing a cost-effective infrastructure base for the continued delivery of our S&T products and services.

### Capital investment

In 2019/20 we invested a record £77m in new capital assets to provide future specialist capabilities. This accounted for 89 per cent (92 per cent excluding customer funded

donated assets, the procurement of which Dstl does not have full control over) of the control total allocated to Dstl in 2019/20. It is anticipated that this level of investment will continue through 2020/21 while we complete our current site rationalisation programme and renew ageing infrastructure.

## Operational effectiveness

### Security

Within this reporting period, there have been no security incidents categorised as gross for Dstl. We have continued to place sharp focus on risk reduction measures outlined as part of risk CR 9 ([see page 34](#)).

As part of a planned future site closure we have relocated a range of capabilities and sensitive assets in a well-planned and controlled manner from Fort Halstead to our Porton Down site.

The Dstl Executive Management Committee has also implemented a delivery programme to enhance strategic security arrangements across Dstl.

In January 2020, the Serious Organised Crime and Police Act 2005 (Designated Sites) (Amendment) Order was laid in Parliament, providing additional powers and control measures to manage trespassing on designated areas of land at Porton Down.

### Health and Safety

The Health and Safety of people is very important to us. It is included in two of our corporate risks (CR1a and CR1b) details of which are found on [pages 31 to 32](#). In 2019/20 four high severity safety incidents were reportable to the Health and Safety Executive under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations).

The KPI assessment of the Safety of our operations for 2019/20 is Green.

# Managing the impact of our activities

**At Dstl, we are committed to building a sustainable future for our environment, for each other, and for our community.**

This year, we continued to run a sustainability programme that included environmental management, identifying and implementing energy saving initiatives across the estate, procurement, sustainable travel and education outreach, while maintaining the necessary capability and infrastructure for the efficient and effective delivery of science and technology (S&T).

We recognise that our activities can have both negative and positive impacts on the environment, people and wider communities. In light of this we consider environmental, social, and economic impacts when making decisions.

| <b>Greening Government Commitment</b>             | <b>2016-2020 Government Operational Targets (see footnote 1)</b>               | <b>Our position at 31 March 2020, compared to 2009/10 baseline</b> | <b>Status</b>  |
|---|--|--|----------------|
| Greenhouse gas (GHG) emissions (Scope 1, 2 and 3) | 32% reduction (see footnote 2) from the whole estate and UK business transport | 49% reduction  | Achieved       |
| GHG emissions – Fuel                              | Normalised against full time equivalent staff numbers (FTE). No target         | 4.19 (Tonnes CO <sub>2</sub> e/FTE)                                | Not applicable |

|                           |  |  |                |
|---------------------------|--|--|----------------|
| Waste                     | Reduce landfill to less than 10% of overall waste  | 3% overall waste sent to landfill      | Achieved       |
| Waste                     | Continued increase in recycling                    | 64% reduction                          | Not achieved   |
| Waste                     | Continued reduction in waste                       | 17% reduction                          | Achieved       |
| Waste                     | Normalised against FTE. No target (see footnote 3) | 0.3 Tonnes/FTE (see footnote 4)        | Not applicable |
| Water                     | Reduction in water consumption                     | 30% reduction                          | Achieved       |
| Water                     | Normalised against FTE. No target                  | 68m <sup>3</sup> /FTE (see footnote 4) | Not applicable |
| Paper                     | 50% reduction in paper consumption                 | 57% reduction                          | Achieved       |
| Domestic business flights | 30% reduction in number of flights                 | 9% increase                            | Not achieved   |

**Footnote 1:** Dstl works hard to achieve Greening Government Commitment Targets. Our customers' demands and needs drive our business, which influences our activities.

**Footnote 2:** Excludes water.

**Footnote 3:** Non-hazardous waste.

**Footnote 4:** Greening Government Commitments are normalised against full time equivalent (FTE) and are not a comparison to the baseline year.

## Environmental management

Our Helios Project is still on track to deliver a significant reduction in greenhouse gas emissions. This will be achieved by a reduction in demand for inter-site travel, the commissioning of more carbon-efficient building stock, improved energy monitoring and tracking, and improved ways of working. We are continuing to investigate the wider use of solar photovoltaic (PV) arrays, wind turbines, heat recovery and district heat networks. This investigation has led to plans for additional PV array installation in collaboration with the Cabinet Office.

We are reviewing our Climate Impact Risk Assessment Matrix (CIRAM) and Climate Resilience Risk Register (CRRR) to enable risks from climate change to be identified, assessed and mitigation requirements identified.

| Greening gas emissions  | Baseline year | 2019/20                |
|---|---------------|------------------------|
| <b>Non-financial indicators (tCO<sub>2</sub>e) (see footnote 1)</b> |               |                        |
| Gross emissions for scopes 1 and 2 energy:                          |               |                        |
| - Oil   | 6,431         | 5,579                  |
| - Electricity consumed  | 26,747        | 4,532                  |
| - Gas   | 9,392         | 7,670                  |
| - LPG   | 0             | 105                    |
| - Fugitive gases  | 69            | 19 (see footnote 2)    |
| <b>Total gross emissions for Scope 1 and 2 energy</b>               | <b>42,639</b> | <b>17,906</b>          |
| Gross emissions for scope 3 energy:                                 |               |                        |
| - Business travel (air and road)                                    | 4,827         | 6,332 (see footnote 3) |
| - Water   | 434           | 309                    |
| <b>Total gross emissions for Scope 3 energy</b>                     | <b>5,261</b>  | <b>6,642</b>           |

|  |               |                        |
|--|---------------|------------------------|
| <b>Financial indicators (£0,000)</b>                   |               |                        |
| Expenditure on energy and water                        | 6,978         | 10,851                 |
| Expenditure on business travel                         | 8,734         | 9,000 (see footnote 3) |
| <b>Total expenditure on energy and business travel</b> | <b>15,712</b> | <b>19,854</b>          |

**Footnote 1:** Emissions calculated in tonnes carbon dioxide equivalent for consumption of energy, fuel and fugitive gases.

**Footnote 2:** The calculation is based on use of fluorinated gases (F-gases) in laboratory containment testing.

**Footnote 3:** Estimated.

## Waste management

We contract waste management services to our facilities management partner, EMCOR UK. Waste generated from facilities management and projects that are related to Helios remain the responsibility of the contractors and as such are excluded from the waste figures that are reported here. Our own hazardous waste incinerator is used to process both our own and third-party hazardous and sensitive waste. This facility is regulated by the Environment Agency.

This financial year, we reported 30 per cent of our waste as recycled across all three core sites, with 34 per cent sent for conversion to energy by incineration. Three per cent of waste was sent to landfill which exceeds the wider Government aspiration that 'less than 10 per cent of waste' should be sent via this route.

Through our partner, EMCOR, we are working with a new waste disposal company which has been proactive in identifying sustainability improvements.

Rather than disposing of unwanted furniture, we have worked with Portsmouth Naval Base for them to re-use the products where suitable.

We have successfully enabled others to benefit from the reuse of our appropriate waste electrical items.

We have commenced investigation of a food waste collection stream from our restaurants to improve recycling with the intention that this will be expanded to staff kitchenette facilities in the future.

| Waste   | Baseline year<br>2009/10 | 2019/20      |
|---|--------------------------|--------------|
| <b>Non-financial indicators (tonnes)</b>      |                          |              |
| Hazardous waste, internal incineration, solid | 225                      | 112          |
| Hazardous waste, internal incineration, wet   | 47                       | 18           |
| Hazardous waste, external disposal            | 62                       | 470          |
| <b>Total hazardous waste</b>                  | <b>334</b>               | <b>600</b>   |
| Non-hazardous waste:                          |                          |              |
| - Land fill                                   | 114                      | 45           |
| - Reused/recycled                             | 1,517                    | 551          |
| - Incinerated/energy from waste               | 209                      | 613          |
| - Composted                                   | 0                        | 0            |
| - IT equipment                                | 0                        | 0            |
| <b>Total non-hazardous waste</b>              | <b>1,840</b>             | <b>1,209</b> |
| <b>Total waste</b>                            | <b>2,174</b>             | <b>1,809</b> |
| <b>Financial indicators (£0,000)</b>          |                          |              |
| Total disposal cost                           | 207                      | 991          |
| Hazardous waste – total disposal cost         | 204                      | 503          |

## Utilities

### Energy

A number of new buildings have been commissioned as part of the Helios Project. Older buildings that are awaiting decommissioning still remain. This 'dual-running' will continue across the breadth of our estate until the Helios Project concludes. We have continued to install light-emitting diode (LED) lighting, water saving devices and to make adjustments to our existing heating and ventilation systems.

To assist in identifying sustainable and energy efficiency opportunities, we have commenced the voluntary undertaking of Display Energy Certificate energy audits and reports at our Porton Down and Portsdown West sites. A wide range of initiatives have already been identified including heat recovery, improved maintenance and asset replacement programmes.

We have commenced a review of building sub-meters to improve the qualitative and quantitative data provided to enable improved management of the estate. Phase 1 includes replacement, recommissioning and repair of meters to operational buildings, with phase 2 producing a sub-metering strategy to improve monitoring and targeting capabilities leading to identification of energy efficiency opportunities. Improved energy efficient boiler renewals have taken place at our Portsdown West site.

| <b>Finite resource consumption<br/>– energy</b>            | <b>Baseline year<br/>2009/10</b> | <b>2019/20</b> |
|--|----------------------------------|----------------|
| <b>Non-financial indicators</b>                            |                                  |                |
| Energy consumption (kWh): <a href="#">(see footnote 1)</a> |                                  |                |
| - Electricity – non-renewable                              | 49,166,919                       | 52,095,154     |
| - Electricity – renewable                                  | 0                                | 4,450          |
| - Gas  | 51,045,180                       | 41,717,970     |
| - LPG  | 0                                | 490,417        |
| - Oil  | 24,929,426                       | 20,162,798     |

|                                     |       |       |
|-------------------------------------|-------|-------|
| <b>Financial indicators (£'000)</b> |       |       |
| Total energy expenditure            | 6,212 | 9,156 |

| <b>Finite resource consumption<br/>– water</b> | <b>Baseline year<br/>2009/10</b> | <b>2019/20</b> |
|--|----------------------------------|----------------|
| <b>Non-financial indicators</b>                |                                  |                |
| Water consumption (m <sup>3</sup> )            |                                  |                |
| - Supplied                                     | 191,543                          | 214,385        |
| - Abstracted                                   | 225,540                          | 79,776         |
| <b>Financial indicators (£'000)</b>            |                                  |                |
| Water supply costs (see footnote 2)            | 776                              | 1,695          |

| <b>Finite resource consumption<br/>– paper</b> | <b>Baseline year<br/>2009/10</b> | <b>2019/20</b> |
|--|----------------------------------|----------------|
| <b>Non-financial indicators</b>                |                                  |                |
| Volume metric (tonnes)                         | 49                               | 21             |
| <b>Financial indicators (£'000)</b>            |                                  |                |
| Total paper expenditure                        | 66                               | 31             |

**Footnote 1:** Consumption figures taken from invoiced data. Exclude consumption by 3rd party tenants and lodgers.

**Footnote 2:** VAT not chargeable on water supply or wastewater services.

## **Water**

Water consumption is monitored to ensure that we sustain current and future needs and that water is used efficiently and effectively as part of ongoing operations. In partnership with other organisations within the Porton Down campus boundary, we continue with our strategic review of water that will identify opportunities for water reduction and resilience. Progress has continued to be made at the Fort Halstead site to identify and repair water leaks.

## **Paper**

Our paper usage and expenditure relates to supplies procured via Government contracts. Our strategic supply chain partners also use additional paper but this has not been included as the volumetric data is not available.

## **Travel**

As part of our continued commitment to reduce our carbon footprint we replenished our hire car fleet to allow for access to cleaner vehicles for business travel; helping us increase the number of low-emission hybrid vehicles in the fleet. Our pool car fleet was improved by the provision of four ultra-low emissions electric cars. We are successfully working towards achieving the Government's Road to Zero Strategy targets.

We procure our travel through the Crown Commercial Services Framework, which through better data and subsequent analysis enables us to better understand the travel behaviours of our staff, and to devise intervention that improve the use of low-carbon travel options and minimise cost.

We continue to invest in technological solutions that could negate, or at least reduce, the need for business travel between our sites. Our TelePresence video conferencing with full integration of Voice Over Internet Protocol (VOIP) telephone system has proved very successful and has further reduced the need for staff to travel.

Our three core sites are located in rural locations, with limited public transport services. In order for us to meet the needs and interests of our staff, we continue to provide bus services as transport links between our sites and key public transport hubs located within the reach of our staff.

We have launched a review of our Travel Plan to analyse our business travel between sites and staff commuting to and from work. The revised Travel Plan will include proposals for sustainable travel and transport options. Working with our partners, we are investigating improved sustainable travel and transport initiative to and from our sites, between sites and on site.

In the light of COVID-19 we anticipate new ways of working and a much reduced need for business travel. This will be a key area of focus over the coming year.

## Conservation and biodiversity

The Porton Down Site of Special Scientific Interest (SSSI) comprises 1,519 hectares and constitutes one of the largest uninterrupted tracts of semi-natural chalk grassland in Britain. The grassland and scrub communities of the Porton Down SSSI support nationally rare flora and fauna. As part of Government biodiversity 2020 targets, we have continued with an intensive programme of scrub management in order to achieve 'Favourable Condition' status.

The Dstl Porton Down Stone curlew Conservation Project ([page 228](#)) was established in 2014 to improve productivity and achieve a sustainable Porton Down Stone curlew population. We have achieved significant advances in protecting nests at the egg stage however, fledgling success still remains challenging.

Work has also continued in reducing the number of Scheduled Monuments deemed to be at risk as a consequence of natural ecological encroachments, with work commencing to remove from the 'at risk' register the only monument remaining on the list.

A wildlife pond has been installed at Portsdown West along with a wildflower meadow and bee boxes to improve sustainable biodiversity, with adders and egrets already spotted. We have implemented an improved sustainable mowing schedule to enable areas of grass to be left longer and trees have been maintained sympathetically to wildlife. At Porton Down, work has begun to provide a staff well-being area which includes a pond, seating, tree planting, various wildlife habitats and planting areas.

Dstl also manages 131 hectares of previously farmed fields that provide biodiversity enhancements that benefit farmland birds that have experienced a national decline in numbers over many years.

## Sustainable procurement

Dstl is bound by EU and UK legislation and Government and MOD Policies in relation to the letting and management of contracts with third parties. Where Defence Contractors are engaged by us to provide services directly in support of Defence activities we are obliged to ensure that they comply with the requirements of the Health, Safety and Environmental Protection Policy Statement issued by the Secretary of State for Defence and, in addition, any enhancement of these requirements described within the Defence Safety Authority Publications. We apply the contractor requirements as detailed within the MOD Joint Service Publication (JSP) 418 (Management of Environmental Protection in Defence) and the MOD Sustainable Procurement Commercial Policy Statement, which details MOD's commercial policy and guidance on sustainable procurement, as applicable.

In accordance with our own health, safety and environmental protection system and arrangements that are described in our Safety and Environmental Management System (SEMS), Dstl is required to develop and maintain site-based Environmental Management Systems (EMSs). Accordingly, we are developing measurable sustainable procurement targets as part of our new proposed Sustainability Strategy that account for applicable Greening Government Commitments, social value commitments and other proposed Dstl environmental and sustainability targets.

Our strategy is intended to create a culture of sustainable procurement across our whole business; this includes our suppliers, of which 74 per cent (2018/19: 65 per cent) are small businesses (SMEs), as at 31 March 2020. During 2019/20, approximately 41 per cent (2018/19: 36 per cent) of our contracts were awarded to SMEs and as at the end of the year this represents approximately 30 per cent of our external spend.

## Community

Since the review of our corporate charity approach, we have continued to allow individual employees to support their preferred charities of choice in fundraising activities in their own time at work, and with the appropriate site permissions where necessary. Our annual remembrance service in November allows contributions to the Royal British Legion to be made.

Many of our staff continue to volunteer in the communities around our sites. We recognise that it is a rewarding way to use and develop skills while making a big difference to our communities. Members of our staff contribute to a wide variety of voluntary roles, from helping out at a community farm, at local youth sports clubs, the MOD-sponsored Cadet organisations, and in the scouting and guiding movement, to more formal voluntary roles such as Justices of the Peace, and the Samaritans. We also support members of our staff who are reservists in the Armed Forces. For 2019/20, 147 employees have booked more than 2,300 hours to volunteering activities.

Our people are civil servants and as such, the Civil Service governs our people policies. We ensure that our procedures and employment contracts are in line with the Civil Service Management Code and that they reflect the fundamental principles of the Human Rights Act 2000.

Dstl employees are encouraged to register as Science Technology Engineering and Maths (STEM) Ambassadors, where appropriate working in local schools to encourage more young people to pursue further study and careers in Science, Technology, Engineering and Maths. In 2019, Dstl STEM Ambassadors supported 104 events in local schools and youth organisations, spending a total of 1,015 hours supporting young people to

understand how STEM subjects lead to rewarding career opportunities. Dstl has 178 registered STEM Ambassadors who volunteer to meet young people, usually in a school setting, to present their work and to explain career paths into the kind of work we do at Dstl. Of those STEM Ambassadors, 49 per cent are female, three per cent are Black, Asian and Minority Ethnic (BAME) and 67 per cent are under 35.



Gary Aitkenhead, Chief Executive

- 9 September 2020

For more information about our staff [see page 115](#).

# Accountability

Our Accountability Report presents information on Dstl's key accountability requirements to Parliament. This report has three main sections:

## **Corporate Governance**

Demonstrates that we have the right governance structure in place to meet our objectives, and that we practise good corporate governance. It includes an introduction from the Chair of our Board ([page 69](#)), information about our leadership ([page 72](#)), and our comprehensive Governance Statement ([pages 87 to 105](#)).

## **Remuneration and Staff**

Shows how we have complied with the key rules and requirements related to the remuneration of our directors and other staff, as well as demonstrating what it's like to work here (Our People – [page 115](#)).

## **Parliamentary Accountability and Audit**

A summary of the main information relating to our resource and capital spending set by Parliament, as well as details about our organisation that are useful with regards to accountability and decision-making purposes.

# Corporate Governance

## Directors' Report



Adrian Belton, Chair of the Dstl Board

### **MOD looks to the Dstl Board to scrutinise Dstl's performance, capability and delivery.**

On behalf of the Board of Dstl I am pleased to introduce this, my first, Director's report. Since assuming the role of Chair from my predecessor, Sir David Pepper, in August 2019, it has been a pleasure and privilege to inherit a Board comprising such experienced and dedicated individuals. Through a range of visits and meetings in my first six months, I have been able to see and hear for myself the quality and extraordinary range of work undertaken by the organisation. The Board and I are grateful for Sir David's stewardship over the past five years.

Another change to Board membership was in the MOD non-executive member. We welcome Tara Usher who replaces Mark Preston. Mark was instrumental in helping the Board steer through the change in Dstl's status from a Trading Fund to Executive Agency

two years ago. We thank Mark for his contribution to the Board and his continuing support for Dstl more widely.

The role of the Board is to support and challenge the Executive, led by Gary Aitkenhead, now in his third year as Chief Executive. I am grateful to Gary and his team for the open and engaging way in which they have welcomed me into my role. More specifically, the role of the Board is to support the development of Dstl's strategy, and to scrutinise delivery against its Corporate Plan.

Elsewhere in this Annual Report ([see page 13](#)) you will find more details about the good progress being made against the delivery of the strategy. Now entering its third year, the strategy has brought welcome clarity and focus for the organisation. Recent work by the Board has led to the endorsement of the new S&T Planning Framework. This provides a more granular approach to understanding the science and technology capabilities that will be vital for the future security of the nation ([see pages 15 to 24](#)).

The past year has also been one of significant growth for the organisation. Indeed the growth surpassed that originally anticipated twelve months ago. That it was successfully delivered is a tribute to the hard work of the many 4,000 plus colleagues comprising Dstl, as well as the skilful planning and adeptness of the Executive.

During 2019 the Board participated in an Arm's Length Body (ALB) review conducted by MOD in line with UKGI best practice. The positive findings of that review have enabled the Board to adopt in full a number of recommendations made to further strengthen the relationship between MOD and Dstl as an ALB.

A number of other significant developments occurred in 2019 that are of relevance to the context in which the Board works. These include the appointment of the MOD Chief Scientific Adviser (CSA), Professor Dame Angela McLean, and the election of a new UK Government and its intended integrated review of Security, Defence and Foreign Policy.

Along with the implementation of Brexit, and a Government-stated focus on science and technology more generally, these developments taken together provide Dstl and the

defence science and technology community more widely with the opportunity to look forward to 2020/21. I am confident that we are well placed to make the most of this opportunity in continuing to deliver solutions that put the science inside UK Defence and Security, whilst also contributing to the nation's prosperity.

*Adrian Belton*



- 9 September 2020

## Our leadership

### **The Dstl Board and Executive Management Committee (for the financial year 2019/20)**

Our Board exercises strategic oversight of Dstl in the delivery of our objectives. It provides a forum for independent, non-executive, support and reasonable challenge to our Chief Executive and our Executive Management Committee members. It monitors performance and output against plans and forecasts, and ensures that we operate in compliance with relevant policies and standards.

#### **Members of the Dstl Board as at 31 March 2020:**

- Adrian Belton, Non-executive Chair, from 1 August 2019
- Brian Bowsher, Non-executive member
- Jeremy Monroe, Non-executive member
- Tara Usher, Non-executive member (MOD), from 1 October 2019
- Sarah Spurgeon, Non-executive member
- David Tonkin, Non-executive member
- Gary Aikenhead, Chief Executive
- Andrew Bell, Chief Technical Officer
- David English, Chief Finance Officer
- Douglas Umbers, Chief Operating Officer

#### **Former non-executive members of the Dstl Board who served during financial year 2019/20:**

- Sir David Pepper KCMG, Non-executive chair, completed service on 31 July 2019
- Mark Preston, Non-executive member (MOD), completed service on 30 September 2019

#### **Former Executive Management Committee members of the Dstl Board who served during financial year 2019/20**

- Joanne Peel, Chief People Officer, appointment ceased 7 April 2019

For more information about our Dstl Board members [see pages 74 to 84](#).

## **The Dstl Executive Management Committee (for the financial year 2019/20)**

Our Executive Management Committee provides day-to-day leadership and management to ensure that our strategic direction is appropriate to meet the scientific requirements of our customers. It ensures that we operate safely and securely by reviewing performance and managing risks, and monitoring business delivery and financial performance.

## **Members of the Dstl Executive Management Committee (EMC) as at 31 March 2020**

- Gary Aitkenhead, Chief Executive Officer (CEO)
- Andrew Bell, Chief Technical Officer (CTO)
- Matthew Chinn, Division Head – Platform Systems Division (PLS)
- Simon Earwicker, Division Head – Chemical, Biological and Radiological Division (CBR)
- David English, Chief Finance Officer (CFO)
- Paul Kealey, Division Head – Cyber and Information System Division (CIS)
- Mike Smith, Division Head – Counter-Terrorism and Security Division (CTS)
- Robert Solly, Division Head – Defence and Security Analysis Division (DSA)
- Douglas Umbers, Chief Operating Officer (COO)
- Robyn Wedderburn, Chief People Officer (CPO), from 16 December 2019

## **Former members of the Dstl Executive/EMC who served during financial year 2019/20**

- Joanne Peel, Chief People Officer, appointment ceased 7 April 2019
- Charley McIntosh, Interim Chief People Officer, from 8 April 2019 to 27 January 2020

## Non-executive members of the Dstl Board (as at 31 March 2020)



### **Adrian Belton – Chair of the Dstl Board**

- **Key strengths**

Corporate governance, risk management, financial management, strategic leadership and stakeholder management at the interfaces of the public, private and academic sectors.

- **Experience**

Adrian was Chief Executive of the Government's Food and Environment Research Agency (FERA) from 2009 to 2014, having established it from a four way merger including the Central Science Laboratory (CSL) and the UK Government Decontamination Service. He was Chief Executive of the CSL 2008-9. From 2014 to 2016 Adrian was Chief Executive of the Construction Industry Training Board (CITB) from where he stepped down from full-time executive work to pursue a non-executive career. His earlier career was with Barclays where he held a number of senior executive roles, followed by roles in local Government and in establishing a new Non-Departmental Public Body in Defra.

- **Declarations of Interest in year**

Non-executive Chair of Stockport NHS Foundation Trust; member of the Council of the University of Sheffield.



### **Brian Bowsher – Non-executive member**

- **Key strengths**

Strategic and change leadership; operational/assurance excellence; research and innovation (national and international); stakeholder engagement.

- **Experience**

In 2018, Brian retired as the chief executive of the Science and Technology Facilities Council. He has also been a member of the governing bodies of CERN, the Square Kilometre Array, and the Diamond Light Source. From 2009 to 2015, Brian was the managing director of the National Physical Laboratory (NPL), and before joining NPL he was on the executive board of AWE initially as Director of Research and Applied Science and then as Director Systems Engineering. He is a Fellow of the Royal Society of Chemistry and the Institute of Physics, an Honorary Fellow of the Institute of Measurement and Control, and holds an Honorary Doctorate of Science from the University of Southampton.

- **Declarations of Interest in year**

Advisory board to the chemistry department at the University of Southampton.



### **Jeremy Monroe – Non-executive member**

- **Key strengths**

Transformation and management of change;  
IT strategy; programme design; commercial experience; customer relationships.

- **Experience**

Jeremy started in manufacturing with a physics degree and changed to management consultancy, in time becoming a partner in PricewaterhouseCoopers (PwC) and a member of its Supervisory Board. On the sale of PwC's consulting business, Jeremy became vice-president in IBM's public sector consulting and systems integration business. Latterly he designed, sold and led large public sector IT enabled transformational projects, particularly for the MOD and the Home Office, building organisational relationships that lasted many years. His final role at IBM was as Global Leader Defence and Intelligence, bringing people together across the globe.

- **Declarations of Interest in year**

Non-executive member of NHS Blood and Transplant; chair of VSPM; director of Falstaff Consulting Ltd; trustee of Seafarers UK.



### **Sarah Spurgeon – Non-executive member**

- **Key strengths**

Engineer; research and innovation management; education and skills development; science and technology evaluation.

- **Experience**

Sarah is Professor of Control Engineering, and Head of the Department of Electronic and Electrical Engineering at University College London; she is immediate past President of the Engineering Professors' Council and a Past President of the Institute of Measurement and Control. In 2000, she was awarded the Institute of Electrical and Electronics Engineers millennium medal, and in 2010, she received the Honeywell international medal for distinguished contribution as a control and measurement technologist to developing the theory of control. Sarah was previously a member of the Defence Scientific Advisory Council.

- **Declarations of Interest in year**

Engineering UK, Board Member; Big Bang Education CIC, Director; Engineering Professors Council, Director.



### **David Tonkin – Non-executive member**

- **Key strengths**

Improving business performance; implementing and managing financial and organisational risk management frameworks; leading organisational change; process improvement; health and safety management.

- **Experience**

David is a commercially focused business leader with more than 20 years' experience in strategic and operational leadership. He has held both senior general management and financial leadership roles in complex multi-site operations, internationally and across various industry sectors. His last full-time role was with Atkins Plc as Chief Executive of the UK's largest engineering consultancy. He is now pursuing a non-executive career.

- **Declarations of Interest in year**

Chairman and Director of Railway Industry Association Ltd; Director of Tonkin Consulting Ltd.

**David is also chair of the Audit and Risk Assurance Committee.**



### **Tara Usher – Non-executive member (MOD)**

- **Key strengths**

MOD civil servant and former City solicitor, banker and company secretary: governance, assurance and portfolio management. Conduit with MOD Head Office.

- **Experience**

Tara co-heads the MOD Enabling Organisations Sponsorship Team. On behalf of the MOD Chief Operating Officer the Team performs the sponsorship function for many of the Department's key organisations, also including the Defence Infrastructure Organisation (DIO) and Defence Business Services (DBS). Tara joined MOD in 2018 after working for the Department for Transport, first as a legal adviser (maritime and aviation) and subsequently in policy and governance roles. Her work included creating a new governance and portfolio management framework for DfT's large-scale capital investments and later leading the sponsorship team for the newly created Highways England GovCo. Prior to joining the Civil Service Tara worked in the City, initially at the law firm, Freshfields, and latterly in investment banking.

- **Declarations of Interest in year**

Deputy Director at MOD.

## Executive Management Committee members on the Dstl Board (as at 31 March 2020)



### **Gary Aitkenhead – Chief Executive**

- **Key strengths**

Research and development; commercial leadership; revenue growth; business transformation.

- **Experience**

After achieving a first-class honours degree in electrical and electronic engineering from Strathclyde University, Gary spent his career in the development and supply of mission-critical wireless communications solutions to public safety, industrial and transportation sectors. Prior to joining MOD, Gary held senior global positions at Sepura and at Motorola Solutions for more than 20 years, covering sales, services, operations and product management.

- **Declarations of Interest in year**

Director of Scanish Ltd; consultancy services on the public safety radio industry.



### **Andrew Bell – Chief Technical Officer**

- **Key strengths**

Strategic outlook; broad science and technology knowledge; leadership; cross-government experience; change programmes.

- **Experience**

Andrew (Andy) joined MOD in 1994 as a scientist researching chemical weapon detection technologies. He was seconded to the Home Office in 2005 as chief scientist for CBRN, returning to Dstl in 2007. Andy was the Dstl Chief Technical Officer from 2012 to 2015, when he left to head up the Centre for Applied Science and Technology (CAST) at the Home Office. Andy was integral to the CAST integration to Dstl, returning to Dstl with CAST in 2018.

- **Declarations of Interest in year**

Council member of the Royal Society of Chemistry; Non-executive Board member of Ploughshare Innovations Ltd; Chair of the Chemistry Advisory Board at the University of Southampton; Board member at the Jill Dando Institute.



### **David English – Chief Finance Officer**

- **Key strengths**

Finance; government relations; governance.

- **Experience**

Before joining Dstl, David was the Head of Business Strategy and Governance in MOD. He joined MOD in 1996 having achieved a first class honours degree in Avionic Systems Engineering at Bristol University and some hands-on engineering in industry. During his MOD career, David has worked in the Defence Evaluation and Research Agency, central MOD finance, Defence Equipment & Support, and has been a Private Secretary to the Defence Secretary. He has also completed an MBA with distinction at Imperial College and is a graduate of the Higher Command and Staff Course.

- **Declarations of Interest in year**

Non-executive director of Ploughshare Innovations Ltd; Non-executive Director of Tetricus Ltd.



### **Douglas Umers – Chief Operating Officer**

- **Key strengths**

A strategic people leader; broad commercial and operational delivery experience in both the private and public sector; programme and project management; customer focus.

- **Experience**

Before joining Dstl, Douglas (Doug) was the interim Chief Operating Officer at FCO Services, a Trading Fund owned by the Foreign and Commonwealth Office (FCO). Prior to this, he spent 20 years in and around the world of Defence and Security, operating in senior roles at private-sector businesses providing engineering and technology services, including for MOD, and for the intelligence services and related agencies. Doug has been on the executive boards of VT Group plc (now Babcock International plc) and terrestrial TV, radio and wireless communications infrastructure provider Arqiva.

- **Declarations of Interest in year**

None declared.

### **Total length of service by the Board's Non-executive members at 31 March 2020:**

- Adrian Belton: 0 years, 8 months  
Date of most recent appointment: 1 August 2019  
Date of expiry: 31 July 2022
- Brian Bowsher: 1 year, 7 months  
Date of most recent appointment: 1 September 2018  
Date of expiry: 31 August 2021
- Jeremy Monroe: 3 years, 2 months  
Date of most recent appointment: 1 February 2020  
Date of expiry: 31 January 2023
- Tara Usher: 0 years, 6 months  
Date of most recent appointment: 1 October 2019  
Date of expiry: 30 September 2022
- Sarah Spurgeon: 1 year, 9 months  
Date of most recent appointment: 1 July 2018  
Date of expiry: 30 June 2021
- David Tonkin: 2 years, 7 months  
Date of most recent appointment: 1 September 2017  
Date of expiry: 30 August 2020

### **Date of appointment to the Board of Executive Management Committee members:**

- Gary Aikenhead: 1 January 2018
- Andrew Bell: 22 October 2018
- David English: Appointed Finance Director on 1 January 2016. He joined the Board on 30 May 2015 as the MOD non-executive director
- Douglas Umbers: 10 December 2018

# Statement of the Accounting Officer's responsibilities



Under Sections 7(1) and 7(2) of the Government Resources and Accounts Act 2000, Her Majesty's (HM) Treasury has directed Dstl 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 Dstl and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer 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
- prepare the financial statements on a going-concern basis, unless it is inappropriate to presume that Dstl will continue in operation

- confirm that, as far as the Accounting Officer is aware, there is no relevant audit information of which Dstl's auditors are unaware and that the Accounting Officer has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that Dstl's auditors are aware of that information
- confirm that the Dstl Annual Report and Accounts 2019/20 as a whole gives a fair, balanced and understandable view of Dstl's activities for the year ended 31 March 2020 and its financial position as at 31 March 2020 ([page 138](#))
- confirm that the Accounting Officer is personally responsible for this annual report and accounts and for the judgements required for determining that it is fair, balanced and understandable ([page 133](#)).

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

For our Parliamentary Accountability and Audit Report ([see pages 125 to 134](#)).

# Governance statement

**This Governance Statement, for which I, Gary Aitkenhead, as Accounting Officer for Dstl, take personal responsibility, aims to provide an insight into the effective running of Dstl and to offer a clear understanding of our governance arrangements.**

## Scope of responsibility

As Accounting Officer for Dstl, it is my responsibility to ensure that there is a sound system of governance, risk management and internal control in place, and that Dstl business is conducted in accordance with Managing Public Money to ensure public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

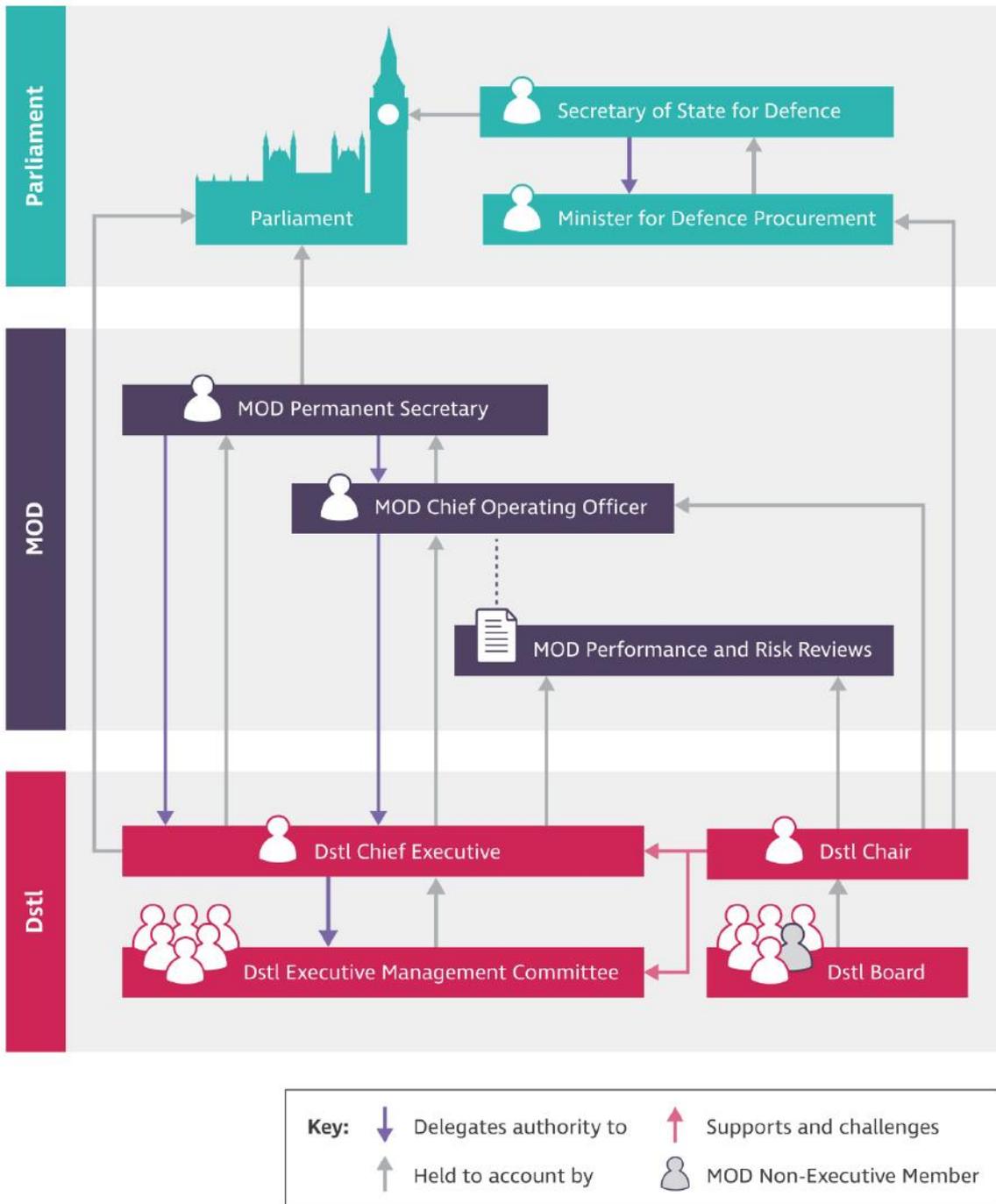
To demonstrate this, our governance statement covers:

- our corporate governance
- our risk management
- our control environment
- our control activities
- our performance reporting.

## Our corporate governance

We continue to comply with HM Treasury's Code of Good Practice on Corporate Governance in Central Government Departments (April 2017). As at 31 March 2020, our corporate governance framework is summarised:

**Corporate Governance Framework diagram:**



**The Dstl Board**

The Board held seven regular meetings during the year. The planned meeting in December 2019 was cancelled due to my absence on Jury Service, but an informal telephone conference was held by Board Members in its place. Formal business was rearranged to the subsequent meeting.

**Membership.** During this financial year, Adrian Belton succeeded Sir David Pepper as Chair. Tara Usher succeeded Mark Preston as the MOD representative on the Board and on 31 January 2020, we were pleased to reappoint Jeremy Monroe for a second three-year term as a Non-executive member.

The business taken at Board meetings reflects the responsibilities of the Dstl Board, the implementation of Dstl's strategy and the management of its corporate risks. Standing items include an update from the Chief Executive and from the Chair of the Audit and Risk Assurance Committee (ARAC) following the quarterly ARAC meetings.

This year's business has included the work done to clarify and refresh Dstl's brand, and to develop the S&T Planning Framework. In addition, the Board has placed significant focus on monitoring and supporting the challenging Helios project, which is bringing world-class capabilities and facilities to Porton Down.

Non-executive member Professor Sarah Spurgeon led two External Review Colleges. These week-long independent reviews provided invaluable insight into the health of our 'Cyber' and 'Sensing' Capabilities.

#### **Attendance at Board meetings in 2019/20:**

| <b>Board Member</b>      | <b>Date started</b> | <b>Date ended</b> | <b>Number of meetings attended</b> | <b>Number of meetings that could have been attended</b> |
|--------------------------|---------------------|-------------------|------------------------------------|---|
| Sir David Pepper (Chair) | –                   | 31/07/2019        | 3                                  | 3   |
| Mark Preston             | –                   | 30/09/2019        | 3                                  | 4   |
| Jeremy Monroe            | –                   | –                 | 8                                  | 8   |
| David Tonkin             | –                   | –                 | 7                                  | 8   |
| Sarah Spurgeon           | –                   | –                 | 7                                  | 8   |
| Brian Bowsher            | –                   | –                 | 8                                  | 8   |

|                       |            |   |   |   |
|-----------------------|------------|---|---|---|
| Adrian Belton (Chair) | 01/08/2019 | – | 5 | 5 |
| Tara Usher            | 01/10/2019 | – | 4 | 4 |
| Gary Aitkenhead       | –          | – | 8 | 8 |
| Andrew Bell           | –          | – | 8 | 8 |
| David English         | –          | – | 8 | 8 |
| Douglas Umbers        | –          | – | 8 | 8 |

The Board also enjoyed briefings, tours and presentations through the year on the cutting-edge work done by a wide range of staff.

### **Annual review of effectiveness.**

UUKGI conducted an Arms' Length Body (ALB) Review of Dstl in April 2019 on behalf of MOD. The review was designed to determine: the optimal relationship between Dstl, its customers and Head Office; the best governance structure to underpin these relationships and the resultant support structure necessary in Head Office. Dstl has acted on all the recommendations made by the Review. This was reported to the MOD Sponsor through the Performance and Risk Reviews.

The Review found many positives relating to Dstl governance, in particular UKGI found that "Dstl's Board is collaborative, underpinning a positive and encouraging operating environment, with NEMs beneficially engaged in Dstl's activity outside the Board".

At the July 2019 meeting, the Board completed a self-assessment exercise. Together with Adrian Belton's appointment as the new Chair, the UKGI review provided the opportunity to refine Board performance, and in response the Board has introduced a number of initiatives to review and reflect on the Board's performance at the end of each meeting and reshaping agendas to bring clearer focus to agenda items.

### **Audit and Risk Assurance Committee**

The Audit and Risk Assurance Committee (ARAC) met four times during 2019/20.

## Attendance at Dstl Audit and Risk Assurance Committee for 2019/20:

|               | Role      | Number of meetings attended | Number of meetings that could have been attended |
|---------------|-----------|-----------------------------|--|
| David Tonkin  | NEM/Chair | 4                           | 4  |
| Jeremy Monroe | NEM       | 3                           | 4  |
| Adam Powell   | MOD NEM   | 2                           | 3  |
| Brian Bowsher | NEM       | 3                           | 4  |
| Tara Usher    | MOD NEM   | 3*                          | 2  |

\* Stood in for Adam Powell at September meeting, not officially appointed until 1/10/19.

**Membership.** Membership of the committee comprised three Dstl NEMs – David Tonkin (Chair), Brian Bowsher, and Jeremy Monroe, and MOD NEM Mark Preston, who, with agreement from then Dstl Board Chair Sir David Pepper, sent Adam Powell (Head of Organisational Policy) as a representative. From October 2019 Mark Preston was replaced by Tara Usher as the MOD NEM.

I attend by invitation, as do my Chief Finance Officer, my Chief Operating Officer and my Head of Risk, Assurance and Governance. The National Audit Office, auditors, and MOD Defence Internal Audit also attend by invitation.

This year, the ARAC continued to concentrate on its key purpose of supporting the Dstl Board on issues of risk, control and governance, being careful to maintain its independence at all times.

Our Corporate Risk Register and the outputs and outcomes from both our internal and external audit activity have driven the main business for the committee. We continued our series of deep dives into the management of our corporate risks (Corporate Risk Deep Dives). This year, these have included: CR14 failure to deliver strategic direction; CR3 key infrastructure component failure and, CR2 significant drop in sales. An update following

the 2018/19 Corporate Risk Deep Dive into regulatory challenge or change was also taken as business. The ARAC also continued with a six-monthly review of Dstl's counter-fraud activities, and a six-monthly update from the Dstl Senior Information Risk Owner on information risk and assurance.

As in the previous year, the ARAC holds the Dstl Assurance Report as a key document. The assurance report, which is presented at each quarterly meeting, has continued to provide a comprehensive base from which the ARAC can ensure the Board and Accounting Officer's assurance needs are being met, and one by which the reliability and integrity of the assurances can be examined.

The ARAC monitors the integrity of the financial statements of Dstl through review of the Chief Finance Officer's quarterly and end of year reports. The work of the NAO is monitored through review of the annual audit plan and the Audit Completion Report. The ARAC monitors and reviews the effectiveness of Dstl's internal audit arrangements, provided by Defence Internal Audit, by review of the internal audit plan, assessment of the internal audit reports and monitoring actions agreed to implement the recommendations of the internal auditors.

Commenting on the work of the committee over the past year, Chair of the ARAC David Tonkin said:

"The committee has progressed the use and refinement of the deep dive process which provides increasing confidence on the use of the risk framework and its actions and mitigations. The Dstl Assurance Report provides a comprehensive narrative around the assurance system and will be further improved next year as we focus the organisation on consistent and regular level 1 assurance via self-assessment."

A self-assessment review of the effectiveness of the ARAC was reported in early 2020/21 confirming a very positive result on the continuing effectiveness of the committee.

## **Remuneration Committee**

This year, there has been no meeting of the Remuneration Committee or of the Nomination Committee. The Board agreed new Terms of Reference for the Remuneration Committee in March 2020, the first meeting of who are due to take place early in the new financial year.

## **Executive Management Committee**

Following the changes reported last year, my Executive team has continued to mature in its operation and show increasing enterprise leadership. We have improved the way in which we plan and deliberate on issues, and in tackling problems as a leadership team.

Alongside the meetings of the EMC, I have held review meetings to monitor progress against the Dstl Strategy, and meetings to scrutinise Business Performance. Both of these have been held on a quarterly cycle. This has been aided by significant strides in improving our management information and the development of key metrics.

As of 31 March 2020, the Executive Management Committee membership is:

- Gary Aitkenhead, Chief Executive
  - Andrew Bell, Chief Technical Officer
  - Matthew Chinn, Division head – Platform Systems
  - Simon Earwicker, Division head – Chemical Biological, Radiological Sciences
  - David English, Chief Finance Officer
  - Paul Kealey, Division Head – Cyber and Information Systems
  - Mike Smith, Division Head – Counter-Terrorism and Security
  - Robert Solly, Division Head – Defence Security and Analysis
  - Douglas Umbers, Chief Operating Officer
  - Robyn Wedderburn, Chief People Officer

## **Executive Management Committee sub-committees**

To improve efficiency of the EMC, there are three formal sub-committees with their purpose shown in the table (below).

In addition, to the sub-committees in the table, a temporary Brexit sub-committee continued to meet through the year to ensure Dstl was prepared to manage the potential consequences of the UK leaving the European Union without a withdrawal agreement.

Since the 31 March 2020 we have introduced a COVID-19 Committee to manage the impacts of and recovery from operational restrictions due to the pandemic.

| Executive Management Sub-Committee     | Purpose   |
|--|---|
| Investment Management                  | To assist the Chief Executive in the execution of his financial delegations. The Investment Management Committee (IMC) ensures that expenditure proposals are subject to requirement and financial scrutiny. The IMC is responsible for considering all investment proposals (capital and significant revenue) above a defined threshold.                                 |
| Safety Management                      | To ensure that Dstl provides a safe place of work for Dstl staff, partners and suppliers. The Safety Management Committee also provides the formal management review of Dstl's Health, Safety and Environmental Management systems.   |
| The Delivery Committee for S&T (DCS&T) | To support the Chief Executive in governing and risk-assuring S&T planning, delivery and operation and ensures that Dstl develops and executes effective and integrated plans for stewarding S&T capability and delivering S&T impact. In addition, the DCST is responsible for approving, championing and assuring Dstl's S&T, Portfolio and Strategic Engagement Plans. |

## Our risk management

Part of my role as Accounting Officer and Senior Risk Owner for Dstl is to ensure we have an effective risk management approach that is used across the organisation and that where needed, continuous improvement activity exists to reach our desired level of maturity.

This year, we have continued to strengthen the maturity of risk management across the organisation and in parallel have maintained a strong focus on assuring our approach to managing our corporate risks.

Through this year, with my Executive Management Committee, I have focussed on:

- maintaining alignment of our corporate risks to our strategic objectives, ensuring that we understand both the threats and opportunities to delivering our strategy and how we will manage these
- proactively seeking independent assurance of our approach to managing our corporate risks; inviting challenge from our Board, and Audit and Risk Assurance Committee, as to whether we are doing the right things and in the right timeframe, and where gaps are identified seeking to address them to control our risks better.

In the coming financial year, we will:

- refresh our corporate risk register in line with phase 2 of our strategy
- look to understand our levels of risk appetite based on our strategic levels of intent and ensure our plans we have to address our corporate risks align with these
- continue to mature the risk culture of our organisation.

### Managing risk in Dstl

We manage risks by a four-stage process:

1. risk identification
2. risk assessment
3. risk response
4. risk monitoring, reporting and escalation.

We have detailed the basic principles of each process stage below:

### **Risk identification**

- identify the threat or opportunity risks that are likely to impact delivery of objectives
- allocate risk owners and managers
- develop a detailed description of the risk including the future event to which it is linked

### **Risk assessment**

- assess existing controls that may affect the risk
- assess when the risk event could occur
- assess the inherent (worst case), residual (current with existing controls) and target (desired end state) risk ratings

### **Risk response**

- develop a plan of work to achieve target risk rating
- complete planned work to minimise threat risks and maximise opportunity risks

### **Risk monitoring, reporting and escalation**

- risk management is a continuous process and does not stop after a risk response has been established. The risks are monitored, reviewed and escalated during this stage

### **Risk reporting**

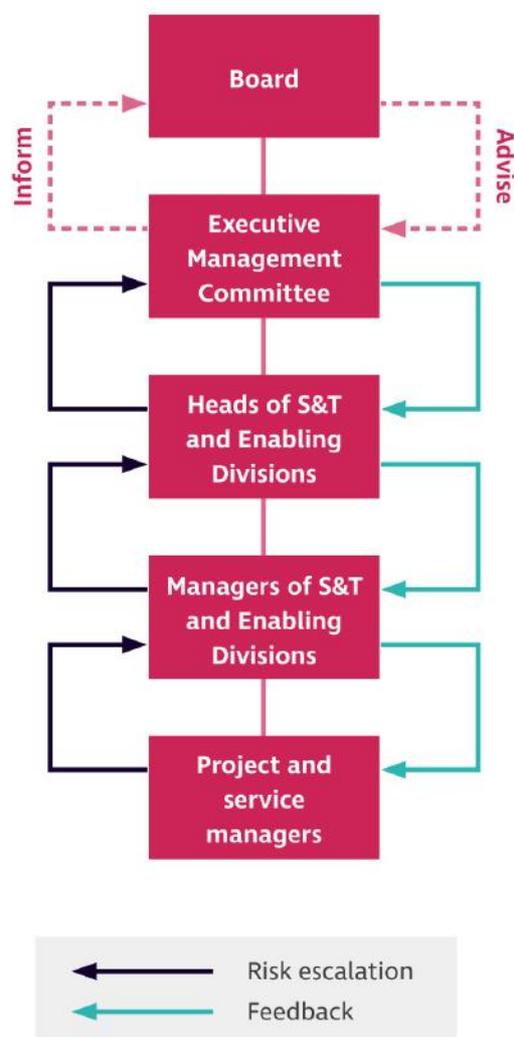
Risk reporting within Dstl happens at five levels:

- our Board, and Audit and Risk Assurance Committee
- my Executive Management Committee
- my heads of our S&T and Enabling Divisions
- my managers of our S&T and Enabling Divisions
- my project and service managers.

Risk is managed at the lowest possible level by empowering staff and ensuring they are aware of their delegated authorities. We escalate risks for either information or for action to the management layer above when the following happens:

- risks are assessed as severe or critical in their impact
- the risk is potentially part of a larger aggregated risk
- the risk owner cannot take action to decrease or stabilise an increasing risk trend within their delegated authorities.

### Dstl's risk reporting:



The ultimate point of escalation within Dstl is the Corporate Risk Register (CRR), which contains the risks that have the potential to impact our strategic objectives ([see pages 31 to 35](#)).

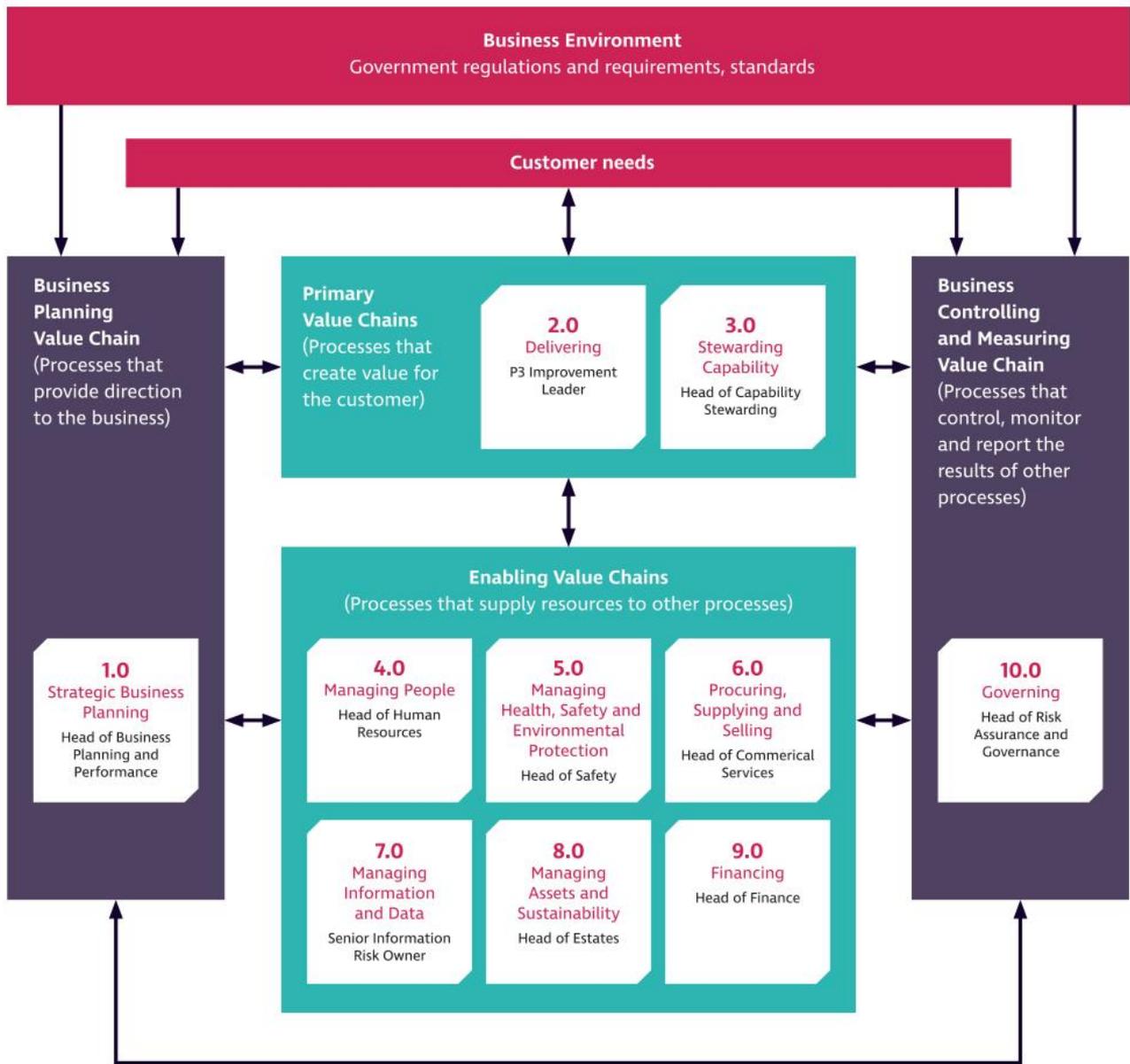
## Our control environment

We strive to create an environment where people are trusted and empowered to deliver their work while acting responsibly and safely at all times. This environment is built from: a combination of the policies, processes and guidance in our Management System; the responsibilities set out in standard role profiles and letters of delegation; and, the central role of review in our programme and project governance. The provision of sound ethical advice underpins this.

### **Dstl processes**

We operate a process hierarchy that gives strategic direction and intent to our business processes, sub-processes and process activities. As summarised on [page 99](#), these are aligned with our ten core value chains – the key sets of activities that Dstl performs in order to help manage corporate risks while achieving our purpose of delivering high-impact S&T.

**Dstl's ten value chains:**



We have continued to design, review and improve our business processes to ensure that they:

- meet the needs of our staff, customers and other stakeholders
- continue to support delivery of our strategic intent
- mitigate risk to the operation of Dstl's business.

This year we have focussed on reviewing and mapping all of Dstl's business processes – to provide clarity to our people on how to operate the process and to show how the processes interact, as well as removing out of date information. We continue to ensure the inclusivity of our Management System, through equality impact assessment of our policies and processes and adhering to document accessibility standards.

## Our control activities

This year we have continued to embed the Dstl Assurance Strategy, and we continue to deliver and report assurance activities based on the Four Lines of Defence Model.

- **First Line of Defence**

The way that risks are managed and controlled day to day. Assurance coming directly from those responsible for delivering specific objectives. It may lack independence but its value comes from those who know the business well. E.g. Line Manager checks of staff training records.

- **Second Line of Defence**

The way the organisation oversees the control framework. Providing assurance that is separate from those responsible for delivery, but not independent of the management chains. E.g. Health & Safety workplace safety inspections.

- **Third Line of Defence**

Objective and independent assurance e.g. internal audit. Providing reasonable (not absolute) assurance of the overall effectiveness of governance, risk management and internal controls. E.g. Defence Internal Audit internal audits.

- **Fourth Line of Defence**

Assurance from external independent bodies. Assurance from independent bodies who may not have familiarity with the organisation but who can bring a new and valuable perspective. E.g. Health and Safety Executive inspections, National Audit Office audits.

## Incident investigations

We actively promote the reporting of near misses and incidents. We investigate incidents proportionately based on the potential the incident could have had as well as in balance with the actual harm or damage caused. Application of a 'just culture' assures staff that incident investigations are for the purpose of organisational learning, to prevent reoccurrence, and not for the purpose of disciplinary action. This, in turn, encourages a strong culture of reporting incidents when they occur. Together, this ensures that we remain an organisation that seeks to learn from incidents to prevent reoccurrence and improve our business, thereby adding value to our stakeholders.

During the year we established a corporate incident triage process, whereby incidents reported are reviewed by a panel of senior leaders and subject matter experts to ensure that appropriate action is being taken to contain and resolve the incident, as well as deciding the appropriate mechanism for organisational learning that should be applied to prevent reoccurrence.

Four of the high severity safety incidents reported were reportable to the Health and Safety Executive under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations):

| Description                      | RIDDOR Category        |
|----------------------------------|------------------------|
| Work related upper limb disorder | Occupational disease   |
| Cut hand                         | > 7 day incapacitation |
| Exposure to carbon dioxide       | Dangerous occurrence   |
| Slip on black ice                | Specified injury       |

## **Whistle-blowing**

We remain committed to achieving the highest possible standards of service and ethics in public life. This is demonstrated by our whistle-blowing process, which is written in line with the Public Interest Disclosure Act 1998, the Fraud Act 2006 and the Bribery Act 2010.

This year there were three incidents raised via our whistle-blowing process. We take such incidents extremely seriously and, in each instance, we undertook an assessment of the issues followed by a corporate investigation. All three incidents were concluded satisfactorily.

## **Protected personal data incidents**

There were no personal data breaches reported to the Information Commissioners Office (ICO) by Dstl in this reporting period. Dstl did have an information notice from the ICO with regard to our contract with the Eurofins Forensic Services, which suffered a ransomware attack upon its data.

We continue to participate in the overarching MOD General Data Protection Regulation (GDPR) and Data Protection Act 18 (DPA18) programme making improvements to the Data Protection Impact Assessment and Data Subject Access Request (DSAR) Regime. We handled ten DSARs under DPA18. Unfortunately two DSARs were not responded to on time due to COVID-19. There was one complaint to the ICO about response timescales and contents of disclosure, however a full disclosure was consequently made.

Additionally, there were four enquiries to the Porton Down Former Volunteers Helpline, which were also handled in accordance with the DPA.

## **Official correspondence from members of the public**

During 2019/20, Dstl received 43 letters from members of the public, to which we responded within the mandated 20 working day deadline in 100 per cent of cases. We answered or contributed to 79 Freedom of Information (FOI) requests during the whole financial year, in accordance with the FOI Act.

## **Fraud management**

This year, our fraud risk-reduction activities continued to focus on control and monitoring of the procurement process, and encouragement of disclosure via existing channels for whistle-blowing and incident reporting. The fraud investigation that was outstanding from last year was satisfactorily resolved. During the reporting period, there have been two reports of unusual activity from internal sources. We used our investigation process to investigate the activities, both of which have been satisfactorily resolved.

## **Quality assurance of analytical models**

Every six months, we declare our business critical models – as defined following the Mcpherson Review in 2013 – to MOD. A model is a way to appraise, assess, evaluate, plan or forecast future responses or outcomes by processing a variety of input data and assumptions. Our Modelling and Simulation Strategy Group manages the coherence and governance of our modelling. We continue to share best practice with MOD and wider Government, and to continue to improve the quality and operation of such models.

## **Group Head of Defence Internal Audit's summary**

In line with Public Sector Internal Audit Standards, the Group Head of Defence Internal Audit (DIA) must provide a professional opinion on the adequacy and effectiveness of Dstl's arrangements for risk management, internal control and governance. I have used the following DIA audit opinion to help me in the production of this year's Governance Statement; it summarises the results of DIA's internal audit work relevant to our objectives from April 2019 to March 2020. The Group Head DIA has said:

“Our audit opinion is based on a combination of our audit programme, which covered six audits in 2019/20, our attendance at Dstl Audit and Risk Assurance Committee meetings, our engagement with Dstl senior management, and our consultation on any other relevant developments in both Dstl and the MOD.

From an original audit plan consisting of eight Dstl-sponsored audits, DIA completed seven. One of the completed assignments was curtailed during the fieldwork phase, in recognition that the New Information Systems Service Solution programme had gone into

a period of exception. In this instance an Advisory Letter was issued. The planned ‘Supplier Management and Strategic Partnerships’ audit was cancelled in agreement with the Dstl Audit and Risk Assurance Committee.

Overall, and based on internal audit work delivered in Dstl, DIA are able to provide substantial assurance over the governance, risk management arrangements and system of internal control in Dstl.

Our key audit regarding the implementation of the Strategic Direction Plan confirmed that, overall, there were strong governance and assurance arrangements in place and that control processes were operating effectively. Our other audits highlighted the positive steps taken to strengthen the control framework of both the Trials and Technical Quality Assurance processes. More widely, we recognise progress in implementation of the Dstl Assurance Strategy, which will aim to identify and co-ordinate assurance provision across all the Lines of Defence.

Notwithstanding, there is recognition that selected areas of the organisation require further development and opportunities exist for improving the control environment. They include greater senior management and oversight of knowledge management arrangements, further embedding of a revised Health and Safety monitoring and assurance regime, and improvements to the governance of Information Assurance activities.”

The internal audits taking place at Dstl in 2019/20, their timings and owners, were:

| Audit title   | When         | Owner                   |
|---|--------------|-------------------------|
| Implementation of the Strategic Direction Plan                  | August 2019  | Chief Executive         |
| Health, Safety and Environment Protection Performance Reporting | August 2019  | Chief Operating Officer |
| New Information Systems Service Solution (Advisory)             | October 2019 | Chief Operating Officer |

|                               |              |  |
|-------------------------------|--------------|--|
| Knowledge Management          | January 2020 | Chief Technical Officer                                |
| Information Assurance Process | January 2020 | Chief Operating Officer                                |
| Trials Process                | March 2020   | Chief Technical Officer<br>and Chief Operating Officer |
| Technical Quality Assurance   | March 2020   | Chief Technical Officer                                |

### External certification

This year Dstl made a conscious decision to withdraw from ISO 14001 certification. However, as part of the MOD, we remain committed to operating an Environmental Management System in accordance with JSP 418 (Management of environmental protection in defence).

BSI Assurance UK Ltd conducted its first surveillance audit as Dstl's certification body, assessing our ISO 9001:2015 (Quality Management Systems) and TickITplus (software development) certifications during which BSI raised a number of strengths relating to the risk-based approach to internal audit; the Smart Processes project; and the maturity matrix approach being taken for management review of Dstl's Management System (MS), as required by the ISO 9001 standard.

Dstl successfully maintained existing certification and has a provisional list of audit topics for Dstl's re-certification audit, due in September 2020.

### Chief Executive's summary

Dstl has continued to refine its governance through the year; driving forward the implementation of the Strategy On A Page, developing the organisation's leadership capability and making big strides in improving its management information. The findings of UKGI's Arm's Length Body Review in April 2019 underlined the strengths we have in place, and we have implemented all their recommendations. As a result, Dstl finished the financial year with the structures, skilled people, effective tools and empowered culture it needed to make our response to the early stages of the COVID-19 outbreak, and to steer the organisation to long-term success.

# Remuneration and Staff

## Remuneration policy

Dstl has no pay costs for ministers. At year end, five directors were members of the Senior Civil Service (SCS) and subject to SCS terms and conditions, including the remuneration policy. These directors were: Gary Aitkenhead; Andrew Bell; David English; Douglas Umbers; and Robyn Wedderburn. As SCS, their pay is set through recommendations made by the Review Body on Senior Salaries (SSRB). The SSRB provides independent advice to the Prime Minister and to the Secretary of State for Defence on the remuneration of the SCS. Further information about the SSRB's work can be found at:

[www.gov.uk/government/organisations/review-body-on-senior-salaries](http://www.gov.uk/government/organisations/review-body-on-senior-salaries)

Their non-consolidated performance award arrangements fall under SCS rules rather than the Dstl performance-award system.

The remaining directors at year end (Matthew Chinn, Simon Earwicker, Paul Kealey, Mike Smith and Robert Solly) are Dstl employees and subject to the same performance-related remuneration policy as all other non-SCS Dstl staff.

The non-executive members (NEMs) are not Dstl employees and, apart from one who is employed by MOD, are paid a fee for their services.

### Performance Conditions

Directors who are subject to SCS terms and conditions are also subject to the SCS performance conditions. The remaining directors are subject to the Dstl performance management rules.

## Service Contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specifies the circumstances when appointments may be made otherwise.

Unless otherwise stated, the officials named in this report hold appointments that are open-ended. Early termination would result in the individual receiving compensation (except in cases of misconduct) as outlined in the Civil Service Compensation Scheme. There were no awards made to past senior managers.

Further information about the work of the Civil Service Commission can be found at:

[www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

### Fees paid to non-executive members of the Dstl Board for the financial year 2019/20:

| This information is subject to audit opinion | Fee<br>2019/20<br>£'000 | Fee<br>2018/19<br>£'000 |
|--|-------------------------|-------------------------|
| Sir David Pepper KCMG (see footnote 1)       | 5 to 10<br>25 to 30     | 25 to 30                |
| Adrian Belton (see footnote 2)               | 15 to 20<br>25 to 30    |                         |
| Brian Bowsher                                | 15 to 20                | 10 to 15<br>15 to 20    |
| David Tonkin                                 | 15 to 20                | 15 to 20                |
| Jeremy Monroe                                | 15 to 20                | 15 to 20                |

|  |          |                             |
|--|----------|-----------------------------|
| Sarah Spurgeon                           | 15 to 20 | 10 to 15<br><i>15 to 20</i> |
| Mark Preston/Tara Usher (see footnote 3) |          |                             |

Figures in italics denote full-year equivalent fee.

**Footnote 1:** Sir David Pepper KCMG completed his tenure as a non-executive member of the Dstl Board on 31/07/2019.

**Footnote 2:** Adrian Belton joined Dstl on 1/08/2019.

**Footnote 3:** Neither Mark Preston nor Tara Usher received a fee; in 2019/20, they represent MOD as Non-executive members. Mark Preston attended the Dstl Board from 2 May 2016 to 30 September 2019. Tara Usher began her tenure from 1/10/2019.

## Senior management remuneration and pension entitlement

### Remuneration paid to executive directors for the financial year 2019/20

| This information<br>is subject to<br>audit opinion | Salary Band      | Salary Band          | NCPA                                 | NCPA                                 | Pension                     | Pension                     | Total            | Total            |
|--|------------------|----------------------|--------------------------------------|--------------------------------------|-----------------------------|-----------------------------|------------------|------------------|
|  | 2019/20<br>£'000 | 2018/19<br>£'000     | (see footnote 1)<br>2019/20<br>£'000 | (see footnote 1)<br>2018/19<br>£'000 | 2019/20<br>Nearest<br>£'000 | 2018/19<br>Nearest<br>£'000 | 2019/20<br>£'000 | 2018/19<br>£'000 |
| Gary Aitkenhead<br>(see footnote 2)                | 140 to 145       | 140 to 145           | 30 to 35                             | 35 to 40                             | 56                          | 55                          | 230 to 235       | 235 to 240       |
| Andrew Bell<br>(see footnote 2)                    | 90 to 95         | 40 to 45<br>90 to 95 | 5 to 10                              |                                      | 40                          | 28                          | 140 to 145       | 40 to 45         |
| Matthew Chinn                                      | 85 to 90         | 0 to 5<br>100 to 105 | 5 to 10                              |                                      | 57                          | 26                          | 155 to 160       | 25 to 30         |
| Simon Earwicker                                    | 75 to 80         | 55 to 60<br>75 to 80 | 0 to 5                               | 0 to 5                               | 33                          | 25                          | 110 to 115       | 85 to 90         |

|                                    |                      |                        |        |         |    |    |            |            |
|------------------------------------|----------------------|------------------------|--------|---------|----|----|------------|------------|
| David English<br>(see footnote 2)  | 80 to 85             | 80 to 85               | 0      | 5 to 10 | 35 | 31 | 115 to 120 | 120 to 125 |
| Paul Kealey                        | 75 to 80             | 20 to 25<br>70 to 75   | 0 to 5 |         | 29 | 7  | 110 to 115 | 25 to 30   |
| Charley McIntosh                   | 55 to 60<br>75 to 80 |                        | 0      |         | 20 |    | 75 to 80   |            |
| Joanne Peel<br>(see footnote 2)    | 0 to 5<br>75 to 80   | 75 to 80<br>75 to 80   | 0      |         | 1  | 28 | 0 to 5     | 105 to 110 |
| Mike Smith                         | 85 to 90             | 60 to 65<br>80 to 85   | 0 to 5 | 0 to 5  | 31 | 43 | 120 to 125 | 105 to 110 |
| Robert Solly                       | 85 to 90             | 60 to 65<br>80 to 85   | 0 to 5 | 0 to 5  | 33 | 25 | 120 to 125 | 90 to 95   |
| Douglas Umbers<br>(see footnote 2) | 120 to 125           | 35 to 40<br>120 to 125 | 0      |         | 48 | 14 | 165 to 170 | 50 to 55   |
| Robyn<br>Wedderburn                | 25 to 30<br>85 to 90 |                        | 0      |         | 10 |    | 30 to 35   |            |

Figures in italics denote full-year equivalent fee.

**Footnote 1:** Non-consolidated performance awards (NCPAs). NCPAs were awarded in line with SCS and Dstl performance management rules.

**Footnote 2:** Denotes that this executive director is or was also a member of the Dstl Board. The salary bands set out above relate only to emoluments paid during the period of these directors membership of the Dstl Board and the Dstl Executive Membership Committee (EMC).

No directors, key managerial staff or other related parties have undertaken any material transactions with Dstl during the year. There was no non-cash element of the remuneration package.

### **Executive Agency Board members' emoluments**

We have shown the details of Board members in the tables on [pages 107 to 110](#). They are summarised as follows:

| This information is subject to audit opinion | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
| Salaries, NCPAs and fees (£'000)             | 580.9       | 856.3       |

**Pension provision for executive directors for the financial year 2019/20**

| This information<br>is subject to<br>audit opinion | <b>Real increase<br/>in pension<br/>[and related lump sum<br/>at pension age]<br/>£'000</b> | <b>Total accrued<br/>pension at pension<br/>age at 31/03/20<br/>[and related lump sum]<br/>£'000</b> | <b>Cash<br/>equivalent<br/>value at<br/>31/03/20<br/>£'000</b> | <b>Cash<br/>equivalent<br/>value at<br/>31/03/19<br/>£'000</b> | <b>Real increase<br/>in cash equivalent<br/>transfer value as<br/>funded by employer<br/>£'000</b> |
|--|---|--|--|--|--|
| Gary Aitkenhead                                    | 2.5 to 5  | 5 to 10  | 96   | 53   | 30   |
| Andrew Bell  | 0 to 2.5<br><i>[0 to 2.5]</i>   | 35 to 40<br><i>[80 to 85]</i>  | 705  | 644  | 25   |
| Matthew Chinn                                      | 2.5 to 5<br><i>[2.5 to 5]</i>   | 35 to 40<br><i>[75 to 80]</i>  | 620  | 554  | 37   |
| Simon Earwicker                                    | 0 to 2.5<br><i>[0 to 2.5]</i>   | 30 to 35<br><i>[60 to 65]</i>  | 517  | 474  | 17   |
| David English                                      | 0 to 2.5  | 30 to 35   | 479  | 438  | 17   |
| Paul Kealey  | 0 to 2.5  | 15 to 20   | 172  | 147  | 13   |

|                     |                               |                               |     |     |    |
|---------------------|-------------------------------|-------------------------------|-----|-----|----|
| Charley McIntosh    | 0 to 2.5                      | 10 to 15                      | 137 | 122 | 8  |
| Joanne Peel         | 0 to 2.5<br><i>[0 to 2.5]</i> | 20 to 25<br><i>[40 to 45]</i> | 382 | 381 | 0  |
| Mike Smith          | 0 to 2.5                      | 15 to 20                      | 328 | 291 | 19 |
| Robert Solly        | 0 to 2.5<br><i>[0 to 2.5]</i> | 30 to 35<br><i>[65 to 70]</i> | 543 | 498 | 18 |
| Douglas Umbers      | 2.5 to 5                      | 0 to 5                        | 48  | 11  | 28 |
| Robyn<br>Wedderburn | 0 to 2.5                      | 0 to 5                        | 8   | 0   | 6  |

Pension information is provided by MyCSP, the administrators of civil service pensions. All other directors belong to the classic, classic plus or alpha CSPs. All schemes are part of the civil service pension arrangements.

For more information on Pensions [see page 122](#).

## Relationship between the highest-paid director and the workforce median

| This information is subject to audit opinion     | 2019/20 | 2018/19              |
|--|---------|----------------------|
| Band of highest-paid director total remuneration |         | £180,000 to £185,000 |
| Median total remuneration                        |         | £36,974              |
| Ratio  |         | 4.94                 |

Dstl is required to disclose the relationship between the remuneration of the highest-paid director in our organisation and the median remuneration of our organisation's workforce.

The banded remuneration of the highest-paid director in Dstl in the financial year 2019/20 was £175,000-£180,000 (2018/19: £180,000-£185,000). This was 4.76 times (2018/19: 4.94) the median remuneration of the workforce, which was £37,322 (2018/19: £36,974).

In both 2019/20 and 2018/19, no employees received remuneration in excess of the highest-paid director. In 2019/20, remuneration ranged from £14,075 to £175,000-£180,000 (2018/19: £12,500 to £180,000-£185,000).

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

For more information on Our Workforce [see page 118](#).

# Our people

**Dstl employs some of the world's brightest people. We recognise that a highly skilled, inquisitive and dedicated workforce is crucial to delivering our high-impact work.**

## Right size, right shape, right skills

We welcomed 630 permanent new starters to Dstl this year and we continue to take advantage of our entry-level talent pipeline; we had 40 new apprentices and 97 graduates join Dstl this year, with 125 students working with us throughout the year.

We achieved recognition from The Job Crowd, receiving the award for Apprentice Top Employer within the Science and R&D industry. Dstl is in the top 50 for Apprentice Employers and top 100 for Graduate Employers and also ranked in the top 100 undergraduate employers recognised by students themselves through Ratemyplacement.

In order to tackle our resourcing challenges we have used innovative recruitment and advertising techniques demonstrated through our Know the Unknown campaign which gave a ten per cent growth in our cyber and information system capability. These recruitment advertising methods have received industry awards for innovation from The RAD Awards, Recruitment Marketing Awards (RMA) and Personnel Today Awards.

We spent £140,000 on early careers advertising, campaigns and job boards and £175,000 on Experienced Hire recruitment advertising, which is agreed within Civil Service Frameworks. We did this with our advertising partner, using LinkedIn and other job boards such as Security Cleared Jobs. We have no other advertising costs at Dstl.

## Exciting, diverse and inclusive

We continue to take pride in our dedication and commitment to the diversity and inclusion of our employees. This year we have refreshed our levels of ambition to provide motivational goals across the whole employee life cycle. Since 2019 we have achieved 26

out of 30 of these levels of ambition and have also added eight new levels on bullying, harassment and discrimination. We have also had successful applications for the Positive Action Pathway programme ensuring that the Civil Service grows diversity at the top from within.

In 2019 we introduced a new approach called mutual (reverse) mentoring, connecting senior leaders with junior colleagues from minority groups. This empowers the voice of minority groups, increases senior leaders' understanding of the challenges they face and provides 'lived experience' knowledge from minority groups to help leaders manage the risk of 'group think.'

These relationships are positively influencing working practices for mentees and mentors.

We continue to support people with disabilities by adhering to the Civil Service Recruitment Principles of open and fair competition with a guaranteed interview for disabled applicants who meet the essential job criteria for our vacancies. The Equality Act 2010 places a requirement on employers to make adjustments for their employees to help them overcome disadvantages resulting from their disability; our Diversity and Inclusion policy sets the overall framework of how we promote and support those with protected characteristics. Our workplace adjustments process ensures that adjustments are available for the continuation of employment of new recruits and during employment to accommodate all our people. As with the rest of the Civil Service, we are looking to achieve disability confident status.

Our people are civil servants and as such, the Civil Service governs our people policies. We ensure that our procedures and employment contracts are in line with the Civil Service Management Code and that they reflect the fundamental principles of the Human Rights Act 2000.

We continue to enjoy an excellent relationship with our trade unions based on mutual trust and respect.

We work in partnership to reach agreement on issues that affect employees, their terms and conditions of service, and their working environment.

We have ongoing engagement challenges linked to pay and reward within Dstl. We believe our total rewards package is good. We offer exciting career opportunities, and flexibility of working alongside a range of benefits, which are continually reviewed to ensure they are fair and attractive; for example we have recently increased the value of our Cycle to Work scheme and are continuing to embed our approach to in-year reward which was launched last year. We need to continue to be creative and flexible in our approach to rewarding our people for the skills they provide, in order to ensure we can attract and retain our workforce and deliver Dstl's strategic aims. This will require us to continue to work hard to develop and submit our pay proposals for ministerial approval.

The health and wellbeing of our employees is of the utmost importance to us and we work closely with our onsite occupational health team and our Employee Assistance Programme provider to support our employees' wellbeing. This year we have developed a Mental Health Awareness course, which is mandatory for all Line Managers, and all leaders will have completed by 2023. We saw 2.2 per cent of hours lost due to sickness absence this year, that equates to 19,163 days lost in 2019/20 due to sickness and on average 4.49 days lost per FTE.

The end of the financial year saw an incredible effort from across Dstl to support the COVID-19 response efforts. We produced FAQ's that were continually updated to react to questions from our people, moved to deliver training on-line or virtually, began delivering interviews and assessments remotely, produced guidance on homeworking and IT issues and worked with our Employee Networks to ensure we could support all of our colleagues through these unprecedented times.

## Our workforce

The average Full-Time Equivalent number of people (including Board members) employed during the year was:

| This information is subject to audit opinion | Permanent (UK) employment contract |              | Agency and short-term contract staff |            | Inward secondees |           | Total        |              |
|--|------------------------------------|--------------|--------------------------------------|------------|------------------|-----------|--------------|--------------|
|  | 2020                               | 2019         | 2020                                 | 2019       | 2020             | 2019      | 2020         | 2019         |
| Professional and technical staff             | 3,166                              | 2,952        | 277                                  | 187        | 60               | 60        | 3,503        | 3,199        |
| Administrative and industrial staff          | 680                                | 549          | 46                                   | 71         | 2                | 1         | 728          | 621          |
| <b>Total</b>                                 | <b>3,846</b>                       | <b>3,501</b> | <b>323</b>                           | <b>258</b> | <b>62</b>        | <b>61</b> | <b>4,231</b> | <b>3,820</b> |

Staff costs incurred during the year were:

| This information is subject to audit opinion          | 2020<br>£ million | 2019<br>£ million |
|---|-------------------|-------------------|
| Wages and salaries                                    | 171.2             | 159.7             |
| Social security costs (including apprenticeship levy) | 19.0              | 17.6              |
| Other pension costs                                   | 44.0              | 30.9              |
| Inward secondees                                      | 6.7               | 6.0               |
| Agency and contract staff                             | 17.8              | 13.7              |
| Less recoveries in respect of outward secondments     | -3.2              | -5.6              |
| <b>Total</b>  | <b>255.5</b>      | <b>222.3</b>      |

No staff costs were capitalised during the year (2018/19: £nil).

This year, there were no consultancy services costs at Dstl (2018/19: £nil).

## Our staff composition

As at 31 March 2020, the gender numbers for our non-executive members, senior leadership team members, senior civil service (SCS) and employees were:

|   | Male         | Female       | Total        |
|---|--------------|--------------|--------------|
| Non-executive members (see footnote 1)  | 4            | 2            | 6            |
| Senior Leadership Team (see footnote 2) | 9            | 1            | 10           |
| Senior civil service (see footnote 3)   | 0            | 1            | 1            |
| Employees                               | 3,082        | 1,603        | 4,685        |
| <b>Totals</b>                           | <b>3,095</b> | <b>1,607</b> | <b>4,702</b> |

**Footnote 1:** The MOD non-executive member on the Dstl Board is senior civil service.

**Footnote 2:** The Chief Executive, Chief Finance Officer, Chief Operating Officer, Chief People Officer, and Chief Technical Officer are senior civil service.

**Footnote 3:** There is one other member of the SCS at Dstl who is not a member of the Dstl Senior Leadership Team.

**Footnote 4:** All the above figures are headcount. Employee numbers include our permanent staff, our apprentices, and our fixed-term appointments.

## **Our off-payroll engagements**

Following the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to HM Treasury on 23 May 2012, Dstl must publish information on our highly paid and/or senior off-payroll engagements. To complement our committed employed workforce, and to cover temporary capacity or to deliver particular niche scientific expertise for which there is no permanent need, we engage a number of Contracted Temporary Workers (CTWs).

Identified below are the numbers of our non-permanent staff (contractors) at Dstl whom we hire under contingent labour routes – the CL One/PSR (Public Sector Resourcing) frameworks. CTWs are not employees and nor are they off-payroll appointments to public office, for which there is none at Dstl.

### **All off-payroll engagements:**

- Number of existing engagements as of 31 March 2020 for more than £245 per day and that last longer than six months = 170.

#### **Of which:**

- 77 have existed for less than one year at time of reporting
- 53 have existed for between one and two years at time of reporting
- 22 have existed for between two and three years at time of reporting
- 11 have existed for between three and four years at time of reporting
- 7 have existed for four or more years at time of reporting

### **All new off-payroll engagements:**

- Number of new engagements or those that reached six months in duration between 1 April 2019 and 31 March 2020 = 109.

#### **Of which:**

- 109 assessed as caught by IR35 ([see footnote 1](#))
- 0 assessed as not caught by IR35
- 0 engaged directly (via Personal Services Contract contracted to department) and are on the payroll
- 0 engagements reassessed for consistency/assurance purposes during the year

(see footnote 2)

- 0 engagements that saw a change to IR35 status following the consistency review

**Footnote 1:** All of Dstl's contingent labour requirements are engaged via the Crown Commercial Services' CL One Framework and the supply chain within that framework. It is the responsibility of the framework's supply chain, be it a specialist recruitment company or umbrella company, to deduct the appropriate tax and national insurance.

**Footnote 2:** Dstl does not undertake a reassessment for consistency/assurance purposes due to the small number of contracts falling outside of IR35. Dstl would only perform a consistency check where the scope and nature of a role changed mid-contract.

**Off-payroll and on-payroll engagements of Board members and/or senior officials with significant financial responsibility:**

- 0 off-payroll engagements of Board members and/or senior officials with significant financial responsibility during the financial year
- 20 individuals on-payroll and off-payroll that have been deemed Board members and/or senior officials with significant financial responsibility during the financial year

**Exit packages**

Redundancy and other departure costs were paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme, made under the Superannuation Act 1972. Exit costs are accounted for in-full in the year of departure. Where the Executive Agency has agreed early departures, the additional costs are met by the Agency, not the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table below.

This information is subject to audit opinion

| Exit package cost band                 | Number of compulsory redundancies |          | Number of other departures agreed |                | Total number of exit packages by cost band |                |
|--|-----------------------------------|----------|-----------------------------------|----------------|--|----------------|
|  | 2020                              | 2019     | 2020                              | 2019           | 2020                                       | 2019           |
| Less than £10,000                      | 0                                 | 0        | 0                                 | 0              | 0  | 0              |
| £10,000 to £25,000                     | 0                                 | 0        | 13                                | 0              | 13   | 0              |
| £25,001 to £50,000                     | 0                                 | 0        | 10                                | 4              | 10   | 4              |
| £50,001 to £100,000                    | 0                                 | 0        | 9                                 | 3              | 9  | 3              |
| £100,001 to £150,000                   | 0                                 | 0        | 0                                 | 0              | 0  | 0              |
| £150,001 to £200,000                   | 0                                 | 0        | 0                                 | 0              | 0  | 0              |
| More than £200,000                     | 0                                 | 0        | 0                                 | 0              | 0  | 0              |
| <b>Total number of exit packages</b>   | <b>0</b>                          | <b>0</b> | <b>32</b>                         | <b>7</b>       | <b>32</b>                                  | <b>7</b>       |
| <b>Total cost of exit packages (£)</b> | <b>0</b>                          | <b>0</b> | <b>1,238,148</b>                  | <b>363,535</b> | <b>1,238,148</b>                           | <b>363,535</b> |

In addition, there was a net charge of £73,168 that relates to adjustments made for previous years, mainly due to late notification of deferred lump-sum payments.

## Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career-average basis with a normal pension age equal to the member's state pension age or 65 if higher.

From 1 April 2015, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three (classic, premium, classic plus) provide benefits on a final-salary basis with a normal pension age

of 60, and one (nuvos) provides benefits on a whole-career basis with a normal pension age of 65.

These multi-employer defined benefit schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha increase annually in line with Pensions Increase legislation. The Executive Agency is unable to identify its share of the underlying assets and liabilities. A full scheme valuation as at 31 March 2016 was performed by the scheme actuary during 2019. The valuation is updated annually using the underlying 2012 valuation. Details can be found in the resource accounts of the Cabinet Office:

<http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts>

Employee contributions are salary-related and range between 4.6 per cent and 8.1 per cent of pensionable earnings for members of classic, premium, classic plus, nuvos and alpha. For the year ending 31 March 2020, the Agency's employer contributions of £43.6m were payable to MyCSP (2018/19: £30.9m) at one of four rates in the range 26.6 per cent to 30.3 per cent of pensionable earnings (2018/19: 20.0 per cent to 24.5 per cent), 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 the year ending 31 March 2020 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

More details on the classic, premium, classic plus, nuvos and alpha pension schemes including information about benefits and contributions are available at:

[www.civilservicepensionscheme.org.uk/employers/employer-pension-guide/civil-service-pension-arrangements/](http://www.civilservicepensionscheme.org.uk/employers/employer-pension-guide/civil-service-pension-arrangements/)

Since October 2002, employees joining the Agency can opt for either the appropriate defined-benefit arrangement as above or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account). The Agency makes a basic contribution of between 8.0 per cent and 14.8 per cent (depending on the age of the

member) into the stakeholder pension. For the year ending 31 March 2020, employer contributions of £383,117 (2018/19: £315,670) were paid into partnership pension providers. Employers also contribute a further 0.5 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement). Contributions due to the partnership pension providers at 31 March 2020 were £13,399 (2018/19: £10,769). There were no prepaid contributions at that date.

This year, zero people retired early on ill-health grounds; there were no accrued pension liabilities.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

# Parliamentary Accountability and Audit

**This section presents information about Dstl that is useful to readers for accountability and decision-making purposes.**

As Accounting Officer, our Chief Executive is personally accountable to the MOD Permanent Secretary (who is directly accountable to Parliament) for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Additionally, our Chief Executive is personally accountable to the MOD Chief Operating Officer for the performance and management of Dstl.

Our Chief Executive is designated as Dstl's Accounting Officer by the MOD Principal Accounting Officer (the MOD Permanent Secretary), and must operate in accordance with Managing Public Money. This designation is conveyed via an Accounting Officer letter of delegation from the MOD Permanent Secretary.

As the Dstl Accounting Officer, our Chief Executive may be called to account directly by Parliament. He is personally responsible for: safeguarding the public funds for which he has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and, for the day-to-day operations and management of Dstl.

The Dstl Accounting Officer's specific accountabilities to Parliament include:

- signing the Dstl Annual Report and Accounts ensuring that proper records are kept and that accounts are properly prepared
- ensuring that effective procedures for handling complaints about Dstl are established and widely communicated

- acting in accordance with: Managing Public Money; the Dstl Framework Document; and other instructions and policy as issued by MOD, Her Majesty's Treasury and the Cabinet Office
- giving evidence, normally with the MOD's Principal Accounting Officer, when summoned before the Public Accounts Committee.

Our annual report and accounts is subject to audit by the Comptroller and Auditor General, who heads the National Audit Office and is responsible for scrutinising public spending and safeguarding the interests of taxpayers on behalf of Parliament. The Comptroller and Auditor General's audit certification of this report is on [page 128](#).

More details on our governance, key roles and our accountabilities relating to the MOD ownership function of Dstl's governance are published in our Framework Document. Our ownership structure is designed to balance the risk of Dstl's operations to MOD, and to encourage diversity of thought and reasonable challenge. Our Framework Document is available to view at:

<http://www.gov.uk/government/publications/defence-science-and-technology-laboratory-framework-document>

### **Statement of Parliamentary Supply (subject to audit)**

As an on-vote Executive Agency, we operate within MOD's control framework and are subject to delegated control totals for (net) resource and capital funding from within MOD's departmental allocation. We require net cash funding from MOD to cover the balance of expenditure that cannot be met from receipts paid directly to Dstl. We conduct our transactions within MOD on a non-cash basis via intra-departmental accounting and bookkeeping constructs. Our financial statements represent the result of transactions pertaining to our operations, set in the context of MOD's overall Statement of Parliamentary Supply.

### **Regularity of expenditure**

All expenditure for the year was regular.

## **Remote contingent liabilities**

The Agency does not currently have any material remote contingent liabilities.

## **Losses and special payments**

Dstl's subsidiary Ploughshare is no longer consolidated and we therefore carry out an impairment review of the carrying value of the investment. Based on a review of Ploughshare's draft audited accounts at 31 March 2020, this resulted in an impairment of £2.2m (2018/19: £0.4m) being expensed in 2019/20. This arose principally as a result of a capital reconstruction of the subsidiary during the year as explained in the notes to the financial statements (Note 9 on [page 189](#)), and was offset by the release of a related debt provision.

## **Fees and charges**

We charge for goods and services in accordance with the principles in Managing Public Money. Our core activity is to provide S&T services to MOD and wider Government. Please [see pages 39 to 47](#) for details of these services. Operating income recognised in return for the provision of these services is disclosed in Note 3 to the financial statements on [page 175](#). The cost of providing these services, purchase of direct goods and services, can be found in Note 4 on [page 177](#). Other operating income is derived from receipts relating to non-core activities. Further details can be found in accounting policy Note 1 (s) to these financial statements on [page 161](#).

## **Public spending and administration budgets**

Our Chief Executive receives his letter of authority as Accounting Officer directly from the MOD Permanent Secretary. Since April 2017, we continue to recover our resource costs as an Executive Agency via charges to our customers; we do not classify these as administrative costs. All our operating expenditure is associated with delivery of our S&T outputs.

[See pages 41 to 43](#) for our long-term expenditure trends. Our capital costs are subject to a separate funding line within MOD's overall control framework. All of our capital expenditure

is associated with the provision of equipment, facilities and infrastructure to enable the delivery of our S&T outputs.

Our Financial Statements start on [page 135](#).

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

### **Opinion on financial statements**

I certify that I have audited the financial statements of the Defence Science and Technology Laboratory for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Defence Science and Technology Laboratory's affairs as at 31 March 2020 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on regularity**

In my opinion, in all material respects the income and expenditure 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.

## **Basis of opinions**

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Defence Science and Technology Laboratory in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Defence Science and Technology Laboratory's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Defence Science and Technology Laboratory have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Defence Science and Technology Laboratory's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Responsibilities of the Accounting Officer for the financial statements**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Defence Science and Technology Laboratory's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of the Defence Science and Technology Laboratory's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Science and Technology Laboratory's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am

required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Defence Science and Technology Laboratory to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

### **Other Information**

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Opinion on other matters**

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in

accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;

- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

### **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 parts of the Accountability 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.

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

- 23 September 2020

## Dstl Annual Report and Accounts 2019/20



Our annual report and accounts is prepared in line with the Government Financial Reporting Manual (FReM), Managing Public Money and any applicable HM Treasury instructions. Dstl's Framework Document requires us to prepare our own annual report and accounts and present it to Parliament following certification by the Comptroller and Auditor General to the House of Commons ([see page 128](#)).

The Dstl Audit and Risk Assurance Committee endorsed this report at its meeting on 3 September 2020, and the Chair of the Dstl Board and I, as Accounting Officer, signed the accounts on 9 September 2020.

I confirm that our annual report and accounts gives a fair, balanced and understandable view of Dstl's activities for the year ended 31 March 2020 and of our financial position as at 31 March 2020. I also confirm that I am personally responsible for this annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

As required in the FReM, I have signed and dated our Performance Report on [page 67](#), as well as signing here our Accountability Report, which meets Dstl's key accountability requirements to Parliament. I have also signed our Statement of Financial Position on [page 140](#), as part of the fully audited Financial Statements that follow in the rest of this document.

I hope you find our annual report and accounts helpful to your understanding of Dstl's business and performance over the past financial year.

A handwritten signature in black ink, appearing to read "Gary Aitkenhead". The signature is written in a cursive, flowing style.

Gary Aitkenhead, Chief Executive

▪ 9 September 2020

# Financial Statements

Our financial statements and disclosure notes make up the final report in this year's annual report and accounts; they have been audited by the Comptroller and Auditor General.

We have prepared our accounts under International Financial Reporting Standards (IFRS), as adapted for the public sector in the Government Financial Reporting Manual (FReM), issued by Her Majesty's Treasury. We have outlined the new reporting standards and any changes to accounting policy that affect our financial statements in Note 1 on [page 148](#). Our desire to align with the policies of our parent department, MOD, where appropriate, drives these changes, subject to relevance and materiality considerations.

# Accounting Information

## Statement of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2020

|   | Note    | 2020<br>£ million | 2019<br>£ million |
|---|---------|-------------------|-------------------|
| Operating income from contracts with customers      | Note 2  | 703.5             | 626.0             |
| Other operating income                              |         | 18.3              | 4.4               |
| <b>Total operating income</b>                       | Note 3  | <b>721.8</b>      | <b>630.4</b>      |
| Staff costs   |         | -255.5            | -222.3            |
| Purchase of direct goods and services               |         | -321.5            | -280.4            |
| Depreciation, amortisation and impairment charges   |         | -10.2             | -22.5             |
| Profit on sale of asset classified as held for sale | Note 15 | 2.2               | 0.0               |
| Provision expense                                   |         | -1.6              | -0.1              |

|   |             |               |               |
|---|-------------|---------------|---------------|
| Infrastructure running costs  |             | -89.2         | -86.0         |
| Other operating expenditure   |             | -30.1         | -27.7         |
| <b>Total operating expenditure</b>  | Notes 4 & 5 | <b>-705.9</b> | <b>-639.0</b> |
| <b>Net operating income / expenditure</b>                                   |             | <b>15.9</b>   | <b>-8.6</b>   |
| Finance income  | Note 6      | 0.1           | 0.0           |
| Finance expense   | Note 7      | 0.0           | 0.0           |
| <b>Net income / expenditure for the year</b>                                |             | <b>16.0</b>   | <b>-8.6</b>   |
| <b>Other comprehensive net income / expenditure</b>                         |             |               |               |
| Items which will not be reclassified to net operating income / expenditure: |             |               |               |
| - Net surplus on revaluation of property, plant and equipment               | SoCiTE      | 9.3           | 1.8           |
| - Net surplus / deficit on revaluation of intangible assets                 | SoCiTE      | 0.0           | -0.1          |
| <b>Total comprehensive net income / expenditure for the year</b>            |             | <b>25.3</b>   | <b>-6.9</b>   |

The notes on [pages 148 to 216](#) form an integral part of these accounts.

# Statement of Financial Position (SoFP)

as at 31 March 2020

|                                    | Note    | 2020<br>£ million | 2019<br>£ million |
|------------------------------------|---------|-------------------|-------------------|
| <b>Assets</b>                      |         |                   |                   |
| <b>Non-current assets</b>          |         |                   |                   |
| Property, plant and equipment      | Note 8  | 585.5             | 510.3             |
| Financial assets                   | Note 9  | 1.7               | 1.4               |
| Intangible assets                  | Note 10 | 3.6               | 3.0               |
| Receivables                        | Note 13 | 3.5               | 2.9               |
| <b>Total non-current assets</b>    |         | <b>594.3</b>      | <b>517.6</b>      |
| <b>Current assets</b>              |         |                   |                   |
| Work in progress                   | Note 12 | 0.3               | 0.1               |
| Receivables                        | Note 13 | 31.5              | 31.4              |
| Cash and cash equivalents          | Note 14 | 50.1              | 15.6              |
|                                    |         | 81.9              | 47.1              |
| Assets classified as held for sale | Note 15 | 0.0               | 0.4               |

|   |         |              |              |
|---|---------|--------------|--------------|
| Total current assets                              |         | 81.9         | 47.5         |
| <b>Total assets</b>                               |         | <b>676.2</b> | <b>565.1</b> |
| <b>Current liabilities</b>                        |         |              |              |
| Trade payables and other liabilities              | Note 16 | 154.6        | 148.6        |
| Short-term provisions                             | Note 17 | 0.3          | 0.4          |
| Total current liabilities                         |         | 154.9        | 149.0        |
| <b>Non-current assets plus net current assets</b> |         | <b>521.3</b> | <b>416.1</b> |
| <b>Non-current liabilities</b>                    |         |              |              |
| Trade payables and other liabilities              | Note 16 | 1.5          | 1.4          |
| Long-term provisions                              | Note 17 | 1.6          | 1.2          |
| Total non-current liabilities                     |         | 3.1          | 2.6          |
| <b>Assets less liabilities</b>                    |         | <b>518.2</b> | <b>413.5</b> |

|   |        |              |              |
|---|--------|--------------|--------------|
| <b>Taxpayers' equity and other reserves</b> |        |              |              |
| Revaluation surplus                         | SoCiTE | 205.7        | 196.4        |
| General fund                                | SoCiTE | 312.5        | 217.1        |
| <b>Total taxpayers' equity</b>              |        | <b>518.2</b> | <b>413.5</b> |

The financial statements were signed on 9 September 2020.

The Accounts were authorised for issue on the date of certification by the Comptroller and Auditor General.



Gary Aitkenhead, Chief Executive

# Statement of Cash Flows

for the year ended 31 March 2020

|  | Note         | 2020<br>£ million | 2019<br>£ million |
|--|--------------|-------------------|-------------------|
| <b>Cash flows from operating activities</b>                  |              |                   |                   |
| Net operating income / expenditure                           | SoCNE        | 15.9              | -8.6              |
| Adjustments for non-cash transactions:                       |              |                   |                   |
| - Depreciation and impairment                                | Notes 4 & 8  | 7.6               | 20.5              |
| - Loss on sale of property, plant and equipment              | Note 4       | 0.0               | 0.1               |
| - Loss on sale of intangible assets                          | Note 4       | 0.1               | 0.0               |
| - Profit on sale of assets classified as held for sale       | Note 15      | -2.2              | 0.0               |
| - Amortisation and impairment                                | Notes 4 & 10 | 0.4               | 1.6               |
| - Reclassification of previous year capital spend as revenue | Note 8       | 0.2               | 0.0               |
| - Notional audit fee   | Note 4       | 0.1               | 0.1               |
| - Write-down of non-current financial asset                  | Note 4       | 2.2               | 0.4               |
| - Provisions provided in year                                | Note 4       | 1.7               | 0.7               |
| - Provisions not required written-back                       | Note 4       | -0.1              | -0.6              |
| Net operating expenditure before changes in working capital  |              | 25.9              | 14.2              |

|   |           |       |       |
|---|-----------|-------|-------|
| Increase / decrease in work in progress                           |           | -0.2  | 0.2   |
| Increase / decrease in trade receivables and other receivables    |           | -3.2  | -6.4  |
| Increase in trade payables and other liabilities (see footnote 1) |           | 8.3   | 41.9  |
| Use of provisions   |           | -1.3  | -0.8  |
| Net cash inflow from operating activities                         |           | 29.5  | 49.1  |
| <b>Cash flows from investing activities</b>                       |           |       |       |
| Purchases of property, plant and equipment (see footnote 1)       | Note 8    | -78.9 | -62.5 |
| Proceeds from sale of asset held for sale                         | Note 15   | 2.6   | 0.0   |
| Purchases of intangible assets (see footnote 1)                   |           | -0.5  | 0.0   |
| Finance income  |           | 0.1   | 0.0   |
| Net cash outflow from investing activities                        |           | -76.7 | -62.5 |
| <b>Cash flows from financing activities</b>                       |           |       |       |
| Net funding received from MOD in-year (see footnote 2)            | SoCiTE    | 81.7  | 10.1  |
| Net cash inflow from financing activities                         | Note 14.1 | 81.7  | 10.1  |

|  |         |             |             |
|--|---------|-------------|-------------|
| <b>Net financing</b>                                 |         |             |             |
| Net increase / decrease in cash and cash equivalents |         | 34.5        | -3.3        |
| Brought forward cash and cash equivalents            |         | 15.6        | 18.9        |
| <b>Carried forward cash and cash equivalents</b>     | Note 14 | <b>50.1</b> | <b>15.6</b> |

**Footnote 1:** Increase in cash inflows from trade payables and other liabilities is after taking account of £2.2 million reduction in non-cash movement for purchase of non-current assets (2018/19: £2.2 million reduction).

Property, plant and equipment additions of £76.2 million in Note 8 include a reduction in non-cash trade payables and other liabilities of £2.7 million. Intangible assets of £1.0 million in Note 10 include an increase in non-cash trade payables and other liabilities of £0.5 million.

| <b>Footnote 2:</b>                                |        | <b>£ million</b> |
|---|--------|------------------|
| Cash received from MOD                            |        | 521.0            |
| Bookkeeping adjustments for transactions with MOD |        | -439.3           |
| Net funding received from MOD in-year             | SoCiTE | 81.7             |

## Statement of Changes in Taxpayers' Equity (SoCiTE)

for the year ended 31 March 2020

|   | Note    | General<br>fund<br>£ million | Revaluation<br>surplus<br>£ million | Total<br>taxpayers'<br>equity<br>£ million | Total<br>comprehensive<br>net expenditure<br>£ million |
|---|---------|------------------------------|-------------------------------------|--|--|
| <b>Balance at 1 April 2018</b>  |         | <b>202.3</b>                 | <b>202.1</b>                        | <b>404.4</b>                               |  |
| Net equity investment received from MOD during the year                           |         | 10.1                         |                                     | 10.1                                       |  |
| Transfer to general fund (see footnote 1)   |         |                              | -1.5                                | -1.5                                       | -1.5   |
| Surplus on revaluation of property, plant and equipment                           | Note 8  |                              | 7.4                                 | 7.4  | 7.4  |
| Transfer to general fund realised depreciation                                    |         |                              | -4.1                                | -4.1                                       | -4.1   |
| Alignment with MOD accounting (see footnote 2)                                    |         | 7.4                          | -7.4                                | 0.0  | 0.0  |
| Surplus on revaluation of intangible assets                                       | Note 10 |                              | 0.1                                 | 0.1  | 0.1  |
| Transfer to general fund realised amortisation                                    |         |                              | -0.2                                | -0.2                                       | -0.2   |
| Net gains and losses recognised in the Statement of Comprehensive Net Expenditure |         | 7.4                          | -5.7                                | 1.7  | 1.7  |

|   |           |              |              |              |             |
|---|-----------|--------------|--------------|--------------|-------------|
| Auditor's remuneration (notional)   | Note 4    | 0.1          |              | 0.1          |             |
| Net operating expenditure   | SoCNE     | -8.6         |              | -8.6         | -8.6        |
| Transfer from revaluation surplus (see footnote 1)                                |           | 1.5          |              | 1.5          |             |
| Transfer from revaluation surplus realised depreciation and amortisation          |           | 4.3          |              | 4.3          |             |
| <b>Balance at 31 March 2019</b>   |           | <b>217.1</b> | <b>196.4</b> | <b>413.5</b> | <b>-6.9</b> |
| Net equity investment received from MOD during the year (see footnote 3)          | Note 14.1 | 81.7         |              | 81.7         |             |
| Surplus on revaluation of property, plant and equipment                           | Note 8    |              | 6.9          | 6.9          | 6.9         |
| Transfer from general fund realised depreciation                                  |           |              | 2.4          | 2.4          | 2.4         |
| Net gains and losses recognised in the Statement of Comprehensive Net Expenditure |           | 0.0          | 9.3          | 9.3          | 9.3         |
| Auditor's remuneration (notional)   | Note 4    | 0.1          |              | 0.1          |             |
| Net operating expenditure   | SoCNE     | 15.9         |              | 15.9         | 15.9        |

|  |             |              |              |              |             |
|--|-------------|--------------|--------------|--------------|-------------|
| Net finance income   | Notes 6 & 7 | 0.1          |              | 0.1          | 0.1         |
| Transfer to revaluation surplus realised depreciation and amortisation |             | -2.4         |              | -2.4         |             |
| <b>Balance at 31 March 2020</b>  |             | <b>312.5</b> | <b>205.7</b> | <b>518.2</b> | <b>25.3</b> |

#### Footnote 1: Transfer to general fund

At inception of the Executive Agency, on 1 April 2017, the carrying values for property, plant and equipment, and intangible assets were transferred onto the fixed asset register as deemed historical cost. This was a practical expedient. The revaluation surplus was preserved. As a consequence, the historical cost depreciation includes an element of depreciation that relates to the Trading Fund cost re-measurements. The revaluation surplus derived from these previous re-measurements is transferred to general fund in line with the related realised depreciation. This policy is consistent, except that the realised depreciation is not separately identified from historic cost depreciation.

#### Footnote 2: Alignment of general fund and revaluation surplus with MOD 2018/19

The 2017/18 quinquennial valuation of building assets during the Executive Agency's first year of operating exposed some transitional differences with MOD, and the subsequent accounting for them. The main differences arose due to:

- (i) During 2018/19, MOD made adjustments to align with the Agency's accounting for impairment. This left a difference of £74,647. The Agency made a transfer from general fund to revaluation surplus to correct this.
- (ii) Building assets that had not transferred to MOD's fixed asset register, and were valued above the £25,000 capitalisation threshold, were accounted by MOD as write-ons. Rather than credit SoCNE, the Agency's approach was to account for these assets as a revaluation.

- (iii) The quinquennial valuation of building assets included a loading for infrastructure. The Agency had previously valued its building assets without an infrastructure loading, and instead capitalised infrastructure assets separately. To remove the infrastructure double-accounting, MOD removed the infrastructure assets from its fixed asset register by accounting for them as disposals, resulting in a loss on disposal expensed to SoCNE. The Agency removed the double-accounting with an adjustment to valuation and revaluation surplus.

To align the accounting, a one off in-year adjustment within taxpayer's equity was made as follows:

|   | <b>£ million</b> |
|---|------------------|
| Transfer general fund to credit revaluation surplus to align with MOD for (i)   | -0.1             |
| Transfer revaluation surplus to credit general fund to align with MOD for (ii)  | 17.2             |
| Transfer general fund to credit revaluation surplus to align with MOD for (iii) | -9.7             |
| <b>Net transfer and credit to general fund</b>                                  | <b>7.4</b>       |

Net equity investment received from MOD:

|   | <b>Note</b> | <b>£ million</b> |
|---|-------------|------------------|
| Balance at 31 March 2019  |             | 76.4             |
| <b>Footnote 3: Net equity investment received during the year</b> | Note 14.1   | 81.7             |
| <b>Balance at 31 March 2020</b>                                   |             | <b>158.1</b>     |

# Notes to the accounts

## 1. Accounting policies

### (a) Statement of accounting policies

The financial statements have been prepared in accordance with the 2019/20 Government Financial Reporting Manual (FReM) 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. The particular policies adopted by the Executive Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### (b)

#### (i) Accounting convention

These accounts have been prepared under the historical cost convention, modified for the application of fair value where appropriate. The balances affected are property, plant and equipment (see Note 1(f) on [page 155](#)), intangible assets (see Note 1(j) on [page 157](#)), and non-current financial assets (see Note 1(d)(ii) on [page 151](#)).

#### (ii) Going concern

The Executive Agency is dependent principally on its owning Department, MOD, as its main source of revenue. Demand for the Agency's services is enduring and there is no planned change to the Agency's status.

The Agency's going concern assertion has not been affected by the COVID-19 pandemic. The Agency is engaged in the Government Spending Review process. Baseline future spending assumptions have not materially changed as a result of the pandemic.

**(c) Consolidation with MOD**

The Executive Agency is within the Accounting Boundary of MOD and its financial statements are consolidated within those of the Department.

**(d) Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Executive Agency's accounting policies, there are necessary judgements, estimates and assumptions made that affect the carrying amounts of certain assets and liabilities. Where information is not readily available, estimates and assumptions are made with reference to advice from management, technical experts, professional third parties, and from historical experience. The estimates and underlying assumptions are reviewed on an ongoing basis.

There have been no revisions of accounting judgement, or revisions to the application of estimation technique during the year. Revisions to accounting estimates are recognised during the period of revision, and future periods if the revision affects both current and future periods.

**(i) Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimates (see (ii) on [page 151](#)), that the Executive Agency has made in the process of applying its accounting policies. These have had significant effects on the financial statements.

- **Valuation of property**

The accounting policy for the valuation of freehold land and buildings is disclosed in Note 1(f), and the valuations are disclosed in Note 8. The Executive Agency has concluded that the most appropriate method of valuation provided by the Royal Institute of Chartered Surveyors (RICS) is Depreciated Replacement Cost (DRC). The market for the Agency's specialised laboratories and secure accommodation is extremely limited. The large size of the two main sites (Porton Down and Portsmouth West) and their remote locations has a limiting effect on the number of alternative users.

The DRC estimation technique for the valuation of freehold land employs the Alternative Site Approach. This represents the lowest price the Agency would pay for an alternative plot of land that is in an appropriate location, and is appropriate for the Agency's operations.

- **Consolidation of subsidiary undertaking**

Ploughshare Innovations Ltd (Ploughshare) is a wholly owned subsidiary that the Executive Agency has the power to control. The Agency does not consider Ploughshare to be material and has decided not to produce Group accounts. Consolidation would require significant additional disclosure for minor adjustments and would not improve readers' understanding of the Agency's financial performance. Ploughshare will be reviewed each year for materiality.

- **Biological High Containment Facility**

This facility enables the Executive Agency to maintain the UK strategic sovereign capability for assessing hazards from current and emerging chemical and biological threats. It consists of several assets, including a building, operated together as a distinct facility. As an Agency inside the Department boundary, there is a more integrated approach to strategic capability planning that

includes the facility, particularly as it is used principally for MOD project work. During 2017/18, MOD valued the facility building asset on a DRC basis providing the Agency with further assurance that the Department intends to sustain this capability and strategic asset for the foreseeable future.

For these reasons, the Agency has concluded that going forward, the most appropriate valuation method is DRC for the building, with the application of indices provided by Defence Statistics between independent professional quinquennial valuations. For plant and equipment assets, appropriate indices provided by Defence Statistics are applied. This also aligns with MOD's valuation method. See Note 8.

- **Leases**

The Executive Agency occupies a site at Fort Halstead under the terms of a property lease. The Agency considers the lease to be an operating lease because there is a no-penalty termination notice period of five years and the Agency's rationalisation plans to leave the site are advanced. There are a few other non-material property operating leases where the Agency occupies a building, or part of a building under terms that have a duration of five years or less. It is unlikely that these leases would be extended to the point where the Agency would consume substantially all of the asset's useful economic benefit, and therefore it is considered appropriate to account for them as operating leases. Commitments under leases are disclosed in Note 18. The impact of adoption of the new standard for leases, IFRS16: Leases, from 1 April 2021 is discussed in Note 1(x), on [page 163](#).

**(ii) Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next year.

- **Accruals**

Accruals are estimated with reference to available documentation, advice from the relevant Project Manager, information provided by third parties, and from experience gained from previous years. Third-party verification is sought from suppliers of all sub-contracted research where the value of uninvoiced work is expected to be £100,000 or above. The total accrual relating to purchase of direct goods and services is £83.8 million (2018/19: £72.2 million).

Staff holiday is not recorded on central management information systems and therefore the holiday pay accrual calculation is an area of estimation uncertainty. The estimate is based on daily pay, using the mid-point for each pay scale. This is applied to the total calculated holiday entitlement for all employees by pay scale. An appropriate proportion is assumed to be outstanding at the year-end. The proportion applied was derived from sample testing. The sample test resulted in an estimate of 32 per cent of all annual holiday to be outstanding at the year end. The total annual holiday accrual liability is £8.3 million (2018/19: £7.3 million). A variance of 5 per cent to the proportion of holiday entitlement outstanding would vary this liability by £1.4 million.

- **Fair value of non-current financial assets**

The fair value of the Executive Agency's investment in Ploughshare is determined by taking the subsidiary's net assets, and adjusting for items already recognised in the Agency's Statement of Financial Position. A further adjustment is made for non-current assets where it is considered difficult to realise any value. Further information on Ploughshare is provided in Note 9.

- **Modified Historic Cost Accounting (MHCA)**

Non-current plant and equipment and non-current intangible assets are reported at fair value by applying various indices provided by Defence Statistics. Freehold land and buildings are subject to a rolling programme of quinquennial revaluation by an

independent professional valuer. Indices provided by Defence Statistics are applied to land and building valuations in the years between independent professional valuations.

There are inherent valuation uncertainties. A professional's valuation will depend on the method applied (DRC) and judgement on factors such as functional obsolescence, age obsolescence, and the quality of surrounding infrastructure. Where indices are applied, the values are dependent on the particular index adopted. For consistency and comparability, the index used for each class of asset will be applied every year. Further information is provided in Note 1(f) and 1(j).

### **Impact of COVID-19**

The COVID-19 pandemic and subsequent lockdown from late March has cast more than normal uncertainty on the veracity of indices applied to property values in particular.

Property values reflect indices derived from the Valuation Office Agency's (VOA) March 2020 report. Since the lockdown did not take effect until later in the month, these indices are considered the most appropriate available.

During July 2020, RICS issued advice to their regulated members concerning material valuation uncertainty. This was due to the low levels of transactional activity and market evidence resulting from the lockdown. The Institute emphasises that less certainty does not mean values cannot be relied upon, but instead, more caution should be attached to them than would normally be the case.

The Agency acknowledges the additional uncertainty, however, and to provide greater transparency, a sensitivity analysis showing the potential impact of a movement in indices on property, has been provided in Note 8.

- **Depreciation and amortization**

Depreciation of property, plant and equipment, and amortisation of intangible assets, is based on the useful economic life of the asset. It is rare for any of the Executive Agency's assets to have a residual value. They are often very specialised assets that are used until obsolete. Remaining useful economic lives are reviewed at least annually. The basis for estimating a remaining useful economic life includes experience of similar assets, the condition and performance of the asset, and knowledge of technological advances and obsolescence. Remaining useful economic lives are revised, where appropriate, to reflect any change in these circumstances. The net book value of the asset at the time of the revision will be depreciated on a straight-line basis over the revised remaining useful economic life.

With respect to the depreciation of buildings, an independent professional evaluation of their remaining useful economic lives is performed during the quinquennial rolling revaluation programme. Further information is provided in Note 1(f) and 1(j).

- **Provisions**

The measurement of early departure provisions is derived from information provided by the Cabinet Office (My Civil Service Pension). Variations between estimated values and the final cost on crystallisation of the liabilities are not considered material. The measurement of the dilapidation provision is based on a third-party estimate provided during 2009. The Retail Price Index has been applied to derive its current value. Further disclosures are provided in Note 17.

Any change in expectations, or difference between expectation and the actual liability on crystallisation, will be accounted for in the period the determination is made.

**(e) Basis of consolidation**

The Executive Agency has not consolidated its wholly owned subsidiary, Ploughshare, or the Agency's associate, Tetricus Ltd, on grounds of materiality. See Note 1(d)(i) on [page 149](#).

**(f) Property, plant and equipment**

The majority of the Executive Agency's property, plant and equipment is held on MOD's non-current asset register where Defence Statistics indices are applied. For consistency, the Agency applies the same Defence Statistics indices for the balance of property, plant and equipment assets held on its own non-current asset register.

Property, plant, machinery, transport, IT and communication equipment are capitalised where the cost of acquisition is greater than £25,000.

All assets are independently inspected on a five-year rolling programme. Assets are carried at current value in existing use or fair value. The valuation methods for different classes of asset are as follows:

Land and buildings:

Where independent professional valuations are carried out, they are performed using RICS Red Book methods.

Land – DRC

Buildings – DRC

For land and buildings that have been declared surplus – Market Value  
Plant, machinery, transport, and IT and communication equipment – MHCA.

For land, the DRC is derived with reference to the lowest amount that a purchaser would pay to acquire an alternative site appropriate for its operations in a relevant location at the valuation date.

Property is revalued in the years between professional independent valuations using indices provided by Defence Statistics. Plant, machinery, transport, IT and communication equipment assets are revalued using indices provided by Defence Statistics.

Depreciation is provided on a straight-line basis over the useful economic lives of the assets, which are as follows:

Buildings: 5-50 years

Plant and machinery: 5-30 years

Transport: 3-35 years

IT and communication equipment: 3-30 years

Land that has a useful economic life of more than one year is not depreciated.

Details of property, plant and equipment values included within these financial statements are disclosed in Note 8.

**(g) Grant-funded assets**

Grants received or receivable for the acquisition or construction of property, plant or equipment are recognised as other operating income after the activity that creates the entitlement has been performed. They are not material and are therefore only separately disclosed within the property, plant and equipment note in the year of their acquisition.

**(h) Donated assets**

Plant, equipment and intangible assets donated to the Executive Agency for which no consideration is given or conditions are attached, are brought onto the Statement of Financial Position at their fair value and are revalued, and depreciated or amortised on the same basis as purchased assets. The fair value at initial recognition is credited to the Statement of Comprehensive Net Expenditure as other operating income. The assets are revalued, and depreciated or amortised on the same basis as other non-current assets of the same class.

**(i) Customer-funded assets**

Where a customer has funded in part or in whole, the purchase or construction of an asset that meets the definition of a non-current asset, and the customer retains an interest in that asset, the asset is initially brought onto the Statement of Financial Position at cost. The asset is depreciated and revalued on the same basis as other non-current assets of the same class. The customer funding is released to other operating income during the period that the customer has an interest in the asset.

**(j) Intangible assets**

Intangible assets comprise purchased software licences and the cost of software developed in-house where there is reliable cost

information and the asset will give rise to future economic benefit. The minimum level for capitalisation of intangible assets is £25,000.

Amortisation is on a straight-line basis over the shorter of the licence term, or the software's useful economic life. Intangible assets are revalued annually by applying indices provided by Defence Statistics. The majority of the Agency's intangible assets is held on MOD's non-current asset register where Defence Statistics indices are applied. For consistency, the Agency applies the same Defence Statistics indices to the balance of intangible assets held on its own non-current asset register.

The useful economic lives of intangible assets are considered to fall within one to ten years.

#### **(k) Impairment**

The carrying value of the Executive Agency's non-current assets is reviewed during the year to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairments are first offset through other comprehensive net expenditure where sufficient revaluation surplus exists. If impairment is due to consumption of economic benefit, or there is insufficient revaluation surplus, it is charged through profit or loss. Impairment losses will be reversed if there is an increase in the fair value or service potential of a previously impaired asset. The increased carrying amount attributable to a reversal of an impairment is first credited to profit or loss to the extent of any original impairment charge to profit or loss. Any remaining balance, or the whole reversal (if impairment was fully offset through other comprehensive net expenditure), will be credited through other comprehensive net expenditure.

**(l) Research and development**

Research and development expenditure incurred during work on a contract for a customer is chargeable to the customer. Internally, funded research expenditure is charged to the Statement of Comprehensive Net Expenditure as incurred.

**(m) Work in progress**

Work in progress represents the value of partially completed milestones on firm-price contracts, and is stated at the lower of cost and net realisable value.

**(n) Contract assets**

Contract assets represent operating income recognised in excess of the values invoiced (net of VAT) on cost-plus contracts and include an appropriate amount of profit attributed to the contract. For firm-price contracts, contract assets are recognised where there is a timing difference between income recognition (such as on delivery of a milestone) and issuing an invoice to the customer.

**(o) Financial instruments**

Financial assets and liabilities are recognised in the Executive Agency's Statement of Financial Position where the Agency has become a party to contractual terms of an instrument. With respect to the Agency's investment in Ploughshare, the method of accounting that has been adopted is fair value through profit or loss. For information on the Agency's exposure to risk and categories of financial instruments, see Note 20.

**(p) Provisions**

Provisions are made where the Executive Agency has a present legal or constructive obligation as a result of a past event, and where it is probable that a reliably measured economic outflow will result. Provisions are measured taking into account the risks and uncertainties surrounding the obligation. Where possible, information from third parties is used as a basis for deriving the estimated liability.

**(q) Pensions**

Past and present employees are covered by pension benefits provided through Civil Service pension arrangements that are unfunded multi-employer schemes providing benefits based on either final salary, indexed average lifetime salary, or a mixture of both. The Executive Agency is unable to identify its share of the underlying assets and liabilities and therefore it accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the Statement of Comprehensive Net Expenditure represents the contributions payable to the schemes in respect of the accounting period. Details of rates and amounts of contributions during the year are disclosed in the Remuneration and Staff Report on [page 122](#).

**(r) Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange ruling at the Statement of Financial Position date. Gains and losses arising on retranslation are included in the Statement of Comprehensive Net Expenditure.

### **(s) Operating income**

The amount of operating income recognised by the Executive Agency reflects the consideration due from the transfer of control for promised goods and services to customers. Control is when the customer has the ability to direct the use of, and obtain substantially all of the benefits of the goods or services.

For cost-plus contracts, the transfer of control passes to the customer over time. The customer simultaneously receives and consumes the benefits of the services. The services are specialised, have no alternative use, and the Agency has an enforceable right to payment for the completed performance to date. The recognition of operating income reflects the pattern of consumption of benefits by the customer, and includes the attributable contract profit rate. The total amount of operating income recognised is capped at the contract price limit.

For firm-price contracts, the transfer of control passes to the customer at a point in time. Each point in time reflects the transfer of a performance obligation to the customer (a contract milestone), and each performance obligation has an attributed contract price. The recognition of operating income reflects the price of an achieved performance obligation that is accepted by the customer. Some firm-price contracts have a single performance obligation where there are no specified interim milestones.

Operating income is accrued as contract assets where there is a timing difference between income recognition and invoicing. Operating income is deferred as contract liabilities where a contract allows amounts to be invoiced ahead of the trigger point for income recognition (such as before the completion of performance obligations). Losses are recognised as soon as they are foreseen. More than 91 per cent of the Agency's operating income from contracts with customers is from MOD. All contracts with MOD are charged at cost, with no profit. Under this arrangement, no formal invoicing takes place and therefore no trade receivable is

recognised. The Agency recognises operating income over time, which is simultaneously expensed by MOD using intra-Department bookkeeping.

Other operating income is recognised for receipts relating to non-core activities that are not the supply of scientific and technical services. See Note 3 for further information.

The Agency does not have any contracts where the period between the transfer of the promised goods and services to the customer and payment from the customer exceeds a year. As a consequence, the Agency does not adjust the contract prices for the time value of money.

**(t) Value Added Tax (VAT)**

The Executive Agency's VAT falls within MOD's VAT registration. The Agency accounts for VAT and transfers the net value to MOD on a quarterly basis for inclusion within MOD's VAT return. Where the VAT is irrecoverable, it is charged to the relevant expense category, or if capital, to the relevant non-current asset class.

**(u) Segmental reporting**

The principal business activities of the Executive Agency are managed through Divisions, and the segmental analysis in Note 2 is presented according to the Agency's internal management reporting structure. The accounting policies of the operating segments are the same as those of the Agency. Corporate overheads are allocated to operating segments on the basis of headcount with the exception of estates management charges, which are allocated on area of occupancy. Inter-segment trading is at cost.

**(v) Reserves within taxpayers' equity**

The revaluation surplus represents taxpayers' equity arising from increases in the value of the Executive Agency's non-current assets.

**(w) General fund**

Net funding received from the owning Department, MOD, is recorded as equity within the general fund. The Statement of Changes in Taxpayers' Equity discloses the movement in net funding received from MOD during the year. The Statement of Cash Flows discloses the cash funding received from MOD within cash flows from financing activities, and the associated footnote 2.

**(x) IFRS, amendments and interpretations in issue but not yet effective or adopted**

IAS8: Accounting Policies, Changes in Accounting Estimates and Errors requires disclosures in respect of new IFRS, amendments and interpretations that are or will be applicable after the reporting period. The following new standard will be adopted by the Executive Agency as directed, interpreted or adapted by the FReM from 1 April 2021:

**IFRS16: Leases**

The standard was issued during January 2016 and intended to replace the previous standard for leases, IAS17. The standard provides a single lessee accounting model for recognising, measuring, presenting and disclosing leases. It requires recognition of all lease agreements whose duration extends beyond 12 months and the value of the underlying asset is not low. Measurement of a right of use asset will mainly be the present value of lease payments discounted using the implicit interest rate within the lease agreement. There will be a matching lease liability.

The right of use asset will be depreciated on a straight-line basis during the term of the lease, and there will be an associated finance

expense. The FReM mandates the cumulative effect catch-up transitional arrangement (simplified method), with the net adjustment taken to the general fund. The comparatives are not restated. Where the implicit interest rate within the lease is not available, the lease payments will be discounted by the incremental borrowing rate as promulgated by HM Treasury. Re-measurements using revised rates will only occur where the lease term is amended.

The standard has been reviewed and its impact is likely to depend on the exit arrangements and subsequent negotiations surrounding the lease for property at Fort Halstead. This is the Executive Agency's only material lease. The current annual rental charge for the property lease at Fort Halstead is £3.6 million. See Note 18 for further information.

The following is a draft extract of the expected opening SoFP adjustments relating to all extant right of use assets if the standard was to be implemented on 1 April 2020:

|  | <b>Land and<br/>buildings<br/>£ million</b> | <b>Buildings<br/>£ million</b> | <b>Plant and<br/>machinery<br/>£ million</b> | <b>Transport<br/>£ million</b> | <b>Total<br/>£ million</b> |
|--|---|--------------------------------|--|--------------------------------|----------------------------|
| Right of use asset                         | 17.5  | 1.3                            | 0.0  | 0.0                            | 18.8                       |
| Lease liability due within 1 year          | -2.5  | -0.4                           | 0.0  | 0.0                            | -2.9                       |
| Lease liability due after more than 1 year | -14.1                                       | -0.9                           | 0.0  | 0.0                            | -15.0                      |
| Prepayment adjustment                      | -0.9  | 0.0                            | 0.0  | 0.0                            | -0.9                       |

Lease payments have been discounted using rates that had been promulgated by HM Treasury for use during 2020/21. These figures assume that the Fort Halstead lease will be in place for 5 years without a negotiated exit arrangement.

A comparison of the impact to SoCNE that IFRS16 would have had during 2020/21 for all lease agreements when compared with the current standard for lease accounting, is as follows:

|      | <b>IAS17<br/>Rentals<br/>expense<br/>£ million</b> | <b>IFRS16<br/>Depreciation<br/>£ million</b> | <b>IFRS16<br/>Finance<br/>expense<br/>£ million</b> | <b>IFRS16<br/>Total<br/>charge<br/>£ million</b> |
|------|--|--|---|--|
| 2021 | 4.0  | 3.9  | 0.2   | 4.1  |
| 2022 | 4.0  | 3.8  | 0.2   | 4.0  |
| 2023 | 3.8  | 3.7  | 0.1   | 3.8  |
| 2024 | 3.8  | 3.7  | 0.1   | 3.8  |
| 2025 | 3.8  | 3.7  | 0.0   | 3.7  |

IFRS16 will have a negligible impact to SoCNE. The principal impact will be the increase in assets and liabilities on the SoFP.

The following standard will be adopted by the Executive Agency as directed, interpreted or adapted by the FReM from 1 April 2023:

#### **IFRS17: Insurance contracts**

The standard was issued during May 2017 and replaces the previous standard for insurance contracts IFRS4. The objective of the standard is to ensure insurance contracts are accounted for on a consistent basis, measured at the present value of future cash flows.

Currently, no future impact of the standard is expected as the Agency does not have any assets or liabilities recognised as insurance contracts.

## **2. Statement of net expenditure by operating segment**

All of the Executive Agency's business reporting segments are disclosed to enable users of these financial statements to evaluate the nature and financial effects of the Agency's business activities. The Agency's corporate support functions have been aggregated.

All Divisions derive their revenues from the provision of specialist scientific and technical services. The Agency derives more than 91 per cent of its revenues from MOD, and more than 97 per cent of its revenues from wider Government. More detailed disclosures can be found in Note 21, related-party transactions.

The measure of profit presented to the Board, the chief decision-maker, is the underlying operating profit that excludes the significant non-recurring operating items described in Note 5, and separately identified below. No measure of segmental assets and liabilities has been disclosed because this information is not regularly provided to the Board.

More than 97 per cent of revenue is derived from UK sources. The Board does not review the business on a geographical basis. A geographical analysis would not be necessary to aid users' understanding of these financial statements.

Operating segment analysis for the year ending 31 March 2020

|   | Note   | Chemical,<br>Biological<br>and<br>Radiological<br>Division<br>£ million | Cyber<br>and<br>Information<br>Systems<br>Division<br>£ million | Counter-<br>Terrorism<br>and<br>Security<br>Division<br>£ million | Defence<br>and<br>Security<br>Analysis<br>Division<br>£ million | Platform<br>Systems<br>Division<br>£ million | Defence<br>and<br>Security<br>Accelerator<br>£ million | Corporate<br>£ million | Internal<br>trading<br>adjustments<br>£ million | Total<br>as per<br>financial<br>statements<br>£ million |
|---|--------|---|---|---|---|--|--|------------------------|---|---|
| Mod Chief Scientific<br>Advisor                             |        | 41.9  | 83.2  | 44.4  | 35.4  | 141.5  | 3.1  | 0.1                    |   | 349.6   |
| MOD other   |        | 24.6  | 48.3  | 57.4  | 10.1  | 134.6  | 16.3   | 0.1                    |   | 291.4   |
| Wider Government  |        | 5.5   | 1.4   | 37.4  | 0.4   | 0.2  | 1.1  | 0.0                    |   | 46.0  |
| Non-Exchequer income  |        | 8.1   | 0.0   | 2.5   | 0.0   | 0.3  | 0.0  | 5.6                    |   | 16.5  |
| Operating income from<br>contracts with customers           | Note 3 | 80.1  | 132.9   | 141.7   | 45.9  | 276.6  | 20.5   | 5.8                    |   | 703.5   |
| Other operating income                                      | Note 3 | 2.6   | 2.3   | 2.2   | 0.0   | 3.4  | 0.0  | 7.8                    |   | 18.3  |
| Income from other<br>operating segments<br>(see footnote 1) |        | 7.8   | 12.8  | 12.2  | 38.5  | 20.3   | 0.0  | 1.6                    | -93.2   | 0.0   |

|   |        |             |              |              |             |              |             |             |              |              |
|---|--------|-------------|--------------|--------------|-------------|--------------|-------------|-------------|--------------|--------------|
| <b>Operating income internal and external</b>                     |        | <b>90.5</b> | <b>148.0</b> | <b>156.1</b> | <b>84.4</b> | <b>300.3</b> | <b>20.5</b> | <b>15.2</b> | <b>-93.2</b> | <b>721.8</b> |
| Underlying net operating income / expenditure<br>(see footnote 2) |        | -3.5        | 10.1         | -1.4         | 4.2         | 14.0         | 2.2         | -4.1        |              | 21.5         |
| Significant non-recurring operating items                         | Note 5 | 0.0         | 0.0          | 0.0          | 0.0         | 0.0          | 0.0         | -5.6        |              | -5.6         |
| <b>Net operating income / expenditure</b><br>(see footnote 3)     |        | <b>-3.5</b> | <b>10.1</b>  | <b>-1.4</b>  | <b>4.2</b>  | <b>14.0</b>  | <b>2.2</b>  | <b>-9.7</b> |              | <b>15.9</b>  |
| Finance income  | Note 6 | 0.0         | 0.0          | 0.0          | 0.0         | 0.0          | 0.0         | 0.1         |              | 0.1          |
| <b>Net income / expenditure for the year</b>                      |        | <b>-3.5</b> | <b>10.1</b>  | <b>-1.4</b>  | <b>4.2</b>  | <b>14.0</b>  | <b>2.2</b>  | <b>-9.6</b> |              | <b>16.0</b>  |

Footnote 1: Internal trading where staff and facility resource, owned by an operating segment, is utilised on an external customer project that is owned and managed by another operating segment. This represents recovery of the cost of providing these services to the recipient operating segment. Cost recovery is included in internal financial performance reporting which is reviewed by the Board.

Footnote 2: Underlying net operating income / expenditure is the measure of profit or loss routinely presented to the Board.

Footnote 3: Within net operating income / expenditure are depreciation, amortisation and impairments expensed as follows:

|  | Note   | £ million   | £ million   |
|--|--------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| Depreciation and impairment of property, plant and equipment |        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 7.6         | 7.6         |
| Amortisation and impairment of intangible assets             |        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.4         | 0.4         |
| Impairment of investment in non-current financial asset      |        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 2.2         | 2.2         |
| <b>Total depreciation, amortisation and impairment</b>       | Note 4 | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>10.2</b> | <b>10.2</b> |

The comparatives for the year ending 31 March 2019:

|   | Note   | Chemical,<br>Biological<br>and<br>Radiological<br>Division<br>£ million | Cyber<br>and<br>Information<br>Systems<br>Division<br>£ million | Counter-<br>Terrorism<br>and<br>Security<br>Division<br>£ million | Defence<br>and<br>Security<br>Analysis<br>Division<br>£ million | Platform<br>Systems<br>Division<br>£ million | Defence<br>and<br>Security<br>Accelerator<br>£ million | Corporate<br>£ million | Internal<br>trading<br>adjustments<br>£ million | Total<br>as per<br>financial<br>statements<br>£ million |
|---|--------|---|---|---|---|--|--|------------------------|---|---|
| Mod Chief Scientific<br>Advisor                             |        | 38.8  | 84.3  | 43.7  | 31.3  | 145.8  | 2.4  | 0.0                    |   | 346.3   |
| MOD other   |        | 23.7  | 35.0  | 50.8  | 8.1   | 83.5   | 10.5   | 0.0                    |   | 211.6   |
| Wider Government  |        | 15.3  | 2.7   | 35.1  | 0.2   | 2.2  | 0.0  | 0.0                    |   | 55.5  |
| Non-Exchequer income  |        | 6.4   | 0.7   | 0.7   | 0.0   | 0.2  | 0.0  | 4.6                    |   | 12.6  |
| Operating income from<br>contracts with customers           | Note 3 | 84.2  | 122.7   | 130.3   | 39.6  | 231.7  | 12.9   | 4.6                    |   | 626.0   |
| Other operating income                                      | Note 3 | 0.2   | 0.0   | 0.7   | 0.0   | 0.0  | 0.0  | 3.5                    |   | 4.4   |
| Income from other<br>operating segments<br>(see footnote 1) |        | 6.9   | 11.6  | 12.1  | 33.6  | 18.7   | 0.0  | 2.1                    | -85.0   | 0.0   |

|   |        |             |              |              |             |              |             |              |              |              |
|---|--------|-------------|--------------|--------------|-------------|--------------|-------------|--------------|--------------|--------------|
| <b>Operating income internal and external</b>                     |        | <b>91.3</b> | <b>134.3</b> | <b>143.1</b> | <b>73.2</b> | <b>250.4</b> | <b>12.9</b> | <b>10.2</b>  | <b>-85.0</b> | <b>630.4</b> |
| Underlying net operating income / expenditure<br>(see footnote 2) |        | -1.5        | 6.2          | -1.3         | 6.9         | 8.0          | 2.1         | -22.2        |              | -1.8         |
| Significant operating items                                       | Note 5 | 0.0         | 0.0          | 0.0          | 0.0         | 0.0          | 0.0         | -6.8         |              | -6.8         |
| <b>Net operating income / expenditure</b><br>(see footnote 3)     |        | <b>-1.5</b> | <b>6.2</b>   | <b>-1.3</b>  | <b>6.9</b>  | <b>8.0</b>   | <b>2.1</b>  | <b>-29.0</b> |              | <b>-8.6</b>  |
| Finance income  | Note 6 | 0.0         | 0.0          | 0.0          | 0.0         | 0.0          | 0.0         | 0.0          |              | 0.0          |
| <b>Net income / expenditure for the year</b>                      |        | <b>-1.5</b> | <b>6.2</b>   | <b>-1.3</b>  | <b>6.9</b>  | <b>8.0</b>   | <b>2.1</b>  | <b>-29.0</b> |              | <b>-8.6</b>  |

**Footnote 1:** Internal trading where staff and facility resource, owned by an operating segment, is utilised on an external customer project that is owned and managed by another operating segment. This represents recovery of the cost of providing these services to the recipient operating segment. Cost recovery is included in internal financial performance reporting which is reviewed by the Board.

**Footnote 2:** Underlying net operating income / expenditure is the measure of profit or loss routinely presented to the Board.

**Footnote 3:** Within net operating income / expenditure are depreciation, amortisation and impairments expensed as follows:

|  | Note   | £ million   | £ million   |
|--|--------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| Depreciation and impairment of property, plant and equipment |        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 20.5        | 20.5        |
| Amortisation and impairment of intangible assets             |        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 1.6         | 1.6         |
| Impairment of investment in non-current financial asset      |        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.4         | 0.4         |
| <b>Total depreciation, amortisation and impairment</b>       | Note 4 | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>22.5</b> | <b>22.5</b> |

## **A summary of the business activities provided by the operating segments**

### **Chemical, Biological and Radiological (CBR)**

The CBR Division provides an integrated chemical, biological, radiological and medical sciences capability. The Division delivers longer-term research as well as short-term advice and consultancy, and supports both the Front Line Commands and wider Government.

### **Cyber and Information Systems (CIS)**

The CIS Division maintains and develops a range of capabilities that achieve the Division's vision of delivering transformational information superiority. Working with partners, the Division offers the capabilities that provide the skills, knowledge, expertise and facilities that underpin the outcomes needed to support Defence in Cyber, C4ISR and Space related areas – both now and in the future.

### **Counter-Terrorism and Security (CTS)**

The CTS Division delivers innovative science and technology and solutions to support CTS operations, both for MOD and wider Government. With in-house laboratories, workshops and other specialised facilities, the Division provides rapid response to operational demands. The Division maintains the Sovereign UK Energetics capability and provides a source of threat information throughout the Executive Agency.

### **Defence and Security Analysis (DSA)**

The DSA Division is the single focus for military and security capability analysis, consulting and enterprise-level system engineering. The Division covers work for MOD Head Office and all Commands, plus the human systems and analysis and simulation sub-capabilities.

## **Platform Systems (PLS)**

The Platform Systems Division provides a single focus for platform-based capability covering all mission and weapons systems, and the related integrated survivability capabilities. The Division is responsible for all advice and solutions to capability gaps that require platform based solutions. This Division primarily supports the Front Line Commands.

## **Defence and Security Accelerator (DASA)**

DASA consists of personnel from Dstl, MOD including Defence Equipment and Support, and Home Office. Its remit is to provide funding and other support to wider Government, private sector, and academia to help solve the UK's most pressing Defence and Security challenges, and to link the Executive Agency's partners together.

## **Corporate**

Main functions and activities include:

- corporate governance, and centralised functions such as finance and treasury management, human resources, and commercial contracting management
- estate and facilities management
- business information and communication systems
- knowledge services, providing services to the Executive Agency's internal knowledge base, MOD-funded reports and the wider scientific and technical literature, together with a range of information and analysis services
- strategy portfolio and capability, the interface between scientific Divisions, key customers, and suppliers, to develop effective programmes and capability plans.

### 3. Operating income

The Executive Agency derives revenue from contracts with customers over time and at a point in time, analysed by major class of customer as follows:

|                          | Timing of income recognition | 2020<br>£ million | 2019<br>£ million |
|--------------------------|------------------------------|-------------------|-------------------|
| <b>MOD</b>               |                              | <b>641.0</b>      | <b>557.9</b>      |
| Chief Scientific Adviser | Over time                    | 349.6             | 346.3             |
| Other                    | Over time                    | 291.4             | 211.6             |
| <b>Non-MOD</b>           |                              | <b>62.5</b>       | <b>68.1</b>       |
| Wider Government         | Over time                    | 44.6              | 52.9              |
| Wider Government         | At a point in time           | 1.4               | 2.6               |
| Non-Exchequer income     | Over time                    | 11.9              | 10.3              |
| Non-Exchequer income     | At a point in time           | 4.6               | 2.3               |
| <b>Total</b>             |                              | <b>703.5</b>      | <b>626.0</b>      |

Operating income from contracts with customers is categorised according to the main contracted customer. All revenue is from the sale of goods and services and relates to the same class of business, which is the supply of specialist scientific and technical services. This is conducted principally in the UK in sterling. No other geographical market has contributed significantly to operating income. See Note 2 for operating segment disclosures.

|   | 2020<br>£ million | 2019<br>£ million |
|---|-------------------|-------------------|
| <b>Other operating income</b>   |                   |                   |
| Transferred from deferred income for non-MOD customer-funded non-current assets | 0.1               | 0.1               |
| MOD donated non-current assets  | 10.1              | 0.0               |
| Other miscellaneous income  | 8.1               | 4.3               |
| <b>Total</b>  | <b>18.3</b>       | <b>4.4</b>        |

Other miscellaneous income includes receipts totalling £6.7 million from Home Office (2018/19: £2.3 million) for the transitioning of former Centre for Applied Science and Technology staff and facilities into the Agency, and £0.8 million recovery of non-salary costs for outward secondees (2018/19: £1.2 million).

Other operating income excludes recovery of salary costs for outward secondees which is treated as an off-set against staff costs. See Remuneration and Staff report on [page 118 to 119](#).

#### 4. Other expenditure

Material items charged / credited before stating net operating expenditure is:

|   | 2020<br>£ million | 2019<br>£ million |
|---|-------------------|-------------------|
| <b>Staff costs</b> (see footnote 1)                   |                   |                   |
| Wages and salaries                                    | 171.2             | 159.7             |
| Social security costs (including apprenticeship levy) | 19.0              | 17.6              |
| Other pension costs                                   | 44.0              | 30.9              |
| Other staff costs                                     | 21.3              | 14.1              |
|   | <b>255.5</b>      | <b>222.3</b>      |
| <b>Other cash items</b>                               |                   |                   |
| Purchase of direct goods and services                 | 321.5             | 280.4             |
| Operating lease rentals:                              |                   |                   |
| - Property  | 3.5               | 3.7               |
| - Plant   | 0.1               | 0.0               |
| Travel, subsistence and hospitality                   | 3.7               | 3.6               |
| Training  | 2.5               | 2.0               |
| Professional services                                 | 6.8               | 3.7               |

|  |              |              |
|--|--------------|--------------|
| Foreign exchange gains   | 0.0          | -0.1         |
| Purchase of other indirect goods and services                                  | 104.7        | 100.3        |
| <b>Total cash costs</b>  | <b>698.3</b> | <b>615.9</b> |
| <b>Non-cash items</b>  |              |              |
| Depreciation and impairment charge for year:                                   | 7.6          | 20.5         |
| - Depreciation of owned property, plant and equipment                          | 9.8          | 18.5         |
| - Exceptional costs of reversal of impairment of property, plant and equipment | -5.1         | -2.0         |
| - Adjustment valuation of property, plant and equipment                        | 2.9          | 4.0          |
| Amortisation and impairment charge for the year:                               | 0.4          | 1.6          |
| - Amortisation of software licences  | 0.4          | 1.4          |
| - Adjustment valuation of software licences                                    | 0.0          | 0.2          |
| Loss on disposal of owned property, plant and equipment                        | 0.0          | 0.1          |
| Loss on disposal of intangible assets  | 0.1          | 0.0          |
| Profit on sale of assets classified as held for sale (see footnote 2)          | -2.2         | 0.0          |
| Impairment of non-current financial asset investment (see footnote 3)          | 2.2          | 0.4          |
| Auditor's remuneration and expenses (see footnote 4)                           | 0.1          | 0.1          |
| Doubtful debt provision (see footnote 5)                                       | -2.2         | 0.3          |
| Provisions provided in year  | 1.7          | 0.7          |

|                                      |            |             |
|--------------------------------------|------------|-------------|
| Provisions not required written-back | -0.1       | -0.6        |
| <b>Total non-cash costs</b>          | <b>7.6</b> | <b>23.1</b> |

**Footnote 1:** Staff costs are disclosed in more detail in the Remuneration and Staff Report on [pages 118 to 119](#).

**Footnote 2:** Sale of Portsdown Main site. See Note 15.

**Footnote 3:** Impairment of the carrying value of the Executive Agency's investment in Ploughshare. See Note 9.

**Footnote 4:** The notional audit fee for 2019/20 is £79,000 (2018/19: £79,000).

During the year, the Agency did not contract any non-audit services from its external auditor, the National Audit Office (NAO).

**Footnote 5:** This reversal relates to debt that had been owed by Ploughshare. See Note 9.

## 5. Significant non-recurring operating items

Significant non-recurring operating items are defined as operating income or operating expenses that are not routine to the core business and due to their size or incidence are material. They warrant supplementary disclosure to aid user understanding of the Executive Agency's underlying operating performance. They may occur as a single in-year item, or they can be part of a project that spans several years and whose continued disclosure enable users to assess the on-going impact on financial performance.

|  | 2020<br>£ million | 2019<br>£ million |
|--|-------------------|-------------------|
| Hellios (see footnote 1)                                   | 7.8               | 6.4               |
| Impairment of non-current financial asset (see footnote 2) | 2.2               | 0.4               |
| Reversal of doubtful debt provision (see footnote 2)       | -2.2              | 0.0               |
| Profit from sale of Portsdown Main site (see footnote 3)   | -2.2              | 0.0               |

**Footnote 1:** Costs of withdrawal from the Agency's site at Fort Halstead under the Helios Project.

**Footnote 2:** Impairment of the carrying value of the Agency's investment in Ploughshare, and reversal of doubtful debt following a debt for equity exchange. See Note 9.

**Footnote 3:** The sale of the Portsdown Main site, a non-current asset classified as held for sale, generated proceeds of £2.6 million realising a profit of £2.2 million

## 6. Finance income

|   | 2020<br>£ million | 2019<br>£ million |
|---|-------------------|-------------------|
| Interest received and receivable from bank accounts | 0.1               | 0.0               |
| <b>Total</b>  | <b>0.1</b>        | <b>0.0</b>        |

## 7. Finance expense

|                                    | 2020<br>£ million | 2019<br>£ million |
|------------------------------------|-------------------|-------------------|
| Interest paid and payable on loans | 0.0               | 0.0               |
| <b>Total</b>                       | <b>0.0</b>        | <b>0.0</b>        |

No payments were made under the Late Payments of Commercial Debts (Interest) Act 1998 (2018/19: £143).

## 8. Property, plant and equipment

Property, plant and equipment movements during the year were:

|   | Land<br>£ million | Buildings<br>£ million | Plant and<br>machinery<br>£ million | Transport<br>£ million | IT and<br>communication<br>equipment<br>£ million | Assets under<br>construction<br>£ million | Total<br>£ million |
|---|-------------------|------------------------|-------------------------------------|------------------------|---|---|--------------------|
| <b>Valuations and gross modified historic cost</b>    |                   |                        |                                     |                        |   |   |                    |
| <b>Balance at 1 April 2018</b>                        | 94.4              | 247.5                  | 32.1                                | 0.2                    | 20.6  | 91.7                                      | 486.5              |
| Alignment with MOD accounting<br>(see footnote 1)     | 0.0               | -0.5                   | 0.0                                 | 0.0                    | 0.0   | 0.0                                       | -0.5               |
| Transfers between asset class                         | 0.0               | -0.4                   | 0.0                                 | 0.0                    | 0.0   | 0.4                                       | 0.0                |
| Additions   | 0.0               | 0.0                    | 0.4                                 | 0.1                    | 0.0   | 61.9                                      | 62.4               |
| Transfers   | 0.0               | 43.8                   | 6.3                                 | 0.0                    | 1.6   | -51.7                                     | 0.0                |
| Reclassified as non-capital spend<br>(see footnote 2) | 0.0               | 0.0                    | 0.0                                 | 0.0                    | 0.0   | -2.2                                      | -2.2               |
| Disposals   | 0.0               | -0.5                   | -0.4                                | 0.0                    | -0.3  | 0.0                                       | -1.2               |
| Assets classified as held for sale                    | -0.4              | 0.0                    | 0.0                                 | 0.0                    | 0.0   | 0.0                                       | -0.4               |
| Revaluations  | 1.4               | 6.0                    | 0.2                                 | 0.0                    | 0.2   | 0.0                                       | 7.8                |

|   |              |              |             |            |             |              |              |
|---|--------------|--------------|-------------|------------|-------------|--------------|--------------|
| Impairment Reversal                                   | 0.0          | 2.0          | 0.0         | 0.0        | 0.0         | 0.0          | 2.0          |
| <b>Balance at 31 March 2019</b>                       | <b>95.4</b>  | <b>297.9</b> | <b>38.6</b> | <b>0.3</b> | <b>22.1</b> | <b>100.1</b> | <b>554.4</b> |
| Transfers between asset class                         | 0.0          | -3.4         | 3.4         | 0.0        | 0.0         | 0.0          | 0.0          |
| Additions   | 0.0          | 0.0          | 3.7         | 0.0        | 0.2         | 72.3         | 76.2         |
| Transfers   | 0.0          | 41.9         | 2.0         | 0.0        | 4.3         | -48.2        | 0.0          |
| Transfers to intangible assets under construction     | 0.0          | 0.0          | 0.0         | 0.0        | -0.1        | 0.0          | -0.1         |
| Reclassified as non-capital spend<br>(see footnote 2) | 0.0          | 0.0          | 0.0         | 0.0        | 0.0         | -0.2         | -0.2         |
| Disposals   | 0.0          | 0.0          | -1.1        | 0.0        | -6.1        | 0.0          | -7.2         |
| Revaluations  | 9.1          | 2.7          | 0.8         | 0.1        | 0.3         | 0.0          | 13.0         |
| Impairment Reversal                                   | 0.0          | 4.7          | 0.0         | 0.0        | 0.0         | 0.0          | 4.7          |
| <b>Balance at 31 March 2020</b>                       | <b>104.5</b> | <b>343.8</b> | <b>47.4</b> | <b>0.4</b> | <b>20.7</b> | <b>124.0</b> | <b>640.8</b> |
| <b>Depreciation</b>                                   |              |              |             |            |             |              |              |
| <b>Balance at 1 April 2018</b>                        | 0.0          | -10.7        | -5.4        | -0.1       | -6.5        | 0.0          | -22.7        |
| Alignment with MOD accounting<br>(see footnote 1)     | 0.0          | 0.5          | -0.1        | 0.0        | 0.0         | 0.0          | 0.4          |
| Charge for year:                                      |              |              |             |            |             |              |              |

|                                 |              |              |              |             |              |              |              |
|---------------------------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|
| - historical                    | 0.0          | -5.9         | -5.2         | -0.1        | 7.3          | 0.0          | -18.5        |
| - supplementary                 | 0.0          | -3.3         | -0.1         | 0.0         | -0.6         | 0.0          | -4.0         |
| Disposals                       | 0.0          | 0.4          | 0.4          | 0.0         | 0.3          | 0.0          | 1.1          |
| Revaluations                    | 0.0          | -0.3         | 0.0          | 0.0         | -0.1         | 0.0          | -0.4         |
| <b>Balance at 31 March 2019</b> | <b>0.0</b>   | <b>-19.3</b> | <b>-10.4</b> | <b>-0.2</b> | <b>-14.2</b> | <b>0.0</b>   | <b>-44.1</b> |
| Charge for year:                |              |              |              |             |              |              |              |
| - historical                    | 0.0          | -2.2         | -4.3         | -0.1        | -3.2         | 0.0          | -9.8         |
| - supplementary                 | 0.0          | -2.1         | -0.6         | 0.0         | -0.2         | 0.0          | -2.9         |
| - impairment                    | 0.0          | 0.4          | 0.0          | 0.0         | 0.0          | 0.0          | 0.4          |
| Disposals                       | 0.0          | 0.0          | 1.1          | 0.0         | 6.1          | 0.0          | 7.2          |
| Revaluations                    | 0.0          | -5.4         | -0.5         | 0.0         | -0.2         | 0.0          | -6.1         |
| <b>Balance at 31 March 2020</b> | <b>0.0</b>   | <b>-28.6</b> | <b>-14.7</b> | <b>-0.3</b> | <b>-11.7</b> | <b>0.0</b>   | <b>-55.3</b> |
| Net modified historic cost:     |              |              |              |             |              |              |              |
| <b>Balance at 31 March 2020</b> | <b>104.5</b> | <b>315.2</b> | <b>32.7</b>  | <b>0.1</b>  | <b>9.0</b>   | <b>124.0</b> | <b>585.5</b> |
| Balance at 1 April 2019         | 95.4         | 278.6        | 28.2         | 0.1         | 7.9          | 100.1        | 510.3        |

#### Footnote 1: Alignment with MOD

There was a difference in accounting approach following 2017/18 quinquennial valuations of the Agency's property assets. See SoCiTE footnote 2 for further information.

## Footnote 2: Reclassified as revenue and expensed

Included within this balance are purchases of bulk items that individually do not meet the capitalisation criteria, consumables, and decommissioning effort that had been erroneously included in assets under construction.

Land and buildings are subject to a quinquennial revaluation by an independent, professional valuer in accordance with IAS16: Property, Plant and Equipment.

Accounting Policy Notes 1(d) and 1(f) provide the basis of valuation.

The land and building assets at Portsdown West were valued by the Valuation Office Agency (VOA), an Executive Agency of HM Revenue and Customs, as at 1 November 2019. The land and building assets at Porton Down were valued by the VOA as at 1 November 2017.

Included within land and buildings are properties from which rental income is derived. They are not material and are not disclosed separately.

During the year, there were acquisitions of plant and equipment that were customer funded. They are not material, and are not separately identified.

Included within plant and equipment and assets under construction are assets donated by wider Government.

The following is a sub-set of the note relating to these donated assets:

|                                     | Plant and<br>machinery<br>£ million | Transport<br>£ million | IT and<br>communication<br>equipment<br>£ million | Assets under<br>construction<br>(see footnote 1)<br>£ million | Total<br>£ million |
|-------------------------------------|-------------------------------------|------------------------|---|---|--------------------|
| <b>Gross modified historic cost</b> |                                     |                        |   |   |                    |
| Balance at 31 March 2019            | 0.4                                 | 0.1                    | 0.0   | 0.3   | 0.8                |
| Additions                           | 1.9                                 | 0.0                    | 0.2   | 12.2  | 14.3               |
| Transfers                           | 0.1                                 | 0.0                    | 0.0   | -0.1  | 0.0                |
| <b>Balance at 31 March 2020</b>     | <b>2.4</b>                          | <b>0.1</b>             | <b>0.2</b>  | <b>12.4</b>   | <b>15.1</b>        |
| <b>Depreciation</b>                 |                                     |                        |   |   |                    |
| Balance at 31 March 2020            | -0.1                                | 0.0                    | 0.0   | 0.0   | -0.1               |
| Charge for year:                    |                                     |                        |   |   |                    |
| - historical                        | -0.2                                | -0.1                   | 0.0   | 0.0   | -0.3               |
| <b>Balance at 31 March 2020</b>     | <b>-0.3</b>                         | <b>-0.1</b>            | <b>0.0</b>  | <b>0.0</b>  | <b>-0.4</b>        |
| Net modified historic cost:         |                                     |                        |   |   |                    |
| <b>Balance at 31 March 2020</b>     | <b>2.1</b>                          | <b>0.0</b>             | <b>0.2</b>  | <b>12.4</b>   | <b>14.7</b>        |

|                         |     |     |     |     |     |
|-------------------------|-----|-----|-----|-----|-----|
| Balance at 1 April 2019 | 0.3 | 0.1 | 0.0 | 0.3 | 0.7 |
|-------------------------|-----|-----|-----|-----|-----|

**Footnote 1:** The donated assets disclosure for the 2018/19 financial statements did not include the assets under construction balance of £0.3 million. This was an error that has been corrected as an opening balance.

### Impact of COVID-19

There is no objective evidence that the COVID-19 pandemic has had a material impact on the carrying values of property, plant and equipment. There is more uncertainty than normal in the values due to there being less market evidence from late March.

Property represents 90 per cent of the Agency's carrying value of property, plant and equipment that is in service. Property carrying values were updated at the year-end using indices provided by VOA in March 2020. These indices were based on actual market place data that was accurate until the end of February.

Subsequent Building Cost Information Services (BCIS) indices published by the RICS contain actual market evidence for the first two calendar quarters to 30 June 2020. There is a 0.3 per cent increase in the index for the first quarter, and no movement for the second quarter. The forecast is for no movement in the third quarter and a further 0.3 per cent increase in the fourth quarter. This provides assurance that confidence can be placed on the building carrying values. Land values are based on evidence gathered from a market observation. There has been limited market activity during the lockdown period and advice from the VOA is that there is no objective evidence to justify a revision of values.

The Agency does not currently hold any surplus property assets that are earmarked for sale, and therefore is not exposed to open market conditions. Many of the Agency's high value building assets, some of which are currently under construction, are specialist buildings containing laboratories, experimental test environments or trial facilities which do not have an alternative use. Their locations within secure Government sites also inhibit occupation by alternative users. Demand for their intended use is currently unabated, and we are not yet seeing any significant threat of funding reductions for our services.

With respect to plant and equipment, Defence Economics provided actual indices for the quarter ended 31 March 2020. When compared with the carrying values that had been based on a forecast, the difference in value was negligible and no adjustment was made.

The following sensitivity analysis provides an indication of potential impacts based on percentage reductions in the indices applied at March 2020 to the land and buildings asset classes:

| <b>Reduction in Index (%)</b> | <b>Land reduction in carrying value<br/>£ million</b> | <b>Land reduction in revaluation surplus<br/>£ million</b> | <b>Land impairment charge to SoCNE<br/>£ million</b> | <b>Buildings reduction in carrying value<br/>£ million</b> | <b>Building reduction in revaluation surplus<br/>£ million</b> | <b>Buildings charge to SoCNE<br/>£ million</b> | <b>Buildings revaluation surplus realised to general fund<br/>£ million</b> |
|-------------------------------|---|--|--|--|--|--|---|
| 1                             | -1.0  | 1.0  | 0.0  | -3.1   | 2.1  | 0.9  | 0.1   |
| 2                             | -2.1  | 2.1  | 0.0  | -6.3   | 4.1  | 2.0  | 0.2   |
| 5                             | -5.2  | 5.2  | 0.0  | -15.7  | 9.3  | 6.0  | 0.4   |
| 10                            | -10.4   | 10.4   | 0.0  | -31.3  | 15.8   | 14.8   | 0.7   |

## 9. Non-current financial assets

|                                 | Note    | Subsidiary<br>undertaking<br>£ million |
|---------------------------------|---------|--|
| <b>Valuation</b>                |         |  |
| Balance at 1 April 2018         |         | 1.8                                    |
| Impairment                      | Note 11 | -0.4                                   |
| <b>Balance at 31 March 2019</b> |         | <b>1.4</b>                             |
| Additions                       |         | 2.5                                    |
| Impairment                      | Note 11 | -2.2                                   |
| <b>Balance at 31 March 2020</b> |         | <b>1.7</b>                             |

The Executive Agency's wholly owned subsidiary, Ploughshare, is not consolidated on grounds of materiality. See Note 1(d)(i).

During the year, there was a capital reconstruction of Ploughshare, approved by HM Treasury. In exchange for £2.5 million debt owed to the Agency, Ploughshare issued 2,500,000 £1 ordinary shares at par value, initially increasing the Agency's carrying amount of its investment. Since the Agency had a doubtful debt provision relating to the Ploughshare debt, the capital reconstruction did not increase the value of the Agency's investment. The additional investment was therefore fully impaired. The doubtful debt provision of £2.2 million (net of VAT bad debt relief) was released. The charging arrangement with Ploughshare for their management of the Agency's intellectual

property was revised so that from 1 April 2019, an increased amount is charged by Ploughshare, representing a fairer value for the services that they provide.

The Agency re-assessed the value of its investment in Ploughshare as at 31 March 2020, which reduced the above impairment for the year to £2.2 million (2018/19: £0.4 million impairment). See Note 1(d)(ii) for details of the approach taken to calculate the recoverable amount. The method of accounting is fair value through profit or loss.

The financial statements of the Executive Agency's associate, Tetricus Ltd, are not consolidated. Their results are not material.

### **Impact of COVID-19**

Ploughshare's assessment of the impact of COVID-19 is disclosed in their audited financial statements for the year ended 31 March 2020. They state that the outbreak did not have a material impact on their business, and based on current knowledge, they do not anticipate a material impact going forward. The Agency's valuation of its investment in Ploughshare, which is on a net current asset basis, remains relevant. Although some uncertainty remains, the investment in Ploughshare is not material in the context of the Agency's Statement of Financial Position.

## 10. Intangible assets

Intangible asset movements during the year were:

|  | Purchased<br>software licences<br>£ million | Software assets<br>under construction<br>£ million | Total<br>£ million |
|--|---|--|--------------------|
| <b>Gross modified historic cost</b>                                    |   |  |                    |
| Balance at 1 April 2018  | 5.3   | 1.0  | 6.3                |
| Transfers  | 0.2   | -0.2   | 0.0                |
| Disposals  | -0.1  | 0.0  | -0.1               |
| Revaluations   | 0.1   | 0.0  | 0.1                |
| <b>Balance at 31 March 2019</b>  | <b>5.5</b>                                  | <b>0.8</b>   | <b>6.3</b>         |
| Additions  | 0.3   | 0.7  | 1.0                |
| Transfers  | 0.7   | -0.7   | 0.0                |
| Transfers from property, plant and equipment assets under construction | 0.1   | 0.0  | 0.1                |
| Disposals  | -0.6  | 0.0  | -0.6               |
| Revaluations   | 0.1   | 0.0  | 0.1                |
| <b>Balance at 31 March 2020</b>  | <b>6.1</b>                                  | <b>0.8</b>   | <b>6.9</b>         |

|                                 |             |            |             |
|---------------------------------|-------------|------------|-------------|
| <b>Amortisation</b>             |             |            |             |
| Balance at 1 April 2018         | -1.8        | 0.0        | -1.8        |
| Charge for year:                |             |            |             |
| - historical                    | -1.4        | 0.0        | -1.4        |
| - supplementary                 | -0.2        | 0.0        | -0.2        |
| Disposals                       | 0.1         | 0.0        | 0.1         |
| <b>Balance at 31 March 2019</b> | <b>-3.3</b> | <b>0.0</b> | <b>-3.3</b> |
| Charge for year:                |             |            |             |
| - historical                    | -0.4        | 0.0        | -0.4        |
| Disposals                       | 0.5         | 0.0        | 0.5         |
| Revaluations                    | -0.1        | 0.0        | -0.1        |
| <b>Balance at 31 March 2020</b> | <b>-3.3</b> | <b>0.0</b> | <b>-3.3</b> |
| Net modified historic cost:     |             |            |             |
| <b>Balance at 31 March 2020</b> | <b>2.8</b>  | <b>0.8</b> | <b>3.6</b>  |
| Balance at 1 April 2019         | 2.2         | 0.8        | 3.0         |

The following is a sub-set of the note relating to intangible assets donated by MOD:

|                                     | <b>Purchased<br/>software licences<br/>£ million</b> | <b>Software assets<br/>under construction<br/>£ million</b> | <b>Total<br/>£ million</b> |
|-------------------------------------|--|---|----------------------------|
| <b>Gross modified historic cost</b> |  |   |                            |
| Balance at 31 March 2019            | 0.0  | 0.0   | 0.0                        |
| Additions                           | 0.2  | 0.2   | 0.4                        |
| <b>Balance at 31 March 2020</b>     | <b>0.2</b>   | <b>0.2</b>  | <b>0.4</b>                 |
| <b>Amortisation</b>                 |  |   |                            |
| Balance at 31 March 2019            | 0.0  | 0.0   | 0.0                        |
| <b>Balance at 31 March 2020</b>     | <b>0.0</b>   | <b>0.0</b>  | <b>0.0</b>                 |
| Net modified historic cost:         |  |   |                            |
| <b>Balance at 31 March 2020</b>     | <b>0.2</b>   | <b>0.2</b>  | <b>0.4</b>                 |
| Balance at 1 April 2019             | 0.0  | 0.0   | 0.0                        |

## Impact of COVID-19

There is no objective evidence that the COVID-19 pandemic has had an impact on the carrying values of intangible assets. Defence Economics provided actual indices for the quarter ended 31 March 2020. When compared with the carrying values that had been adjusted based on a forecast, no amendment was necessary. The carrying values of intangible assets are not material in the context of the Agency's accounts.

## 11. Impairments

Impairments occurring during the year were either charged to Profit or Loss, or Other Comprehensive Net Expenditure as follows:

|   | <b>2020</b>           | <b>2019</b>           | <b>2020</b>                | <b>2019</b>                |
|---|-----------------------|-----------------------|----------------------------|----------------------------|
|   | <b>Profit or Loss</b> | <b>Profit or Loss</b> | <b>Other Comprehensive</b> | <b>Other Comprehensive</b> |
|   | <b>£ million</b>      | <b>£ million</b>      | <b>Net Expenditure</b>     | <b>Net Expenditure</b>     |
|   |                       |                       | <b>£ million</b>           | <b>£ million</b>           |
| Investment in non-current financial asset<br>(see footnote 1) | 2.2                   | 0.4                   | 0.0                        | 0.0                        |
| <b>Total</b>  | <b>2.2</b>            | <b>0.4</b>            | <b>0.0</b>                 | <b>0.0</b>                 |

**Footnote 1:** The Executive Agency assessed the value of its investment in Ploughshare by taking the approach described in Note 1(d)(i).

## 12. Work in progress

|                                 | 2020<br>£ million | 2019<br>£ million |
|---------------------------------|-------------------|-------------------|
| <b>Total work in progress</b>   | <b>0.3</b>        | <b>0.1</b>        |
| Central Government bodies       | 0.2               | 0.0               |
| Non-public sector organisations | 0.1               | 0.1               |

## 13. Trade receivables and other assets

Amounts falling due within one year:

|                                 | 2020<br>£ million | 2019<br>£ million |
|---------------------------------|-------------------|-------------------|
| <b>Trade receivables</b>        | <b>11.1</b>       | <b>10.8</b>       |
| Central Government bodies       | 9.6               | 8.0               |
| Local authorities               | 0.1               | 0.5               |
| Non-public sector organisations | 1.4               | 2.3               |

|  |             |             |
|--|-------------|-------------|
| <b>Contract assets</b>                           | <b>9.2</b>  | <b>10.1</b> |
| Central Government bodies                        | 7.1         | 6.7         |
| Non-public sector organisations                  | 2.1         | 3.4         |
| <b>Deposits and advances – staff receivables</b> | <b>0.3</b>  | <b>0.3</b>  |
| <b>Other receivables</b>                         | <b>2.0</b>  | <b>1.6</b>  |
| Central Government bodies                        | 2.0         | 1.6         |
| <b>Prepayments and accrued income</b>            | <b>8.9</b>  | <b>8.6</b>  |
| Central Government bodies                        | 0.7         | 0.0         |
| Local authorities                                | 1.1         | 0.9         |
| Non-public sector organisations                  | 7.1         | 7.7         |
| <b>Total</b>                                     | <b>31.5</b> | <b>31.4</b> |

Amounts falling due after more than one year:

|  | 2020<br>£ million | 2019<br>£ million |
|--|-------------------|-------------------|
| <b>Deposits and advances – staff receivables</b> | <b>0.2</b>        | <b>0.3</b>        |
| <b>Other receivables</b>                         | <b>0.0</b>        | <b>0.1</b>        |
| Central Government bodies                        | 0.0               | 0.1               |
| <b>Prepayments and accrued income</b>            | <b>3.3</b>        | <b>2.5</b>        |
| Non-public sector organisations                  | 3.3               | 2.5               |
| <b>Total</b>                                     | <b>3.5</b>        | <b>2.9</b>        |

Other receivables mainly represent amounts owed by Home Office for the transitioning of former Centre for Applied Science and Technology staff and facilities into the Executive Agency £1.8 million (2018/19: £1.2 million).

Prepayments consist of mainly software licence agreements and software maintenance agreements £8.1 million (2018/19: £6.6 million) of which £3.2 million (2018/19: £2.1 million) relates to periods beyond a year; and rentals, service charges and rates on property leases £0.9 million (2018/19: £1.1 million).

#### 14. Cash and cash equivalents

|   | 2020<br>£ million | 2019<br>£ million |
|---|-------------------|-------------------|
| <b>Balance brought forward</b>                  | <b>15.6</b>       | <b>18.9</b>       |
| Net change in cash and cash equivalent balances | 34.5              | -3.3              |
| <b>Balance carried forward</b>                  | <b>50.1</b>       | <b>15.6</b>       |
| The following balances were held at:            |                   |                   |
| - Government Banking Service                    | 34.2              | 11.5              |
| - Commercial banks                              | 15.9              | 4.1               |
| <b>Balance carried forward</b>                  | <b>50.1</b>       | <b>15.6</b>       |

#### 14.1. Reconciliation of cash flows arising from financing activities to Net Equity Investment

|   | Cash flows                          | Non-cash flow bookkeeping for transactions with MOD                    |   |   |   |                                      | Total net cash inflow from financing activities<br>£ million |
|---|-------------------------------------|--|---|---|---|--------------------------------------|--|
|   | Cash received from MOD<br>£ million | Proceeds retained by MOD from sale of asset held for sale<br>£ million | VAT recoverable transferred to MOD<br>£ million | Goods and services provided to MOD<br>£ million | Goods and services provided by MOD<br>£ million | Payroll financed by MOD<br>£ million |  |
| Balance at 31 March 2019                        | 812.0                               | 0.0  | -55.7   | -1,065.5  | 36.8  | 348.8                                | 76.4   |
| Net change in financing activities for the year | 521.0                               | -2.6   | -41.1   | -654.3  | 22.4  | 236.3                                | 81.7   |
| <b>Balance at 31 March 2020</b>                 | <b>1,333.0</b>                      | <b>-2.6</b>  | <b>-96.8</b>                                    | <b>-1,719.8</b>                                 | <b>59.2</b>                                     | <b>585.1</b>                         | <b>158.1</b>   |

## 15. Assets classified as held for sale

|                                     | 2020<br>£ million | 2019<br>£ million |
|-------------------------------------|-------------------|-------------------|
| <b>Balance brought forward</b>      | <b>0.4</b>        | <b>0.0</b>        |
| Transferred from non-current assets | 0.0               | 0.4               |
| Sale                                | -0.4              | 0.0               |
| <b>Balance carried forward</b>      | <b>0.0</b>        | <b>0.4</b>        |

The Portsdown Main site was sold by auction during June 2019, and completed during July 2019. The sale proceeds were £2.6 million, realising a profit on sale of £2.2 million.

## 16. Trade payables and other liabilities

Amounts falling due within one year:

|   | 2020<br>£ million | 2019<br>£ million |
|---|-------------------|-------------------|
| <b>Other taxation and social security</b> | <b>2.0</b>        | <b>2.0</b>        |
| <b>Contract liabilities</b>               | <b>6.1</b>        | <b>8.1</b>        |
| Central Government bodies                 | 0.8               | 1.6               |
| Local authorities                         | 0.1               | 0.2               |
| Non-public sector organisations           | 5.2               | 6.3               |
| <b>Trade payables</b>                     | <b>32.2</b>       | <b>25.1</b>       |
| Central Government bodies                 | 1.1               | 1.6               |
| Local authorities                         | 4.2               | 4.5               |
| Non-public sector organisations           | 26.9              | 19.0              |
| <b>Other Payables</b>                     | <b>2.0</b>        | <b>1.5</b>        |
| Central Government bodies                 | 2.0               | 1.5               |
| <b>Pay and expenses – staff payables</b>  | <b>4.4</b>        | <b>4.0</b>        |

|                                     |              |              |
|-------------------------------------|--------------|--------------|
| <b>Accruals and deferred income</b> | <b>107.9</b> | <b>107.9</b> |
| Central Government bodies           | 4.1          | 2.1          |
| Local authorities                   | 10.7         | 8.5          |
| Non-public sector organisations     | 91.1         | 93.2         |
| Staff                               | 2.0          | 4.1          |
| <b>Total</b>                        | <b>154.6</b> | <b>148.6</b> |

Amounts falling due after more than one year:

|                                     | <b>2020</b>      | <b>2019</b>      |
|-------------------------------------|------------------|------------------|
|                                     | <b>£ million</b> | <b>£ million</b> |
| <b>Accruals and deferred income</b> | <b>1.5</b>       | <b>1.4</b>       |
| Central Government bodies           | 1.2              | 1.1              |
| Local authorities                   | 0.2              | 0.2              |
| Non-public sector organisations     | 0.1              | 0.1              |
| <b>Total</b>                        | <b>1.5</b>       | <b>1.4</b>       |

Long-term payables are held undiscounted. The effect of discounting is not material.

Trade payables mainly relate to the purchase of direct goods and services £27.7 million (2018/19: £23.0 million) of which £23.3 million relates to subcontracted research (2018/19: £21.1 million).

Other payables mainly consist of the pension liability associated with holiday pay accrual £1.9 million (2018/19: £1.4 million).

Within accruals are direct costs £84.4 million (2018/19: £77.2 million) of which £78.7 million is subcontracted research (2018/19: £65.9 million). Capital accruals account for £4.2 million (2018/19: £9.4 million). Deferred income mainly relates to customer funded assets where the customer has retained an interest in the asset £1.6 million (2018/19: £1.4 million) of which £1.5 million falls due after more than one year (2018/19: £1.4 million).

## 17. Provisions for liabilities and charges

|                                      | Dilapidations<br>£ million | Facilities management<br>provider redundancies<br>£ million | Supplier claims<br>£ million | Early<br>departure costs<br>£ million | Total<br>£ million |
|--------------------------------------|----------------------------|---|------------------------------|---------------------------------------|--------------------|
| Balance at 1 April 2019              | 1.4                        | 0.0   | 0.2                          | 0.0                                   | 1.6                |
| Provided in the year                 | 0.0                        | 0.4   | 0.0                          | 1.3                                   | 1.7                |
| Provisions not required written-back | -0.1                       | 0.0   | 0.0                          | -1.3                                  | -1.4               |
| <b>Balance at 31 March 2020</b>      | <b>1.3</b>                 | <b>0.4</b>  | <b>0.2</b>                   | <b>0.0</b>                            | <b>1.9</b>         |

Analysis of expected timing of cash flows:

|  | <b>Dilapidations<br/>£ million</b> | <b>Facilities management<br/>provider redundancies<br/>£ million</b> | <b>Supplier claims<br/>£ million</b> | <b>Total<br/>£ million</b> |
|--|------------------------------------|--|--------------------------------------|----------------------------|
| Between 1 April 2020 and 31 March 2021 | 0.1                                | 0.0  | 0.2                                  | 0.3                        |
| Between 1 April 2021 and 31 March 2022 | 0.0                                | 0.4  | 0.0                                  | 0.4                        |
| Between 1 April 2022 and 31 March 2027 | 1.2                                | 0.0  | 0.0                                  | 1.2                        |
| <b>Balance at 31 March 2020</b>        | <b>1.3</b>                         | <b>0.4</b>   | <b>0.2</b>                           | <b>1.9</b>                 |

No amounts are expected to be called after 31 March 2027 and therefore no further analysis is necessary for amounts after this date.

The provisions have not been discounted. The effect of discounting is not material.

### **Dilapidations**

A lease is in place for a facility (operated by the Executive Agency) remaining at the Farnborough site. This defers a dilapidation obligation under the terms of the lease to beyond a year. The lease had expired on 31 March 2020, but a new lease is in place with the same dilapidation clause. Utilisation of the provision will not be until beyond the expiry date of the new lease, 31 March 2025.

The Agency has an obligation to repair the roof of a listed building at the Fort Halstead site. During the year, the estimate for meeting the obligation was reduced and £0.1 million was written-back. The remainder of the provision is expected to be utilised during the year ending 31 March 2021.

### **Facilities management provider redundancy costs**

The Agency is committed to leaving the Fort Halstead site. On departure of the site, the Agency will be obligated to meet the redundancy costs for the employees of its facilities management partner based at the site.

### **Supplier claims**

Legal claims have been made against the Executive Agency by suppliers. Negotiations continue and settlements are expected to be reached during the year ending 31 March 2021.

### **Early departure costs**

The Executive Agency meets the additional cost of benefits beyond the normal Civil Service pension arrangements in respect of employees who depart early, by paying the required amounts to the Cabinet Office (My Civil Service Pension). The Agency provides for this in full when the early departure agreement becomes binding. Payment values are established by My Civil Service Pension.

### **Fair deal pension arrangements (comparatives)**

Eleven staff that transferred from the Executive Agency to outside of the public sector were entitled to access to a public sector pension under the Fair Deal staff pension arrangements. Only one of the staff opted to transfer into the public sector pension arrangements, resulting in a balance not required and written-back.

Comparatives for the year ending 31 March 2019 are:

|                                      | <b>Dilapidations<br/>£ million</b> | <b>Fair deal<br/>pension<br/>shortfall<br/>£ million</b> | <b>Supplier<br/>claims<br/>£ million</b> | <b>i lab<br/>provisions<br/>£ million</b> | <b>Helios<br/>provisions<br/>£ million</b> | <b>Other early<br/>departure<br/>costs<br/>£ million</b> | <b>Total<br/>£ million</b> |
|--------------------------------------|------------------------------------|--|--|---|--|--|----------------------------|
| Balance at 1 April 2018              | 1.2                                | 0.5  | 0.3                                      | 0.0                                       | 0.1  | 0.2  | 2.3                        |
| Provided in the year                 | 0.5                                | 0.0  | -0.1                                     | 0.1                                       | 0.0  | 0.2  | 0.7                        |
| Provisions not required written-back | -0.1                               | -0.5   | 0.0                                      | 0.0                                       | 0.0  | 0.0  | -0.6                       |
| Provisions utilised in the year      | -0.2                               | 0.0  | 0.0                                      | -0.1                                      | -0.1                                       | -0.4   | -0.8                       |
| <b>Balance at 31 March 2019</b>      | <b>1.4</b>                         | <b>0.0</b>   | <b>0.2</b>                               | <b>0.0</b>                                | <b>0.0</b>                                 | <b>0.0</b>   | <b>1.6</b>                 |

Analysis of expected timing of cash flows:

|  | <b>Dilapidations<br/>£ million</b> | <b>Fair deal<br/>pension<br/>shortfall<br/>£ million</b> | <b>Supplier<br/>claims<br/>£ million</b> | <b>i lab<br/>provisions<br/>£ million</b> | <b>Helios<br/>provisions<br/>£ million</b> | <b>Other early<br/>Departure<br/>costs<br/>£ million</b> | <b>Total<br/>£ million</b> |
|--|------------------------------------|--|--|---|--|--|----------------------------|
| Between 1 April 2019 and 31 March 2020 | 0.2                                | 0.0  | 0.2                                      | 0.0                                       | 0.0  | 0.0  | 0.4                        |
| Between 1 April 2020 and 31 March 2021 | 0.0                                | 0.0  | 0.0                                      | 0.0                                       | 0.0  | 0.0  | 0.0                        |

|  |            |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|
| Between 1 April 2021 and 31 March 2026 | 1.2        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 1.2        |
| From 1 April 2026 thereafter           | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| <b>Balance at 31 March 2019</b>        | <b>1.4</b> | <b>0.0</b> | <b>0.2</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>1.6</b> |

## 18. Commitments under leases

### Operating leases

Commitments under non-cancellable operating leases to pay rentals after 31 March 2020 are analysed as follows:

|  | 2020<br>£ million | 2019<br>£ million |
|--|-------------------|-------------------|
| Property:                                  |                   |                   |
| - Due within one year                      | 4.0               | 4.0               |
| - Due after one year but within five years | 14.8              | 14.7              |
| <b>Total</b>                               | <b>18.8</b>       | <b>18.7</b>       |

The Executive Agency leases various properties, including land, under short-term cancellable operating lease agreements. There is only one significant lease – the property at Fort Halstead. To cancel the lease, a notice period of not less than five years is required of the Agency. The landlord does not have a right to cancel. No renewal or purchase options exist. There is a rent review every five years,

performed on a Market Value basis. The next rent review from the period 1 April 2017 has not yet concluded. There is no contingent rent or any significant restrictions concerning the use of the property.

## 19. Capital commitments

|  | 2020<br>£ million | 2019<br>£ million |
|--|-------------------|-------------------|
| Property, plant and equipment:   |                   |                   |
| - Capital expenditure that has been contracted but has not been provided for in the accounts | 59.8              | 85.1              |
| - Capital expenditure that has been authorised but has not been provided for in the accounts | 26.5              | 20.2              |
| Intangible assets:   |                   |                   |
| - Capital expenditure that has been contracted but has not been provided for in the accounts | 0.0               | 0.0               |
| - Capital expenditure that has been authorised but has not been provided for in the accounts | 0.0               | 0.0               |

During 2017/18, the Executive Agency obtained updated Ministerial approval for the Helios Project that will result in migration away from the Fort Halstead site following completion of replacement facilities at Porton Down. The scope of this updated approval was revised to include the proposed Chemical Weapons Defence Centre. Ministerial approval of £225.9 million at 2017 prices was granted comprising £205.0 million capital and £20.9 million revenue amounts.

Within the approved £205.0 million capital authorisation, £91.2 million has been capitalised on completed construction projects with a capital saving of £0.8 million. The remaining construction relates to the Core Enclosure and Chemical Weapons Defence Centre, of which £61.7 million has been capitalised, £46.9 million has been contracted but has not been provided for, and £4.4 million has been authorised but not yet contracted.

## **20. Financial instruments**

The Executive Agency reviews its credit risk by applying the simplified approach of the expected credit loss model to trade receivables and contract assets. There is currently no expectation of current or future material loss. During the year, the Agency released its doubtful debt provision of £2.6 million relating to Ploughshare. Following Ploughshare's capital reconstruction and a revised charging arrangement, there is not expected to be future credit losses. See Note 9.

The Agency's principal financial instruments comprise cash, current receivables and current payables. Cash generated from sales, supplemented with funding provided by MOD, are the primary sources of finance for the Agency.

Trade receivables and trade payables; arise directly from the Agency's operations. As the cash requirement of the Agency is met mainly from funding through its parent organisation, MOD, financial instruments play a limited role in the creation and management of risk when compared with a non-public sector body. More than 91 per cent of the Agency's sales are with MOD. As a consequence, the overall risk relating to financial instruments created by sales contracts is minimal. Other financial instruments relate to contracts to acquire non-financial items in line with the Agency's requirements for supply of external resource and services.

The Agency is not exposed to significant credit, liquidity, foreign currency or market risk. The Chief Financial Officer is responsible for the policies to manage these risks on behalf of the Board. These policies have remained unchanged throughout the year.

It has been the Agency's policy throughout the year that no trading in financial instruments for speculative purposes should be undertaken.

### **Impact of COVID-19**

There is little scope for a material impact of the COVID-19 outbreak on the Agency's financial instruments, and liquidity. The Agency's funding requirements are met by MOD. There is no link between the Agency's ability to generate cash, and the availability of funds necessary to meet its operational obligations.

The Agency's customer profile leaves little exposure to credit risk. Approximately 97 per cent of the Agency's operating income is derived from wider government. No customers have requested a payment holiday, and there is no evidence that the pandemic will result in bad debt write-off or impairment of contract assets.

Since the Agency is not exposed to significant foreign currency risk, movements in exchange rates attributed to COVID-19 would not have a material impact.

## **Categories of financial instruments**

Trade and other receivables, and cash and cash equivalents, have been classified as loans and receivables. Trade and other payables have been classified as other financial liabilities. The fair value of these financial assets and financial liabilities approximates carrying value due to the short-term nature of these financial instruments.

The Agency's investment in its wholly owned subsidiary, Ploughshare, is classified as a non-current financial asset and is accounted for using the fair value through profit or loss method. See Note 9.

The category of financial instrument that has produced finance income received and receivable, and the category of financial instrument that has produced finance charges paid and payable, are disclosed in Notes 6 and 7.

No capital disclosures are necessary. A buffer for risk to creditors does not arise because public sector financing is tax based.

## **21. Related-party transactions**

Dstl is an Executive Agency of MOD.

### **MOD**

MOD is a related party and has non-executive representation on the Board. During the year, the Agency had various material transactions with MOD, all of which were carried out under contract terms and subject to the normal course of internal and external audit:

|                  | <b>2020</b>  | <b>2019</b>  |
|------------------|--------------|--------------|
|                  | <b>£,000</b> | <b>£'000</b> |
| Operating income | 651,752.6    | 559,024.4    |
| Purchases        | 22,679.4     | 18,140.1     |
| Receivables      | 0.0          | 0.0          |
| Accruals         | 1,330.4      | 759.1        |

### **Ploughshare Innovations Ltd**

Ploughshare is a wholly owned subsidiary undertaking of the Agency. During the year, the following trading occurred with Ploughshare, which is carried out under standard contract terms:

|                  | <b>2020</b>  | <b>2019</b>  |
|------------------|--------------|--------------|
|                  | <b>£'000</b> | <b>£'000</b> |
| Operating income | 226.2        | 289.5        |
| Purchases        | 1,346.5      | 730.5        |
| Receivables      | 78.1         | 82.7         |
| Accruals         | 0.0          | 359.8        |

During the year, the doubtful debt provision of £2,561,896 was fully released following a capital reconstruction and revised charging arrangement. See Note 9 for further details.

## Tetricus Ltd

Tetricus is an associate of the Agency. During the year, the following trading occurred with Tetricus, carried out under standard contract terms:

|                                    | 2020<br>£'000 | 2019<br>£'000 |
|------------------------------------|---------------|---------------|
| Operating income                   | 0.0           | 17.4          |
| Purchases (see footnote 1)         | 0.0           | 0.0           |
| Trade Receivables (see footnote 1) | 0.0           | 0.0           |
| Trade Payables (see footnote 1)    | 0.0           | 0.0           |

**Footnote 1:** Purchases are represented by invoices processed through the purchase ledger during the year. No account of movements in accruals is taken. Only trade receivables and trade payables recorded through the sales and purchase ledgers are disclosed. This more simplified approach focuses on invoices processed through the primary ledgers and is considered more meaningful and comparable with the Agency's related parties.

## Other public sector bodies

Other public sector bodies are regarded as related parties by virtue of being under the same common control. During the year, the Agency had various material transactions with certain public sector bodies. All transactions are carried out on standard contract terms and are subject to the normal course of internal and external audit.

|   | Operating income |               | Purchases<br>(see footnote 1) |               | Trade Receivables<br>(see footnote 1) |               | Trade Payables<br>(see footnote 1) |               |
|---|------------------|---------------|-------------------------------|---------------|---------------------------------------|---------------|------------------------------------|---------------|
|   | 2020<br>£'000    | 2019<br>£'000 | 2020<br>£'000                 | 2019<br>£'000 | 2020<br>£'000                         | 2019<br>£'000 | 2020<br>£'000                      | 2019<br>£'000 |
| Cabinet Office (excluding My Civil Service Pension)           | 190.3            | 173.2         | 135.4                         | 272.2         | 42.0                                  | 0.9           | 12.9                               | 0.0           |
| Centre for Protection of National Infrastructure              | 2,446.7          | 2,744.7       | 0.0                           | 0.0           | 747.9                                 | 2.6           | 0.0                                | 0.0           |
| Defence Chemical, Biological, Radiological and Nuclear Centre | 166.4            | 274.9         | 0.0                           | 0.0           | 0.0                                   | 420.7         | 0.0                                | 0.0           |
| Defence Electronics and Components Agency                     | 13.4             | 10.3          | 252.0                         | 52.0          | 0.0                                   | 0.0           | 0.0                                | 52.0          |
| Department of International Trade                             | 30.0             | 0.0           | 0.0                           | 0.0           | 36.0                                  | 0.0           | 0.0                                | 0.0           |
| Department for Business, Energy and Industrial Strategy       | 40.4             | 72.3          | 0.0                           | 0.0           | 0.0                                   | 0.0           | 0.0                                | 0.0           |
| Department for the Environment, Food and Rural Affairs        | 270.3            | 2,742.4       | 15.1                          | 102.8         | 61.7                                  | 0.0           | 0.0                                | 0.0           |
| Department for International Development                      | 200.0            | 657.2         | 0.0                           | 0.0           | 0.0                                   | 91.2          | 0.0                                | 0.0           |
| Department for Transport                                      | 10,454.1         | 9,212.2       | 0.0                           | 0.0           | 465.4                                 | 458.9         | 0.0                                | 0.0           |

|   |          |          |         |         |         |         |       |       |
|---|----------|----------|---------|---------|---------|---------|-------|-------|
| Department of Health and Social Care (see footnote 2) | 0.0      | 0.0      | 1,000.0 | 1,000.0 | 17.8    | 0.0     | 0.0   | 0.0   |
| Drinking Water Inspectorate                           | 0.0      | 0.0      | 0.0     | 0.0     | 0.0     | 112.2   | 0.0   | 0.0   |
| Engineering and Physical Sciences Research Council    | 0.0      | 0.0      | 1,897.8 | 1,634.9 | 0.4     | 0.0     | 324.5 | 242.2 |
| Foreign and Commonwealth Office                       | 148.7    | 434.9    | 12.0    | 98.5    | 7.7     | 127.8   | 0.0   | 0.0   |
| Government Communications Bureau                      | 557.6    | 153.5    | 1,801.9 | 1,956.0 | 398.4   | 0.0     | 0.0   | 0.0   |
| Government Communications Centre                      | 3,404.6  | 4,470.9  | 1,785.8 | 2,928.6 | 48.1    | 4.7     | 13.5  | 513.7 |
| Government Legal Department                           | 0.0      | 32.8     | 43.9    | 5.2     | 0.0     | 0.0     | 0.0   | 0.0   |
| Health and Safety Executive                           | 0.0      | 0.0      | 150.9   | 272.4   | 0.0     | 0.0     | 47.9  | 42.5  |
| Health and Safety Laboratory                          | 0.0      | 0.0      | 0.0     | 49.6    | 0.0     | 0.0     | 0.0   | 0.0   |
| Home Office   | 32,468.6 | 33,596.9 | 102.6   | 86.6    | 5,561.9 | 5,633.5 | 15.0  | 18.1  |
| Innovate UK   | 69.1     | 1,338.0  | 121.5   | 567.3   | 0.0     | 27.7    | 0.0   | 234.4 |
| Medical Research Council                              | 721.8    | 313.4    | 0.0     | 34.0    | 652.1   | 171.9   | 0.0   | 0.0   |
| Meteorological Office                                 | 4.0      | 4.1      | 100.5   | 128.7   | 0.0     | 0.7     | 0.0   | 0.0   |
| National Crime Agency                                 | 230.9    | 62.7     | 0.0     | 0.0     | 48.1    | 145.2   | 0.0   | 0.0   |
| Porton Biopharma                                      | 657.2    | 283.5    | 0.0     | 0.0     | 410.0   | 289.7   | 0.0   | 0.0   |
| Public Health England (see footnote 2)                | 370.5    | 705.0    | 810.5   | 854.2   | 585.0   | 422.6   | 257.7 | 36.5  |
| Science and Technology Facilities Council             | 0.0      | 0.0      | 262.7   | 716.0   | 0.0     | 0.0     | 36.9  | 416.5 |
| UK Space Agency                                       | 1,255.7  | 1,891.6  | 0.0     | 0.0     | 484.6   | 376.7   | 0.0   | 0.0   |

**Footnote 1:** Purchases are represented by invoices processed through the purchase ledger during the year. No account of movements in accruals is taken. Only trade receivables and trade payables recorded through the sales and purchase ledgers are disclosed. This more simplified approach focuses on invoices processed through the primary ledgers and is considered more meaningful and comparable with the Agency's related parties.

**Footnote 2:** The Public Health England purchases comparative has been re-stated from £1,854,206 to £854,206. A purchase of £1,000,000 relating to the Department of Health and Social Care had been included in error. This purchase is now disclosed as the comparative for Department of Health and Social Care.

No Minister, Board member, key manager or other related parties has undertaken any material transactions with the Agency during the year. Any compensation paid to senior management is disclosed in the Remuneration Report on [pages 106 to 114](#). Tax and pension payments are made by MOD on behalf of the Agency.

## **22. Contingent liabilities**

There were no contingent liabilities at 31 March 2020 or 31 March 2019. For remote contingent liabilities, see comments on [page 127](#).

## **23. Events after the reporting period**

The accounts were authorised for issue on the date of certification by the Comptroller and Auditor General. There have been no significant events since the end of the financial year that affect the results for the year or the year-end financial position. The potential future impacts of the Covid-19 pandemic have been considered in this assessment. For further details please refer to [page 45](#).

# Case Studies

## Dstl leads development of innovative uncrewed aircraft concept for RAF



**Uncrewed aircraft could be flying alongside crewed Combat Aircraft under an innovative project led by Dstl for the RAF Rapid Capabilities Office (RCO).**

The Lightweight Affordable Novel Combat Aircraft (LANCA) concept looks to offer additional capability, deployed alongside Combat Aircraft like the F-35 and Typhoon – potentially offering increased protection, survivability and information as ‘teamed’ elements for the crewed Combat Aircraft – and could even provide an uncrewed Combat Air ‘fleet’ in the future.

Specifically, the project looks to understand the value of technologies and methodologies across the systems life-cycle that might offer substantial reductions in traditional cost (10x reductions) and development timelines (5x reductions) compared to modern crewed Combat Aircraft.

Under LANCA, a technology demonstrator project known as 'Mosquito' awarded contracts for Phase 1 of the work to three teams, which produced preliminary system designs for an uncrewed air vehicle, and assessment of the key risk areas and cost-capability trade-offs for an operational concept. The second phase will mature the down-selected system with initial flight test of the demonstrator air vehicle potentially taking place as early as 2022.

LANCA originated in 2015 studies by Dstl to understand innovative Combat Air technologies and concepts that might offer radical reductions in cost and development time. LANCA aims to explore the utility and feasibility of uncrewed additive capabilities to existing and future Combat Aircraft.

"The RAF RCO, in partnership with Dstl, is adopting creative approaches to deliver this challenging project. For example, by conducting a competition to access 'best of breed', it has enabled non-traditional suppliers to propose their approach to meet the MOD's ambitious aims."

# UK's First Defence Wargaming Centre



**Wargaming is a powerful tool that helps to explore tactical, operational and strategic issues for defence, security and business.**

Used to identify emerging issues, alternate options and ways of thinking, test hypotheses and highlight the potential consequences of choices – participants experience the rigour and implications of decision making in a safe to fail environment, without the risk, expense and disruption of live exercises or real operations.

In response to the increasing demand, Dstl continues to lead the way in the development of wargaming and in December 2019 established the Defence Wargaming Centre (DWC).

The DWC is MOD's only dedicated, bespoke wargaming facility, and brings together expertise and technology from across Dstl, wider Defence, industry and other partners. It is already informing strategic thinking both in Defence and across wider Government. The National Security Secretariat commented that Dstl wargaming will be “incredibly valuable to keeping the country safe”.

“The Defence Wargaming Centre brings people, expertise, infrastructure and technology together to develop and deliver a wide variety of wargames. It represents a significant step up in capability in response to growing MOD and wider government demands.”

## MAST-13



**Dstl, in collaboration with L3Harris has launched a novel Unmanned Surface Vessel (USV) designed to act as a research testbed for exploring higher levels of USV autonomy.**

Unveiled by Gary Aitkenhead in 2019, this achievement shows that the Royal Navy can now better understand the significant technical challenges of bringing into service control systems of multiple unmanned systems to create greater sea control at scale.

The kit was put through its paces at the Defence and Security Equipment International conference 2019 in London, where it linked with HMS Argyll in a harbour force protection demonstration.

At 13 metres long, the vessel can move around a naval task force autonomously or remotely controlled from a novel control application. The system can be used to identify threats such as mines or collect intelligence on enemy ships.

Defence Secretary Ben Wallace said: “MAST-13 is pioneering the future of Unmanned Surface Vehicles for our world-leading Navy. The development of unmanned technology is

vital for success in modern warfare, going beyond the capability of traditional ships to attack and defend in uncertain environments."

"As more advanced technology and new threats continue to evolve, collaborative technology development ensures we are constantly pushing the boundaries to give our Armed Forces the best capabilities possible."

## Support to Type 31



**On 12th September 2019, the Prime Minister announced that a consortium led by Babcock was the preferred bidder in a competition to design and manufacture five T31 general purpose frigates.**

This announcement came only four years after the 2015 Strategic Defence and Security Review started this programme of work.

Dstl's Analysis Capability was fundamental to realising this rapid procurement, which was achieved through integration of the analysis in to the Royal Navy's decision making. This included rigorous analysis of the Type 31 requirements and the systematic assessment of each of the three competitive bids. Every aspect of the ship's design and its systems were scrutinised to a demanding plan, evidence was rapidly assessed and presented to the Royal Navy to support the final selection.

These efficiencies require significant partnership and trust between Dstl, Industry, DE&S and the Royal Navy. This has resulted in an affordable, credible and exportable ship for the Royal Navy.

All five ships will be delivered by the end of 2028 to replace the five Type 23 general purpose frigates.

“In September 2019 the Arrowhead 140 design was selected for the Type 31 Frigate. Dstl was fundamental to realising the rapid procurement and every aspect of the ship’s design and systems were scrutinised.”

# Helping the police prevent and deter drink drivers



**Dstl's world-class breath alcohol capability is crucial for maintaining and improving the UK's ability to enforce drink driving laws.**

Police have the right to demand a breath test from any driver that they suspect has been drinking, and can arrest people who refuse to give a sample. In our breath alcohol labs, we test and recommend Home Office approval of the equipment used by police to conduct roadside and station-based breath tests.

Breathalyser devices must pass a range of rigorous tests set by the Department for Transport before they go into service with police forces. We provide this testing capability for new devices that are submitted by manufacturers, to ensure that police have up-to-date and reliable instruments.

Roadside breathalysers provide on-the-spot results so police can prevent drunk drivers continuing to endanger other road users. Hundreds of people in the UK are killed every year by drink driving accidents, with thousands more injured, so the ability to instantly test and prevent further drunk driving could save lives.

Breath tests also provide the evidence needed to charge drunk drivers. Tens of thousands of motorists are charged with drink driving offences in every year in the UK; the vast majority are convicted.

Since the Home Office CAST's integration with Dstl in April 2018, the breath alcohol capability has gone from strength to strength, and we are now actively researching how to further enhance equipment to test drink and drug drivers.

## Dstl develops new space weather sensing suite in one year



**Dstl developed a space weather miniature sensing suite in only one year for a joint mission with the US to enhance space modelling capabilities.**

Dstl is partnering with the US Naval Research Laboratory (NRL) on a joint mission to launch miniature sensors that will advance space weather measurement and modelling capabilities. Space weather in the ionosphere has the capacity to impact things like GPS and other signals, so it is vital to understand and monitor changes.

The Coordinated Ionospheric Reconstruction Cubesat Experiment (CIRCE) comprises two cube satellites that will be launched into a near-polar Low Earth Orbit (LEO - 500km altitude).

The UK contribution to CIRCE is the In situ and Remote Ionospheric Sensing (IRIS) suite, complementary to NRL sensors and comprising three highly-miniaturised payloads developed for Dstl by University College London (UCL), the University of Bath, and the University of Surrey/Surrey Satellite Technology Ltd (SSTL). CIRCE will study the ionosphere, which is important for a range of defence and civil applications and can impact GPS, communications and sensing technology.

All three IRIS payloads occupy no more than 10cm x 10cm x 20cm – you can hold IRIS in one hand. This type of miniaturisation could pave the way for deployment of many more such sensors as a routine inclusion on other satellites thanks to their small size, weight and power. The result would expand data collection for the near-Earth space environment, and enhance space weather modelling capabilities.

## Rare Wildlife and Military Activities Co-Exist



**Close collaboration between Dstl and its conservation partners impressed the judges at the Ministry of Defence’s annual conservation and sustainability awards.**

The Dstl Estates team is now responsible for both the monitoring and management of nests and cultivated plots of the Stone-curlew – one of the UK’s rarest birds – on Porton Down. Dstl is part of the Salisbury Plain Stone-curlew Conservation Partnership, which aims to ensure a sustainable breeding population through plot management, interventions, monitoring and sharing best practice.

This collaboration is paying dividends and the commitment of all members is making a huge difference. Dstl has pioneered new techniques for protecting nests, which have increased breeding productivity in recent years in spite of a very high predator population. Dstl’s extensive use of trail cameras to monitor each nesting attempt and to reduce the unknown outcomes has captured some unique footage of breeding birds. It has also provided greater insights into this secretive bird’s behaviour.

The Dstl Porton Down Stone-curlew Conservation Project Workshop involving Natural England, Defence Infrastructure Organisation (DIO), the RSPB and Wiltshire Council is hosted annually at Dstl. This has become a model for sharing knowledge about Stone-

curlew ecology, monitoring techniques and habitat. In 2018 a national Stone-curlew Steering Group was established to ensure a secure and sustainable future for the birds in the UK. The Salisbury Plain Stone-curlew Conservation Partnership is a model of collaboration and shows how landowners, and managers and Non-Government Organisations can work together to deliver conservation objectives.

# Paveway IV Weapons System



**A Dstl-led technology demonstrator programme has led to a more effective missile being developed for the RAF.**

The programme enabled QinetiQ and Raytheon to deliver the new Paveway IV variant missile which is able to defeat harder targets than the basic missile.

Dstl recently supported a legal review of the Tactical Penetrator variant of the Paveway IV weapon system, which was essential to this new capability being brought into service. The technical support provided by Dstl received an accolade by the Defence Equipment and Support (DE&S) project team.

The Tactical Penetrator variant of Paveway IV incorporates a new warhead giving an improved ability to defeat harder targets compared with the baseline Paveway IV. It will fill the capability gap that would otherwise have occurred as the Tornado aircraft and weapons leave service. Dstl led the underpinning research and the initial Technology Demonstrator Programme, and also defined the performance requirements for the operational realisation of the Tactical Penetrator. This work has now been exploited by QinetiQ and Raytheon UK into an operational capability for the RAF.

“The work to bring this variant into service was carried out by our leading experts in this area. Dstl was an essential part of this technically complex programme.”

# Operating within the stratosphere



**In the Earth's atmosphere, between satellites and passenger planes, research is progressing on a new breed of surveillance aircraft. This region – the stratosphere – is about 20 kilometres above the Earth's surface and has ideal weather conditions in which to operate High-Altitude Pseudo Satellites (HAPS) and other platforms such as balloons.**

Dstl and industry have been researching and developing HAPS for several years. Advances in solar cells and batteries, plus the ability to produce smaller payloads, mean aircraft could now stay in the stratosphere for up to a year.

In February 2019, Dstl supported BAE Systems with the successful maiden flight of PHASA-35, a solar-electric aircraft; and, in June 2019, Dstl worked with the United States' Defence Advanced Research Projects Agency (DARPA) on a week-long stratospheric balloon mission that flew coast-to-coast across the USA.

The platforms are remotely-operated from the ground and can be managed with few people and minimum support. With precision positioning, users can control exactly where they want the platform to be in relation to the Earth, which could enhance operations. A further benefit is the cost: HAPS operations are a fraction of those accrued from building and operating satellites.

“As we continue to develop these technologies, we also need to further our understanding of high-altitude weather. Research from across Dstl will ensure that the UK benefits from being able to operate within the stratosphere.”

# Glossary

|          |   |
|----------|---|
| ARAC     | Audit and Risk Assurance Committee                      |
| BAME     | Black, Asian and Minority Ethnic                        |
| CAST     | Centre for Applied Science and Technology               |
| CETV     | Cash Equivalent Transfer Value                          |
| CRR      | Corporate Risk Register                                 |
| CSA      | Chief Scientific Adviser                                |
| CTW      | Contracted Temporary Worker                             |
| DASA     | Defence and Security Accelerator                        |
| DG HOCS  | Director General Head Office and Commissioning Services |
| DIA      | Defence Internal Audit                                  |
| DPA      | Data Protection Act                                     |
| DST      | Defence Science and Technology                          |
| EEI      | Employee Engagement Index                               |
| EM       | Extramural (Externally delivered)                       |
| FOI      | Freedom of Information                                  |
| FReM     | Financial Reporting Manual                              |
| FLC      | Front Line Command                                      |
| FTE      | Full-Time Equivalent                                    |
| GCHQ     | Government Communications Headquarters                  |
| HM       | Her Majesty's   |
| HMRC     | HM Revenue and Customs                                  |
| HOCS     | Head Office and Corporate Services (Top Level Budget)   |
| HOCS DRU | HOCS Defence Reform Unit                                |
| HR       | Human Resources   |
| HYS      | Have Your Say   |
| IAS      | International Accounting Standard                       |
| ICC      | Intelligent Client Capability                           |
| IFRS     | International Financial Reporting Standards             |
| IS       | Information Systems                                     |

|        |   |
|--------|---|
| ISO    | International Organisation for Standardisation                        |
| IT     | Information Technology  |
| JSP    | Joint Services Publication  |
| KPI    | Key Performance Indicators  |
| MDP    | Modernising Defence Programme   |
| MOD    | Ministry of Defence   |
| MyCSP  | My Civil Service Pension  |
| NCPA   | Non-Consolidated Performance Award                                    |
| NEM    | Non-Executive Member  |
| NISSS  | New IS Service Solution   |
| P3     | Portfolio, Programme and Project                                      |
| PIL    | Ploughshare Innovations Limited                                       |
| PSRE   | Public Sector Research Establishments                                 |
| PwC    | PricewaterhouseCoopers  |
| Q      | Quarter   |
| RIDDOR | Reporting of Injuries, Diseases and Dangerous Occurrences Regulations |
| S&T    | Science and Technology  |
| SAB    | SSRC Assurance Board  |
| SCS    | Senior Civil Service  |
| SIRO   | Senior Information Risk Owner   |
| SME    | Small and medium-sized enterprise                                     |
| SPA    | State Pension Age   |
| SSRB   | Review Body on Senior Salaries  |
| SSRC   | Strategic Security Risk Co-ordinator                                  |
| SSSI   | Site of Special Scientific Interest                                   |
| STEM   | Science, Technology, Engineering and Mathematics                      |
| UTC    | University Technical College  |

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