



Defence Science and Technology Laboratory

Annual Report and Accounts

2017/18

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For more information about Dstl's work, visit
www.gov.uk/dstl



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Defence Science and Technology Laboratory

Annual Report and Accounts 2017/18

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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Instrument 2017 No. 148, the Defence Science and Technology Laboratory Trading Fund Order 2011 (S.I. 2011/1330) was revoked; Dstl continuing as an Executive Agency within the ambit of the Defence vote but no longer operating as a Trading Fund.

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24 hours in S&T



Dstl (the Defence Science and Technology Laboratory) operates 24/7, working around the globe in support of the UK's defence and security. Here are some highlights from the past year to give a taste of what we do.

00:10

On the other side of world, Dstl experts are working on the latest armoured vehicle protection

Dstl scientists have been working with Australia for several years on armoured vehicle survivability systems. This led to a focus on active integrated protection systems (AIPS).

A range of technologies are being developed, supported by physical trials and simulations, involving staff on secondment in Melbourne and many more based at Dstl in the UK.

AIPS can detect and defeat threat missiles within 100 milliseconds – less than half the time it takes a human to react to a visual cue – providing even more protection for our troops in armoured vehicles.

In September 2017, Dstl placed a £10 million contract with Leonardo to develop an open architecture for AIPS, to allow the best active protection technologies onto British Army vehicles and securing up to 250 jobs.

02:30

An analyst boards a flight to deploy to the Caribbean

When devastating hurricanes hit the Caribbean in 2017, a Dstl analyst deployed to the UK's headquarters in Barbados, providing direct planning and logistics support on the ground.

Operational analysis allowed the Ministry of Defence (MOD) to halve the number of shipping containers required for the relief operation, saving time and money.

Dstl maintains a pool of operational analysts, ready to deploy at short notice to support operations worldwide, whether military or humanitarian.



04:00

A satellite is launched into space

After months of preparation, a group of Dstl space scientists saw an experimental satellite, Carbonite 2, launch into space on board a rocket.

Working with industry and the Royal Air Force, Dstl has contributed financially and technically to the satellite, which will be the cornerstone of both Dstl and MOD space experimentation over the next two years.

It will contribute to our understanding of the importance of space for defence and security, undertaking innovative science and technology experiments, and supporting international partnerships.



07:10

HMS Queen Elizabeth arrives at Portsmouth

Dstl analysts have been involved in supporting the development of the UK's new aircraft carriers from the early concepts more than two decades ago. Examples of analysis include: calculating the required size and shape of the deck and the 'ski-jump', from which the F-35 jets will take off; working out how to restock the carriers at sea on operations, to ensure our armed forces maintain strike capability at all times; and, calculating different cost options to ensure affordability.

Cyber scientists have also ensured the carriers, their systems and connected platforms are all protected from potential cyber attacks.

The first of the two carriers arrived in Portsmouth in August 2017 but Dstl's support will continue long into the future to integrate new technologies as they emerge, keeping the carriers at the cutting edge.



08:20

An incident at Parsons Green is reported to the police

On 15 September 2017, an improvised explosive device partially exploded on a London Underground Tube train during morning rush hour, injuring 51 people.

The blast at Parsons Green station failed to fully detonate but was intended to cause significant harm and damage. Two scientists from Dstl's Forensic Explosives Laboratory (FEL) deployed to the scene in the aftermath of the incident to support the Metropolitan Police Counter-Terrorism Command and provide advice on a forensic recovery strategy. A third scientist attended the home address of the suspect.

Case officers at FEL forensically examined 50 items in relation to the incident and produced expert witness statements for the subsequent court case in March 2018. The lead scientist provided expert evidence in person at the Old Bailey. The bomber was found guilty and jailed for life.

Continued over page ►

24 hours in S&T



10:40

The Foreign Secretary states use of sarin in Syria

Dstl is one of only 20 laboratories worldwide that is accredited by the Organisation for the Prohibition of Chemical Weapons for the analysis of chemical weapon samples.

On 4 April 2017, a suspected chemical attack on a suburb of Khan Sheikoun, Syria, killed more than 80 civilians and left many hundreds with serious injuries. Dstl was sent samples from Syria and confirmed the presence of sarin. Scientists identified the specific chemical signature of sarin used by the Assad regime. The Foreign Secretary said: "The Assad regime almost certainly gassed its own people."

The analysis and attribution capability supports the UK's and our allies' diplomatic position on Syria and the evidence will support any future United Nations prosecutions through the International Criminal Court.



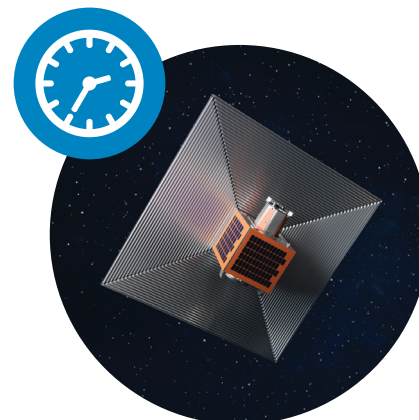
12:05

Dstl scientists are in the midst of a military exercise

At Exercise TOXIC DAGGER in February 2018, Dstl staff worked alongside 40 Commando Royal Marines to prepare them for chemical, biological, radiological and nuclear (CBRN) operations. Specialists in CBRN from Dstl, Public Health England and the Atomic Weapons Establishment created challenging, realistic exercise scenarios based on the latest threat information.

The exercise also demonstrated Dstl's 24/7 CBRN reachback capability, which gives UK military, CBRN specialists and medical staff access to specialist knowledge and capabilities. Assistance can include advice on the nature of agents, protection methods, and medical advice. Downwind hazard predictions can be provided to help inform military planning so as to reduce potential casualties and the spread of contamination.

CBRN reachback can maximise combat effectiveness and keep our armed forces safe.



14:35

Minister for Defence Procurement announces new space research

The Daedalus experiment, led by Dstl, was announced in July 2017. It tests an innovative solution to the growing problem of space junk. Debris in orbit could have a devastating effect if it were to collide with a satellite, and threatens to make future space exploration and satellite launches impossible.

Collaborating with industry, Government and academia, Dstl space scientists are exploring 'de-orbit' sails and other novel technologies on satellites to bring them out of orbit when no longer needed. However, this makes them difficult to track.

Dstl is coordinating a multi-agency observation campaign to assess the effect of de-orbit technologies on our ability to track objects in space. Maintaining safe custody of such satellites is important to ensure both long-term sustainment of the space domain and MOD's ability to operate within it.



16:25

A new radio system is integrated on a stratospheric balloon

In summer 2017, a radio system was integrated onto a stratospheric balloon platform and flown miles above Earth. The radio, developed by Dstl and partners across Government and industry, operated well throughout all phases of flight including the key controlled drift phase of around four hours' duration with the balloon at 65,000 feet.

This was an impressive demonstration of potential capability and likely to lead to further development and assessment of this type of host platform. The platform could have a range of potential uses, such as remote communications and persistent surveillance.



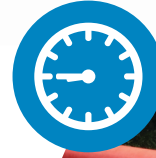
18:20

In the United States, Dstl staff are taking part in a world-first demonstration

Autonomous and unmanned vehicles in the military have the potential to save lives. Resupplying the front line in battle is a dangerous task for troops but that could one day be a thing of the past.

In October 2017 in Michigan, Dstl collaborated with partners from the United States to demonstrate a range of unmanned ground vehicles, which had been modified from in-service manned platforms, and unmanned aerial vehicles in a logistics role. Outcomes included the first ever semi-autonomous logistics convoy.

Research into autonomous logistics is set to continue between the UK and US, seeking to reduce the risk and burden on military personnel, while increasing efficiency.



20:45

Dstl receives a call about an incident in Salisbury

On 4 March, two individuals were found slumped on a bench in Salisbury. It soon became apparent that this was a serious incident and, while the cause was not immediately obvious, the Duty Senior Scientific Adviser began to provide advice to the first responders.

Dstl regularly provides rapid advice and support to police and military activities. Experts in chemical and biological (CB) warfare can be called upon at any hour to assist operations. In Salisbury, Dstl's CB Specialist Response Team was deployed to provide world-class technical advice and support to civilian responders and police, and samples were analysed in the laboratory to determine the cause of the incident.

Our experts also advised MOD Operations Directorate, the Home Office and COBRA (the UK Government's emergency response committee for national or regional crises). Dstl worked 24/7 in support of the investigation, and continues to support both this and the recovery efforts in Salisbury.

Performance Report





The Performance Report section of Dstl's annual report and accounts helps the users of this document to understand our organisation's story. On the following pages, we provide information about Dstl, our strategy, the principal risks that we face in the delivery of that strategy, and analysis of our performance. These pages complement the details in our Financial Statements, which begin on page 74.

Our Performance Report contains two sections:

An **Overview**, which begins on page 8. This includes a short summary of our business, which we hope provides enough information for you to understand what we do and why we do it, our purpose, our key risks and how we have performed over the past year.

A **Performance Analysis** section, which begins on page 24. This is a more detailed summary explaining how we measure our performance. This section uses information from other parts of our annual report and accounts, and provides longer-term trend analysis.

Overview



Chief Executive's Statement

I am pleased to introduce the Dstl Annual Report and Accounts 2017/18

When I joined Dstl, I knew it was going to be very interesting and a new challenge for me personally in my career. I cannot think of another organisation I know, or with which I have ever been involved, that has the breadth, impact and depth of capability that we have here at Dstl. The capability of our people, their expertise and professionalism is world class and I am honoured to be leading this organisation.

Dstl's range of work is extraordinary. Throughout this report, there are examples of high-impact science and technology (S&T) delivered by Dstl in the past year. We have supported procurements, policy decisions and criminal prosecutions, coordinated and delivered major project trials, and responded to urgent operations – all with the focus and aim of keeping the UK, our armed forces and security services, and our people, safe and secure. I am proud of the continuing high performance of Dstl (see page 22).

Towards the end of the year, we had unprecedented attention after the nerve agent attack in Salisbury. Our experts' efforts showcased Dstl as a world-leading S&T organisation, working around the clock assisting the Government by providing impartial evidence and helping to protect the public. Like so much of our work, we cannot talk about the finer details of the Salisbury incident, not least because the investigation is still ongoing. This is not unusual. We work hard to ensure that our country is protected from a range of current and emerging threats and it is important that those details are not made public for reasons of national security. We frequently collaborate with wider Government and front-line services – here in the UK and with allies – to enable a joined-up, effective counter-terrorism response to state and non-state threats.

Where it is not necessary to keep work within Government, we partner with the best from industry and academia, ensuring the UK benefits from the

best minds, facilities and research around the country to ensure we have access to the very best in technological advances and investment.

We are a people business and depend on the skills and capabilities of our staff to ensure that we can deliver high-impact S&T for the defence, security and prosperity of the UK. As such, I am pleased to report that the integration of the Centre for Applied S&T (CAST) at the Home Office was successfully completed in April 2018. We warmly welcome these colleagues to Dstl and look forward to harnessing their expertise to deliver a more agile and diverse S&T base.

Our customers highly value the work that we do, and I was very proud to hear the feedback from them during our recent strategic exercise, which concluded in March 2018. In May 2018, we launched our strategic direction, which is not a complete change for Dstl but gives us a clearer strategic intent, enables us to be more aligned across the laboratory and to work more effectively with MOD Defence Science and Technology and the MOD Chief Scientific Adviser to deliver the MOD *S&T Strategy* (see page 11). We will become better at communicating the real impact of what we do as we continue to promote Dstl as the defence and security S&T specialists across Government.

I would like to thank Jonathan Lyle, our previous Chief Executive, who stepped down in the autumn. Jonathan made an immense contribution to the success and reputation of Dstl, and it is thanks to his leadership that we have the strong base on which to grow our organisation into the future. My final thanks go to the staff at Dstl. Our workforce is passionate, diverse, and knowledgeable, and, above all, dedicated to our purpose.

Gary Aitkenhead | Chief Executive
4 July 2018

Who we are and what we do

Dstl (the Defence Science and Technology Laboratory) is an Executive Agency of the UK Ministry of Defence. We work to deliver high-impact science and technology for the benefit of the UK's defence, security and prosperity

We provide sensitive and specialist science and technology (S&T) research, advice and analysis for the UK Ministry of Defence (MOD) and wider Government. Since we were formed in 2001, we have built an excellent reputation for world-class S&T, mostly due to the expertise and commitment of our talented scientists and professionals. Specifically, we:

- deliver specialist S&T support to military operations
- provide specialist technical advice to support counter-terrorism
- offer impartial advice and analysis to the UK's Air, Land, Maritime, and Joint Forces areas (The Commands) and Defence Equipment and Support
- advise MOD on the development of defence policy and on improving the effectiveness and efficiency of MOD's business
- support the delivery of intelligence capability within MOD and wider Government
- develop and sustain critical S&T capabilities (people and facilities).

We deliver politically sensitive projects and those of national security from our sites at Porton Down, Wiltshire; Portsdown West and Alverstoke, Hampshire; and Fort Halstead, Kent. From 1 April 2018, we also operate from sites at Langhurst, West Sussex, and Sandridge, Hertfordshire, as we work with new colleagues from the Home Office's CAST to provide a more coherent and resilient capability for our customers. We also deliver other work by partnering with industry, universities and international partners. We also fund research in universities and small companies as well as produce intellectual property, attracting private venture capital, all of which creates jobs and stimulates exports for the UK.

This year, we have continued to make progress on our Helios Project to transfer key capabilities from Fort Halstead to Porton Down and Portsdown West.

Working off-site alongside our customers, partners and suppliers is an integral part of what we do as an organisation. We have a significant presence on other MOD sites, including Abbey Wood, Bristol, within The Commands and in MOD Head Office, London; our formal international, industrial and academic secondment and project-funded placements help to build and maximise our networks and relationships across the S&T community.

Our biggest customer is MOD's Chief Scientific Adviser (CSA), who currently places more than £300 million of work with us every year (through the MOD S&T Programme). We also provide in-Government S&T support on highly sensitive issues of national security to: the Home Office; the Department for Transport; the Centre for the Protection of the National Infrastructure; and, the National

Continued over page ►

This year, our work has continued to focus on nine key capability areas:



Analysis. We use science to solve complex policy, planning and operational problems.



C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance). We develop S&T to improve the integration of networks, sensors and intelligence.



CBR (Chemical, Biological and Radiological). We provide authoritative S&T advice on CBR materials, and develop CBR countermeasures.



CTS (Counter-Terrorism and Security). We deliver S&T to respond to a diverse range of current and future defence and security threats.



Cyber. We find ways to defend against cyber attacks and to outsmart our adversaries in the digital age.



Human Capability. We develop S&T to benefit and enhance the contribution that humans themselves make to defence and security.



Integrated Survivability. We use systems engineering to achieve the best chances of survival for our service personnel and for the successful completion of affordable missions.



Platform Systems. We enable the integration of technologies across the land, sea and air military platforms.



Weapons. We assess and advise on conventional and new weapons technologies and systems.



“We are a people business and depend on the skills and capabilities of our staff to ensure we can deliver high-impact S&T.”



Capability health

We completed our first capability health assessment this year

See page 25

Cyber Programme with MOD and the Cabinet Office. Dstl occasionally provides products or services to customers outside of UK Government, within the constraints of its role and purpose.

Dstl also hosts the Defence and Security Accelerator (DASA). Announced as part of the Defence Innovation Initiative in December 2016, DASA helps Government defence and security departments to collaborate with industry, academia and allies in order to develop innovative solutions to the UK’s most pressing national defence and security challenges.

We have a duty to maximise the benefit of any new technologies and knowledge that are developed during the course of our defence work, by licensing technology or creating new spin-out companies for the benefit of the UK. Since 2005, our wholly owned technology transfer company, Ploughshare Innovations Ltd, has carried out this role, in partnership with Dstl’s Intellectual Property Group. In that time, Ploughshare has commercialised more than 125 technologies and spun out 12 companies; it currently manages more than 50 licensees. Ploughshare’s activities have also led to the creation of more than 585 jobs, £75 million of exports and £140 million of inward investment attracted by the spin-out companies.

Along with New Sarum Enterprises and GWE BusinessWest, we have an interest in the Tetricus Business Incubator, which brings together experience and expertise to benefit new and growing science companies; Tetricus is a Dstl associate company and is currently located within our Porton Down site perimeter. In 2017/18, the companies incubated by Tetricus began to move to purpose-built accommodation on the new Porton Science Park, which is owned by Wiltshire Council. The science park is now open for business.

At the time of reporting, the final Tetricus tenants were set to move to the new science park. Subject to further discussion with all parties, Dstl will be considering its future association with Tetricus during 2018/19, and this will be reported in next year’s annual report and accounts.

Our status as an Executive Agency of MOD reflects the secure and sensitive nature of work that we do. The Government’s *Strategic Defence and Security Review 2015* set out the approach to the UK’s economic and national security, with many challenges and opportunities that continue to align well with the work that we do and the expertise that we provide or are developing. This, together with our governance framework from MOD (see page 46), gives us a clear mandate for the S&T we will deliver for UK defence and security – now and into the future.

Our plans for the future

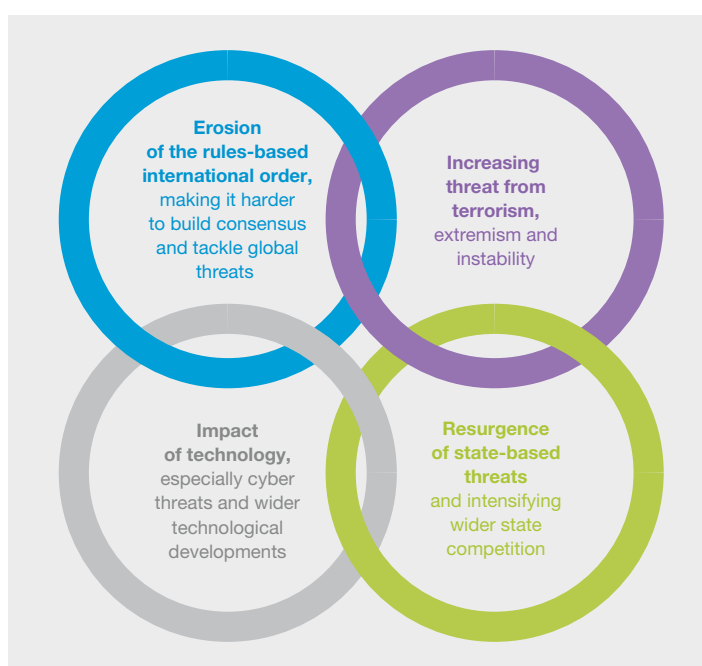
As a Government organisation, Dstl is uniquely placed to understand current and future threats, and to provide innovative solutions using internal and external expertise. We will continue to deliver cutting-edge S&T to keep UK armed forces and the British people protected from harm

In April 2017, Dstl changed its organisational model within Government, no longer operating as a Trading Fund but remaining as an Executive Agency. This brings some changes to the way in which MOD owns and governs us, and aligns us more closely with other defence organisations.

This change in organisational model does not change our purpose, which is to deliver high-impact S&T for the UK's defence, security and prosperity. To continue to do that successfully and to be ready for future threats and conflicts, we explore the potential of emerging technologies to see how our troops or adversaries might use them. This is in addition to our continued support to defence and security operations around the world.

The 2015 *National Security Strategy* and the *Strategic Defence and Security Review 2015* both describe fundamental changes to the world. There are major shifts in economic and military power, and powerful non-Government controlled organisations have emerged alongside traditional competition between nations. The globalisation and rapid advances in technology bring huge opportunities to the UK but they also increase the scale, diversity and complexity of the threats that the UK faces.

The four key challenges for defence and security



While the economic situation in the UK is slowly improving, financial pressures continue across Government. The *Modernising Defence Programme* (MDP) will seek to strengthen defence to respond quicker to the increased threats that we and our allies now face and to put defence on an enduring affordable footing. Dstl will play an active role in shaping this future as the MDP progresses.

Our purpose and role

Our purpose is:

- **to deliver high-impact S&T for the UK's defence, security and prosperity.**

Our role, as set by MOD, is:

- **delivering science and technology for defence and security.**

We do this by: maximising impact and value from the S&T Portfolio; supplying specialist S&T services that must be done in Government; providing expert and impartial advice, analysis and assurance; and, integrating S&T delivered by industry, academia, wider Government and its allies.

- **stewardship of defence and security S&T capabilities.**

We do this by: ensuring the required capabilities are available now and in the future in line with the MOD *S&T Strategy*; bringing together the right people, relationships, infrastructure, knowledge and licences to practise; maximising the effectiveness and efficiency of our S&T infrastructure and assets; and, working with industry, academia, wider Government and its allies to access and build capability.

Building on the high-impact work we deliver to our security customers, the Home Office's CAST integration into Dstl positions the UK to have even greater effect in addressing the challenges outlined above, where all aspects of national security need to be increasingly integrated.

Our strategic themes

Our new Chief Executive has undertaken a refresh of our strategy, providing renewed focus and alignment across all that we do. We have three strategic themes that are essential for Dstl's improvement and continued success:

Continued over page ►

Customer focus

- We will understand our customers' needs and challenges, and concentrate on addressing these.
- We will identify and show how S&T can address our customers' future challenges and solve problems that may not even be obvious to them.
- We will be receptive to and encourage innovative solutions.

Communications

- We will increase our focus on outcomes, and communicate more clearly how our S&T is efficiently and effectively exploited in terms of defence and security, to raise our profile and build confidence that the money invested with Dstl provides value.
- We will strengthen our brand and build more confidence in the work we do across our stakeholders.

People and collaboration

- We will work more collaboratively with colleagues, partners and suppliers, to ensure our customers are provided with the best possible S&T solutions.
- We will support and invest in our people, providing: rewarding careers to enable them to develop through on-the-job experience; training; job rotation; and, increased collaboration with external peers.
- We will develop our management, leadership and functional expertise.
- We will ensure that employee engagement, employee voice, and diversity and inclusion are seen as critical to our continued success.

Our strategic objectives and strategic imperatives

In developing our strategic direction, we have expanded our three themes into three strategic objectives and nine supporting strategic imperatives.

Through S&T, shape the future of defence and national security via relentless focus on our customers' challenges and needs.

This strategic objective responds to an increasing need for Dstl to drive the influence of S&T into mainstream defence and security thinking. To achieve this, we will need to build greater trust with our customers at the most senior levels to ensure we are more effective in influencing how and where S&T can support their needs. We need our people to continue focusing on high-impact delivery, and also to look beyond what they are delivering to focus on future exploitation. Underpinning this, we need to ensure that we all become better at communicating the relevance of our work, with Dstl having an internationally recognised brand.

1. Make customer focus central to our delivery process.
2. Improve communication of our work.
3. Drive impact and exploitation of our work.

Ensure defence and security can exploit the best science and technology capabilities on demand.

This strategic objective responds to the continuing need for Dstl to increase its effectiveness in working with others and fulfil its role as capability steward for MOD. As the pace of S&T innovation and investment continues to increase in non-defence and security sectors, it is increasingly important for Dstl to determine the capabilities it requires for the long term, and to enhance its approach to collaboration and partnering. This will enable us to guide and harness the leading-edge innovation and expertise necessary to provide sustained UK defence and security capability advantage.

4. Identify the capabilities that Dstl requires internally and externally to deliver the S&T strategy.
5. Collaborate more effectively with our suppliers and partners to deliver greater impact and support international relationships through S&T.

Be an agile organisation that is fit for the future.

This strategic objective responds to the continued need for Dstl to adapt, improve and invest in its organisational enablers. This includes: leadership, accountability and governance; our investment in the talent, skills and careers for our people; and, the infrastructure, smart processes and systems required to sustain quality delivery for today and the future.

6. Improve leadership, accountability, empowerment and decision-making.
7. Develop our people, provide exciting career opportunities and improve knowledge management.
8. Ensure safe, secure, sustainable and fit-for-purpose infrastructure and IT.
9. Drive up the efficiency of our operations.

These strategic objectives and imperatives provide clear direction for Dstl. They will support our delivery teams and experts, who are the people best placed to identify areas where we can innovate, prioritise activity, challenge customers, communicate and drive an increase in our impact.

We recognise that to deliver against our strategic objectives and imperatives, we are reliant upon others. We look forward to working with our many partners and suppliers in helping us protect the UK now and in the future.

What could stop us achieving our objectives

Risk exists where future events may affect the achievement of our objectives – it is uncertain whether these risk events will occur or what their impact may be. Risk management is the way we identify those events, assess their consequences and develop plans to manage their likelihood and impact. Delivering robust risk management improves the delivery of our corporate objectives

Our approach to risk management complies with MOD policy for risk management but also draws heavily on best practice. It is our vision to have understood all of the risks potentially affecting Dstl's objectives and to have prioritised our resources in order to bring the most significant risk events under control.

Our principal risks

Our principal risks are captured in the Dstl Corporate Risk Register, managed by the Dstl Executive with support from specialists in our Corporate Affairs Function and throughout the wider business. They identify, assess and prioritise the responses to these significant risks. The Corporate Risk Register is reviewed at Executive Committee and Dstl Audit Committee meetings, and annually at the Dstl Board, to ensure it accurately represents key organisational threats and opportunities in relation to Dstl strategic direction. At least once per year, aligned to the business planning process, the Executive Committee completes a top-down re-assessment of the principal risks, which it then regularly monitors as the year progresses.

Members of the Executive Committee are both owners for (accountable for) and managers of (responsible for) risks in the Corporate Risk Register. They also form the conduit for risks escalated to the Executive Committee from their teams or from specialist risk areas for which they are accountable, and to the Board and onwards to MOD for discussion and action as necessary.

Continued over page ►

CASE STUDY



Achieving the impossible

Cutting-edge fingerprint technology makes it harder for criminals to escape justice

Fingerprints are unique to individuals, so the marks they leave behind at crime scenes make them invaluable to forensic investigators.

Dstl worked with the University of Loughborough and the then Centre for Applied Science and Technology to develop an advanced fingerprint visualisation technology that makes it harder for people to destroy their marks and conceal their identities. The new technique could help identify criminals ranging from insurgents to burglars.

The technology uses an innovative chemical to recover fingerprints from surfaces that were previously extremely challenging or even impossible to work with. This includes items exposed to high temperatures, including components from fired ammunition cases, and items that have been deliberately cleaned, such as knives at domestic crime scenes. The technique makes fingerprints visible so that forensic scientists can identify individuals, making it harder for them to escape justice.

Foster + Freeman, one of the world's foremost forensic science equipment suppliers, has licensed the method through Ploughshare Innovations (Dstl's technology transfer company) to make it commercially available.

Dstl Corporate Risk Register 2017/2018

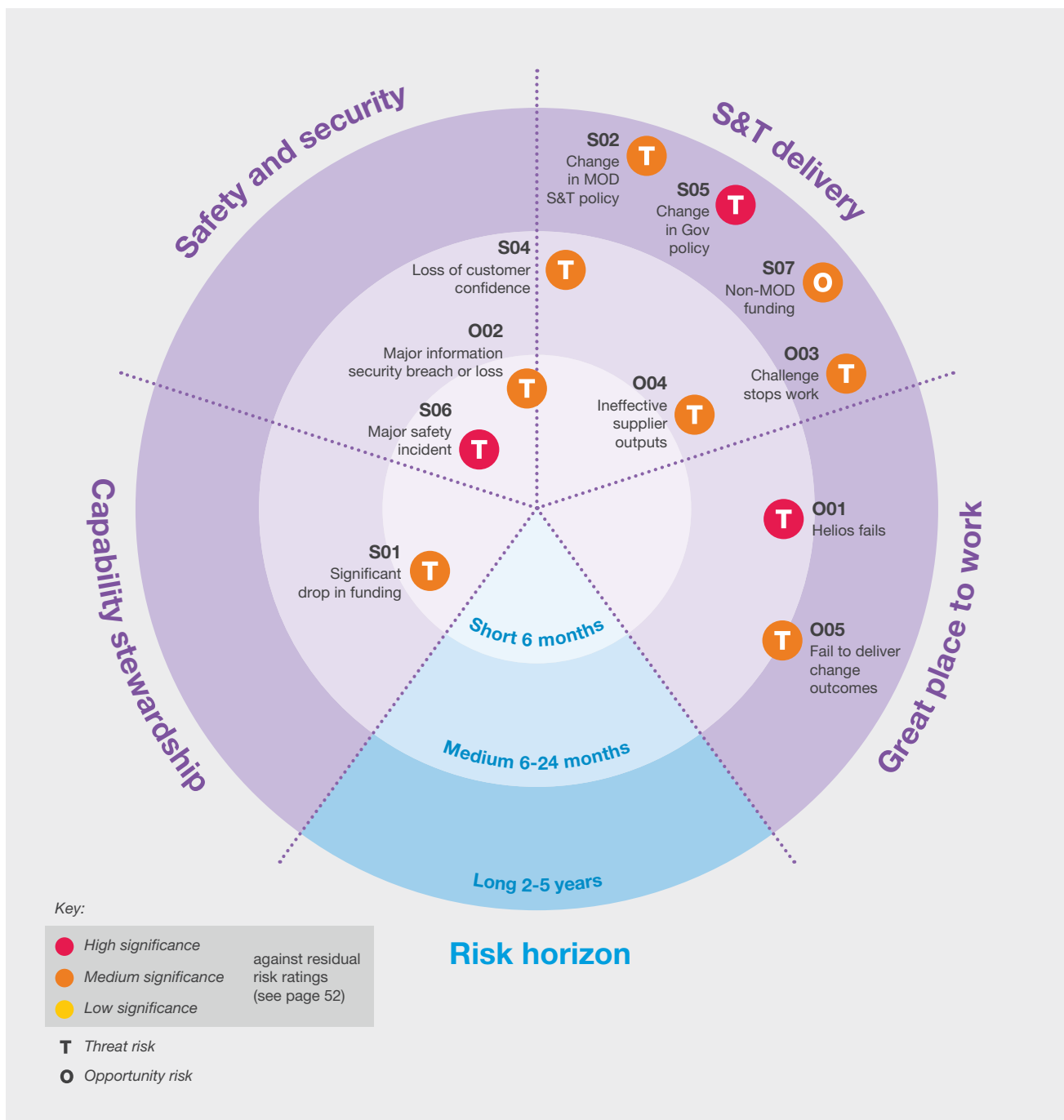
During 2017/18, our Corporate Risk Register continued to comprise two tiers of risk: strategic risks – those risks that threaten (or enhance) the existence of Dstl and/or the defence and security of the UK; and, operational risks – those risks that threaten (or enhance) the effective operation of Dstl. As at 31 March 2018, our Corporate Risk Register comprised six strategic risks (five threats and one opportunity) and five operational risks (threats only), summarised in the diagram below.

More information on these risks is given in the tables opposite.

Risk management

We have developed a new risk framework and strategy for the way we manage risk

See page 50



Strategic risks	Key mitigations
<p>S01: Significant drop in funding (threat)</p> <p>Dstl receives a significant (greater than 10 per cent) drop in funding (including capital and resource) as a result of MOD spending priorities and/or wider Government spending constraints that results in the loss of critical and/or key S&T capabilities for the defence and security of the UK.</p>	<p>Through our Board, Executive Committee and business committees, we have supported MOD CSA in developing a stronger evidence-base to demonstrate the value of S&T to our stakeholders.</p> <p>Our Board has endorsed our <i>Strategic Workforce Plan</i>, and we are implementing the plan.</p> <p>We have made use of voluntary early exit schemes in areas where customer demands have changed.</p> <p>These mitigations have reduced the likelihood and impact of this risk from an inherent risk rating of 'very high/critical' to a residual risk rating of 'medium/severe'.</p>
<p>S02: Change in MOD S&T policy (threat)</p> <p>Dstl is unable to respond rapidly to a change in MOD S&T policy (in terms of planning horizon, capability requirements, balance of programme effort and potential customer base) thereby preventing it from making an impact across both defence and security.</p>	<p>Through our Board, Executive Committee and business committees, we have supported MOD CSA in developing a stronger evidence-base to demonstrate the value of S&T to our stakeholders.</p> <p>We have responded to the MOD <i>S&T Strategy</i> to identify our priorities for external partnerships and international research collaboration. We continue to place Dstl staff in strategic secondments.</p> <p>We have begun the development of an evidence-base to assure the health of our S&T capabilities.</p> <p>These mitigations have reduced the likelihood and impact of this risk from an inherent risk rating of 'high/critical' to a residual risk rating of 'medium/severe'.</p>
<p>S03: Limited operating freedoms (threat)</p> <p>Due to restrictive operating freedoms, Dstl is unable to meet the expectations of the end customers for S&T and achieve the agreed objectives in the <i>Corporate Plan</i>, which leads to significant drop in delivery performance as perceived by MOD stakeholders.</p>	<p>In February 2018, the Dstl Audit Committee decided to retire this risk. Originally captured during the 2016 <i>Trading Fund Review</i>, the risk endured throughout the implementation of our change in status to an on-vote Executive Agency of MOD.</p>
<p>S04: Loss of customer confidence (threat)</p> <p>A loss of customer confidence (e.g. caused by sub-standard products/services; not meeting customer expectations; or failing to steward S&T capabilities) results in customers placing work directly with suppliers reducing Dstl to a necessary but non cost-effective niche supplier.</p>	<p>Dstl and MOD Defence Science and Technology (DST) have developed a joint assurance plan, and we are piloting a product development framework for third-party tangible products.</p> <p>We have revised our approach to assuring technical quality and will review this annually.</p> <p>Knowledge management activities have focused on developing tools and culture within Dstl.</p> <p>We have begun the development of an evidence-base to assure the health of our S&T capabilities.</p> <p>These mitigations have reduced the likelihood and impact of this risk from an inherent risk rating of 'high/severe' to a residual risk rating of 'medium/severe'.</p>
<p>S05: Change in Government policy (threat)</p> <p>Dstl does not respond effectively or early enough to a change in international or national Government policy (e.g. Brexit consequences, changes to US funding for non-US based S&T, changes to the use of animals in research, mandated use of Government Shared Services) which results in Dstl missing one or all of its corporate objectives.</p>	<p>Through our Board, Executive Committee and business committees, we have supported MOD CSA in developing a stronger evidence-base to demonstrate the value of S&T to our stakeholders.</p> <p>We continue to place Dstl staff in strategic secondments.</p> <p>We undertake horizon-scanning to identify emerging S&T policies and associated changes.</p> <p>At present, the inherent and residual risk ratings for likelihood and impact are both 'high/severe'.</p>

Continued over page ►

Strategic risks	Key mitigations
<p>S06: Major safety incident (threat)</p> <p>Inadequate controls and an immature safety culture result in a major safety incident leading to the cessation of Dstl operations at one or more of its sites, severe reputational damage and an inability to deliver against current and future customer requirements.</p>	<p>We have rigorous local competency and risk assessment arrangements in place.</p> <p>We operate Line One and Line Two health and safety assurance programmes.</p> <p>We comply with regular statutory and regulatory inspections and assurance activities.</p> <p>We have implemented an Intelligent Client Capability (ICC) to deliver and assure a compliant estate and assets.</p> <p>These mitigations have reduced the likelihood and impact of this risk from an inherent risk rating of 'high/critical' to a residual risk rating of 'medium/critical'.</p>
<p>S07: Additional non-MOD funding is secured (opportunity)</p> <p>Dstl is able to secure additional funding from wider Government (i.e. non-MOD) and non-Exchequer sources ensuring the continuity of its purpose and role, and demonstrating its ability to deliver impact across Government.</p>	<p>We have a <i>Public Sector Research Establishments (PSREs) Engagement Strategy</i> that sets direction on how to engage with PSREs and funders of research.</p> <p>Our Executive Directors have an improved understanding of CAST networks and capabilities.</p> <p>At present, the inherent and residual risk ratings for likelihood and impact are both 'medium/major'.</p>

Operational Risks	Key mitigations
<p>O01: Helios Project fails (threat)</p> <p>Elements of the Helios Project do not deliver because of MOD investment priorities or significantly escalating costs and timescales, which leads to a delay in delivering operating cost savings from site rationalisation by 2021 or a compromise in planned S&T capabilities.</p>	<p>The MOD Investment Approvals Committee provides scrutiny of the Helios Project. In November 2017, MOD approved the Helios Core Enclosure and Chemical Weapons Defence Centre.</p> <p>We have robust programme and project management controls in place, as well as further gateway checks and internal assurance activity.</p> <p>Our Executive Committee continues to engage with stakeholders to champion the project.</p> <p>The risk remains 'very high' for likelihood and 'critical' for impact because of the complexities around the build and capabilities.</p>
<p>O02: Major information security breach or loss (threat)</p> <p>A major information security breach or loss compromises highly classified or commercially sensitive information and leads to legal/financial sanctions.</p>	<p>We undertake specialist audits and inspections of our information assets.</p> <p>Dstl undertakes information technology health checks (penetration testing) as part of our third-line assurance activities that are overseen by relevant accreditation authorities and national authorities.</p> <p>These mitigations have reduced the likelihood and impact of this risk from an inherent risk rating of 'medium/severe' to a residual risk rating of 'medium/major'.</p>
<p>O03: Legal/regulatory/ethical challenge stops work (threat)</p> <p>Dstl does not implement a suitable assurance environment leading to a surprise legal, regulatory or ethical challenge that stops key elements of Dstl's work and leads to financial or legal sanctions.</p>	<p>We have a programme of activity surrounding the legal issues of RIPA (<i>Regulation of Investigatory Powers Act 2000</i>).</p> <p>We manage ongoing assurance and audit activities across the business.</p> <p>We have clear <i>Standards in Public Life</i> guidance.</p> <p>At present, the inherent and residual risk ratings for likelihood and impact are both 'medium/major'.</p>

Operational Risks	Key mitigations
<p>O04: Ineffective supplier outputs (threat) Third-party suppliers deliver ineffective outputs as a result of poor supplier engagement or contract management leading to sub-optimal defence and security outcomes and the fragility of key S&T capabilities.</p>	<p>We have implemented an ICC to provide contract management with key suppliers.</p> <p>We have begun the development of an evidence-base to assure the health of our S&T capabilities.</p> <p>Dstl and DST have developed a joint assurance plan, and we are piloting a product development framework for third-party tangible products.</p> <p>These mitigations have reduced the likelihood and impact of this risk from an inherent risk rating of 'high/severe' to a residual risk rating of 'medium/severe'.</p>
<p>O05: Failure to deliver key change outcomes (threat) Dstl fails adequately to control the internal change portfolio resulting in a failure to deliver planned outcomes and benefits and a failure to realise the future operating model objectives.</p>	<p>We engage with the MOD Investment Approvals Committee and establish a 2017/18 investment portfolio.</p> <p>We have robust programme and project management controls in place, as well as internal assurance activity.</p> <p>These mitigations have reduced the likelihood and impact of this risk from an inherent risk rating of 'high/major' to a residual risk rating of 'medium/major'.</p>

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Risk assessment

We have updated our risk matrix since last year

See page 51





F-35s are go

Combat aircraft on its way to service

Throughout 2017/18, Dstl continued to support the Lightning II journey, including a key step in its release to service. With the F-35 fleet due to reach initial operating capability by the end of 2018, ongoing technical support is as crucial as ever.

Dstl provided independent technical evaluation against a range of systems on the platform, to support safe operation of the platform in service. Dstl provided expert advice on how to effectively operate the UK's first fifth-generation combat air platform, and pilots continue to train and develop tactics in the combat simulator designed and operated by Dstl, ensuring they are prepared when Lightning II goes into service.

Recognising that the platform will continue to evolve, Dstl analysed future capabilities and is working to identify potential technology candidates to enhance the capability of the platform.

The Lightning II programme would not have reached this stage without S&T expertise from Dstl and its predecessors. From providing operational analysis and technical expertise for supporting procurement decisions, to safer software and protection against chemical and biological threats, Dstl helps ensure that the UK has a cutting-edge combat air capability for decades to come, maintaining freedom of action for our armed forces and a battle-winning strike capability if called upon.

Our income and expenditure

In our first year as an on-vote Executive Agency, we have met our net financial performance objectives in a climate of continuing budgetary pressure for both ourselves and for our customers

Foreword

Our new agency inherited the role, purpose, assets, staff and delivery capabilities of the previous Trading Fund, with a financial model that remains based on the full recovery of operating costs via charges to customers. We continue to achieve operational efficiency improvements in order to minimise our charges, and our ongoing site rationalisation will realise further cost reductions in years to come. Overall, it has been a very successful first year of operation for the new agency, and our financial statements continue to be prepared on the basis of being a going concern.

Explanatory note

In line with our financial statements presented later in this report, all prior-year comparative figures are for the Dstl Trading Fund only. Related group entities are not material to the results of the Executive Agency and consolidated statements have not been prepared this year. We have adapted accounting policies to align more closely to MOD where appropriate, and now fall under MOD's budgetary control framework within Head Office and Corporate Services. Further explanation of significant changes to accounting policy and presentation can be found within the relevant notes to the financial statements on pages 80-104. Prior-year figures have not been restated.

Operating income

Total operating income for the year was £543 million (2016/17: £587 million). Although, due to changes in our charging policy and rates as a result of our change in status, the headline income cannot be directly compared to previous years; the underlying trend is a small reduction in income reflecting budgetary pressures of our customers. Compared to the Trading Fund, our charges to MOD customers reduced by around 5 per cent, and no longer recover non-cash costs of depreciation and amortisation. Fees and charges to non-MOD customers remain broadly similar. On a like-for-like basis, last year's operating income would have been circa £561 million and the real decrease in our income would have been 3 per cent.

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

	2017/18 £ million	2016/17 £ million
MOD		
Chief Scientific Adviser	312	351
Other	182	185
	494	536
Non-MOD		
Wider UK Government	31	33
Non-Exchequer	12	11
Estates	4	4
Other operating income	2	3
Total	543	587

MOD accounted for 91 per cent of sales (2016/17: 92 per cent). The majority of MOD sales are attributable to the MOD S&T Programme, where sales decreased by £39 million to £312 million (2016/17: £351 million). This programme represented 58 per cent of total sales (2016/17: 60 per cent).

Other MOD sales reflect the demand for work that needs to remain managed within Government. The largest element relates to Defence Equipment and Support (DE&S), which decreased significantly to £87 million (2016/17: £107 million) reflecting deferment of expected support to key programmes. Sales to Joint Forces Command increased by more than a third to £50 million (2016/17: £37 million) with sustained priority given to responding to rapidly emerging and ever-changing threats. Business with the rest of MOD increased to £45 million (2016/17: £41 million) with the growth coming from Air Command in particular.

Non-MOD sales decreased marginally to £47 million (2016/17: £48 million), despite Dstl's extensive support to the Home Office investigation into the Salisbury nerve agent incident in early March 2018. Homeland security and cyber defence continue to receive prioritised funding among our other UK Government customers, though their overall S&T budgets are small when compared with MOD. Non-Exchequer income relates mainly to collaborative and jointly funded work on behalf of defence allies and alliances.

Other operating income decreased to £2 million (2016/17: £3 million). This comprises principally the recovery of ancillary charges for non-Dstl staff occupying Dstl premises and who make use of Dstl site services and amenities.

Cost of sales

External cost of sales comprising subcontracted work and purchases of materials and services decreased by £14 million to £225 million (2016/17: £239 million), representing 42 per cent of all work delivered in the year (2016/17: 42 per cent). Funding uncertainties in the early part of the year and tight commitment controls introduced mid-year by our customers contributed to delays in the placement of external research contracts. While we continue to aspire to conducting a greater proportion of our programme through industry and academia partners, this has continued to be hindered by funding volatility in the short term and a lack of certainty over future commitment and affordability of programmes.

Operating expenses

Operating expenses increased by £26 million to £353 million (2016/17: £327 million). Staff costs have increased by £2 million to £201 million (2016/17: £199 million) and account for 57 per cent of total operating expenses (2016/17: 61 per cent). This results from a higher average civil servant staff cost offset by a lower average proportion of agency and contract staff, set against an average total workforce very similar to last year. Non-permanent staff at year-end accounted for 7.5 per cent of total headcount (2016/17: 8.2 per cent).

The recovery of payroll costs for Dstl staff seconded to other Government departments both in the UK and overseas (£7 million) is offset within staff costs.

	2017/18 £ million	2016/17 £ million
Staff costs	201	199
Non-staff costs	110	105
Depreciation and amortisation	42	23
Total	353	327

Non-staff costs increased to £110 million (2016/17: £105 million). The increase is entirely explained by the additional cost of VAT, which can no longer be reclaimed now Dstl is within the MOD departmental boundary. This had an estimated adverse impact of £6 million that was partially offset by reductions in site running costs as we realised a full year's benefit from



our new facilities management contract, and did not suffer a repeat of contract transition costs incurred in 2016/17. Depreciation of £42 million included the £3 million impact of impairments to asset values as disclosed under Losses and Special Payments on page 69, and also impairments of £14 million ascribed to buildings following a full site revaluation survey carried out during the year.

Net operating expenditure

Our income arises mainly from charges to customers. The change from a Trading Fund to an Executive Agency means that our MOD customers are now charged for the recovery of cash operating costs only in accordance with the department's policy for internal charging. For non-MOD customers, charges continue to reflect full economic cost and therefore include a contribution towards our capital costs based on a proportion of annual non-cash depreciation charges.

	2017/18 £ million	2016/17 £ million
Operating income	543	587
Cost of sales – direct purchases	(225)	(239)
Other operating expenditure	(353)	(327)
Net operating income/ (expenditure)	(35)	21

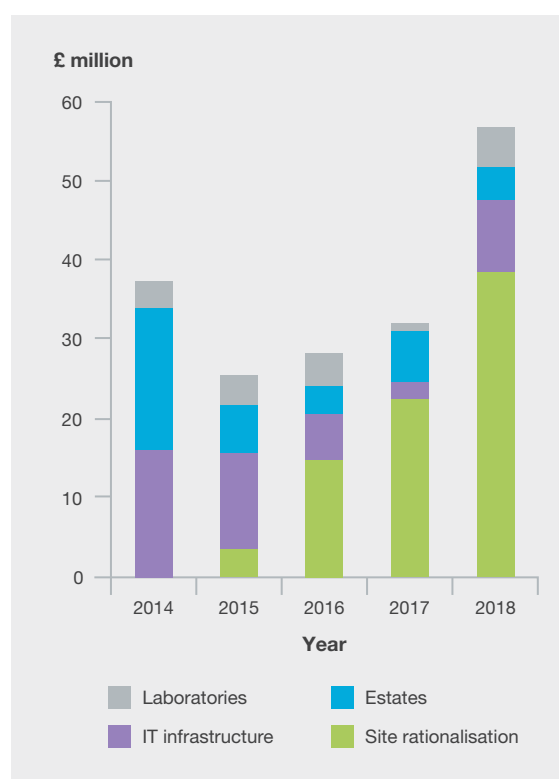
When the full costs of depreciation and amortisation are included, this results in a net operating expenditure of £35 million in 2017/18. Compared to the previous year as a Trading Fund, the changes to charging policy led to a circa 5 per cent (£30 million) reduction in sales without any corresponding reduction in reportable operating costs. Coupled with the increase in unrecoverable VAT as explained on page 19, and the downward revaluation of building assets, this largely accounts for the apparent reversal in performance from a position of £21 million net operating income last year. The underlying cost base and trading performance were similar to previous years.

Capital investment

Capital investment was £58 million (2016/17: £32 million). The Helios site rationalisation programme accounted for £38 million, with the majority of expenditure (£36 million) related to the creation at Porton Down of new specialist experimentation and technical evaluation facilities to accommodate activities that will transfer from Fort Halstead. Other estates projects amounted to £4 million and related principally to the upgrade and replacement of site services and utilities infrastructure. IT investment of £10 million mainly covered replacement of hardware to prevent obsolescence and to improve the capacity and reliability of our networks as demand for storage and bandwidth

continues to increase. The remaining £5 million covered laboratory equipment and instruments.

Capital investment



Funding and treasury management

Dstl is equity funded by MOD as explained in the financial statements and accompanying notes. The funding requirement arises from a combination of cash and non-cash transactions. Dstl operates within the departmental control framework as described in the Parliamentary Accountability section on pages 68-71. 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 that is funded by MOD Treasury.

Supplier payments

During the year, we paid 95 per cent of invoices within five days of being approved and cleared for payment (2015/16: 91 per cent), against the target set by Government of 80 per cent.

Events after the reporting date

From 1 April 2018, Dstl became responsible for the staff and operating activities of the Home Office's CAST. Details of the expected future impact of this business change are in Note 26 to the financial statements on page 104.

There have been no other significant events since the end of the financial year that affect the results for the year or the year-end financial position.

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* (FRm), issued by Her Majesty's Treasury. There have been no new accounting standards, amendments or interpretations that affect the financial statements.

The significant changes to accounting policy are outlined in Note 1 to the financial statements commencing on page 76. Changes are driven by a desire to align with the policies of our parent department where appropriate, subject to relevance and materiality considerations for Dstl.

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.

Despite the funding volatility and constraints experienced in recent years, we expect demand to be sustained, and to become more appropriately funded over time. In order to minimise the net cost to defence and the taxpayer, we will continue to seek opportunities for collaboration, including the possibility of sharing our specialist S&T facilities with other Government and private sector organisations.

The completion of our site rationalisation programme coupled with the transfer of Home Office CAST activities will continue to drive significant levels of capital investment at our Porton Down site over the next three years. In several cases, new facilities must be commissioned and licensed before we can transfer activities from their present locations to ensure no break in capability or service, which may cause operating costs to rise in the short term while activities run in parallel. The eventual closure of the Fort Halstead site will realise substantial running-cost savings as well as creating greater operational efficiency through co-location of staff and facilities at our remaining sites.

We are realising the benefits of our new facilities management contract and continue to seek further reductions in our running costs through our Sustainable Value for Money programme. We will need to achieve continuing efficiency improvements in order to ensure that our nationally critical and highly specialised capabilities remain affordable, and that S&T expenditure continues to be seen as a valuable investment for the future.

CASE STUDY



Squad goals

Robot Rodeo puts bomb squads' skills to the test

Dstl and US partners hosted the 'Robot Rodeo' in 2017, inviting experienced military explosive ordnance disposal (EOD) and public safety bomb squad teams to test out the latest industry technologies in challenging, real-world scenarios.

By observing the teams, the organisers saw first-hand what the latest EOD robotic technologies had to offer, their limitations and where improvements could or need to be made. It also enabled EOD robot vendors to understand future EOD robotics requirements and where they could focus their efforts and funding.

The exercise explored areas such as autonomous navigation, remotely deployed X-ray, 'under vehicle' robot deployment, multi-robot deployment, and remote chemical, biological, radiological, nuclear and explosive detection.

EOD robots are used extensively by both military and civilian forces to remotely detect, investigate and dispose of explosive devices – an activity that would otherwise be an incredibly hazardous task. As technologies advance, EOD robots can be developed to allow even greater capability in diffusing dangerous devices. Events such as the Robot Rodeo ensure UK forces have access to the best, most-advanced machines possible, protecting the lives of both the public and military personnel.

How we have performed

Dstl monitors its performance every month to advise the Dstl Executive Committee and Dstl Board on current and future performance. This means that Dstl takes timely and appropriate action to ensure that it is on track to deliver its strategic objectives

During our first year as an on-vote Executive Agency of MOD, the demand for our unique and highly specialised science and technology expertise has remained high.

The following two pages are a visual presentation of our strategic and operational performance headlines; a more detailed analysis of our performance follows on pages 24-35.



94%
Customer
satisfaction



94%
Projects
completed
to **cost**



93%
Products
delivered
to **time**

56%

Employment
engagement index



£543m

Sales for the year

£494m

MOD sales for the year

£58m

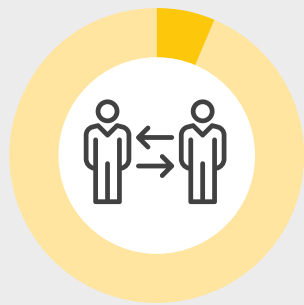
Capital
investment



NO!

Zero

Tolerance
policy to **fraud,**
bribery and
corruption



7.9%
Permanent
staff turnover



3,687

Number of
FTE staff at
31 March 2018



275

Number of
non-permanent
staff employed
at 31 March 2018



£11,216

Amount raised
in support of
corporate
charities



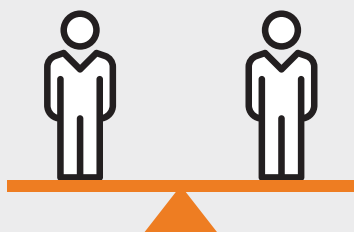
56.8%

Chargeable
utilisation



0.11

Health and
safety reportable
injuries
per 100,000
hours worked



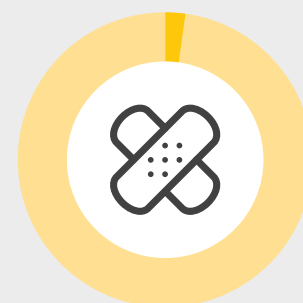
100%

Commitment to
human rights



100%

Percentage
of official
correspondence
answered on time



2.3%

of hours lost to
sickness absence

Performance Analysis

Measuring how we are doing

This year, business performance management and reporting has been developed in consultation with our Board and MOD sponsor to identify new performance indicators. These focus on the most important indicators of successfully fulfilling our role and purpose

We have revised our key performance indicators (KPIs) and thresholds following our transition from a Trading Fund to an on-vote Executive Agency on 1 April 2017, and to reflect our continuing purpose and role.

Designed to evidence how well we are fulfilling our role and purpose, our KPIs will continue to evolve as we align activities across the defence and security S&T Enterprise. The Enterprise comprises Dstl and MOD DST together with our S&T partners and suppliers. Since publishing our *Corporate Plan 2017 – 2022*, we have refined and agreed KPIs for 2017/18 with MOD Head Office and Commissioning Services (HOCS – our MOD sponsor).

In 2017/18, our sponsor assessed our performance bi-annually against the statements in our *Corporate Plan* in line with our *Framework Document*. We have monitored performance quarterly with our Board and have redesigned the Business Performance Report (BPR) to align with our purpose and role, evidencing the effectiveness of our strategy at fulfilling our role.

At the end of 2017/18, we conducted a strategic alignment exercise, which will inform the future content of the BPR and the KPIs we use to track our strategic objectives and to monitor operating performance. Our risk appetite will inform our targets and thresholds as we assess the effectiveness of our strategy through these KPIs.

Delivering S&T for defence and security

We upheld our high standards in delivering to time, cost and customer satisfaction this year, and continued to exceed the performance targets agreed with MOD.

We continued to experience high demand for our expertise, although at £543 million, there was a significant shortfall in total budgeted sales and a decrease in sales compared to £587 million last year. This shortfall was across the MOD S&T Programme.

We express our efficiency as internal sales per full-time equivalent (FTE), which is slightly down on the previous year, and non-staff cash costs per FTE, which are slightly higher than last year.

	Performance	Threshold or variance to previous year
Overall customer satisfaction with delivery (%)	94	>93
Products delivered to time (%)	93	>85
Projects completed to cost (%)	94	>85
Internal sales per FTE	£84.7k	See Efficiency on page 27
Non-staff cash costs per FTE	£24.6k	+£1.4k

Stewarding capability

We have progressed work on shaping our workforce in line with the competing demands of cost-reduction and maintenance of capability, and our mechanism for measuring capability health.

We are committed to reshaping ourselves in line with future customer requirements and ensuring that our *Corporate Plan* remains financially viable.

	Performance	Threshold
Total staff (FTE as at 31 March 2018)	3,687	3,619
% of capital expenditure	95	£60 million
Facility recovery (% of costs)	78.9	>70%

Capability health

We completed our first S&T capability health assessment this year, which will be repeated annually. Our scores are based on a best-practice assessment methodology, using evidence, including expert judgement, against 12 separate dimensions of capability health. It covers both in-house S&T capability and that of the external supply chain for capabilities stewarded by Dstl.

The assessment shows that changes made in the new S&T Portfolio are taking effect. However, without extra investment from MOD, we cannot yet build all of the capabilities to good (green) health. Consequently, fragile (red) capabilities in critical need of intervention, as highlighted in the 2015 *Science Capability Review*, have been strengthened by taking increased risk in areas of good health. Most of our S&T capabilities are now being maintained with tolerable levels of risk that are manageable with targeted interventions (amber). As an S&T Enterprise, we will help ensure that S&T capabilities are resilient to minor disruptions but they may not be able to absorb larger-scale impacts.

Capability health by Dstl's key capability areas:

- Analysis
- C4ISR
- CBR
- CTS
- Cyber
- Weapons
- Integrated Survivability
- Platform Systems
- Human Capability

Maintaining standards

Ahead of schedule, we achieved our accreditations for ISO 9001 (2015) – the internationally recognised Quality Management System standard – and for ISO 14001 (2015) – the international standard for an effective environmental management system. We also maintained our TickITplus accreditation – the software and Information Technology (IT) quality benchmark for UK businesses.

Delivering MOD priorities

We have seen a second year of improvement in our employee engagement index (EEI), from 54 per cent in 2015/16 to 56 per cent this year (2016/17: 55 per cent). The EEI measures our employees' engagement with their day-to-day work, based on certain answers given during our annual staff survey, Have Your Say (HYS).

	Performance	Threshold or variance to previous year
Employee engagement index (%)	56	>60
Gender balance (% of female FTE)	33.1	33.0
Work delivered to wider Government (% of total income)	5.7 (£31 million)	5.6 (£33 million)

Seven of the nine HYS engagement themes saw an increase in score compared to last year – the organisational objectives and purpose theme achieved the largest increase, which reflects the work done in this area across our business over the past two years.

We have continued to reshape our workforce, with our total FTE falling. Our gender balance remains below that of MOD (42 per cent) but comparison with the wider workplace is mixed; Dstl is below the 41 per cent of STEM (Science, Technology, Engineering and Mathematics – includes health and medicine) professionals who are women but above the 21 per cent in non-medical STEM occupations.

We have continued to support apprenticeships, with 110 employees on an apprenticeship programme as at year-end (2016/17: 47). We remain supportive to meet the Government's target to employ at least 2.3 per cent of our staff as new apprentices per year (approx. 85).

RAG (Red, Amber, Green) status reflects the divergence from tolerance.



For life and limb

New system could save soldiers' limbs after battlefield injuries

Biomedical engineers are pioneering a new technique for treating injured limbs that could reduce amputations after battlefield injuries.

The technique has been developed by researchers at the University of Strathclyde, with funding and technical support from Dstl via the Defence and Security Accelerator.

Created in response to the experiences of Iraq and Afghanistan, where improvised explosive devices caused traumatic injury, the three-stage approach is a brand-new technique that brings together kit that can be used in the field, with highly specialised solutions once the patient is evacuated to a hospital.

Weighing only five kilogrammes, the technology is specially designed for deployment on operations for use by combat medics. The system could also be used in a non-military setting, for example following natural disasters or in remote locations.

Following successful trials, the system is set to be available commercially, and could eventually form part of the medical kit in every front-line unit. While the technique may not be right for every injury, this life-changing, innovative research could save the limbs of many people.

Long-term expenditure trends

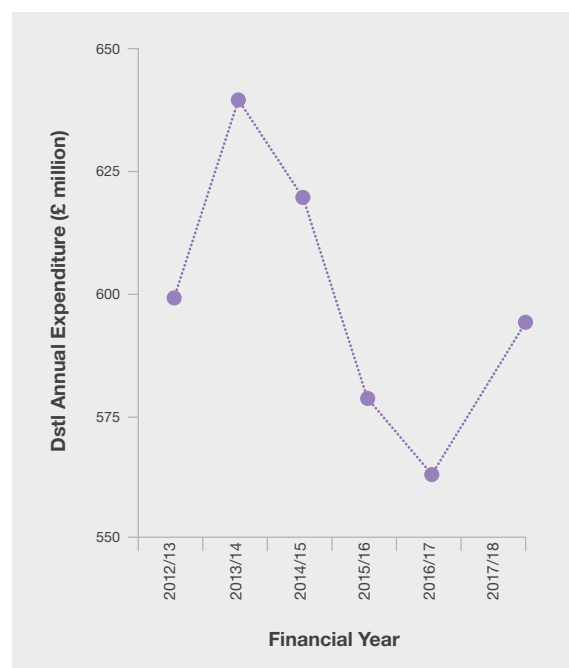
Dstl's total operating expenditure responds to the level of demand that is funded by our customers and cannot be anticipated accurately beyond the short term (next financial year) as it is subject to our customers' annual budgets and priorities.

Operating expenditure includes the running costs of our organisation, the cost of subcontracted work and materials and services sourced from third parties. Over the past four years, our annual operating expenditure has reduced by around 10 per cent from a peak in 2013/14 mainly due to a reduction in subcontracted work in response to the available budgets of our customers.

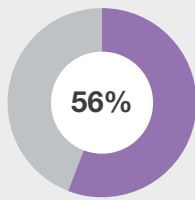
Our estate running costs will reduce significantly on completion of the site rationalisation programme and we continue to seek improved value for money in all elements of our operating costs. Future expenditure will follow the underlying trend for defence and security S&T expenditure across Government, which is expected to recover over the next five years, broadly to the levels seen prior to 2014. No significant increase above this level is currently expected but we will respond to increases in demand should additional customer funding be confirmed.

Our capital expenditure is expected to remain at the current high level for at least the next three years, at least while we complete our current site rationalisation programme, absorb the activities of the Home Office CAST laboratories into Dstl core sites, and undertake significant IT infrastructure renewals.

Dstl annual expenditure

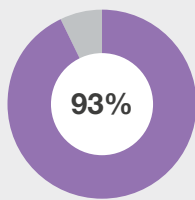
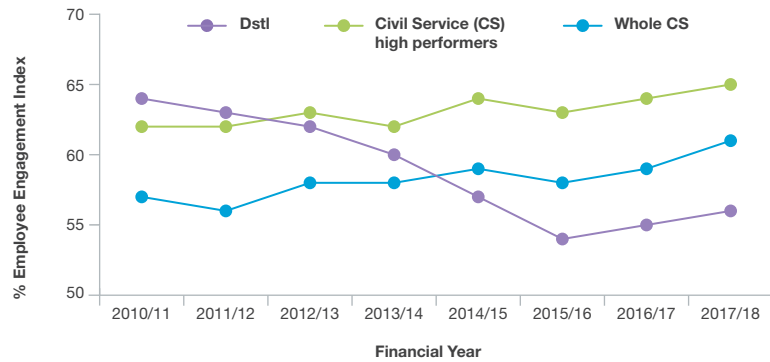


Trend analysis – strategic performance indicators



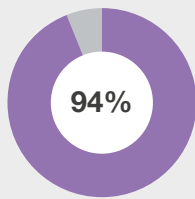
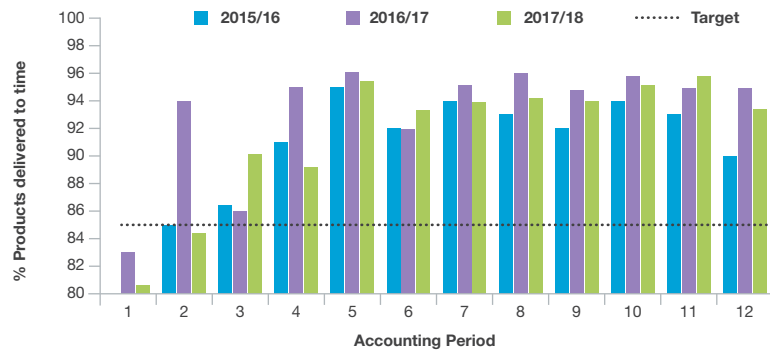
Employee engagement index

Our employee engagement index increased for the second time in five years, with scores increasing in seven out of the nine engagement themes.



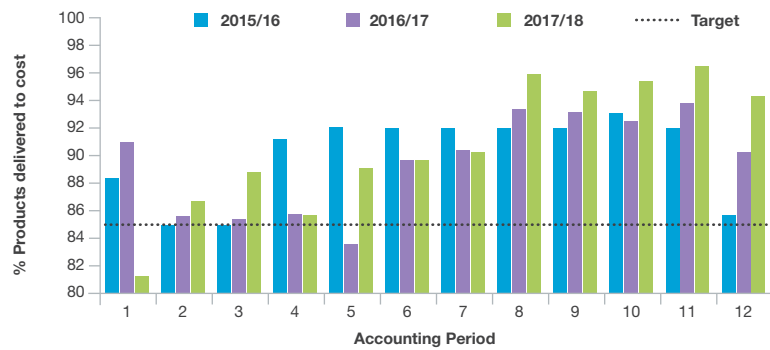
Products delivered to time

We continue to see a high percentage of our products delivered to time.



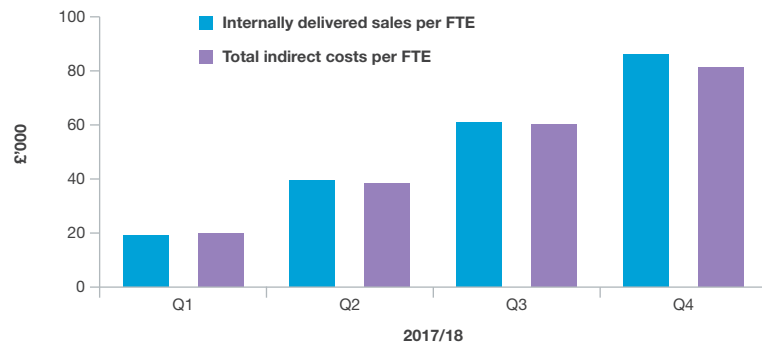
Projects completed to cost

The improvement highlighted last year has continued this year, with the final three accounting periods, showing an increase on the equivalent periods in the previous two years.

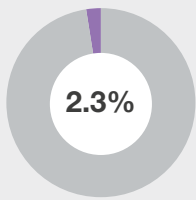


Efficiency

The metrics for 2017/18 are not comparable with the previous year due to Dstl's transition from a Trading Fund to an on-vote Executive Agency, which resulted in changes to charging mechanisms and irrecoverable VAT. The metrics exclude one-off costs (which include Fort Halstead site rationalisation costs and an early exit scheme).

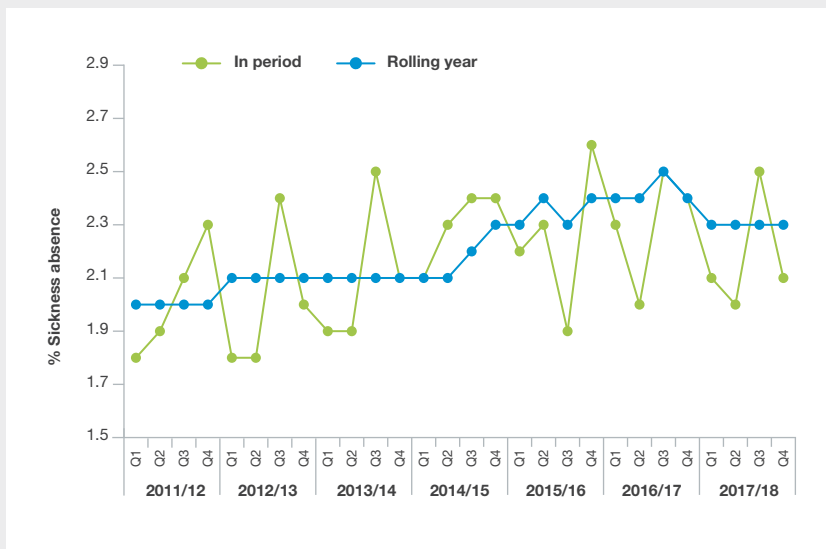


Trend analysis – operational performance indicators



Sickness absence

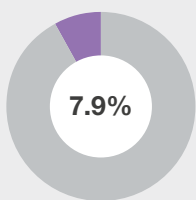
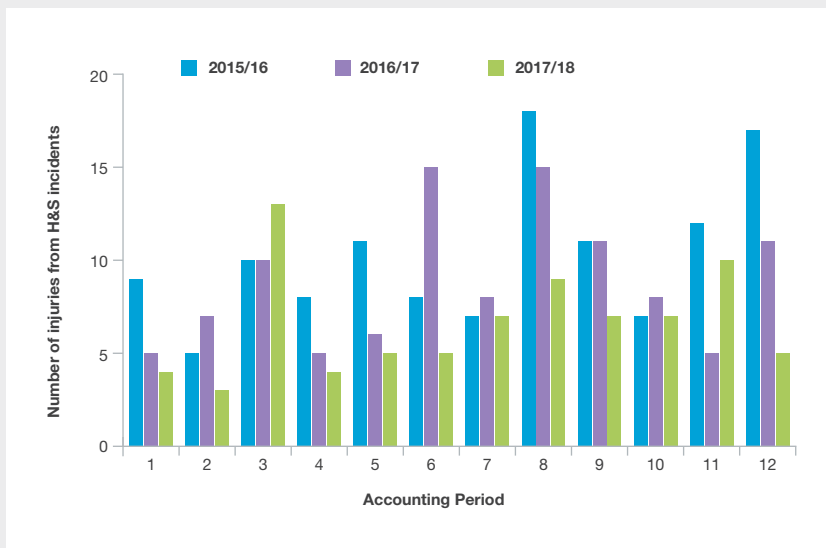
The small but increasing trend in proportion of working hours lost to sickness absence since 2012/13 (an increase in sickness absence of 0.3% of working hours is roughly equivalent to an additional 10 FTE per year) appears to have levelled off in 2017/18.



Health and safety injuries

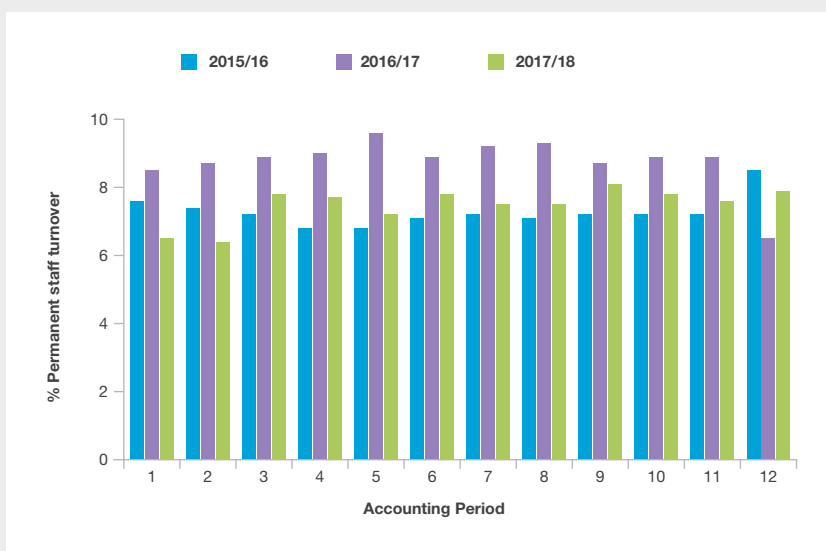
The chart shows, overall, a reduced number of reportable H&S injuries in 2017/18 compared with previous years.

Number of injuries from H&S incidents		
2015/16	2016/17	2017/18
123	106	79



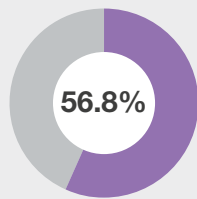
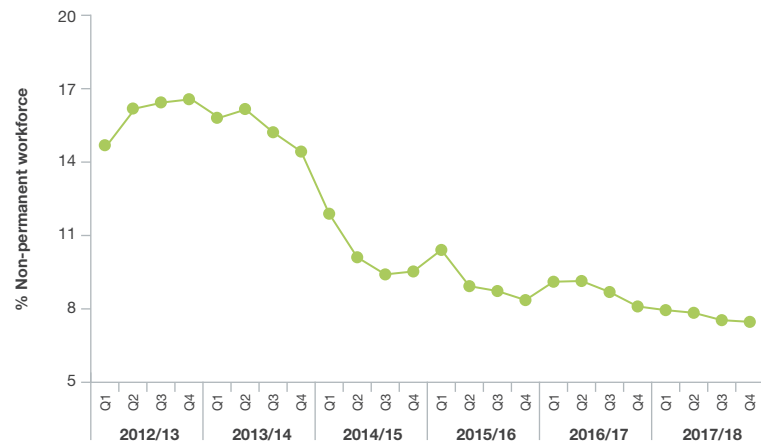
Rolling year permanent staff turnover at each accounting period

Voluntary early exit schemes in previous years led to a higher permanent staff turnover than in 2017/18.



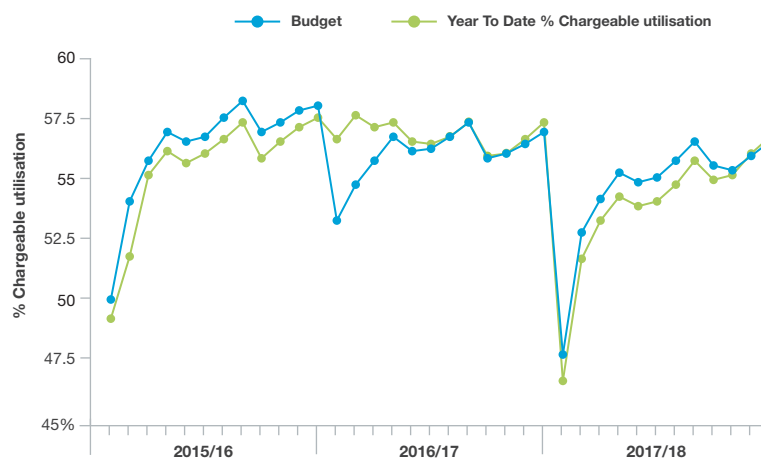
Non-permanent staff

The proportion of our workforce that is non-permanent continues to decrease, albeit at a slower rate.



Chargeable utilisation

After a slow start, which was anticipated in the budget, chargeable utilisation has closely matched the budget through 2017/18, exceeding it at year end.



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, procurement, green travel, charitable giving and education outreach, while maintaining the necessary capability and infrastructure for the efficient and effective delivery of S&T.

Our Environment and Sustainability Safety Technical Authority established in the previous year continues to improve our activities and understanding of environmental issues, while our sustainability policy supports the wider environment and sustainability

aspirations of the UK Government and MOD. We recognise that our activities can have both negative and positive impact on the environment, people and wider communities, and we consider environmental, social and economic impacts when making decisions.

In line with MOD environmental sustainability priorities, we embed environmental and sustainability thinking into our everyday activities and we require the same of our partners and suppliers. We have also commenced activity to review the usage of single-use plastics within our site operations.

Greening Government Commitment	2019/20 Government operational targets	Our position at 31 March 2018	Our position at 31 March 2017
 Greenhouse gas emissions (Scope 1 and 2)	32% reduction from the whole estate and UK business transport	18.4%	7.1%
 Greenhouse gas emissions (Scope 3 – business travel)	32% reduction from the whole estate and UK business transport	24.9%	17.0%
 Waste	Reduce the amount of waste going to landfill to less than 10%	0.7% as landfill ¹	6.5% as landfill
 Total waste	Target is 25% reduction on baseline	63.1%	55.5%
 Water	Continued reduction in water consumption	8.9% water increase from 2009/10 baseline	15.0% water increase from 2009/10 baseline
 Paper	50% reduction	52.4%	28.0%
 Domestic business flights	30% reduction	0.3% reduction on baseline ²	4.5% increase

¹ See footnote 1 under waste on page 32 for explanation. The cause was due to a delay in waste being sent for disposal during this reporting year, rather than a true reduction in volume diverted from landfill.

² Business travel is driven by the delivery activities of Dstl in response to our customer demands and needs. There were 1,158 domestic flights during 2017/18, which only accounts for 3 per cent of our overall travel CO₂ emissions.

Environmental management

In early July 2017, third-party certification body AFNOR UK conducted a re-certification of the Environmental Management System as required in the third year of any certification period. Further, we were able to demonstrate that we had sufficient evidence to support successful transition to the 2015 revision of the Standard. A fully integrated approach was again taken by the third-party auditor for both the ISO 14001 and ISO 9001 standards. The audit identified a number of issues that we have addressed through the application of appropriate management intervention.

As reported last year, our Helios Project is still on track to deliver significant reduction in greenhouse gas emissions through the reduced need for inter-site travel, the commissioning of more carbon-efficient building stock, improved energy monitoring and tracking, and improved ways of working. Our main direct impacts of electricity and fossil fuel consumption on the environment are due to our specialist laboratory work that requires a significant level of electricity consumption. However, we continue to focus on replacing our older less-efficient plant. In partnership with other public service bodies and wider MOD, we have commenced investigations into the wider use of solar power and district heat networks.

Greenhouse gas emissions		2014/15	2015/16	2016/17	2017/18
Non-financial indicators (tCO ₂ e) ¹	Gross emissions for scopes 1 and 2 energy				
	Oil	6,978	6,580	7,055	6,602
	Electricity consumed	22,468	21,743	20,521	17,404 ²
	Gas	8,686	8,258	8,799	8,907
	LPG	121	84	92	139 ³
	Diesel	372	604	754	389 ⁴
	Fugitive gases	872	959	869	35 ⁵
	Electricity transmission and distribution	1,921	1,859	1,856	1,623
	Total gross emissions for scopes 1 and 2 energy	41,418	40,087	39,946	35,099
	Gross emissions for scope 3 energy				
	Business travel (air, road and rail)	9,080	9,961	8,655	7,870
	Water	535	446	478	393
	Total gross emissions for scope 3 energy	9,615	10,407	9,133	8,263
	Financial indicators (£'000)	Expenditure on energy	6,517	6,373	6,419 ⁶
Expenditure on official business travel		9,942	10,583	8,917	6,964
Total expenditure on energy and business travel		16,459	16,956	15,336	14,742

¹ The tonnes of carbon dioxide equivalents (tCO₂e) has been calculated on gross calorific value (CV) for each kilowatt hour (kWh) of energy reported because most energy billing is provided on a gross CV basis. The guidance calculates in kilograms of carbon dioxide equivalent (kgCO₂e), which has been converted into tCO₂e for the purpose of this report.

² The conversion factors for company reporting reduced from -0.4 to -0.3 per kWh reflecting the reported decrease in emissions compared to the corresponding electricity consumption (see page 33).

³ The increase in Liquefied Petroleum Gas (LPG) is associated with the installation, commissioning and use of LPG tanks on a new S&T facility at Dstl Porton Down.

⁴ Red and white diesel has been reported as average blend of biofuel as it is purchased and used as forecourt fuel.

⁵ This calculation is based on fugitive emissions from actual Dstl-use fluorinated gases (F-gases) and ozone depleting substances (ODS) in S&T research. The information previously included fugitive gas emissions from maintenance and repair of infrastructure-related systems e.g. air-conditioning etc but these would have been reported by the facilities management supply chain as Dstl owns the assets but does not operate or maintain the assets and is not competent or registered under the F-gas or ODS regulations.

⁶ Costs for 2016/17 were previously reported as £5,832k based on estimated bills. This figure and the corresponding total have been restated.

⁷ Dstl changed its trading status within MOD with effect from 1 April 2017. This means that Dstl can no longer reclaim the VAT charged on utilities – i.e. gas, electricity, oils. This effectively means a 20 per cent cost increase.

Data in this section has been prepared in accordance with HM Treasury's public sector sustainability reporting guidance 2017/18 at www.gov.uk/government/publications.

Waste management

Our facilities management partner, EMCOR UK, is contracted to provide waste management services to Dstl. Waste generated from facilities management and Helios-related projects remain the responsibility of the contractors undertaking such works and are excluded from any waste figures reported here. Not all waste derived from Dstl operations are managed through waste contracts owned and managed by EMCOR UK. Our own hazardous waste incinerator is also used to process both our own and third-party hazardous and

sensitive waste; 225 tonnes of solid waste and 7,034 litres of liquid waste were treated via this route. This facility is regulated by the Environment Agency.

This financial year, 61 per cent of our waste across all three core sites was reported as being recycled, 38 per cent was sent for conversion to energy by incineration, and 1 per cent was sent to landfill, exceeding the wider Government aspiration that less than 10 per cent of waste should be sent via this route. As a result of these processes, we diverted 99 per cent of our generated waste from landfill.

Waste		2014/15	2015/16	2016/17	2017/18	
Non-financial indicators (tonnes)	Hazardous waste, internal incineration, solid	126	121	211	225	
	Hazardous waste, internal incineration, wet	20	32	8	7	
	Hazardous waste, external disposal	162	468	15	163	
	Total hazardous waste	308	621	234	395	
	Non-hazardous waste	Landfill	118	87	64	6 ¹
		Reused/recycled	849	727	519	265
		Incinerated/energy from waste	204	182	166	165
		Composted	0	0	0	0
		IT equipment	0	0	0	0
	Total non-hazardous waste	1,171	996	749	436	
Total waste	1,479	1,617	983	831		
Financial indicators (£'000)	Total disposal cost	395	437	225	193	
	Hazardous waste – total disposal cost	289	252	122	129	

¹ The difference in the non-hazardous landfill and the hazardous waste external disposal relates to fly and bottom ash from the incinerator and the associated waste acceptance criteria (WAC) results. There was a significant delay in 2017/18 on disposing of the fly/bottom ash. The percentage to landfill for 2018/19 will increase significantly due to this.

Utilities

Energy. We have continued with a programme to reduce the consumption of utilities that lessens our reliance on fossil fuels, electricity, gas and water. We have commissioned a number of new buildings in year, in line with our Helios Project, but have not yet decommissioned all the older buildings. This 'dual running' will continue across our estate until the Helios Project completes and will affect our energy consumption in a complex manner.

We continue to install LED lighting, water-saving devices and adjustments of heating and ventilation systems. We have plans for solar photovoltaic power generation on one of our sites and will be progressing this over the next 12 months in line with Defence Infrastructure Organisation direction.

Water. Our major impact in terms of water consumption is the reliance on local abstraction at one of our sites, which is controlled by Environment Agency licences. We closely monitor water consumption to ensure that current and future needs are sustained and that water is used efficiently and effectively as part of ongoing operations. In partnership with other organisations within our Porton Down campus boundary, we have commissioned a strategic review of water, which as one of its objectives will identify opportunities for a reduction in abstraction.

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

last year's increase in paper consumption, due to bringing externally provided services in house, we have resumed the previous trend of year-on-year reduction.

Finite resource consumption – energy			2014/15	2015/16	2016/17	2017/18
Non-financial indicators	Energy consumption (kWh) ¹	Electricity – non-renewable	50,434,508	48,808,038	49,803,236	49,506,784
		Electricity – renewable	3,343	4,821	4,662	4,275 ²
		Gas	47,197,533	44,872,873	47,822,305	48,365,181
		LPG	17,379	12,091	13,206	13,072
		Oil	26,128,486	25,402,163	26,358,533	24,673,031
Financial indicators (£'000)	Total energy expenditure		6,517	6,373	5,832	7,778 ³
Finite resource consumption – water			2014/15	2015/16	2016/17	2017/18
Non-financial indicators	Water consumption (m ³) ⁴	Supplied	165,954	168,565	215,549	187,678
		Abstracted	254,774	254,248	267,560	267,885
Financial indicators (£'000)	Water supply costs		1,876	1,582	1,519	1,370
Finite resource consumption – paper			2014/15	2015/16	2016/17	2017/18
Non-financial indicators	Volume metric tonnes (t)		37.92	32.52	35.23	24.37
Financial indicators (£'000)	Total paper expenditure		43	37	40	39

¹ The figures used for this data are taken directly from the invoiced billing from metered data at the incoming supply and does not take into account use of energy by Dstl tenants and lodgers.

² In the absence of full data from metering of renewables on site, the renewables has been calculated on the average of the past three financial years.

³ See footnote 7 under greenhouse gas emissions.

⁴ Unlike other utilities and energy, VAT is not charged on our water supply.

Travel

We continue to run a Nissan Leaf Electric pool car fleet funded via a grant by the Office of Low Emission Vehicles (LEV), and we also continue to ensure a proportion of our wider pool fleet are hybrid electric/petrol vehicles for longer business journeys through our pool fleet provider. To encourage staff to consider the most appropriate forms of travel when travelling in the UK, we introduced a self-booking tool for official vehicles that explores with the booker the most cost-effective car travel option for that specific business requirement.

We procure our travel management services through the Crown Commercial Services Framework. This also provides us with management information that enables us to better understand the travel behaviours

of our staff, and to devise interventions that improve the use of low-carbon travel options and minimise cost.

We continue to invest in technology solutions that reduce the need for travel and over the next year intend to upgrade our TelePresence video conferencing to enable full integration with our Voice Over Internet Protocol (VOIP) telephone system.

Three of our 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 to provide transport links between our sites and key public transport hubs located within reach of our staff.



Information is everything

Solving problems with data science

The vast amounts of data that are generated worldwide can make it challenging to draw out useful information. Dstl is taking a novel approach to getting solutions for real-world data science problems.

As part of a cross-government collaboration, Dstl helped develop a publicly accessible website on which to host data science challenges. With a potential global reach and cash prize up for grabs, the web-based approach drew the widest possible pool of minds to solve data problems.

In one challenge, competitors were invited to look at real aerial imagery and find a way to detect and classify vehicles. The solution could help guide people to safety through a dangerous conflict zone, scan the seas for suspect vessels, or identify survivors of a capsized craft.

Dstl has also teamed up with the Alan Turing Institute, Counting Labs and others, to solve more data science problems, such as spotting fake news online that could spread misinformation, improving detection of software vulnerabilities that could be hacked, and predicting events such as the outbreak of disease or social unrest using geolocations and tags on social media.

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 Porton Down SSSI supports rare grassland and scrub communities, together with significant populations of nationally rare plants, invertebrates and birds. We are continuing with our programme of scrub clearance to reach the targets set by Natural England that will assist in the Porton Down SSSI achieving 'Favourable Condition' status as part of Government biodiversity 2020 targets.

A major conservation project for the stone curlew bird is progressing well. The project will improve management techniques of specially created nesting plots within the Dstl Porton Down estate in order to improve productivity and achieve a sustainable Porton Down stone curlew population. We address historic interests on our estate with a long-term programme designed to halt any deterioration of ancient monuments caused by natural events.

Sustainable procurement

We apply 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, to our activities. In line with our ISO 14001 (Environmental Management) accreditation action-planning, we are seeking to further our approach to sustainable procurement across the business starting with a clear internal strategy; the MOD policy provides the baseline for our approach. We will adapt the MOD approach, which works well when running the business (tangible goods), to our business where we are procuring significant S&T intellectual effort and research (intangible goods). Our strategy is intended to create a culture of sustainable procurement across our whole business; this includes our suppliers, of which 65 per cent (2016/17: 64 per cent) are small businesses at the time of reporting. During 2017/18, approximately 35 per cent (2016/17: 31 per cent) of our contracts were awarded to small- to medium-sized enterprises.

Community

At Dstl, employees vote every two or three years to select certain charities for corporate support; supported charities are often those that help military personnel and their families. Since June 2016, we have supported the Forces Children's Trust and the three air ambulances local to each of our sites. At the time of



“We embed environmental and sustainability thinking into our everyday activities and require the same of our partners and suppliers.”

reporting, we have raised a total of £11,216 for these causes. Each November, we also raise money for the Royal British Legion poppy appeal, which this year raised a further £2,519.

Many of our staff volunteer in the communities around our sites – from working as school governors and magistrates, to volunteering in the scouting and guiding movement or undertaking conservation activities. Volunteering offers many benefits for the community and for our staff, from building closer community links and enhancing Dstl’s reputation to developing new personal skills and providing opportunities for innovation. We also encourage and support members of staff who are reservists in the armed forces.

We are working closely with wider MOD on our STEM engagement activities and have aligned our policy to the *MOD Defence STEM Youth Engagement Strategy*. Our own STEM Ambassadors work on a voluntary basis in schools local to our main sites. They promote careers in STEM and careers in Dstl, and support teachers to increase young people’s engagement with the STEM subjects. Regional STEM Ambassador Hubs,


which are run by STEM Learning UK, distribute the work opportunities for our Dstl STEM Ambassadors. In 2017/18, our Ambassadors supported more than 75 events in schools and colleges close to our sites. We also provided employer support to two local specialist STEM schools – the South Wiltshire University Technical College (UTC) and the UTC Portsmouth.



Gary Aitkenhead | Chief Executive
4 July 2018

Accountability Report





Our Accountability Report meets Dstl's key accountability requirements to Parliament as the primary user of our annual report and accounts.

This report has three main sections:

A **Corporate Governance** section demonstrates that we have the governance structure in place to meet our objectives and that we are compliant with the activities and codes of good corporate governance. It includes an introduction from the Chair of our Board (page 38), information about our leadership at Dstl (page 39), and our comprehensive Governance Statement (pages 45-58).

A **Remuneration and Staff Report** begins on page 59. This section will show how Dstl has complied with the key rules and requirements related to the remuneration of our directors and other staff, as well as demonstrating a little of the flavour of what it is like for our staff working at Dstl (Our People – page 63).

Our **Parliamentary Accountability and Audit Report** section is a summary of the main information relating to the resource and capital spending set by Parliament, as well as details about our organisation that are useful to readers of this annual report for accountability and decision-making purposes. This section begins on page 68.

Corporate Governance



Directors' Report

The Dstl Board has supported Dstl through a year of substantial transition

Chair's introduction

The role of the Dstl Board is to provide advice, support and constructive challenge to the Executive Committee, and to scrutinise organisational performance and risk on behalf of the MOD sponsor. We have met regularly through the year, supported by our Audit Committee, which is chaired by a non-executive. During the year, Gerard Connell and Dame Wendy Hall stepped down as non-executive members having completed their statutory periods of service; we are grateful for all their contributions. Gerard was replaced by David Tonkin, and we will shortly welcome Professor Sarah Spurgeon to replace Wendy.

This has been a year of transition for Dstl. In September, Jonathan Lyle stood down after five years as Chief Executive. I would like to pay tribute to Jonathan's leadership of the organisation, especially in sustaining it through a prolonged period of uncertainty about its role and future, and we all wish him well for his future. After an open competition, Gary Aitkenhead was recruited as the new Chief Executive; he brings a wealth of relevant private-sector experience. Gary took up post at the start of 2018.

This was the first year of Dstl's new status as an on-vote Executive Agency. From a governance perspective, the change of status worked smoothly, but an unintended consequence was a disruption in capital funding allocation that contributed to prolonged hiatus in the Helios Project to transfer the specialist work at Fort Halstead to Porton Down. That was eventually resolved and the final stage of Helios is now on track. More broadly, the Board welcomes the more clearly defined role the new status gives it. A key part of this is the need for rigorous performance monitoring, for which a new framework is now in place.

The new commissioning process led by MOD CSA has also been bedding in this year. A great deal of work has been needed on both sides to make it work smoothly; this has been generally successful, and I believe the focus must now be on making sure the system allows Dstl to make best use of its capability for innovative and radical thinking.

Towards the end of the year, the Board concentrated on scrutinising plans for the integration of the Home Office's CAST into Dstl in April. Thanks to some excellent programme management and joint working, the formal integration was achieved on schedule; over the next year, we will be monitoring progress towards physical integration.

At the very end of the year, the Board worked closely with the Chief Executive on the development of his strategy for the future of Dstl. This is an exciting moment, and we look forward to supporting the implementation over the coming year.

Finally, I must record the Board's admiration for the enormous amount of hard work that has gone into dealing with the use of a nerve agent in Salisbury. The combination of unique skill and total commitment illustrates the contribution that Dstl makes to the safety and security of the UK and its citizens in a wide variety of ways. We feel it a privilege to be associated with the organisation and its people.

David Pepper

Sir David Pepper KCMG | Chair of the Dstl Board
4 July 2018

Our leadership

The Dstl Board and Executive Committee (for the financial year 2017/18)

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 Directors. 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 2018

Sir David Pepper KCMG	Non-executive Chair	-
Sir David Grant	Non-executive member	-
Jeremy Monroe	Non-executive member	-
Mark Preston	Non-executive member (MOD)	-
David Tonkin	Non-executive member	From 1 September 2017
Gary Aitkenhead	Chief Executive	From 1 January 2018
David English	Finance Director	-
Bryn Hughes	Technical Director	-
David Marsh	Capability and Delivery Director Acting Chief Executive Acting Deputy Chief Executive	To 29 September 2017 From 30 September 2017 to 31 December 2017 From 1 January 2018
Joanne Peel	People and Business Services Director	-
Kevin Wagstaff	Acting Capability and Delivery Director	From 30 September 2017

Former non-executive members of the Dstl Board who served during financial year 2017/18

Gerard Connell	Independent non-executive member	Completed service on 30 September 2017
Dame Wendy Hall	Independent non-executive member	Completed service on 31 January 2018

Former Executive Director members of the Dstl Board who served during financial year 2017/18

Jonathan Lyle	Chief Executive	Appointment ceased 29 September 2017
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Our Executive 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 as at 31 March 2018

Gary Aitkenhead	Chief Executive	From 1 January 2018
Graham Balmer	Infrastructure Director	-
David English	Finance Director	-
Bryn Hughes	Technical Director	-
David Marsh	Capability and Delivery Director Acting Chief Executive Acting Deputy Chief Executive	To 29 September 2017 From 30 September 2017 to 31 December 2017 From 1 January 2018
Joanne Peel	People and Business Services Director	-
Kevin Wagstaff	Acting Capability and Delivery Director	From 30 September 2017

Former Executive Directors who served during financial year 2017/18

Jonathan Lyle	Chief Executive	Appointment ceased 29 September 2017
Jennifer Henderson	Transformation Director (job share)	Appointment ceased 30 September 2017
Alexander Lambert	Transformation Director (job share)	Appointment ceased 30 September 2017

Our Board: Non-executive members of the Dstl Board (as at 31 March 2018)



Sir David Pepper KCMG

Chair

*Appointed as Chair of the Board
on 1 August 2014*

Key strengths

Strategic leadership and delivery management at Board level; stakeholder management; change management; science and technology; corporate governance.

Experience

Sir David worked for Government Communications Headquarters (GCHQ) for 36 years; his final appointment there was as director GCHQ from 2003 to 2008, when he led the organisation through a period of exceptional change. Other roles within GCHQ included Director of Policy and Resources, and Director of Administration. He was also Director of Corporate Development at the Home Office. Sir David was educated at St John's College, Oxford, where he obtained a doctorate in Theoretical Physics.

Declarations of Interest – other appointments and memberships

Trustee of Gloucestershire Wildlife Trust.



Sir David Grant

Non-executive member

*Appointed to the Board
on 1 June 2012*

Key strengths

Leadership in public and private sector organisations; research and innovation management; education and skills development.

Experience

Sir David has held technical and general management roles in international technology businesses in electronics, telecommunications, aerospace and defence. He was Technical Director of GEC plc from 1991 to 2001, and was appointed Vice-Chancellor of Cardiff University from 2001 to 2012. Sir David has served as a vice-president of the Institution of Engineering and Technology, and from 2007 to 2012 he was a vice-president of the Royal Academy of Engineering.

Declarations of Interest – other appointments and memberships

Chair of the National Physical Laboratory; Chair of STEMNET – the charity that works with schools to encourage youngsters to choose science, technology, engineering and mathematics careers; Senior Independent Director of Renishaw plc and IQE plc; Fellow of the Royal Academy of Engineering.



Jeremy Monroe

Non-executive member

*Appointed to the Board
on 1 February 2017*

Key strengths

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

Experience

Jeremy started in the manufacturing industry and changed to management consultancy, 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.

Declarations of Interest – other appointments and memberships

Deputy Chair NHS Blood & Transplant; Trustee Seafarers UK.



Mark Preston

Non-executive member (MOD)

Appointed to the Board on 2 May 2016

Key strengths

Leadership; ability to engage at all levels; strategic thinking; organisational analysis.

Experience

Mark's career in MOD spans more than 32 years. Joining as a mathematician in 1986, he subsequently joined the Fast Stream programme. He has held various senior positions in MOD including Director of Business Resilience, Director of Acquisition Reform and Director of Management and Organisation. In May 2016, he was appointed MOD Director for Commissioning Services and was the Acting Director General for Head Office and Commissioning Services. Mark is a Senior Civil Servant Ambassador with the 11th Signal Brigade.

Declarations of Interest – other appointments and memberships

None declared.



David Tonkin

Non-executive member

Audit Committee Chair

Appointed to the Board on 1 September 2017

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 executive role was with Atkins Plc where he was Chief Executive Officer of UK and Europe, the UK's largest engineering consultancy.

Declarations of Interest – other appointments and memberships

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

Total length of service by the Board's non-executive members as at 31 March 2018

Key:

- Total length of service
- Date of most-recent appointment/ date of expiry

Sir David Pepper KCMG

- 3 years, 7 months
- 1 August 2016/31 July 2019

Gerard Connell¹

- 6 years, 0 months
- 1 October 2016/30 September 2017

Sir David Grant²

- 5 years, 10 months
- 1 August 2016/31 December 2018

Dame Wendy Hall³

- 5 years, 8 months
- 1 August 2016/31 January 2018

Jeremy Monroe

- 1 year, 2 months
- 1 February 2017/31 January 2020

Mark Preston

- 1 year, 11 months
- 2 May 2016/N/A

David Tonkin

- 0 years, 7 months
- 1 September 2017/30 August 2020

¹ After Gerard Connell's original three-year appointment, he was reappointed for a further two years, to 30 September 2016. A further one-year extension to 30 September 2017 was approved on 1 October 2016, which concluded his maximum six-year term as a non-executive member.

² Sir David Grant's original three-year appointment expired on 31 May 2015; he was reappointed on 1 June 2015 for a further 14 months to 31 July 2016. On 1 August 2016, his reappointment was approved for a further two years and five months to 31 December 2018. This was an exceptional extension of seven months beyond the maximum six-year term as a non-executive member, to see Dstl through its early implementation as an Executive Agency of MOD.

³ Dame Wendy Hall's original three-year appointment expired on 31 May 2015; she was reappointed on 1 June 2015 for a further 14 months to 31 July 2016. On 1 August 2016, her reappointment was approved for a further one year and six months, to 31 January 2018, which concluded her appointment as a non-executive member.

Our Board: Executive Directors of the Dstl Board (as at 31 March 2018)



Gary Aitkenhead

Chief Executive

Appointed to the Board on 1 January 2018

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 has 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 – other appointments and memberships

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



David English

Finance Director

Appointed Finance Director on 1 April 2016. He joined the Board on 30 May 2015 as the MOD non-executive director

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 completed a BEng in Avionic Systems and some hands-on engineering in industry. During his MOD career, David has worked in Defence Equipment and Support, and has been a Private Secretary to the Defence Secretary. During summer 2011, David was Head of Libya Operations Policy until the successful conclusion of the NATO-led operation.

Declarations of Interest – other appointments and memberships

Non-executive director of Ploughshare Innovations Ltd; Dstl representative on the Board of Tetricus Ltd, a business incubator and associate company of Dstl.



Bryn Hughes

Technical Director

Appointed to the Board on 1 October 2015

Key strengths

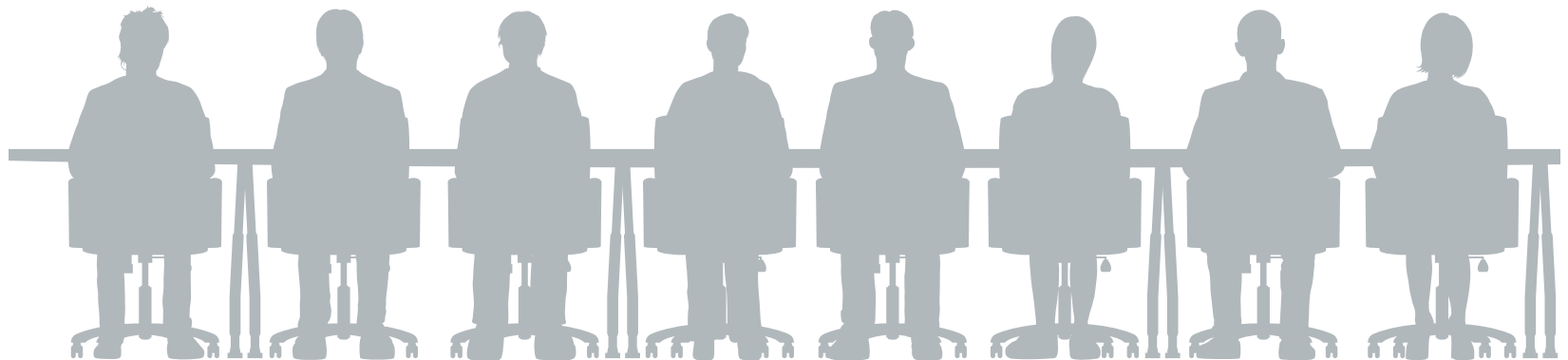
Leadership; science and technology; research and development strategy; security and defence; central Government.

Experience

Bryn has had a long career in MOD, holding various roles including Director S&T Capability. He was a member of the senior leadership team at the formation of Dstl in 2001 and has worked with various central Government departments, including a posting in the Foreign and Commonwealth Office where he provided senior S&T advice. He is a Fellow of the Institution of Engineering and Technology, and the British Computer Society, and is a Chartered Biologist.

Declarations of Interest – other appointments and memberships

Lay clerk, Portsmouth Cathedral Choir.





David Marsh

Acting Deputy Chief Executive

Appointed Capability and Delivery Director on 18 April 2016 and then Acting Deputy Chief Executive on 1 January 2018. He joined the Board on 1 January 2016 as MOD non-executive director

Key strengths

Leadership; programme and project delivery; commercial; scientific.

Experience

David has more than 25 years' experience in the delivery of defence science and technology, and equipment programmes and projects. His previous roles include leadership of integrated delivery teams responsible for communications, weapons, aircraft and army vehicle systems. He is a Chartered Chemist and Registered Project Professional. Since 2005, he has been MOD's Head of Profession for Portfolio, Programme and Project Management.

Declarations of Interest – other appointments and memberships

None declared.



Joanne Peel

People and Business Services Director

Appointed to the Board on 25 January 2016

Key strengths

Strategy; talent management; coaching; human resources (HR).

Experience

Joanne joined Dstl from the Judicial Office where she was the HR Director for the Judiciary of England and Wales. She has held a number of roles across Government including three in the Cabinet Office where she was Head of Senior Executive Talent Management, Head of the Government Fast Stream Programme and a member of the Prime Minister's Delivery Unit. Prior to this, she worked in other Government departments and the private sector in a variety of HR, organisational development and corporate service functions. Joanne is a Chartered Fellow of the Institute of Personnel and Development; she has a MSc in Training, and a Post-graduate Certificate in Coaching in Personal and Business Coaching.

Declarations of Interest – other appointments and memberships

Chair of Governors, South Wiltshire University Technical College.



Kevin Wagstaff

Acting Capability and Delivery Director

Appointed to the Board on 30 September 2017

Key strengths

Leadership; mathematics; operational analysis.

Experience

Kevin is a Chartered Mathematician, a Fellow of the Institute of Mathematics and Its Applications, and a Chartered Manager and Fellow of the Chartered Management Institute. He has worked as a scientist in MOD for more than 35 years, and was previously the Dstl Division Head for Counter-Terrorism and Security.

Declarations of Interest – other appointments and memberships

None declared.



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Dstl Board

The Board held six meetings and an Away Day this year

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Statement of Accounting Officer's responsibilities

Under Section 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 2017/18 as a whole gives a fair, balanced and understandable view of Dstl's activities for the year ended 31 March 2018 and its financial position as at 31 March 2018 (page 77)
- 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 72).

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 the Dstl's assets, are set out in *Managing Public Money* published by HM Treasury.



Accounting Officer

Parliamentary
Accountability
and Audit Report

See page 68

Governance Statement

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

Scope of responsibility

This Governance Statement, for which I take personal responsibility, aims to give a clear understanding of the dynamics of Dstl and its governance arrangements. It covers:

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

We have reported against these components for a few years now; this statement aims to provide an insight into the effective running of Dstl, which is by no means a straightforward operation given the complex environment in which we operate.

Corporate Governance

Last year, we explained the outcome of our 2015/16 review of our status, which confirmed that we would remain part of MOD, as an Executive Agency, although no longer operating as a Trading Fund. This necessitated some changes to our corporate governance framework, which came into effect on 1 April 2017, and which we outlined in our *Annual Report and Accounts 2016/17*, which is available to view on the internet at: www.gov.uk/government/publications/defence-science-and-technology-laboratory-annual-report-and-accounts-2016-to-2017

We continue to comply with HM Treasury's *Code of Good Practice on Corporate Governance in Central Government Departments (2016)* but our arrangements are now more complex than before. During the course of the next financial year, I will be looking to work with MOD to simplify these where possible.

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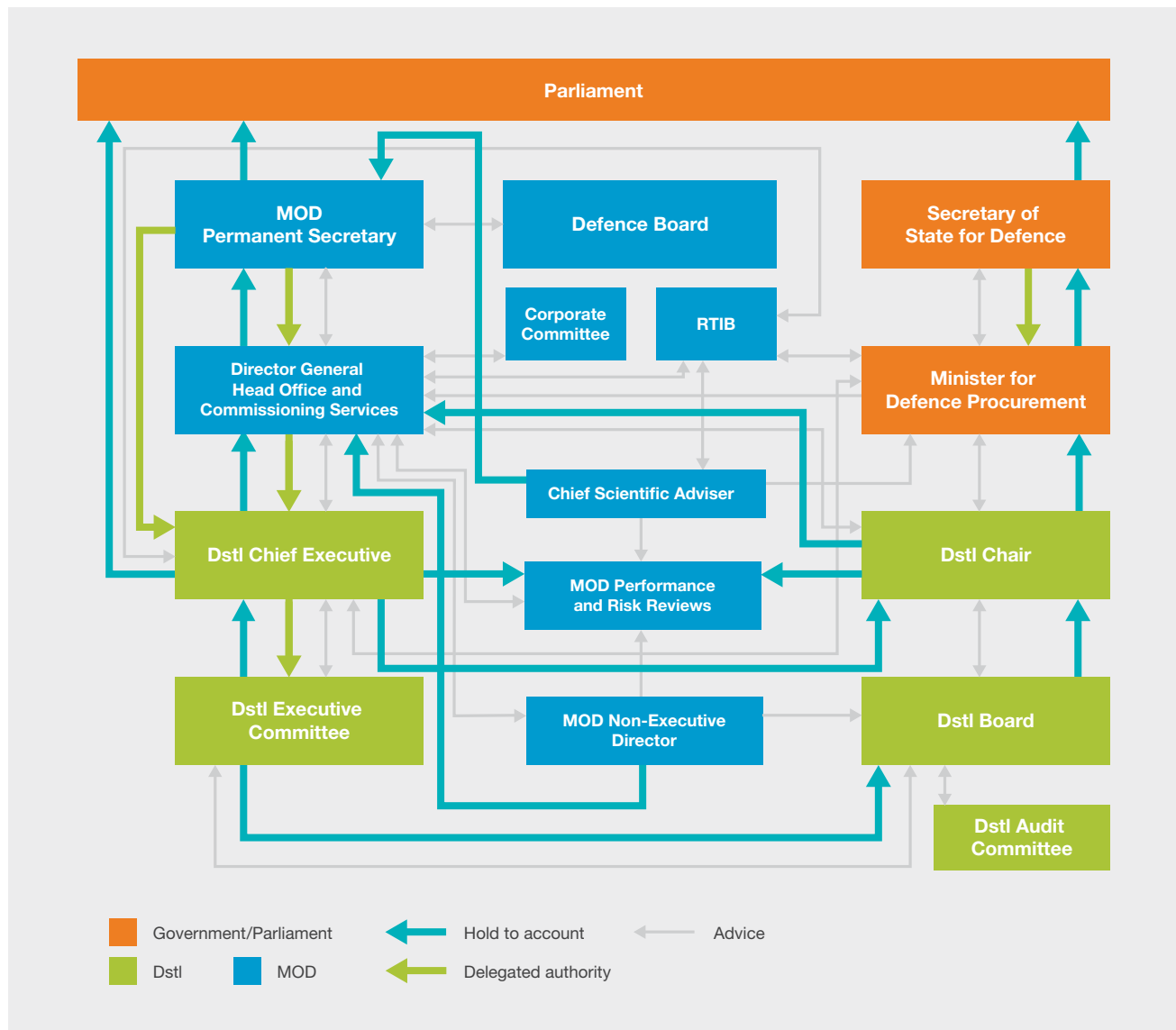
Control environment

We aim to establish an environment where people feel trusted and empowered to deliver their work

See page 53

As at 31 March 2018, our corporate governance framework is as summarised below.

Dstl corporate governance framework



Board

During this financial year, the Dstl Board comprised Chair Sir David Pepper, up to four non-executive members (NEMs) with experience relevant to Dstl's work, a NEM from MOD, the Chief Executive and four senior members of the Executive team (including the Finance Director).

Attendance at Board meetings in 2017/18	
Sir David Pepper KCMG (Chair)	8 (8)
Gerard Connell (until September 2017)	3 (4)
Sir David Grant	7 (8)
Dame Wendy Hall (until January 2018)	5 (6)
Jeremy Monroe	8 (8)
Mark Preston	5 (8)
Jonathan Lyle (until September 2017)	4 (4)
David English	8 (8)
Bryn Hughes	8 (8)
David Marsh	7 (8)
Joanne Peel	8 (8)
Kevin Wagstaff (from October 2017)	3 (4)
David Tonkin (from September 2017)	5 (5)
Gary Aitkenhead (from January 2018)	2 (2)

Figures in brackets indicate the total number of meetings that could have been attended.

Two NEMs retired during this period: Gerard Connell on 30 September 2017 and Dame Wendy Hall on 31 January 2018. David Tonkin joined the Board on 1 September 2017 from the MOD NEM pool. Following our NEM recruitment activity in April 2018, we have selected Professor Sarah Spurgeon and Dr Brian Bowsher, who will join the Board on 1 July 2018 and 1 September 2018 respectively. We recognise that our Board lacks diversity and have endeavoured to address this shortfall at every opportunity.

Board business 2017/18. The Board held six regular meetings during the year. In addition, it convened for an Away Day in May in Swindon, Wiltshire, to focus on capability planning for the future, and Board development activities. It also held a joint meeting with Dstl's senior leadership team in July to develop aspects of the corporate strategy with the aim of identifying new corporate activities and/or adjustments to existing activities.

The majority of Board meetings were held at Dstl's headquarters at Porton Down but meetings were also held at our sites at Fort Halstead and Portsdown West.

The business taken at Board meetings reflects the responsibilities of the Dstl Board. It also reflects the implementation of Dstl's strategic objectives and the management of its corporate risks. Standing items include an update from the CE and an update from the Audit Committee Chair following the quarterly Audit Committee meetings.

Key business at Dstl Board meetings throughout 2017/18

June 2017 (Porton Down)	September 2017 (Porton Down)	October 2017 (Porton Down)
<ul style="list-style-type: none"> End-of-year finance report Approve the <i>Dstl Annual Report and Accounts 2016/17</i> Quarter (Q) 4 Business Performance Report Review of actions from the Board Away Day Understanding and reducing knowledge and information loss Update on the governance of the Porton Science Park Update on the Helios Project End-of-year update on strategic partners' performance Approval of revised Board Terms of Reference 	<ul style="list-style-type: none"> Q1 Business Performance Report Lessons learned from Reviewing Our Approach to Delivery project Working With Others (Delta programme) Deep dive on strategic risk on safety Update on the Helios Project Serco – lessons learned EMCOR update New IS Service Supplier update Customer satisfaction process update 	<ul style="list-style-type: none"> Ploughshare Innovations Limited Business Plan – six-monthly update Presentation from MOD Head of Risk Equality, diversity and inclusion and people strategies Financial position update Deep dive on strategic risk on loss of funding Closure of Transformation Directorate P3MS (Portfolio, Programme and Project Management System) way forward

Continued over page ►



“Under its new organisational status, Dstl has maintained a commitment to good standards of governance, risk management and internal control.”

Key business at Dstl Board meetings throughout 2017/18 (continued)		
November 2017 (Fort Halstead)	January 2018 (Porton Down)	March 2018 (Porton Down)
<ul style="list-style-type: none"> • Dstl governance • <i>Corporate Plan 2018</i> • Business performance reporting and key performance indicators • CAST integration programme • EMCOR asset verification • New Information Systems Service Solution (NISS) • Helios update • External Review College outcomes • Porton Science Park update 	<ul style="list-style-type: none"> • <i>Corporate Plan 2018</i> and strategy update • <i>Dstl Capability Plan</i> • <i>Employee Engagement Strategy</i> • CAST integration programme update • Chief Information Officer/Senior Information Risk Owner update 	<ul style="list-style-type: none"> • Approval of Dstl strategy • Technical briefings from Head of Chemical, Biological and Radiological Division and Head of Platform Systems Division • 2018/19 budget update • Knowledge management update • NISS update • Approval of the 2018/19 <i>Ploughshare Innovations Limited Business Plan</i>

Annual review of effectiveness. The last annual review of effectiveness was conducted independently by Executive coaching company Praesta and reported in the first quarter of 2015/16. It was a thorough review, of which we reported against the main findings in last year’s Governance Statement. We also reported progress against a series of actions and noted that a further set of actions were due to be delivered by the end of this financial year.

These actions predominately related to stakeholder management, for which matters rightly stalled pending the departure of my predecessor and my arrival. Upon the completion of my strategy refresh exercise, I will look to reinvigorate our stakeholder management work. In the meantime, we have conducted an in-house evaluation of Board effectiveness and have identified new approaches that will complement the strategy.

Audit Committee

The Audit Committee welcomed a new Chair, David Tonkin, who replaced Gerard Connell, in November 2017. Further attendance comprised up to three NEMs – Sir David Grant, Jeremy Monroe and Mark Preston, who, with agreement from Dstl Chair Sir David Pepper, sends Head of Head Office and Corporate Services Defence Reform Unit (HOCS DRU) Adam Powell as a representative.

I attend by invitation, as do my Finance Director, my Head of Internal Audit, my Head of Corporate Affairs, the National Audit Office, and auditors Moore Stephens. This has also been our first year with MOD Defence Internal Audit (DIA) as our internal audit providers, as our contract with Grant Thornton expired at the end of financial year 2016/17.

Our Audit Committee met four times this financial year.

Attendance at Dstl Audit Committee for 2017/18	
Gerard Connell – until September 2017	2 (2)
David Tonkin – with effect from November 2017 (<i>first meeting as an observer</i>)	3 (3)
Sir David Grant	3 (4)
Jeremy Monroe	4 (4)
Mark Preston/Head of HOCS DRU	1 (4)

Figures in brackets denote the total number of meetings that could have been attended.

Audit Committee business. Our Corporate Risk Register and the outputs and outcomes from our audit activity have driven the main business taken by the Audit Committee this year. Alongside this, regular agenda items include: reviewing the value for money of our strategic partnerships; information technology risk; our counter-fraud and resilience planning; health and safety arrangements; and, security.

On the latter, we have seen a positive step-change in our safety culture over the previous two years because of interventions – including the recruitment of a new Head of Safety and the clear definition of the role of Safety Technical Authorities. The Audit Committee is supportive of the work done and has made a commitment to support individuals who stop work for safety reasons.

Other highlights include the review of our new technical assurance activity. This work was undertaken to address a recommendation from the MOD *Science Capability Review (SCR)* to develop a systematic approach to ensuring that, wherever possible, there is independent peer review of the S&T provided by Dstl and our external suppliers. The Audit Committee was satisfied with the pilot and concluded it provided “a proportionate independent peer review function”.

This year, the Audit Committee also began a series of deep dives into the work led by our Process Owners, starting with our P3 capability (Portfolio, Programme and Project management). The aim of the deep dives is to provide independent scrutiny on the management of the process.

Finally, we received approval for our new *Risk Management Framework and Strategy* during the year. This marks a step-change in our approach to embedding risk management throughout the organisation (see page 50).

Annual review of effectiveness. As reported last year, we undertook an independent review of Audit Committee effectiveness for 2016/17, which reported in June 2017. We are slightly out of schedule with our annual reviews, with the 2017/18 internal review due to report in the next financial year. Grant Thornton conducted the 2016/17 review and assessed governance of the Audit Committee in two areas:

- consistency and clarity of papers – whether the agenda, minutes and papers provided to the Audit Committee were consistent, clear and accurate
- governance review – whether the papers provided evidence for governance best practice.

The review found that committee papers were well organised, clear and consistent, and the minutes contained a wide range of relevant issues to suggest that the governance arrangements were performing well.

A moderate finding was an inconsistency in minuting between discussion, decision-making and challenge. This has been addressed by ensuring that the minutes include: information regarding each issue; the nature of the discussion; which members challenge and provide feedback, and on what grounds; and, the decision reached. This has ensured better recording of accountability of decision-making.

Remuneration and Nomination Committees

This year, there has been one meeting of the Remuneration Committee and no meetings of the Nomination Committee. The Remuneration Committee met on 6 June 2017 to discuss the performance of the Dstl Level 9s, making decisions to be reflected in pay outcomes. Members also noted the recommendations made for Dstl’s Senior Civil Service (SCS) members of staff, for subsequent decision within MOD. Members present were: Chair Sir David Pepper; NEMs Gerard Connell and Jeremy Monroe; People and Business Services Director Joanne Peel; the then Capability and Delivery Director David Marsh; and former Chief Executive Jonathan Lyle.

A MOD-managed process resulted in the appointment of NEM David Tonkin to the Board during 2017/18, and the appointment of NEMs Professor Sarah Spurgeon and Dr Brian Bowsher was managed through a fair and open competition managed by Dstl and led by Chair Sir David Pepper. Therefore, there was no requirement for the Dstl Nomination Committee to meet.

Risk management

As Accounting Officer, and Senior Risk Owner for Dstl, I must ensure that we have an effective approach to risk management embedded throughout the organisation. We have given this considerable focus during the course of the year and I am pleased to report that we have developed a new risk framework and strategy to ensure coherence in the way we manage risk. They draw heavily from recent recognised best practice as well as ensuring alignment with MOD's *JSP 892 on Risk Management*. The framework is shown below.

Risk management strategy

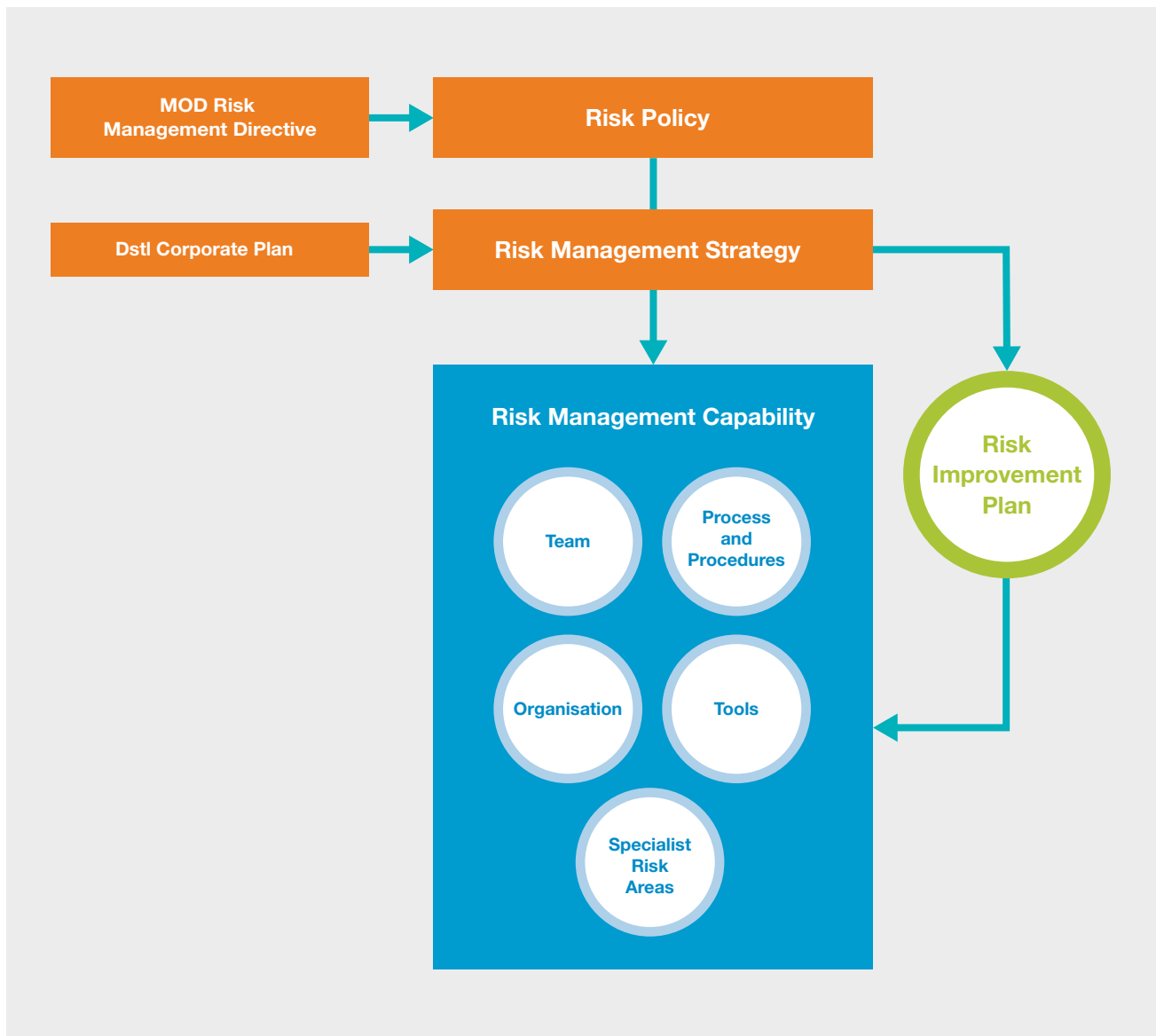
We launched our new five-year strategy in November 2017. Our vision for risk management is to have understood all of the risks potentially affecting Dstl's objectives and to have prioritised our resources to bring the most significant risk events under control.

The purpose of our strategy is to counter or exploit the uncertainties faced by Dstl and our delivery partners, by:

- coherently assessing all of the risks that Dstl faces
- taking appropriate calculated risks
- dynamically managing the risks, to which MOD should not be exposed
- understanding the risk profile for Dstl and its effect on our MOD sponsor.

We will deliver our *Risk Management Strategy* through an annual risk improvement plan. Our objectives in year one are to: align with MOD's *JSP 892 on Risk Management*; begin development of a risk management centre of excellence within the organisation; develop and launch a new 'smart' process; and, start to implement the recommendations from the Risk in Government working group.

Risk management framework



Risk assessment

We have updated the Dstl risk matrix since we last reported. The very low, critical (1E) box has been changed from red to orange. This has been done so that critical risks can be managed to being ‘as low as reasonably practical’ and are at a tolerable level. The only other significant change is to the financial limits in the impact criteria; we have reduced these to ensure that they are consistent with our revised financial delegations from MOD.

We now design processes based on identifying the risks to achieving outcomes and understanding the required controls

See page 53

Dstl's risk matrix

Impact	E Critical	Orange	Red	Red	Red	Red
	D Severe	Orange	Orange	Orange	Red	Red
	C Major	Yellow	Yellow	Orange	Orange	Red
	B Moderate	Green	Yellow	Yellow	Orange	Orange
	A Minor	Green	Green	Yellow	Yellow	Yellow
		1 Very low	2 Low	3 Medium	4 High	5 Very high
		Likelihood				

- Key:
- High significance
 - Low significance
 - Medium significance
 - Negligible

Risk reporting

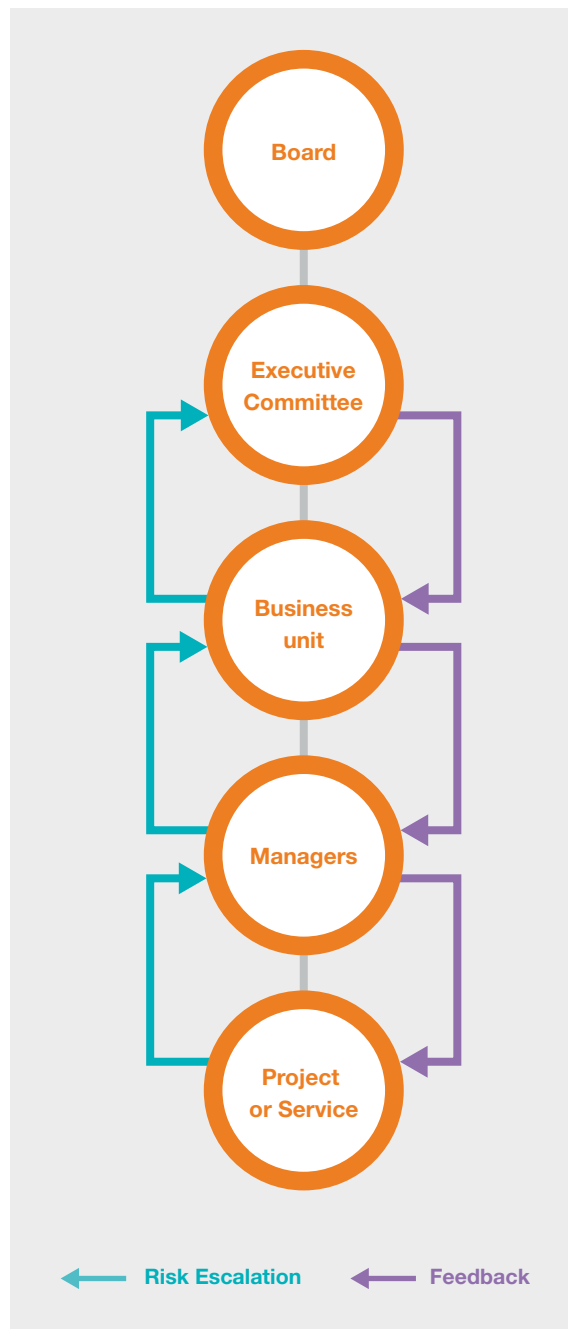
Dstl's risk management organisation is comprised of five levels:

- our Board and Audit Committee
- my Executive Committee
- heads of business units
- business unit managers
- project and service managers.

We manage risk at the lowest possible management level in Dstl. When risk triggers the escalation criteria, we escalate it to the management layer above, either for action or for information. The following events would trigger the risk escalation criteria:

- the automatic risk escalation criteria is met (residual risks held at D or E for impact)
- the Risk Owner suspects it forms part of an aggregated risk
- the Risk Owner believes the risk should be escalated.

Dstl's risk reporting



The Dstl Corporate Risk Register is the ultimate point of escalation within Dstl – we provided more information earlier in this document on page 14, and it is summarised below (as at 31 March 2018):

Risk	Risk ratings (Likelihood and Impact)	
	Residual	Target
Strategic		
S01: Significant drop in funding	Medium Severe	Medium Major
S02: Change in MOD S&T policy	Medium Severe	Medium Major
S03: Limited operating freedoms	RETIRED (February 2018)	
S04: Loss of customer confidence	Medium Severe	Low Major
S05: Change in Government policy	High Severe	High Major
S06: Major safety incident	Medium Critical	Very low Critical
S07: Additional non-MOD funding is secured	Medium Major	Low Moderate
Operational		
O01: Helios Project fails	Very high Critical	Medium Severe
O02: Major information security breach or loss	Medium Major	Low Moderate
O03: Legal/regulatory/ethical challenge stops work	Medium Major	Low Major
O04: Ineffective supplier outputs	Medium Severe	Low Major
O05: Failure to deliver key change outcomes	Medium Major	Low Moderate

Strategic security risks. The security landscape in defence has changed significantly during this reporting period with the launch of a new MOD strategic programme called *Defending Defence*. The aim of this programme is to place strategic emphasis on understanding the most significant security issues and priorities for MOD. Among other things, it has resulted in new governance arrangements relating to strategic security risk management and coordination.

We have responded to these changes with the introduction of a new Strategic Security Risk Coordinator (SSRC) role and an SSRC Assurance Board (SAB). I have appointed my Infrastructure Director as Dstl SSRC, with support from my Principal Security Adviser and Dstl Senior Information Risk Owner. The purpose of the role is to coordinate security risk both internal and external to Dstl, reporting and escalating significant risks to me and to my Executive Director colleagues. The SAB will act as a sub-committee of my Executive Committee.

Effectiveness of risk management

In February 2018, DIA audited our revised approach to risk management, with the aim of providing an independent and objective opinion on the adequacy and effectiveness of risk management within Dstl.

The audit noted that we had taken many positive steps to mature our risk capability and that the new risk framework and strategy would help to support the development of a positive risk culture. It also found well-established governance arrangements, with the Board and its subordinate committees playing an active role in risk management and assurance. Risk escalation and transfer remains a weakness but the audit noted that we are delivering training on the new process and we have also initiated coaching and wider assurance activities to help address this issue.

However, the audit highlighted a significant weakness in the management of programme and project risks in the S&T Portfolio, which have the potential to undermine customer delivery outcomes and the adoption of a fully integrated approach to risk management. For this reason, we were given an overall *limited* internal audit opinion for risk management. My risk team is working with colleagues in our P3 community to address this finding as a matter of priority.

Control environment

We aim to establish an environment where people feel 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.

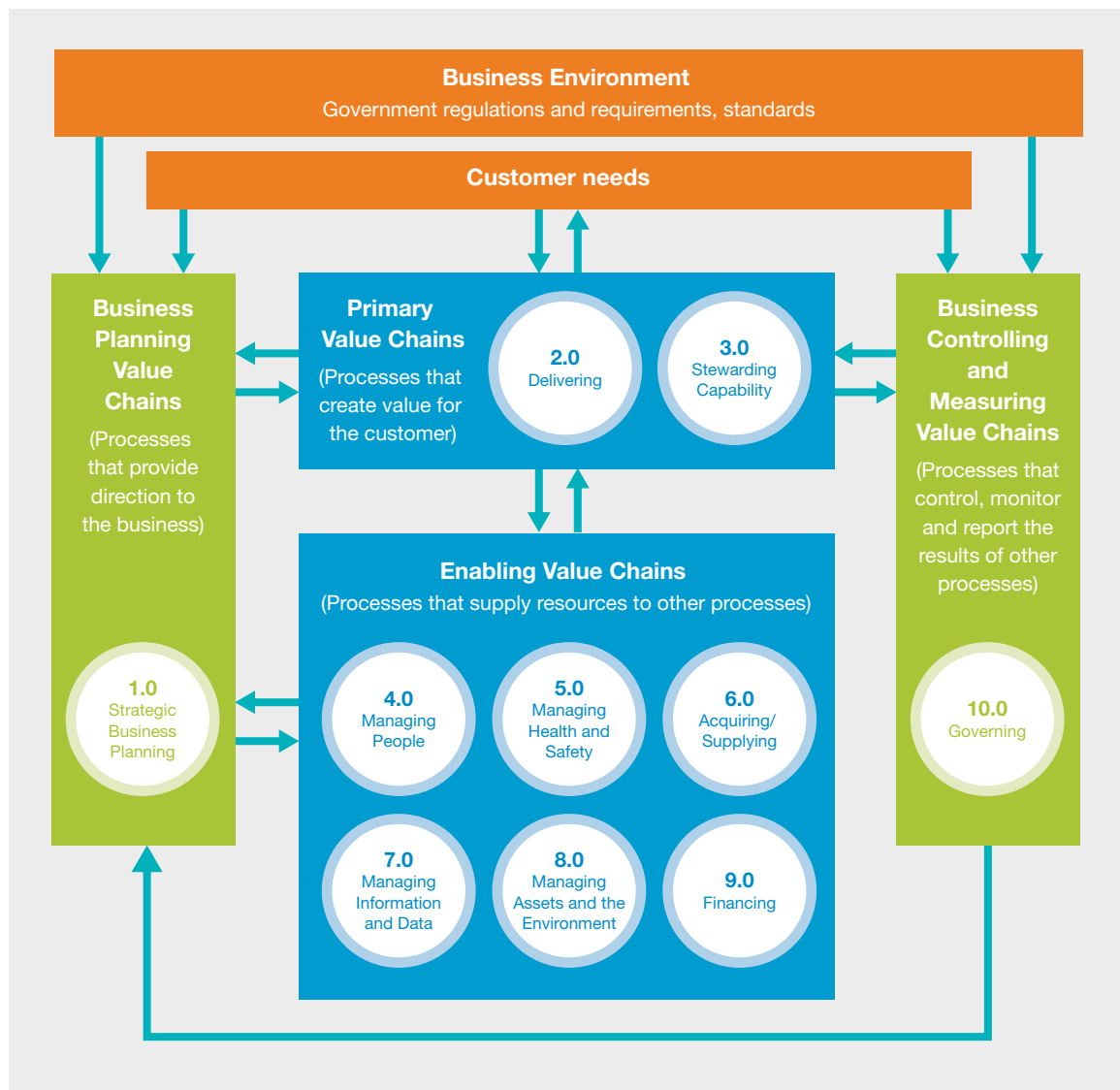
Dstl processes

This year, we implemented a process hierarchy that will provide strategic direction and intent to our business processes, sub-processes and process activities. Our business processes now align with 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.

Through our Smart Processes project, we identified a number of priority areas for process design or re-design. We base these priorities on the importance of the process in delivering our purpose and role and how effective they are in delivering their intent and managing risks. We now design processes based on identifying the risks to achieving their desired outcomes and understanding the controls that need to be in place. This year, we have seen the implementation of new processes for: business planning; stewarding S&T capability; managing non-Exchequer sales; and, knowledge capture.

We have also assessed the impact of our integration with the Home Office’s CAST on our Management System – understanding where we need to accommodate CAST’s customer requirements and legal and regulatory compliance obligations within our system of control.

Dstl’s ten core value chains



External certification

This year, we successfully transitioned to ISO 2015 for 9001 (quality management) and 14001 (environmental management) and retained our TickITplus certification. The new versions of ISO place greater emphasis on leadership engagement and how organisations address risk and opportunities in a structured manner.

At the transition audit (July 2017), we demonstrated how we determined the scope of our management system, through our understanding of the external and internal issues relevant to our purpose and strategic direction, together with understanding the needs and expectations of our interested parties.

We also demonstrated our leadership and commitment with respect to the management system together with meeting our customers' needs. Our next certification surveillance audit will be in July 2018, where we will demonstrate our ongoing commitment to maintaining, developing and improving our management system. The certification body will especially be looking at the impact of our integration with CAST on our management system.

The contract with our certification body, AFNOR, expires next year and we will secure a new provider through open competition.

Control activities

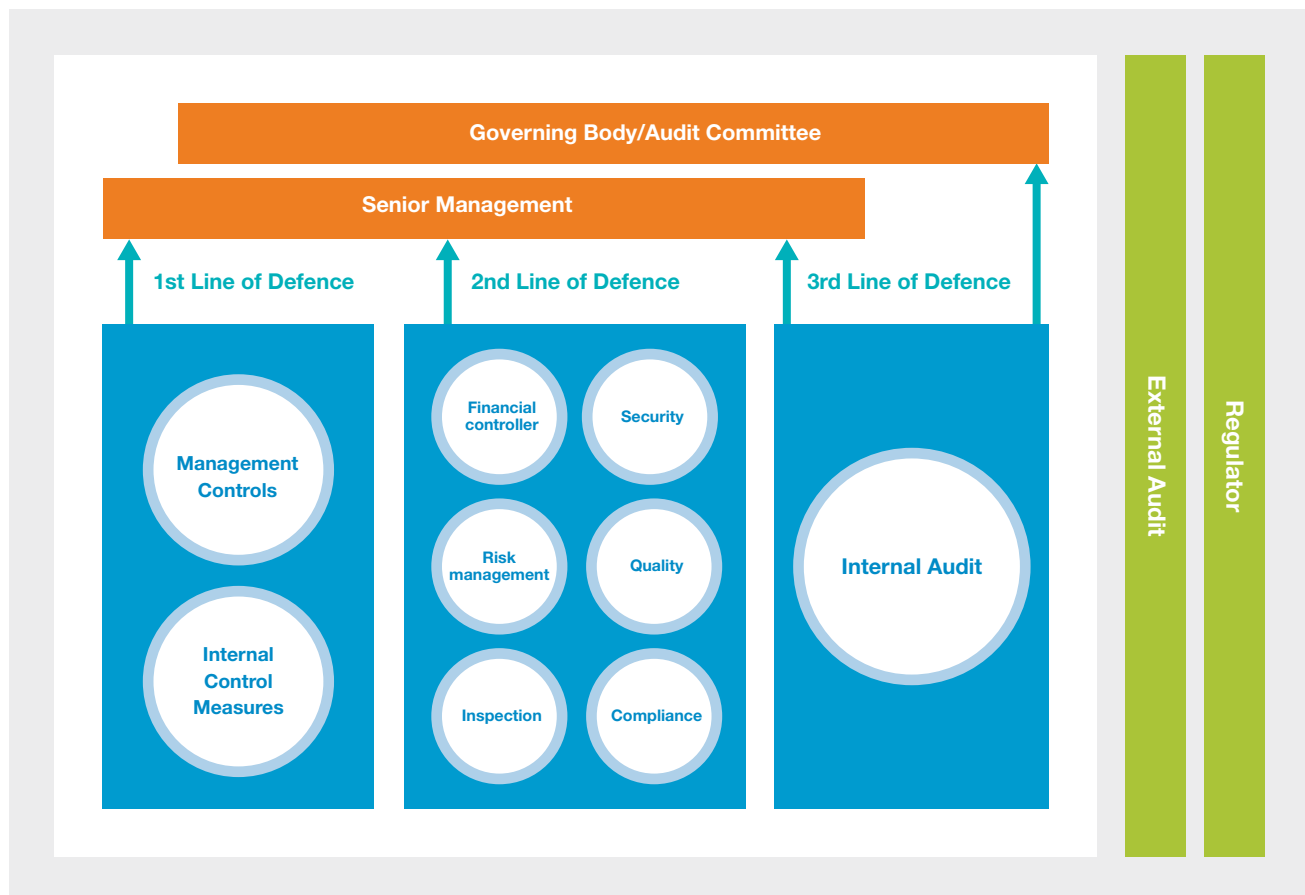
We have an assurance framework that identifies the main sources of assurance in Dstl and coordinates them to best effect. The framework is based on the Three Lines of Defence model, which defines the sources of assurance in three broad categories of First Line, Second Line and Third Line.

Internal audit. At the start of the year, we transitioned our internal audit provision from Grant Thornton to MOD DIA. DIA provides internal audit across the whole of MOD and works to the standards of the Chartered Institute of Internal Auditors and the Public Sector Internal Audit Standards set out by HM Treasury.

DIA delivered a programme of eight internal audits selected from the areas of highest risk, or where there were gaps or weaknesses in other assurance arrangements. The internal audits ranged from determining the effectiveness of our internal processes (e.g. risk management) through to determining the benefits derived from recent transformation programmes and activities.

On average, the internal audits received a rating of *substantial* – providing assurance that the systems of internal control established are operating effectively with some minor weaknesses.

Dstl assurance framework



Fraud management. During 2017/18, 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. We received two reports of unusual activity from the Defence Fraud Referral Unit. We used our investigation process to investigate the activities, one of which was satisfactorily resolved, the other remains ongoing.

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. The responsible business unit investigates all incidents classified as 'medium'. Incidents classified as 'high' are subject to an independent, corporate investigation.

During the year, we had 53 incidents reported of which 42 were investigated as high potential/actual incidents – 19 safety, seven business, 12 HR, two whistle-blowing and two security. Six of the safety incidents were reportable to the Health and Safety Executive under RIDDOR (*Reporting of Injuries, Diseases and Dangerous Occurrences Regulations*). Of the 11 incidents not investigated: eight were reclassified as 'medium' and investigated within the Division or Function; two HR allegations were dropped as on review there was no case to answer; and, the final incident was investigated by an external partner.

Dstl's Corporate Affairs Function is actively engaged in an improvement project to review and improve the whole incident management process, which includes: a code of practice; record keeping; lessons learned; and, trend analysis. The project completes most of its improvement deliverables by June 2018, and aims to complete the main tranche of the competency improvement activities by April 2019.

Information assurance. I am pleased to report that, once again, there have been no serious security breaches, or breaches of data protection incurring the interest of the Information Commissioner's Office.

We have continued to strengthen our scrutiny of third-party information assurance and this highlighted a single cyber event concerning MOD's Defence and



Security Accelerator cloud service, hosted by a third-party provider. This service is public facing and has a high profile across the defence industry and academia. It was disrupted due to a malware infection, which was quickly detected, eradicated and the service reinstated post technical evaluation and remediation.

The root cause of the malware infection was poor patching practice resulting in two servers succumbing to a generic malware threat. We investigated the event and were satisfied that no loss of data occurred. The supplier has since re-provisioned their servers, having provided assurance to ourselves that the service was suitable for reinstatement.

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, we had only two incidents raised via our whistle-blowing process. We take such incidents extremely seriously and, in each instance, we

undertook an assessment of the issues raised followed by independent corporate investigation. The two incidents concluded satisfactorily and were reported to the Chair of the Audit Committee.

Protected personal data incidents. This year, there have been no incidents where personal data was either lost or compromised. We are working to improve our breach-reporting process in order to align with the requirements of new data protection laws.

Quality assurance of analytical models. Every six months, we declare our business-critical models – as defined following the Macpherson 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, chaired by the Dstl Technical Director, manages the coherence and governance of our modelling. We continue to interface and share best practice with MOD and wider Government, and constantly improve our operation of such models.

Official correspondence from members of the public. During 2017/18, Dstl received 54 letters from members of the public, to which Dstl responded within the mandated 20-working day deadline in 100 per cent of cases. We answered or contributed to 71 Freedom of Information (FOI) requests during the financial year, on time and in accordance with the *FOI Act*. Dstl handled five Subject Access Requests under the *Data Protection Act*, all of which we answered on time. Additionally, we completed 11 Special Subject Access Request enquiries to the Porton Down Former Volunteers Helpline, to time.

Performance reporting

In order to ensure the successful delivery of our business deliverables, there is a hierarchy of performance reporting arrangements in place within the organisation, docking into our corporate governance arrangements described earlier. For 2017/18, these are illustrated below.

Dstl Executive Committee

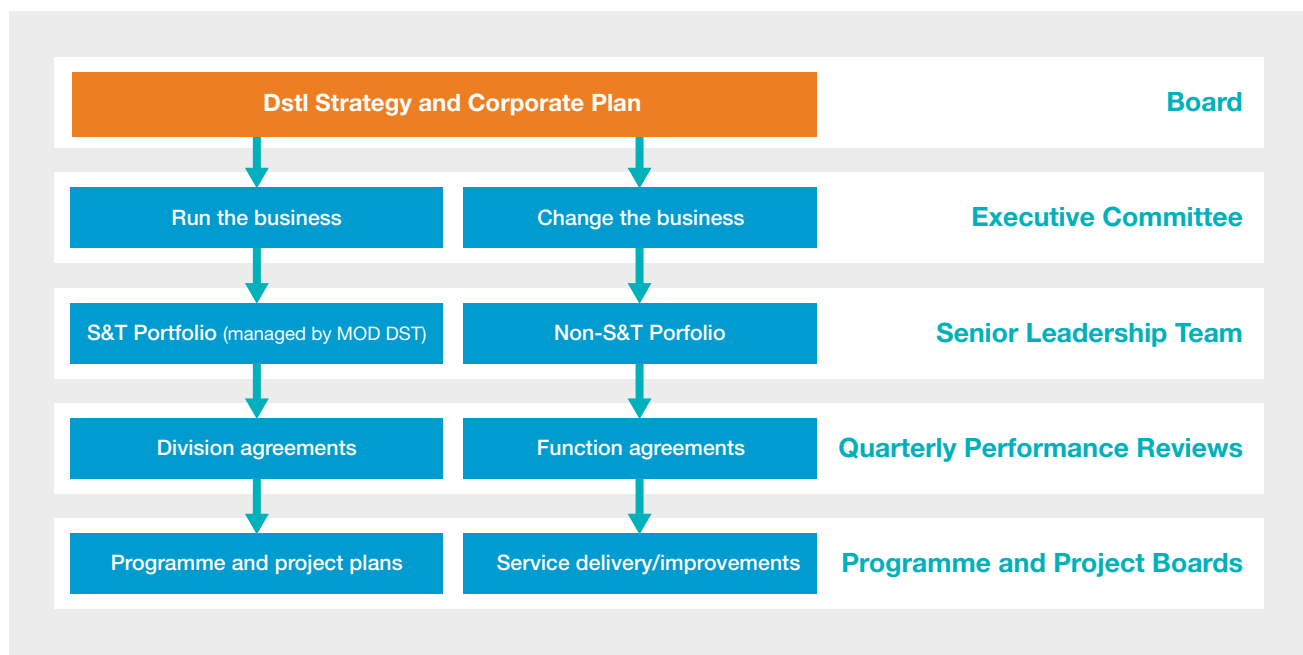
Throughout the financial year, the Executive Committee structure and arrangements outlined in last year's Governance Statement remained in place. Last year's Governance Statement is available to view in our *Annual Report and Accounts 2016/17* at: www.gov.uk/government/publications/defence-science-and-technology-laboratory-annual-report-and-accounts-2016-to-2017

From October 2017, on the departure of the previous Chief Executive, the wider Dstl Senior Leadership Team attended Executive Committee meetings. In April 2018, my Deputy Chief Executive, David Marsh, left Dstl to take up a role in MOD. In June 2018, I concluded a review of my senior leadership and of Dstl's wider organisation design. At the time of reporting, I am finalising the governance arrangements in support of this review, and I will report on this in detail in next year's statement.

Business performance reporting

This year, we have aligned our business performance reporting to focus on the fulfilment of our role and purpose. We have developed sponsor-level key performance indicators as approved by our Minister that have been used in our risk and performance

Dstl's hierarchy of performance reporting



reviews with MOD. We have developed a larger set of performance indicators to complement the sponsor-level indicators that form the basis for reporting business performance to our Board. All our indicators and reporting will be refined and adapted to meet the reporting requirements of MOD, and as the business responds to strategic challenges and risks (see page 14).

Quarterly Performance Reviews. Dstl comprises five Division business units focused on the delivery of S&T and the stewardship of S&T capabilities. Services delivered by functional business units support the Divisions. This year, business units reported quarterly progress to the Executive Committee against their *Business Unit Agreements*, which align operational activities against our corporate objectives. We are currently reviewing our reporting structures and processes to ensure the management of performance is at appropriate levels in the organisation.

Group Head of Defence Internal Audit's summary

On the transfer of responsibilities from the previous internal audit provider, Grant Thornton, to the new provider, Defence Internal Audit (DIA) at the start of 2017/18, there was a relatively short timeframe to draw up an internal audit programme for the year. Dstl senior managers were invited to consider assurance needs against their current risk profile, cross-referenced both to the Grant Thornton forward proposals for 2017/18 and DIA's own review of the strategic risks. The resultant programme for 2017/18 was eight separate pieces of audit work, four of which aligned to Dstl strategic risks and four aligning to operational risks.

To frame the 2018/19 future programmes, a formal *Audit Strategy* has been developed by DIA and agreed with Dstl together with a three-year forward plan. The Group Head of DIA has summarised the results of DIA's audit work relevant to Dstl's objectives for the 12 months to the end of March 2018. The overall audit opinion is based on the audit programme for the year, attendance at Dstl Audit Committee meetings, engagement with senior management and other developments in both Dstl and the MOD, where they are known to be relevant.

Group Head DIA has concluded that: "Under its new organisational status, Dstl has maintained a commitment to good standards of governance, risk management and internal control. Our audit of corporate governance confirmed a high level of compliance against the code of practice, thereby providing an assurance that Dstl is well managed and run accountably.

"Our other audits highlighted that positive steps were being taken to mature the organisation's risk management capability, that core financial controls were operating effectively, and that several high-profile improvement activities had been landed successfully. Therefore, an overall opinion of *substantial* assurance has been provided.

"Notwithstanding, there is a recognition that certain sets of activities (termed 'value chains' within Dstl) require development and offer opportunities for improving the control environment. They include: improved S&T delivery through better project and programme management; a more responsive procurement function; the embedding of capability stewardship processes; and, a sustained level of safety performance across the laboratory."

The results of the internal audit assurance opinions are summarised below in the order in which the audit work was completed:

Audit title	Entity owner
Dstl Interface with DST (programme delivery)	Capability and Delivery Director
Operation of the Facilities Management contract	Infrastructure Director
Helios Project – progress towards Building Information Modelling and Government Soft Landings	Infrastructure Director
Implementation of Procurement Optimisation Programme	Finance Director
Core financial controls	Finance Director
Safety Improvement Programme – roles and responsibilities	Chief Executive
Risk management	Head of Corporate Affairs
Corporate governance	Head of Corporate Affairs

Chief Executive's summary

Building on the good foundations of internal governance established at Dstl over the past few years, we have continued to develop our risk-informed approach to determining an appropriate assurance regime for the organisation.

I am grateful to my Head of Corporate Affairs, and my Principal Governance and Risk Adviser, who informed me of Dstl's governance, risk and internal control arrangements, on behalf of my predecessor, Jonathan Lyle, for the period of this financial year when I was not Accounting Officer. This, in conjunction with my attendance at the Dstl Audit Committee from January 2018 and the positive outcomes from the work conducted by our new internal audit partner, means that I am confident that we have an increasingly effective system of internal control at Dstl.

As reported earlier, the Audit Committee's independent chairmanship transitioned to David Tonkin in September 2017 and under his leadership, the Audit Committee continues to provide me with appropriate challenge. This is essential to enable me to discharge my responsibilities as Chief Executive and Accounting Officer, particularly as I gain an understanding of the issues facing the organisation.

The successful transition of the organisation to the 2015 revisions of both the ISO 9001 and ISO 14001 standards in July 2017 (see *Performance Analysis* on page 25) was a significant achievement given the standards' increased focus on leadership engagement and risk-based approaches.

Embedding of the new external technical assurance process across the S&T Enterprise has also been a positive step forward. However, despite the significant activities undertaken to address the concerns raised regarding our commercial capability, this continues to be an area for further action. Work to enhance contract management and to develop more-effective procurement mechanisms remains a significant focus for improvement, now and in the future.

Additionally, consistency in the implementation of our *Risk Management Strategy*, particularly in S&T projects and programmes, will also be an area for increased management focus in the coming year.

Our new internal audit partner has settled in well and is developing an increased understanding of our work and operations, which is resulting in increasingly effective audit findings. These findings, together with the challenge and support of our non-executive members, are enabling us to tackle those parts of our business that we need to improve as we continue to deliver impact and value to our customers.

Remuneration and Staff Report

Remuneration policy

Dstl has no pay costs for ministers. Seven Executive Directors employed during the year were members of the Senior Civil Service (SCS) and subject to SCS terms and conditions, including the remuneration policy. These Executive Directors were: Jonathan Lyle; Gary Aitkenhead; David Marsh; David English; Joanne Peel; Jennifer Henderson; and, Alexander Lambert. 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 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. Their non-consolidated performance awards arrangements fall under SCS rules rather than the Dstl performance-award system.

The remaining Executive Directors (Graham Balmer, Bryn Hughes and Kevin Wagstaff) are Dstl employees and subject to the same performance-related remuneration policy as all other Dstl staff. The NEMs are not Dstl employees and, apart from one who is employed by MOD, they are paid a fee for their services.

Performance conditions

Executive Directors who are subject to SCS terms and conditions are also subject to the SCS performance conditions. The remaining Executive 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 specify 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. One senior manager received an exit package in band £50,001 to £100,000 and is included within the table on page 66.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Senior management remuneration and pension entitlements

Dstl Board remuneration

<i>This information is subject to audit opinion</i>	Salary band 2017/18 £'000	Salary band 2016/17 £'000	NCPA* 2017/18 £'000	NCPA 2016/17 £'000	Fee 2017/18 £'000	Fee 2016/17 £'000	Pension benefits 2017/18 Nearest £'000	Pension benefits 2016/17 Nearest £'000	Total 2017/18 £'000	Total 2016/17 £'000
Sir David Pepper KCMG					25-30	25-30			25-30	25-30
Gerard Connell					5-10 15-20	15-20			5-10	15-20
Sir David Grant					15-20	15-20			15-20	15-20
Dame Wendy Hall					10-15 15-20	15-20			10-15	15-20
Jeremy Monroe					15-20	0-5 15-20			15-20	0-5
Mark Preston ¹										
David Tonkin					10-15 15-20				10-15	
Gary Aitkenhead	45-50 135-140						18		65-70	
Jonathan Lyle	65-70 130-135	130-135	15-20				-2	9	80-85	135-140
David English	75-80	75-80		5-10			19	58	95-100	140-145
Bryn Hughes	75-80	75-80		0-5			0	15	75-80	95-100
David Marsh	110-115	95-100 100-105	10-15				55	125	180-185	220-225
Joanne Peel	75-80	75-80	10-15				25	58	110-115	135-140
Kevin Wagstaff	65-70 80-85						-3		60-65	

Figures in italics denote full-year equivalent salary

*Non-consolidated performance awards (NCPAs)

NCPAs have been awarded as indicated for 2017/18. NCPAs are paid based on Performance Evaluation Criteria scores that are awarded in line with the performance management rules.

Fees have been paid as indicated for 2017/18.

The salary bands set out above relate only to emoluments paid during the period of each director's membership of the Dstl Board.

There was no non-cash element of the remuneration package.

The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of any pay rise during the year. Where there is no or a small pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce and will show a negative value.

¹ Mark Preston received no fee; he represents MOD as a non-executive member. This is a related party with which Dstl has material transactions. Please see Related Party Note at Note 24. Mark Preston was appointed to the Board on 2 May 2016.

Dstl Board members' emoluments

We have shown the details of members' emoluments in the table above. They are summarised as follows:

<i>This information is subject to audit opinion</i>	2018	2017
Salaries, NCPAs and fees (£'000)	812.1	783.8

Dstl Board pension provision

<i>This information is subject to audit opinion</i>	Real increase in pension [and related lump sum at pension age] £'000	Total accrued pension at pension age at 31/03/18 [and related lump sum] £'000	Cash equivalent value at 31/03/18 £'000	Cash equivalent value at 31/03/17 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Gary Aitkenhead	0-2.5	0-5	12		8
Jonathan Lyle¹	0-2.5	80-85	1,641	1,613	-3
David English	0-2.5	25-30	361	333	4
Bryn Hughes²	0-2.5 <i>[0-2.5]</i>	30-35 <i>[95-100]</i>	717	704	0
David Marsh	2.5-5 <i>[7.5-10]</i>	35-40 <i>[110-115]</i>	759	665	48
Joanne Peel³	0-2.5 <i>[0-(2.5)]</i>	15-20 <i>[40-45]</i>	323	291	11
Kevin Wagstaff^{3,4}	0-2.5 <i>[0-(2.5)]</i>	40-45 <i>[65-70]</i>	889	876	-3

Pension information is provided by MyCSP, the administrators of Civil Service pensions. With the exception of Jonathan Lyle, who belongs to the *premium* Civil Service pension scheme, all directors belong to the *classic*, *classic plus* or *alpha* Civil Service pension schemes. All schemes are part of the Civil Service pension arrangements. See pension information on page 67.

¹ Member is a part-year appointment, hence the negative value.

² The factors used to calculate the CETV are such that the value of the pension that could have been taken at normal pension age decreases with the age of the pension scheme member.

³ See footnote 2 on page 62.

⁴ Member of the *classic plus* Civil Service pension scheme, where no service after 30 September 2002 counts towards the calculation of the lump sum.

Dstl Executive Committee remuneration

<i>This information is subject to audit opinion</i>	Salary band 2017/18 £'000	Salary band 2016/17 £'000	NCPA 2017/18 £'000	NCPA 2016/17 £'000	Pension benefits 2017/18 Nearest £'000	Pension benefits 2016/17 Nearest £'000	Total 2017/18 £'000	Total 2016/17 £'000
Gary Aitkenhead	45-50 <i>135-140</i>				18		65-70	
Jonathan Lyle	65-70 <i>130-135</i>	130-135	15-20		-2	9	80-85	135-140
Graham Balmer	75-80	75-80	0-5	0-5	18	26	95-100	110-115
David English	75-80	75-80		5-10	19	58	95-100	140-145
Jennifer Henderson	30-35 <i>75-80</i>	50-55 <i>70-75</i>	10-15	5-10	7	24	50-55	80-85
Bryn Hughes	75-80	75-80		0-5	0	15	75-80	95-100
Alexander Lambert	20-25 <i>75-80</i>	70-75	10-15	5-10	7	31	40-45	110-115
David Marsh	110-115	95-100 <i>100-105</i>	10-15		55	125	180-185	220-225
Joanne Peel	75-80	75-80	10-15		25	58	110-115	135-140
Kevin Wagstaff	65-70 <i>80-85</i>				-3		60-65	

Figures in italics denote full-year equivalent salary

NCPAs have been awarded as indicated for 2017/18. NCPAs are paid based on Performance Evaluation Criteria scores, which are awarded in line with the performance management rules.

The salary bands set out above relate only to emoluments paid during the period of each director's membership of the Dstl Executive Committee.

No Executive Committee members, 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.

Dstl Executive Committee pension provision

<i>This information is subject to audit opinion</i>	Real increase in pension [and related lump sum at pension age] £'000	Total accrued pension at pension age at 31/03/18 [and related lump sum] £'000	Cash equivalent value at 31/03/18 £'000	Cash equivalent value at 31/03/17 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Gary Aitkenhead	0-2.5	0-5	12		8
Jonathan Lyle¹	0-2.5	80-85	1,641	1,613	-3
Graham Balmer²	0-2.5 [0-(2.5)]	30-35 [30-35]	510	473	5
David English	0-2.5	25-30	361	333	4
Jennifer Henderson²	0-2.5 [0-(2.5)]	20-25 [55-60]	323	315	1
Bryn Hughes³	0-2.5 [0-(2.5)]	30-35 [95-100]	717	704	0
Alexander Lambert²	0-2.5 [0-(2.5)]	15-20 [35-40]	231	219	2
David Marsh	2.5-5 [7.5-10]	35-40 [110-115]	759	665	48
Joanne Peel²	0-2.5 [0-(2.5)]	15-20 [40-45]	323	291	11
Kevin Wagstaff^{2,4}	0-2.5 [0-(2.5)]	40-45 [65-70]	889	876	-3

Pension information is provided by MyCSP, the administrators of Civil Service pensions. With the exception of Jonathan Lyle, who belongs to the *premium* Civil Service pension scheme, all directors belong to the *classic*, *classic plus* or *alpha* Civil Service pension schemes. All schemes are part of the Civil Service pension arrangements. See pension information on page 67.

¹ Member is a part-year appointment, hence the negative value.

² The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of any pay rise during the year. Where there is no or a small pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.

³ The factors used to calculate the CETV are such that the value of the pension that could have been taken at normal pension age decreases with the age of the pension scheme member.

⁴ Member of the *classic plus* Civil Service pension scheme, where no service after 30 September 2002 counts towards the calculation of the lump sum.

Relationship between the highest-paid director and the workforce median

<i>This information is subject to audit opinion</i>	2017/18	2016/17
Band of highest-paid director total remuneration	£145,000-£150,000 ¹	£130,000-£135,000
Median total remuneration	£36,399	£36,173
Ratio²	4.05	3.66

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 2017/18 was £145,000-£150,000 (2016/17: £130,000-£135,000). This was 4.05 times (2016/17: 3.66) the median remuneration of the workforce, which was £36,399 (2016/17: £36,173).

In both 2017/18 and 2016/17, no employees received remuneration in excess of the highest-paid director. In 2017/18, remuneration ranged from £12,500 to £145,000-£150,000 (2016/17: £10,605 to £130,000-£135,000).

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.

¹ This represents the annual equivalent salary and non-consolidated performance award for Dstl's former Chief Executive Jonathan Lyle.

² The comparative ratio for 2016/17 has been restated to reflect the calculation being based on the mid-point of the highest-paid director's total remuneration band not the highest-paid director's actual total remuneration.

Our people

Dstl needs to recruit, develop and retain a diverse and capable workforce to meet the capability needs of its defence and security role, now and in the future. Our people are committed to being agile and responding to the rapidly changing world around us in a professional and open way



Working at the heart of defence and security S&T, we are proud of our skilled people, who are steadfast in their contribution to national security. They harness cutting-edge S&T to counter the known and new threats to UK armed forces and British citizens; we continue to celebrate the impact we have because of the S&T we deliver.

This year, we saw 3,029 applications for Dstl's inspiring career opportunities, including 970 graduates and 878 students. We no longer use traditional external recruitment techniques and we have developed a relationship with LinkedIn to use social media as our primary platform. We spent £198,702 on this and other resourcing-related advertising last year. We have no other publicity or advertising costs at Dstl. The Civil Service governs our people policies and 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*.

This year, we produced a brand video, which is generating a strong interest online, and is positively reinforcing our efforts to promote Dstl as a great place to work. We believe that highlighting the breadth of work that Dstl does will help us to attract top talent

from across all the STEM professions as well as from project managers, and procurement and administration professionals.

We are excited to be leading defence thinking on a STEM career-returns programme, where we are taking on 10 interns for 10 to 12 weeks with the expectation that we will employ a high percentage of them. The internships offer us the opportunity to promote diversity, and to investigate whether mid-career hires are possible from people who have had career breaks. We are working in partnership with the Institute of Maritime Engineering, and Women in Science and Engineering, with the sponsorship of two industry/Government consortia, STEM Futures and UKNEST, whose members are supportive of both diversity and talent development.

During 2017, we continued to adopt recruiting best practice. One example is Textio, a writing platform that has aided our managers in creating attractive job profiles; more than 25 per cent of them are now using the service. We are proud that our job profiles are gender neutral and the quality of 181 job listings have been improved by this technique. We also introduced video interviewing with the 2017 graduate campaign, and will continue to use this technique for future campaigns including apprentices and experienced hires. We have introduced the Civil Service ability tests into our recruitment so that we can check consistency across the whole Civil Service.

Evolving Dstl. Dstl has reduced in size, as outlined in successive Corporate Plans, by streamlining service delivery. Because we need to retain the right specialist skills, experience and knowledge mix for our customers, we have led our process of reshaping by offering voluntary exit in areas of our business where customer demand is reduced. We are also contributing to efficiency in Government by taking on the Home Office's CAST from this year, and have been preparing and consulting with the affected staff who are transferring.

We continue to promote our Total Reward Package, with new elements including buying and selling leave and rental deposit schemes for both current staff and next year for new starters. Our staff engagement survey indicated a 1 per cent increase this year.



As a member of The 5% Club, which is public and private sector companies who are committed to having a minimum of 5 per cent of their workforces on graduate or sponsored student schemes or apprenticeships, we are pleased to report that 6.91 per cent of Dstl's workforce fall into these categories.

Our workforce is at the heart of everything we do.

Streamlined processes assist more-efficient movement of people across the S&T Enterprise, and we have established a new mobility agreement for 2017 with MOD that helps us both to maintain the skills and expertise of our people.

By embracing and supporting the Government's commitment to developing skills, we hope to benefit the economy and promote national prosperity. With other employers, we are working across the S&T Enterprise to design requirements for trailblazer apprenticeships that meet business needs and grow talent pipelines for the future.

We are targeting digital, cyber and data sciences, which are growth areas, and also ordnance munitions and explosives, and radiological sciences, which are both nationwide skills gaps. Collaboratively building on-the-job training into our work, programmes will encourage apprentices to work across Government and industry, growing valuable networks and

experience. This year, we will fully recoup the financial value of the Government's apprenticeship levy (£764,000) but may fall short of our target of 85 new-start apprentices per annum. We signed the Civil Service overarching contract late in the financial year, so we were unable to develop as many people as we had hoped via this mechanism.

We continue to invest in the health and well-being of all our employees working closely with our on-site occupational health team and employee assistance programme provider. This year, 2.3 per cent of hours were lost to sickness absence. To support us in improving employee well-being and reducing time lost due to psychological illness, we have introduced mental health advocates to support colleagues and encourage them to talk about issues they may face. We continue to take health and safety (H&S) extremely seriously. This year, our H&S reportable injuries per 100,000 hours worked was 0.11.

Our commitment to diversity and inclusivity. The Dstl Executive Committee is committed to embedding diversity and inclusion as 'business as usual'. Because innovative ideas come from diverse groups, we value inclusivity and difference in our people, ensuring Dstl also stands up for fairness and equality. The Executive Committee continues to support delivery of our *Diversity Action Plan* and acts as sponsors of our six employee support networks, which have dedicated and active volunteers making a difference to the way we run the business.

We continue to have a particular focus on promoting the increase of women working in STEM, and in 2017 Dstl's Transformation Director won the Promotion of Gender Balance award at the Women in Defence awards. Other Government departments and some private sector partners continue to recognise Dstl's support for those with Asperger's and autism as a best-practice model. This year, we have delivered autism awareness training to 53 employees and managers.

We continue to support people with disabilities by interviewing all disabled applicants for our vacancies who meet essential job criteria. The *Equality Act 2010* places a requirement on employers to make adjustments for their staff to help them overcome disadvantages resulting from their disability; our equality and diversity policy sets the overall framework of how we promote and support those with protected characteristics. Our workplace adjustment process ensures that adjustments are available for the continuation of employment of anyone who becomes disabled or has a condition that requires additional support within Dstl. We apply this process during the assessment of new recruits and during employment to accommodate all our people.



Our workforce

The average full-time equivalent number of persons (including members of the Board) employed during the year at Dstl was:

	Permanent (UK employment contract)		Agency and short-term contract staff		Inward secondees		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Professional and technical staff	2,856	2,832	173	214	62	70	3,091	3,116
Administrative and industrial staff	504	488	58	52	1	0	563	540
Total	3,360	3,320	231	266	63	70	3,654	3,656

The staff costs incurred by our workforce over the past financial year were:

	2018	2017
	Executive Agency £ million	Trading Fund £ million
Wages and salaries	146.3	143.1
Social security costs	16.5	15.7
Other pension costs	29.0	28.6
Inward secondees	6.1	7.4
Agency and contract staff	10.7	11.5
Less recoveries in respect of outward secondments	(7.0)	(7.0)
Total	201.5	199.3

This information is subject to audit opinion.

For the current year, we have disclosed recoveries of staff costs relating to outward secondees as a deduction to total staff costs. The comparative has been restated on the same basis.

During the year, £12.5 thousand staff costs were capitalised (2016/17: £1.3 thousand).

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 in the following tables are the numbers of our non-permanent staff (contractors) at Dstl whom we hire under contingent labour routes – the *CL One Framework*. CTWs are not employees and nor are they off-payroll appointments to public office, for which there is none at Dstl.

Table 1. All off-payroll engagements

Number of existing engagements as of 31 March 2018 for more than £245 per day and that last for longer than six months	114
Of which	
Number that have existed for less than one year at time of reporting	60
Number that have existed for between one and two years at time of reporting	24
Number that have existed for between two and three years at time of reporting	16
Number that have existed for between three and four years at time of reporting	14
Number that have existed for four or more years at time of reporting	0

Table 2. All new off-payroll engagements	
Number of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	70
Of which	
Number assessed as caught by IR35	65 ¹
Number assessed as not caught by IR35	5 ²
Number engaged directly (via Personal Services Contract contracted to Dstl) and are on the payroll	0
Number of engagements reassessed for consistency/assurance purposes during the year	0 ³
Number of engagements that saw a change to IR35 status following the consistency review	0

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.

² These five contracts were existing contracts held by Dstl (for example, medical professionals) who were all put through Her Majesty's Revenue and Customs' Assessment Tool and were assessed as being out of scope of IR35. However, since the release of the MOD *Defence Instruction Notice* regarding all future contracts being inside-scope-of-IR35 roles, these five contracts, should they require re-competition, will be advertised as inside-scope roles. These five contracts will all expire by September 2018.

³ 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.

Table 3. Off-payroll and on-payroll engagements of Board members and/or senior officials	
Number of off-payroll engagements of Board members, and/or senior officials with significant financial responsibility, during the financial year	0
Number of individuals on-payroll and off-payroll that have been deemed Board members, and/or senior officials with significant financial responsibility during the financial year. This figure includes both on-payroll and off-payroll engagements.	14

Expenditure on consultancy

This year, Dstl spent £39,000 on consultancy (2016/17: £236,000). There were no items or expenditure categories of individual significance.

Our trade union engagement

At Dstl, we set great store by good industrial relations, and continue to enjoy an excellent relationship with the trade unions (TUs) based on mutual trust and respect. The cornerstone of this relationship is Dstl and TUs working in partnership on issues that affect employees, their terms and conditions of service and their working environment, with a view to reaching agreement.

Exit packages

This year, a voluntary exit scheme for those employed at Fort Halstead affected by the Helios Project resulted in four exits. Dstl also completed one exit scheme to assist reshaping Dstl and reducing headcount.

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.

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	
	2018	2017	2018	2017	2018	2017
Less than £10,000	0	0	1	1	1	1
£10,000 – £25,000	0	0	19	27	19	27
£25,001 – £50,000	1	0	21	20	22	20
£50,001 – £100,000	0	0	14	11	14	11
£100,001 – £150,000	0	0	0	0	0	0
£150,001 – £200,000	0	0	0	1	0	1
More than £200,000	0	0	0	0	0	0
Total number of exit packages	1	0	55	60	56	60
Total cost of exit packages (£)	27,086	0	2,097,348	2,040,321	2,124,434	2,040,321

In addition, there was a net charge of £491,806 that relates to adjustments made for the previous year. Additional payments were made following a judicial review of the compensation scheme rules, and there was late notification of deferred lump-sum payments.

Where Dstl has agreed early retirements, Dstl meets the additional costs, not My Civil Service Pension (MyCSP). The pension scheme meets ill-health retirement costs and these are not included in the table on page 66.

Pensions

Civil Service pension arrangements provide pension benefits. 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. Dstl is unable to identify its share of the underlying assets and liabilities. A full scheme valuation was performed by the scheme actuary during 2012. The valuation is updated annually using the underlying 2012 valuation. Details can be found in the resource accounts of the Cabinet Office: Civil Service Superannuation: 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 2017/18, Dstl employer contributions of £29.0 million were payable to MyCSP (2016/17: £28.6 million) at one of four rates in the range 20.0 per cent to 24.5 per cent of pensionable earnings, 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 2017/18 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/

Since October 2002, employees joining Dstl can opt for either the appropriate defined-benefit arrangement as above or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account). Dstl 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 2017/18, employer contributions of £333,491 were paid into partnership pensions 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 2018 were £24,789. There were no prepaid contributions at that date.

This year, no people retired early on ill-health grounds and, as such, there were no additional accrued pension liabilities for any individuals. Further details about the Civil Service pension arrangements can be found at the website: www.civilservicepensionscheme.org.uk

Our staff composition

As at 31 March 2018, the gender numbers for our non-executive members, Executive Directors, Senior Civil Service equivalent and employees were:

	Male	Female	Total
Non-executive members ¹	5	0	5
Executive Directors ²	6	1	7
Senior Civil Service ³	1	0	1
Employees	2,477	1,228	3,705
Totals	2,489	1,229	3,718 ⁴

¹ The male MOD non-executive member on the Dstl Board is Senior Civil Service (SCS).

² The Chief Executive, Acting Deputy Chief Executive, Finance Director, and People and Business Services Director are SCS.

³ There is one other member of the SCS at Dstl who is not a member of the Dstl Executive Committee.

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

Parliamentary Accountability and Audit Report

This section presents information about Dstl that is useful to readers for accountability and decision-making purposes, to the extent that it is not covered elsewhere in this report

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 Director General Head Office and Commissioning Services for the performance and management of Dstl.

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 70. More information on our Parliamentary accountability is published in our existing *Framework Document*, which is available at: www.gov.uk/government/publications/defence-science-and-technology-laboratory-framework-document

Statement of Parliamentary Supply (subject to audit)

Since April 2017, 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 direct 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.

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, our resource costs as an Executive Agency continue to be recovered via charges to our customers and are not classified as administrative costs. All our operating expenditure is associated with delivery of our S&T outputs. See page 26 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.

Fees and charges (subject to audit)

All our operating income derives from fees and charges. Details of our principal operating segments are disclosed in Note 3 to the financial statements on pages 86-88. We charge for goods and services in accordance with the principles in *Managing Public Money* and apply a fee to all the goods and services we provide outside MOD; details of these services can be found on pages 18-21 of this report.

From April 2017, our charges have been set to recover our net cash resource expenditure only and we no longer charge a fee to our MOD customers as we are now within the departmental boundary. The fee applied to non-MOD business is set so as to make a proportionate contribution towards capital expenditure, which is otherwise funded by MOD through a separate capital control total, and to cover our cost of capital.



Remote contingent liabilities (subject to audit)

The nature of our operations means that our sites and specialist buildings may become liable to significant decommissioning and remediation costs. The likelihood of the experimental establishments that we own transferring outside the public sector is considered remote, and we have not attempted to quantify the costs associated with such liabilities that could arise due to a transfer of ownership or significant change of use. Maintenance of a safe and secure working environment presents an enduring running cost to our business, funded through our operating expenditure. Our normal business is self-insured and long-term residual liabilities are considered to be underwritten by our parent department, MOD.

Regularity of expenditure (subject to audit)

There was an increase in the doubtful debt provision of £0.3 million (2016/17: reduced by £0.2 million) in respect of a receivable from our subsidiary Ploughshare.

As reported in last year's annual report and accounts, an internal audit finding during the latter part of 2016/17 identified the possibility of a breach of Cabinet Office spending controls. It has since been confirmed by Cabinet Office that the subcontract procurement framework used by Dstl did not fall within the intended scope of the controls for consultancy expenditure.

Losses and special payments (subject to audit)

During the year, we decided to stop the Identity and Access Management Project. The project had been established in 2015/16 with the objective of

delivering a more robust user authentication and access permissions regime across our IT networks and applications. It became apparent that the original solution design would no longer be compatible with subsequent technical changes to the IT environment and architecture, and that elements of work done to date were unlikely to be reusable in any future redesigned solution. The entire expenditure against the project of £1.16 million has been expensed as an impairment in 2017/18, for which authority was received from MOD. No distinct assets of potential future use to the business were identified.

As a result of the decision to no longer consolidate Dstl's subsidiary Ploughshare, we carried out an impairment review into the carrying value of the investment. Based on a review of Ploughshare's draft audited accounts at 31 March 2018, this resulted in an impairment of £1.91 million being expensed in 2017/18, for which authority was received from MOD.

HMRC conducted a VAT inspection of Dstl during the first half of 2017/18. This resulted in an assessment for additional VAT due based on incorrect treatment being applied to supplies of staff to other Government departments in previous accounting periods (as the Trading Fund). The VAT charge and associated interest has been absorbed within the year's operating expenditure. No penalties were suffered. The interest charge represented a reportable loss of £0.21 million. See Note 6 on page 90. Dstl incurred a net loss on foreign exchange rates of £0.2 million. See Note 5 on page 89.

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 2018 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 2018 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.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the 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.
- conclude on the appropriateness of management'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 auditor's 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 auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than 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.

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

10 July 2018

The Dstl Annual Report and Accounts 2017/18

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 70). Our Dstl Audit Committee endorsed this report at its meeting on 27 June 2018, and the Chair of the Dstl Board and the Accounting Officer signed the accounts on 4 July 2018.

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 2018 and of our financial position as at 31 March 2018. 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 35, 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 77, 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.




Gary Aitkenhead | Chief Executive
4 July 2018





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, who has sub-contracted Moore Stephens to undertake the audit on his behalf.

Our accounts have been prepared under International Financial Reporting Standards (IFRS), as adapted for the public sector in the *Government Financial Reporting Manual (FRM)*, issued by Her Majesty's Treasury. No new accounting standards, amendments or interpretations affect these financial statements, and significant changes to accounting policy are outlined in Note 1 on page 80. Changes are driven by a desire to align with the policies of our parent department, MOD, where appropriate, subject to relevance and materiality considerations.

Accounting Information

Statement of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2018

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Income from sale of goods and services	3	541.7	584.7
Other operating income		1.7	2.7
Total operating income	4	543.4	587.4
Staff costs		(201.6)	(199.3)
Purchase of direct goods and services		(224.8)	(238.7)
Depreciation, amortisation and impairment charges		(41.9)	(22.9)
Provision expense		(3.4)	(2.3)
Other operating expenditure		(107.1)	(103.2)
Total operating expenditure	5	(578.8)	(566.4)
Net operating income / (expenditure)		(35.4)	21.0
Finance income	7	0.1	0.3
Finance expense	8	0.0	(0.5)
Dividend	9	0.0	(58.0)
Gain on transfer by absorption	2	347.4	0.0
Net income / (expenditure) for the year		312.1	(37.2)
Other comprehensive net income / (expenditure)			
Items which will not be reclassified to net operating income / (expenditure):			
Net surplus on revaluation of property, plant and equipment	SoCITE	105.5	6.2
Net surplus on revaluation of intangible assets	SoCITE	0.3	0.1
Total comprehensive net income / (expenditure) for the year		417.9	(30.9)

The notes on pages 80 to 104 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2018

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Assets			
Non-current assets			
Property, plant and equipment	10	463.8	327.4
Financial assets	11	1.8	3.7
Intangible assets	12	4.5	6.6
Receivables	15	1.0	2.1
Total non-current assets		471.1	339.8
Current assets			
Work in progress	14	0.3	0.1
Receivables	15	26.8	207.0
Cash and cash equivalents	16	18.9	5.1
Total current assets		46.0	212.2
Total assets		517.1	552.0
Current liabilities			
Trade and other payables	17	108.9	200.3
Short-term provisions	18	1.1	1.5
Total current liabilities		110.0	201.8
Non-current assets plus net current assets		407.1	350.2
Non-current liabilities			
Other payables	17	1.5	1.6
Long-term provisions	18	1.2	1.2
Total non-current liabilities		2.7	2.8
Assets less liabilities		404.4	347.4
Taxpayers' equity and other reserves			
Revaluation surplus	SoCITE	202.1	96.3
General fund	SoCITE	202.3	251.1
Total taxpayers' equity		404.4	347.4

The financial statements were signed on 4 July 2018.

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 2018

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Cash flows from operating activities			
Net operating expenditure	SoCNE	(35.4)	21.0
Adjustments for non-cash transactions:			
Depreciation and impairment	5,10	37.0	21.0
Loss on sale of property, plant and equipment	5	0.3	0.0
Amortisation and impairment	5,11	3.0	1.9
Notional audit fee	5	0.1	0.0
Write-down of non-current financial asset	5	1.9	0.0
Provisions provided in year	5	3.4	2.4
Provisions not required written-back	5	0.0	(0.1)
Net operating expenditure before changes in working capital		10.3	46.2
(Increase) / decrease in work in progress		(0.2)	2.8
(Increase) / decrease in trade receivables and other receivables		31.8	(6.2)
Decrease in trade payables and other liabilities ¹		(42.4)	(2.4)
Use of provisions		(3.8)	(1.1)
Net cash inflow / (outflow) from operating activities		(4.3)	39.3
Cash flows from investing activities			
Purchases of property, plant and equipment		(47.8)	(33.9)
Purchases of intangible assets		(0.5)	(0.5)
Finance income		0.1	0.3
Net cash outflow from investing activities		(48.2)	(34.1)
Cash flows from financing activities			
Net funding received from MOD in-year ²	SoCITE	66.3	0.0
Repayment of loans from MOD	19	0.0	(12.9)
Interest paid		0.0	(0.5)
Repayment of public dividend capital to MOD ³		0.0	(50.4)
Dividend paid		0.0	(13.2)
Net cash inflow / (outflow) from financing activities		66.3	(77.0)
Net financing			
Net increase / (decrease) in cash and cash equivalents		13.8	(71.8)
Brought forward cash and cash equivalents			76.9
Transfer of cash and cash equivalents by absorption	2	5.1	
Carried forward cash and cash equivalents	16	18.9	5.1

¹ Movement in trade payables and other liabilities is after taking account of £58.6 million adjustments following transfer to the Executive Agency and £9.6 million of capital accruals (non-cash movement for purchase of non-current assets).

²

		£ million
Cash received from MOD		435.0
Bookkeeping adjustments for MOD transactions on behalf of Dstl		(368.7)
Net funding received from MOD in-year	SoCITE	66.3

³ During March 2017, the public dividend capital was paid to MOD as part of cessation of the Trading Fund.

Statement of Changes in Taxpayers' Equity (SoCiTE) for the year ended 31 March 2018

	Note	General fund £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive net expenditure £ million
Balance at 1 April 2016 as per Trading Fund financial statements		286.3	50.4	90.0	426.7	
Transfer to general fund				(1.5)	(1.5)	(1.5)
Surplus on revaluation of properties	10			11.6	11.6	11.6
Deficit on application of modified historic cost accounting to property, plant and equipment	10			(3.9)	(3.9)	(3.9)
Surplus on application of modified historic cost accounting to intangible assets	12			0.1	0.1	0.1
Net gains and losses recognised in the Statement of Comprehensive Net Expenditure				6.3	6.3	6.3
Repayment of public dividend capital on cessation of Trading Fund			(50.4)		(50.4)	
Net profit for the period	SoCNE	21.0			21.0	21.0
Net finance income / (expense)	7,8	(0.2)			(0.2)	(0.2)
Dividend	9	(58.0)			(58.0)	(58.0)
Transfer from revaluation surplus		1.5			1.5	
Modified historic cost accounting		0.5			0.5	
Balance at 31 March 2017 as per Trading Fund financial statements		251.1	0.0	96.3	347.4	(30.9)
Transfer of closing balances to Executive Agency on 1 April 2017	2	251.1	0.0	96.3	347.4	
Gain on transfer by absorption	SoCNE					347.4
Adjustments applied following transfers from MOD to Executive Agency	2	(90.9)			(90.9)	
Net equity investment received from MOD during the year		66.3			66.3	
Transfer to general fund				(4.0)	(4.0)	(4.0)
Transfer to general fund realised modified historic cost accounting depreciation	10			(6.9)	(6.9)	(6.9)
Surplus on revaluation of property, plant and equipment	10			116.4	116.4	116.4
Transfer to general fund realised modified historic cost accounting amortisation	12			(0.1)	(0.1)	(0.1)
Surplus on revaluation of intangible assets	12			0.4	0.4	0.4
Net gains and losses recognised in the Statement of Comprehensive Net Expenditure				105.8	105.8	105.8
Auditor's remuneration	5	0.1			0.1	
Net operating expenditure	SoCNE	(35.4)			(35.4)	(35.4)
Net finance income	7,8	0.1			0.1	0.1
Transfer from revaluation surplus		4.0			4.0	
Modified historic cost accounting		7.0			7.0	
Executive Agency Balance at 1 April 2018		202.3	0.0	202.1	404.4	417.9

Notes to the accounts

1. Accounting policies

(a)

(i) Statement of accounting policies

The financial statements have been prepared in accordance with the 2017/18 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.

(ii) Changes in accounting policies when compared to the Trading Fund

Up to 31 March 2017, Dstl was a Trading Fund Agency. From 1 April 2017, the new Executive Agency adopted accounting policies to align with its owning Department, MOD, to ensure consistency across the Departmental accounts. The accounting policies were applied prospectively. The differences in accounting policies when compared to the Trading Fund are:

- For property, plant and equipment, and intangible assets, the capitalisation threshold has been raised from £10,000 to £25,000.
- For property, plant and equipment, fixture and fittings assets are no longer capitalised. Previously, the Trading Fund had reported fixture and fittings assets within its plant and machinery class of asset.

The vast majority of capital acquisitions are above £25,000 and therefore the capitalisation threshold is appropriate. Fixture and fittings asset acquisitions are not material. In line with the FReM, the comparatives have not been restated. They remain as the closing balances of the revoked Trading Fund.

(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 82), intangible assets (see Note 1(j) on page 82), and non-current financial investments (see Note 1(d)(ii) on this page).

(ii) Going concern

From 1 April 2017, Dstl's status as a Trading Fund was revoked. Dstl continues as an Executive Agency of MOD, with a similar function and purpose to the Trading Fund, and continuing demand for its services.

(iii) Transfer of functions

The functions of the Trading Fund were transferred to an Executive Agency of MOD on revocation, effective from 1 April 2017. Public sector bodies are deemed to operate under common control. The FReM interpretation of IFRS3: Business combinations, is to use "transfer by absorption" method of accounting where the transfer is within a Departmental group. This method requires net assets to be transferred at their carrying value with the non-operating net gain or loss reported in the Statement of Comprehensive Net Expenditure.

For the non-current assets that transferred to the Executive Agency on 1 April 2017, the modified historic cost net book values were brought onto the opening Statement of Financial Position. See Note 2 for the transferred carrying values.

(c)

(i) Consolidation with MOD

From 1 April 2017, the Executive Agency is within the Accounting Boundary of MOD. The Agency's financial statements will be 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 has been a revision of accounting judgement relating to the method used for the valuation of the Biological High Containment Facility. See (i) below.

There has also been a revision of the application of estimation technique relating to the value of the Agency's investment in its wholly owned subsidiary, Ploughshare Innovations Ltd (Ploughshare). See (ii) below. 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) opposite), that the Executive Agency has made in the process of applying its accounting policies. These have had significant effects on the financial statements. There have been some changes in accounting policies when compared with the Trading Fund, affecting property, plant and equipment, and intangible assets. See Notes 1(f) and 1(j) on page 82.

• 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 10. 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 estimation technique for the valuation of freehold land adopts the Alternative Site Approach to align with MOD, which has resulted in a significant increase in the value as disclosed in Note 10.

• Consolidation of subsidiary undertaking

Ploughshare is a wholly owned subsidiary which the Executive Agency has the power to control. Previously, the Trading

Fund consolidated the subsidiary according to International Accounting Standard (IAS)27: Consolidated and Separate Financial Statements. The Agency does not consider Ploughshare to be material and has decided not to produce Group accounts. Consolidation would require considerable 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. The Trading Fund's valuation method had been value in use. The Trading Fund had to consider its finances and cash flows as a truly stand-alone entity outside the Departmental boundary, and had a limited guarantee of future revenues to be generated from the facility. As an Agency inside the Department boundary, there is a more integrated approach to strategic capability planning which includes the facility and its capabilities, 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 10.

(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 subcontracted 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 £51.1 million (2016/17: £59.3 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, which was performed during 2013, resulted in an estimate of 32 per cent of all annual holiday to be outstanding at the financial year end.

The total annual holiday accrual liability is £6.6 million (2016/17: £6.7 million). A variance of 5 per cent to the proportion of holiday entitlement outstanding would vary this liability by £1.0 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, such as a doubtful debt. A further adjustment is made for non-current assets where it is considered difficult to realise any value. Previously, the Trading Fund carried the investment in Ploughshare at cost (£3.7 million). Further information on Ploughshare is provided in Note 11.

- **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).

- **Depreciation and amortisation**

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 obsolescence. 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 18.

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 its associate, Tetricus Ltd, on grounds of materiality. See Note 1(d)(i) on page 80.

(f) Property, plant and equipment

Previously, the Trading Fund applied indices provided by RICS for building assets, and indices provided by Office of National Statistics (ONS) for other property, plant and equipment assets. 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 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. This is a change in accounting policy, applied prospectively, when compared to the Trading Fund. See Note 1(a)(ii) on page 80 for further details.

Transport assets were previously reported by the Trading Fund within plant and machinery.

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.

Porton Down – DRC

Portsmouth West – DRC

For land and buildings that have been declared surplus – Market Value

Plant, machinery, transport, and IT and communication equipment – MHCA.

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:

Land	Not depreciated
Buildings	1-50 years
Plant and machinery	1-25 years
Transport	1-25 years
IT and communication equipment	1-10 years

Details of property, plant and equipment values included within these financial statements are disclosed in Note 10.

(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.

(h) Donated assets

Plant and equipment 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 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 depreciated and revalued 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 Executive Agency is the beneficial user, 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 over 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.

This is a change in accounting policy for the Executive Agency (previously £10,000), which is applied prospectively. See Note 1(a)(ii) on page 80 for further details.

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.

Previously, the Trading Fund applied indices provided by ONS. 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 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 costs incurred on firm-price contracts and is stated at the lower of cost and net realisable value.

(n) Amounts recoverable under contract

Amounts recoverable under contract 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, amounts recoverable under contract are recognised where there is a timing difference between income recognition (such as on delivery of a milestone) and invoicing.

(o) Financial instruments

Financial assets and liabilities are recognised where the Executive Agency has become a party to contractual terms of a financial instrument. Financial instruments are initially measured at fair value, which is usually cost. The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments. Where there is no active market, the fair value of the financial instrument is determined using generally accepted valuation techniques. Long-term loans are measured at amortised cost using the effective interest rate method. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive net expenditure.

The Agency does not use financial instruments for speculative purposes.

(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 67.

(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

Operating income is recognised when the significant risks and rewards of ownership have been transferred to the customer and there is reasonable certainty of recovery of the consideration receivable. For cost-plus contracts, the risks and rewards are considered to be transferred as work is performed. The amount of operating income recognised 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 risks and rewards are considered to be transferred when agreed milestones or deliverables are met and accepted by the customer. The full contracted price for the milestone or deliverable is recognised as operating income. Operating income is accrued as amounts recoverable under contract where the trigger point for invoicing has not yet been met, or there is a timing difference between income recognition and invoicing.

Income is deferred where a contract allows amounts to be invoiced ahead of the trigger point for income recognition (such as before the completion of agreed milestones). Losses are recognised as soon as they are foreseen.

More than 90 per cent of the Executive Agency's operating income 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 as costs are incurred, 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. Income recognition is triggered by invoicing, or is accrued as other receivables where receipt of the consideration is probable.

(t) Value Added Tax (VAT)

From 1 April 2017, 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.

(u) Segmental reporting

The principal business activities of the Executive Agency are managed through Divisions, and the segmental analysis in Note 3 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 income and transfers within the Agency are 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 provides transparency by disclosing

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 first footnote.

(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. There are a number of standards, amendments and interpretations issued by the IAS Board that are effective for financial statements after this reporting period.

The following new or amended standards will be adopted by the Executive Agency when as directed, interpreted or adapted by the FReM:

IFRS9: Financial instruments

A new standard issued during July 2014 to replace IAS39: Financial Instruments: Recognition and Measurement. IFRS9 includes requirements for classification and measurement of financial instruments, impairment, derecognition, and hedge accounting. The standard will be effective for accounting periods beginning on or after 1 January 2018 and the FReM has adopted the standard for the accounting period beginning on 1 April 2018. The standard has been reviewed and is not expected to have a future material impact on the financial statements of the Executive Agency. The measurement approaches applied by the Agency will continue to be appropriate.

IFRS15: Revenue from Contracts with Customers

A new standard intended to replace previous revenue standards IAS11 and IAS18. IFRS15 establishes a framework for determining when to recognise revenue and the amount of revenue to recognise. The effective date is for accounting periods beginning on or after 1 January 2018. The FReM has adopted the standard for the accounting period beginning 1 April 2018.

The standard has been reviewed and is not expected to have a future material impact on the financial statements of the Executive Agency. More than 90 per cent of the Agency's revenue is from MOD. From 1 April 2017, all revenue from MOD is on a cost basis. The obligations are very specialised, have no alternative use and the Agency will have an enforceable right to income for work performed to date. It will therefore be considered appropriate to continue to recognise revenue over time.

Revenue contracts with wider Government and non-Exchequer customers are also very specialised, have no alternative use and the Agency has an enforceable right to payment for work performed to date. Revenue for cost-plus contracts will continue to be recognised over time. Revenue for firm-price contracts will continue to be recognised at a point in time on achievement of agreed milestone obligations.

IFRS16: Leases

A new standard issued during January 2016 intended to replace the previous leases standard IAS17. The standard provides a single lessee accounting model for recognising, measuring, presenting and disclosing leases. Recognition will be based on right-of-use, measured at the present value of lease payments. The effective date is for accounting periods beginning on or after 1 January 2019 (subject to European Union adoption). The FReM's interpretation and adoption date is yet to be determined.

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. One of the standard's transitional options is to apply it prospectively and bring the asset and liability onto the Statement of Financial Position at the present value of future rental payments from the date of adoption of the standard. This is likely to be the transitional method adopted by the Agency. The current annual rental charge for the property lease at Fort Halstead is £3.8 million. See Note 20 for further information.

2. Transfer of functions from MOD under absorption accounting

On 1 April 2017, MOD transferred the following assets and liabilities to the Executive Agency under the absorption accounting method. See Note 1(b)(iii) for further information.

	Note	£ million	£ million	£ million
Non-current assets				
Property, plant and equipment	10			327.4
Financial assets	11			3.7
Intangible assets	12			6.6
Receivables	15			2.1
Total non-current assets				339.8
Current assets				
Work in progress	14	0.1		
Receivables	15	207.0		
Cash and cash equivalents	16	5.1		
Total current assets			212.2	
Current liabilities				
Trade and other payables	17	(200.3)		
Short-term provisions	18	(1.5)		
Total current liabilities			(201.8)	
Net current assets				10.4
Non-current liabilities				
Other payables	17		(1.6)	
Long-term provisions	18		(1.2)	
Total non-current liabilities				(2.8)
Net assets transferred under absorption accounting				347.4

Adjustments applied following transfer to Executive Agency

Following revocation of the Trading Fund, and transfer of assets and liabilities from the owning department to the Executive Agency on 1 April 2017, various adjustments were made to harmonise accounting with MOD as follows:

	Note	General fund £ million
Trade receivables ¹	15	(149.5)
Property, plant and equipment valuations and gross modified historic cost ²	10	(132.6)
Property, plant and equipment accumulated depreciation ²	10	132.6
Intangible assets gross modified historic cost ²	12	(9.8)
Intangible assets accumulated amortisation ²	12	9.8
Dividend liability ³	9	58.0
Deferred income ⁴	17	0.6
Total adjustment	SoCiTE	(90.9)

¹ Brought forward trade receivables due from MOD was £179.4 million. Following recovery of VAT from HM Revenue and Customs of £29.9 million, the balance of £149.5 million was transferred to the general fund to harmonise accounting with MOD.

² Accounting policy adoption. See Note 1(a)(ii). For the asset records held by MOD, the valuations and gross modified historic cost were adjusted to the net book values at the beginning of the year. The accumulated depreciation or amortisation was consequently reversed out. This was to accommodate migration of the Trading Fund asset records to MOD systems.

³ Executive Agencies do not pay dividends to their owning Departments. MOD did not intend for the Agency to settle the Trading Fund's dividend liability. The liability was transferred to the general fund.

⁴ Deferred income relating to MOD-funded property, plant and equipment.

3. 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 and technical services. The Agency derives more than 90 per cent of its revenues from MOD, and more than 95 per cent of its revenues from wider Government. More detailed disclosures can be found in Note 24, related-party transactions.

The measure of profit presented to the Board, the chief decision-maker, is the underlying operating profit that excludes the significant operating items described in Note 6, and separately identified below. No measure of segmental assets and liabilities have been disclosed because this information is not regularly provided to the Board. More than 95 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 2018:

	Note	Chemical, Biological and Radiological Division £ million	Cyber and Information Systems Division £ million	Counter-Terrorism and Security Division £ million	Defence and Security Analysis Division £ million	Platform Systems Division £ million	Capability and Delivery Office £ million	Corporate £ million	Internal trading adjustments £ million	Total as per financial statements £ million
MOD Chief Scientific Adviser		38.0	72.5	32.3	32.1	137.3	0.0	0.1		312.3
MOD other		26.4	26.4	50.6	17.4	61.0	0.0	0.1		181.9
Wider Government		7.0	1.5	20.1	0.5	0.7	0.0	1.2		31.0
Non-Exchequer income		10.1	0.2	1.7	0.0	0.2	0.0	4.3		16.5
Income from the sale of goods and services	4	81.5	100.6	104.7	50.0	199.2	0.0	5.7		541.7
Other operating income	4	0.1	0.0	0.3	0.0	0.0	1.1	0.2		1.7
Income from other operating segments		8.6	11.0	13.6	31.9	18.4	0.0	4.8	(88.3)	0.0
Operating income (internal and external)		90.2	111.6	118.6	81.9	217.6	1.1	10.7	(88.3)	543.4
Underlying net operating income / (expenditure) ¹	5	(1.7)	5.3	1.3	5.2	6.3	(1.6)	(36.7)		(21.9)
Significant non-recurring operating items	6	0.0	0.0	0.0	0.0	0.0	0.0	(13.5)		(13.5)
Net operating income / (expenditure)²		(1.7)	5.3	1.3	5.2	6.3	(1.6)	(50.2)		(35.4)
Finance income	7	0.0	0.0	0.0	0.0	0.0	0.0	0.1		0.1
Net income / (expenditure) for the year before transfer by absorption		(1.7)	5.3	1.3	5.2	6.3	(1.6)	(50.1)		(35.3)
Gain on transfer by absorption	2							347.4		347.4
Net income / (expenditure) for the year		(1.7)	5.3	1.3	5.2	6.3	(1.6)	297.3		312.1

¹ Underlying net operating income / (expenditure) is the measure of profit or loss routinely presented to the Board.

² Within operating income / (expenditure) is depreciation, amortisation and impairments expensed as follows:

	Note	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Depreciation and impairment of property, plant and equipment		0.0	0.0	0.0	0.0	0.0	0.0	37.0	37.0
Amortisation and impairment of intangible assets		0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0
Impairment of investment in non-current financial asset		0.0	0.0	0.0	0.0	0.0	0.0	1.9	1.9
Total depreciation, amortisation and impairment	5	0.0	0.0	0.0	0.0	0.0	0.0	41.9	41.9

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The Trading Fund comparatives for the year ending 31 March 2017 are:

Note	Chemical, Biological and Radiological Division £ million	Cyber and Information Systems Division £ million	Counter-Terrorism and Security Division £ million	Defence and Security Analysis Division £ million	Platform Systems Division £ million	Capability and Delivery Office £ million	Corporate £ million	Internal trading adjustments £ million	Total as per financial statements £ million
	32.8	72.7	43.7	61.3	140.7	0.0	0.0		351.2
	42.7	14.9	52.7	15.5	58.3	0.0	0.3		184.4
	1.8	12.2	18.6	0.0	0.3	0.0	0.0		32.9
	8.9	0.6	2.1	0.0	0.3	0.0	4.3		16.2
	86.2	100.4	117.1	76.8	199.6	0.0	4.6		584.7
	6.5	9.0	7.8	25.2	18.6	0.2	1.9	(69.2)	0.0
	92.7	109.4	124.9	102.0	218.2	0.2	6.5	(69.2)	584.7
	1.0	8.0	1.2	8.2	13.8	(1.5)	0.3		31.0
	0.0	0.0	0.0	0.0	0.0	0.0	(10.0)		(10.0)
	1.0	8.0	1.2	8.2	13.8	(1.5)	(9.7)		21.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.3		0.3
	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)		(0.5)
	1.0	8.0	1.2	8.2	13.8	(1.5)	(9.9)		20.8
	0.0	0.0	0.0	0.0	0.0	0.0	(58.0)		(58.0)
	1.0	8.0	1.2	8.2	13.8	(1.5)	(67.9)		(37.2)

¹ Underlying net operating income / (expenditure) is the measure of profit or loss routinely presented to the Board.

² Within operating income / (expenditure) is depreciation, amortisation and impairment expensed as follows:

Note	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
	0.6	0.3	1.5	0.0	0.3	0.0	18.3		21.0
	0.0	0.0	0.0	0.1	0.0	0.0	1.8		1.9
	0.6	0.3	1.5	0.1	0.3	0.0	20.1		22.9

A summary of the business activities provided by the operating segments is as follows:

Chemical, Biological and Radiological (CBR)

The CBR Division provides an integrated chemistry, biology, radiation 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 brings together the key capabilities of C4ISR (including sensors, data processing and information systems communications), cyber and space. By co-working with the Defence and Security Analysis (DSA) Division, the CIS Division delivers to MOD Head Office and Joint Forces Command.

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.

Continued over page ►

Platform Systems (PS)

The PS Division brings together the platform systems, weapons and integrated survivability capabilities. The Division's focus is a single platform-based capability covering all mission and weapons systems, and the related survivability capabilities.

Capability and Delivery Office (CDO)

CDO is a Function within the corporate operating segment, and its role is to work with the Division leadership teams to integrate stewardship of S&T capability and maximise the impact of the S&T Programmes. DST sits within MOD, but outside of the Executive Agency and is responsible for setting the requirements and design of the S&T Portfolio.

Corporate

Main functions and activities include:

- corporate governance, and centralised Functions such as finance and treasury management, human resources, and commercial contracting management
- estate management
- business information 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.

4. Operating income

Income from the sale of goods and services is analysed by major class of customer as follows:

	2018 Executive Agency £ million	2017 Trading Fund £ million
MOD	494.2	535.6
Chief Scientific Adviser	312.3	351.2
Other	181.9	184.4
Non-MOD	47.5	49.1
Wider Government	31.0	32.9
Non-Exchequer income	16.5	16.2
Total	541.7	584.7

Income from the sale of goods and services is categorised according to the main contracted customer. All income from the sale of goods and services relates to the same class of business, which is the supply of scientific and technical services. This is conducted principally in the UK in sterling and no other geographical market has contributed significantly to operating income. See Note 3 for operating segment disclosures.

	2018 Executive Agency £ million	2017 Trading Fund £ million
Other operating income		
Transferred from deferred income for customer-funded non-current assets	0.2	0.3
Other miscellaneous income	1.5	2.4
Total	1.7	2.7

Other operating income excludes recovery of salary costs for outward secondees. This is treated as an off-set against staff costs. See Remuneration and Staff Report on page 65.

5. Other expenditure

Material items charged / (credited) before stating net operating expenditure is as follows:

	2018 Executive Agency £ million	2017 Trading Fund £ million
Staff costs:¹		
Wages and salaries	146.3	143.1
Social security costs (including apprenticeship levy)	16.5	15.7
Other pension costs	29.0	28.6
Other staff costs	9.8	11.9
	201.6	199.3
Other cash items:		
Purchase of direct goods and services	224.8	238.7
Operating lease rentals:		
Property	3.4	3.4
Travel, subsistence and hospitality	3.0	2.8
Training	2.0	2.3
Professional services	3.0	3.7
Doubtful debt provision ²	0.3	(0.2)
Foreign exchange (gains) / losses	0.2	(0.2)
Purchase of other indirect goods and services	94.8	91.3
Total cash costs	533.1	541.1
Non-cash items:		
Depreciation and impairment charge for year:	37.0	21.0
Depreciation of owned property, plant and equipment	15.9	16.4
Exceptional costs of impairment of property, plant and equipment	14.2	4.0
Exceptional costs of reversal of impairment of property, plant and equipment	0.0	(0.1)
Adjustment valuation of property, plant and equipment	6.9	0.7
Amortisation and impairment charge for the year:	3.0	1.9
Amortisation of software licences	1.7	1.9
Exceptional costs of impairment of intangible assets	1.2	0.0
Adjustment valuation of software licences	0.1	0.0
Loss on disposal of owned property, plant and equipment	0.3	0.0
Impairment of non-current financial asset investment ³	1.9	0.0
Auditor's remuneration and expenses ⁴	0.1	0.1
Provisions provided in year	3.4	2.4
Provisions not required written-back	0.0	(0.1)
Total non-cash costs	45.7	25.3

¹ Staff costs are disclosed in more detail in the Remuneration and Staff Report on page 65.

² This relates to debt held with Ploughshare. A full provision has been maintained.

³ Impairment of the carrying value of the Agency's investment in Ploughshare. See Note 11.

⁴ The notional audit fee for 2017/18 is £84,000 (2016/17 £74,500). During the year, the Agency did not contract any non-audit services from its external auditor, the National Audit Office (NAO).

6. 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 considered material. They warrant supplementary disclosure to aid users' 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.

	2018 Executive Agency £ million	2017 Trading Fund £ million
Helios ¹	6.1	5.5
Impairment of assets under construction ²	1.2	2.7
Facilities Management Service (FMS) transition ³	0.0	1.8
Impairment of non-current financial asset ⁴	1.9	0.0
Charge for back-dated VAT due ⁵	4.3	0.0

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

² Impairment of Identity Access Management project, an intangible asset. See losses and special payments on page 69. The comparative relates to impairment of property, plant and equipment.

³ One-off costs for contract transition and changes to service delivery mechanisms.

⁴ Impairment of the carrying value of the Agency's investment in Ploughshare. See Note 11.

⁵ Charge due to incorrect VAT treatment applied in prior accounting periods. This includes £0.2 million of interest. See losses and special payments on page 69.

7. Finance income

	2018 Executive Agency £ million	2017 Trading Fund £ million
Interest received and receivable from bank accounts and short-term deposits	0.1	0.3
Total	0.1	0.3

8. Finance expense

	2018 Executive Agency £ million	2017 Trading Fund £ million
Interest paid and payable on loans	0.0	0.5
Total	0.0	0.5

One payment of £84 was made under the *Late Payments of Commercial Debts (Interest) Act 1998* (2016/17: £883).

9. Dividends

	2018 Executive Agency £ million	2017 Trading Fund £ million
Ordinary dividend payable	0.0	58.0
Total	0.0	58.0

Dividends payable to MOD were set by agreement with the Secretary of State for Defence and are not applicable to the Executive Agency.

10. Property, plant and equipment

Property, plant and equipment movements during the year were as follows:

	Note	Land £ million	Buildings £ million	Plant and machinery £ million	Transport £ million	IT communication equipment £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic cost:								
Trading Fund Balance at 1 April 2016		41.5	194.3	96.9	1.4	36.4	58.9	429.4
Additions		0.0	0.0	0.2	0.0	0.0	32.1	32.3
Disposals		0.0	(1.2)	(0.8)	0.0	(1.0)	0.0	(3.0)
(Transfers) / additions		0.0	8.7	3.7	0.0	5.1	(17.5)	0.0
Reclassified as non-capital spend		0.0	0.0	0.0	0.0	0.0	(0.3)	(0.3)
Downward revaluation		0.0	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Revaluations		1.1	1.7	1.6	0.0	0.0	0.0	4.4
Impairment		0.0	0.0	0.0	0.0	0.0	(2.7)	(2.7)
Trading Fund Balance at 31 March 2017		42.6	203.5	101.6	1.4	40.4	70.5	460.0
Transfers to Executive Agency on 1 April 2017	2	42.6	203.5	101.6	1.4	40.4	70.5	460.0
Adjustments applied following transfer to Executive Agency	2	0.0	(35.7)	(72.1)	(1.2)	(23.6)	0.0	(132.6)
Transfers between asset class		0.0	0.5	(0.5)	0.0	0.0	0.0	0.0
Additions		0.0	0.0	0.0	0.0	0.0	57.3	57.3
(Transfers) / Additions		0.0	32.1	1.7	0.0	2.3	(36.1)	0.0
Disposals		0.0	(0.4)	0.0	0.0	0.0	0.0	(0.4)
Revaluations		51.8	61.7	1.4	0.0	1.5	0.0	116.4
Executive Agency Balance at 31 March 2018		94.4	261.7	32.1	0.2	20.6	91.7	500.7
Depreciation:								
Trading Fund Balance at 1 April 2016		0.0	(35.9)	(65.6)	(1.1)	(18.6)	0.0	(121.2)
Charge for year:								
historical		0.0	(5.7)	(4.7)	(0.1)	(5.9)	0.0	(16.4)
supplementary		0.0	(1.1)	(1.4)	0.0	(0.1)	0.0	(2.6)
impairment		0.0	(0.1)	(1.2)	0.0	0.0	0.0	(1.3)
Disposals		0.0	1.1	0.8	0.0	1.0	0.0	2.9
Revaluations		0.0	6.0	0.0	0.0	0.0	0.0	6.0
Trading Fund Balance at 31 March 2017		0.0	(35.7)	(72.1)	(1.2)	(23.6)	0.0	(132.6)
Transfers to Executive Agency on 1 April 2017	2	0.0	(35.7)	(72.1)	(1.2)	(23.6)	0.0	(132.6)
Adjustments applied following transfer to Executive Agency	2	0.0	35.7	72.1	1.2	23.6	0.0	132.6
Charge for year:								
historical		0.0	(5.1)	(4.8)	(0.1)	(5.9)	0.0	(15.9)
supplementary		0.0	(5.7)	(0.6)	0.0	(0.6)	0.0	(6.9)
impairment	13	0.0	(14.2)	0.0	0.0	0.0	0.0	(14.2)
Disposals		0.0	0.1	0.0	0.0	0.0	0.0	0.1
Executive Agency Balance at 31 March 2018		0.0	(24.9)	(5.4)	(0.1)	(6.5)	0.0	(36.9)
Net modified historic cost:								
Executive Agency Balance at 31 March 2018		94.4	236.8	26.7	0.1	14.1	91.7	463.8
Trading Fund Balance at 1 April 2017		42.6	167.8	29.5	0.2	16.8	70.5	327.4

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Land and buildings are subject to a quinquennial revaluation by an independent, professional valuer in accordance with IAS16: Property, Plant and Equipment. Please refer to the Accounting Policy Notes 1(d) and 1(f) for 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 2017. The land and building assets at Porton Down were valued by the VOA as at 1 November 2017.

This was the first time the VOA had performed a valuation of the Executive Agency's property assets, and a few significant impairments were made. In particular, the headquarters at Porton Down, Building 005, was impaired through other comprehensive net expenditure by £9.8 million and then through profit or loss by £4.2 million, and the main building at Portsdown West, Grenville Building, was impaired through other comprehensive net expenditure by £13.2 million and then through profit or loss by £8.4 million. The land at Porton Down had an upward valuation of £51.3 million due to the adoption of the Alternative Site Approach as explained in Note 1(d)(i).

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

Within the Trading Fund 2016/17 figures, the Biological High Containment Facility had been valued at £6.6 million (buildings £0.4 million; plant and machinery £6.2 million) on a value-in-use basis. From 1 April 2017, the Executive Agency adopted Depreciated Replacement Cost method of valuation for the building, with the application of indices provided by Defence Statistics between independent professional quinquennial valuations. The building assets were valued by VOA as at 1 November 2017. For the plant and equipment assets, appropriate indices provided by Defence Statistics have been applied. See Note 1(d)(i). The carrying value of the facility at year end is £50.6 million (buildings £44.7 million; plant and machinery £5.9 million).

11. Non-current financial assets

	Note	Subsidiary undertaking £ million
Transfer to Executive Agency on 1 April 2017	2	3.7
Impairment	13	(1.9)
Balance at 31 March 2018		1.8

The Executive Agency's wholly owned subsidiary, Ploughshare, is not consolidated on grounds of materiality. See Note 1(d)(i). The Agency assessed the value of its investment in Ploughshare, which resulted in an impairment of £1.9 million. See Note 1(d)(ii) for details of the approach taken to calculate the recoverable amount. Following this approach, Ploughshare's long-term liabilities are excluded from the assessment because they are payable to the Agency, for which the Agency holds a full doubtful debt provision. Ploughshare's fair value is considered to be the value of its net current assets resulting in an impairment when compared with the previous carry value of the investment.

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

12. Intangible assets

Intangible asset movements during the year were:

	Note	Purchased software licences £ million	Software assets under construction £ million	Total £ million
Gross modified historic cost:				
Trading Fund Balance at 1 April 2016		13.0	2.7	15.7
Additions		0.0	0.5	0.5
(Transfers) / additions		1.5	(1.5)	0.0
Revaluations		0.2	0.0	0.2
Trading Fund Balance at 31 March 2017		14.7	1.7	16.4
Transfers to Executive Agency on 1 April 2017				
Adjustments applied following transfer to Executive Agency	2	14.7	1.7	16.4
Adjustments applied following transfer to Executive Agency	2	(9.8)	0.0	(9.8)
Additions		0.0	0.5	0.5
Revaluations		0.4		0.4
Impairment	13		(1.2)	(1.2)
Executive Agency Balance at 31 March 2018		5.3	1.0	6.3
Amortisation:				
Trading Fund Balance at 1 April 2016		(7.7)	0.0	(7.7)
Charge for year:				
historical		(1.9)	0.0	(1.9)
supplementary		(0.2)	0.0	(0.2)
Trading Fund Balance at 31 March 2017		(9.8)	0.0	(9.8)
Transfers to Executive Agency on 1 April 2017				
Adjustments applied following transfer to Executive Agency	2	(9.8)	0.0	(9.8)
Adjustments applied following transfer to Executive Agency	2	9.8	0.0	9.8
Charge for year:				
historical		(1.7)		(1.7)
supplementary		(0.1)		(0.1)
Executive Agency Balance at 31 March 2018		(1.8)	0.0	(1.8)
Net modified historic cost:				
Executive Agency Balance at 31 March 2018		3.5	1.0	4.5
Trading Fund Balance at 1 April 2017		4.9	1.7	6.6

13. Impairments

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

	2018 Executive Agency	2017 Trading Fund	2018 Executive Agency	2017 Trading Fund
	Profit or Loss £ million	Profit or Loss £ million	Other Comprehensive Net Expenditure £ million	Other Comprehensive Net Expenditure £ million
Assets under construction ¹	1.2	2.7	0.0	0.0
Investment in non-current financial asset ²	1.9	0.0	0.0	0.0
Quinquennial revaluation of property ³	14.2	(0.1)	27.6	0.1
Total	17.3	2.6	27.6	0.1

¹ See losses and special payments on page 69. The current year asset under construction impairment relates to intangible software. See Note 12. The prior year asset under construction impairment relates to property, plant and equipment. See Note 10.

² See Note 11.

³ See Note 10.

14. Work in progress

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Transfer to Executive Agency on 1 April 2017	2	0.1	
Movement for year		0.2	
Total work in progress		0.3	0.1
Central Government bodies		0.1	0.0
Non-public sector organisations		0.2	0.1

15. Trade receivables and other assets

Amounts falling due within one year:

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Trade receivables			
Transfer to Executive Agency on 1 April 2017	2	190.4	
Adjustments applied following transfer to Executive Agency	2	(149.5)	
Movement for year		(29.4)	
Total trade receivables		11.5	190.4
Central Government bodies		10.2	187.1
Non-public sector organisations		1.3	3.3
Amounts recoverable under contracts			
Transfer to Executive Agency on 1 April 2017	2	8.8	
Movement for year		(1.8)	
Total amounts recoverable under contract		7.0	8.8
Central Government bodies		4.0	6.6
Non-public sector organisations		3.0	2.2
Deposits and advances – staff receivables			
Transfer to Executive Agency on 1 April 2017	2	0.4	
Movement for year		(0.1)	
Total deposits and advances – staff receivables		0.3	0.4
Other receivables			
Transfer to Executive Agency on 1 April 2017	2	0.4	
Movement for year		0.2	
Total other receivables		0.6	0.4
Central Government bodies		0.5	0.4
Non-public sector organisations		0.1	0.0
Prepayments and accrued income			
Transfer to Executive Agency on 1 April 2017	2	7.0	
Movement for year		0.4	
Total prepayments and accrued income		7.4	7.0
Central Government bodies		0.3	0.0
Local authorities		1.6	1.1
Non-public sector organisations		5.5	5.9
Total		26.8	207.0

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Amounts falling due after more than one year:

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Deposits and advances – staff receivables			
Transfer to Executive Agency on 1 April 2017	2	0.4	
Movement for year		0.0	
Total deposits and advances – staff receivables		0.4	0.4
Other receivables – Central Government bodies			
Transfer to Executive Agency on 1 April 2017	2	0.1	
Movement for year		0.0	
Total other receivables		0.1	0.1
Central Government bodies		0.1	0.1
Prepayments and accrued income			
Transfer to Executive Agency on 1 April 2017	2	1.6	
Movement for year		(1.1)	
Total prepayments and accrued income		0.5	1.6
Non-public sector organisations		0.5	1.6
Total		1.0	2.1

16. Cash and cash equivalents

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Transfer to Executive Agency on 1 April 2017	2	5.1	
		5.1	76.9
Net change in cash and cash equivalent balances		13.8	(71.8)
Balance carried forward		18.9	5.1
The following balances were held at:			
Government Banking Service		16.8	0.0
Commercial banks		2.1	5.1
Balance carried forward		18.9	5.1

17. Trade payables and other liabilities

Amounts falling due within one year:

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Value Added Tax (VAT)			
Transfer to Executive Agency on 1 April 2017	2	37.7	
Movement for year		(37.7)	
Total VAT		0.0	37.7
Other taxation and social security			
Transfer to Executive Agency on 1 April 2017	2	5.9	
Movement for year		(4.2)	
Total other taxation and social security		1.7	5.9
Payments received on account			
Transfer to Executive Agency on 1 April 2017	2	5.9	
Movement for year		0.7	
Total payments received on account		6.6	5.9
Central Government bodies		0.4	0.9
Non-public sector organisations		6.2	5.0
Trade payables			
Transfer to Executive Agency on 1 April 2017	2	12.3	
Movement for year		11.6	
Total trade payables		23.9	12.3
Central Government bodies		1.0	0.1
Local authorities		2.7	1.8
Non-public sector organisations		20.2	10.4
Other payables			
Transfer to Executive Agency on 1 April 2017	2	4.7	
Movement for year		(3.3)	
Total other payables		1.4	4.7
Central Government bodies		1.4	4.6
Non-public sector organisations		0.0	0.1
Pay and expenses – staff payables			
Transfer to Executive Agency on 1 April 2017	2	3.7	
Movement for year		0.2	
Total pay and expenses – staff payables		3.9	3.7

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	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Accruals and deferred income			
Transfer to Executive Agency on 1 April 2017	2	72.1	
Adjustments applied following transfer to Executive Agency	2	(0.2)	
Movement for year		(0.5)	
Total accruals and deferred income		71.4	72.1
Central Government bodies		3.4	5.3
Trading Funds		0.0	0.1
NHS Trusts		0.1	0.0
Local authorities		8.3	9.1
Non-public sector organisations		57.9	53.3
Staff		1.7	4.3
Dividend			
Transfer to Executive Agency on 1 April 2017	2	58.0	
Adjustments applied following transfer to Executive Agency	2	(58.0)	
Total Dividend		0.0	58.0
Total		108.9	200.3

Amounts falling due after more than one year:

	Note	2018 Executive Agency £ million	2017 Trading Fund £ million
Accruals and deferred income			
Transfer to Executive Agency on 1 April 2017	2	1.6	
Adjustments applied following transfer to Executive Agency	2	(0.4)	
Movement for year		0.3	
Total accruals and deferred income		1.5	1.6
Central Government bodies		1.2	1.6
Local authorities		0.2	0.0
Non-public sector organisations		0.1	0.0
Total		1.5	1.6

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

18. Provisions for liabilities and charges

	Note	Onerous contract £ million	Fair Deal pension shortfall £ million	Supplier claims £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Transfer from MOD to Executive Agency on 1 April 2017	2	1.1	0.0	0.0	0.1	0.0	1.5	2.7
Provided in the year		0.1	0.5	0.3	0.2	0.1	2.2	3.4
Provisions utilised in the year		0.0	0.0	0.0	(0.3)	(0.1)	(3.4)	(3.8)
Balance at 31 March 2018		1.2	0.5	0.3	0.0	0.0	0.3	2.3

Analysis of expected timing of cash flows:

	Note	Onerous contract £ million	Fair Deal pension shortfall £ million	Supplier claims £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2018 and 31 March 2019		0.0	0.5	0.3	0.0	0.1	0.2	1.1
Between 1 April 2020 and 31 March 2025		1.2	0.0	0.0	0.0	0.0	0.0	1.2
Balance at 31 March 2018		1.2	0.5	0.3	0.0	0.1	0.2	2.3

No amounts are expected to be called after 31 March 2025 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.

Onerous contract

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 Farnborough lease to beyond a year. The current expiry date of the lease is 31 March 2020, and therefore utilisation of the provision may not be until beyond this date.

Fair Deal pension arrangements

Eleven staff who transferred from the Executive Agency to outside of the public sector are entitled to access to a public sector pension under the Fair Deal staff pension arrangements. The Government Actuary's Department has estimated a shortfall in pension funding when the staff transfer back into the public sector pension arrangements during 2018/19. The Agency is liable for topping up the funding shortfall.

Supplier claims

The Executive Agency has two legal claims from suppliers. The Agency expects to negotiate settlements during 2018/19.

i lab (rationalisation programme) provisions

Due to the Executive Agency's withdrawal from the Farnborough and Malvern sites, there have been redundancies for some non-mobile staff. A liability of less than £0.1 million will remain after this date, until the year ending 31 March 2020.

Helios Project provisions

Due to a phased withdrawal from the Fort Halstead site, there have been some voluntary early departures agreed during the year for non-mobile staff.

Early departure costs

The Executive Agency meets the additional costs 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 Executive Agency provides for this in full when the early departure agreement becomes binding. Payment values are established by My Civil Service Pension. During the year there was one targeted voluntary early exit scheme, which cost £1.1 million (and has been fully utilised), and others amounting to £1.0 million.

Continued over page ►

The Trading Fund comparatives for the year ended 31 March 2017 are:

	Onerous contract £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2016	1.1	0.1	0.2	0.0	0.1	1.5
Provided in the year	0.2	0.0	0.2	0.2	1.8	2.4
Provisions not required written-back	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Provisions utilised in the year	(0.2)	(0.1)	(0.3)	(0.1)	(0.4)	(1.1)
Balance at 31 March 2017	1.1	0.0	0.1	0.0	1.5	2.7

Analysis of expected timing of cash flows:

	Onerous contract £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2017 and 31 March 2018	0.0	0.0	0.1	0.0	1.4	1.5
Between 1 April 2018 and 31 March 2019	0.0	0.0	0.0	0.0	0.1	0.1
Between 1 April 2019 and 31 March 2024	1.1	0.0	0.0	0.0	0.0	1.1
Balance at 31 March 2017	1.1	0.0	0.1	0.0	1.5	2.7

19. Long-term loans

	2018 Executive Agency £ million	2017 Trading Fund £ million
Balance brought forward	0.0	12.9
Repayment of loan	0.0	(12.9)
Balance carried forward	0.0	0.0

As part of the revocation of the Trading Fund, both loans were repaid in full during the year ending 31 March 2017.

20. Commitments under leases

Operating leases

Commitments under non-cancellable operating leases to pay rentals after 31 March 2018 are analysed as follows:

	2018 Executive Agency £ million	2017 Trading Fund £ million
Property:		
Due within one year	4.1	3.4
Due after one year but within five years	15.0	12.5
Total	19.1	15.9

From 1 April 2017, the Executive Agency is no longer able to recover VAT charged by lessors, thus increasing the value of the future liability.

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.

21. Capital commitments

	2018 Executive Agency £ million	2017 Trading Fund £ million
Property, plant and equipment:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	20.9	12.8
Capital expenditure that has been authorised but has not been provided for in the accounts	109.0	49.2
Intangible assets:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	0.0	0.6
Capital expenditure that has been authorised but has not been provided for in the accounts	0.0	0.4

During the year, 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. The Core Enclosure element of the original Helios Project and the Chemical Weapons Defence Centre have completed the design phase but are still to be contracted.

Within the approved £205.0 million capital authorisation, £79.0 million has been capitalised, £18.2 million has been contracted for but has not been provided for, and £107.8 million has been provisionally authorised subject to final contract agreement.

22. Financial instruments

Financial assets and liabilities are recognised where the Executive Agency has become a party to contractual terms of a financial instrument. 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 90 per cent of the Agency's sales is 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 Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged throughout the year.

It has been the Agency's policy throughout the year that no trading in financial instruments should be undertaken.

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 Executive Agency's investment in its wholly owned subsidiary is classified as a non-current financial asset. See Note 11.

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 7 and 8.

No capital disclosures are necessary. A buffer for risk to creditors does not arise because public sector financing is tax based.

23. Public dividend capital

During March 2017, the public dividend capital was paid to MOD as part of the process of cessation of the Trading Fund (£50.4 million).

24. 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 Executive 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:

	2018 Executive Agency £'000	2017 Trading Fund £'000
Operating income	494,721.9	544,626.0
Purchases	19,117.0	24,991.5
Receivables	0.0	183,739.3
Payables	639.2	61,310.5

Ploughshare Innovations Ltd

Ploughshare is a wholly owned subsidiary undertaking of the Executive Agency. During the year, the following trading occurred with Ploughshare, which is carried out under standard contract terms:

	2018 Executive Agency £'000	2017 Trading Fund £'000
Operating income	197.3	342.4
Purchases	136.8	103.9
Receivables	71.5	112.1
Payables	0.0	0.0

A full doubtful debt provision has been maintained to include sales made to Ploughshare during the year. This has resulted in a total provision of £2,228.2 thousand (2016/17: £1,887.7 thousand), and a charge to SoCNE of £274.9 thousand. During the previous year, Ploughshare had made a repayment that resulted in a net credit to SoCNE of £217.8 thousand.

Tetricus Ltd

Tetricus Limited is an associate of the Executive Agency. During the year, the following trading occurred with Tetricus Limited, which is carried out under standard contract terms:

	2018 Executive Agency £'000	2017 Trading Fund £'000
Operating income	150.2	181.1
Purchases	0.0	0.0
Receivables	34.9	51.1
Payables	0.0	0.0

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 Executive 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 ¹		Trade Receivables ¹		Trade Payables ¹	
	2018	2017	2018	2017	2018	2017	2018	2017
	Executive Agency £'000	Trading Fund £'000	Executive Agency £'000	Trading Fund £'000	Executive Agency £'000	Trading Fund £'000	Executive Agency £'000	Trading Fund £'000
Cabinet Office (excluding My Civil Service Pension)	170.4	0.0	12.7	157.2	72.8	0.0	0.0	84.5
Centre for Applied Science and Technology	0.0	0.0	145.1	0.0	0.0	0.0	0.0	11.4
Centre for the Protection of National Infrastructure	2,231.9	1,084.1	121.0	79.9	801.8	178.4	121.0	72.0
Defence Electronics and Components Agency	13.7	13.2	0.0	0.0	0.0	6.4	0.0	0.0
Department for Energy and Climate Change	67.9	64.2	0.0	0.0	0.0	21.0	0.0	0.0
Department for the Environment, Food and Rural Affairs	14.0	23.7	176.1	13.1	19.1	0.1	0.0	0.0
Department for Transport	6,783.4	4,309.1	0.0	0.0	2,099.6	1,200.2	0.0	52.3
Drinking Water Inspectorate	93.5	0.0	0.0	0.0	112.2	0.0	0.0	0.0
Economic and Social Research Council	0.0	0.0	0.0	80.5	0.0	0.0	0.0	0.0
Engineering and Physical Sciences Research Council	0.0	0.0	1,409.2	1,705.8	0.0	0.0	255.9	42.0
Foreign and Commonwealth Office	176.7	192.7	0.0	37.9	48.0	44.2	0.0	12.0
Government Communications Bureau	196.2	10.7	947.0	1,683.2	51.0	1,725.8	0.0	140.8
Government Communications Centre	3,932.9	5,712.6	133.8	643.7	413.0	2,044.1	103.0	1.2
Government Legal Department	71.0	0.0	24.7	48.6	50.3	0.0	4.2	0.0
Health and Safety Executive	6.8	0.0	0.0	0.0	8.2	0.0	0.0	0.0
Health and Safety Laboratory	0.0	0.0	10.7	96.9	0.0	0.0	0.0	2.9
Home Office	15,691.2	9,270.7	83.3	79.9	5,389.9	2,642.4	2.0	498.1
Innovate UK	0.0	0.0	946.0	0.0	14.8	0.0	258.5	0.0
Medical Research Council	3.4	8.7	0.0	33.0	81.9	8.7	0.0	0.0
Meteorological Office	1.9	46.4	323.7	1,038.4	0.0	0.0	11.7	149.3
Natural Environment Research Council	0.0	0.0	0.0	108.8	0.0	0.0	0.0	0.0
Public Health England	194.6	539.9	2,603.1	367.2	465.8	129.9	229.7	117.8
Science and Technology Facilities Council	0.0	0.0	538.7	1,598.3	0.0	0.0	14.5	79.9
UK Space Agency	1,365.0	1,225.4	0.0	0.0	79.2	850.0	0.0	0.0
Cabinet Office – My Civil Service Pension ²	0.0	0.0	0.0	38,787.8	0.0	0.0	0.0	6,046.1
HM Revenue and Customs ² :								
Employer's and Employees' Income Tax and National Insurance	0.0	0.0	0.0	49,610.3	0.0	0.0	0.0	6,274.3
VAT	0.0	0.0	0.0	45,450.3	0.0	0.0	0.0	37,714.3

No Minister, Board member, key manager or other related parties has undertaken any material transactions with the Executive Agency during the year. Any compensation paid to senior management is disclosed in the Remuneration Report.

¹ Purchases are represented by invoices processed through the purchase ledger during the year. No account of movements in accruals is taken. Previously, the Trading Fund reported all payments including accruals movements. 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 Executive Agency's related parties.

² Tax and pension payments are made by MOD on behalf of the Agency.

25. Contingent liabilities

There were no contingent liabilities at 31 March 2018 or 31 March 2017 (as the Trading Fund). For remote contingent liabilities, see comments on page 69.

26. Events after the reporting period

From 1 April 2018, Dstl became responsible for the staff and operations of the Home Office Centre for Applied Science and Technology (CAST). In the first year of operation, this is expected to add up to 160 staff to Dstl's civilian workforce, and an additional £14.0 million of operating income in the form of sales to the Home Office and previous CAST customers. Transitional non-recurring costs will be borne by the Home Office, including any incremental capital investment required at Dstl sites to accommodate former CAST S&T requirements. Staff will become integrated with existing Dstl teams over time to provide a single merged capability to support the combined S&T needs of defence and security. Over the course of the next two years, it is planned to migrate operating capabilities to Dstl's core sites, leading to the eventual vacation of the Home Office's two sites at Sandridge, Hertfordshire, and Langhurst, West Sussex. In the meantime, the Home Office retains ownership and responsibility for the maintenance of the two former CAST sites and will control and fund any decision regarding their subsequent use or disposal.

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

Glossary

BPR

Business Performance Report

CAST

Centre for Applied Science and Technology

CETV

Cash Equivalent Transfer Value

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

DST

Defence Science and Technology

EEl

Employee Engagement Index

FOI

Freedom of Information

FReM

Financial Reporting Manual

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

ISO

International Organisation for Standardisation

IS

Information Systems

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

NISS

New IS Service Solution

P3

Portfolio, Programme and Project

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

SSRB

Review Body on Senior Salaries

SSRC

Strategic Security Risk Coordinator

SSSI

Site of Special Scientific Interest

STEM

Science, Technology, Engineering and Mathematics

UTC

University Technical College

