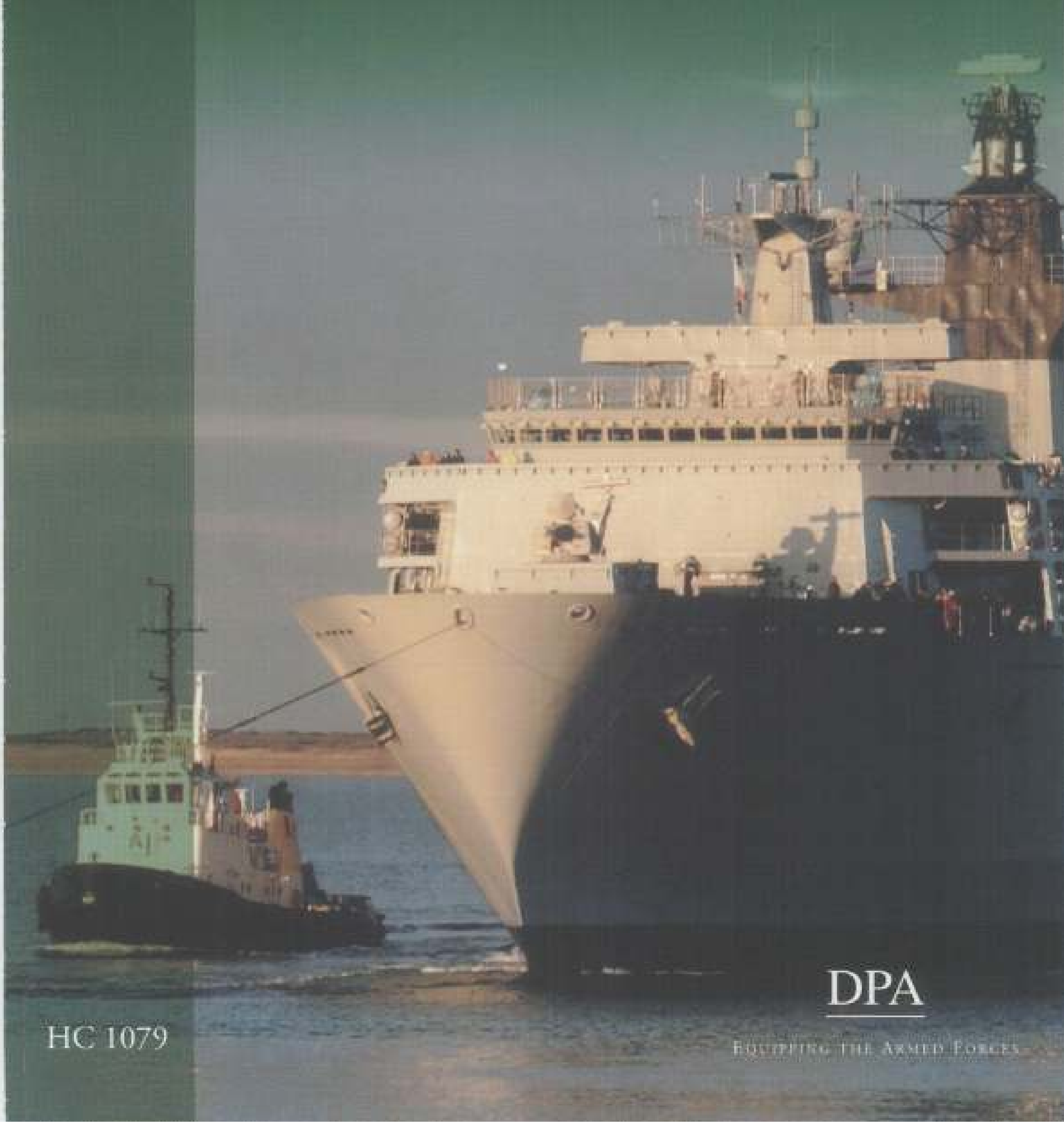
Defence Procurement Agency

Annual Report and Accounts 2003/2004



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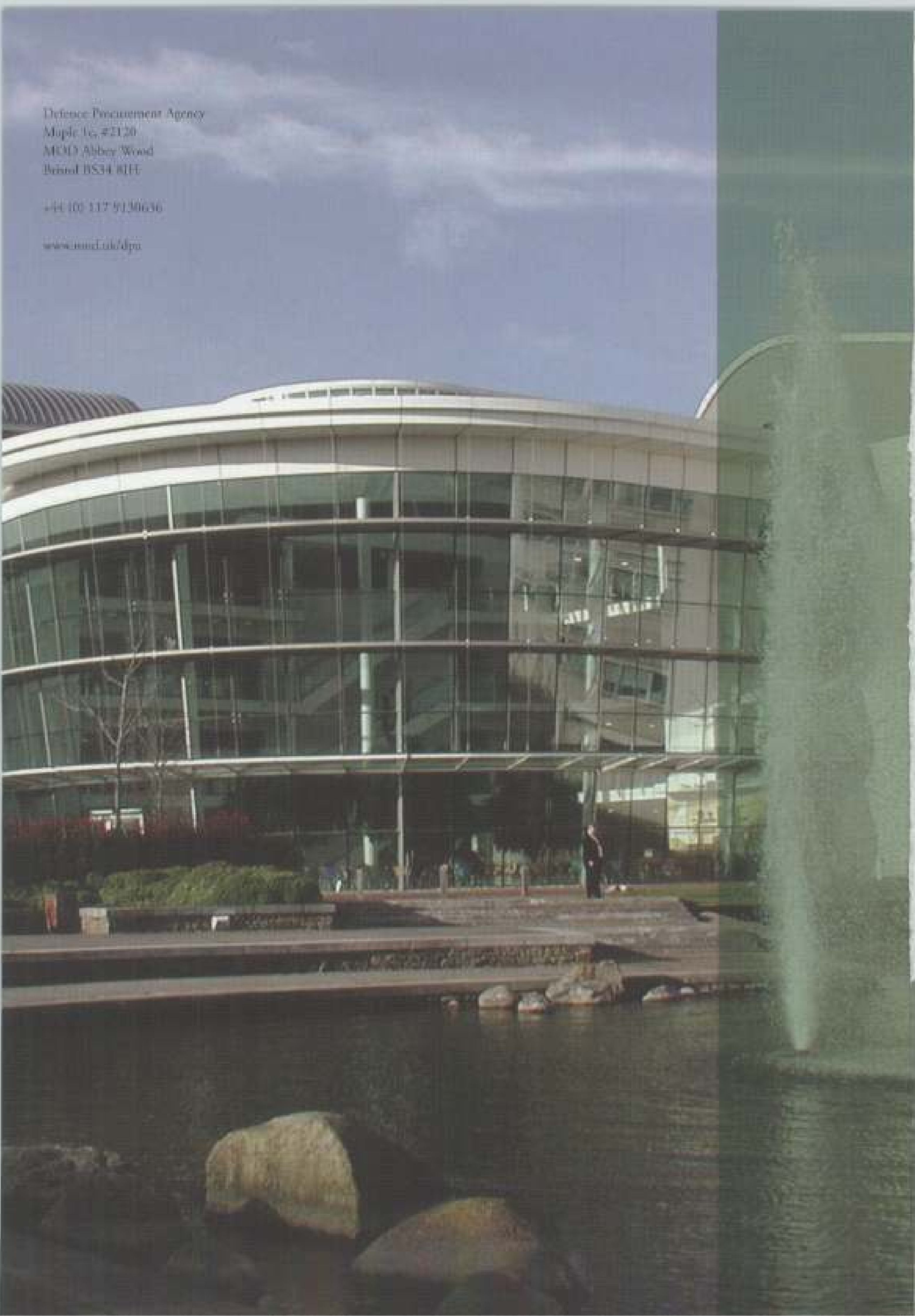
DPA

EQUIPPING THE ARMED FORCES



Defence Procurement Agency
Maple 1c, #2120
MOD Abbey Wood
Bristol BS34 8JH

+44 (0) 117 9130636

www.mod.uk/dpa

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DPA

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Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000
Ordered by the House of Commons to be printed 18th October 2004

HC 1079 London: The Stationery Office £16.60

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FOREWORD

By the Chief Executive

This is my second annual report as Chief Executive of the Defence Procurement Agency, and is the first covering my own period of stewardship. During the year 2003/04 the Agency achieved its Key Targets for equipment performance and the control of its operating costs but failed to achieve its Targets on programme slippage, cost growth, and customer satisfaction.

Despite these disappointing overall results, many programmes were delivered to time and to cost, and Ministers have congratulated those teams that delivered Urgent Operational Requirements to fielded Forces during Operation Telic. DPA staff can also take much credit for many individual success stories amongst the generally excellent performance of much of the equipment used by British Armed Forces during combat and in subsequent operations in Iraq, on land, at sea and in the air. There is also no doubt that the delivery of equipment valued at £3.7bn during the year did much to enhance the combat capabilities of our Armed Forces.

But failure to meet three Key Targets is incontrovertible evidence that the Agency has yet to deliver the full benefits of the SMART Acquisition reforms introduced 5 years ago. One of my first actions on taking over as Chief Executive in May 2003, was to initiate the first major review of the Agency's performance since its establishment in 1999. The review identified both strengths on which we could build and weaknesses that needed to be addressed. Based on this work, we are now introducing a major programme of fundamental change to both our processes and our organisation. We shall also enhance the specialist skills of the very talented and determined people that work in the DPA, and develop better relationships with our customers and partners across defence acquisition and with our suppliers.

I am very grateful for the support I have received for this change programme from Lord Bach, who fulfils the function of Agency owner, and from personnel at all levels across MOD, including within the Agency itself and from senior executives across industry. None of them underestimate the challenge that lies ahead. But together we can and must do considerably better in future.

Peter Spencer.

Peter Spencer
20th July 2004

Overview of the Year

Our Mission:

To equip the Armed Forces.

Our Vision:

To excel in delivering equipment to the Armed Forces by meeting our promises to our customers and developing the excellence of our people.

Our Values:

Excellence - We must be performance driven, seeking continuous improvement and striving for excellence in all that we do. We can only measure excellence against the achievement of the results our customers want.

Meeting promises to customers - We must be focused on understanding and meeting our customers' needs.

Valuing our people - We value the diversity of our people and seek to develop their potential by recognising their needs, supporting their aspirations and rewarding their achievements.

Integrity - Underlying everything we do is the need to act with integrity, honesty and transparency within our teams and with our customers and suppliers, working together to achieve our mission.

Finance

2003/2004 Financial Summary (£M)	
Equipment procurement	
Operating Costs	1,980
Net assets	15,948
Operating costs and nuclear programme	
Operating Costs	2,892
Net assets	(2,492)

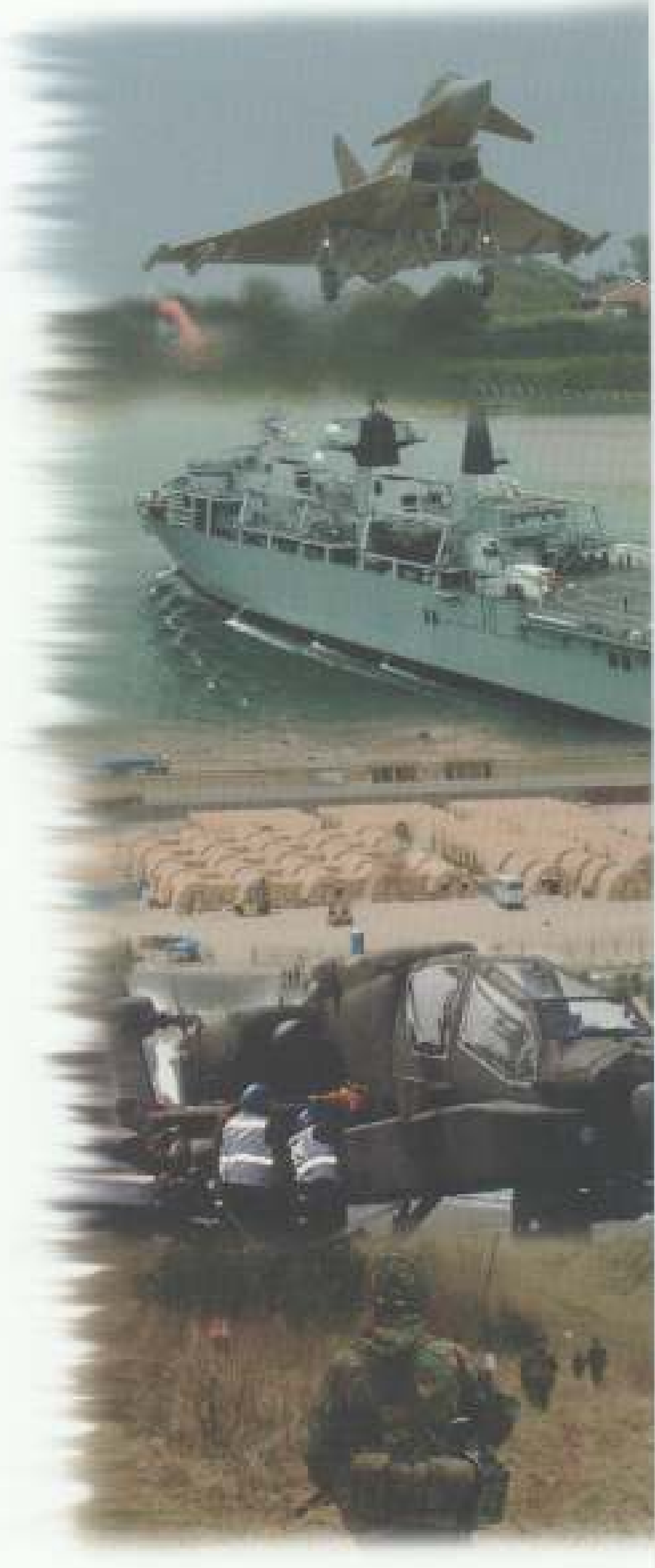
People

Analysis of DPA Personnel at 31st March 2004

Category	Men	Women	Total
Military	725	13	738
Civilian Engineers & Scientists	1,916	91	2,007
Civilian Administration:			
Total	906	824	1,730
Including: Accountancy	73	24	97
Finance	186	169	355
Commercial	217	114	331
Other	430	517	947
Miscellaneous Groups	132	11	143
Total	3,679	939	4,618

Equipment Deliveries

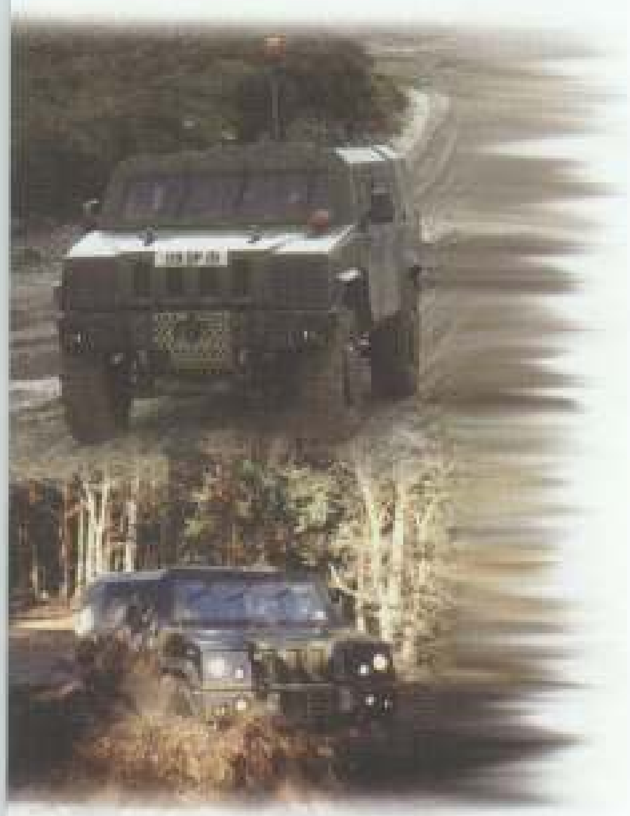
The agency delivered equipment valued at £3.750 billion during the course of the financial year. Highlights are listed below.



- The first four Typhoon combat aircraft, of 55 now on order, were delivered to the RAF. These aircraft are being put through their paces in an intensive and demanding flight test programme as Typhoon is prepared for entry into squadron service.
- The final ten modified Tornado GR4a Reconnaissance aircraft were delivered to the RAF, concluding the £1 billion Tornado Mid Life Update, which has equipped this potent and versatile aircraft for service out to around 2020.
- The first of class of two large and powerful new assault ships, HMS Albion, was delivered to the Royal Navy. The 18,500 tonne ship has since proved her advanced capabilities as a command and control vessel in amphibious warfare exercises off Norway.
- The lead elements of 12 Mechanised Brigade were equipped with Bowman battlefield communications equipment, allowing large scale trials and collective training – the start of a programme for the replacement and improvement of tactical voice and data equipment across all three services.
- The MOD took delivery of its Strategic Sealift service 20 months ahead of its target date, following delivery of the last of six Roll-On Roll-Off (RoRo) cargo vessels to the contractor who will operate this PFI service.
- Versatile Temporary Deployable Accommodation camps were delivered to troops as an Urgent Operational Requirement in Iraq a year ahead of the original schedule.
- Light Machine Guns were delivered to Army infantry battalions and the Royal Marines to improve section firepower and complement other improvements, such as the Under Slung Grenade Launcher.
- Continued deliveries to the RAF of the advanced and potent ASRAAM short range air to air missile to equip the Tornado F3 fighter and, in due course, Typhoon.
- Ten more Apache attack helicopters were delivered to the British Army as it prepares for the deployment of the first operational squadron.

Projects obtaining Main Gate Approval

During the year a number of DPA projects obtained Main Gate approval to move into the Demonstration and Manufacture Phase. These included:



- The Future Command Liaison Vehicle – a new "go anywhere" air transportable medium weight vehicle – will carry out reconnaissance, command and liaison work in support of medium and heavy forces.
- Precision Guided Bomb – the world's most advanced "fire and forget" precision bomb will give attack aircraft greatly enhanced accuracy in all weather conditions.
- Soothsayer – this will give the Army and Royal Marines the world's most advanced tactical electronic warfare equipment. Soothsayer detects and identifies radio and radar signals used on the battlefield.
- CONLOG – this will deliver improved logistic and infrastructure support for military operations and exercises across the world, alongside the MOD's Permanent Joint Headquarters (PJHQ), under a seven-year partnering arrangement with industry.
- C Vehicles PFI – under this programme, industry will provide all heavy plant equipment, logistic support and construction machines required by the Armed Forces over the next 15 years under this PFI deal.
- Guided Multiple Launch Rocket System – this will provide Army rocker artillery units with a precision weapon with more than double the range of the existing unguided rocket munition.

Other Highlights

Other significant achievements during 2003/4 included:

- Contract award for Skynet 5 PFI satellite communications service.
- Selection of Hawk 128 as Advanced Jet Trainer for the Royal Air Force and the Royal Navy.
- Acceptance into service of two large Auxiliary Oiler tankers and one Survey Vessel.
- MOD contract signature on the multinational A400M military transport programme, of which 25 are planned for the RAF.
- Opening by the Secretary of State of the new VT Group shipyard for construction of Type 45 destroyer blocks.
- Achievement of the ISD for Successor Identification Friend or Foe for transport aircraft five months early.
- Delivery of the Dismounted Close Combat Trainer – a new infantry weapons training system using a virtual battlefield – on time and below cost.
- Service acceptance of the MAMBA artillery locating radar six months ahead of schedule.
- Entry into service of advanced Sonar 2193 to equip minehunters.
- Return to service of HMS Trenchant, the second attack submarine to be modified under the Swiftsure and Trafalgar Class Update Final Phase project.

Agency Team Excellence Awards

The performance of individual DPA Integrated Project Teams (IPTs) are recognised annually through Team Excellence awards. Fifteen teams were nominated for their achievements in 2003/4 and four were selected for awards. The remainder received commendations. The winners were:

Winner: Temporary Deployable Accommodation (part of the BH IPT)

Temporary Deployable Accommodation is the most comfortable and versatile accommodation system available to British Forces in Iraq, is the envy of other Armed Forces and is proof that MOD can deliver faster, cheaper and better. Under an Urgent Operational Requirement (UOR) the equipment was delivered a year ahead of schedule.

Second Place: Bowman & Land Digitization IPT (BLD)

BLD IPT worked hard for, and achieved, its in service date for the Bowman battlefield communications system, including working on a major operational field trial and has made good progress towards the formation of a single tactical communications and information systems through-life IPT, created by merging BLD and ICSS IPTs.

Third Place: Infra Red Countermeasures IPT (IRCM)

The crucial importance of this capability has been highlighted over the last year by the instigation and completion in the UK of a number of UORs relating to the Iraq theatre. These are now protecting the forces of both nations in a scenario well beyond that envisaged for the initial joint programme.

Fourth team: Successor Identification Friend or Foe IPT (SIFF)

The team's principal achievement this year is meeting the first SIFF ISD, for Transport Aircraft, in Nov 03, five months ahead of the approved date. Remaining ISDs are all on schedule for completion in the approved timescales.

The following eight teams (in alphabetical order) were commended: Future Strategic Tanker Aircraft IPT; Facilities Management Group; Ground Based Air Defence IPT; Air Defence C4I Team; International Relations Group; Land Electronic Warfare IPT; Sonar 2087 IPT; Special Projects CISR IPT and the UK Co-operative Engagement Capability IPT

Minister (DP) Smart Acquisition Awards

A total of 26 entries were considered from the DPA, DLO, ECC, Defence Estates and MOD Centre. Of nine winners of the Min(DP) award, two were DPA teams and one was a joint DPA and industry team:

Defence HF Communications Services (Strategic and Terrestrial Systems IPT)

The DHFCS Team has demonstrated commendable innovation in developing the PPP approach to this project. The MOD and Contractor Team established a close partnering relationship from the early stages of the procurement and, although the contract has only been in place for some seven months, are already delivering substantial benefits to defence.

Skynet 5 Team (Satellite Communications Acquisition IPT)

Skynet 5 is the MOD's largest PFI programme to achieve financial close. The project is an excellent example of partnership between industry, financial and legal advisors, DPA and DLO. It shows how effective team working can deliver a truly innovative contract, that is affordable and meets customer requirements for time and performance in a highly complex technical area.

Network Integration Test and Experimentation Facility (NITEworks) Team (a joint team composed of the Integration Authority and industry)

The Award Review Panel was very impressed with the way the team broke down Intellectual Property Rights barriers with industry, and explored Network Enabled Capability through innovation with both high tempo and excellent stakeholder management.

Statement of Achievement Against Key Targets

We measure our achievement against five Key Targets, which flow from Departmental targets set by the Treasury through the MOD Public Services Agreement. Key Targets 1, 2 and 3 cover our achievement on the three principal project measures of performance, time and cost. In 2003/4 the projects monitored for these Targets were the top twenty projects (by value of spend remaining), which had passed their main investment decision point (Main Gate). These are agreed with the National Audit Office and are subject to full audit. Performance against the Key Targets is shown in the table on page 11.

A number of changes have been made to Key Targets for the next financial year following a review of Agency performance during 2003/4. These changes have been agreed with the Ministerial Advisory Board (MAB) and discussed with the NAO.

Key Target 1 measures our ability to deliver equipment to the customer at the required technical performance. It compares the number of approved Key Requirements (agreed with the Customer at the time of Main Gate) against the number which are forecast to be, or have been, met. Key Targets 2 and 3 measure in-year average programme slippage or cost growth. These are consistent with the targets in the MOD's Public Services Agreement.

Results

Key Target 1: Equipment Performance

Achieved – The target for achievement of projects' core requirements was 98%. We achieved 99%.

Key Target 2: Programme Slippage

Not Achieved – To achieve this target, average new slippage had not to exceed 0.5 months. Actual average new slippage was 2.4 months. The excess of 1.9 months average new slippage corresponds to a total of 45 months slippage in the year across the project population.

Key Target 3: Cost Growth

Not Achieved – To achieve the target, there had to be zero average new cost growth. Actual average new cost growth was 2.7%.

Key Target 4: Customer satisfaction

Not Achieved – This target was to achieve a satisfaction rating of 74% for the DPA Customer Satisfaction Survey conducted during June and July of 2003. The rating achieved was 70%, representing customer satisfaction at that time, which compares to a rating of 72.5% achieved for June and July of 2002. As last year, the Customer Satisfaction Survey provided both numerical data to assess customer satisfaction and qualitative data to identify areas for improvement. The survey design was based on best practice models and established approaches. Six attributes were defined following consultation with customers that cover all aspects of the services the Agency provides. 260 customers were interviewed representing all DPA customer areas.

Key Target 5: Operating Costs

Achieved – The target was to remain within the agreed resource and capital defence expenditure limits, and was expressed as a requirement to have zero percent overspend. This was achieved in 2003/2004.

Other measures

The achievement of a more detailed range of objectives is vital to our customers and other stakeholders. We therefore have targets and measures of performance in our Business Plan, which complement the Key Targets and ensure coverage of key supporting activities.

	KEY MINISTERIAL TARGETS	TARGETS, OUTTURNS & ACHIEVEMENTS				TARGETS FOR YEAR	
	Efficiency	**2000/2001**	**2001/2002**	**2002/2003**	**2003/2004**	**2004/2005**	**2005/2006**
1	Predicted achievement of projects' core requirements	91%	97%	97%	98%	97%‡	97%‡
	Outturn	95.8%	98.6%	99%	99%		
2	Average cumulative slippage of In Service Date not to exceed (months)	23.8 (23.1)*	11.4 (11.9)*	12.1 (12.3)*			
	of which in-year variation	0.6	0.4	0.4	0.5	0.9‡	0.7‡
	Outturn	23.6	12.5	19.0			
	of which in-year slippage	1.8	1.1	7.2	2.4		
3	Average cumulative cost variation not to exceed	4.9% (4.6%)*	2.5% (2.8%)*	2.2% (2.7%)*			
	of which in-year variation	0.0%	0.0%	0.0%	0.0%	0.5%‡	0.4%‡
	Outturn	3.4%	2.4%	8.1%			
	of which in-year variation	-0.2%	-0.3%	5.4%	2.7%		
5**	Reduce operating costs in relation to 1997/98 PE costs by	19%	22%				
	Outturn	21.3%	23.2%				
***	Excess against Resource Control Totals			0	0		
	Outturn			0	0		
	Quality	**2000/2001**	**2001/2002**	**2002/2003**	**2003/2004**	**2004/2005**	**2005/2006**
4	†Customer satisfaction rating	65%	70%	70%	78%	72%††	74%††
	Outturn	65.4%	66.7%	72.5%	70%		

* NAO review of Major Projects Report data, completed after publication of the targets, resulted in a number of changes to the baseline data for Key Targets 2 & 3. The changes were reflected in the Major Projects Report and brought to account against the Key Targets in the relevant years, on which we reported in our Annual Report and Accounts. The re-based values are shown in brackets in the table above.

‡ From April 2004 the Agency will calculate results of Key Targets 1 to 3 against an expanded population comprising of all projects valued over £20M, that have achieved Main Gate Approval but not yet reached their In Service Date.

** For the purposes of Key Target 5, operating costs are the costs of running the DPA, primarily staff and associated support costs such as utilities and IT maintenance.

*** 2002/03 and 2003/04 our operating costs target required the DPA to remain within its allocated Resource Control Totals. However, from April 2004 KT5 is replaced with a new measure of efficiency based on a basket of three ratios examining Asset Deliveries, Net Assets and Operating Costs, and an additional Key Target that compares Asset Delivery against Forecast. Details of the new measures have been published in the Agency's Corporate Business Plan 2004.

† The customer satisfaction rating relates to the point during the financial year at which it is assessed through a customer survey.

†† From April 2004, the Agency will measure Customer Satisfaction through a rolling survey of customers, giving a continuous assessment of customer satisfaction.

Report by the Comptroller and Auditor General on the Defence Procurement Agency's Statement of Performance Against 2003/2004 Targets

The Chief Executive of the Defence Procurement Agency has asked me to validate the Agency's performance against their 2003/2004 Key Targets.

Respective responsibility of the Defence Procurement Agency, the Chief Executive and Auditor

The Defence Procurement Agency and Chief Executive are responsible for the measurement and reporting of the Agency's performance against the Key Targets.

I examine and conclude on whether the Agency have met their requirements under the Cabinet Office's guidance (January 2003) on Next Steps Agencies Annual reports to:

- Provide full details of performance against all the Agency's Key Targets
- Ensure that all performance information is reliable and fairly presented.

Basis of conclusion

The validation includes an examination, on a test basis, of evidence relevant to the amounts and disclosure of the outturns and achievements included within the Statement. It also includes an assessment of the significant estimates and judgements made by the Defence Procurement Agency and Chief Executive in the Statement's preparation.

Conclusion

The Statement of Performance above includes all the Defence Procurement Agency's 2003/2004 Key Targets. It reliably and fairly presents the Agency's performance against Key Targets 1 to 5 in 2003/2004.

John Bourn

John Bourn
Comptroller and Auditor General
20 July 2004

Financial Summary

Financial and management accounting is embedded throughout the Agency with each project team and support group responsible for reporting its financial information to the Executive Board. Formal and informal career development coaching and training sessions during the year have continued to improve both the understanding and the use of financial information throughout the Agency.

In addition, the appointment of a qualified Finance Director from industry to the Executive Board, combined with the appointment of senior finance officers to the newly created post of Financial Controller in some high profile projects – including the Type 45 Destroyer and the Nimrod Maritime Reconnaissance and Attack Mark 4 – have enhanced the finance function within the Agency.

A recently launched MOD-wide finance skills framework will help to further encourage all grades and specialists to develop the necessary financial understanding.

The Agency's Programme

The Agency's programme has two parts:

- Systems Procurement: purchase of new equipment systems and associated weapons, including some major upgrade programmes and system procurement expenses such as studies (details on page 14)
- Agency Operating Costs, and Nuclear Programmes (details on page 15). Expenditure in 2003/2004 was contained within the planned levels reported to Parliament through the Supply Estimates, and within allocations set by the Department.

The table below shows the 2003/2004 expenditure in resource terms by capability area.

Total Expenditure	£5,340M
Precision Attack	£2,070M
Information Superiority	£858M
Battlespace Manoeuvre	£2,412M

Asset Deliveries 2003/2004

Equipment delivered to Armed Forces customers amounted to £3,750M for the 2003/2004 financial year as shown in the table.

Total Deliveries	£3,750M
Precision Attack	£643M
Information Superiority	£781M
Battlespace Manoeuvre	£2,326M

System Procurement

Under the accounting regime our Resource consumption (part of Operating Cost Statement) on systems procurement was £1,980M in 2003/2004 (£2,217M in 2002/2003).

The main elements were:

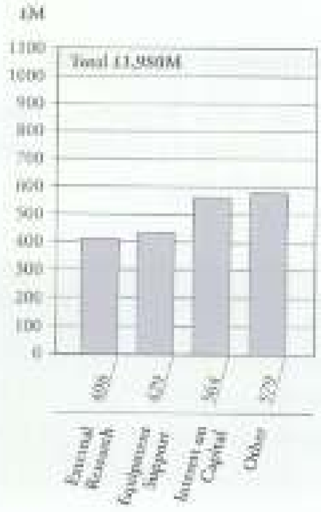
- expenditure on external research, assessment and studies (£408M);
- expenditure on equipment and support and post-design services (£429M);
- interest on capital charges for development and production assets that have been acquired but not yet delivered (£564M).

Our net assets were £15,948M at 31 March 2004, consisting of:

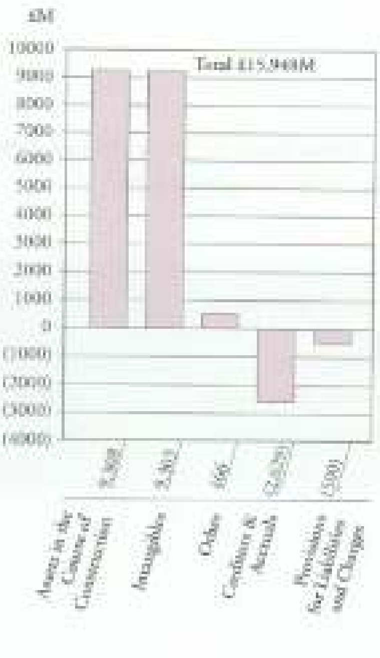
- assets under construction - production costs of projects in progress (£9,308M);
- intangible assets - development costs of projects in progress (£9,303M);
- creditors and accruals - mainly the value of work done but for which invoices have not yet been raised and cash payment has not been made (liability £2,629M);

The charts below show the main divisions of operating costs and net assets.

OPERATING COSTS
2003/2004



NET ASSETS
31 March 2004



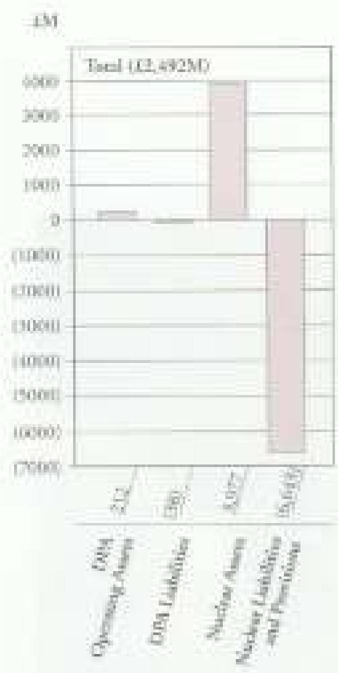
Systems procurement: analysis of Operating Costs and Net Assets

Operating Costs and Nuclear Programme

Operating Costs of £2,892M in 2003/2004 consisted of £301M spent to run the Agency including staff costs of £186M (including provisions), property management including rates £23M, IT £13M, and £2,591M nuclear and fissile material programme.

The major elements of the operating costs are DPA staff, accommodation and costs relating to the nuclear programme. The net assets are mainly in the nuclear programme and include the long-term liability for future decontamination costs. DPA assets in this programme include the Abbey Wood site and information systems.

The charts below show the main division of operating costs including nuclear programme operating costs and net assets. Nuclear assets include assets under construction of £184M.



Operating Costs/nuclear programme: analysis of Operating Costs and Net Assets

Agency Operations

Strategy

The DPA's strategy is to deliver on its commitments to its customers and meet its Key Targets. This is achieved through the work of Integrated Project Teams (IPTs) and Support Groups, employing Smart Acquisition principles. Overall Agency performance is directed by the Executive Board in close conjunction with key customers in the MOD, aided by the Support Groups, who provide additional expertise in areas such as technical and financial management, commercial and supplier relations, and corporate services.

Smart Acquisition and the creation of IPTs have helped to improve our ability to manage projects. But in 2003/4 we undertook a major review of the DPA's achievements since the introduction of Smart Acquisition. This analysis has identified a number of priority areas for change, which are:

- Processes – *improved information provision to the Board, coupled with an improved approach to project review & assurance, risk management, key supplier management, financial management, and joint working with our sister body, the Defence Logistics Organisation*
- People Management – *Greater use of workforce planning, supported by a new network of "Development Partners": senior staff in key specialisms who will help identify skills shortages and ensure we have the skills in place where they are needed. We are also seeking to improve reward and recognition mechanisms to better support the business of the Agency*
- Organisational Structure – *A new organisational structure was introduced on 1st April 2004. IPTs and Support Groups are now grouped to reflect their business relationships. At the same time, the Agency's Executive Board was restructured to provide a better focus on the delivery of projects and on key processes*

The review also identified some issues that need to be addressed outside the Agency – including the need for increased funding in the early years of projects to reduce risk. These issues are being taken forward under the personal direction of Lord Bach, the Minister for Defence Procurement.

Corporate Governance

The management of risk to ensure the Agency achieves its targets is at the heart of our system of corporate governance. We identify risk across the breadth of the Agency, looking at those risks that could affect projects or other areas of our business. The Audit Committee, which meets regularly under the chairmanship of our Non-Executive Director, ensures that the processes in place to manage risk are effective and underpin the system of internal control.

Information & Knowledge

The DPA information systems strategy was endorsed by the Executive Board in June 2001, and provides the framework for developing essential support solutions to the DPA business in an environment of rapid change. A number of programmes have been implemented to deliver our Information Strategy to improve coherence, access, visibility and use of information.

We are continuing to develop our business tools to improve their effectiveness in helping enable improved performance and we are investigating the improvement of planning, finance, contracts management, risk management, requirements, and management information systems tools.

Learning from Experience continues to be managed as a key initiative to ensure lessons and knowledge in teams are captured and shared to help improve overall project performance.

The provision of effective Information Systems (IS) has been identified as a key enabler to help our staff doing their jobs. Overall satisfaction with our IS is high with 85% of staff satisfied, although the speed and reliability of the system needs to be further improved.

IS and associated processes are being refined to enable us to provide assurance that we will be sufficiently prepared to share information, and to retrieve information as requested under the Freedom Of Information Act, which is due to come into effect in 2005.

The wider use of shared electronic working environments to enhance collaboration with our industry partners continues.

DPA in the Community

The DPA recruits staff from the local community and plays a role in a wide range of activities that contribute to municipal and regional affairs. We continue to develop and strengthen our relations with the local community through the active involvement of our staff in community activities, such as serving on Magistrates' benches, school governing bodies, parish councils and charity committees.

The DPA also collaborates with Local Authorities and businesses to address issues that affect the local community, including the introduction of flexible working patterns and the different ways staff travel to work at Abbey Wood, which could influence congestion on local roads during peak times.

We serve the wider national community through our accountability to Parliament, including meeting our targets for responding promptly to parliamentary correspondence and letters from the public.

Project Management

High quality integrated project management and risk management is key to the overall success of the Agency. Ensuring we have the right tools, techniques, people and skills is essential if we are to deliver our promises. Our priority subjects include:

- Project Planning & Scheduling – As with Risk, a maturity model has been developed to assist projects in understanding what contributes to a good plan. A 'virtual community' for planning and scheduling has also been established which allows managers to share best practice across the organisation. We encourage the use of Earned Value Management and try to use "Anchor Milestones" – tangible events which mark real project progress – in our contracts with industry. These milestones are reviewed jointly with industry.

- Risk Management & Estimating – Risk Management is an integral part of project management and is the basis on which projects can manage key issues and make reliable forecasts of the cost and time required for project completion, through the use of techniques such as three-point estimating. We intend to reinforce the necessity for robust estimating and to help with this process the DPA has developed a new four stage maturity assessment process with the goal of ensuring that all major projects are at stage three or above.

- Development of Project Managers – We are introducing a progressive career framework for Project Managers, with three levels of competence aligned to the Association of Project Management body of knowledge. The foundation level is already in place and the practitioner level will be introduced later this year. This training and development will be complemented by issue of a new Project Management Handbook during 2004.

- Learning from Experience (LFE) – LFE is included as part of the project assurance regime and provides a means of demonstrating that we have learned from the mistakes, and successes, of previous projects. The DPA conducts regular LFE seminars and briefings with key issues being recorded on a database for all to access.

- Benchmarking – The DPA belongs to an international benchmarking community, which includes many blue-chip organisations. Each year the DPA's project management performance is compared with over 60 global organisations against 15 key project management areas. The 2003 results showed that DPA is in the top half for the majority of these areas and best in class for many. Our aim however, is to concentrate our efforts on those areas where we have the most scope for improvement.

Customer & Partner Relations

The DPA recognises the value of strong and effective customer and partner relations in the delivery of its business, and actively seeks to increase this value. During 2003/4 we sought to further develop working relationships with all of our customers, in particular with the Equipment Capability Customer (ECC) and the Defence Logistics Organisation (DLO).

We have done this by extending our programme of strategic meetings at senior level, which has helped us to gain a deeper appreciation of the needs of our MOD customers and partners. For example, we signed a Transparency Agreement with the ECC, as a joint commitment for greater collaboration and communication between our two organisations. We have also held a number of successful workshops where the focus was on how the performance of the DPA could be enhanced through deeper understanding of our shared goals.

We have also continued to work more closely with the Defence Logistics Organisation and have taken forward the guiding principles that were agreed last year. DPA's Deputy Chief Executive and the Deputy Chief of Defence Logistics now attend each other's board meetings, which ensures that the DLO and the DPA are aware of strategic issues that arise across the acquisition community.

We have also established regular informal meetings between CDP, CDL and their deputies to discuss any matters arising that would benefit from a joint approach by the DPA and DLO. We are taking forward the concept of DPA IPTs being functionally dual-accountable to CDP and CDL.

Our Joint Working Initiative expanded the scope of the previous DPA/DLO Total Interoperability Initiative and has delivered good early results, such as the publication of common guidance for managing finance within the two organisations.

Further success in the safety management, quality, financial management and technical enabling workstreams are expected during next year. Our ultimate aim is that all specialist enabling services should be common to the DPA and DLO, unless there are good reasons to the contrary.

Despite our efforts in this area, we failed to meet Key Target 4, which measures Customer Satisfaction. Our Customers and Partners gave us a rating of 70 per cent against our target of 74 per cent. This is the first time, since the survey was introduced, that the DPA has not improved upon the previous year, so this was a doubly disappointing result.

The feedback received from the Customer and Partner Satisfaction Survey was analysed and the resulting action plan was announced at the DPA Customer Day held in December, which over 100 customer and partners attended. Work is in hand to improve our performance.

People Management & Development

Improving the DPA's people management and development is, on the face of it, less dramatic than launching a ship, or bringing a new piece of equipment into service, but the effort behind the event is no less taxing for those involved, and the benefits no less deserving of celebration.

These new recruits, apprentices or direct-entrants, will join an organisation that offers a benign and effective working culture where the diversity of individuals is positively encouraged.

Where 2002 saw the formation of the DPA's Human Resources Strategy, 2003/4 was notable for the achievement of new strategic objectives and the consolidation of service delivery to customers. The year saw in excess of 750 staff appointments made at all levels through advertised vacancies and by managed moves. We also recruited 400 new staff through external advertising campaigns.

Consistent with the Government's 21st Century Skills Strategy and driven by the objective of sustaining the DLO and DPA skill-base for future years, a joint DPA/Warship Support Agency Modern Technical Apprenticeship Scheme has been launched. Starting with an initial pilot of 10 apprentices, the scheme provides 30 months of generic technical and project training and a six month-long work placement leading to an HNC qualification and a job at Abbey Wood.

The DPA's Diversity Agenda was once again assessed under the Diversity Excellence Model, with a score of 350. This achievement sits well alongside Investors in People internal review work in preparation work for an external assessment in July 2004. Case work concerning disputes between individuals is invariably distressing for the parties concerned, but it is the mark of a mature organisation that such issues can be brought to the surface for resolution in a secure environment.

The year also saw a renewal of the contract to deliver the MOD's core requirement for tactical acquisition training – which for 2003/04 amounted to more than 20,000 student days. The new contract also offers scope for commercial exploitation, under the Government's "Wider Markets" strategy, by providing approved training courses to private sector clients, the first of which were engaged before the year ended.

Other personnel initiatives launched in 2003/04 included a new Line Management Development Programme for those coming fresh to first-line responsibility for managing others.

Supplier Management & Development

DPA performance depends significantly on that of our suppliers. We need to take steps significantly to improve our knowledge and understanding of the supplier base. We manage this relationship through engagement with major suppliers at a strategic level, and this will be co-ordinated across the MOD through the adoption of a common approach, known as Key Supplier Management (KSM).

We have identified 2* and 3* Key Supplier Representatives (KSRs), from within the DPA and DLO, to act as the single point of contact for corporate-level discussions between MOD and a key supplier on matters of strategic importance.

In early 2004 we appointed the first three Key Supplier Engagement Managers (KSEMs) whose role is to provide a single focus for the day-to-day supplier management activity, and to understand the totality of MOD business with a key supplier. They will seek to ensure that MOD and industry understand each other's outlook and objectives, as well as identifying opportunities for improving decision-making and performance, jointly and for mutual benefit. The first KSEMs are interfacing with BAE Systems, Rolls Royce, Alvis plc and Halliburton KBR. We anticipate the creation of more KSEMs shortly.

KSM is not a stand-alone activity and to be successful, it needs among other things, broader information on the defence industry and its various sectors. To support this work we also undertake sector analysis, advice on company mergers and acquisitions, and the Supplier Development programme.

The Supplier Development programme will be instrumental in developing a better understanding of our suppliers' performance. From 1 April 2004 the Supplier and Customer Performance Measurement Process came into effect. This process aims to improve the relationship between suppliers and the MOD by seeking to measure the performance of both the supplier and the MOD project team.

The process will apply to all MOD contracts worth more than £5M (although for consultancy services the threshold will be £100K) initially in the DPA and DLO, with other TLBs following later in the year. It draws upon best private sector practice in both the civil and defence fields and will measure performance in terms of quality, cost, time, communications and management in respect of the supplier and quality and clarity of issued documentation, communication and management in respect of the IPT.

The outputs from the scheme will support day-to-day business activities at all levels within the MOD from IPTs to senior management, and are aimed at improving our knowledge of our supplier base, our relationships with our suppliers, and reducing risk.

Technology & Safety Management

The effective and efficient management of technology plays an important role in enabling us to deliver equipment that meets our military customers' performance, cost and time requirements. We must effectively identify sources of appropriate technology, identify and manage technology risk, and enable equipment suppliers to have access to mature technology to embody in military equipment.

We are encouraging greater planning of technology to enable timely project delivery. To support this we have introduced System Readiness Levels as a complementary planning and risk management tool to Technology Readiness Levels.

In conjunction with the ECC we are continuing the development of a technology road mapping process to support joined-up technology planning. We will be seeking to improve the way we can help develop and sustain industry's technological capabilities, that relate to our future needs, as well as the transition of technology from the research domain to the supplier domain. In addition we will be influencing ongoing MOD research into technology insertion.

We are assessing the skills IPTs need to manage the technical aspects of projects. This might result in existing training being enhanced and, where necessary, new courses introduced to ensure the right skills are in place.

The Acquisition Environmental and Safety Office was successful established in 2003, to improve safety management in projects and to formally introduce environmental management requirements into projects. Its primary tasks since its creation has been to improve our interface with our stakeholders, both within the MOD, other government departments and industry and to develop the Acquisition Environment and Safety Management System (ASEMS).

The ASEMS project started in the summer of 2003. It was originally initiated within the DPA, in response to the recommendations of several audits and studies into the management of Environment & Safety in projects across acquisition. Since then it has been adopted as a joint DPA and DLO initiative and the procedures developed will apply to all IPTs within those organisations.

Financial Management Systems

Financial management information is key to delivering our outputs and meeting our targets. The quality and usefulness of financial information depends on having efficient and effective systems and processes, as well as appropriately skilled people.

During 2003/4 we upgraded our accounting software and we continue to work towards our finance vision of an integrated project management system that combines financial and other project planning aspects to enable all project information to be produced from a single source.

Financial systems, processes and procedures have been further developed with improvements particularly in the area of joint working with the DLO. Internal and external performance measures have been improved with a more informative set of financial performance measures being successfully trialled in 2003 which will form the basis of the Agency's Key Target 5 from 1st April 2004.

A fresh initiative has been launched with the intention of strengthening financial management at all levels within the DPA. We will achieve this by ensuring people have the right skills and training, identifying and developing financial talent and making finance a core project management competence.

Executive Board Members

CHIEF OF DEFENCE PROCUREMENT AND CHIEF EXECUTIVE

Sir Peter Spencer

Sir Peter served in the Royal Navy from 1965 until he retired in the rank of Vice Admiral in January 2003. He has held a range of appointments including seven tours in acquisition. He was Director General Surface Ships and Controller of the Navy in the Procurement Executive from 1997, becoming Executive Director 4 on the formation of the DPA on 1 April 1999. In January 2000 he was appointed 2nd Sea Lord and Commander in Chief, Naval Home Command, the appointment from which he retired. He rejoined the DPA as Chief Executive and Chief of Defence Procurement on 1 May 2003.

DEPUTY CHIEF EXECUTIVE

David Gould

David Gould joined the Ministry of Defence in 1973. His responsibilities have covered NATO, Nuclear Plans and Operations, and Royal Air Force Equipment and Logistics. He served as Under Secretary for Policy, Overseas and Defence Secretariat in the Cabinet Office, returning to the Ministry of Defence in 1995. He became Director General Finance and Business Plans for Defence Logistics in late 1999 and was appointed Deputy Chief Executive of the DPA in July 2000.

In April 2004, following changes to the Agency to reinvigorate Smart Acquisition, he assumed responsibility for the Central Cluster of four Support Groups.

EXECUTIVE DIRECTOR 1

Ian Fauset

Ian Fauset has extensive experience of equipment procurement dating back to the early 1980s. He is a Chartered Engineer and has been involved in the project management of most modern aircraft and helicopter programmes. He has also worked in operational analysis and personnel management. He became XD1 on the creation of the DPA on 1 April 1999 and retired in December 2003. He was succeeded by:

Dr Iain Watson
Iain Watson joined the MOD in 1975 and worked in Anti-Submarine Warfare research for many years, on torpedoes, underwater countermeasures and submarine and ship sonars.

In August 1997 he was promoted to become Director General Command Information Systems in the Procurement Executive.

With the creation of the DPA he became an IPT Leader and in March 2002 he was seconded to Thales Underwater Systems Limited and took up the post of Deputy Technical Director, with responsibilities for project assurance, open systems and extending the UK research base. He returned to the DPA as XD1 in December 2003.

In April 2004, following changes to the Agency to reinvigorate Smart Acquisition, he was appointed Director Information Superiority and assumed responsibility for the Information Systems Cluster of 13 Integrated Project Teams and the Communications Network Cluster of 11 Integrated Project Teams.

EXECUTIVE DIRECTOR 2

Major General Peter Gilchrist

Major General Peter Gilchrist is in his fourth appointment in procurement. He ran the DPA's Future Business Group before he was promoted to Major General and took up the appointment of XD2 in January 2000.

In April 2004, following changes to the Agency to reinvigorate Smart Acquisition, he was appointed Technical Director and assumed responsibility for the Technical Assurance Group of 10 Support Groups.

EXECUTIVE DIRECTOR 3
Air Vice-Marshal Dil Williams

An Aerosystems Engineering Officer, AVM Williams is in his second tour in the DPA having spent the previous two years as the Typhoon IPT Leader in the DPA. He was promoted to Air Vice Marshal and appointed XD3 and Controller Aircraft in July 2003 (in succession to Air Vice Marshal Barry Thornton who served as XD3 and Controller Aircraft from October 2000 to July 2003).

In April 2004, following changes to the Agency to reinvigorate Smart Acquisition, he was appointed Director Air Weapons and Support and assumed responsibility for the Aircraft Cluster of 8 Integrated Project Teams, the Support Systems Cluster of 7 Integrated Project Teams and the Weapons Cluster of 8 Integrated Project Teams.

EXECUTIVE DIRECTOR 4
Rear Admiral Nigel Guild

A Weapon Engineer Officer, Rear Admiral Nigel Guild is in his sixth appointment in procurement. He spent 18 months as Director Integrated Project Teams in the Smart Procurement implementation process and on promotion to Rear Admiral he took over as XD4 and Controller of the Navy in January 2000. He left the agency for another MOD appointment in December 2003 and was succeeded by:

Rear Admiral Ric Cheadle
Rear Admiral Cheadle joined the Navy in 1968, graduated from Manadon in 1973, qualified for service in Nuclear Submarines and spent his early career in a number of nuclear-powered submarines.

He moved to Abbey Wood in Bristol as a Commodore to become Director of Nuclear Propulsion and in March 2000 he returned to Devon to become the Naval Base Commander (Devonport). In December 2003 he was appointed Executive Director 4.

In April 2004, following changes to the Agency to reinvigorate Smart Acquisition, he was appointed Director Land and Maritime and assumed responsibility for the Land Systems Cluster of seven Integrated Project Teams and the Maritime Cluster of 14 Integrated Project Teams.

EXECUTIVE DIRECTOR 5
Stan Porter

Stan Porter joined the MOD in 1963 and much of his service has been in commercial branches. In 1998 he became Director General Commercial. With the creation of the DPA in April 1999 he became XD5, whilst retaining his MOD corporate role as DG Commercial.

In April 2004, following changes to the Agency to reinvigorate Smart Acquisition, he was appointed Commercial and Supplier Relations Director and assumed responsibility for the Commercial and Supplier Relations Group of five Support Groups. He continues to retain his MOD corporate role as DG Commercial.

EXECUTIVE DIRECTOR 6
David Noble

David Noble joined the Agency as Executive Director 6 on 1 July 2003, having previously held financial positions in Rolls Royce plc. The position of XD6 had previously been held by David Richardson, who held the position from October 2002 until June 2003.

In April 2004, following changes to the Agency to reinvigorate Smart Acquisition, David Noble was appointed Finance Director and assumed responsibility for the Finance Assurance Group, which is composed of one Support Group.

NON-EXECUTIVE DIRECTOR
Tom McGuffog

Tom McGuffog has held many director roles in purchasing, supply chain, transport and distribution, information technology, and e-business at Rowntree and Nestlé. He is Chair of UK Partners for Electronic Business and is Visiting Professor of Business at the University of Glasgow. He has been Non-Executive Director of the DPA since June 1999. He also became Non Executive Director of the DLO in 2004 and he chairs the DPA Audit Committee.

Statement of Accounts

Foreword to the Accounts

house news letters and bulletins, Chief of Defence Procurement's (CDP's) Business Improvement Seminars, cascade management briefings, trade union consultation and widespread training programmes are used to achieve this aim. The DPA systematically listens to its staff and conducts an annual staff survey, which contributes to our programme of continuous improvement under the Business Excellence Model.

Development and Training

We place great importance on the development and training of our staff. We invest significantly in identifying individuals' knowledge and competencies, and matching them to the needs of the Agency. Training and development plans are used to identify present and future needs, design and promote learning opportunities and align individual and team objectives with Agency targets.

The DPA training organisation, Defence Procurement Management Training, provides a centre of excellence for the delivery of training in defence procurement management skills for the MOD. The number of student days training provided in 2003/2004 was 20,222, a 4.7% increase over the training achieved in 2002/2003.

Health and Safety

The Agency is committed to full compliance with all legislation in respect of our staff and buildings and equipment delivered to the Armed Forces.

Investors in People

The Agency achieved IIP accreditation in December 1999 and was re-accredited in November 2000, November 2001 and 2003. Our commitment to continue to meet or exceed the IIP standard is a key component of our drive for continuous improvement.

The Agency will be re-assessed again in 2004.

Payments to Suppliers

The Agency aims to ensure that all invoices not in dispute are paid within 30 days or in accordance with contractual terms if otherwise agreed. For the financial year ended 31 March 2004 all correctly presented bills were paid within 11 calendar days.

Environmental Policy

The Agency is committed to compliance with both the letter and spirit of the Environmental Protection Act and the Environment Act (which apply to all personnel, service and civilian) and with all other existing environmental legislation. Crown or Defence exemptions from legislation are only invoked when these are essential to operational effectiveness.

Political & Charitable Donations

The DPA does not make political or charitable donations.

Auditors

The Financial Statements for the Agency are audited by the Comptroller and Auditor General. The NAO notional audit fee of £190,000 is in respect of Audit Services, the auditors received no remuneration for non-audit services.

The Auditors' Certificate and Report on the Financial Statements is set out on pages 37 & 38.

Peter Spencer

Peter Spencer
Chief Executive
20th July 2004

Statement of Agency's and Chief Executive's Responsibilities

Under Section 7 of the Government Resources and Accounts Act 2000, the Treasury has directed the Defence Procurement Agency (DPA) to prepare a statement of accounts for the financial year 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 Agency's state of affairs at the year end, and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

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

The Permanent Under Secretary of State (PUS), as the Ministry of Defence's Principal Accounting Officer from whom the Agency draws its funds, has formally tasked the Chief Executive with responsibilities analogous to those of an Accounting Officer for the Agency. The Chief Executive's relevant responsibilities in this role, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting'.

Statement on Internal Control

1. Scope of responsibility

As TLB holder and Chief Executive of the Defence Procurement Agency, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I routinely discuss key risks on major projects with Minister (Defence Procurement) (Min (DP) as Chairman of the DPA Ministerial Advisory Board (MAB). I regularly review formally, through the MAB, the performance of the Agency as a whole, including risks to the achievement of DPA Key Targets. I also report quarterly to the Defence Management Board on the performance of projects and against targets set for the DPA High Level Budget through the annual Service Delivery Agreement (SDA) that I agree with Permanent Under Secretary (PUS) and Chief of Defence Staff (CDS). Targets set for the DPA in the SDA are consistent with the Agency's Key Targets.

2. The purpose of the system of internal control

The system of internal control is designed to identify and to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Key corporate risks are reported to the Executive Board through the Audit Committee on a quarterly basis. The list of key corporate risks is updated to reflect changes to existing risks and the identification of new risks to the Agency. Each risk is analysed using the definitions within the Agency's Corporate Risk Management Plan. Risks are prioritised through determining the likelihood of the risk occurring (probability) and the severity of the consequence (impact) using the published definitions. The definition of impact is based on either the potential to cause a Defence Balanced Scorecard objective or Agency Key Target to fail, or to fail to deliver capability within the approved Performance, Time and Cost parameters. Mitigation actions are planned, managed and monitored for each key corporate risk.

The Agency's risk appetite consists of two elements – the categories and degrees of risk which the Executive Board regards as acceptable for the Agency to bear (Corporate Risk), and, as importantly, that which is acceptable to our customers and the approval authorities based on the Agency's assessment of risk on a project by project basis (Project Risk).

The amount of corporate risk to which the Executive Board is prepared to be exposed, before they judge action to be necessary is embedded within the definitions used when assessing the impact of risks identified. Any risk that has the potential materially to affect an Agency Corporate Business Plan objective is judged to warrant positive action by the Executive Board. This may, for example, include a decision to establish a Development Initiative to mitigate the risk. Development Initiatives are recorded in a set of Delivery Plans which are endorsed by the Board. The most important Development Initiatives are also reflected in the Agency's Corporate Business Plan.

The amount of project risk to which the Executive Board is prepared to be exposed, before they judge action to be necessary, is specific to each individual project. The amount of risk exposure to any one project is determined and used to inform the Performance, Time and Through Life Cost parameters within Initial and Main Gate Business Cases. All project risks are managed according to the likelihood of occurrence and severity of its consequence. Should any risk, or combination of risks, threaten the delivery of the project within the approved Performance, Time and Cost parameters re-approval is sought from the approval authorities.

There are a number of limited reward and recognition systems in place within the Agency that can be used to reward teams and/or individuals who are able to identify and deliver opportunities. The Agency is not and must not be risk averse. Risks and opportunities are identified, analysed, planned and then managed. In addition to rewarding successes, staff are encouraged to share negative as well as positive results and experiences in order to learn from them and to help spread best practice.

The roles and responsibilities of those involved in the management of corporate risks are detailed within Agency policy and guidance documentation. These documents are reviewed on an annual basis.

The Functional Competence Framework supports the development of staff in a number of areas including risk management. This framework provides a link to the training and development directory which gives an indication of development opportunities, along with details relating to a number of training courses available to all staff covering risk management. Risk management guidance is distributed Agency wide, and reviewed regularly.

4. The risk and control framework

We aim to capture corporate risks from across the depth and breadth of the Agency and its stakeholder community. We use a range of mechanisms to do this, including: Corporate Risk Workshops, Cluster Group Meetings, Project Assessment and Reviews, Business Improvement Seminars, Audit Committee and the programme of audit. All possible sources of risk are considered on both the supply (e.g. industry) side and demand (e.g. customer, requirement) side.

Risk analysis involves agreeing ownership, quantifying, and establishing the priority of each risk. The most appropriate Executive Director will own the risk and will appoint a controller to plan and manage each risk. Quantification and prioritisation are achieved from the product of the likelihood of the risk occurring (probability) and the severity of the consequences (impact). Our probability and impact definitions are defined in the DPA Corporate Risk Management Plan.

The risk controller will develop a plan for each risk that sets out how the risk will be managed and mitigated (treated, terminated and tolerated). He/she is responsible for each action and how progress will be measured. The plan will also clearly assign, to MOD and/or suppliers, wherever practicable, agreed material and financial consequences of each risk (liabilities and/or rewards) should that risk materialise. Assignment does not affect risk ownership, which cannot be transferred. Clearly effects of risks materialising on performance and timescales always remain with MOD. Risk controllers manage the risk plans reporting progress as necessary to the respective risk owner. In the case of project risks, the demand and supply factors are brought into an ongoing balance in relation to performance, whole life costs and timeliness at levels of risk which are acceptable to our stakeholders. Formal reporting of the corporate risks, of major imbalances between demand and supply for particular projects, and of any key assurance issues are made to the Audit Committee and Executive Board quarterly.

Risk Management is embedded in the Agency through the delegation of responsibility to key risk stakeholders. These key risk stakeholders in corporate risk management have the following responsibilities:

a. DPA Executive Board: Define the framework within which risk, both corporate and project, will be managed in the DPA; individually own risks, agree the priority of risks and the content of risk plans with corporate risk controllers and monitor progress; ensure that the material consequences that will be borne by stakeholders should the risk occur are clearly assigned; formally assess that there is an on-going balance between supply and demand for each project and that all associated risks are identified and managed.

b. DPA Audit Committee: Advise the Executive Board on the effectiveness of the mechanisms for identifying and managing risk; ensure that the audit programme is risk based; provide confirmation that project and corporate risks have been effectively categorised to aid management.

c. DPA Secretariat: Act as corporate risk co-ordinator and collate information on identified risks; ensure the corporate risk management process is followed; report progress against the risk register to the Audit Committee and Executive Board.

d. Operational and Functional Directors: Identify project and corporate risks through Cluster Group and Support Pillar meetings.

e. Corporate Risk Controllers: Work with the Executive Director owner to agree and implement the risk plan.

f. IPT and SG Leaders: Ensure that there is effective and on-going balance between supply and demand and that associated risks to performance, whole life costs and timelines are identified and managed on behalf of the Executive Board at levels acceptable to stakeholders.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

In October 2003 an internal assessment of the standard of Risk Management within the Agency was conducted using the Treasury's Risk Management Assessment Framework. This assessment was used to help collect and assess evidence of risk management within the Agency. The assessment findings support the Statement of Internal Control. In December 2003, an audit was conducted by the DIA to provide an assurance that the Agency's processes and systems ensure that the Agency has a robust Risk Register in support of Corporate Governance requirements. This audit's findings, along with an independent risk consultant's reassessment of the maturity of the Agency's approach to business risk management, support the Statement of Internal Control. This audit found the processes to be generally robust, reflecting the current advice and guidance as contained within the Corporate Governance and Risk Management Joint Service Publication. Several recommendations for improvement were identified, all of which have been accepted. Through management action to incorporate the audit recommendations in the current risk management system the relationship between the management of project and corporate risks will be much improved. In addition to accepting the audit's recommendations and taking the appropriate actions, the DPA is carrying out further work to embed risk management as a cornerstone of project management, rather than risk management being viewed as a complementary yet separate activity. The independent risk reassessment reinforced this conclusion and recommended a number of improvements to the system of corporate risk management and noted that the overall risk management capability of the DPA is at a moderate level but is improving. Appropriate steps have been taken to improve matters further. The production of the DPA's SIC was subject to an audit carried out by DIA, the audit report provides a substantial assurance.

In line with Departmental guidance I have established the following processes:

a) An Executive Board, which meets monthly to manage the performance, plans and strategic direction of the Agency, comprises the senior members of the Agency and has one external non-executive member, who is also the Chairman of the DPA Audit Committee. A second non-executive member is being recruited.

b) Monthly integrated performance and quarterly risk reports to the Executive Board. These reports link risk, and the steps taken to manage risk, to the achievement of the Agency's objectives to enable the Executive Board's decision making process.

c) A programme of facilitated workshops to identify risks to achieving the Agency's strategic objectives that draw on all management levels of the business.

d) A process for Agency risk management that: regularly re-identifies the key risks; categorises risks; prioritises these in terms of probability and impact; appoints risk owners at Executive Board level and risk controllers at an appropriate level; assigns risk formally in project, commercial and operational areas; and takes appropriate action to mitigate risks.

e) In particular, our recent Stocktake Review included a major emphasis on improved corporate governance and risk management. Operations Directors will formally review the risks to performance, whole life costs and to time on a regular basis and at each key project stage. This will not only help to ensure an ongoing satisfactory balance between supply and demand for each project, but also, with the involvement of the Functional Directors for Technology, Finance and Commercial & Supplier Relations, will identify substantial risks which, individually or in aggregate across projects, could threaten the achievement of overall Agency objectives.

f) A nominated Agency Risk Co-ordinator who maintains a register of Agency risks and an overview of the total risk to the Agency.

g) A common approach to risk management at Agency and BLB level and a method of reporting, through the project review process.

h) Developing the relationship with our customers is important to improved risk management. We have begun discussions with the ECC, DPA's principle customer, and with the DLO on the development of a common approach to corporate risk management.

i) A programme of risk awareness training and development available to all staff.

j) Business Continuity (BC) in DPA has continued to make significant progress: BC Strategy and Policy have been revised and plans to strengthen assurance are being implemented. As a longer term aim, a fully fledged BC Management programme is being developed, with preliminary work now underway. Although a number of threats have materialised at Abbey Wood, the consequences of the incidents have been minimised by improved precautions and the strong management, command and control procedures now in place. Such measures are under constant review and improvements are made whenever opportunities present. A number of incidents, one significant, have been IT related. These have served to raise awareness of the new Corporate Risk associated with the future provision and support of IT and ARE to DPA by DCSA and 3rd parties. We are looking to strengthen the service provision arrangements to improve the robustness of our IS/IT systems.

k) Reports from the Audit Committee to the Executive Board concerning internal control.

l) Identification, with the assistance of the DPA Audit Committee (which is attended by representatives of the NAO and the DIA), of the various sources of assurance that underpin the system of internal control and targeting of assurance. This year audit activity has been focused on the Agency's key risks. Further improvements have been made to the process for developing the audit programme. Ways in which this process can be strengthened further are under development.

m) Regular reports by Defence Internal Audit and by our Internal Assurance Function, to standards defined in the Government Internal Audit Manual, which provide independent opinion on the system of internal control and recommendations for improvement.

n) A significant amount of progress has been made in preparation for the implementation of FOI on 1st January 2005. A series of FOI focal points have been put in place across the Agency, and a Publication Scheme, Subject Index and Local Area Information Index's have been established to mitigate the risks that FOI presents. Shadow running to test the ability of a sample of DPA teams to meet the requirements began in April 2004 and continues. Results to date are encouraging and lessons learnt are being applied.

Peter Spencer

Peter Spencer
Chief Executive
20th July 2004

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

I certify that I have audited the financial statements on pages 39 to 72 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 45 to 49.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 29 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 30 to 36 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Defence Procurement Agency at 31 March 2004 and of the net operating cost, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

John Bourn
Comptroller and Auditor General
20 July 2004

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Operating cost statement

for the year ended 31 March 2004

	Note	2003/2004 £000	2002/2003 £000
Operating costs			
Staff costs	2.3	186,117	187,254
Other operating costs	6	4,159,090	3,880,207
Operating leases	6	86,790	85,203
Finance lease charges		—	—
Gross operating costs		4,431,997	4,152,664
Operating income	7	(42,198)	(36,955)
Net operating cost before interest		4,389,799	4,115,709
Interest payable		752	—
Cost of capital charge		481,730	1,021,726
Net operating cost after interest		4,872,281	5,137,435

The notes on pages 45 to 72 form part of these Financial Statements

Statement of recognised gains and losses

for the year ended 31 March 2004

	2003/2004 £000	2002/2003 £000
Net (gain)/loss on revaluation of fixed assets and stocks	(651,930)	(149,681)
Net (gain)/loss on donated assets	(1)	—
Recognised (gains)/losses during the year	(651,931)	(149,681)

The results shown above are in respect of continuing activities.

The notes on pages 45 to 72 form part of these Financial Statements.

CF. 1 Reconciliation of net operating cost before interest to net cash outflow from operating activities before interest

for the year ended 31 March 2004

	Notes	2003/2004	2002/2003
		£000	£000
Net operating cost before interest		4,389,799	4,115,709
Non-cash transactions			
- Depreciation and amortisation charges	9 & 11	(132,116)	(140,144)
- Impairment in value of fixed assets	9 & 11	(11,954)	(251,718)
- Stock provisions		(94,900)	(3,136)
- Auditors' remuneration	6	(190)	(200)
- Charges from other parts of MOD	6	(41,144)	(43,022)
- Communicated costs		12,726	12,712
- Surplus/(deficit) on disposal of fixed assets and investments	6	—	51
- Changes in provisions for liabilities and charges	18	(202,277)	(1,834,330)
- Unwinding of Provision Discounts		(2,244,066)	(194,922)
- Abortive Capital Project Expenditure		(268,309)	(480,328)
- Write off and Write on of assets		47,128	8,117
Adjustments for movements in working capital other than cash after adjustment for communicated costs			
- Increase/(decrease) in stocks/works in progress		(97,372)	(167,426)
- Increase/(decrease) in debtors		65,271	(33,267)
- (Increase)/decrease in creditors		(8,118)	101,321
Charged against provisions for liabilities and charges		272,983	264,028
Movement in Inter management group balances		3,538,799	3,757,018
Net cash (Inflow)/outflow from operating activities before interest		5,226,260	5,110,463

The notes on pages 45 to 72 form part of these Financial Statements.

CF.2 Analysis of net capital expenditure and financial investment

for the year ended 31 March 2004

	Note	2003/2004 £000	2003/2004 £000	2002/2003 £000
Acquisition of fixed assets				
Purchase of fixed assets				
- Intangibles		1,662,674		1,756,092
- AUC		2,613,617		2,663,111
- Other Fixed Assets		3,302		16,669
Total purchase of fixed assets			4,279,592	4,435,872
Asset Transfers to Other Areas of the MOD				
- Intangibles	9	(970,443)		(675,968)
- AUC	10	(2,550,004)		(2,972,710)
- Other Fixed Assets	11	20,591		(64,330)
- Revaluation Reserves	19	91,433		103,889
			(3,408,423)	(3,609,119)
Other Transactions				
- Proceeds from disposal of fixed assets	6		—	(75,581)
Total other transfers			(3,408,423)	(3,684,700)
Net cash outflow/(inflow) from capital expenditure and financial investment			871,169	751,172

The notes on pages 45 to 72 form part of these Financial Statements.

CF.3 Determination of net cash requirement

for the year ended 31 March 2004

	Note	2003/2004 £000	2002/2003 £000
Vote expenditure appropriated in year	20	(6,091,291)	(5,842,813)
(Increase)/Decrease in cash	15	6,138	18,822
Net cash requirement		(6,085,153)	(5,823,991)
Movement in Inter-Management-Group Balances			
Balance at 1 April		(2,016)	(7,994)
Movement in year	See CF.1	3,538,799	3,757,018
Balance at 31 March		3,536,783	3,749,024

Note: the movement between opening balance of (2,016) and closing balance prior year of 3,749,024 is due to the clear-down of the inter-management accounts at the year end.

The notes on pages 45 to 72 form part of these Financial Statements.

Notes to the Agency Accounts

for the year ended 31 March 2004

1. Statement of accounting policies

1.1 Introduction

These Financial Statements have been prepared in accordance with the Resource Accounting Policy Manuals issued by HM Treasury and the Ministry of Defence, and the Treasury Accounts Direction.

The principal accounting policies adopted by the Agency are summarised below. The policies set out the framework within which the Agency conducts financial management and have been applied consistently in dealing with items considered material to the Financial Statements.

1.2 Accounting Convention

The Financial Statements are prepared under the historical cost convention, modified to include the revaluation of intangible and tangible fixed assets and stocks. The indices are produced by DASA and are common across the MOD.

1.3 Net Operating Costs

Costs are charged to the Operating Cost Statement in the period in which they are incurred and matched to any related recoveries.

1.4 Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected is accounted for centrally by the Ministry of Defence. Amounts included in the Operating Cost Statement and Balance Sheet are exclusive of VAT where it is recoverable from Customs and Excise in respect of certain contracted out services as directed by the Treasury. From 1st April 2003 COSVAT was accountable at MOD centre, rather than through DPA. COSVAT debtor at 31st March 2003 was £39,133,000.

1.5 Intangible Assets

Intangible fixed assets are stated at actual contract cost, as adjusted for indexation. The total indexation value is £978M. Capitalised Development costs are transferred to other parts of MOD at the same time as delivery of the first item of equipment. Development costs are capitalised where they contribute towards defining the specification of an asset type, e.g. class of ship or aircraft. Amortisation commences when the asset type first enters service within the Department. If it is decided to withdraw a whole asset type early then any unamortised development costs are written off to the Operating Cost Statement, at the time of the decision, along with the underlying asset. Pure and applied research costs are charged to the Operating Cost Statement in the period in which they are incurred.

1.6 Tangible Fixed Assets

Tangible fixed assets are stated at their value to the Agency. With asset values and estimated economic lives being reviewed annually.

Land and buildings are revalued by indexation in the periods between five yearly professional valuations, with other assets being subject to indexation. Indexation being produced using prescribed MOD indices.

Fighting Equipment, plant, machinery and vehicles and IT and communication equipment are capitalised where the value is greater than £10,000.

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

	Category	Years
Land and Buildings	Land Buildings, permanent Buildings, temporary Leasehold	Indefinite, not normally depreciated 50 5 - 20 Shorter of expected life and lease period
Fighting Equipment (including Guided Weapons, Missiles & Bombs)		Effective operational life (on a pooled basis for GWMB)
Plant, Machinery and Vehicles	Plant and machinery Specialised Vehicles (includes non-fighting vessels and aircraft) Specialist plant and machinery Other standard vehicles	5 – 15 Effective operational life Effective operational life 3 – 5
IT and Communications Equipment	Computers Satellites Communications Equipment	3 - 7 10 Effective operational life
Non-Operational Heritage Assets		Indefinite, not normally depreciated
Assets Under Construction		Not depreciated
Capital Spares	Capital spares (rotables) are items of repairable materiel retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion.	Effective operational life (on a pooled basis, consistent with the effective operational life of the prime equipment supported)

Upon completion Assets Under Construction are transferred to other parts of the MOD for inclusion in their Balance Sheets.

1.7 Depreciation

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, less their estimated residual values, on a straight line basis over their estimated useful economic lives.

1.8 Donated Assets

Donated tangible fixed assets are capitalised, within the principal asset category to which they relate, at their valuation on receipt; this value is credited to the Donated Asset Reserve. Subsequent revaluation and associated depreciation are also taken to this reserve.

1.9 Disposal of Tangible Fixed Assets

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

1.10 Operating Leases

Expenditure under operating leases is charged to the Operating Cost Statement in the period in which it is incurred. Operating Leases are detailed in Note 22.

1.11 Private Finance Initiative Transactions

Where the substance of the transaction is such that the risks and rewards of ownership remain with the Agency, the assets and liabilities remain on the Agency's Balance Sheet. Where the risks and rewards are transferred to the Private Sector the transaction is accounted for in the Operating Cost Statement through service charges in accordance with FRS5 and HM Treasury Guidance.

1.12 Investments

Investments represent holdings that the Defence Procurement Agency intends to retain for the foreseeable future. Fixed asset investments are stated at market value where available, otherwise they are stated at cost.

1.13 Stocks

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

During the course of 2003-04 the accounting treatment related to stock depletion associated with Special Nuclear Material was reviewed and a more appropriate treatment adopted. This has required the reclassification of the value of some stock components from the Fixed Asset categories (including AUC) within the Balance Sheet to the Stock Account. There is no net effect on the Prior Year Operating cost statement as a result of this reclassification. Prior year balance sheet comparators have been restated to reflect this change in accounting policy.

1.14 Provisions for Liabilities and Charges

Provisions for Liabilities and charges have been established to recognise a realistic and prudent estimate of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date where the amount and/or timing is uncertain. Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of the underlying facility where the expenditure provides access to current and future economic benefits. In such cases the capitalised provision will be depreciated as a charge to the Operating Cost Statement over the remaining estimated useful economic life of the underlying asset. Where appropriate, provisions have been discounted to a current price base using HM Treasury's discount rate. The discount for each material class of provision will be unwound over the remaining life of the asset class as an interest charge to the Operating Cost Statement. Provisions for restructuring and redundancy have been made only where the Agency has a detailed formal plan from which it cannot realistically withdraw.

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

1.15 Reserves

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments on fixed assets and stocks (excluding donated assets and those financed by Government grants). The Donated Asset Reserve reflects the net book value of assets that have been donated to the Agency. The balance of taxpayers' equity is represented by the General Fund.

1.16 Pensions

Principal Civil Service Pension Scheme (PCSPS)

From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (Partnership Pension Account).

Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow (er) pensions.

Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the table assumes no commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them from undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic Plus Scheme

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

Pensions payable under Classic, Premium and Classic Plus are increased in line with the Retail Prices Index.

Partnership Pension Account

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

Armed Forces Pension Scheme (AFPS)

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

1.17 Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

1.18 Capital Charge

A charge, reflecting the cost of capital utilised by the Agency, is included in the Operating Cost Statement. The charge is calculated using the HM Treasury standard on all assets and liabilities (except for donated assets, which are exempt from the charge). The rate charged by HM Treasury prior to 2003/2004 was 6%. The rate reduced to 3.5% in Financial Year 2003/2004, the effect of which was a reduction of £344,093,000 in capital charges.

1.19 Foreign Exchange

Transactions which are denominated in a foreign currency are translated into sterling using the Ministry of Defence's General Accounting Rate (GAR) ruling at the date of each transaction. Monetary assets and liabilities are translated at the spot rate applicable at the Balance Sheet date and the exchange rate differences are reported in the Operating Cost Statement.

1.20 Notional Costs

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

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

1.21 Cash Flow

The management of liquid resources, which includes balances at commercial banks, is mainly due to balances on international collaborative projects. The level of balances are contingent upon the level of funding and the stage of the project.

2. Staff numbers and costs

2.1 The number of whole-time equivalent persons employed at 31 March 2004 was as follows:

	2003/2004 Persons employed	2002/2003 Persons employed
Service	738	681
Civilian	3,880	3,817

2.2 The DPA employed the following temporary staff during 2003/04:

	2003/2004 Persons employed
Temporary	15
Casual	38

2.3 The aggregate payroll costs, including allowances, for these persons were as follows:

	2003/2004 £000	2002/2003 £000
Salaries and Wages		
- Service	36,791	33,203
- Civilian	108,944	105,245
Social Security costs	12,165	10,286
Other pension costs	24,415	23,008
Other salary costs		
Sub total	182,315	171,742
Redundancy and severance payments	3,802	15,512
Total payroll costs including Redundancy Payments	186,117	187,254

Redundancy payments made were £661,998.

There was an increase in the provision for future redundancy and early retirement payments o £3,140,139.

3. Executive Board remuneration

3.1 Introduction

The DPA Agency accounts seek to comply with the disclosure practices applicable to companies in the private sector and as set out in the Greenbury code on corporate governance. The level of disclosure sought has recognised the differences between private sector directors and the directors that comprise the DPA Executive Board.

The DPA Executive Board is composed of both senior civil servants and senior officers of HM Forces. Unlike private sector directors, civil servants and officers do not determine their remuneration package. In particular civil servants do not qualify for the large elements of variable pay which were of particular concern to the Greenbury Committee.

3.2 The Executive Board

Where appointments to the Board were made after the beginning of the financial year (1st April 2003), details are disclosed relating to their period of office only. Similarly, where Board members left before the financial year-end (31 March 2004), only details up to departure are disclosed.

3.3 Remunerations of DPA Executive Board during the year

The salary and pension entitlements of the most senior members of the Defence Procurement Agency were as follows:

	Age at 31 March 2004	Salary and benefits in kind for period of DPA appointment 2003/2004 £000	2002/2003 £000	Real increase in pension at pensionable age £000	Total accrued pension at 55(AFPS) or 60(PCSPS) at 31 March 2004 £000
Sir Peter Spencer *Chief of Defence Procurement/ Chief Executive (from 01/05/03)*	56	105-110	—	0-2.5	0-5
Sir Robert Walmsley *Chief of Defence Procurement/ Chief Executive (to 30/04/03)*	63	15-20	130-135	0-2.5 *plus 0-2.5 lump sum*	5-10 *plus 25-30 lump sum*
Mr David Gould *Deputy Chief Executive*	54	120-125	105-110	2.5-5 *plus 10-12.5 lump sum*	40-45 *plus 130-135 lump sum*
Dr Iain Watson *Executive Director (from 01/12/03)*	56	80-85	—	0-2-5 *plus 0-2.5 lump sum*	30-35 *plus 90-95 lump sum*
Mr Ian Fauset *Executive Director 1 (to 05/12/03)*	60	75-80	105-110	2-5-5 *plus 7.5-10 lump sum*	45-50 *plus 140-145 lump sum*
Major General Peter Gilchrist *Executive Director 2*	52	85-90	80-85	0-2-5 *plus 2.5-5 lump sum*	40-45 *plus 120-125 lump sum*
Air Vice-Marshal Dil Williams *Executive Director 3 (from 07/07/03)*	49	60-65	—	2.5 – 5 *plus 7.5-10 lump sum*	35 - 40 *plus 105-110 lump sum*
Air Vice-Marshal Barry Thornton *Executive Director 3 (to 06/07/03)*	51	20-25	80-85	0-2.5 *plus 0-2.5 lump sum*	35-40 *plus 115-120 lump sum*
Rear Admiral Ric Cheadle *Executive Director 4 (from 01/12/03)*	54	25-30	—	2-5-5 *plus 10-12.5 lump sum*	40-45 *plus 125-130 lump sum*
Rear Admiral Nigel Guild *Executive Director 4 (to 01/12/03)*	55	55-60	80-85	0-2-5 *plus 2.5-5 lump sum*	40-45 *plus 130-135 lump sum*
Mr Stan Porter *Executive Director 5*	59	95-100	80-85	0-0.25 *plus 0-2.5 lump sum*	40-45 *plus 130-135 lump sum*
Mr David Noble *Executive Director 6 (from 01/07/03)*	48	65-70	—	0-2.5	0.5
Mr David Richardson *Executive Director 6 (to 30/06/03)*	53	20-25	30-35	2.5-5 *plus 5-7.5 lump sum*	25-30 *plus 80-85 lump sum*
Professor Tom McGuffog* *Non-Executive Director*	63	15-20	15-20		

No benefits in kind were received by any DPA Board Members in financial year 2003/04

The executive members have cash equivalent transfer values (CETV), relating to the member's pension benefits accrued at the beginning and end of the reporting year., through the Civil Service pension arrangements, as follows:

	CETV at 31 March 2004 or date left DPA Executive Board £000	CETV at 31 March 2003 or date of appointment £000	Real increase in CETV after adjustment for inflation in market investment changes in market investment factors £000
Sir Peter Spencer	26	—	23
Sir Robert Walmsley	147	148	1
Mr David Gould	758	665	65
Dr Iain Watson	536	513	23
Mr Ian Fauset	874	817	31
Major General Peter Gilchrist	917	871	22#
Air Vice-Marshal Barry Thornton	906	884	15#
Air Vice-Marshal Dil Williams	854	787	51#
Rear Admiral Ric Cheadle	877	785	—
Rear Admiral Nigel Guild	886	871	85#
Mr Stan Porter	812	766	12
Mr David Noble	14	—	12
Mr David Richardson	451	413	29
Professor Tom McGuffog*	—	—	—

* Professor McGuffog is employed on a fixed term contract renewable by agreement. He is not employed as a civil servant and is not a member of the PCSPS.

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

'Accrued Pension' benefits are provided through either the (a.) Principal Civil Service Pension Scheme for civilian Board members or (b.) Armed Forces Pension Scheme for service Board members.

(a.) This is a statutory scheme that provides benefits on a 'final salary' basis at a normal retirement age of 60. See Note 1.16

(b.) This is a statutory scheme that provides benefits on a 'final salary' basis at a normal retirement age of 55. See Note 1.16

'Real Increase in Pension' and related lump sum at pensionable age' represents the increase in value of the Total Accrued Pension over the course of the year 2003/04. It is expressed in real terms viz. adjusted for inflation as illustrated below:

Accrued Pension at 31/3/04 less Accrued at 31/3/03 adjusted for inflation gives real increase in pension.

Any pension funded by a Board member at their own expense, for example by way of Additional Voluntary Contributions, is excluded from the disclosed remuneration.

7. Operating income

	2003/2004 £000	2002/2003 £000
From external customers, Other Government Departments and Trading Funds - includes £10M receipt for sale of stores to Canadians;£7M rate rebate;£6M liquidated damages;£3M NATO receipt;£4M Home Office receipt; £2M commercial exploitation levies; £2M work done for other Agencies.	(42,198)	(36,955)
Total operating income	(42,198)	(36,955)

8. Charges from other parts of MOD (Notional Costs)

Operating costs include non-cash items, and notional costs for services provided by other parts of the MOD:

	2003/2004 £000	2002/2003 £000
Charges from other parts of MOD		
- MOD Central Overheads	18,127	17,685
- MOD Guarding/Policing	20,360	22,774
- Defence Storage and Distribution Agency	115	34
- Defence Bills Agency	935	912
- Defence Internal Audit	115	123
- Defence Codification Agency	1,135	1,141
- Defence Communications Fleet Tasking Agency	32	36
- Defence Postal and Courier Services Agency	325	317
Total Charges for other parts of MOD (Notional Costs)	41,144	43,022
National Audit Office – Notional Fee for Audit Work (see note below)	190	200
Cost of Capital	481,730	1,021,726
Total Non-cash costs for services provided	523,064	1,064,948

The National Audit Office has not carried out Non-Audit Work.

9. Intangible fixed assets

	2003/2004 £000	2002/2003 £000
Cost or Valuation		
At 1 April	8,809,070	7,993,271
Additions	1,662,674	1,756,092
Impairment losses	(36,735)	—
Transfers to other parts of the MOD	(970,443)	(675,968)
Revaluations	193,598	(104,244)
Disposals	—	—
Reclassifications	(350,722)	(160,081)
At 31 March	9,307,442	8,809,070
Amortisation		
At 1 April	—	—
Disposed of in year	—	—
At 31 March	—	—
Net Book Value		
At 31 March	9,307,442	8,809,070

Development costs are transferred to other parts of the MOD for inclusion in their Balance Sheets with the first production delivery of related equipment.

Impairment losses have been incurred as a result of the application of negative indexation applied to IT & Comms development costs.

Reclassifications include reassessment of the costs of Nimrod MR4A to show a more accurate split between development costs and assets under construction.

10. Assets under construction

	2003/2004 £000	Restated 2002/2003 £000
Cost or Valuation		
At 1 April	9,235,386	10,165,640
Additions	2,731,609	2,949,751
Transfers to other parts of the MOD	(2,550,004)	(2,972,710)
Revaluations	144,270	(7,304)
Disposals	—	(75,536)
Reclassifications	(60,001)	(824,455)
At 31 March	9,501,260	9,235,386

Note to Assets under construction

AUC cost valuation at 1 April '03 as previously reported	9,374,068
Reclassification of special nuclear material from AUC to Stock	(138,682)
AUC balance as at 1 April '03 as restated	9,235,386

Assets Under Construction are transferred to other parts of the MOD for inclusion in their Balance Sheets as the related equipment is delivered.

Reclassifications include the impairment of Chinook Mk3 helicopters pending a future decision on their use. The reassessment of the costs of Nimrod between development costs and assets under construction and movement of completed assets in the nuclear area to the appropriate fixed asset category.

11. Other tangible fixed assets

	Freehold Land and buildings £000	Fighting equipment £000	Plant machinery and vehicles £000	IT and comms equipment £000	Capital spares £000	Total £000
Cost or Valuation						
			Restated			
At 1 April 2003	693,043	3,524	2,141,564	77,691	9,210	2,925,032
Additions	7,951	—	—	2,407	894	11,252
Impairment losses	—	—	3,304	(609)	(82)	2,613
Disposals	—	—	—	(8,207)	—	(8,207)
Revaluations	61,757	—	8,089	(1,340)	745	69,251
Transfers to other parts of the MOD	—	6,792	—	(18,793)	28,070	16,069
Reclassifications	(105,267)	—	(89,147)	(4,787)	9,963	(189,238)
At 31 March 2004	**657,484**	**10,316**	**2,063,810**	**46,362**	**48,800**	**2,826,772**
Depreciation						
At 1 April 2003	(92,934)	(1,508)	(821,587)	(43,370)	(2,195)	(961,594)
Charged in year	(21,988)	(366)	(79,248)	(11,365)	(19,150)	132,117)
Backlog Depreciation	(657)	—	(13,095)	(1,848)	—	(15,600
Impairment losses	22,018	—	—	149	—	22,167
Disposals	—	—	—	8,207	—	8,207
Transfers to other parts of the MOD	—	(387)	—	4,909	—	4,522
Reclassifications	44,094	366	110,302	15,126	—	169,888
At 31 March 2004	**(49,467)**	**(1,895)**	**(803,628)**	**(28,192)**	**(21,345)**	**(904,527)**
Net Book Value at 31 March 2004	**608,017**	**8,421**	**1,260,182**	**18,170**	**27,455**	**1,922,245**
NBV at 1 April 2003	**600,109**	**2,016**	**1,319,977**	**34,321**	**7,015**	**1,963,438**
Note to Other Tangible Assets:						
PMV cost valuation at 1 April '03 as previously reported			2,749,649			
Reclassification of special nuclear Material from PMV to Stock			(608,085)			
Plant, machinery & Vehicles as at 1 April '03 as restated			2,141,564			

Reclassifications include the impairment of a building shown in Land & Buildings. The movement of special nuclear material from the plant, machinery and vehicles category to stock.

The asset values above include £69,000 in relation to donated assets. These are capitalised at their current valuation on receipt and are revalued/depreciated on the same basis as purchased assets.

Quinquennial Review

Land and buildings are revalued every 5 years through the Ministry of Defence's Quinquennial Review (QQR) of fixed assets. In the intervening years, the values of fixed assets are revised using indices provided by the Department. As part of the QQR, the Agency's land and buildings were revalued as at 1 April 2002 by the Valuation Office Agency (VOA) and Departmental professional valuers. The VOA is a Government Agency independent of the Ministry of Defence. Assets were valued on the basis of Existing Use or Depreciated Replacement Cost, as appropriate to the nature of the asset.

Annual Report and Accounts

A professional valuation is carried out, by the Valuation Office Agency on an annual basis for the Abbey Wood site, the April 2003 valuation was £49,600,000 (April 2002 £50,000,000).

All other land and buildings are professionally valued, carried out by external valuers, and have been conducted on assets as follows:

Year last valued	Valuation £000
2002-03	550,110

The valuers conducting professional valuations of properties were:

Name	Qualifications	Internal, External or Independent	Date of valuation
Valuation Office Agency	RICS	Independent	1 April 2003

The freehold and leasehold properties occupied by the Agency were valued by external valuers as part of the Quinquenial Review undertaken by Defence Estates, as at 1 April 2002. These operational properties were valued on the basis of existing use value, or where this could not be assessed, because there was no market for the subject asset, the depreciated replacement cost subject to the prospect and viability of the occupation and use.

The Board are of the opinion that there is no significant difference between the current market value of land held by the DPA and its book value.

12. Investments

Investments, including 'special shares', are held in the following companies at 31 March 2004:

Investments	£1 Preferential shares
Atomic Weapons Establishment plc	1 share
Atomic Weapons Establishment Pensions Trustees Limited	1 share
BAE SYSTEMS Marine (Holdings) Limited	1 share

All shares held are unlisted and are valued at historical cost.

"Special shares" confer on the Secretary of State for Defence special rights regarding ownership, influence and control, including voting rights in certain circumstances, under individual Articles of Association of the relevant companies in which the shares are held. Further detailed information can be obtained from the companies' individual annual report and accounts which can be obtained from:

Atomic Weapons Establishment plc, AWE Aldermaston, Reading RG7 4PR

Atomic Weapons Establishment Pensions Trustees Limited, AWE Aldermaston, Reading RG7 4PR

BAE SYSTEMS Marine (Holdings) Limited, Warwick House, PO Box 87, Farnborough
Aerospace Centre, Farnborough, Hants, GU14 6YU

13. Stocks and work in progress

	2003/2004	Restated 2002/2003
	£000	£000
Raw materials and consumables	2,554,746	2,403,562
Total stocks and work in progress	2,554,746	2,403,562

Note to Stocks and Work in progress	
Cost valuation at 1 April '03	1,656,795
Reclassification of special nuclear	
Material from PMV & AUC to Stock	746,767
Stock balance as at 1 April '03 as restated	2,403,562

The overall increase in stock is net of a downward revaluation of £222,788,055.

14. Debtors

	2003/2004 £000	2002/2003 £000
Amounts falling due within one year		
Trade debtors	11,713	13,040
Deposits and advances	16,502	9,903
VAT	—	39,133
Other debtors	48,752	19,446
Prepayments and accrued income	95,626	39,013
Last bad debts	(9,530)	(10,031)
Total debtors: amounts falling due within one year	**163,063**	**110,504**
Amounts falling due after one year		
Trade debtors	—	—
Prepayments and accrued income	—	—
Less bad debts	—	—
Total debtors: amounts falling due after one year	—	—
Total debtors	163,063	110,504

15. Cash at bank and in hand

	2003/2004 £000	2002/2003 £000
As at 1 April	88,528	107,350
Net Cash Inflow /(Outflow):	(6,138)	18,822
As at 31 March	**82,390**	**88,528**
Balances at:		
Office of HM Paymaster General (OPG)	—	340
Commercial Banks and Cash in Hand	82,390	88,118
As at 31 March	**82,390**	**88,528**

16. Creditors: amounts falling due within one year

	2003/2004 £000	2002/2003 £000
Trade creditors	204,103	239,109
Payments received on account	1,732	3,481
VAT	41,997	17,934
Taxation and social security	—	—
Other creditors	91,439	165,378
Accruals and deferred income	2,470,444	2,096,877
Total creditors due within one year	**2,809,715**	**2,522,779**

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

	2003/2004 £000	2002/2003 £000
Other creditors	84,185	202,330
Capital element of finance leases	—	—
Total creditors due after one year	84,185	202,330

18. Provisions for liabilities and charges

	Nuclear decommissioning	Early retirement pensions commitments	Other	Total
	£000	£000	£000	£000
At 1 April 2003	4,851,509	34,895	170,706	5,057,110
Utilisation of provisions	(263,582)	(6,612)	(59,529)	(329,723)
Unwinding of discount	239,138	1,319	1,957	242,414
Change to Treasury Discount rate effect on unwinding	1,993,723	3,186	4,743	2,001,652
Amounts capitalised				
Capitalised Provision Movements	7,951	—	—	7,951
Increase /(Decrease) in provisions	165,781	2,691	33,805	202,277
Reclassification from 02/03	2	(393)	391	—
At 31 March 2004	6,994,522	35,086	152,073	7,181,681

Other provisions include AWE Redundancy liability and a number of project provisions relating to claims and settlement fees. The reclassification from 2002-03 is the result of an adjustment to early retirement pension commitments which should be shown as 'Other'.

Provisions have been charged in the year to the Operating Cost Statement as follows:

	2003/2004	2002/2003
	£000	£000
Decommissioning provisions	165,781	1,699,921
Payroll costs	3,140	14,828
Other costs	33,355	119,581
Total costs	202,277	1,834,330

Nuclear Decommissioning

Nuclear decommissioning provisions relate principally to the cost of decommissioning, treating and storing nuclear waste arising at British Nuclear Fuel plc (BNFL), United Kingdom Atomic Energy Authority (UKAEA) and MOD sites and for the departmental share of planning and constructing a national repository for the eventual disposal of that waste.

Liabilities have arisen since the late 1940's and will continue well into the future as a result of ongoing production and operations associated with the manufacture and reprocessing of Special Nuclear Materials (SNM). The majority of the liability is historic and relates to facilities used for the production of SNM by BNFL and its predecessor the UKAEA. The Atomic Weapons Establishment is the other main source of MOD's liabilities.

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

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

The latest estimate of the undiscounted cost of dealing with the DPA's nuclear liabilities is £21,418,352,000. (2002/2003 £22,038,766,000).

The estimate of £6,994,521,667 at 31 March 2004 represents £21,418,352,000 discounted at 3.5% to the balance sheet and expressed in 2003/2004 money values.

The discount rate has changed to 3.5% on 1st April 2003.

The timescale over which it is estimated the costs will need to be incurred is as follows:

	(3.5%) £000
Up to 3 years	1,381,009
From 4 to 10 years	1,896,303
Beyond 10 years	3,717,209

The bulk of the earlier anticipated costs relate to pre and post 1971 liabilities allocated to the Department. The significance of pre and post 1971 refers to the formation date of BNFL. Specific liabilities refer to the BNFL Sellafield, Springfields, Capenhurst, Calder Hall and Chapelcross sites.

Later provisions were made to cover the costs associated with the research, development and construction of the NIREX Deep Waste Repository (DWR). The provisions were based on advice provided by NIREX.

However, the policy for the disposal of intermediate and high level waste has yet to be clarified following the previous government's rejection, in May 1997, of planning consent for the proposed Deep Waste Repository which halted the research and subsequent work. Pending the current Government's consideration of a House of Lords Sub Committee report on the means of disposing of radioactive waste, the UK holders of such waste are working on the assumption that a repository will not be available earlier than 2040. This will necessitate the continued provision of interim storage.

From 1st April 2005 a new Government Agency, the Nuclear Decommissioning Agency (NDA) will be formed. The historic BNFL nuclear liability will be transferred to the new Agency from that date.

19. Reserves

	Revaluation Reserve 2003/2004 £000	2002/2003 £000	Donated Asset Reserve 2003/2004 £000	2002/2003 £000
As at 1 April	1,938,407	1,873,818	68	68
Donated assets in year	—	—	—	—
Arising on revaluation during the year (net)	651,930	149,681	1	—
Transfers to other parts of the MOD	(91,433)	(103,889)	—	—
Reclassifications	9,338	(773)	—	—
Transferred (to) /from General Fund	(27,141)	19,570	—	—
Donated Asset:			—	—
Profit / (Loss) on disposal			—	—
Depreciation charged to OCS			—	—
Impairment charged to OCS			—	—
At 31 March 2004	2,481,101	1,938,407	69	68

20. Movements in the general fund

	Note	2003/2004 £000	2003/2004 £000	2002/2003 £000	2002/2003 £000
General Fund at 1 April			12,889,794		14,939,282
Net Vote Expenditure			6,091,291		5,842,813
Net Operating Cost for the Year			(4,872,281)		(5,137,435)
Realised revaluation on disposal of assets	19		27,141		(19,570)
Non-Cash Transactions:					
cost of capital	8	481,730		1,021,726	
cost communication		(12,726)			
auditors' remuneration	8	190		200	
notional costs	8	41,144	510,338	43,022	1,064,948
Net transactions with other parts of the MOD:					
transfer of intangibles	9	(970,443)		(675,968)	
transfer of AUC	10	(2,550,004)		(2,972,710)	
transfer of tangible fixed assets	11	20,591		(64,330)	
transfer of revaluation reserve	19	91,433		103,889	
transfer of investments	12	0		0	
movements in suspense accounts				(18,822)	
retained transfer		2,016			
other transfers		(265,481)	(3,671,888)	(172,354)	(3,800,295)
Proceeds from disposal of fixed assets	6		—		51
General Fund at 31 March			10,974,395		12,889,794

21. Capital commitments

Capital commitments at 31 March 2004, for which no provision has been made in these financial statements, were as follows:

	2003/2004 £000	2002/2003 £000
Contracted but not provided for	14,374,159	15,772,194

22. Financial commitments

Lease Obligations	31 March 2004 £000	31 March 2003 £000
The DPA was commited to making the following payments during the next year in respect of non-land and buildings operating leases:		
Expiry within one year	—	4,674
Expiring between two and five years	79,057	79,057
Expiring after five years	—	—

There are **no** lease commitments under finances leases, with inception occurring after 31st March 2004.

23. Financial Instruments

The Defence Procurement Agency has no borrowings and relies primarily on Agency grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk. All our disclosures exclude short-term debtors and creditors.

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government Departments are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

Liquidity risk

The Department's revenue and capital resource requirements are voted annually by Parliament and are therefore not exposed to significant liquidity risks.

Interest rate risk

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

Foreign currency risk

The Ministry of Defence enters into forward purchase contracts annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. Details of the outstanding foreign currency contracts will be contained in the Departmental Accounts.

24. Private Finance Initiative (PFI) commitments

The payments made during the year in respect of on and off balance sheet PFI transactions were £115,745,000 (2002-03: £77,180,000). There were no leased assets included within the Fixed Asset in 2003-04, or 2002-03. And therefore no capital elements of finance leases and On Balance Sheet PFI rentals. .

The payments which the DPA is committed to make during the year 2004-05 are analysed below by timebands specifying the period in which the individual commitment expires:

	31 March 2004 £000	31 March 2003 £000
In the 1st Year	—	—
In the 2nd to the 5th Year	—	—
In the 6th to the 10th Year	—	—
In the 11th to the 15th Year	38,355	53,000
In the 16th to the 20th Year	—	3,829
In the 21st to the 25th Year	85,623	35,052
In the 26th to the 30th Year	—	1,658

The likely financial effects in future years on which DPA are committed are contingent upon specific contract terms, which will be dependent upon any actual volume implications of specific PFI deals. The above values are therefore based on the contracted levels of activity, likelihood of future activity levels above these has not been factored in, as DPA transfer the equipment or services to other MOD organisations to operate, once in service.

The following information is provided for those schemes assessed as off Balance Sheet.

Project Description	Estimated Capital Value £000	Contract Start Date	Contract End Date
The following information is provided for those schemes assessed as off Balance Sheet.			
Attack Helicopter Training mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training.	165,000	July 1998	September 2027
Strategic Sealift (RORO): Provision of strategic sealift services based on six RoRo ferries in support of Joint Rapid Reaction Force (JRRF) deployments.	175,000	June 2002	December 2024
Lynx Mk 7 & 9 Aircrew Training Service (LATS): Provision of simulator training facility for Lynx Mk7 and 9 helicopter aircrew.	15,436	July 2000	July 2025
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossimouth.	61,700	June 1999	June 2031
Skynet 5 Provision of military satellite communications services.	1,140,000	October 2003	February 2018

25. Related party transactions

The Defence Procurement Agency is an agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. During the year the Agency has had material transactions with the Department and other entities for which the Department is regarded as the parent.

The Defence Science and Technical laboratories, the UK Hydrographic Office and the Meteorological Office operate as Defence Agencies financed by Trading Fund. These fall within the ambit of the MOD and are regarded as related parties outside the Departmental boundary with which the DPA has had material transactions. All transactions are carried out on terms that are contracted on an arm's length basis, and are subject to internal and external audit.

During the year none of the Board members have undertaken any material transactions with the DPA.

As development and equipment is completed, it is delivered to the armed forces customer, at which point the asset transfers from the DPA Balance Sheet to that of the owner of the equipment in service.

26. Contingent liabilities

The Defence Procurement Agency has potential liabilities relating to the decommissioning of Astute Submarine Boat 1 which would commence in 2030/31. A delay and dislocation liability of £4M for Type 45 is likely to be settled in 2004/05.

27. Post balance sheet events

There are no post Balance Sheet events that alter the values at which items are stated in the accounts.

28. Losses and special payments

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

The tables below give details of the payments made, and losses incurred, by the DPA as disclosed in the 2003/2004 Departmental Resource Accounts.

Losses Statement	2003/2004 £000
Total (9 Cases)	145,488
Details (cases over £100,000)	
Extra Contractual Payment Losses	
Treasury approved an extra-contractual payment in relation to a submarine programme in June 2003. This followed a claim from the contractor that failure to supply submarine and threat data resulted in additional costs being incurred.	3,700
Treasury approval has been given for an extra-contractual payment arising fromfailure to provide fully working government furnished equipment in a timely manner for the Automated Message Switch Concern Equipment Replacement Programme.	4,294
Constructive Losses	
A decision was taken in 2003 to withdraw from the Multi Role Armoured Vehicle (MRAV) programme. The strategic environment had changed markedly, with much greater emphasis on rapid deployability and expeditionary operations. The design of MRAV could not effectively meet this change in requirement. A constructive loss of £48M was incurred covering the UK costs of participating in the multilateral collaborative programme up to the point of withdrawal.	48,000
The in service date for the Astute Class Training Service (ACTS) PFI project will be delayed as a consequence of slippage to the Astute submarine programme. This has resulted in a constructive loss.	31,373
Following the decision to cancel project PASCO a contract termination agreement was signed in July 2003. Costs incurred up to this period have been written off as a constructive loss.	12,245
A constructive loss was incurred following a performance/cost trade decision in 2003 not to pursue a digital integration of the Rangeless Airborne Instrumented Debriefing System (RAIDS) training system onto Tornado F3. The decision was made on grounds of value for money in the light of the significant capability improvements already delivered by RAIDS at the lesser level of integration.	5,269
A constructive loss has been incurred in relation to equipment purchased under an Urgent Operational requirement (UOR) in June 1999. The equipment was never fully accepted in to service. Disposal action was delayed in light of further conflicts but in June 2003 it was confirmed that there had been no requests for the equipment in theatre.	1,022
A project to design a suitable vehicle trailer to carry specialist equipment has been cancelled due to technical difficulties identified during trials. This has resulted in a constructive loss.	644
Claim Abandoned	
Treasury approval has been obtained to abandon a £49.987M claim against the contractor following cancellation of project VIXEN in February 1997. The MOD received £14.550M in compensation but agreed to pay £3.504M in Treasury Solicitor costs.	38,941

Advanced Notifications

Previously Notified

A delay in the production of helicopter training course material has resulted in a possible write-off.

A constructive loss has arisen from the decision not to proceed into production for either medium- range or long-range anti-tank guided weapons systems.

Re-negotiation of a contract for the Nimrod reconnaissance aircraft project has resulted in a possible claim being abandoned and constructive loss.

Increased development costs relating to the Brimstone project arising from the non-availability of trial platforms.

Not Previously Notified

Delays in supplying design information and equipment has resulted in a claim on the MOD relating to additional delay and dislocation costs.

A contract to provide a centrifuge to train aircrew for modern agile fast jet aircraft at high G force has been cancelled resulting in a potential write-off.

The extended range ordnance modular charge system has been cancelled due to technical difficulties resulting in a possible write-off.

A loss of £205M has arisen following the impairment of Chinook MK3 helicopters.

A loss of £65M has been incurred following impairment of an operational building.

Renegotiations in respect of the Hydrographic and Oceanographic Survey Vessels (SVHO) contract have resulted in a possible write-off.

Ex-gratia Payments

Ex-gratia payments have been made on account to British Nuclear Fuels plc and the United Kingdom Atomic Energy Authority towards the cost of treating and disposing of nuclear wastes and decommissioning plant at British Nuclear Fuels plc sites. The total paid to date is £1,341 million.

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
9/04,171960

Defence Procurement Agency
Maple 1c, #2120
MOD Abbey Wood
Bristol BS34 8JH

+44 (0) 117 9130636

www.mod.uk/dpa

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

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
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PO Box 29, Norwich NR3 1GN
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ISBN 0-10-292962-9
9 780102 929621

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