



MINISTRY OF DEFENCE



Annual Report and Accounts 2005 - 2006

Defence Communication Services Agency



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AGENCY VISION

Information anytime, anywhere – transforming Defence effectiveness.

AGENCY MISSION

To maximise Defence operational effectiveness and business efficiency through the delivery of integrated Information Solutions.



DEFENCE COMMUNICATION
SERVICES AGENCY

A Defence Agency of the
Ministry of Defence

Annual Report and Accounts 2005/2006

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Chief Executive's Overview

Financial Year (FY) 2005/2006 proved to be another extremely challenging year for the Agency, with many milestones achieved and challenges overcome.

With a combination of effective strategy, continued good programme execution and achievement of key business and operational objectives, FY 2005/2006 has been a successful period for the Defence Communication Services Agency (DCSA). This performance has been achieved within the context of continuing increased demand for the essential information services provided by the Agency in support of military operations and radical business change across the Department.

Support to the UK Armed Forces military and peacekeeping operations is a key Agency output. This activity is worldwide and involves the deployment of complex military and commercial solutions in response to the operational tempo of supporting 16 Operations. Iraq continued to dominate the operational sphere and this included the provision of the deployed Communication and Information Systems (CIS) and infrastructure in support of UK and coalition forces. The Agency also provided the Strategic and Operational level CIS for Operation HERRICK in Afghanistan when the UK's operational focus shifted from the north of the country to prepare for the expansion of NATO forces in the south. Against this backdrop, the Agency provided CIS and other communication services to many other overseas operations, including Operation OCULUS in the Balkans, maritime operations in the Middle East and Operation MATURIN, the UK response to the Pakistani earthquake.

This year saw the Agency exceed all of its key targets and the continued development of a number of important projects that enable the Defence community to meet the Defence Vision¹. These included the implementation of the Defence Information Infrastructure system to the major Ministry of Defence (MoD) sites including MoD HQ. Additional Information Infrastructure projects successfully undertaken during the period include delivering the infrastructure element of the Joint Personnel and Administration (JPA) system to the RAF and the People, Pay and Pensions Agency system. The SKYNET 5 project also presented some unique elements, involving a necessary restructuring of the Private Finance Initiative (PFI), the largest variation of any Government PFI. This resulted in the placing of a third

satellite in orbit as a spare, instead of relying on space insurance to cover satellite loss. In addition the Defence Fixed Telecommunications System (DFTS) contract was extended to 2012, ensuring the continued provision of the UK Armed Forces' telecommunications requirement in the form of Wide Area Network, voice, data and video services. In all, the Agency delivered £98M of efficiencies.

The development of the Agency Blueprint and the delivery of the Agency Change Programme continues apace. The Blueprint will provide a high level vision of the main components of the Agency in the future, describing the activities the Agency should engage in and the structure it needs to adopt in order to best carry them out. It also articulates how the Change Programme will deliver the vision through the provision of the optimum level of Information and Communication Services (ICS) support across Defence and Network Enabled Capability (NEC). This year the Change Programme has delivered key successes, for example the mapping of the current CIS network.

The magnitude of the challenges that Defence ICS faces are considerable, and the Agency has demonstrated an ability to deliver operational capability and results across Defence. Looking ahead, the Agency remains at the hub of all significant Defence-wide programmes operating in a time of challenging Defence budgets and it is the Agency's top priority to deliver continuing performance improvement.



A handwritten signature in blue ink that reads "RGJ Ward".

RGJ Ward CB
Rear Admiral,
Chief Executive

¹ Defending the UK and its interests. Strengthening international peace and stability...and producing battle-winning people and equipment that are ready for the tasks of today, fit for the challenge of tomorrow and capable of building for the future.

Key Agency Achievements

FY 2005/2006

The Agency exceeded all its key targets and delivered many other notable achievements.

- Deployment of complex CIS solutions to the Armed Forces in support of worldwide operations
- The Change Programme, whilst hastening Agency transformation, exceeded targets by delivering £50.5M of hard benefit in FY 2005/2006, with a forecast of a further £104M across the remaining years of the Short Term Plan 2005 period, and an estimated total of £223M cost avoidance in the period from FY 2004/2005 to FY 2008/2009
- The Defence Information Infrastructure (Convergence) (DII/C) programme advanced on time and within budget to the major MoD sites, including MoD HQ and the Permanent Joint Headquarters (PJHQ)
- The Defence Information Infrastructure (Future) (DII/F) achieved several major milestones since the awarding of the DII/F contract to the ATLAS Consortium, mainly the first and second scheduled programmed transfers of systems, services and people from the MoD to ATLAS
- The SKYNET 5 PFI was completed December 2005, involving the largest variation in a Government PFI deal. This was a radical refinancing arrangement, based on having a third satellite in orbit as a standby. This action avoided the need to have space insurance to cover satellite loss
- The Defence Fixed Telecommunications Systems (Future) contract was extended to July 2012 to enable the continued global provision of telecommunications to the UK Armed Forces
- The G8 Global Partnership Conference held at Gleneagles in July 2005 under the scrutiny of the world's media was successfully supported by the Agency
- Support to the new BOWMAN battlefield communications system, on intense and critical operations in Iraq and Afghanistan, achieved levels of availability in excess of 90% despite an immature support solution
- Logistic Applications Integrated Project Team (IPT) made significant advancements in preparation for the Future Logistic Information Systems Delivery Project Initial Gate financial approval. The project is essential to the improved provision of Logistic IS as an end-to-end service

Foreword to the Agency Report

History and Background

The DCSA was established as an Agency of the MoD on 1 April 1998. The Agency's mission is to maximise Defence operational effectiveness and business efficiency through the delivery of integrated information solutions. As a Defence Agency, the organisation remains part of the Defence Logistics Organisation. It is managed by the Agency Main Board, which is chaired by Rear Admiral R G J Ward as Chief Executive.

Financial Performance

The Agency met its financial targets for both Direct Resource and Capital expenditure as set by the Defence Logistics Organisation for FY 2005/2006. Net operating costs increased by £110M (8%) from £1,231M in FY 2004/2005 to £1,341M. Staff costs increased by £27M as a direct consequence of increased average staff numbers from 4,759 to 5,263 and normal wage inflation. The increase in staff numbers was primarily driven by the Agency taking on further Communication and Information Systems (CIS) functions through the CIS rationalisation programme. Other operating costs increased by £79M and were primarily driven by a £25M increase in service assurance costs as part of the DII/F programme, £33M increased impairment to fixed assets due to a revised impairment index for FY 2005/2006, and a £23M increase in depreciation which reflects the increased level of assets in the Agency.

Post Balance Sheet Events

For FY 2006/2007 the Agency has taken on the financial responsibility for all MoD Information Technology and Communications equipment. This will be accounted for in the Agency balance sheet, except for those assets for which the risks and reward of ownership lie with another Agency. At the same time the MoD transferred the Agency responsibilities for Land and Buildings, Plant Machinery and Transport. Full details have been disclosed in Note 22 of the Accounts under 'Post Balance Sheet Events'.

Risks and Uncertainties

The Agency faces a wide range of risks and uncertainties. It seeks to reduce both the probability of adverse events occurring and also the impact should they happen. For example, the effectiveness of command and control at operational and business levels, which relies on the Agency providing a secure and reliable Defence network, is important to everyone and there is constant work to ensure that the Agency

focus on the reliability and availability of the services it delivers is maintained. The Agency also has initiatives such as business continuity planning to reduce the impact of the unlikely event of a successful hostile cyber-attack.

There are also a number of uncertainties associated with supporting military and peacekeeping operations, and in particular the requirement to support worldwide deployments at short notice. The increased Agency focus on operations and close liaison with Permanent Joint Headquarters will assist the Agency to respond effectively to future deployments.

Resources

The main resources of the Agency are its people and the locations it operates from. The Agency has a strong reputation for delivering CIS projects to performance, time and cost targets, and this is due to the Agency's employees and their unique skills in managing the delivery of new or enhanced capability.

The Agency owns several sites. The key site at Corsham is in itself a significant resource for the organisation and work is underway to evaluate how best this might be utilised.

Research and Development

The Agency tracks significant research activities, funded and sponsored by the Director Equipment Capability Command, Control and Information Infrastructure, to support future CIS requirements.

Equal Opportunities Policy

The Agency is a committed equal opportunities employer and as such all appointments are made on merit, and on the basis of fair and open competition, regardless of gender, marital status, race or ethnic origin, sexual orientation, age, religious belief, physical or mental disability - the test applied being the ability to do the job. The promotion of equal opportunity best practice throughout the Agency and the provision of a working environment free from discrimination and harassment is a fundamental aim. The Agency has an Equal Opportunity Officer who is responsible for the implementation and monitoring of initiatives relating to equal opportunity, to ensure observance of the policy and to provide advice and assistance. The Agency's Equality and Diversity plan is available to all staff and they are expected to attend Bullying Awareness and Equality and Diversity training.

Foreword to the Agency Report

Staff Involvement, Development and Training

The Agency recognises the importance of effective communication between staff at all levels. All published plans, reports, accounts and surveys, including the Agency's Staff Survey, are made freely available to staff. The Agency website provides a valuable knowledge base for information such as the Main Board's 'Key Messages to Staff' and staff feedback forms. All staff receive the in-house magazine "@ DCSA", which provides information on both social and operational activities on a bi-monthly basis. Staff briefings take place through the Agency's cascade briefing system, supplemented by localised briefings. The Agency is fully committed to Investors in People (IIP), and the business has retained IIP accreditation for one year; a further assessment is expected in 2006/2007. The Agency is fully committed to the Central Staff suggestion scheme, GEMS, and continues to encourage and support staff through nationally recognised qualifications. Training Liaison Officers have been appointed to coordinate training initiatives for Service and Civilian employees.

Environmental Issues

The Agency continues to monitor and manage the impact of its activities on the environment and is committed to minimising those impacts in an appropriate manner, working closely with Defence Estates, whilst complying with all Government legislation concerning the environment, for example Hazardous Waste Regulations 2004.

The Corsham 09 programme is expected to provide modern and environmentally compliant facilities including office space, a conference centre, a centralised sports centre, and day care facilities for young children. The project will also provide other

village retail amenities such as cash points, newsagents and hairdressers. During the build phase the local environmental impact will be kept to a minimum through liaison with the appropriate local and national authorities.

The Corsham Underground site (which includes the Cold War Command Centre, disused quarry workings, an ammunition depot and an RAF workshop) lies 100 feet beneath the surface, spread over 400 acres. The site presents some unique environmental challenges such as an underground water reservoir and fuel storage tanks, which have now been emptied following decommissioning of the site. The Agency is now working closely with English Heritage and other statutory bodies to consider ways of preserving and exploiting the site whilst complying with the necessary Environmental Regulations.

The Agency is committed to disclosing any information that comes to its attention that clearly demonstrates that any of its activities or services breach UK and internationally accepted safety and environmental standards or guidelines.



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
7 July 2006

Management Commentary

Support to Operations

The Agency continued to support worldwide operations and was involved in delivering, testing and assuring complex deployed CIS solutions to the Defence community.

Operation TELIC

Iraq dominated operations throughout the period and in response the Agency continued the commercialisation of the communications infrastructure through Project SYNERGY. This is a CIS Urgent Operational Requirement to provide a comprehensive deployed communications infrastructure in support of operations. The deployed infrastructure supports all UK and coalition forces in the Multi-National Division South East sector, from Baghdad to Basra, and also the timely release of critical CIS capabilities to be reconstituted to support future Joint Rapid Reaction Force deployments.

Operation HERRICK

The Agency continues to provide CIS support to operations in Afghanistan - mainly the British commitment to the Security Assistance Force. At the end of 2005 the UK's operational focus shifted from the two Provincial Reconstruction Teams in the north to shaping operations in preparation for the expansion of NATO forces into the south.

The deployment into the Helmand Province region in the south of the country under NATO Command saw UK Troops form a major part of the Multi-national Brigade (South) and a requirement for deployed strategic and operational CIS. This was delivered through the refurbishment and upgrade of Operational Support Communication Architecture terminals, providing resilient CIS capability through a mixture of military and commercial satellites, and the terrestrial infrastructure in Afghanistan and the UK.

Operation TELIC and HERRICK aside, the Agency continued to provide CIS solutions and other necessary communication services to many other overseas operations in the Land, Sea and Air environments:

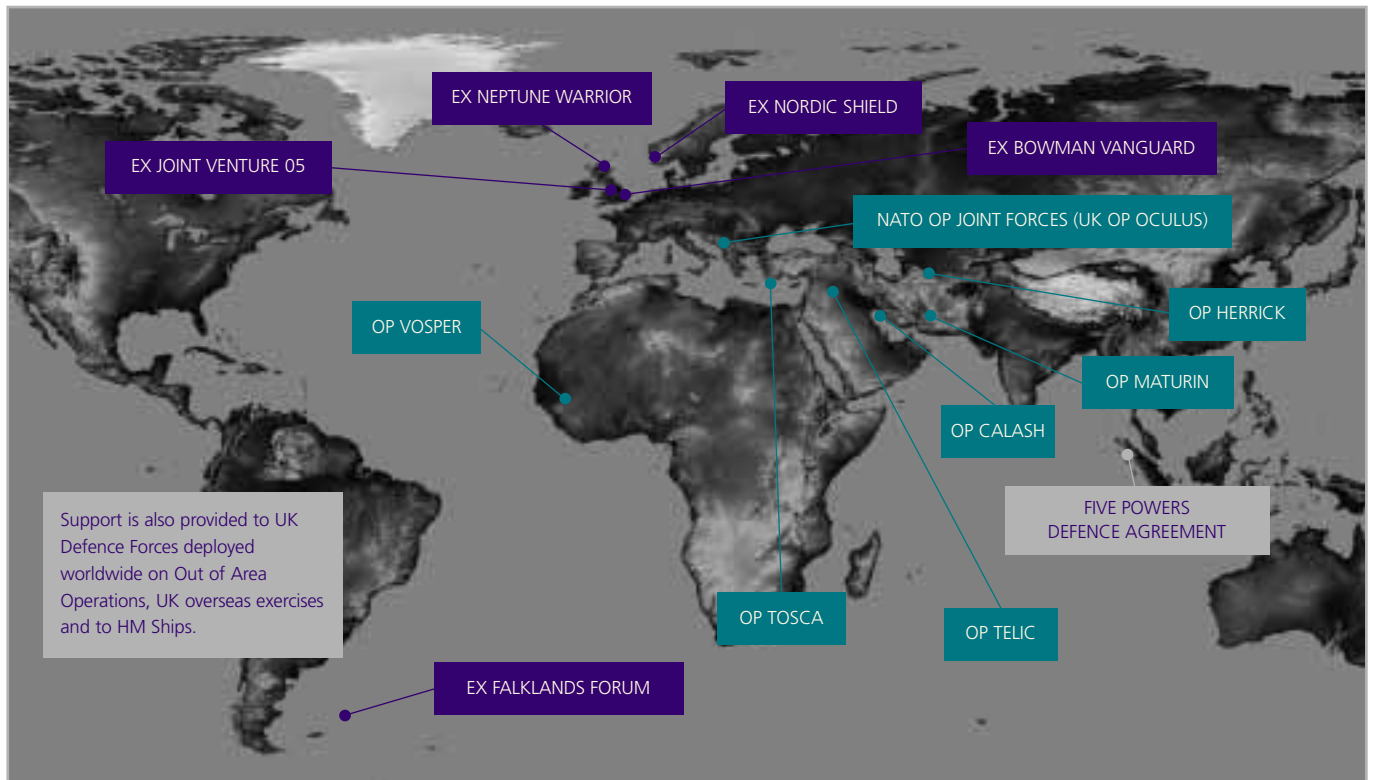
- Operation OCULUS in the Balkans – the Agency continued to support the European Union Stabilisation Force in Bosnia and Kosovo
- Operations ORACLE/ARMILLA/CALASH/REINSTATE – The Agency continued support to maritime operations in the Middle East
- Operation MATURIN – the Agency supported the UK military's response to the Pakistani earthquake disaster by providing communication and information support
- NATO Standing Forces – the Agency continued to meet its commitments to NATO standing forces in the Atlantic and the Mediterranean
- Atlantic Patrol Task North – support to ships engaged in tasks in the British dependent territories in the Caribbean during the hurricane season, counter drug operations alongside the US Coastguard and the Royal Netherlands Navy.
- Atlantic Patrol Task South – support to ships engaged in tasks in the British dependent territories in the South Atlantic (including the Falklands) and West Africa (in particular patrolling in the area of Sierra Leone).

As well as operations, significant CIS support has been given to several tri-service exercises. Most notable of these were Exercise Joint Venture'05, Exercise Nordic Shield and Exercise Falklands Forum.

Finally, the Agency has been fully engaged with PJHQ and Front Line Commands in the development of the Joint Force CIS and the Joint Network Control Centre (NETCEN) concepts. As a result a deployed NETCEN was established in Khandahar as part of Operation HERRICK working closely with the Agency's Global Operations and Security Control Centre to assure the CIS services within the deployed environment.

Management Commentary

Areas of Operational Support



Key



Operations

CALASH	–	Southern Arabian Gulf and Indian Ocean
HERRICK	–	Afghanistan
MATURIN	–	Pakistan
OCULUS	–	Balkans
TELIC	–	Iraq
TOSCA	–	Cyprus
VOSPER	–	Sierra Leone



Exercises

Bowman Vanguard	–	RN/RM Bowman Exercise
Falklands Forum	–	PJHQ UK Joint Exercise
Joint Venture	–	PJHQ UK Joint Exercise
Neptune Warrior	–	Multinational Compatibility Exercise
Nordic Shield	–	PJHQ UK Joint Exercise
FPDA	–	Five Powers Defence Agreement

Management Commentary

Performance Indicators FY 2005/2006

In assessing the performance of the Agency, the Chief of Defence Logistics uses a number of key targets.

Key Target 1 – Service Assurance

To meet an average of 98% for measured services against the performance targets agreed in Agency Customer Supplier Agreements (CSAs).

Status: Achieved

PERFORMANCE:		2004/2005	2005/2006
SERVICE ASSURANCE	TARGET	98%	98%
	ACTUAL	98.8%	99.4%

Service Assurance is a composite Key Target that takes into account the quantity and quality of services delivered and is the single Agency measure of performance against CSAs. It includes two previous Key Targets from FY 2004/2005 (Service Fulfilment and Service Support). This adjustment was made with the full agreement of Agency customers.

Key Target 2 – Service Availability

To achieve an average service availability of 98% for operational and business critical services.

Status: Achieved

PERFORMANCE:		2004/2005	2005/2006
SERVICE AVAILABILITY	TARGET	98%	98%
	ACTUAL	99.6%	99.1%

The target for Service Availability remained at 98% but the scope was broadened in FY 2005/2006 to include business critical as well as operational service availability to generate an over-arching Agency service availability score. The inclusion of additional measures caused the year on year performance to dip slightly but this is expected to be restored for FY 2006/2007.

Key Target 3 - Overall Service Restoration

To restore an average of 98% of interrupted services within negotiated timelines agreed to in CSAs.

Status: Achieved

PERFORMANCE:		2005/2006
SERVICE RESTORATION	TARGET	98%
	ACTUAL	99.4%

Service Restoration was revised for FY 2005/2006 to provide greater performance transparency to customers therefore no comparator with FY 2004/2005 exists. The previous Agency Restoration target was retired. It was no longer appropriate since the Agency had become more effective at fault prevention and, as the number of faults decreased, the faults that did occur had a disproportional impact on the Restoration target.

Management Commentary

Performance Indicators FY 2005/2006

Key Target 4 - Efficiency Measurement

To achieve an improvement in efficiency, reducing the average unit cost of DCSA output by 7%.

Status: Achieved

PERFORMANCE:		2004/2005	2005/2006
EFFICIENCY MEASUREMENT	TARGET	4%	7%
	ACTUAL	11.4%	8.9%

For FY 2005/2006 the Agency achieved an overall Efficiency realisation figure of 8.9%, which equates to circa £98M. This was achieved with significant contributions from Defence Fixed Networks, the Change Programme and the Procurement Reform initiative.

Whilst there was a year on year performance drop the savings made in FY 2005/2006 exceed the target. As each year passes and savings are realised the opportunity to make further efficiencies diminishes.

The Agency has a dedicated Benefits Management Team focused on supporting effective investment decision-making. This approach has been embedded through the Agency's Benefits Framework providing a common process across the Agency, which is key to enabling the Agency to identify and deliver the maximum benefit both internally and to its Defence customers.

Key Target 5 – Project Delivery

More than 91% of new projects will meet their time, cost and performance targets.

Status: Achieved

PERFORMANCE:		2005/2006
PROJECT DELIVERY	TARGET	91%
	ACTUAL	93.8%

For FY 2005/2006, under CDL's direction, the Key Target was refocused to measure the percentage of new projects that are successfully delivered to time, cost and performance targets. This revised rationale is consistent with Defence Procurement Agency methodology to aid comparison. As a result there is no comparator for FY 2004/2005. A summary of the projects monitored is outlined in the table on the following page.

Management Commentary

Performance Indicators FY 2005/2006

Key Target 5 – Projects Monitored

Project	Main Gate Approval	Approved ISD/ Acceptance	Predicted ISD/ Acceptance	Slippage
DFTS (Germany)	Dec 2003	Dec 2004	Nov 2005	11 Months (91.67%).
DII Navystar	Dec 1995	Dec 2005	Refit Dependant	Nil
DII Ship Alongside Service - Phase 3	Nov 2004	Mar 2007	Mar 2007	Nil
DII Upgrade RAF Infrastructure to support JPA	Oct 2004	Jan 2006	Feb 2006	2 months (12.5%)
DII (Army) - Implement of DII/C in Germany (Area 3)	Dec 2001	Jul 2005	Oct 2005	3 months (6.98%)
DII (Army) - Implement of DII/C at Formation HQs (Computer Assistance for Support Headquarters Delamination)	Jan 2005	Sep 2005	Dec 2005	3 months (37.5%)
DII (Army) - Implement of DII/C at 16 Air Assault Brigade in support of Joint Asset Management and Engineering Solution (JAMES)	Jan 2005	Jul 2005	Jul 2005	Nil
DII (Army) - Implement of DII/C at 1 Mechanical Brigade in support of JAMES	Jan 2005	Dec 2005	Feb 2006	2 months (18.18%)
DII (Army) - Implement of DII/C at 4 (Armoured) Brigade in support of JAMES	Jan 2005	Mar 2006	Apr 2006	1 month (7.14%)
DII/F - Increment 1 Migration	Mar 2005	Mar 2007	Mar 2007	Nil
Satellite Communications Acquisition Team SKYNET 5 – Full Operational Service	Jan 2002	Mar 2008	Mar 2008	Nil

Management Commentary

Key Target Performance for FY 2006/2007

Key Target Development

As the Agency changes to meet its challenges there is a requirement to review and adjust Key Targets on an annual basis. The latest review of the Agency Key targets reveal no imperative for adjustment as current targets remain challenging, and are focused on prime performance areas. The current target set needs to be left to embed further into the fabric of the business, so that underlying trends can be made increasingly transparent.

Key Target 1 – Service Assurance

To meet an average of 98% for measured services against the performance targets agreed in Agency CSAs.

Key Target 2 – Service Availability

To achieve an average service availability of 98% for operational and business critical services.

Key Target 3 - Overall Service Restoration

To restore an average of 98% of interrupted services within negotiated timelines agreed to in CSAs.

Key Target 4 - Efficiency Measurement

To achieve an improvement in efficiency, reducing the average unit cost of output by 2.5%.

Key Target 5 – Project Delivery

More than 92% of new projects will meet their time, cost and performance targets.

Management Commentary

Progress of Major Projects

FY 2005/2006 has seen the continued development of several significant projects that are key enablers to meeting the Defence Vision. The following provides an update on the Agency's major projects.

Defence Information Infrastructure (DII)

The DII project was initiated in October 2000 to provide Defence with a common infrastructure to underpin business change programmes, and enhance operational capability in the deployed environment by bringing coherence to the numerous Defence Information Systems. DII is also a key enabler of NEC.

DII (Convergence)

The major sites within the DII/C programme (MoD HQ, Old War Office, PJHQ, FLEET HQ and Strike Command) have all been completed on time. Additional Information Infrastructure projects successfully undertaken include: Specialist and Utility Vehicles IPT and their White Fleet PFI partner, providing DII to their sites across the UK and Europe, the infrastructure element of Joint Personnel Administration to the RAF and the People, Pay and Pensions Agency at Cheadle Hulme and Bath.

DII (Future)

Several major milestones have been achieved since the awarding of the DII/F contract to ATLAS in March 2005. These include the first and second scheduled programme increments of systems, services and people transferred to ATLAS for full contractor responsibility, and the installation of the first MoD-wide Single Point of Contact (SPOC) helpdesk facility in November 2005 with the second stage coming on-line in January 2006.

SKYNET 5

SKYNET 5 presented a series of exceptional challenges, which culminated in the largest ever restructuring of a Government PFI deal. The arrangement was an essential refinancing arrangement, based on Paradigm Secure Communications placing a third satellite in orbit as a spare, instead of relying on space insurance to cover satellite loss. The space insurance savings

provided a significant part of the cost of the third satellite, with the rest made up by extending the contract by two years until 2020.

Defence Fixed Telecommunications Service (DFTS) and Telecommunications Follow On Programme (TFOP)

DFTS is provided through a ten year PFI deal that was extended by five years to 2012. The MoD signed the £1.5Bn extension with British Telecommunications (BT) plc on 1 April 2005, taking the total value of the contract to £3Bn. The extension ensured the provision of the UK's Armed Forces telecommunications requirement in the form of Wide Area Network, voice, data and video telecommunications services across the UK and overseas. These services are crucial to the strategic and operational running of the Department and the UK Armed Forces and the provision of NEC.

In 2006 it was confirmed that TFOP would be taken forward within the Transformational Government Strategy and the Defence Industrial Strategy. These strategies are intended to create the right industrial environment to achieve NEC by 2025 through influencing the investment decisions of existing and future commercial CIS service providers.

DFTS and TFOP are therefore crucial to enable the MoD to achieve NEC and as a result TFOP will be part of a wider Core Networks Post 2012 programme that will encompass the replacement of the four principal Defence Telecommunications and Information Services (DFTS, DII, SKYNET and Defence High Frequency Communications Service) as they come to the end of their existing PPP/PFI contracts between 2012 and 2020. To support this the Agency instigated a programme of work to understand the funding required to generate an Equipment Programme Option to support the programme.

Agency Organisation

Corporate Restructuring

The Agency continued to consolidate ICS resources from across Defence and took on more people, assets and responsibility. Consequently the Agency is in a state of change, and the management of this transition whilst still delivering to the customers is challenging.

The new life 1* Director Strategic Transition post, which came into effect 1 April 2005, has allowed the Agency to re-balance functions and workloads across the organisation so that the additional tasking has been absorbed in a more manageable manner.

The implementation of the MoD's People Programme, through the Agency Human Resources (HR) Transformation Project, continues with a number of HR transactional services having been successfully transferred to the MoD-wide HR shared-service organisation. This will assist the MoD to achieve its April 2008 target of reducing HR staff numbers by 80%.

Major Mergers and Transfers In and Out of the Agency

The Agency has continued working with the appropriate IPTs and Top Level Budget Holders on the transfer of assets, personnel and associated resources into and out of the Agency.

Some of the more significant changes are the following:

The Defence Procurement Agency hosted Cryptographic and Secure Systems IPT and the Agency Defence Cryptosecurity Operating Authority merged to form the Agency Defence Cryptosecurity Authority to provide a more effective and coherent capability management function to Defence

The Air Defence Ground Based Systems and Airfield Operations Support IPTs left the Agency and became dual accountable to the Defence Procurement Agency and Director General (Logistics) Strike

Agency Organisation

Agency Management Team

The Agency Main Board meets on a regular basis to review both strategy development and Agency performance against balanced scorecard indicators.

The Main Board develops the organisation's strategic and business direction whilst monitoring performance against Key Targets.

Agency Main Board

As at 31 March 2006 the Main Board members were:



Chief Executive
Rear Admiral R G J Ward



**Director General
Logistics (Resources)**
Dr C Mace



Director Operations
Brigadier D A Hargreaves



Director Resources
Mr N Jarvis



**Director Strategic
Transition**
Air Cdre J Thompson



Director Procurement
Mr M C Greatwich



Chief Technology Officer
Cdre A Whyntie



**Director Information
Services Delivery**
Mr G Hyde



Non Executive Director
Dr R Cliffe



Non Executive Director
Dr D Cleevely

Agency Direction

Strategic Context

The Agency's future strategy is framed against the backdrop of various trends, factors and an increasing number of internal and external challenges.

The Defence Vision and the Defence Change Programme

The Defence Vision is of the MoD providing 'a force for good in the world' by working together on its core task to produce battle-winning people and equipment that are: 'fit for the challenge of today; ready for the tasks of tomorrow; capable of building for the future'.

The Defence Change Programme plays a significant role in this. It is through change and modernisation that the Department will be 'flexible and creative, harnessing new technologies and ideas to make best use of our resources'. The Agency makes significant contribution to the Defence Change Programme through the participation of key programmes that the Agency is delivering, or has a significant input into such as Joint Personnel Administration, DII, the People Programme, Estate Modernisation, and the Defence Logistics Transformation Programme.

The Drive for Efficiency

The Gershon Efficiency Review commissioned by the Prime Minister and the Chancellor was an independent examination of how the public sector could make savings in order to release resources for the delivery of front-line services. After the 2004 Spending Review the MoD's contribution amounted to £2.8 billion in annual savings by 2007/08, which will be re-invested in Defence to improve front-line capability. Most of the Agency's share of the savings will be delivered through the key programmes listed previously.

Network Enabled Capability

NEC is the coherent integration of sensors, decision-makers, weapon systems and support capabilities to achieve the desired military effect in the future strategic environment. This will be achieved through the more effective and efficient sharing and exploitation of information within the UK Armed Forces and with coalition partners. To support the effective delivery of NEC the Agency must ensure that the systems it

provides are as coherent, resilient and reliable as possible. This continues to be both a challenge and an opportunity.

Improving Customer Focus

The Agency Lead Point of Contact (ALPOC) project is key to the Agency's customer management strategy. The Agency continues to simplify its customer interfaces by systematically rationalising existing helpdesks, whilst increasing the effectiveness through the SPOC initiative and the development of integrated services through the End-to-End Service pilots.

Rationalisation

The Agency is committed to achieving the optimum outcome for both its customers and its people. The increased technological change and the use of commercial partners significantly impacts on the Agency in-house provider organisations in the form of outsourcing or downsizing of posts. This presents significant personnel issues and the Agency is committed to active engagement with national Trade Union representatives over and above the statutory consultation process.

Defence End-to-End (E2E) ICS Review

The Agency has played a crucial role in assisting and implementing the recommendations of the Defence E2E ICS Review. The Review addresses the main concerns that have previously frustrated the CIS community and evolving Agency strategy has been set in context against the developing background of Defence E2E ICS coherence.

At the heart of these challenges is delivering the continual improvement in CIS that serves the Defence community and assists the MoD in realising its Vision. The Blueprint and the Change Programme are the vehicles to enable the Agency to deliver the Defence Vision.

Agency Direction

Delivery of the Strategy

The Agency requires a future vision of itself (the Vision end-state) in terms of what it provides, and the optimum structure it needs to adopt in order to deliver these outputs.

The Agency Blueprint

The Agency requires a future vision of itself (the Vision end-state) in terms of what it provides (outputs), and the optimum structure it needs to adopt in order to deliver these outputs. The Vision will provide a clear statement of how the Agency will operate in the future; including functions and key processes, an organisational construct, a resource view and an information and knowledge requirement. It is also a communication tool for all staff and stakeholders. Importantly, it also ensures that the many projects within the Change Programme are aligned and coherent in order to achieve the desired transformation to reach the end-state.

Accordingly, work was commissioned by the Agency's Main Board in 2005 to produce the Blueprint and to agree the future functions and structure of the Agency.

The Agency Change Programme

The Chief Executive led Change Programme continues to be driven swiftly across the Agency, ensuring that the Agency achieves its end-state, as defined in the Blueprint, and enabling the continued provision of the optimum level of ICS support across Defence.

To deliver the Change Programme, there are five Workstreams each led by an Agency Corporate Director with personal accountability for delivering the associated business change. These have continued to make significant progress towards successfully delivering the customer-oriented outcomes and benefits identified in the 2005 Agency Strategic Route Map.

The Change Programme has delivered significant customer benefits over the period, with many challenges remaining and there is much to do over FY 2006/2007 to build on these initial successes and maximise the delivery of future customer benefits.

A summary view of the Agency Change Programme workstreams and their outputs in FY 2005/2006 follows:

Delivering Operational Effectiveness (DOE)

The DOE Workstream is an integral part of the Change Programme. It aims to improve the delivery of integrated services to the customer and radically simplifying the customer focus of the Agency to meet their future ICS requirements more effectively. Notable successes include:

- Initiation of a series of pilots for end-to-end services. The pilots were an initial step in the migration to a full end-to-end delivery model, improving the effectiveness of the Agency's core service outputs to customers
- Establishment of a dedicated Agency operations' planning team to work alongside the Agency's key operational user, the PJHQ. This has enhanced the Agency's support to ongoing and future military operations
- Delivery of the Agency's SPOC initial capability and the implementation of ALPOCs across 100 key sites

Coherent Solutions (CS)

The CS Workstream is focused on improving the coherence and effectiveness of the ICS the Agency provides to Defence by addressing Technical and Support Coherence and Information Assurance. Successes during the year include:

- Deployment by the Establish the Baseline project of a comprehensive system discovery client tool on over 100,000 user terminals across the Restricted LAN Interconnect (RLI). This followed the earlier mapping of the RLI network
- The Release Assurance project developed the ability to ensure that new ICS capability is interoperable with the Defence ICS network and their impact is managed. This included the development of dynamic modelling and application characterisation capabilities

Agency Direction

Delivery of the Strategy

Rationalised CIS Support

The Rationalised CIS Workstream is important to ensuring the transformation of the Agency into a decider-based organisation by managing the transformation of CIS provision. The two main activities are the Mergers and Acquisition and the Transition programmes, which enabled the Agency to firstly identify relevant non-DCSA CIS service providers and administer their transfer into the Agency, then secondly to manage the impact of IPT future plans to change the way in which CIS is provided to Defence customers. For example managing the impact of outsourcing to commercial service providers. Key achievements include:

- The transition of 117 Agency posts to ATLAS
- The transfer into the Agency of 10 Signal Regiment
- Development of a phased plan for the transfer of the RAF CIS service provision during FY 2006/2007 and beyond
- The transfers of the Airfield Operations Support and Air Defence Ground Based Systems IPTs from the Agency to another part of the Defence Logistics Organisation
- The creation within the Agency of the Defence Cryptosecurity Authority (Cryptographic and Secure Systems IPT amalgamated with the Defence Cryptosecurity Operating Authority)

Optimised Acquisition (OA)

The OA Workstream is responsible for transforming the relationship between the Agency and its commercial suppliers through the introduction of modern acquisition techniques across the Agency to drive maximum value for its customers. Key successes include:

- The Lean Support and Procurement Reform programmes delivered a total of £50.5m of efficiency savings across the Agency in FY 2005/2006, with significant levels of assisted benefits across the MoD
- The e-procurement team delivered an electronic catalogue for Information and Communication Systems linked to the Purchase to Payment (P2P) system - a desktop application that delivers electronic management of orders, receipts and invoices

Right People, Right Knowledge, Right Environment (R3)

The R3 Workstream focuses on transforming the skills, values and working practices of the Agency. There are three key strands of work within R3:

- The Corsham 09 programme incorporates the £500m Corsham Development Project, which will provide the facilities to collocate the key Agency IPT 'decider' business units with their industry partners and provide accommodation and infrastructure for other Corsham-based Defence organisations. The programme is part of a wider overall programme for Defence Estates rationalisation in the southwest of England
- The Information Knowledge Management programme aims to exploit information across the Agency to maximise the knowledge and effectiveness of the organisation as part of an ambitious programme of work to deliver in 2006
- The People Capability programme has brought together a number of Agency 'people' projects in order to maximise impact and ensure coherence across all people-related initiatives. The outcomes associated with this strand of work will be linked closely to the outcome of Blueprint and be taken forward during 2006

Key successes within R3 include:

- Approval of the December 2005 Corsham Development Project Review Note to complete the project assessment phase in 2006.
- Completion at Board level of a Leadership and Development programme with options for expansion of this programme being assessed for FY 2006/2007.
- The delivery of the MoD HR Transformation programme within the Agency with the effective transfer of transactional HR work to the People, Pay and Pensions Agency, and the establishment of the new HR Business Partner grouping into the Agency.

Remuneration Report

All sections of the Remuneration Report have been audited, with the exception of the Remuneration Policy.

Remuneration Policy

The Chief Executive and several directors are serving members of the UK armed forces. Their pay is set through recommendations made by the Armed Forces Pay Review Body, which provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration and charges for members of the Naval, Military and Air Forces of the Crown. The remaining executive directors are senior civil servants. Their pay is set through recommendations made by the Senior Salaries Review Body, which provides independent advice to the Prime Minister. The Review Body takes account of evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Senior Salaries Review Body and the Armed Forces Pay Review Body can be found at www.ome.uk.com. All other employees have their remuneration determined by a process consistent with MoD and HM Treasury regulations. As all pay is reviewed externally through the relevant pay review bodies there is no requirement for the Agency to have a Remuneration Committee.

Service Contracts

All military members of the Board were appointed through normal posting procedures.

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

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

Non-executive directors are not appointed as Civil Servants. Contracts may be terminated at one month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination would be immediate. They may be extended by mutual agreement at the end of the period for a maximum of ten years. There are no compensation entitlements for early termination. Current contractual arrangements applying to the non-executive directors as at 31 March 2006 were as follows:

Dr D Cleevely was re-appointed on 1 December 2004 for a further period of two years which is due to expire on the 30 November 2006.

Dr R Cliffe was re-appointed on 1 December 2004 for a further period of two years which is due to expire on the 30 November 2006.

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

www.civilservicecommissioners.gov.uk

Remuneration Report

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the executive and non-executive members of the Agency Main Board

Agency Main Board Members	2005/06 Salary Band £K	2004/05 Salary Band £K
Rear Admiral R G J Ward Chief Executive DCSA	100-105	90-95
Brigadier D Hargreaves Director Operations	80-85	75-80
Cdre Whyntie Chief Technology Officer (from 9 June 2005)	80-85	-
Mr N Jarvis Director Resources	65-70	55-60
Air Cdre Thompson Director Strategic Transition (from 6 June 2005)	65-70 (80-85 Full Year Equivalent)	-
Mr G Hyde Director Information Services Delivery (from 21 March 2005)	55-60	-
Mr M Greatwich Director Procurement (from 12 July 2004)	55-60	35-40 (50-55 Full Year Equivalent)
Dr D Cleevely (note a) Non Executive Director	5-10	1-5
Dr R Cliffe (note a) Non Executive Director	10-15	10-15
Dr C Mace Executive Director representing The Defence Logistics Organisation. (note b)	-	-

Notes

a) Both Dr Cleevely and Dr Cliffe received daily fees.

b) Dr C Mace is employed by the Defence Logistics Organisation and his executive appointment is made in conjunction with his normal duties as Director General

Logistics (Resources) in the Defence Logistics Organisation. He is not entitled to receive separate remuneration in undertaking these duties.

c) No other member of the Main Board held positions or directorships which may conflict with their management responsibilities.

Remuneration Report

Salary

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

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. There were no benefits in kind.

Pension Benefits

	Accrued Pension at Retirement and related lump sum at 31st March 2006	Real increase in Pension and related lump sum at retirement	CETV at 31/03/06	CETV at 31/03/05	Real Increase in CETV
Agency Main Board Members	£K	£K	£K	£K	£K
Rear Admiral R G J Ward	50-55 plus 150-155 lump sum	10-15	993	934	57
Brigadier D Hargreaves	30-35 plus 95-100 lump sum	10-15	756	674	62
Cdre A Whyntie	30-35 plus 95-100 lump sum	10-15	760	683	64
Mr N Jarvis	25-30 plus 80-85 lump sum	0-5	494	453	23
Air Cdre J Thompson	35-40 plus 105-110 lump sum	10-15	814	736	71
Mr G Hyde	20-25 plus 65-70 lump sum	10-15	444	302	66
Mr M Greatwich	15-20 plus 40-45 lump sum	5-10	173	146	21
Dr D Clevely	–	–	–	–	–
Dr R Cliffe	–	–	–	–	–
Dr C Mace	–	–	–	–	–

Remuneration Report

Scheme and Annual Salary Bands to which contribution rates apply	
Armed Forces Pension Scheme	% of Pensionable Pay
Ratings/Other Ranks	18.2
Officers	33.8
Principal Civil Service Pension Scheme	%
PCSPS – Band 1 - £18,000 and under	16.2
PCSPS – Band 2 - £18,001 to £37,000	18.6
PCSPS – Band 3 - £37,001 to £63,500	22.3
PCSPS – Band 4 - £63,501 and over	24.6

Pensions

The provisions of the Armed Forces Pension Scheme (AFPS) cover Service staff. The AFPS is a defined benefit scheme, which normally provides benefits based upon length of service and final salary. The MoD makes an employer contribution to the cost of pension cover provided for their staff by the payment of charges calculated on an accruing basis. Contributions were paid to the Paymaster General at rates determined by the Government Actuary. A full actuarial valuation was carried out as at 31 March 1997. Details can be found in the resource accounts of these schemes, which are published and laid before The House of Commons.

The Principal Civil Service Pension Scheme (PCSPS) covers civilian staff. The PCSPS is an unfunded multi-employer defined benefit scheme but the DCSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003.

For FY 2005/2006, employer's contributions were payable to the PCSPS and AFPS at one of five rates in the range of 16.2 to 33.8% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions for the PCSPS are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates are actually incurred, and reflect past experience of the scheme.

For FY 2005/2006 the rates for each class of member were as detailed above.

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 memberships

of Premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at a 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. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

Further details about the Civil Service pension arrangements can be found at the website:

www.civilservice-pensions.gov.uk

Remuneration Report

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme to secure pension benefits in another scheme when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from FY 2003/2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements, and for which the CS vote has received a transfer payment commensurate to the additional pension liabilities being accrued. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and frameworks prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme) and uses common market valuation factors for the start and end of the period.



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
7 July 2006

Foreword to the Agency Financial Accounts

Introduction

The Accounts cover the period from 1 April 2005 to 31 March 2006. They have been prepared in accordance with the Government Financial Reporting Manual (the FReM) and the Direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

Audit Arrangements

The Accounts of the Agency are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. A notional audit fee of £95,000 has been included in the non-cash costs.

Creditor Payment Policy

The Agency's creditors are paid predominantly by the Defence Bills Agency (DBA). The DBA, as the MoD central bill payment authority, has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. The DBA did not incur any liability under the Late Payment of Commercial Debts (Interest) Act 1998.

Audit

As Accounting Officer of the DCSA, I am responsible for the disclosure of the relevant audit information. I can confirm that:

- There is no relevant audit information of which the auditors are unaware
- I have taken all necessary steps to ensure that I am aware of the relevant audit information
- I have taken all necessary steps to establish that the auditors are aware of the information



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
7 July 2006

The Agency Financial Accounts

Statement on Internal Control

Scope of Responsibility

As Accounting Officer for the Defence Communication Services Agency (DCSA), I have responsibility for maintaining a sound system of internal control that supports the achievements of the MoD'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 am accountable to Chief Defence Logistics for the efficient and effective operation of the Agency's business and financial processes in accordance with agreed plans, budgets, existing internal controls and Government and Departmental regulations. My delegated authority is exercised in full accord with the Defence Logistics Organisation's (DLO) Strategic Plan and the more detailed business plans that flow from it to support the delivery of logistic support to our customers.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives. It has been in place in the Agency for the year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to Handle Risk

The risk management system in place has improved in terms of operational effectiveness, with the aim of more substantial improvements next year. Considerable effort has been expended to ensure the Agency's Risk Management strategy is compliant with current Departmental Risk Management policy.

Risk and Control Framework

The Owners' Advisory Board, Main Board, Performance Management Board (PMB) and Audit Committee oversee the Agency's Risk Management activities, ensuring that broader top down risks are captured as part of the overall process.

The Risk Review Committee (RRC), whose membership includes representatives from the Change Programme Board, ensures risks are better articulated and mitigation plans are more fully developed at an earlier stage. The Risk Management assurance review programme was completed during the year, assessments showing slight improvements from the previous year.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. This is informed by the work of the internal auditors and others responsible for the development and maintenance of the internal control framework. In line with departmental guidance, I have established the following processes:

- A Management Board, which meets monthly to consider the plans and strategic direction of the Agency, with two of its Non Executive Directors attending
- The Audit Committee, which has two independent members including the Chair, meets quarterly and advises me and the Main Board on the effectiveness of the strategic processes for risk, control and governance; adherence to accounting policies, and both planned activity and results of internal and external audit
- The Performance Management Board, which has responsibility for the in-year management and assessment of progress of the Agency's business

The Agency is responsible for delivery of the Department's electronic communications infrastructure (DII/F). This is a vital part of the MoD's change programme and the largest single Agency controlled project. It has generally proceeded well and a Delivery Partner, ATLAS (led by EDS and FUJITSU), was appointed during the year. The Agency's Audit Committee has agreed that it will oversee the audit activity of the Delivery Partner. Associated risks to the project from a cost and time-scale perspective include legacy systems that are more costly to maintain than anticipated.

Risks also include concerns that there are too many late changes to the requirements, and that the estate infrastructure may not be prepared and ready in time to accompany the equipment rollout. Defence Estates, the DII Programme Board led by DG Info, 2nd PUS and the Department's Change Delivery Group are fully engaged with the mitigation of these risks.

Varied independent sources are available to me to derive an assurance that the systems of internal control are operating satisfactorily.

The Agency Financial Accounts

Statement on Internal Control

Business and Financial Process Assurance

A number of significant business and financial processes were audited during the year, and work continues to strengthen any identified areas of weakness. The transfer of Short Term Planning (STP) to the Agency Chief Accountant has enabled more cohesiveness within the Higher Level Budget (HLB) finance teams.

SHEF and Equipment Safety Management

Safety, Health, Environment and Fire (SHEF) management receives particular management and audit attention. The Agency complies with environmental legislation and MoD environmental targets and objectives. There is a robust SHEF training programme for all staff to ensure standards are maintained and improved.

My CIS discipline role has been transferred to Technical Director to provide a mechanism for provision of assurance for CIS equipment and services.

Business Continuity

The Business Continuity Site Plan for the Corsham, Copenacre and Swindon estates was tested for the first time in conjunction with the Integrated Contingency Plan. Both this and the Agency Master Plan have been revised and re-issued to take lessons learned into consideration.

Health of Financial Systems

All Agency Directorates and Agency hosted IPTs assessed the levels of control operating within their own financial systems and processes.

- **Audit Assurance**

Audits continue to be conducted by Defence Internal Audit, DLO Assurance Teams and my own Assurance Team: Assessments generally provided a positive assurance. Actions taken to address recommendations made are tracked through the audit committee.

- **Resource Accounting & Budgeting**

This was the major segment covering In Year Management, Short Term Planning, Asset Management and Stock Management. Levels of control were considered to be generally effective in all these areas.

- **Investment Appraisals (IA) and Post Project Evaluations (PPE)**

The general consensus from the Health of Financial Systems was that they are being conducted in accordance with current policy.

- **Fraud And Theft**

With management checks supplemented by internal audits of these areas it was considered that the observance of key controls was satisfactory. These checks also enabled me to ensure that any deviations could be detected.

- **Finance Staff**

Although my HLB staff are increasingly providing "hands on" assistance, loading on finance staff remains a serious concern.

Security and Information Assurance

The Agency has developed the Information Assurance Programme.

One of the key objectives of this Programme is to benchmark the Agency's exposure to security risks and develop a risk model, organisation, information assurance processes and systems to effectively manage risks.

Transfers into the Agency

Elements of MoD IT and Communications infrastructure from across the Department continue to be consolidated within the Agency boundary.

Significant Internal Control Problems

Although no significant internal control problems were identified during FY 2005/2006, a police investigation commenced after the year end involving alleged financial irregularities in respect of an external supplier during this period.



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
7 July 2006

The Agency Financial Accounts

Statement of Agency's and Chief Executive's Responsibilities

Under Section 7(2) of the Resource Accounts Act 2000, HM Treasury has directed the DCSA to prepare a statement of Accounts for each financial year, in the form and on the basis set out in the Government Financial Reporting Manual.

The financial statements are to be prepared on an accruals basis and must give a true and fair view of the state of the Agency's affairs at the year-end, and of its income, expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the financial statements the Agency is required to:

- Observe the Accounts Direction issued by the Treasury, including relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- Make judgements and estimates on a reasonable basis
- State whether applicable accounting and financial reporting standards have been followed, and disclose and explain any material departures in the financial statements
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation

The Departmental Accounting Officer for the MoD has appointed the Chief Executive of the DCSA as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, 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".



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
7 July 2006

The Agency Financial Accounts

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

I certify that I have audited the financial statements of the Defence Communication Services Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on page 27 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does

not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

Basis of Audit Opinion

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

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

The Agency Financial Accounts

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

Opinions

In my opinion:

- The financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the net operating cost, total recognised gains and losses and cashflows for the year then ended
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000
- 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
Comptroller and Auditor General
11 July 2006

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

The Agency Financial Accounts

Operating Cost Statement

For the year ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Staff Costs	2.1	195,471	168,574
Other Operating Costs	3	1,154,035	1,075,169
Gross Operating Costs		1,349,506	1,243,743
Operating Income	4	(8,580)	(12,417)
Net Operating Costs		1,340,926	1,231,326

Statement of Recognised Gains and Losses

For the year ended 31 March 2006

	2005-06 £'000	2004-05 £'000
Net Gain on Revaluation	(14,295)	(16,981)

The Agency Financial Accounts

Balance Sheet

For the year ended 31 March 2006

	Note	31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Fixed Assets:					
Intangible Assets	5	34,901		4,375	
Tangible Assets	6	<u>1,058,514</u>		<u>957,223</u>	
			1,093,415		961,598
Current Assets:					
Stocks	7	43,166		57,387	
Debtors	8	69,519		53,677	
Debtors due after more than one year	8	113,640		138,306	
		<u>226,325</u>		<u>249,370</u>	
Current Liabilities:					
Creditors:					
amounts falling due within one year	9	<u>(212,575)</u>		<u>(143,671)</u>	
Net Current Assets			13,750		105,699
Total Assets less Current Liabilities			1,107,165		1,067,297
Creditors:					
amounts falling due after more than one year	9		(58,552)		(60,175)
Provisions for Liabilities & Charges	10		-		(1,648)
Net Assets			1,048,613		1,005,474
Taxpayers' Equity:					
General Fund	11		(984,082)		(948,424)
Revaluation Reserve	12		(64,531)		(57,050)
Total Government Funds	13		(1,048,613)		(1,005,474)



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
7 July 2006

The Agency Financial Accounts

Cash Flow Statement

For the year ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Net Cash Outflow from Operating Activities	22	874,440	873,842
Interest element of finance leases and PFI contracts		4,334	4,456
Capital Expenditure		124,820	105,521
Net Cash Outflow before Financing		1,003,594	983,819
Financing		1,003,594	983,818
Increase/(Decrease) in cash in the period		-	(1)

The Agency Financial Accounts

Notes to the Accounts

Note 1: Statement of Accounting Policies

A Introduction

The Accounts of the Agency have been prepared in accordance with the Government Financial Reporting Manual.

The Accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets to reflect their value to the business by reference to their current costs.

B Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) as the MoD accounts for VAT centrally. Following revision of the Departmental policy, input VAT on certain contracted out services is now recovered centrally through the MoD registration; consequently no debtor is included in the current year. All other input VAT is irrecoverable by the Agency and is therefore included in the cost of the related expenditure or asset.

C Income

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

D Research and Development

Where material development expenditure is identified and can be attributed to a specific asset, the Agency's policy is to capitalise the expenditure and amortise it over the beneficial life of the associated tangible fixed asset. In all other circumstances it is treated in the same way as research expenditure and written off in the Operating Cost Statement (OCS) over the period in which it is incurred.

E Notional Charges

(a) Interest Charge on Capital

A notional charge for cost of capital is included in the OCS. This is calculated as 3.5% of the average value of total net assets in accordance with MoD policy.

(b) Audit Fee

The Agency is not charged an audit fee. The audit fee shown in the accounts is a notional charge, which reflects the cost of audit work provided by the National Audit Office.

(c) Intra-Departmental Charges

Notional amounts are included in the OCS for charges in respect of services provided from other areas of the MoD. The amounts are calculated to reflect the full cost of providing these services to the Agency.

F Intangible Fixed Assets

The Agency's balance of intangible fixed assets represents development costs associated with IT and Communication fixed assets. These costs are either actual costs transferred from the Defence Procurement Agency, or historic development costs associated with assets already in service on 1 April 1998. All development costs are amortised over the beneficial life of the associated tangible fixed asset.

G Tangible Fixed Assets and Depreciation

All fixed assets are subject to annual revaluation in accordance with the principles of Modified Historic Cost Accounting (MHCA). Formal revaluations are undertaken on a quinquennial basis. In the years between formal revaluations assets are revalued annually using indices provided by the MoD.

(a) Land and Buildings

Legal ownership of the Departmental Estate rests with the Secretary of State for Defence. However, where the Agency is the principal beneficial user of such estate the land and buildings are individually capitalised as Agency assets.

(b) Single Use Military Equipment (SUME)

The DLO manages the Agency's SUME on its behalf, which are held as assets on the balance sheet and are depreciated over the effective operational life of the equipment.

(c) IT and Communication Equipment

Separate valuations are assigned to all assets, where expenditure, including installation, is greater than £10,000: IT and Communication equipments are either accounted for as a grouped asset or as an individual item. Grouped assets are either entire systems or individual items which are below the threshold that form part of a larger asset.

(d) Plant, Machinery and Transport

Plant, Machinery and Transport related assets are capitalised where the useful life exceeds one year and the cost of acquisition is greater than £10,000.

The Agency Financial Accounts

Notes to the Accounts

Note 1: Statement of Accounting Policies

(e) Capital Spares

In order to be consistent with the Departmental Resource Accounts, the value of capital spares held by the Agency has been disclosed under tangible fixed assets. The Agency's holdings of capital spares are written down by depreciation on a straight-line basis over their expected useful lives with no residual values accounted for. The useful lives of Capital Spares are taken to be the life of the asset for which they are intended to support.

(f) Assets Under Construction (AUC)

AUC represent accumulated costs in respect of a fixed asset being constructed (including design, delivery and installation costs). They are separately identified until it is completed. They are not depreciated but do have MHCA applied on an annual basis.

(g) Depreciation

Depreciation is calculated so as to write off the cost, or valuation less any estimated residual value, on a straight-line basis over their estimated useful economic lives.

The average lives assigned to tangible fixed assets are:

Buildings	10 – 50 years
Single Use Military Equipment	5 – 50 years
Plant, Machinery and Transport	5 – 15 years
IT and Communication Equipment	3 – 15 years

Land is valued on the basis of open market value for existing use and is not depreciated in the Accounts.

H Stock

Stock is valued at net current replacement cost except for stock awaiting disposal, which is valued at net realisable value. The stock balance consists mainly of holdings of raw materials and consumables.

I Provision for Liabilities and Charges

Provision for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the balance sheet date. Provisions are charged to the Operating Cost Statement. All long-term provisions are

discounted to current prices by the use of HM Treasury Discount Rate, currently 2.2%. The discount is unwound over the remaining life of the provision and is shown as an interest charge in the Operating Cost Statement.

J Pensions

Staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Armed Forces Pension Scheme (AFPS), which are described in the Remuneration Report. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefit. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS and AFPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and AFPS. In respect of the defined contribution elements of the schemes, the Agency recognises the contribution payable for the year. The PCSPS is a multi-employer scheme and the DCSA is unable to identify its share of the underlying assets and liabilities; therefore these are not reflected in the accounts.

Further details about the Civil Service Pension arrangements can be found at the website:

www.civilservice-pensions.gov.uk

K Cash Balances And Liabilities

Apart from minor transactions through a local imprest account, which is cleared to a nil balance at the balance sheet date, the Agency does not pay or receive money on its own account. The majority of cash payments are made and receipts collected by the MoD's central accounting organisations on behalf of the Agency. All transactions, both locally and centrally, are brought to account by the MoD in the Departmental Resource Account and are disclosed in aggregate in the Cash Flow Statement.

As the MoD charges the Agency during the year with the gross payments due to Agency employees, inclusive of PAYE and National Insurance contributions, the department is liable for the payment of any liabilities which may be due to the Inland Revenue or Department of Social Security at the balance sheet date. These are not disclosed in the Agency's balance sheet.

The Agency Financial Accounts

Notes to the Accounts

Note 1: Statement of Accounting Policies

L Private Finance Initiative (PFI)

The treatment of PFI contracts is dealt with in accordance with FRS 5: Substance Over Form and HM Treasury guidance.

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.

The service charge in respect of an on-balance sheet PFI contract is apportioned between reduction in the

capital obligation and charges in the Operating Cost Statement for service performance and finance cost.

Where the risks and rewards are transferred to the private sector the transaction is accounted for in the Operating Cost Statement through service charges.

M Operating Leases

All expenditure/income incurred/received in respect of operating leases is charged to operating expenses/income in the year in which they arise. The Agency has no finance leases.

Note 2: Staff Costs and Numbers

1. Staff costs can be analysed as follows:

	2005-06 £'000	2004-05 £'000
Wages & Salaries	155,103	137,385
Social Security Costs (ERNIC)	11,817	10,509
Other Pension Costs	28,551	20,680
	<hr/>	<hr/>
Total	195,471	168,574
	<hr/>	<hr/>

These costs include the following amounts in respect of agency and temporary staff:

	2005-06 £'000	2004-05 £'000
Agency and Temporary staff costs:	3,760	5,868
	<hr/>	<hr/>

2. The average number of employees on the Agency's payroll during the period was as follows:

	2005-06	2004-05
Average Civilian Staff numbers for the year:		
Non Industrial	3,742	3,379
Industrial	273	183
Average Military staff numbers for the year:		
Officers	352	334
Ratings/Other Ranks	896	863
	<hr/>	<hr/>
Total staff numbers for the year:	5,263	4,759
	<hr/>	<hr/>

These staff numbers include the following numbers in respect of agency and temporary staff:

	2005-06	2004-05
	109	131
	<hr/>	<hr/>

The Agency Financial Accounts

Notes to the Accounts

Note 3: Other Operating Costs

	2005-06		2004-05	
	£'000	£'000	£'000	£'000
Accommodation Costs:				
Property Management	15,064		21,822	
Utilities	4,853		3,790	
Rent	14,452		12,350	
Supplies & Services Consumed:		34,369		37,962
IT & Telecommunications	556,911		501,360	
Equipment Support	138,833		164,062	
Increase in stock provision	6,527		3,428	
Legal & Professional Fees	29,980		32,583	
R&D Expenditure	5,408		6,023	
Training, Safety & Welfare	13,931		14,372	
Stock Consumed	3,757		669	
Movements	8,862		8,303	
Other Administration Expenses:		764,209		730,800
Impairments	77,592		44,597	
Depreciation	179,529		156,496	
Amortisation	4,438		474	
Loss on Fixed Asset disposals	12,118		30,271	
Fixed Asset Write Ons	(2,782)		-	
Interest Charged on Capital	36,050		34,366	
Net loss on disposal of stock	28,657		15,942	
Office Administration	10,986		12,580	
Miscellaneous	3,148		6,116	
Interest Charges For Finance Leases	4,334		4,456	
Charges for operating leases	1,146		1,250	
Audit fee	95		74	
Increase to bad debt provision	233		198	
Bad Debt Write Off	273		(142)	
Decrease in provision for liabilities and charges	(360)		(271)	
		355,457		306,407
Total Other Operating Costs		1,154,035		1,075,169

The Agency Financial Accounts

Notes to the Accounts

Note 4: Operating Income

	2005-06 £'000	2004-05 £'000
MoD Trading Funds	728	3,554
Other Government Departments	131	247
NATO Income	2,856	2,007
Rental Income From Third Parties	335	972
Other Operating Income	4,530	5,637
	8,580	12,417

Note 5: Intangible Fixed Assets

	2005-06 £'000	2004-05 £'000
Cost or valuation:		
Balance at 1 April	6,665	3,390
Additions	3,173	2,960
Impairments	(942)	(135)
Transfers with other MoD Business Units	58,708	450
Disposals	(108)	-
Balance at 31 March	67,496	6,665
Amortisation:		
Balance at 1 April	(2,290)	(1,830)
Charged in Year	(4,438)	(474)
Transfers with other MoD Business Units	(27,646)	-
Impairments	406	14
Disposals	1,373	-
Balance at 31 March	(32,595)	(2,290)
Net book value at 31 March	34,901	4,375

Note 5: Intangible Fixed Assets – Additional Information: Orphaned Balances

During FY 2005/2006 a reconciliation exercise was undertaken to remove from the General Ledger any

amortisation balances without a corresponding Asset on the Fixed Asset Register, and these amounted to £1,490k.

	£'000
Disposal Amount in regards to Intangible orphaned balances:	1,490

The Agency Financial Accounts

Notes to the Accounts

Note 6: Tangible Fixed Assets

	Land and Buildings – Non Dwellings £000	Land and Buildings – Dwelling £000	Single Use Military Equipment £000	Plant and Machinery £000	Transport – Fighting Equipment £000	Transport – Other £000	IT & Comms £000	Capital Spares £000	Assets Under Construction £000	Total £000
Cost or Valuation as at 1 April 2005	164,841	1,072	336,689	9,631	1,222	279	674,655	581,966	31,729	1,802,084
Revaluation	8,198	-	-	70	-	-	(6,068)	5,297	-	7,497
Impairments	2,358	-	-	(1,578)	-	1	(104,077)	(11,709)	462	(114,543)
Transfers from/(to) other MoD Business Units	-	-	(30,957)	781	340	(17)	(46,490)	153,433	16,598	93,688
Additions	(4,464)	-	283	129	-	-	161,122	10,926	10,057	182,567
Disposals	1,072	-	-	(771)	-	(48)	(45,785)	-	(1,962)	(53,030)
Reclassification	-	(1,072)	-	114	-	-	18,456	-	(18,570)	-
Closing Balance	172,055	0	306,015	8,376	1,562	215	651,813	739,913	38,314	1,918,263

The Agency Financial Accounts

Notes to the Accounts

Note 6: Tangible Fixed Assets

	Land and Buildings – Non Dwellings £000	Land and Buildings – Dwelling £000	Single Use Military Equipment £000	Plant and Machinery £000	Transport – Fighting Equipment £000	Transport – Other £000	IT & Comms £000	Capital Spares £000	Assets Under Construction £000	Total £000
Depreciation as at 1 April 2005	(20,071)	(36)	(201,799)	(2,742)	(58)	(192)	(239,088)	(380,875)	0	(844,861)
Charged in Year	(5,367)	-	(25,889)	(2,010)	(184)	(21)	(93,357)	(52,701)	-	(179,529)
Revaluation	(612)	-	-	(21)	-	-	1,711	(1,881)	-	(803)
Net Transfers from and to other MoD Business Units	-	-	38,134	2,064	(66)	39	50,718	(2,171)	-	88,718
Impairments	(37)	-	-	(1)	-	(1)	37,494	33	-	37,488
Disposals	4,474	-	-	647	-	33	34,084	-	-	39,238
Reclassifications	(36)	36	-	-	-	-	-	-	-	0
Closing Balance	(21,649)	0	(189,554)	(2,063)	(308)	(142)	(208,438)	(437,595)	0	(859,749)
Net Book Value at 31 March 2005	144,770	1,036	134,890	6,889	1,164	87	435,567	201,091	31,729	957,223
Net Book Value at 31 March 2006	150,406	0	116,461	6,313	1,254	73	443,375	302,318	38,314	1,058,514

The Agency Financial Accounts

Notes to the Accounts

Note 6: Tangible Fixed Assets – Additional Information

Private Finance Initiative

The Fixed Asset Costs shown include assets held under on-balance sheet Private Finance Initiative contracts as follows:

	Net Book Value as at 31 March 2006	Net Book Value as at 31 March 2005
Land and Buildings	3,993	4,011
IT and Communications	44,234	52,856
Total	48,227	56,867

Orphaned Balances

During FY 2005/2006 a reconciliation exercise was undertaken to remove from the General Ledger any depreciation balances without a corresponding Asset on the Fixed Asset Register, and these amounted to £553k. This gives rise to Depreciation disposals without a

corresponding Cost / Valuation disposal for these asset categories.

Net Transfers

The transfers figures in the above table represent the net effect on Cost / Valuation, and the net effect on Depreciation, of asset transfers into and out of the

Agency. This can give rise to the disclosure of an aggregated Transfer value for Depreciation that exceeds the aggregated Transfer value for Cost / Valuation.

The Agency Financial Accounts

Notes to the Accounts

Note 6: Tangible Fixed Assets – Additional Information

IT & Comms Transfers

The FY 2004/2005 Accounts included an accrued value to communicate to the Agency's balance sheet a substantial holding of IT & Comms Equipment managed by the Agency but accounted for in the balance sheets of other Ministry of Defence entities. This accrued value has been reversed in FY 2005/2006 on completion of the formal accounting for the transfers into the Agency.

While the net book value of the assets concerned was reasonably reflected in the Agency's FY 2004/2005 balance sheet the individual elements of Cost / Valuation and Depreciation formally transferred in FY 2005/2006 were different from the communicated values. This has produced the following effect within the IT & Comms transfers section of the table below:

	2004-05	Reversal	Transfer	2005-06 Effect
	£'000	£'000	£'000	£'000
Cost / Valuation	141,785	(141,785)	88,674	(53,111)
Depreciation	(103,231)	103,231	(48,994)	54,237
Net Book Value	38,554	(38,554)	39,680	1,126

Excluding this effect the IT & Comms transfer figures are £6,621 Cost / Valuation and (£3,519) for Depreciation.

Note 7: Stocks

	2005-06	2004-05
	£'000	£'000
Gross book value of consumable stocks	77,651	93,507
Provision For Obsolete and Surplus Stocks	(34,485)	(36,120)
Closing Balance at 31 March	43,166	57,387

The Agency Financial Accounts

Notes to the Accounts

Note 8: Debtors and Prepayments

	2005-06 £'000	2004-05 £'000
Amounts falling due within one year		
Debtors		
Trade Debtors	2,640	1,568
Provision for Bad Debt	(298)	(65)
Other Debtors	220	24
Accrued Income	19,262	3,414
Prepayments		
Under PFI Contracts	24,468	24,468
Other Prepayments	23,227	24,268
Amounts falling due after more than one year	69,519	53,677
Prepayments under PFI Contracts	112,117	137,676
Other Prepayments	1,523	630
Total Debtors	183,159	191,983

Format of this note has changed from last year, and therefore comparative figures are represented.

The Agency Financial Accounts

Notes to the Accounts

Note 9: Creditors and Accruals

	2005-06 £'000	2004-05 £'000
Amounts falling due within one year		
Trade Creditors	89,781	69,738
Fixed Asset accruals	47,059	12,787
Deferred income	151	199
Accruals	73,961	59,383
Obligations Under PFI Contract	1,623	1,564
	212,575	143,671
Amounts falling due after more than one year		
Obligations under PFI/Finance Leases:		
- In more than 1 year but not more than 2 years	1,756	2,908
- In more than 2 years but not more than 5 years	5,736	8,724
- In more than 5 years	51,060	48,543
	58,552	60,175

Format of this note has changed from last year, and therefore comparative figures are represented.

Note 10: Provision for Liabilities & Charges

	OBJECTIVE £'000	MOULD £'000	Total £'000
Provision at 1 April 2005	(850)	(798)	(1,648)
Decrease in provision during the year	360	-	360
Utilised	490	798	1,288
Provision at 31 March 2005	0	0	0

Project OBJECTIVE is the cost of avoiding an onerous contract. A contract was entered into that was subsequently deemed not to provide value for money

and did not meet the requirements due to advancing technology. The costs of avoiding this contract were incurred in FY 2005/2006 and the unutilised element of the provision has been released.

The Agency Financial Accounts

Notes to the Accounts

Note 11: Statement of Movement on General Fund

Reconciliation of Net Operating Cost to changes in General Fund is as follows:	2005-06 £'000	2004-05 Restated £'000
General Fund Opening Balance at 1 April	(948,424)	(911,766)
Net Operating Cost in period	1,340,926	1,231,326
Net cash inflow from financing	(1,003,594)	(1,011,686)
Notional Costs	(146,087)	(119,091)
Net Fixed Asset transfers	(213,760)	(118,087)
Net Other Transfers	(6,329)	-
Transferred to General Fund in respect of realised element of Revaluation Reserve	(6,814)	(2,635)
Fixed assets found in-year	-	(16,485)
General Fund Closing Balance at 31 March	<u>(984,082)</u>	<u>(948,424)</u>

Note 12: Movement on Revaluation Reserve

	2005-06 £'000	2004-05 £'000
Revaluation Reserve at 1 April	(57,050)	(42,704)
Fixed Asset revaluation in year	(6,694)	(13,003)
Stocks revaluation in year	(5,985)	(7,865)
Realised element of Revaluation Reserve transferred to General Fund	6,814	2,635
Transfers	(1,616)	3,887
Revaluation Reserve at 31 March	<u>(64,531)</u>	<u>(57,050)</u>

Note 13: Reconciliation of Movement of Government Funds

	2005-06 £'000	2004-05 £'000
Balance as at 1 April	(1,005,474)	(954,470)
Revaluation Reserve movement in year	(7,481)	(14,346)
General Fund movement in year	(35,658)	(36,658)
Balance as at 31 March	<u>(1,048,613)</u>	<u>(1,005,474)</u>

The Agency Financial Accounts

Notes to the Accounts

Note 14: Non-Cash and Notional Costs

The non-cash and notional cost element included under the headings Supplies & Services Consumed, Accommodation Costs and Other Administrative Expenses are as follows:

Non Cash Costs	2005-06		2004-05	
	£'000	£'000	£'000	£'000
Depreciation & Amortisation	183,967		156,970	
Impairments of Fixed Assets	77,592		44,597	
Loss on Disposal of Fixed Assets	12,118		30,271	
Increase in Stock Provisions	6,527		3,428	
Fixed Asset Write Ons	(2,782)		-	
Stock Consumed	3,756		670	
Net Loss on Disposal of Stock	28,657		15,941	
Unwinding of PFI Prepayment	25,559		25,366	
Increase in bad debt provision	233		198	
Decrease In Provisions	(360)		(271)	
Utilised Provisions	(1,288)		-	
Total Non-Cash Costs		333,979		277,170
Notional Costs				
Interest on Capital	36,050		34,366	
Notional Paradigm PFI Service Charge	68,550		39,067	
Accommodation Charge for Lodgers	12,183		8,688	
Office Administration	3,346		3,891	
Property Management	6,152		6,001	
Permanent Posting Costs	849		797	
DCSA Element of MoD Central Overhead	4,867		5,578	
Equipment Support	-		6,546	
Training, Safety & Welfare	3,821		5,477	
Utilities	2,657		1,781	
IT & Telecommunications	4,154		2,843	
Insurance	2,389		2,749	
Miscellaneous	832		1,069	
Hospitality & Entertainment	142		164	
Audit Fee	95		74	
Total Notional Costs		146,087		119,091
Total Non Cash and Notional Costs		480,066		396,261

The Agency Financial Accounts

Notes to the Accounts

Note 15: Private Finance Initiative (PFI) Commitments

The payments made during the year in respect of off-balance sheet PFI transactions were £233,402,179.00

At 31 March 2006, the Agency had annual commitments under PFI contracts, as set out below:

	Off Balance Sheet PFIs £'000	On Balance Sheet PFIs £'000
PFI commitments which expire:		
Within 1 year	-	-
Within 2 to 5 years	2,666	10,775
Within 6 to 10 years	150,000	-
Within 11 to 15 years	162,805	-
Over 15 Years	-	7,243

Note:

Project Description	Capital Value £'000	Contract Start Date	Contract End Date
Defence Fixed Telecommunications System (DFTS): Integration of 50 fixed telecommunications networks used by the Armed Forces and MoD	70,000	Jul 1997	Jul 2012
Electronic Messaging Service: Interoperability of messaging services for the Army	33,000	Jul 1997	Mar 2007
RAF Mail: Provision of informal messaging services for the RAF	12,000	Nov 1998	Nov 2008
SKYNET 5 Commercial Satellite System: Provision of worldwide commercial satellite communication	1,360,930	Oct 2003	Feb 2020

The Agency Financial Accounts

Notes to the Accounts

Note 16: Commitments Under Operating Leases

	2005-06 £'000	2004-05 £'000
Plant & Machinery		
Payments due under operating lease which expire:		
Within one year	2	11
Between two and five years	9	69
Land and Buildings		
Payments due under operating lease which expire:		
Within one year	-	70
Between two and five years	-	-
Transport		
Payments due under operating lease which expire:		
Within one year	-	283
Between two and five years	226	-
TOTAL	237	433

Note 17: Commitments Under Operating Leases Where DCSA is the Lessor

On 1 January 2002, the Agency entered into an agreement with NTL whereby NTL lease non-operational communication towers over a 20-year period. The anticipated net receipts after charges over the

20-year period is approximately £17.4m. The towers had an original gross value of £294m and have been written down to a nominal value of less than £100.

Note 18: Related Party Transactions

The DCSA is a Defence Agency of the MoD.

The MoD is regarded as a related party. During the period 1 April 2005 to 31 March 2006 the Agency has had various material transactions with the MoD and with other entities for which the MoD is regarded as the parent department. These entities include the Meteorological Office, the Hydrographic Office and the Defence Aviation Repair Agency.

During the period of these accounts the Agency also had transactions with a number of other government departments or their agencies. Most of these

transactions were with the Learning Skills Council and Home Office.

The net amount due to related parties as at 31 March 2006 was £1m (31 March 2005 £3.3m). No provision was made against the debtor balances.

During the year none of the Board Members, key members of the management staff, or their other related parties have undertaken any material transactions with the Agency.

The Agency Financial Accounts

Notes to the Accounts

Note 19: Capital Commitments

Future payments and expenditure to be incurred on contracts that have been entered into at the balance sheet date and where there are unperformed

obligations. There has been no provision in the accounts in respect of the following:

Project	Outstanding Payments £'000
ILS SUSTAINMENT	1,209
V/UHF RADIOS	780
JTIDS NMS	3,381
PTARMIGAN/TRIFFID	3,898
DII FUTURE	302,328
OTHER	3,404
TOTAL	315,000

Note 20: Financial Instruments

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.

Due to the non-trading nature of its activities and the way in which government agencies 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 Agency in undertaking its activities, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their book values, in line with FRS 13, short-term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date), have been excluded from these disclosures (except for those relating to currency risk).

Interest rate risk

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

Currency risk

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

Liquidity risk

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

The Agency Financial Accounts

Notes to the Accounts

Note 21: Post Balance Sheet Events

On 1 April 2006 the MoD transferred responsibility for accounting for certain categories of fixed assets from the DCSA to other parts of the MoD. The categories concerned were Land and Buildings, Plant and Machinery and Transport. Where the Agency retains the risks and rewards of ownership of these assets they will continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In other cases the costs of these assets will be communicated to the Agency by the asset owners and charged to the operating cost statement. Consequently, these centrally accounted for assets will not be included on the Agency's balance sheet, as they will be accounted for as operating leases under SSAP 21.

On the same date the MoD also transferred responsibility for accounting for IT & Comms Equipment fixed assets from all other areas of the Department to the Agency. All IT & Comms will be accounted for in the Agency's balance sheet, except for those assets for which the risks and rewards of ownership lie with another agency; the costs of all assets belonging to other Agencies will be removed from the Agency's operating cost statement and communicated to them.

There is no effect on the FY 2005/2006 accounts as a result of these changes, and no adjustments have been made to these financial statements.

Note 22: Reconciliation of Net Operating Cost to Operating Cost Cash Flows

	2005-06 £'000	2004-05 £'000
Net Operating Cost	1,340,926	1,231,326
Adjustment for Items not involving movement of Cash:		
Notional Costs	(146,087)	(119,091)
Non Cash Costs (excluding Net Working Capital movements)	(269,247)	(231,567)
Movements in Net Working Capital (other than Cash)		
Increase in Stock	24,719	10,976
Decrease in Debtors	(8,591)	(14,255)
Increase in Creditors	(67,280)	(3,547)
Net Cash Outflow from Operating Activities	874,440	873,842

Supporting Information

Glossary

ALPOC	Agency Lead Point of Contact – A function to provide a single point of focus for all DCSA products and Services at Command level
ATLAS	ATLAS Consortium – The preferred bidder for DII/F. Comprises EDS as lead contractor, tier one partner Fujitsu Services, and key sub-contractors General Dynamics, EADS Defence and Security Systems and LogicaCMG
CIS	Communication and Information Systems
DCSA	Defence Communication Services Agency - The deliverer of Integrated Information Solutions to the Defence-wide customer
DFTS	Defence Fixed Telecommunications Service
DII	Defence Information Infrastructure
GOSCC	Global Operations and Security Control Centre - Ensures the Agency has a real-time operational focus and guarantee management of information services support across both business and battle spaces
ICS	Information and Communication Services
IPT	Integrated Project Team – Team(s) created to be responsible for managing a project from Concept to Disposal, incorporating personnel with the skills necessary to manage the project
JPA	Joint Personnel Administration - An online personnel management system where service personnel can electronically access their own records and apply for leave, expenses and allowances, and undertake other basic personnel tasks, whether they are land or ship-based, in the UK or deployed overseas.
LAN	Local Area Network – A computer network that spans a relatively small area, usually confined to one building or a group of buildings
NATO	North Atlantic Treaty Organisation
NEC	Network Enabled Capability – Ability to deliver precise and decisive military effects with speed and accuracy through linking sensors, data fusion and weapon systems
PJHQ	Permanent Joint Headquarters – PJHQ was established at Northwood to command Joint and Combined military operations, and provide politically aware military advice to the MoD Defence. It brings together on a permanent basis intelligence, planning, operational and logistics staffs
RLI	Restricted LAN Interconnect
SPOC	Single Point Of Contact – A Single User entry point to access various DCSA services

Supporting Information

Reference Documents

DCSA One Team

Published April 2006

DCSA Framework Document 2004

Published November 2004

DCSA FY 2004/2005 Key Target Rationale Paper

Published June 2004

DCSA Corporate Plan 2006

Published April 2006

Defence White Paper

Delivering Security in a Changing World

Published December 2003

Supplement to Defence White Paper

Delivering Security in a Changing

World - Future Capabilities

Published July 2004

Points of Contact

DCSA Head of Secretariat

HQ DCSA
Basil Hill Site
CORSHAM
Wiltshire
SN13 9NR

Email

External: <mailto:dcsa-sechd@defence.mod.uk>

Internal: DCSA-sechd

Telephone

Mil: 94382 5524

Civ: 01225 815524

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HQ DCSA

Basil Hill Site

CORSHAM

Wiltshire SN13 9NR

Telephone: 01225 814750

www.mod.uk/dcsa

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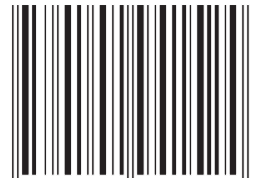
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