



Defence Electronics &
Components Agency

Defence Electronics & Components Agency

Annual Report and Accounts 2016/2017



HC 160







Ministry
of Defence

Defence Electronics and Components Agency

Annual Report and Accounts

2016/2017

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Defence Electronics &
Components Agency

DEFENCE ELECTRONICS AND COMPONENTS AGENCY ANNUAL REPORT AND ACCOUNTS 2016/2017

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PERFORMANCE REPORT

OVERVIEW

INTRODUCTION FROM THE CHAIRMAN

" As Chairman of the Defence Electronics & Components Agency's (DECA) Board it is my responsibility, along with my fellow Non-Executive Directors, to provide expert advice, challenge and guidance to the DECA Executive Management Board using the skills and expertise we have developed in our various careers at senior management level in both private and public sector."





Alex Jablonowski
DECA Board Chairman

My role of Chairman also extends to providing support to DECA's Chief Executive at DECA Performance and Risk Review meetings, chaired by MOD's Director of Commissioning Services who has delegated responsibility for oversight of DECA on behalf of MOD's Permanent Under Secretary and the Minister for Defence Procurement, who holds the Owner role and responsibilities for DECA on behalf of the Secretary of State for Defence.

This is my second introduction to the Agency's Annual Report and Accounts (AR&A), which covers the 2016-17 financial year.

Following on from a highly successful first year's trading, it has given me great pleasure to witness and support the beginnings of an evolution in the business that is seeing DECA continuing to provide critical support to in-service MOD equipment, but equally importantly a business that has been able to develop more holistic, global and regional support solutions with MOD and strategic industry partners across Defence.

In what has been a landmark year for DECA, witnessing and supporting the work that led to successful assignment as the 'global' Maintenance, Repair, Overhaul and Upgrade hub for the initial phase of F-35 avionic components gave me immense personal pleasure. I can think of no better way for DECA to demonstrate early achievement of the confidence for the future success of the business that I expressed in the AR&A last year.

Alex Jablonowski
Chairman,
6 July 2017

The commitment and enthusiasm of DECA's workforce has been demonstrated in many other ways throughout the year and has been testament to an Agency that continues to deliver and rubber stamp MOD's decision for strategic retention. DECA's skills, knowledge, experience and often unique position within the Defence sector undoubtedly continue to provide DECA with further opportunities to grow and develop its role in supporting Defence and national security objectives.

Once again, I would like to offer my thanks to my fellow Non-Executive Directors for their valuable advice, expertise and support during a tremendous second year for DECA and extend these to DECA's Chief Executive, Geraint Spearing, his team of Executive Directors and very importantly DECA's workforce. All have shown great professionalism and commitment in achieving so much during 2016-17 whilst maintaining the Agency's high levels of efficiency and standards of quality in service delivery.

In conclusion, I look forward, with my fellow Non-Executive Directors, to supporting DECA and its employees as it enters the next exciting chapter of its journey as a critical supplier of support to UK Defence.





STATEMENT BY THE CHIEF EXECUTIVE

"DECA's 2016/17 Annual Report and Accounts demonstrates a second year of successful Agency performance that has once again seen DECA rise to both the challenges and opportunities of the last twelve months in meeting all of its objectives and performance targets, as well as the significant strategic business development that has been undertaken throughout the year."





Geraint Spearing
DECA Chief Executive

DECA's has continued to operate as a MOD owned Executive Agency and an integral part of UK Defence. As such DECA forms part of the overall consolidated MOD accounts whilst retaining the requirement to produce its own stand-alone annual report and accounts in line with established Government best practice. This continues to provide full transparency to MOD's senior management team and the DECA Board on how efficiently and effectively DECA has managed its entrusted assets.

DECA's second year builds on high levels of quality and operational delivery to our customers that established the DECA brand and identity in the market place in the Agency's first year of trading in 2015/16. This continuing track record of strong business performance has given me great personal pleasure with the additional challenges of leading the MOD elements of the UK's successful bid for F-35 component maintenance, repair, overhaul and upgrade with our industry partners, BAE Systems and Northrop Grumman Corporation. Successful assignment by the US Department of Defense's F-35 Joint Project Office as the global F-35 maintenance, repair, overhaul and upgrade hub for the initial grouping of components has underwritten the decision to retain DECA within MOD as well as the medium to long-term requirement for access to DECA's low cost, assured, on-shore, government owned capacity and capability. That this came in a year where we continued to successfully operate as an MOD Executive Agency without any negative impact on our critical outputs to Defence and Industry customers is testament to the entire DECA workforce.

Throughout the year, DECA's performance has been measured against five key performance indicators (KPIs) in areas that have been assessed by the Agency and MOD as critical to successful business

performance and agreed with our Owner, Harriett Baldwin MP the Minister for Defence Procurement. Details of our successful performance against these KPIs can be found in the Performance Analysis section at page 14 of this AR&A.

DECA continues to operate from our Head Office and Centres of Excellence at Sealand in North Wales and Stafford. We also operate at customers locations across the UK and overseas in support of operations. All operational sites continued to provide positive contributions to the delivery of the Corporate plan.

To maintain and improve levels of efficiency and effectiveness within DECA, we have continued to implement our approved Transformation Programme. Following our F-35 assignment, we have launched the development of a much wider Enterprise Transformation Programme. This programme will maintain the business improvement culture within DECA and ensure the Agency remains aligned to changing Defence priorities and MOD, Government, partner nation and industry transformation agendas.

We have continued to expand our traditional portfolio of Maintenance, Repair and Overhaul activity throughout 2016/17. This has resulted in DECA evolving from a business providing assured services for largely legacy MOD equipment, to a business that continues to focus on assured delivery of these services, whilst in parallel developing more holistic, global support solutions alongside MOD and industry. The F-35 assignment vividly demonstrated this, underpinning DECA's continuing and increasing importance in delivering critical support to MOD and Industry, through recognition of the Enterprise value that DECA brings as a UK Government owned strategic partner to Defence.





UK F-35B during trials at Eglin Air Force Base
Florida USA
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In support of this, DECA's medium to long-term business strategy has been developed alongside key MOD stakeholders and Industry partners. This work has delivered a business strategy that strikes the correct balance between MOD operational advantage and effective trading, culminating in DECA's recognition as a key contributor to the UK Industrial Strategy, the Prosperity Agenda and as a key enabler in delivery of support to the Defence, Equipment and Support Corporate Plan. Further detail on DECA's Business Strategy can be found at page 9 of this AR&A.

DECA's greatest asset is undoubtedly its world-class workforce. I continue to take great pride in leading such a customer focused organisation whose committed employees continue to demonstrate a level of professionalism that is second to none.

I am confident that in what promises to be DECA's busiest year, our workforce will demonstrate the same level of enthusiasm and commitment in delivering success in the coming years.

Geraint Spearing
Chief Executive
Defence Electronics & Components Agency
6 July 2017



PURPOSE, AIM AND VALUES

DECA's Purpose, Aim and Values were developed and agreed with senior managers, employees and Trades Unions and endorsed by the Customer and Owner as part of work to launch the new Agency on 1 Apr 15. Designed to ensure alignment with Defence Objectives and MOD's strategic requirements for DECA, these have been further developed during FY16/17 as part of DECA's business improvement activity under the Transformation Programme. Further work under the DECA Enterprise Transformation Programme will help ensure DECA continues to deliver the levels of performance and efficiency agreed with the Customer and Owner as well as further embedding DECA's Values within the Agency.

PURPOSE

To be a trusted MOD and Industry partner, assuring efficient delivery of electronics and components capability in support of Defence.

AIM

We aim to be;

A highly professional team driving efficiency and delivering benchmark support services to our customers

VALUES

Value our people by;

- creating an environment where all employees are proud to be part of DECA
- engaging with individuals and Trades Unions to include their views in decision making
- offering development opportunities to help realise full potential and recognise achievement
- respecting the knowledge and expertise of all employees and encouraging engagement

Promote teamwork and co-operation by;

- providing inspired leadership, encouraging empowerment and accountability
- working together with each other to achieve our purpose and aims
- prioritising, work to increase diversity of talent, experience, personal characteristic, perspective and background

Care for our customers and stakeholders by committing to;

- understanding our customers' needs through the development of stronger relationships
- developing new capabilities in line with customer requirements
- delivering high quality products and reliable services
- responding with urgency and developing agile and forward thinking solutions
- working to nationally and internationally recognised standards and accreditations
- fostering a positive presence in our local community

Deliver best value for defence and continuously improve by;

- striving for excellence in every aspect of our business
- further developing our responsiveness, flexibility and resilience
- being open to change and prepared to manage risk
- developing sovereign capabilities to support international collaboration, job sustainment, skills retention and meet changing defence requirements
- delivering enterprise savings and generating positive regional and national economic impacts

BUSINESS STRATEGY

Throughout 2016-17, DECA has continued to provide MOD with assured onshore capacity and capability for through-life maintenance, repair, overhaul, upgrade and procurement services for equipment across Defence from its Sealand and Stafford sites and deployed locations around the UK.

In addition, as an MOD Executive Agency, DECA has provided enterprise value to MOD through significant cost avoidance and savings to support programmes and, most significantly, through continuing to provide competitively priced services into the Defence marketplace. This was demonstrated during the year, through the successful assignment of DECA and its industry partners, as the 'global' F-35 avionic and aircraft components maintenance, repair, overhaul, upgrade and Sustainment Services provider by the US F-35 Joint Programme Office. This assignment, following open, international, commercial competition will see the European hub for these F-35 services based at DECA Sealand.

As a result of these successes, the Agency has begun to evolve from a business providing assured services, for largely legacy MOD equipment, to a business that continues to focus on delivery of these services whilst developing more holistic, global and regional support solutions with MOD and strategic industry partners across Defence.

DECA continues to be uniquely positioned to assist MOD in delivering SDSR 2015 and has developed its business strategy throughout 2016-17 to ensure alignment with UK Government Industrial Strategy as well as emerging MOD industrial policy and support strategies through the development and agreement of the following Strategic Objectives for 2017-18:

Operating efficiently and effectively as a stand-alone MOD Agency by maintaining control of the business to ensure:

- effective governance and financial control of the Agency
- efficient delivery of the endorsed financial plan
- enduring, 'best value for defence' capabilities
- compliance, quality, safety, environmental and airworthiness standards

Delivering the agreed DECA customer programme, associated support and services to customers to assure:

- timely customer outputs to agreed performance and quality levels

Secretary of State for Wales during his visit to DECA
© DECA

- retained on-shore specialist capabilities in support of in-service and future platforms across Air, Land, Maritime and Joint Enabler environments
- provision of the global F-35 avionic and aircraft components maintenance, repair, overhaul and upgrade hub
- alignment of the DECA business model to wider MOD planning and development of options to embed DECA Enterprise value across defence

Developing and implementing a DECA Enterprise Transformation Programme to deliver efficiencies, drive customer focus and support wider MOD, Government and industry Transformation Programmes to:

- ensure a business capable of responding to ever changing customer requirements
- shape the business in line with current and future MOD requirements and priorities
- maintain competitiveness and deliver planned levels of efficiency and value
- provide alignment and support to MOD, Government, partner nation and industry transformation programmes

Creating greater value for Defence by sustaining and growing the DECA business to:

- create and demonstrate the enterprise value of DECA in collaboration with DE&S and wider-MOD
- continue to identify and develop strategies for wider holistic support solutions
- leverage DECA's agnostic status to position the business as the trusted MOD/industry partner for electronic and component support
- help assure value for money and cost effectiveness within Typhoon support
- develop and deepen strategic relationships with Industry partners
- actively pursue further opportunities in complementary and military export markets



BOARD OF DIRECTORS

Defence Electronics & Components Agency

DECA BOARD

Alex Jablonowski
Independent
Non-Executive Chairman

Elliot Brinkworth
Departmental
Non-Executive Director

Peter Shortt
Independent
Non-Executive Director

Tim Walton
Independent
Non-Executive Director

Lin Longman
Finance Director

Geraint Sparing
Chief Executive

Jason Leeks
Head of Strategy

Ian Doughty
Support Services Director

Wayne Baker
Operations Director

Keith Pavett
Commercial and
Contracts Director

Ian Cole
Business Development
Director

EXECUTIVE MANAGEMENT BOARD

ALEX JABLONOWSKI

Independent non-executive chairman

Alex has been an independent board member and chair, mainly in government for over ten years. Previously, Alex served thirty years with Barclays in the UK and also in France, Germany, Korea and Egypt and is co-author of the Art of Better Retail Banking published by Wileys.

As a government non-executive director, he has served on the boards of the Veterans Agency, Highways Agency, VOSA, Office of National Statistics, Government Actuary's Department, Wilton Park, Valuation Office Agency, House of Commons and the Supreme Court.

Alex chaired the Defence Support Group board up to the sale to Babcock. He is currently a non-executive director on the boards of the Maritime Coastguard Agency and Royal Bournemouth and Christchurch Hospital Foundation Trust as well as chairing a small software company

ELLIOT BRINKWORTH

Department Non-Executive Director
(Completed service 31 March 2017)

Elliot Brinkworth is the Head of Business Strategy & Governance in the Ministry of Defence, a post he has held since January 2016.

Elliot joined the Ministry of Defence in 1995 as a Student Engineer and on completion of his graduate training, joined the Defence Procurement Agency, acquiring aircraft data link systems.

Elliot led the Programme Management Office for the Head Office Streamlining programme, delivering a 25% reduction in the Department's London headcount. Elliot moved to Business Strategy & Governance in 2010 and delivered a series of organisational reviews culminating in the successful sale of the Government Pipeline and Storage System in 2015



PETER SHORTT

Non-executive Director

Peter is an experienced venture capitalist and corporate financier and has spent the last nine years working within Government on a range of corporate finance, governance, commercial and strategy issues.

In 2007 Peter joined the Shareholder Executive, part of the UK Government responsible for managing its interest in a number of commercial operations from the Royal Mail to the Met Office

In 2012 he moved to the Ministry of Defence as Head of Business Governance and Strategy to lead on the sale of three Defence assets: Marchwood Military Port, the Government Pipeline and Storage System (GPSS) and the Defence Support Group (DSG) which was his primary focus during his last year with the Department

TIM WALTON

Non-executive Director

Tim is an independent consultant and non-executive board director. He is an Independent Member of the Referrals Panel of the Single Source Regulations Office and is a Member of the Standards Policy and Strategy Committee of British Standards Institution Group. He has worked previously on private and public sector boards including NHS Direct, Highways Agency, Accent Group and the Operating Committee at the Department for Business, Innovation and Skills.

Tim has 30 years' experience in commercial, operations and technology executive roles mainly with Rolls-Royce but also with Arup and CH2MHill. Trained as a Metallurgist, he has an MBA and is both a Chartered Engineer and a Fellow of the British Computer Society..

GERAINT SPEARING

Chief Executive

Geraint Spearing became the Chief Executive of the Defence Electronics and Components Agency on 1 April 2015.

Geraint headed up various operational business units, along with the Corporate Support Services across the Defence Support Group, and latterly joined the Executive Board as Chief Operating Officer to June 2014 which included all UK operations and support areas, including the management of deployed operations in Afghanistan.

He took up the position as CE (designate) in June 2014 where he led the separation from DSG and formation and launch of the Defence Electronics and Components Agency (DECA) on 1 April 2015.

An experienced Chartered Director and Aerospace Engineer, Geraint is a Fellow of both the Royal Aeronautical Society and Institute of Directors. Geraint has a proven capability of running businesses and corporate support services through strong leadership and change management skills developed through repeated achievement of business objectives over his 26 year career in defence related businesses.

LIN LONGMAN

Finance Director

Lin Longman's accountancy career began working overseas, initially working within the travel industry in Europe and then for the Australian government in Sydney.

Lin qualified as a member of the Chartered Institute of Management Accountants (CIMA) in 1999 and has over 15 years' experience working at a senior financial level in both commercial industry and within the Ministry of Defence.

Prior to joining DARA in 2004 and latterly as Financial Controller of the Electronics and Components Business Unit's within the Defence Support Group, Lin was Head of Finance for Hoover Europe's UK Refrigeration and Service Division.

JASON LEEKS

Head of Strategy, Governance and Secretariat

Jason Leeks is the Head of Strategy, Governance and Secretariat at DECA and a member of the Chartered Institute for Procurement and Supply.

Jason began his MOD career in 1996 and has undertaken a number of important roles across Defence Equipment and Support (DE&S), MOD centre and the Air and Army commands.

Jason joined the Defence Support Group (DSG) in 2008 working in a vital strategy and governance role directly supporting the DSG Executive Board, before supporting the Chief Executive in developing and demonstrating the rationale for the strategic retention of DECA within MOD.





WAYNE BAKER

Operations Director

Wayne Baker began his career as an instrument technician apprentice in 1995, progressing to assume major roles within the Defence Aviation Repair Agency including Commercial, Operational Excellence and Project Management.

Wayne took on the role of Operations Manager at the Defence Support Group (DSG) Electronics and Components Business Unit in 2011 before assuming the role of DSG Ashchurch Head of Business, successfully doubling the size of the business through capability growth and the development of the centre of excellence for BOWMAN Fleet Management activities.

Throughout this time Wayne has also achieved a Masters in Engineering Business Management at Warwick University.

IAN DOUGHTY

Support Services Director

Ian Doughty is Support Services Director at DECA and holds a first class Engineering and Masters Engineering Business Management degree. Ian developed his career within operations management at British Steel, David Brown and Vauxhall Motors.

Ian joined the Defence Aviation Repair Agency in 2004 as Production Manager, and progressed through to Operations Manager before assuming the role of Defence Support Group Head of Business Electronic Components Business Unit and Stafford in 2010.

In 2016, Ian was one of only a handful of MOD employees selected through open completion to join the prestigious Civil Service Future Leaders Scheme. Through participation in the programme, Ian aims to further enhance his leadership capabilities for the benefit of DECA.

KEITH PAVETT

Commercial Director

Keith Pavett began his MOD career joining the MOD Procurement Executive in 1982. Keith was appointed Commercial Manager for Fixed Wing Aircraft for the Defence Aviation Repair Agency in 2000 and assumed the role of Head of Commercial for the Defence Support Group (DSG) Business Stream 2 successfully overseeing commercial activities for DSG Bovington, Catterick, Stirling, Colchester, Warminster, Ashchurch, Herrick Exchange Point and the Equipment Sustainability System Regeneration Capability in Bastion.

Keith has a Master's Degree in Business and Administration

IAN COLE

Business Development Director

Ian was responsible for introducing in house engineering and calibration support tasks for the aircraft, aero structures and engines maintenance facility at RAF St Athan. Following a move and a term in the Fixed-wing Commercial arena, he was appointed Head of Business Development for the Fixed Wing Aircraft Unit at the Defence Aviation Repair Agency.

Upon cessation of Fixed wing Aircraft Operations at DARA Ian transferred and assumed the role of Head of Business Development at the Electronic and Components Business Unit, successfully establishing new tasks at Sealand site and also introducing in country solutions for Base Protection ISTAR and Counter Improvised Explosive Device support to deployed operations. This led to Ian being responsible for managing the highly successful Equipment Support Sustainability UK Support Team for deployed operations in Afghanistan.

Ian has a Master's Degree in Business and Administration.





BUSINESS OVERVIEW

GOING CONCERN

As part of the sale process of the Defence Support Group (DSG) by MOD the assets and liabilities relating to DECA's business were transferred to MOD from DSG on 31 March 2015. MOD created DECA as an Executive Agency on 1 April 2015 and transferred these assets and liabilities to DECA whilst retaining legal ownership of these assets and liabilities. As an Executive Agency DECA is wholly owned by and is an integral part of MOD.

DECA is tasked with covering its costs and making a profit by carrying repairs, maintenance and overhaul tasks for MOD and commercial customers through long and short term contracts, but if required can obtain funding from MOD. DECA's assets and liabilities are contained within the overall balance sheet of MOD. DECA submits a rolling five year plan to the minister responsible for the agency (Min(DP) for approval and this plan includes the long term order book, endorsed by the MOD customer.

DECA's retention as a strategic asset of the MOD has been demonstrated following the announcement of the F35 assignment for the Avionic Maintenance, Repair, Overhaul and Upgrade (MRO&U) to a joint arrangement, which will be based at the Sealand

facility. DECA will act as agent of the department to oversee their element of the joint arrangement.

In these circumstances it is expected that DECA will continue to operate in the foreseeable future and has therefore adopted a going concern basis for the preparation of its Annual Report and Accounts.

PERFORMANCE SUMMARY

DECA achieved its planned level of profitability during 2016/17 with a net trading income of £2.433M, £0.205M ahead of plan. DECA also achieved delivery of at least 96% of its agreed customer performance programmes. Further details of performance are shown in the performance analysis below

RISK

The major corporate risks during 2016/17 were the non-achievement of the following:

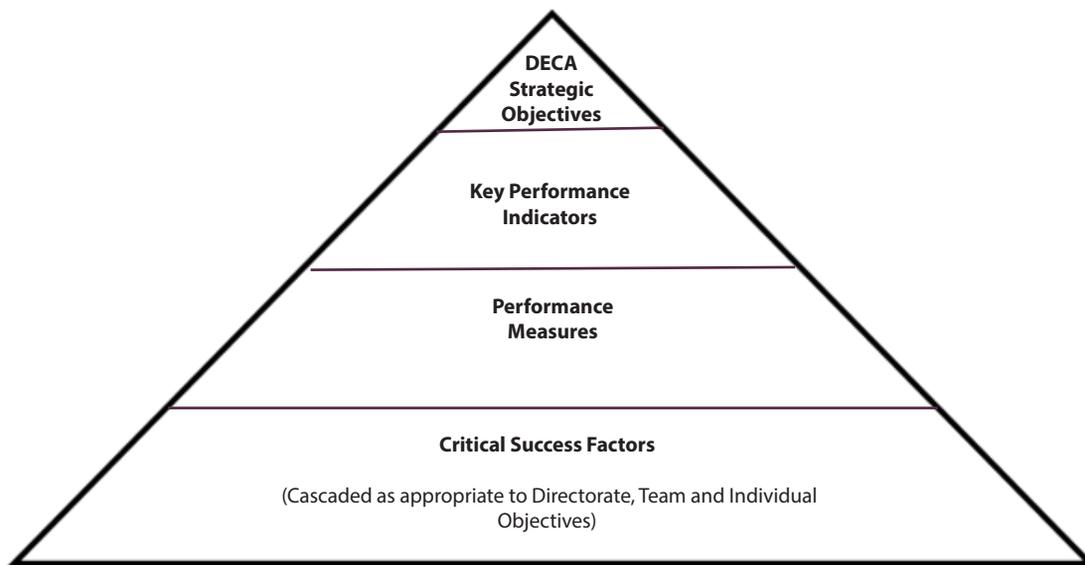
- planned level of in-year demand
- planned future Business Growth
- Manpower and cost efficiency



PERFORMANCE ANALYSIS

The performance management hierarchy below is designed to provide clear indicators and allow measurement of performance in areas which are critical to DECA from an Owner, Customer and Agency perspective. These are cascaded, with clear accountabilities, throughout all levels of the Agency. Progress towards achieving these indicators is measured regularly and reviewed at the DECA Executive Management Board.

THE DECA PERFORMANCE MANAGEMENT HIERARCHY



The DSOs are developed and agreed with the Owner and DECA Agency Board with input from relevant Customer stakeholders to ensure they encompass all aspects of running the business, whilst also meeting the needs of our Owner and Customer.

KEY PERFORMANCE INDICATORS FOR 2016 - 2017

Key Performance Indicators for 2016-17 have been developed and agreed with the MOD Owner and Customer as follows:

DECA's purpose is to be a trusted MOD and Industry partner, delivering assured electronics and components capability in support of Defence. DECA's aim is to be a highly professional team delivering benchmark support services to our customers. In line with DECA's ministerially endorsed purpose and aim, and in order to maintain Agency efficiency as well as structural alignment with MOD planning assumptions and strategic priorities, DECA developed Key Performance Indicators (KPIs) for FY2016/17 with the MOD Owner and Customer focal point. The purpose, aim and KPIs were approved through the FY2016/17 Corporate Plan with the DECA Board, DECA Performance & Risk Review.



PERFORMANCE MEASURES FOR FINANCIAL YEAR 2016-2017

KPI 1 Financial Performance	Operating efficiently and effectively as a stand-alone MOD Agency by: <ul style="list-style-type: none"> improving financial control by achieving a 10% improvement in forecasting accuracy achieving at least the planned level of profit agreed in Year 1 of the Plan 	Achieved
KPI 2 Quality	Successfully operating the business to deliver the Plan whilst maintaining the quality of products, services and processes by: <ul style="list-style-type: none"> achieving zero attributable Major customer concerns in FY16/17 reducing attributable Minor customer concerns by at least 5% compared to FY15/16 	Achieved
KPI 3 Customer Satisfaction	Delivering the agreed DECA Customer Programmes, associated support and services by: <ul style="list-style-type: none"> achieving delivery of at least 96% of agreed DECA Customer Programmes in FY16/17 	Achieved
KPI 4 Efficiency	Delivering the levels of transformation and efficiency and cost reduction agreed with the Owner by; <ul style="list-style-type: none"> achieving at least the planned levels of efficiency improvement by delivering a 7% increase in Direct Labour Utilisation against the FY15/16 baseline by 31 March 2017 achieving at least a 5% saving in operating costs over the life of the Plan 	Achieved
KPI 5 Business Development	Sustaining the Agency and achieving the planned levels of business growth agreed with the Owner and Customer by; <ul style="list-style-type: none"> rolling out a consolidated Business Development Strategy that achieves at least a 20% increase in commercial revenue over the life of the Plan 	Achieved

PERFORMANCE MEASURES FOR FINANCIAL YEAR 2017-2018

KPI 1 Financial Performance	Operating efficiently and effectively as a stand-alone MOD Agency by: <ul style="list-style-type: none"> achieving a less than 2% variation in forecast accuracy achieving at least the planned level of profit agreed in Year 1 of the Plan
KPI 2 Quality	Successfully operating the business to deliver the Plan whilst maintaining the quality of products, services and processes by: <ul style="list-style-type: none"> achieving zero attributable Major customer concerns in FY17/18 reviewing, developing and agreeing a revised 'Minor attributable customer concerns' measure aligned to Customer volume
KPI 3 Customer Satisfaction	Delivering the agreed DECA Customer Programmes, associated support and services by: <ul style="list-style-type: none"> achieving delivery of at least 96% of agreed DECA Customer Programmes in FY17/18
KPI 4 Transformation and Efficiency	Delivering the levels of transformation and efficiency and cost reduction agreed with the Owner by; <ul style="list-style-type: none"> delivering 4% increase in Direct Labour Utilisation against the FY16/17 baseline achieving at least a 1% reduction in operating costs in year 1 of the Plan developing and agreeing a DECA Enterprise Transformation Strategy
KPI 5 Business Development	Sustaining the Agency and achieving the planned levels of business growth agreed with the Owner and Customer by; <ul style="list-style-type: none"> continuing to develop the business development strategy to achieve the planned levels of business growth in year 1 of the plan





BUSINESS PERFORMANCE REVIEW OVERVIEW

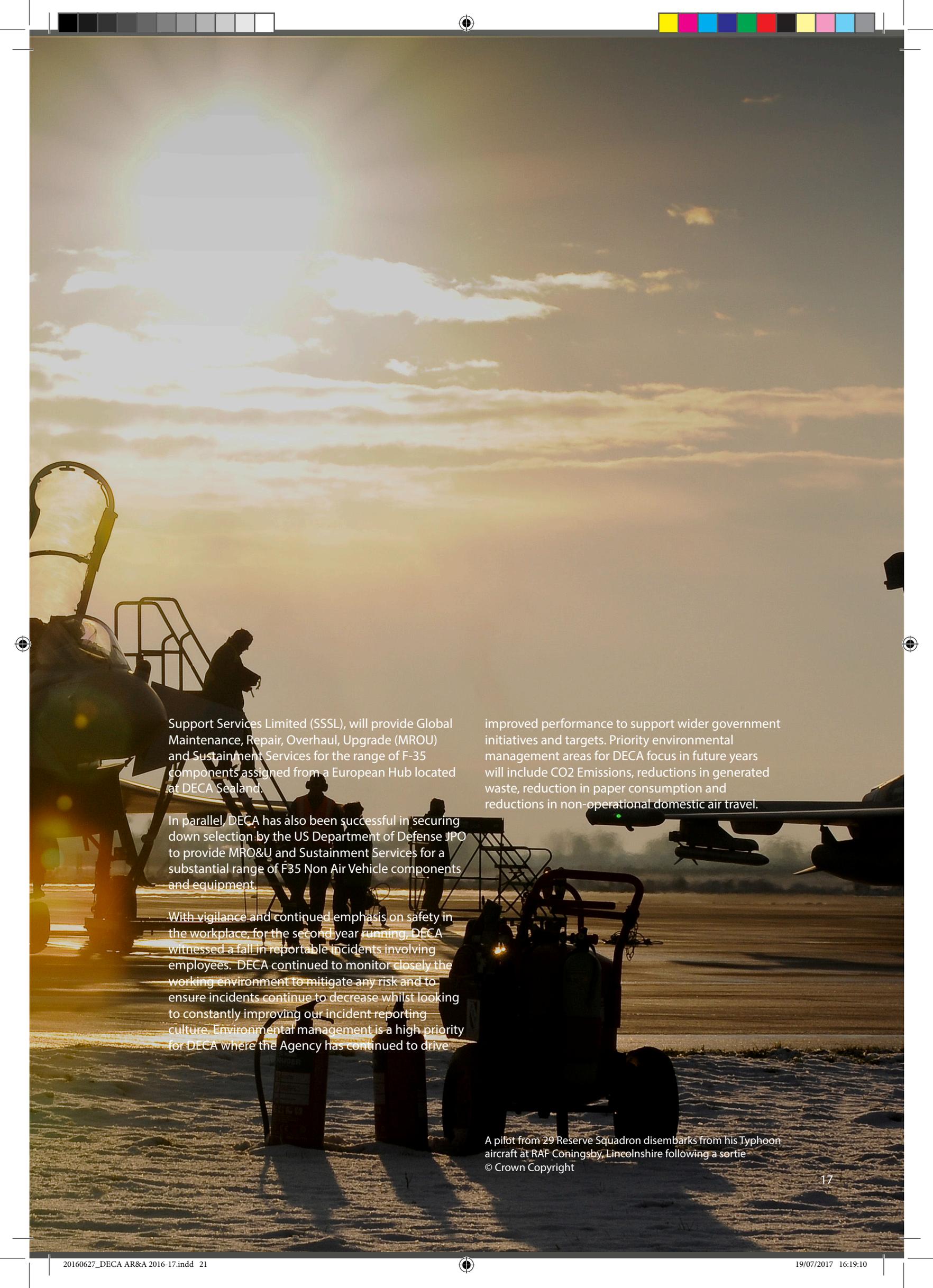
As a trusted partner to MOD and Industry, our primary purpose continues to focus on supporting the UK's armed forces by delivering an assured capability and developing and growing the DECA skills and capabilities necessary to discharge this both now and in the future.

Building on DECA's successful first year of trading, this second year has continued to deliver improved operational excellence, maintained critical outputs to customers, improved turnaround times and increased levels of delivery performance (which have remained above contracted targets) with no major quality concerns during the year. These achievements are all the more impressive set against strict cost control measures which have successfully delivered the financial plan whilst realising a greater than 5% reduction in operating costs against year 1 of the plan.

Additionally, the period of this report, has seen the deployment of the DECA Business Development Sector

strategies across, not only the traditional Air Domain but also Land, Sea and Joint Enabler environments. This focus has resulted in the consolidation and growth of the DECA workload both now and in the future through expanding our customer base and growing our capabilities and product ranges. This growth continues to be enhanced through the development of a strategic framework Business Agreement with MOD and enduring partnering agreements with key Industry partners and Original Equipment Manufacturers.

Notably, following a joint MOD/DECA and industry proposal submission, the US Department of Defense, Joint Programme Office (JPO) confirmed that the UK bid to secure a substantial number of F-35 Technology Group assignments under the F-35 Lightning II Component Maintenance Repair Overhaul and Upgrade competition was successful. Following the successful assignment, DECA on behalf of the UK MOD, entered into a Joint arrangement with 2 industry partners. This arrangement, now incorporated as Sealand



Support Services Limited (SSSL), will provide Global Maintenance, Repair, Overhaul, Upgrade (MROU) and Sustainment Services for the range of F-35 components assigned from a European Hub located at DECA Sealand.

In parallel, DECA has also been successful in securing down selection by the US Department of Defense JPO to provide MRO&U and Sustainment Services for a substantial range of F35 Non Air Vehicle components and equipment.

With vigilance and continued emphasis on safety in the workplace, for the second year running, DECA witnessed a fall in reportable incidents involving employees. DECA continued to monitor closely the working environment to mitigate any risk and to ensure incidents continue to decrease whilst looking to constantly improving our incident reporting culture. Environmental management is a high priority for DECA where the Agency has continued to drive

improved performance to support wider government initiatives and targets. Priority environmental management areas for DECA focus in future years will include CO2 Emissions, reductions in generated waste, reduction in paper consumption and reductions in non-operational domestic air travel.

A pilot from 29 Reserve Squadron disembarks from his Typhoon aircraft at RAF Coningsby, Lincolnshire following a sortie
© Crown Copyright

TRANSFORMATION

Following launch of DECA's Transformation Programme in FY15/16, a range of business improvement projects and activities were identified that focussed on a preliminary transformation vision aimed at delivering improved effectiveness and efficiency at Sealand, Stafford and DECA's deployed locations around the UK.

Recognising the 'game changing' nature of F-35 assignment, the DECA Board agreed to the development and launch of a much wider DECA Enterprise Transformation Programme (ETP). The ETP will help maintain the business improvement culture, established under the initial Transformation Programme throughout the Agency, and ensure that further business transformation and capability growth

continues to align with MOD's strategic requirements and MOD, Government, partner nation and industry transformation programmes.

The range of projects and activities (See Figure 1) underpinning the ETP has been expanded to reflect F-35 assignment and the Board agreed strategic opportunities that DECA is taking forward through this plan. This includes activity to ensure capability development aligns to MOD's future needs through work to map DECA existing capability to future requirements for support services, F-35 support delivery and agreed strategic development opportunities.



Figure 1: DECA Enterprise Transformation 'Vision'

Fibre optic cable repair carried out at DECA
© DECA



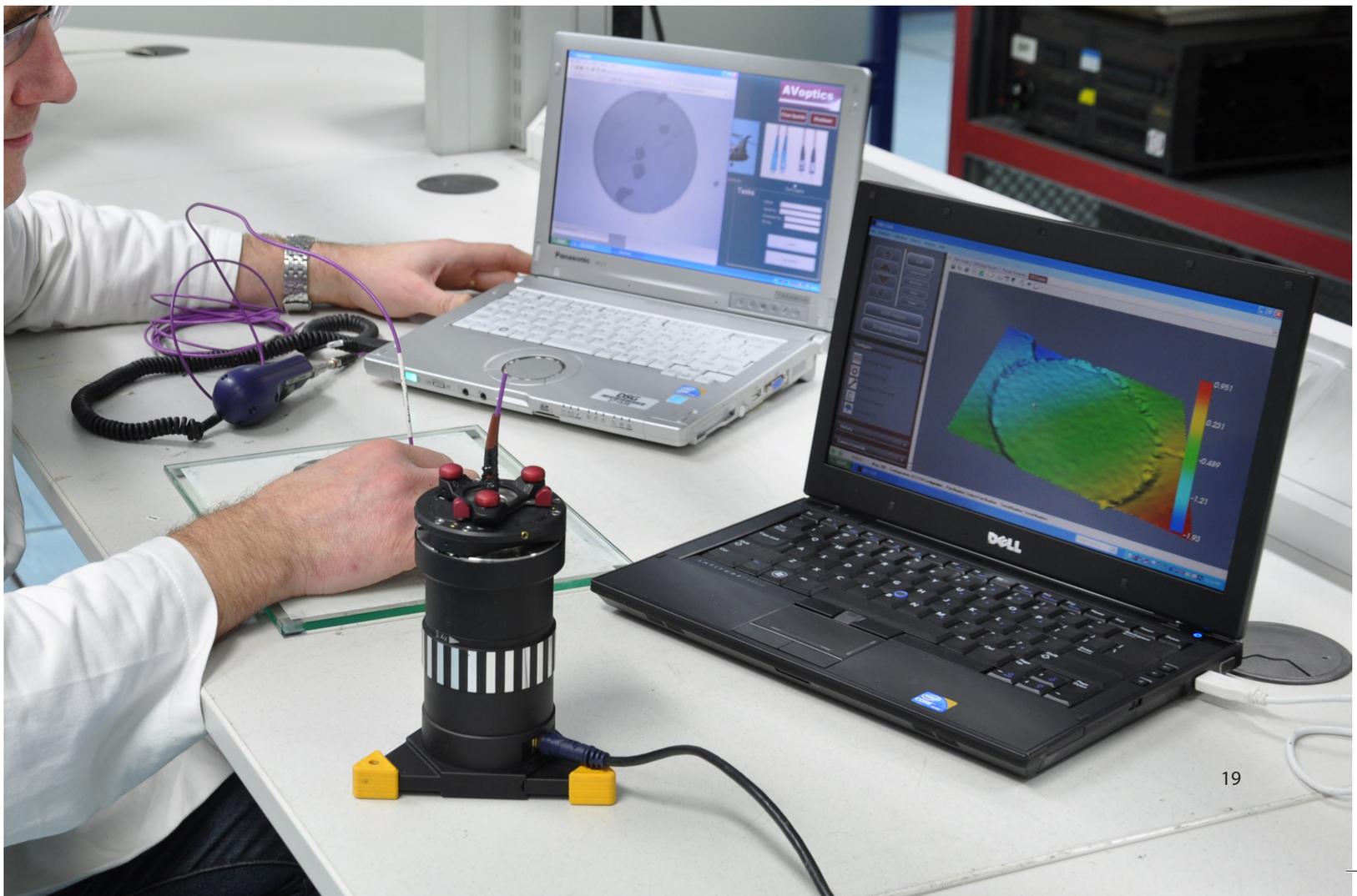
INVESTMENT AND CAPABILITY DEVELOPMENT

During the year, DECA has invested further in its people and technology to broaden both the Agency's technical and supply chain capabilities. One example is the investment in Audiometric facilities which not only expands DECA's capability in support of wider MOD transformation, but also provides capability for future platforms and test equipment. Another example was the introduction of Vacublast cleaning, which significantly reduces the times to remove surface finishes from products.

Throughout the year there has been a sustained focus on the upgrade of DECA's estate and buildings to deliver enhanced efficiency and sustainability in order to reduce the Agency's environmental impact. Reflecting the continual upgrade in operational capability, the outward appearance of the Sealand site has been considerably enhanced by some prudent facilities projects. Substantial investment has also been committed to upgrade our infrastructure such as High Voltage Ring Main and District Heating upgrades to ensure the stability and future proofing of the

business. At the same time, we have made significant investment in the DECA Stafford site to optimise the physical layout of the facility, contribute to enhanced employee safety and further reduce DECA's environmental impact. In addition to all of this there has been investment across both sites to enhance DECA's physical security with a range of enhancements including additional CCTV coverage, lighting and the upgrade of controlled door access.

In order to keep pace with emerging technologies and maintain DECA's strategic position in the electronic testing and repair market, DECA and MOD will continue to look to secure investment in new capabilities and test technology in support of MOD's agreed strategic requirements. This has and will continue to help ensure DECA's 'open architecture' approach continues to provide MOD with assured capability and interoperability of test systems, regardless of OEM supplier.







WINNING BUSINESS

Through continued work with MOD and Original Equipment Manufacturers, DECA's capabilities have continued to expand. DECA has gained additional expertise and capability in both operation and maintenance of fixed wing general purpose test equipment, attaining BAE Systems' approved Typhoon General Purpose Automated Test Equipment operator status. Additionally, DECA has successfully established the first UK on-shore Typhoon Generator test capability that will potentially deliver substantial benefit to the MOD by reducing repair turn round times and increasing front line aircraft availability.

Throughout 2016-17, DECA has continued to develop and deepen capabilities to repair and develop innovative solutions for a wide range of Typhoon electrical and fibre-optic cables and calibration support and consultancy activities. These capabilities continue to be developed and broadened across MOD platforms to provide invaluable support to front line operations and new equipment coming into service.

DECA's innovative capability to recover discarded components through test and repair or replacement of sub-components has identified substantial potential cost savings and efficiencies over the life of in-service platforms. Through this work, DECA has continued to provide valuable independent advice, enabling both MOD and Industry customers to identify enterprise cost savings by exploiting DECA's vast experience of depth sustainment solutions through modern and innovative 'repair not replace' technologies. These technologies have been instrumental in identifying potential cost avoidance savings of over £20M on Typhoon equipment and components alone during the year.

Working strategically with OEMs has also allowed DECA to build new capabilities for many legacy equipment types across a range of platforms. These include the repair of Sentry Aircraft Power Supplies, Centralised Warning Panels for Italian and Saudi Tornado and Hawk Throttle Handle and Sticks.

DECA has continued to make significant progress in expanding its capabilities across the Land Domain including development of repair schemes for secure communications and Reduce to Produce Programmes on equipment including surveillance cameras that have delivered results in excess of customer expectations.

DECA's support to overseas deployments continued throughout the year and has included deploying DECA staff to the United States of America, Canada, Cyprus, Falkland Islands and Germany. This has

been complemented by our teams and Field Service Representatives deployed across the United Kingdom. These teams have continued to provide support to a range of MOD customers and Original Equipment Manufacturers across on equipment ranging from medical and dental equipment to components on UK and overseas platforms such as Typhoon, Apache and F-16. Additionally DECA's mobile Cryptographic Team have delivered critical support to MOD around the UK and in operational theatres as well as having the privilege of working on the UK's new Queen Elizabeth Class aircraft carriers and the 5 new Offshore Patrol vessels.

The existing Defence Medical Services customer account has grown over the year, adding eight new units, including RAF Marham and RAF Odiham, to the Medical and Dental Support Services (MDSS) Team portfolio. Additionally, the MDSS team have carried out a successful joint operational programme with Leidos to bring back into service approximately £200k of medical equipment for the UK Armed Forces.

DECA Stafford has also continued to grow its capabilities and improve efficiency. Stafford's ability to repair and recertify bottle breathing valves rather than purchasing new has resulted in savings of approximately £5M for the Aircraft Escape Systems (AES) DT with DECA Stafford now recognised as the end to end service provider for STASS equipment. Investment in the rationalisation of the DECA Stafford footprint and infrastructure continues to deliver business improvement and efficiencies.

DECA continues to successfully operate the European Service Centre for L3 Wescam from the DECA facilities at Donnington. This provides a factory licensed support solution for L3's highly sophisticated camera turret products including a deployable repair capability. In recognition of DECA's experience, capability and levels of service, L3 Wescam has now expanded DECA's scope to provide worldwide Field Service Support for this range of products.

DECA has also cemented its position as MOD's subject matter experts in the Automatic Test Systems engineering environment, through a series of conferences, feasibility studies and capability demonstrations. This has led to DECA taking the lead role for MOD in developing the Institute of Electrical Engineers Standards Associations standard for Test Programme Set transportability and further work with the US Department of Defense on developing solutions for avionics Test Programmes.



BUSINESS DEVELOPMENT STRATEGY

Business Development activity during the year has continued to focus on re-enforcing and broadening the DECA 'brand' and identity in the Defence market place. This continued to be enhanced through joint work with MOD and Industry to develop strategies and relationships to establish DECA as the UK's avionics and support equipment hub in Europe and provider of managed services across the tri-service defence environment.

Strategy work initiated during the year has resulted in DECA now being considered at the forefront of the Support Solution Envelop for future Unmanned Air Systems (UAS) platforms. Work on existing UAS Systems is also being jointly undertaken with DE&S to establish where DECA can support DE&S in resolving obsolescence issues.

Additionally, further opportunities to partner with UK based Defence companies to provide obsolescence support to international customers in partnership with key strategic industry partners and Original Equipment Manufacturers in the Land environment. Success in this arena provides great potential for DECA to significantly contribute to the Government's Prosperity agenda.

Further work by Strategy and Commercial staff saw significant progress made with MOD through the initiation of work to scope the potential benefits of establishing DECA as a strategic support supplier within MOD. During 2016, DECA has worked collaboratively with MOD Delivery Teams to support wider MOD Transformation. Throughout this period, DECA has provided labour into Abbey Wood to assist in delivering core Delivery Team (DT) outputs and generate qualification and experience that during 2017, will contribute to the staged transfer of activities to the Sealand site. Ultimately DECA will deliver a full range of managed services providing Air Commodities Team (ACT) labour savings, efficiencies, and inventory performance improvements while expanding the attractiveness of the DECA service offering to a wider DE&S customer base.

The Strategy team, working closely with MOD, has established the joint DECA Management Office (DECAMO) at Abbey Wood, Bristol to take forward work to develop the DECA business and help assure DECA retained capabilities for MOD. The Governance is managed by a 2* Management Board chaired by

Director Combat Air. The establishment of the DECAMO was also the first step in the development of joint short, medium and long term utilisation strategies for the Agency that make best use of DECA as a retained asset and provide transformation and improvement to the commercial arrangements between MOD and the Agency.

DECA's integration into the MOD supply chain and material governance structure has been supported by the re-establishment of links into DE&S and MOD and developing operating models for DECA as a Trading Agency. The team have also delivered savings throughout the year by utilising strategic supply chain routes through wider governance relationships. Finally the team have been focussed on supporting the DE&S Project Hercules team, disposing of approximately 5,000 items valued at approximately £50m. The DECA support has been well received by the project team and further work will continue into next year.

The primary focus for the commercial team during the year has been to support the business in ensuring that new products and services are developed and contracted. Substantial support has been provided to ensure that all sales contracts and agreements are taut and appropriate. Contracts and agreements have also been renewed or extended as required. For example, the Tri-Service Calibration contract with Operational Infrastructure and Planning (OIP) DT has been renewed for a further up to 4 years. In addition to this, procurement contracts for DECA goods and services continue to be reviewed, amended or replaced to ensure that they deliver improvement and efficiencies.

MARKETING AND BRANDING

DECA has continued to work closely with MOD's Defence Directorate of Communication to ensure rigour and consistency of message behind the DECA brand with DECA increasing its visibility within MOD and the wider Defence marketplace. DECA has continued to promote and widen knowledge of DECA capacity and capability both internally within MOD and through attendance at external events such as the Royal International Air Tattoo, Farnborough International Air Show 2016, Defence Vehicle Display 2016 to support generation of new work.

SUSTAINABILITY REPORT 2016/17

GREENHOUSE GAS EMISSIONS DATA

The DECA Greenhouse Gas (GHG) emission target for FY 16/17 was a reduction of 5% from previous baseline data (FY15/16).

This target was developed in conjunction with the UK MOD Sustainment Delivery Plan which is broken down into three specific scopes; these are:

- **Scope 1** – Direct Greenhouse Gas Emissions (includes gas usage, fuel oil, LPG and fuel from vehicles owned and operated by DECA)

- **Scope 2** – Energy Indirect Emissions (use of electricity supplied to DECA)
- **Scope 3** – Other Indirect Emissions (includes business travel by air, rail and hire/private car use)

RESULTS

The table below details the results of the DECA GHG initiative for 16/17.

	Type	Baseline	Reporting period	Target
Scope	GHG	2015/16 Kg Co2e	2016/17 Kg Co2e	5% reduction total
1	Gas	1,219,336	1,270,266	1,209,299
2	Electricity	3,096,915	3,008,648	2,853,802
3	Travel	20,986	23,944	22,895

Although these results identify that DECA did not achieve the targets as set, there were extenuating business circumstances, as follows:

Scope 1 and 2

During this reporting period, positive business developments, including F-35 necessitated the reopening of three previously closed buildings in year, which increased the overall site heating and operating requirement from the original forecast. Heating targets were further compromised by the requirement for extended periods of heating necessary due to an increase in the number of cold weather days experienced which was considerably higher than those measured in the base line year (15/16).

Scope 3

DECA has continued to promote the use of both video conferencing and teleconferencing for meetings with both national and international clients. Again,

as a result of positive business developments the requirement for national and international travel has increased, particularly as DECA have an ambitious business growth plan which includes F-35 Component Repair. In partnership with upwards of 15 US and UK based suppliers, development of this opportunity, in particular the scale and value, necessitates frequent transcontinental meetings for DECA personnel as both UK Government and industrial representatives. This requirement is likely to grow as the UK aims to be the major supplier for F-35 component repair in the European region.

Mitigation Planning

DECA is committed to long term sustainability and making a positive contribution to the environment and the community we are based in. Consequently, we will develop further initiatives and options to ensure that our future targets are realistic, achievable and deliverable in light of our business expansion endeavours.



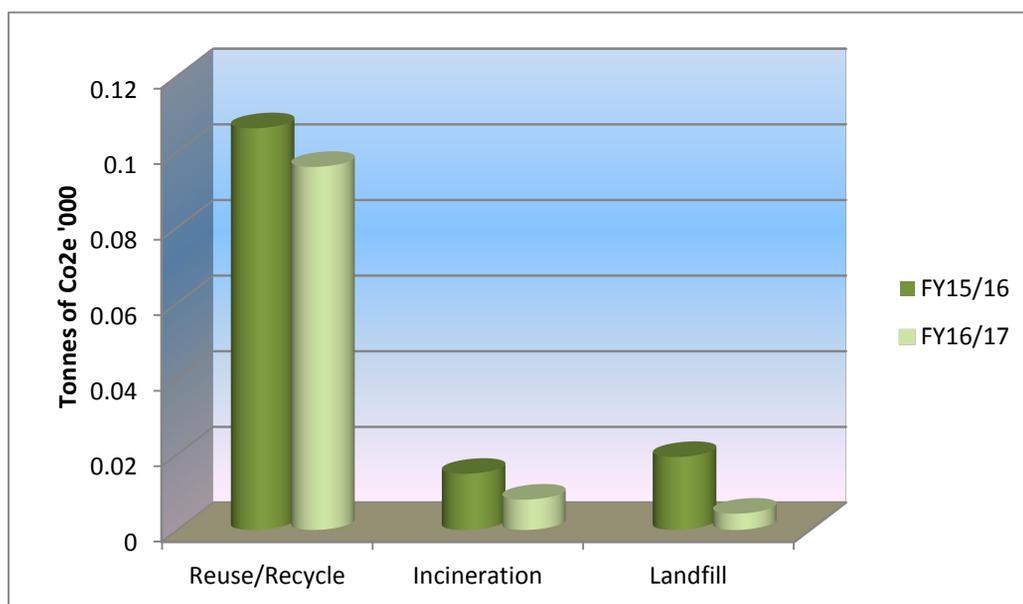
DECA MANAGEMENT OF WASTE

DECA policy on waste management is to constantly strive for waste reduction across all areas of the business. Across the year the drive has been on not just physical waste reduction but the assurance of the amount recycled with figures going to land fill of below 1% of waste generated which strives well above government targets.

The majority of non-hazardous recyclable waste was disposed of through DSA, i.e. product related waste such as metal, oils, etc. Financial data for waste disposal is not recorded; the volume is tabled and profiled below:

The reported data does not include material supplied through DE&S, which DSA collects and reports independently.

Waste category		FY 2016/17 Tonnes Co2e '000	FY 2015/16 Tonnes Co2e '000
Hazardous	Landfill	0	0
	Incinerated	7.17	13.98
	Reuse/recycle	18.42	23.45
Non-Hazardous	Landfill	4.31	19.29
	Incinerated	0.86	0.86
	Reuse/recycle	77.59	82.78
	Composted	0	0
Total waste		108.35	140.36





PEOPLE

Continuing to recognise that our people are our greatest asset, the key factor in enabling improved efficiency and capability growth is our innovative, complementary Human Resources and People Strategy, which aims to support the vision through the development of a 'modern offering' to attract and retain talented and flexible staff to meet changing customer requirements.

The Human Resources and People Strategy remains aligned to the Transformation Programme and helps to ensure that DECA's workforce continues to develop in order to meet the challenges within the competitive and challenging electronics and components sector.

324 employees operate from DECA's Centre of Excellence for Avionics Maintenance, Repair, Overhaul and Upgrade based at Sealand, North Wales (within the Deeside Enterprise Zone) and a further 95 employees operate from our satellite site in Stafford, our customer base at Abbey Wood and various other deployed locations according to customer needs.

Once again, DECA fully participated in the 2016 Civil Service People Survey (CSPS). In summary, whilst the results showed sustained improvement in all almost all aspects where DECA has direct influence, it is clear that DECA still has significant opportunity to build overall employee engagement. Successes include an increased response rate to a highest ever level of 83% and employee participation in new development opportunities such as MOD apprenticeships, Positive Action Pathway and internal secondment career moves. An innovative programme is in place to deliver improvements in key CSPS themes and CSPS and engagement remain aligned to DECA's Transformation Programme.

With full compliance with HM Treasury Civil Service Pay Guidance, DECA was able to successfully implement innovative aspects within the FY16-17 Pay Remit, whilst avoiding dispute with the Trades Unions.

In support of preparations for F-35, the Human Resources team's primary focus during the year has been centred on delivering the HR requirements of Sealand Support Services Ltd (SSSL), the joint arrangement company established to deliver the F-35 global contract.

Company non-executive directors representing each of the joint arrangement organisations have been

successfully appointed, the recruitment of a Managing Director is in progress and a Finance Manager has been appointed on secondment from DECA. A programme

Manager and Commercial Manager are being seconded from partner organisations.

LEARNING & DEVELOPMENT

DECA has established a new Learning & Development team with a keen focus on an in-depth gap analysis across the business to address capability requirements in preparation for F-35.

The DECA Apprenticeship Scheme has been reinvigorated at Sealand and Stafford to deliver new capability skills. MOD Civil Service Apprenticeships, Conversion training for adult learners and Internal Development Schemes will address access to training programmes to meet future business needs.

Additionally, DECA is an active participant in the Civil Service Senior Leaders Scheme (SLS) and Future Leaders Scheme (FLS) and the MOD's High Potential Development Programme and Means of Identifying Internal Talent (MIDIT) scheme. It has also introduced, and is expanding, innovative internal secondment career opportunities.



FINANCIAL PERFORMANCE REVIEW

TRADING RESULTS

DECA successfully completed its second year as an Executive Agency with a net operating income of £2.433m which was £0.205m ahead of plan.

Income from sales of goods and services was slightly below plan but this was offset by reduced costs.

	FY 16-17		FY 15-16	
	Plan £m	Actual £m	Plan £m	Actual £m
Turnover	24.432	23.570	24.493	24.291
Net costs	22.204	21.137	22.304	21.840
Profit	2.228	2.433	2.189	2.451

CASH FLOW AND FUNDING

DECA was able to repay the department its long term liability of £2.189M. Cash flow remained strong, despite there being a level of accrued revenue, delayed due to the introduction of the MOD's new finance system.

At the 31 March 2017 the land and Buildings occupied by DECA and all capital equipments were revalued following the application of MHCA Indices provided by the MOD. Three buildings at the Sealand site were re-instated in year, equating to £1.127M (See note 6).

CAPITAL INVESTMENT

The Capital investment made during the year was for a replacement of High Voltage/Low Voltage switch gear (£0.034M).

ADMINISTRATION AND ACCOUNTING

DECA, in its second year of trading, continued to successfully operate its own accounting and administration systems.

APPROVAL

The performance report is approved.



Geraint Spearing
Accounting Officer
6 July 2017

ACCOUNTABILITY REPORT





CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Directors who served during the year were:

Geraint Spearing	Chief Executive
Belinda Longman	Finance Director
Jason Leeks	Head of Strategy, Governance & Secretariat
Wayne Baker	Operations Director
Ian Doughty	Support Services Director
Ian Cole	Business Development Director
Keith Pavett	Commercial Contracts Director

Non – Executive Directors who served:

Alex Jablonowski	Chairman (Non-executive Director)
Peter Shortt	Non-executive Director
Tim Walton	Non-executive Director
Elliot Brinkworth	MOD Non-executive Director



DIRECTORS REPORT

DOMICILE

DECA is an Executive Agency of the UK Ministry of Defence, domiciled in the United Kingdom. Its principal place of business is at Welsh Road, Deeside, Flintshire, CH5 2LS, United Kingdom.

PENSION LIABILITIES

Details of the pension liabilities and their treatment is contained within the Remuneration and staff report on Page 40 and in the notes to the accounts.

COMPANY DIRECTORSHIPS AND OTHER SIGNIFICANT INTERESTS HELD BY BOARD MEMBERS

No director of the DECA Board held any company directorships or other significant interests out with their DECA positions which would provide conflict with their DECA positions.

REMUNERATION PAID TO THE AUDITORS FOR NON-AUDIT WORK

DECA made no remuneration to the auditors for non-audit work in the financial year 2016/17. (2015/16: Nil)

SICKNESS ABSENCE

The total number of days lost due to sickness absence was 3,908 which equates to 9.3 days per employee. (FY2015/16 2,865 at 6.71 days per employee)

REPORTING OF PERSONAL DATA RELATED INCIDENTS

There are no reported personal data related incidents for the financial year 2016/17. (2015/16: Nil)





STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Section 7 (2) of the Government Resources and Accounts Act 2000, HM Treasury has directed DECA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must:

- a) give a true and fair view of the state of affairs as at 31 March 2017 and of the income and expenditure, changes in taxpayers' equity and cash flows of the agency for the financial year then ended; and
- b) Provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

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

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

The AO of the Ministry of Defence designated the Chief Executive as AO of DECA for the year 2016/17. The responsibilities of an AO, including responsibility for the propriety and regularity of the public finances for which the AO is answerable, for keeping proper records and for safeguarding DECA's assets, are set out in Managing Public Money published by HM Treasury.

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

I confirm that the Annual Report & Accounts as a whole gives a fair, balanced and understandable view of DECA's activities for the year ended 31 March 2017 and its financial position as at 31 March 2017.

I confirm also that I am personally responsible for this Annual Report & Accounts and the judgements required for determining that it is fair, balanced and understandable.





GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

I was appointed as Accounting Officer for the Agency on its formation on 1 April 15 with responsibility for the preparation of these second DECA Agency Accounts for 2016-17. As Accounting Officer, I must be able to assure Parliament and the public of high standards of probity in the management of public funds.

The Annual Report and Accounts for 2016-17 as presented here have been produced under the guidance and oversight of the members of the Audit and Risk Assurance Committee.

In order to sign this statement, I can confirm that I have sought advice and assurance from various sources including:

- the Directors and senior management and their direct reports
- Internal and External Audit
- Management Board sub-committees

GOVERNANCE FRAMEWORK

From the reviews I have undertaken, I believe the Governance Structure and systems of Internal Control within DECA, to the extent that it is deemed relevant and practical, have followed the requirements of the Corporate Governance Code of Good Practice. The Governance Policy and processes were defined and agreed through the DECA Framework Document prior to Agency launch and were subject to review and Defence Internal Audit throughout 2015-16 where arrangements received substantive assurance. Further work throughout 2016-17 has ensured that DECA Corporate Governance remains in line with best practice.

The governance structure in place during 2016-17 was as follows:

- **DECA Performance and Risk Review**, as a result of an internal MOD review of the governance arrangements of the Department's Arm's-Length Bodies the DECA Steering Group was replaced by the DECA Performance and Risk Review during 2016-17 in line with Cabinet Office best practice. The first review, chaired by Director

Commissioning Services who has delegated responsibility for oversight of DECA on behalf of MOD's Permanent Under Secretary and the Min (DP) was held in February 2017.

- **DECA Agency Board**, the Board was chaired by our independent Non-Executive Chairman (NED) and comprises three additional NEDs, one of whom is the departmental NED as representative of Director Commissioning Services, DECA's Chief Executive, Finance Director and Head of Strategy. The main responsibilities of the Board are to provide expert advice, challenge and guidance to the Executive Management Board including reviewing the performance of DECA against the Corporate Plan, DECA's risk appetite and controls for risk management, and developing and endorsing the Corporate Plan and Annual Report and Accounts. The Board met six times during the year.
- **Audit and Risk Assurance Committee (ARAC)**, the ARAC is a sub-committee of the DECA Board which was chaired by our independent NED, with the departmental NED also a member. It is attended by invited members of DECA management, the NAO and our appointed Internal Auditors, Defence Internal Audit (DIA). The main responsibilities of the ARAC were to support the Board and Chief Executive, as Accounting Officer, in monitoring DECA's corporate governance and risk and control systems. The ARAC met five times during the year. The Chair of the ARAC reports to the DECA Agency Board on its proceedings. The Internal Audit service is undertaken by Defence Internal Audit (DIA), the in-house Audit function for the MOD. Operating to standards defined in the Public Sector Internal Audit Standards it has carried out on my behalf independent checks on the adequacy and effectiveness of DECA controls.
- **Remuneration & Nomination Committee (RENCO)** is a sub-committee of the DECA Board. With due regard to HM Treasury Civil Service Pay Guidance, it reviews and endorses the DECA pay strategy and Corporate Bonus Scheme for all DECA employees below the Senior Civil Service. Additionally, the RENCO advises the DECA Chair and Chief Executive on appointments to the DECA



Executive Agency Board (except for the Chair, whose appointment is the responsibility of the Owner). The RENCO also promotes the nomination of DECA employees for consideration in the Honour's List and for other Civil Service awards such as campaign medals and long service awards, as appropriate.

- **DECA Executive Management Board (XMB)**, the XMB is chaired by the DECA Chief Executive and attended by all members of the Executive Management team (DECA's Operations Director, Support Services Director, Commercial and Contracts Director, Business Development Director, Finance Director and Head of Strategy). The purpose of the XMB is to support and advise the Chief Executive on the day-to-day management of the Agency. The XMB met twelve times during the year.
- **Executive Governance Group**, the Chief Executive, as Accounting Officer, chaired the Executive Governance Group which included all XMB

members. The main responsibilities were to review the Governance Policy and Processes of DECA and manage the Internal Audit and Risk Management Policies and Processes. The Executive Governance Group met three times during the year.

- **Executive Compliance Review (XCR)** chaired by the Chief Executive and attended by all members of the Executive Management Team, the Focal Point for each of DECA's four recognised Trades Unions and the Technical Services and Compliance Manager. The XCR acts to hold the business to account for all aspects of compliance (including, but not limited to Health & Safety, Quality, Environmental, Airworthiness and Security), primarily in accordance with the direction set out in the Chief Executive's Safety, Health, Environment and Quality Statement of Intent.



SCHEDULE OF MEETINGS AND ATTENDANCE DURING 2016/17

Meeting	Members	Meetings held	No. Attended	% Attendance	% Overall Attendance	No. of Members	Scheduled frequency
DECA Performance & Risk Review (Note 1)	Dir CS (Chair)	1	1	100%	100%	4	Up to 3 times
	MOD NED	1	1	100%			
	DECA Board Chair	1	1	100%			
	DECA CE	1	1	100%			
Agency Board	DECA Board Chair	6	6	100%	96%	7	At least quarterly
	Independent NED	6	6	100%			
	Independent NED	6	6	100%			
	MOD NED	6	5	83%			
	DECA CE	6	6	100%			
	DECA Finance Director	6	6	100%			
	DECA Head of Strategy & Governance	6	5	83%			
Audit and Risk Assurance Committee	Independent NED (Chair)	5	5	100%	100%	5	Up to 6 times annually (minimum 2)
	MOD NED	5	5	100%			
	DECA CE (by invitation) (Note 2)	1	1	100%			
	DECA FD (by invitation)	5	5	100%			
	DECA Chair (by invitation) (Note2)	4	4	100%			
Remuneration Committee	Independent NED (Chair)	5	5	100%	90%	4	Up to 6 times annually (minimum 2)
	MOD NED	5	5	100%			
	DECA Support Services Director	5	3	60%			
	DECA Head of Human Resources	5	5	100%			
		5	5	100%			
Executive Management Board	Chief Executive (Chair)	12	12	100%	86%	7	Monthly
	Finance Director	12	11	92%			
	Commercial Director	12	10	83%			
	Support Services Director	12	10	83%			
	Operations Director	12	10	83%			
	Business Development Director	12	11	92%			
	Head of Strategy & Governance	12	8	67%			
		12	8	67%			
Executive Governance Review	Chief Executive (Chair)	3	3	100%	90%	7	Up to 6 times annually (minimum 3)
	Finance Director	3	3	100%			
	Commercial Director	3	3	100%			
	Support Services Director	3	3	100%			
	Operations Director	3	2	67%			
	Business Development Director	3	3	100%			
	Head of Strategy & Governance	3	2	67%			
		3	2	67%			
		3	2	67%			

Note 1

As a result of an internal MOD review of the governance arrangements of the department arms-length bodies, DECA Steering Group was replaced by the DECA Performance and Risk Review during 2016/17 in line with Cabinet Office best practice. The first review, chaired by Director General Commissioning Services, who has delegated responsibility for oversight of DECA on behalf of MOD Permanent Under Secretary and Min(DP) was held in February

Note 2

Number of meeting attended differs as attendance is by invitation

Minutes were taken at all of the meetings above and there was a requirement to report to DECA's CE, as Accounting Officer, any significant issues/risks were they to arise, demonstrate how they were being managed / mitigated, assign owners, and managed through appropriate risk registers.

NEDs continued to make a valuable contribution to the board meetings and governance of DECA.

There was a register of member's interests maintained by the DECA Head of Human Resources and this included the Executive Board members.

Declaration of any conflicts of interest is a standing item on the DECA Board, ARAC and RENCO meeting agendas.

There were subsidiary committees that report to the XMB in respect of Compliance (including Security, Health & Safety, Environmental Control, and Business Continuity), Remuneration, Risk Management and Internal Audit.



BOARD PERFORMANCE

The Performance and Risk Review met once during the year, following completion of the MOD internal review of Arm's Length Bodies governance, with the Agency Board and Board sub-Committees (ARAC and RENCO) meeting 6, 5 and 5 times respectively during the last year.

The Executive Management Board and Audit and Risk Assurance Committee received regular reports from Support Services (compliance, security and business continuity) and Finance (risk management and internal audit) including any Corporate Governance issues arising in compliance, internal audit and risk management. All meetings were quorate and the secretariat functions recorded minutes and actions.

The DECA Board reviews and assesses the performance of the Board sub-committees and its own performance each year. The DECA Board determined that, during 2016-17 the Board and sub-committees had all performed satisfactorily and that there had been no departures from the Corporate Governance Code of Good Practice.

HIGHLIGHTS OF BOARD COMMITTEE REPORTS

The ARAC, RENCO, Risk Management and Compliance Meeting minutes were circulated to the Executive Board along with any relevant reports. Significant items from these meetings were:

AUDIT AND RISK ASSURANCE COMMITTEE

The ARAC has been proactive in reviewing the Internal Audit activities and attending to process improvements for both Internal Audit and Risk Management; approving the annual internal audit plan and monitoring its progress during the year; and approving the terms of reference of the Risk Management Committee. During the year the committee undertook Deep Dive reviews of a number of non-corporate level risk registers, including Commercial, Information Technology, and Technical Services.

The audit programme was designed to provide assurance that the Prior Financial Year's Key Performance Indicators had been achieved and the Compliance process was operating effectively and would aid DECA in the achievement of its objectives testing some of the enabling functions of the Agency such as the fraud management processes and Physical Site Security. The Audit work, and opinions provided during the year covered the following:

Prior Year validation of Key Performance Indicators

- Fraud Management
- Physical Site Security
- Compliance Capability
- Physical Site Security Follow Up

The overall audit opinion provided by DIA was substantial assurance with all management actions completed and closed in year.

The committee reviewed and approved the Annual Report and Accounts with no significant issues raised.

REMUNERATION COMMITTEE (RENCO)

The RENCO's core activity has been to review and endorse the annual proposed DECA Pay Remit for employees below Senior Civil Service, including the DECA Corporate Bonus Scheme, prior to onward submission through MOD Centre, to our Minister for final approval. The RENCO also reviewed and endorsed DECA's Responsibility Allowance Policy and processes and has provided governance over implementation. Under its remit of Nomination, the RENCO promoted the nomination of DECA employees for Honours Awards.

EXECUTIVE COMPLIANCE REVIEW (XCR)

There were no major attributable customer concerns during the year and there has been a steady reduction in numbers of RIDDOR incidents against the baseline of DSG's Electronics and Components Business Unit in previous years. The XCR has driven an emphasis on safety culture, which has contributed significantly to an increase in near miss reporting and consequently additional proactive improvement initiatives.

CORPORATE GOVERNANCE

The structure of Corporate Governance in DECA has been effectively maintained and was regularly reviewed internally throughout the year following Defence Internal Audit activity in 2016-17 providing substantial assurance in this area. In the CE's opinion DECA, to the extent that it is deemed relevant and practical, has followed the Corporate Governance Code's requirements.

INFORMATION REPORTING

DECA has a consolidated single enterprise resource planning system, Baan, from which all management and performance information is supplied to the DECA Performance and Risk Review, Board, Board sub-committees and XMB.



The DECA Performance and Risk Review, Board, Board sub-committees, XMB and DECA senior management review management information at all meetings and as business requirements dictate. The DECA Performance and Risk Review, Board, Board sub-committees and XMB have reviewed the data produced during the year which has been improved in line with best practice and requests and expressed their satisfaction with the levels of data generated to assist management decision-making.

RISK MANAGEMENT

Both the DECA Board and Executive Management Board carried out regular reviews of the Corporate Risk Register including further in-year work to conduct ‘deep dive’ activity on both Corporate and Functional Risk Registers to ensure focus on business delivery, business efficiency, business growth, forecast demand delivery and IS risks.

The focus of Risk Management within DECA during its second year has been to develop the risk management governance structure established in 2015-16 with particular focus on Project Risk Management in support of business development bids and proposals.

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

ASSESSMENT OF THE MAIN RISKS

Following an in-depth assessment, those risks identified as the main priority and highest potential impact to the business were:

- Business growth - as a result of changing customer requirements
- Efficiency - achieve the agreed level of efficiency
- Securing short term workload in order to maintain business efficiencies

Key business risks FY 16 - 17	Pre-mitigation risk		16/17 Residual risk	
	Probability	Impact	Probability	Risk
Efficiency	Medium	High	Low	High
Securing short term workload	High	High	Low	High
Business growth	High	High	Medium	High

Risk Management within DECA is structured as follows:

Corporate Risk Register owned and reviewed by the DECA Board and Executive Management Board. Risks included are those identified as affecting DECA as a whole and requiring Board members to manage them.

Functional Risk Registers owned by Executive Board Directors and cover all the functions within DECA. Risks are identified as those not affecting DECA as a whole and include risks that have been downgraded due to mitigation actions.

Project Risk Registers are required for all major projects and proposals.

The Risk Management Process is structured as follows:

- DECA Board – owns the Corporate Risk Register and is responsible for ensuring mitigation is in place.
- XMB – carry out more frequent in-depth reviews of the corporate risks and recommend downgrading or approving and accepting upgrades of risks.
- Audit Committee – has approved the Risk Policy and Process and through HIA receives regular updates to incorporate central government advice and recommendations and implement recommendations from Internal Audit activity. The Audit Committee also carried out reviews of the Corporate Risk Register and Functional Risk Registers.
- Risk Management Committee – meets at least 4 times a year and manages the policy and process for the Audit and Risk Assurance Committee. The chair is the Finance Director or their delegated deputy and membership includes Board Directors, or their deputies, and functional heads. Proposals for upgrading or downgrading of risks will normally be handled through this committee who will make the recommendations.

INFORMATION ASSURANCE

DECA has successfully maintained its network accreditation against criteria set down by the Defence Assurance and Information Security (DAIS) department



and has worked with the Joint Cyber Unit to ensure systems are secure. DECA has successfully demonstrated that it has satisfied all network joining rules set down by the MOD Information System Services (ISS). As a result, DECA has been granted authority to continue to operate on the MOD network.

All employees have undertaken mandatory managing information training in accordance with their role in the organisation.

DECA has invested in standby generation to protect the infrastructure and data from unexpected power outages. This investment has not only ensured that services can be maintained but also improves business continuity for current systems and also new requirements expected from the assignment of F35.

There have been no breaches of the Information Management Asset Process and no loss of corporate data or corporate IT hardware. DECA also undertake authorised penetration testing on the computer system to look for security weaknesses to ensure no unauthorised access can potentially be gained to the computer system and data.

DECA has no business critical systems that are unsupported

SECURITY ASSURANCE

MOD Sealand is routinely audited by UK MOD specialists to ensure continued compliance with departmental standards, supplemented by quarterly security alarm system inspections by the Security Services Group (SSG). This involves both Internal and External audits carried out internally by the DECA Assurance team and externally via Defence Internal Audit (DIA) teams to ensure a level of substantial and above assurance is maintained. In addition to these audits, annual security risk assessments are undertaken by the site security team using the Classified Material Assessment Tool (CMAT). CMAT reports are used to identify any non-compliance or areas for improvement to inform the maintenance and improvement of physical security of buildings on the DECA estate.

During the year, a comprehensive action plan was implemented which will lead to substantially enhanced security at both Sealand and Stafford sites though investment to acquire latest technology and increased numbers of security assets. In addition, mandatory

security training has been introduced and delivered for all DECA employees, whilst a live exercise has enabled us to embed and evaluate the effectiveness of our security processes.

FRAUD & WHISTLEBLOWING

DECA has counter fraud processes in place and has a zero tolerance policy in operation in line with the rest of the Department. There have been no reported incidents of fraud during the year.

BUSINESS CONTINUITY

DECA has adopted a structured approach for identifying the organisation's risk of exposure to internal and external threats. From this, DECA has developed and implemented a Business Continuity Plan (BCP) to respond to threats such as natural disasters, loss of incoming power supply, major IT failure or data breaches.

DECA's BCP includes disaster recovery, business recovery, crisis management, incident management, emergency management and contingency planning. The BCP was not triggered during the year; however, it was successfully exercised.

With regard to IT continuity of service, DECA has undertaken several paper and physical exercises over this year, all of which have demonstrated that robust IT systems are in place.

HEALTH & SAFETY

The number of work-related incidents during the year remained low with just 3 across DECA, which currently averages less than 1 per 100 employees. There was no discernible trend, the incidents being 2 fractures and 1 back injury. All incidents were thoroughly investigated and measures designed to prevent recurrence implemented.

ANNUAL AUDIT OPINION – HEAD OF INTERNAL AUDIT

This is DECA's second operating year, since its establishment in April 2015 and as expected the Agency's systems of control continue to evolve and be refined. Management within DECA have demonstrated an ongoing commitment to internal control, as indicated by our two audits on Sealand's Physical Security. While there remain opportunities to strengthen the control





environment still further the overall picture is positive. DIA's audits over the course of this financial year indicate that there are adequate and effective processes over risk management, internal control and governance. Therefore an overall opinion of Substantial Assurance is provided.

GOVERNANCE

No specific internal audit work on corporate governance was undertaken in 2016/17. DECA has an established Audit and Risk Assurance Committee (ARAC) as a Sub Committee of the Board with responsibilities for issues of risk, control and governance and to support the Board's assurance requirements. DIA regularly attends the ARAC and provides updates on programme delivery and briefs on the outcome of specific assignments. In turn, the ARAC has required attendance from responsible officers from within the business to provide assurance on actions being taken to address risks identified.

RISK MANAGEMENT

Risk management processes continue to mature and evolve. At every Audit Committee a sample of the strategic risks are presented by its respective owners which provides an opportunity for the Non-Executive Directors to challenge management on the effectiveness of mitigation actions.

CONCLUSION

DECA's corporate governance arrangements have continued to evolve during the year to meet the needs of its status as an Executive Agency and reflect established best practice.



REMUNERATION AND STAFF REPORT

REMUNERATION AND NOMINATION COMMITTEE (RENCO)

The RENCO is a sub-committee of the DECA Board which was chaired by an independent NED with the MOD NED also a member. The main responsibilities of the RENCO were to advise the Owner, Chief Executive and Board on matters relating to DECA's pay and reward strategy. The RENCO met five times during the year.

SERVICE CONTRACTS

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

MOD appointed the independent Non-Executive Directors (NEDs) for a fixed term but not as Civil Servants, they are paid on a MOD administered payroll. 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.

Remuneration for (NEDs) was set at a fixed annual rate determined by the Department's Permanent Under Secretary. Fees were set on the basis that the role should require around 30 days' work per year. NEDs were not involved in any discussion about their own remuneration and all payments made were non-pensionable. There were no compensation entitlements for early termination.

REMUNERATION POLICY

DECA has no pay costs for Ministers. The Chief Executive is a senior civil servant (SCS). As such his pay was set through recommendations made

by the Review Body on Senior Salaries. The Review Body on Senior Salaries provides independent advice to the Prime Minister and Secretary of State for Defence on the remuneration of the SCS taking account of evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at

<https://www.gov.uk/government/organisations/office-of-manpower-economics>

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

The Chief Executive had delegated powers for the setting of terms and conditions of employment, including pay, for all DECA employees below SCS. The delegation required him to consult with MOD and receive Min (DP) approval before agreeing to any changes to pay. This was achieved through the pay remit process whereby DECA pay proposals were submitted through MOD for Ministerial approval before negotiation with staff representatives. The outcome of negotiations was reported back to HM Treasury through the annual outturn statement.

For the 2016/17 pay settlement year, DECA were innovative in approach and all employees were awarded an equitable consolidated payment, with the exception of those employees, who for historic reasons remain above their associated pay band maximum, for whom the payment was non-consolidated. The overall total did not exceed 1% of the pay bill.

The award was endorsed by the DECA Board and Remuneration Committee and was designed to achieve the Corporate Business Strategy having due regard to the financial success of DECA, current Government and MOD policies and targets, and HM Treasury Civil Service Pay Guidance.

The DECA Board and Remuneration Committee may approve changes to pay and conditions of service prior to commencing the pay negotiating process with the Trades Unions.

Performance Bonuses for SCS are considered as part of the overall performance appraisal process, the outcome of which is not usually known until after the publication of the Annual Accounts. Bonus payments to SCS Directors

are reported in the year in which they are paid. DECA directors and staff below SCS are eligible for a Corporate Bonus payment under a profit sharing scheme, the outcome of which will not be definitely known until after the publication of the Annual Report & Accounts. An accrual for the estimated overall level of the Corporate Bonus payment has been included in the Accounts.

REMUNERATION (INCLUDING SALARY) AND PENSION ENTITLEMENTS (SUBJECT TO AUDIT OPINION)

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board members).

REMUNERATION SALARY, BENEFITS IN KIND AND PENSIONS (SUBJECT TO AUDIT OPINION)

Officials	Salary (£'000)		Bonus payments (£,000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000) ¹		Total (£'000)	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive Geraint Spearing	75 - 80	75 - 80	5 - 10	-	-	-	34	35	120 - 125	110 - 115
Operations Director Wayne Baker	60 - 65	55 - 60	-	-	-	-	29	42	90 - 95	95 - 100
Finance Director Belinda Longman	65 - 70	65 - 70	-	-	-	-	20	49	85 - 90	115 - 120
Support Services Director Ian Doughty	65 - 70	65 - 70	-	-	-	-	25	34	90 - 95	95 - 100
Head of Strategy, Governance & Secretariat Jason Leeks	50 - 55	50 - 55	-	-	-	-	19	22	65 - 70	70 - 75
Business Development Director Ian Cole	60 - 65	55 - 60	-	-	-	-	10	27	70 - 75	80 - 85
Commercial & Contracts Director Keith Pavett	65 - 70	65 - 70	-	-	-	-	12	47	75 - 80	110 - 115

Salary

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

Bonuses

Bonuses are reported in the year in which they are paid to the individual and are on a cash basis.

PENSION BENEFITS (SUBJECT TO AUDIT OPINION)

Officials	Accrued pension at pension age as at 31/03/17 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/17	CETV at 31/03/16	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Chief Executive Geraint Spearing	25 - 30 plus lump sum of 75 - 80	0 - 2.5 plus lump sum of 0 - 2.5	411	407	14
Operations Director Wayne Baker	15 - 20 plus lump sum of 40 - 45	0 - 2.5 plus lump sum of 0 - 2.5	204	183	10
Finance Director Belinda Longman	15 - 20 plus lump sum of 0	0 - 2.5 plus lump sum of 0	359	320	14
Support Services Director Ian Doughty	15 - 20 Plus lump sum of 0	0 - 2.5 plus lump sum of 0	201	179	10
Head of Strategy, Governance & Secretariat Jason Leeks	15 - 20 plus lump sum of 10 - 15	0 - 2.5 plus lump sum of 0	230	211	7
Business Development Director Ian Cole	20 - 25 plus lump sum of 60 - 65	0 - 2.5 plus lump sum of 0 - 2.5	421	394	8
Commercial & Contracts Director Keith Pavett	25 - 30 plus lump sum of 85 - 90	0 - 2.5 plus lump sum of 0 - 2.5	558	523	9

Pension information is supplied by MyCSP, the administrators of Civil Service pensions. With the exception of Belinda Longman, who belongs to the premium Civil Service pension scheme, all Directors belong to the classic or alpha Civil Service pension schemes. All schemes are part of the Civil Service pension arrangements.

Pay multiples (subject to audit opinion)

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

This information is subject to audit opinion	2016/17	2015/16
Band of highest paid Director total remuneration	£85,000 - £90,000	£75,000 - £85,000
Median total remuneration	27,496	27,223
Ratio	3.21	2.85

The remuneration of DECA's staff was in the range £14,605 per annum (2015/16: £14,757) to £85k to £90k per annum, these figures are for a full year. The median remuneration of the workforce was £27,496.

The banded remuneration of the highest-paid director in DECA in the financial year 2016-17 was £85-90k. This was 3.21 times the median remuneration of the workforce.

In 2016-17, 0 employees received remuneration in excess of the highest-paid director. (2015/16: nil)

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

Compensation for loss of office (subject to audit opinion)

There have been no payments by DECA for compensation for loss of office for Financial Year 2016 - 2017 (2015/16: nil).

Off Payroll Appointments

There were no new or existing off payroll appointments during the financial year.

Remuneration Details of Non-Executive Directors (subject to audit opinion)

Non-Executive Directors	"Fees 2016/2017 £'000"	"Fees 2015/2016 £'000"
Alex Jablonowski	20 - 25	20 - 25
Peter Shortt	10 - 15	10 - 15
Tim Walton	10 - 15	10 - 15
Elliot Brinkworth (Note 1)	Nil	Nil

Note 1. Elliot Brinkworth received no fee; he represents MOD as a Non-Executive Director.

Staff numbers (subject to audit opinion)

The average number of persons employed during the year was:	2016/17	2015/16
Senior management	11	10
Civilian personnel	406	412
Agency staff	2	5
Total	419	427

All staff listed above are on permanent contracts with the exception of 2 Agency staff (2015/16: 5 Agency staff) and 4 Fixed Term Appointments (2015/16: 6 Fixed Term Appointments) who are included in the civilian personnel number.

The figure for senior management includes one member of the Senior Civil Service.

The employees consisted of the following numbers of males and females:

	2016/17		2015/16	
	Males	Females	Males	Females
Senior management	9	2	8	2
Civilian personnel	355	51	356	56
Agency staff	1	1	4	1

Payroll costs £'000 (subject to audit)

	2016/17	2015/16
Salaries, wages and allowances	12,002	11,958
Social security	1,153	855
Pension costs	2,423	2,428
Agency staff	46	132
Total payroll costs	15,624	15,373

Sickness absence

The total number of days lost due to sickness absence was 3,908 which equates to 9.3 days per employee. (FY2015/16 2,865 at 6.71 days per employee)

Employment of disabled persons

Staff policies were applied during the financial year: For giving full and fair consideration to applications for employment by DECA made by disabled persons, having regard to their particular aptitudes and abilities;

For continuing the employment of, and for arranging appropriate training for, employees of DECA who have become disabled persons during the period when they were employed by the DECA; otherwise for the training, career development and promotion of disabled persons employed by DECA.

Consultancy

There was no requirement for consultancy within DECA during FY16/17. (FY2015/16: Nil)

Pensions

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

From 1 April 2015, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS).

The PCSPS has four sections: three (classic premium, classic plus) provide benefits on a final-salary basis with a normal pension age of 60, and one (nuvos) provides benefits on a whole-career basis with a normal pension age of 65.



These multi-employer defined- benefit schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. DECA is unable to identify its share of the underlying assets and liabilities. A full scheme valuation was performed by the scheme actuary during 2012. The valuation is updated annually using the underlying 2012 valuation. Details can be found in the resource accounts of the Cabinet Office: Civil Service Superannuation: www.civilservicepensionscheme.org.uk/about-us/resource-accounts.

Employee contributions are salary-related and range between 3.0 per cent and 8.1 per cent of pensionable earnings for members of classic (and members of alpha who were classic immediately before joining alpha) and between 4.6 per cent and 8.1 per cent for members of premium, classic plus, nuvos and all other members of alpha. For 2016/17, the employer contributions of £2.4 million were payable to My CSP (2015/16: £2.4 million) at one of four rates in the range 20.0 per cent to 24.5 per cent of pensionable earnings, based on salary bands.

The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016/17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

More details on the classic, premium, classic plus, nuvos and alpha pension schemes including information about benefits and contributions are available at: www.civilservicepensionscheme.org.uk/employers/employer-pension-guide/civil-service-pension-arrangements/

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 or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to

transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

REAL INCREASE IN CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. No contributions were due to the partnership pension providers at the balance sheet date

There were no retirements on the grounds of ill-health during the year. (2015/16: nil)

REPORTING OF CIVIL SERVICE AND OTHER COMPENSATION SCHEMES – EXIT PACKAGES (SUBJECT TO AUDIT OPINION)

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

There were no DECA exit packages for agreed or compulsory departures during the year or any costs relating to such packages. There were no DECA voluntary or compulsory redundancies during the year. (FY2015/16)

Further details about the Civil Service pension arrangements can be found at the website: www.civilservicepensionscheme.org.uk



PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

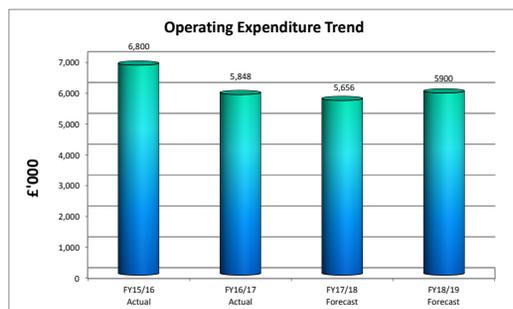
REGULARITY OF EXPENDITURE (SUBJECT TO AUDIT OPINION)

All expenditure made during the year was made in pursuit of DECA's business objectives and there were no improper or irregular payments.
(FY2015/16: Nil)

There were no material losses or special payments
(FY2015/16: Nil)

There were no severance payments or write-offs
(FY2015/16: Nil)

Long-term expenditure trends



Note the above figures do not include pay costs. There is only one year of historical comparison of expenditure trends as the Executive Agency was first formed on the 1 April 2015.

FEES AND CHARGES (SUBJECT TO AUDIT OPINION)

DECA has no published scale of fees and charges, it charges prices for its services based on negotiated contract prices with individual customers. No services are provided below cost.

In agreeing prices to be charged for work to be carried out by the MOD an agreed profit rate on costs is used to calculate prices.

REMOTE CONTINGENT LIABILITIES

DECA has no remote contingent liabilities in FY2016/17. (FY2015/16: Nil)

APPROVAL

The Accountability report is approved.

Geraint Spearing
Accounting Officer
6 July 2017



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 Electronics and Components Agency for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

RESPECTIVE RESPONSIBILITIES OF THE ACCOUNTING OFFICER AND AUDITOR

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Defence Electronics and Components Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Defence Electronics and Components Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies

with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

OPINION ON REGULARITY

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

OPINION ON FINANCIAL STATEMENTS

In my opinion:

- the financial statements give a true and fair view of the state of the Defence Electronics and Components Agency's affairs as at 31 March 2017 and of the retained net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

OPINION ON OTHER MATTERS

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the





Government Resources and Accounts Act 2000; and

- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

REPORT

I have no observations to make on these financial statements.

MATTERS ON WHICH I REPORT BY EXCEPTION

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or

Sir Amyas C E Morse Date: 13 July 2017
Comptroller and Auditor General

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



FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

		2016/17	2015/16
	Note	£'000	£'000
Income from sale of goods and services	2	23,570	24,291
Other operating income	2	335	333
Total operating income		23,905	24,624
Staff costs	5	(15,624)	(15,373)
Purchase of goods and services	3	(4,093)	(4,654)
Depreciation and impairment charges	4, 6	(552)	(862)
Other operating expenditure (Excluding Depreciation)	4	(1,203)	(1,284)
Total operating expenditure		(21,472)	(22,173)
Net operating income		2,433	2,451
Gain on transfer by absorption	1.1	0	10,851
Total net income		2,433	13,302
Amounts due to parent department	10	(2,228)	(2,189)
Retained net income		205	11,113
Other Comprehensive Income/(Expenditure)			
Items that will not be reclassified to profit or loss			
Net gain/(loss) on revaluation of property, plant & equipment	6	1,478	8,553
Total comprehensive Income/ (Expenditure) for the year		1,683	19,666

The notes on pages 52 to 62 form part of these accounts.

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2017

		2016/17	2015/16
	Note	£'000	£'000
Non Current Assets			
Non current assets			
Property, Plant and Equipment	6	20,170	19,211
Total Non Current Assets		20,170	19,211
Current assets			
Inventories and work in progress	7	576	512
Trade and other receivables	8	13,741	11,734
Cash and cash equivalents	9	4,906	7,295
Total current assets		19,223	19,541
Total Assets		39,393	38,752
Current liabilities			
Trade and other payables	10	(7,160)	(6,818)
Provisions	11	(51)	(51)
Total current liabilities		(7,211)	(6,869)
Non -Current liabilities			
Trade and other payables	10	0	(2,189)
Total assets less total liabilities		32,182	29,694
Financed by			
Taxpayers equity and other reserves			
Revaluation reserve	SOCTE	17,830	16,352
General fund	SOCTE	14,352	13,342
Taxpayers' equity		32,182	29,694



Geraint Spearing
Accounting Officer
6 July 2017

The notes on pages 52 to 62 form part of these accounts.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

		2016/17	2015/16
	Note	£'000	£'000
Cash flows from operating activities			
Net operating income	SOCI	2,433	2,451
Adjustments for non cash transactions:			
Depreciation charges	6,4	552	862
Losses on Revaluation of Non Current Assets	6	0	0
Notional audit fee	4	31	28
DIO Notional Costs *	4	774	0
Decrease / (increase) in inventories and work in progress	7	(64)	(512)
(Increase) / decrease in receivables	8	(2,007)	(11,734)
(Decrease) / increase in payables	10	(1,846)	6,818
(Decrease)/Increase in provisions for liabilities and charges	11	0	51
Transfers Relating to absorption costing		0	(669)
Net cash outflow from operating activities		(127)	(2,705)
Capital Expenditure	6	(34)	0
Net cash outflow from investing activities		(34)	0
Cash flows from financing activities			
Funding from/(repayment of funding to) parent department	10	(2,228)	10,000
Net cash inflow/(outflow) from financing activities		(2,228)	10,000
(Decrease) / increase in cash and cash equivalents		(2,389)	7,295
Cash and cash equivalents at start of year		7,295	0
Cash and cash equivalents at end of year	9	4,906	7,295

* Note: The £774k is for the DIO notional costs which includes the charge for 16-17 and the removal of the 15-16 accrual

The notes on pages 52 to 62 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2017

		Revaluation Reserve	General Fund	Taxpayers' Equity
	Note	£'000	£'000	£'000
Taxpayers' equity at 31 March 2016		16,352	13,342	29,694
Recognised in Statement of Comprehensive income for the year:				
Net operating income	SOCI	0	2,433	2,433
Parent departments profit share	SOCI	0	(2,228)	(2,228)
Gain on revaluation of property, plant and equipment	6	1,478	0	1,478
Other movements:				
Non Cash Adjustments	4	0	774	774
Notional audit fee	4	0	31	31
		17,830	14,352	32,182

Note: The £774k is for the DIO notional costs which includes the charge for 16-17 and the removal of the 15-16 accrual

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2016

		Revaluation Reserve	General Fund	Taxpayers' Equity
	Note	£'000	£'000	£'000
Taxpayers' equity at 1 April 2015		0	0	0
Recognised in Statement of Comprehensive income for the year:				
Transfers under absorption accounting	1.1	7,799	3,052	10,851
Net operating income	SOCI	0	2,451	2,451
Parent departments profit share	SOCI	0	(2,189)	(2,189)
Gain on revaluation of property, plant and equipment	6	8,553	0	8,553
Other movements:				
Funding from parent department	9	0	10,000	10,000
Notional audit fee	4	0	28	28
Taxpayers' equity at 31 March 2016		16,352	13,342	29,694

The notes on pages 52 to 62 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts are prepared in accordance with the Government Financial Reporting Manual (FReM) for 2016/17 and the Accounts Direction, both issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of DECA for the purpose of giving a true and fair view is selected. The particular policies adopted by DECA are described below. They are applied consistently in dealing with items considered material in relation to the accounts.

GOING CONCERN

DECA adopts the going concern basis for the preparation of its Annual Report and Accounts.

DOMICILE

DECA is an Executive Agency of the UK Ministry of Defence, domiciled in the United Kingdom. Its principal place of business is at Welsh Road, Deeside, Flintshire, CH5 2LS, United Kingdom.

ACCOUNTING CONVENTION

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

TURNOVER

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

PROPERTY, PLANT AND EQUIPMENT BASIS OF RECOGNITION

Expenditure on plant, equipment, computers and transport equipment is periodically reviewed and capitalised where the useful life exceeds one year and the cost of acquisition exceeds the threshold of £25,000

excluding VAT. The value of capitalised plant, equipment and transport equipment is reviewed annually and adjustments made using appropriate indices published by the MOD Director Corporate Financial Management Capability.

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

BASIS OF VALUATION

Property plant and equipment is carried at fair value. A quinquennial professional valuation of Land and Buildings is carried out by the Defence Infrastructure Organisation who are certified by the Royal Institute of Chartered Surveyors. In the years between quinquennial valuations land and buildings are revalued using indices.

All other property, plant and equipment are valued at year end using MHCA indices provided by the MOD.

IMPAIRMENT OF ASSETS

- On an Annual basis DECA reviews its assets for any indication that an asset may be impaired (i.e. that its carrying amount may be higher than its recoverable amount). If any asset is found to be impaired its value is reduced to its recoverable amount.

DEPRECIATION

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

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

- Buildings - Not exceeding thirty five years
- Plant & Equipment - Between ten and twenty five years
- Transport Equipment - Between three and twenty years
- IT Equipment- Between five and seven years



PENSION COSTS

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS.

The cost of pension cover provided is by payments of charges (Accrued Superannuation Liability Charges - ASLC) based on a percentage of salary. Salaries include gross salary, certain performance bonuses and recruitment and retention allowances. It does not include the estimated monetary value of benefits in kind. Payments are made at contribution rates determined by the Government Actuary's Department.

INVENTORIES

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

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

WORK IN PROGRESS

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

PROVISION FOR BAD AND DOUBTFUL DEBTS

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

CASH AND CASH EQUIVALENTS

Cash is held via a Government Banking Service bank account

OPERATING LEASES

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

There are no finance leases.

VALUE ADDED TAX

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

EMPLOYEE BENEFITS

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

FOREIGN EXCHANGE

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

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

DECA management makes judgements and assumptions concerning the future those impacts on the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The risk generated by these judgements and estimates is therefore materially only cost related and is mitigated as far as is practical. The judgements and key sources of estimation uncertainty that have



a significant effect on the amounts recognised in the financial statements are discussed below.

PROVISIONS

Provisions are made for various liabilities of uncertain timing or amount. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

ACCOUNTING ACCRUALS

Accruals for the costs of goods and services received are recognised based on the best information available at the reporting date. Any difference between accounting accruals and the actual liability when presented are accounted for in the period when such determination is made.

INCOME RECOGNITION

Income is stated net of trade discounts, provisions, VAT and similar taxes. The majority of income arises from UK sources. DECA recognises income when an individual task within a contract is completed to the customer's satisfaction. Any incomplete tasks are accounted for as work in progress until such time as they are completed to the customer's satisfaction.

Substantially all turnover relate to the same class of business, the repair, overhaul and maintenance of equipment and components belonging to Air and Electronic platforms.

DECA is effectively a single business and it is not possible to allocate income or profit to different business segments

IFRS'S ISSUED BUT NOT YET EFFECTIVE

IFRS 9 - Financial Instruments

IFRS 15 - Revenue from Contracts with customers

IFRS 16 - Leases

These changes to, and new issues of, International Financial Reporting Standards, but which are not yet in effect or applied, do not have a material impact on the accounting or disclosure of these annual accounts.

1.1 TRANSFER OF FUNCTIONS

Those elements of the Defence Support Group that were not part of sale were transferred back to the MOD and then transferred to DECA following its formation on 1st April 2015.

As public sector bodies are deemed to operate under common control, business combinations are outside the scope of IFRS 3 and the FReM 2015/16 requires the use of absorption accounting for such transfers, where the transfer is within a departmental group. This treatment requires the net assets to be transferred at their carrying value with the value of the transfers shown as a non-operating gain or loss. The FReM does not require retrospective adoption of the absorption accounting policy. Consequently, prior year transactions have not been included.

2. INCOME

	2016/17	2015/16
	£'000	£'000
MOD Revenue	18,660	18,879
Commercial Revenue	4,910	5,412
Total	23,570	24,291

Other operating income	2016/17	2015/16
	£'000	£'000
The amount of £335k comprises short term rental income from property assets.	335	333



3. PURCHASES OF GOODS AND SERVICES

	2016/17	2015/16
Cash costs	£'000	£'000
Materials & sub contract costs	726	632
Accommodation costs	893	1,290
IT and Telecommunications	424	452
Utilities	873	900
Security	533	543
Equipment Support	277	326
Other services	367	511
Total Purchases of goods and services	4,093	4,654

Purchases of goods and services are those costs incurred directly in carrying out the operation activities of DECA.

NOTE: The majority of the reduction in accommodation costs (£343K) in 16/17 relates to a charge for the Stafford facilities which is now classified as a notional cost following an agreement with DIO..

4. OTHER OPERATING EXPENDITURE

	2016/17	2015/16
Cash costs	£'000	£'000
Training	102	132
Insurance	221	212
Travel & subsistence	242	235
Other professional services	66	22
Lease and hire costs of plant, machinery & vehicles (see note below)	161	650
Miscellaneous costs	0	5
Total cash costs	792	1,256

Non cash costs		
Notional audit fee	31	28
Depreciation	552	862
Notional costs for rent & Rates (see note below)	380	0
Total non cash costs	963	890

Total other operating expenditure	1,755	2,146
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Non cash adjustments to Equity		
Notional cost for Rent & Rates (15-16)		394
Notional cost for Rent & Rates (16-17)		380
Total		774

Note: In 2016-17, the Defence Infrastructure Organisation made a decision not to charge DECA for use of its Stafford site on account of it being an Executive Agency of the MOD. DECA has recognised a notional cost of £380K for the year to represent the true cost of activities. There is no prior year comparative as this is present in the Lease and hire cost line.

Other operating expenditure is cost incurred by DECA of an overhead nature in supporting the operation.

Audit is the cost of the external audit of DECA's Annual Report & Accounts. DECA's external audit is carried out by the National Audit Office on behalf of the Comptroller & Auditor General



5. STAFF COSTS

	2016/17	2015/16
	£'000	£'000
Salaries, wages and allowances	12,002	11,958
Social security	1,153	855
Pension costs	2,423	2,428
Agency Staff	46	132
Total payroll costs	15,624	15,373

6. PROPERTY, PLANT AND EQUIPMENT

The movements in each class of assets during 2016/17 were:

	Land	Buildings	Plant & Machinery	IT	Assets in Course of Construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:						
At 31 March 2016	7,127	11,822	259	126	0	19,334
Additions	0	0	0	0	34	34
Disposals	0	0	0	0	0	0
Revaluation of Buildings previously Not in Use	0	1,127	0	0	0	1,127
Reclassification	0	0	0	0	0	0
Revaluation	74	285	5	1	0	365
At 31 March 2017	7,201	13,234	264	127	34	20,860
Depreciation:						
At 1 April 2016	0	0	69	55	0	124
Depreciation charged during the year	0	507	22	23	0	552
Disposals	0	0	0	0	0	0
Impairment	0	0	0	0	0	0
Revaluation	0	11	2	1	0	14
At 31 March 2017	0	518	93	79	0	690
Net book value						
At 31 March 2017	7,201	12,716	171	48	34	20,170

The movements in each class of assets during 2015/16 were:

	Land	Buildings	Plant & Machinery	IT	Assets in Course of Construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:						
At 1 April 2015	0	0	0	0	0	0
Additions	0	0	0	0	0	0
Transfers under absorption accounting	3,631	11,432	186	126	73	15,448
Disposals	0	0	0	0	0	0
Impairment / Reversal of Impairment	0	0	0	0	0	0
Reclassification	0	0	73	0	(73)	0
Revaluation	3,496	390	0	0	0	3,886
At 31 March 2016	7,127	11,822	259	126	0	19,334
Depreciation:						
At 1 April 2015	0	0	0	0	0	0
Depreciation charged during the year	0	818	20	24	0	862
Disposals	0	0	0	0	0	0
Impairment	0	0	0	0	0	0
Transfers under absorption accounting	0	3,849	48	31	0	3,928
Revaluation	0	(4,667)	0	0	0	(4,667)
At 31 March 2016	0	0	68	55	0	123
Net book value						
At 31 March 2016	7,127	11,822	191	71	0	19,211

Note: There were no finance leases during the year (FY2015/16: Nil)

7. INVENTORIES AND WORK IN PROGRESS

	2016/17	2015/16
	£'000	£'000
Stocks		
Opening Balance	254	267
Net movement during year	66	(13)
Balance at 31st March	320	254
Work in Progress		
Opening Balance	258	299
Net transfers to operating expenses during the year	(2)	(41)
Balance at 31st March	256	258
Total inventory at 31 March	576	512

8. RECEIVABLES AND PREPAYMENTS

	31 March 2017	31 March 2016
	£'000	£'000
Amounts falling due within one year		
Trade and sundry invoiced receivables	4,773	4,107
Other receivables	4	334
Prepayments	255	255
Accrued income	8,709	7,038
	13,741	11,734

All the above balances fall due within one year.

Aged Trade and Sundry Invoiced Receivables Analysis	Not Yet Due	30 to 60 Days	60 to 90 Days	90 to 120 Days	120 to 365 Days	365+ Days	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2017	1,830	2,929	34	42	(106)	44	4,773
At 31 March 2016	3,889	118	63	34	3	0	4,107

The accrued income figure of £8.7M is due from the parent department.



9. CASH AT BANK AND IN HAND

	31 March 2017	31 March 2016
	£'000	£'000
Cash held with Government Banking Service (GBS)	4,906	7,295
	4,906	7,295

There has been a short term reduction in the cash balance due to an unbilled debt from the department

10. PAYABLES

Amounts falling due within one year

	31 March 2017	31 March 2016
	£'000	£'000
Trade payables	72	79
Taxation and social security	284	268
Value Added Tax	844	1,081
Accruals	906	2,057
Deferred income	2,207	2,728
Amounts due to pension schemes	256	259
Sundry payables	363	346
Payable to parent department	2,228	0
	7,160	6,818

Amounts falling due after one year

	31 March 2017	31 March 2016
	£'000	£'000
Profit due to Parent Department	0	2,189
	0	2,189

Each year DECA is required to repay its parent department the level of operating profit. This was intended to be a Long Term Payable last year, but is now classed as a short term payable



11. PROVISIONS FOR LIABILITIES AND CHARGES

	Total
	£'000
Balance at 1 April 2016	51
Transfers under absorption accounting	0
Created during year	0
Utilised in year	0
Balance at 31 March 2017	51

The balance on other provisions at 31 March 2017 was required to meet an obligation to provide replacement stock for parts supplied by a customer

	Total
	£'000
Balance at 1 April 2015	0
Transfers under absorption accounting	51
Created during year	0
Utilised in year	0
Balance at 31 March 2016	51

The balance on other provisions at 31 March was required to meet an obligation to provide replacement stock for parts supplied by a customer.

12. OPERATING LEASES

Operating Lease payments recognised as expenses in the period were:

	2016/17	2015/16
	£'000	£'000
Leases of other Land and Buildings	380	527
Leases of vehicles & Other Equipment	161	123
Total operating leases paid (i)	541	650

(i) Contained within note 4

None of these payments were contingent rents or sublease payments.

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

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

Note: There was a prior year lease of land and buildings at Stafford with DIO, this is now shown as a notional cost for 2016/17. It has been agreed with DIO that there will be a notional charge for the Stafford facilities which is based upon a commercial market rental. There are no contractual obligations going forward relating to Stafford, which is on an open ended contract. The annual expense is expected to be similar to the current year, adjusted for inflation.



Operating Lease payments going forward

	31 March 2017	31 March 2016
	£'000	£'000
Payable within one year	54	214
Payable after one year and less than five years	0	54
	54	268

DECA received £335k in year from the rental lease of 2 buildings.

Future minimum lease payments where DECA is acting as lessor

	31 March 2017	31 March 2016
	£'000	£'000
Receivable within one year	226	66
Receivable after one year and less than five years	168	0
	394	66

FY2016/17 figures reflect two leases on facilities at the Sealand site.

The £66k reported in 2015/16 related to a short term lease on a facility at the Sealand site. Subsequently this lease has been extended to 2019.

13. COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

DECA had no capital commitments at 31 March 2017 (Nil at 31 March 2016)

There are no contingent assets at 31 March 2017 (Nil at 31 March 2016)

There are no contingent liabilities at 31 March 2017 (Nil at 31 March 2016)

There are no financial commitments at 31 March 2017 (Nil at 31 March 2016)

14. FINANCIAL INSTRUMENTS

DECA's treasury operations are restricted to collecting cash remittances from debtors and paying off liabilities as they fall due. DECA's financial instruments comprise cash deposits, debtors and creditors. Any cash surplus cash balances are remitted to the Government Banking service overnight. DECA has no powers to borrow or invest surplus funds. The main risks that arise from the financial instruments are foreign currency and liquidity risks. DECA's policies for managing these risks are set to achieve compliance with the regulatory framework including the rules contained within Managing Public Money.

CURRENCY RISK

DECA conducts business in Sterling, US Dollars and Euros and is therefore subject to foreign exchange

risk. At 31 March 2017 there are no existing liabilities.

LIQUIDITY RISK

Current liquidity throughout the year was strong. Cash at bank is available on demand.

COUNTERPARTY / CREDIT RISK

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

CAPITAL MANAGEMENT

- The financial strategy of DECA supports its aim of sustaining its operating capability and achieving the return on capital objectives set by its owner. The key elements of the strategy are: Sufficient flexibility for the funding of necessary capital expenditure and working capital required for any expansion of the business.
- As DECA is part of the MOD and sits under Head Office & Commissioning Services (HOCS) it may rely on its parent department to underpin any financial risk.
- Avoidance of risk and compliance with HM Treasury policies

DECA is not subject to covenants in any of its financing agreements



CATEGORIES OF FINANCIAL INSTRUMENTS

		At 31 March 2017	At 31 March 2016
Financial assets	Note	£'000	£'000
Trade, sundry and other debtors	8	13,741	11,734
Cash at bank and in hand	9	4,906	7,295
		18,647	19,029

		At 31 March 2017	At 31 March 2016
Financial liabilities	Note	£'000	£'000
Trade and other payables	10	7,160	6,818
Long Term Payable		0	2,189
		7,160	9,007

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

15. INTEREST IN SEALAND SUPPORT SERVICES LTD

The Department has established a joint arrangement during the financial year. The company, Sealand Support Services Limited (SSSL), was incorporated with equal shareholdings (in the form of a promissory note of £101) between the Department and two private sector companies. SSSL has been established to deliver a global repair hub providing maintenance, repair, overhaul and upgrade services for avionics and other components on the F-35 aircraft. The company has not yet begun trading. DECA will act as an agent of the department to oversee their element of SSSL.

16. RELATED PARTIES

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

17. LOSSES AND SPECIAL PAYMENTS

There were no material losses or special payments. (FY2016/17: Nil)

18. AUDITORS

The Government Resources and Accounts Act require DECA's Annual Report and Accounts to be audited by the Comptroller and Auditor General. DECA's auditor is the National Audit Office (NAO). The cost of this audit is £30.5K. (FY2016/17: £28K)

19. EVENTS AFTER THE REPORTING PERIOD – TO BE UPDATED

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

GLOSSARY

AES	Aircraft Escape Systems	HR	Human Resources
ACT	Air Commodities Team	IT	Information Technology
AFPS	Armed Forces Pension Schemes	IAS	International Accounting Standards
AO	Accounting Officer	IFRS	International Financial Reporting Standards
AR&A	Annual Report and Accounts	ISTAR	Intelligence, Surveillance, Target, Acquisition and Reconnaissance's
ARAC	Audit and Risk Assurance Committee	ISS	Information System Services
ASLC	Accrued Superannuation Liability Charges	JPO	Joint Programme Office
BCP	Business Continuity Plan	KPIs	Key Performance Indicators
CE	Chief Executive	LPG	Liquid Petroleum Gas
CETV	Cash Equivalent Transfer Value	LTC	Long Term Contract
CCTV	Closed Circuit Television	MIDIT	Means of Identifying Internal Talent
CIMA	Chartered Institute of Management Accountants	Min(DP)	Minister for Defence Procurement
CMAT	Classified Material Assessment Tool	MDSS	Medical and Dental Support Services
CO2e	Carbon Dioxide Equivalent	MHCA	Modified Historical Cost Accounting
CP&F	Contracts, Procurement & Finance	MOD	The Ministry of Defence
CSOPS	Civil Servant and Other Pension Scheme	MRO&U	Maintenance, Repair and Overhaul and Upgrade
CSPS	Civil Service People Survey	NAO	National Audit Office
DAIS	Defence Assurance and Information Security	NED	Non-Executive Chairman/Director
DE&S	Defence Equipment and Support	OEM's	Original Equipment Manufacturer
DECA	Defence Electronics & Components Agency	OIP	Operational Infrastructure and Planning
DECAMO	Defence Electronics & Components Agency Management Office	PCSPS	Principal Civil Service Pension Scheme
DIA	Defence Internal Audit	RAF	Royal Air Force
DIO	Defence Infrastructure Organisation	RENCO	Remuneration & Nomination Committee
DSA	Disposal Services Authority	RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
DSG	Defence Support Group	SOCNI	Statement of Comprehensive Income
DT	Delivery Team	SOCTE	Statement of changes in Taxpayers Equity
ETP	Enterprise Transformation Programme	SCS	Senior Civil Servant
FDCP	Future Defence Civilian Programme	SSSL	Sealand Support Services Limited
FIFO	First In First Out Basis	SSG	Security Services Group
FLS	Future Leaders Scheme	STASS	Short Term Air Supply System
FReM	Financial Reporting Manual	VAT	Value Added Tax
FY	Financial Year	VOSA	Vehicle Operator Services Agency
GBS	Government Banking Service	UK	United Kingdom
GHG	Greenhouse Gas	US	United States
GPSS	Government Pipeline and Storage System	UAS	Unmanned Air Systems
HIA	Head of Internal Audit	WIP	Work in Progress
HM	Her Majesty's	XCR	Executive Compliance Review
HOCS	Head Office & Commissioning Services	XMB	Executive Management Board



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