



Defence Electronics &  
Components Agency

Defence Electronics & Components Agency

Annual Report and Accounts  
2018/2019







Ministry  
of Defence

## Defence Electronics and Components Agency

### Annual Report and Accounts 2018/2019

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# DEFENCE ELECTRONICS AND COMPONENTS AGENCY ANNUAL REPORT AND ACCOUNTS 2018/2019

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# PERFORMANCE REPORT

## OVERVIEW

*This section provides an overview of the Defence Electronics and Components Agency (DECA). It sets out our purpose and structure, and provides an analysis of how we have performed against our strategic objectives.*

Pictured is Britain's future flagship HMS Queen Elizabeth as she sailed into her home port of Portsmouth for the first time.  
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## INTRODUCTION FROM THE CHAIRMAN



Alex Jablonowski  
DECA Board Chairman

" As Chairman of the DECA Board I am accountable to DECA's Owner for leading the Board and ensuring its effectiveness in all aspects of its role."

The Chair sets the Board's agenda and ensures that adequate time is available on all agenda items, in doing so promoting a culture of openness and debate. It is my responsibility, along with my fellow Non-Executive Directors, to hold the DECA Chief Executive and his Executive Team to account for delivery of DECA's agreed strategic objectives and business performance.

The Corporate Strategic Plan will set the agreed medium and long-term strategic direction of the organisation that is reviewed and endorsed on an annual basis with the DECA Board.

In addition, the Board provides challenge and support on resource, strategic and financial business decisions drawing on expertise from many years of experience developed in our various careers at senior management level in both the private and public sectors.

My role as Chairman also extends to providing support to DECA's Chief Executive at DECA's Performance and Risk Review meetings that advises the MOD Owner on the review and setting of DECA's strategic objectives, the approval of the Corporate Strategic Plan, DECA performance and novel or contentious decisions.

This is my fourth introduction to the Agency's Annual Report and Accounts (AR&A), which covers the 2018/19 financial year.

It has been tremendously pleasing to see DECA continuing to build upon the exceptional successes of its first three years of operation over the last twelve months. A second 'global' Maintenance, Repair, Overhaul and Upgrade (MRO&U) assignment for F-35 avionic components, with our partners Northrop Grumman and BAE Systems, was only one of the highlights of another landmark year.

DECA has continued to maintain exceptional quality and safety standards whilst exceeding all its performance targets and has secured significant levels of business growth over and above the Plan, cementing the Agency's position in support of Defence for decades to come.

The commitment and enthusiasm of the DECA workforce continues to be at the heart of the Agency's success and the Board extend our thanks to DECA's employees and the Executive Team in their determination and professionalism in achieving this success.

I am also very grateful to my fellow Non-Executive Directors for the valuable advice, expertise and assistance they have provided over the last year and throughout my tenure of the DECA Chairman role. It has given me immense pleasure to see DECA's rise from fledgling Agency to global support provider at the heart of UK Defence. I wish my successor and the DECA Board continued success in providing support and challenge to DECA as it moves on to the next exciting phase of its transformational journey.

A handwritten signature in black ink that reads "Alex Jablonowski". The signature is fluid and cursive, with a long horizontal line extending from the end.

Alex Jablonowski  
Chairman  
6 July 2019

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## STATEMENT BY THE CHIEF EXECUTIVE

" Having successfully achieved MOD's strategic direction on formation of the Agency, DECA continues to evolve and transform to meet changing customer requirements, ensure DECA is 'match fit' for F-35 and deliver on a range of ever expanding strategic requirements from our primary MOD customer."





Geraint Spearing  
DECA Chief Executive

A fourth year of successful Agency financial performance, customer delivery and maintenance of exacting quality and safety standards has been supplemented by significant business development success that has seen DECA services grow over an increasing number of customers.

DECA continues to operate as an MOD owned Executive Agency from our Head Office at Sealand in North Wales and from our second major site at MOD Stafford and as an integral part of Defence. We also operate at customer locations across the UK and deploy overseas in support of operations as required with all operational sites continuing to provide positive contributions to the delivery of DECA's Business plans.

As such, DECA forms part of the overall consolidated MOD accounts but is required to produce its own stand-alone annual report and accounts. This continues to provide full transparency on how efficiently and effectively DECA has managed the assets entrusted to it.

Agency's performance has been measured against five key performance indicators (KPIs) in areas that have been assessed by the MOD and DECA Board as critical to successful business performance and customer delivery. These KPIs were agreed with MOD and details of our performance against these can be found in the Performance Analysis section at page 14 of this Annual Report & Accounts (AR&A).

These KPIs were expanded during 2018/19 to include work to capture the true 'value' of strategic retention of DECA within MOD. This work will continue during 2019/20 but has already identified significant levels of through-life cost avoidance and savings across our Air, Land, Maritime and Joint Enabler customers. Equally as important, this work has also identified DECA's pivotal role in ensuring increased availability of equipment to Front Line Commands and has been a catalyst to work being taken forward to embed DECA further across the UK Defence supply chain.

Over the last twelve months, a further F-35 assignment has cemented DECA's position as the MOD's electrical, electronic, avionics and general equipment MRO&U delivery hub<sup>1</sup>. During FY 2018/19, DECA has built on this position to identify, implement and deliver opportunities

that have further assured the Agency's position as the MOD support provider of choice. This has seen work secured through delivery of new managed service capabilities, Maritime and Submarine feasibility success and noteworthy expansion across Joint Enabler and Land environments that show early signs of developing enduring long-term capability for these customers.

This success has not been achieved by working alone. Our partnerships with MOD, other Agencies, devolved governments and Industry have been at the heart of nearly every one of our successes. There could be no more fitting recognition of this than DECA's identification by MOD as the key case study in MOD's Defence Prosperity Conference in March 2019. This recognised not only the collaborative success with Industry partners on F-35 assignment but also the pioneering work we are taking forward with Welsh Government in support of the UK Government's prosperity agenda.

These efforts with Welsh Government culminated in securing DECA Sealand as the preferred location of a proposed second Advanced Manufacturing and Research Institute in North Wales. The opportunities that this exciting venture provides in terms of skills sustainment and generation, prosperity and a long-term future for DECA are extremely exciting and the fact that this potential innovation hub will be in North Wales gives me tremendous pride as a Welshman!

DECA has continued to prioritise health, safety and environmental management, whilst maintaining high levels of quality, operational delivery and strong business performance, ensuring we achieved key priorities and opportunities.

Achievement of this success has only been realised by the continued excellence of our extremely dedicated workforce.

I continue to take great pleasure in being able to lead such a committed organisation.

A handwritten signature in blue ink, appearing to read 'Geraint Spearing', written over a light blue horizontal line.

Geraint Spearing  
Chief Executive  
9 July 2019

<sup>1</sup> Hub inferring a "centre of excellence"

# PURPOSE, AIMS AND VALUES AND BUSINESS STRATEGY



Defence Electronics &  
Components Agency

## OUR PURPOSE

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

## OUR AIMS

We aim to be a highly professional team driving efficiency and safely delivering benchmark support services to our customers

## OUR VALUES

### VALUE OUR PEOPLE BY:

- ▶ holding health, safety and welfare of our employees and anyone affected by our activities as our highest priority
- ▶ creating a culture where all employees are proud to be part of DECA
- ▶ engaging with individuals and Trades Unions to include their views in decision making
- ▶ offering opportunities to help employees realise their 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 characteristics, perspective and background

### CARE FOR OUR CUSTOMERS AND STAKEHOLDERS BY COMMITTING TO:

- ▶ continuously strive to develop DECA sustainably and minimise our impact on the environment
- ▶ 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



[www.gov.uk/deca](http://www.gov.uk/deca)

## BUSINESS STRATEGY

DECA's business strategy has been aligned with delivery of revised strategic objectives and continues to evolve. This will help ensure that the Agency's strategies reflect MOD's ongoing strategic requirements, activity to meet any enduring challenges in the plan and continued focus on delivery and growth across Defence in readiness for delivery of F-35.

This strategy will enable continued transformation of the business so that, over the life of the plan, the Agency can continue to develop in line with MOD direction for DECA to become:

- the UK MOD's electrical, electronic avionic and general equipment MRO&U delivery hub;
- the repair and support provider of choice for UK MOD across Air, Land, Maritime and Joint Enabler environments;
- an assured, effective and efficient regional, national and global centre of excellence working in collaboration with strategic partners, UK devolved administrations as well as European, US and other allies;
- an internationally recognised provider of world class deployable services and managed solutions.

## CONTROL OF THE BUSINESS

DECA's governance structure has been agreed with the Owner, HM Treasury and Cabinet Office and follows established best practice. This structure is outlined in the DECA Framework Document<sup>2</sup> which is currently under revision before planned re-issue during 2019. DECA is governed through its Agency Board and sub-committees, and has in place an agreed formal programme of internal and external audit to provide the required levels of assurance. Robust financial processes are in place and are regularly reviewed to ensure compliance with MOD Resource Accounting and Budgeting policy.

## CUSTOMER DELIVERY

DECA continues to provide MOD with assured, timely, cost effective, onshore and deployable through-life MRO&U support for in-service equipment and future platforms across Defence from its Sealand and Stafford sites and deployed locations around the UK including:

- targeted avionic repair and obsolescence avoidance;
- UK/European 'hub' and Centre of Excellence development;

- test and filter bench capabilities;
- 'repair not replace' solutions for current and future platforms;
- cryptographic and other specialist equipment;
- tri-service calibration;
- Automated Test Equipment solutions;
- Ground Support Equipment;
- managed services;
- development, support and manufacture capability;
- enhanced deployable capabilities in both peace time and transition to war.

DECA continues to work with MOD to ensure the Agency maintains capability aligned to MOD's current requirements including key capability retention for F-35.

The reaffirmed status of DECA by DE&S as a UK MOD strategic asset, and the outstanding successes in securing 'global' F-35 MRO&U and national F-35 Non-Aerial Vehicle assignments, has provided the long-term foundation (30+ years) on which MOD is looking to expand its ambitions for utilising DECA capability in the future.

UK MOD has entered into a Joint Venture (JV) with BAE Systems and Northrop Grumman Corporation. The JV, incorporated as Sealand Support Services Limited (SSSL) will provide global maintenance, repair, overhaul, upgrade and sustainment services for the range of components assigned from the hub at DECA Sealand. Upon F-35 depot stand-up, DECA will become a first tier key supplier into SSSL.

Key to realising these ambitions will be continued development and strengthening of the strategic relationship with the Customer. DECA will work with the Customer to maintain the current relationship and alignment with Defence Equipment and Support (DE&S) corporate planning and will look to expand this to other Defence environments as appropriate.

DECA will seek to develop opportunities to insert its capability through working in partnership with MOD and industry to explore further 'hub' concepts drawing on the success of the F-35 avionic component MRO&U model.

## SUSTAINMENT AND BUSINESS GROWTH

To secure additional workload DECA will continue to focus on business development and growth opportunities. Further work will be conducted to identify potential capability pinch points and risk areas for specific opportunity development to mitigate issues on future MOD requirements.

<sup>2</sup> DECA Framework Document dated 1 April 2015.



DECA will continue to develop relationships with MOD and industry to create additional sovereign capacity, capability and managed services within support and obsolescence solutions for former UK equipment and across the UK export supply chain in support of Defence.

To support generation of DECA enterprise value across Defence, the Agency will further develop its role in assuring provision of subject matter expertise, through-life advisory services, 'repair by repair' technologies as well as obsolescence management and mitigation solutions on new and life-extended equipment.

DECA continues to maintain the capability to develop agile, deployable teams with the ability to enter areas of

conflict or in need of humanitarian support in the UK and overseas and will look to grow this where appropriate and directed by MOD.

**TRANSFORMATION AND EFFICIENCY**

As a trusted, agnostic service supplier, DECA continues to deepen strategic relationships and government-to-government arrangements with MOD customers, industry and partner nations.

Following UK Government's announcement and identification of DECA as a key enabler to the UK's Industrial Strategy in 2017, DECA has undertaken work with MOD to ensure freedom of action to pursue a strategy



that strikes the right balance between MOD operational advantage and effective trading. Further work during 2018/19 has been undertaken to ensure DECA remains aligned appropriately within developing Defence Industrial Policy. This will help assure job creation and sustainment, skills retention and further develop positive regional and national economic impacts in support of the Government's Prosperity Agenda.

Agency resource continues to be targeted towards UK prosperity and support to exports as a core MOD task. More specifically, DECA is leading development opportunities on behalf of MOD for collaborative working with other Arms Length Bodies, government

departments, devolved governments and academia in support of the Government Skills Agenda.

DECA continues to develop and transform the business to improve delivery performance and ensure the Agency remains a competitive, efficient government owned organisation that is 'match fit' for F-35 delivery through the DECA Enterprise Transformation Programme. Through this programme, DECA will deliver significant efficiency improvement by reduction in support costs, improved productivity and increased competitiveness of the business.

# BOARD OF DIRECTORS



**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.

**LUKE DEARDEN**  
DEPARTMENT NON-EXECUTIVE DIRECTOR

Luke is a Senior Civil Servant with 20 years of experience across five government departments. He is currently Political Counsellor in the UK Delegation to NATO, Brussels. Prior to that, he was responsible for arms and export control policy in the MOD.

Luke joined the MOD as a graduate in 2001, undertaking a wide range of posts, including communications, policy, operations, and private office roles.

Luke has also worked closely with the Royal Air Force on finance and equipment capability, and in the Cabinet Office, including as part of the Strategic Defence and Security Review team in 2010.

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**PETER SHORTT**

## NON-EXECUTIVE DIRECTOR

Peter is an experienced venture capitalist and corporate financier and has spent the last ten 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 Components Agency (DECA) upon launch of the Agency in April 2015. He took up the position as the CE (designate) in June 2014 where he led the formation of the DECA, during the sale of the Defence Support Group.

Prior to this Geraint was Chief Operating Officer of DSG, heading up all UK operations and Corporate Support areas, also holding Executive responsibility for the Operational deployment of DSG in support of Op HERRICK in Camp Bastion, Afghanistan.

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 30 year career in defence related businesses.

Geraint also represents the MOD on the Board of the Joint Venture set up to deliver F-35 MRO&U services on behalf of the UK.

**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 Defence Aviation Repair Agency (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.

Beginning his MOD career in 1996, Jason has successfully undertaken a number of strategy, procurement, governance, asset disposal and policy roles across DE&S and MOD centre before joining the DSG in 2008.

Working as part of the team charged with the DSG sale, Jason played a vital role in developing and gaining approval for the strategy that saw DECA retained within MOD before leading the work to establish best practice corporate governance processes for the Agency.

Having firmly secured DECA's strategic position within MOD, Jason is currently leading the development of strategic programmes of work to ensure long-term DECA sovereign capabilities in support of UK Defence and Prosperity including the establishment of a DECA/Dstl innovation hub and development of the proposed second Advanced Manufacturing and Research Institute with Welsh Government at DECA Sealand.

**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.

Throughout his role, Wayne doubled the size of this part of the business through capability growth and the development of the centre of excellence for BOWMAN Fleet Management activities and management of the Herrick Exchange Point during the UK's withdrawal from Afghanistan.

As Operations Director, Wayne undertakes operational management of all DECA delivery functions including deployed teams, field service teams, inventory governance and the DECA Stafford operation. He is also responsible for the DECA Transformation Programme.

Wayne has a Masters' in Engineering Business Management from Warwick University Business School.

**IAN DOUGHTY**  
SUPPORT SERVICES DIRECTOR

Ian Doughty is Support Services Director at DECA, holding a first class Manufacturing Engineering Degree and also a Master's Degree in Engineering Business Management. 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 2019, Ian successfully graduated from the prestigious Civil Service Future Leaders Scheme and looks forward to deploying his enhanced leadership capabilities within 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 Cole began his MOD career at RAF St Athan in engineering development in 1989 following 12 years as a Mechanical Engineer in the Coal Mining Industry.

Ian was appointed Head of Business Development for the Fixed Wing Aircraft Unit at the Defence Aviation Repair Agency before assuming the role of Head of Business Development at the Electronic and Components Business Unit, successfully establishing Base Protection ISTAR and Counter Improvised Explosive Device support to deployed operations.

Ian was responsible for managing the highly successful Equipment Support Sustainability UK Support Team for deployed operations. At DECA Ian has been instrumental in attracting new work into the Agency, and also broadening its portfolio across all MOD's domains. Ian has been the DECA Executive Management Board lead in DECA's role as part of Team UK, in our successful DoD JPO assignments for both Tier 1 and 2 components for F-35 Air Vehicle and Ground Support Equipment.

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



# BUSINESS OVERVIEW

## GOING CONCERN

MOD created DECA as an Executive Agency on 1 April 2015. As an Executive Agency DECA is wholly owned by and is an integral part of the MOD. DECA is tasked with covering its costs and making a profit by carrying out MRO&U 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. The DECA Chief Executive approves a rolling five year Business Plan annually that is endorsed by the DECA Board and forms the basis of the DECA Budget. In addition, a strategic five year Corporate Plan is agreed with the Agency's ministerial owner, (the Minister for Defence Procurement), at least every 3-years with the extant plan approved in November 2017. Both plans reflect 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 assignment for F35 Avionic Component MRO&U in a joint arrangement, Sealand Support Services Ltd (SSSL). MOD holds a third equal shareholding in SSSL which is based at DECA's Sealand facility. DECA will support MOD in overseeing their element of the joint arrangement whilst also being a primary sub-contractor to SSSL in the delivery of the F-35 MRO&U program.

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

## PERFORMANCE SUMMARY

DECA exceeded its planned level of profitability during 2018/19 with a net trading income of £2.4M. 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 2018/19 were the non-achievement of the following:

- Business Growth - Failure to develop planned, and secure new, business growth opportunities
- F35 – Delays in activation for the components relating to the Tier 1 and 2 assignments

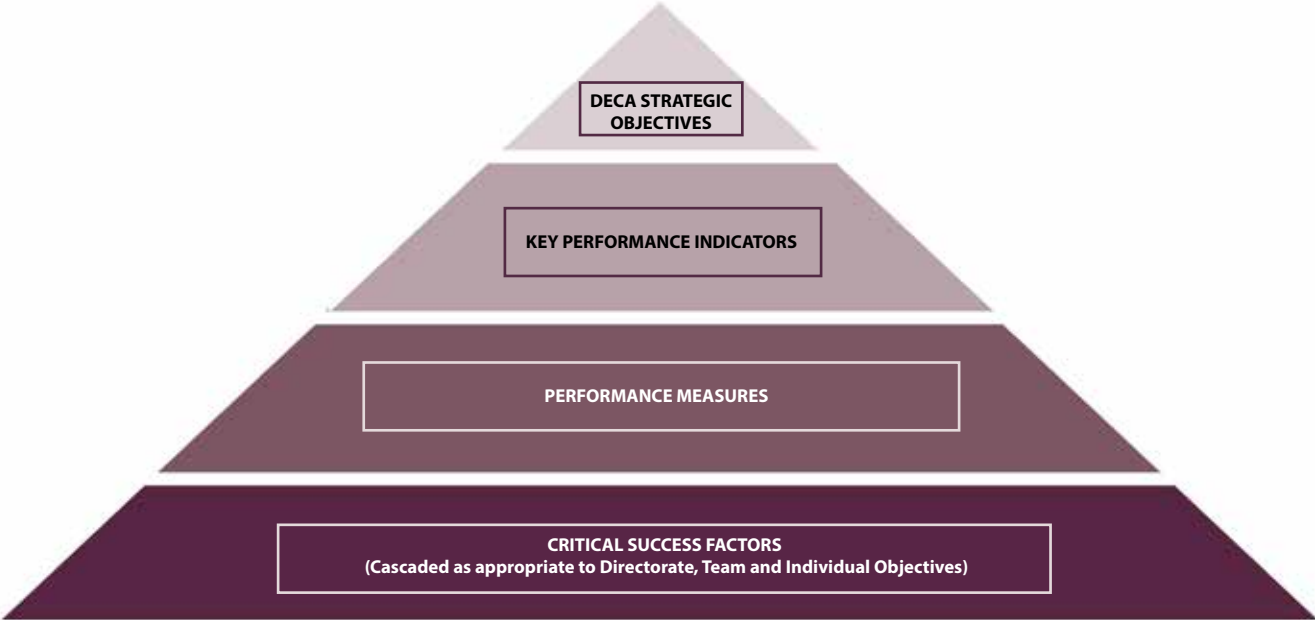


# PERFORMANCE ANALYSIS

DECA measures its performance against its strategic objectives which are set out in our Business Plan. Our performance framework captures our areas of focus and

aligns these with outcomes. We also closely monitor any risks and uncertainties that will prevent us from achieving our outcomes.

THE DECA PERFORMANCE MANAGEMENT HIERARCHY



The performance management hierarchy above is designed to provide clear indicators and allow measurement of performance in areas 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 Strategic Objectives (DSOs) are developed and agreed with the Owner and DECA Board with input from relevant Customer stakeholders to ensure they encompass all aspects of running the business, whilst also meeting the needs of Defence.

## KEY PERFORMANCE INDICATORS FOR 2018/19

In line with DECA's ministerial endorsed purpose and aim, and in order to maintain Agency efficiency and alignment with MOD planning assumptions and strategic priorities, DECA developed Key Performance

Indicators (KPIs) for 2018/19 with the MOD Owner and Customer focal point. The KPIs were approved with the DECA Board and MOD Owner.

<b>KPI 1: Financial Performance</b>	Operating efficiently and effectively by: <ul style="list-style-type: none"> <li>achieving a less than 2% average variation in forecast accuracy (see note 1);</li> <li>achieving at least the planned level of profit agreed in Year 1 of the Plan.</li> </ul>	Achieved
<b>KPI 2: Quality</b>	Successfully operating the business to deliver the plan whilst maintaining the quality of products, services and processes by: <ul style="list-style-type: none"> <li>achieving zero attributable major customer concerns in FY 2018/19;</li> <li>maintaining DECA quality performance against the established baseline for minor customer concerns.</li> </ul>	Achieved
<b>KPI 3: Customer Satisfaction</b>	Delivering the agreed DECA Customer Programmes, associated support and services by: <ul style="list-style-type: none"> <li>achieving delivery of at least 96% of agreed DECA Customer Programmes in FY 2018/19.</li> </ul>	Achieved
<b>KPI 4: Efficiency</b>	Delivering the levels of transformation, efficiency and cost reduction agreed with the Owner by: <ul style="list-style-type: none"> <li>delivering a 3.5% increase in Direct Labour Utilisation against the FY 2017/18 baseline;</li> <li>achieving at least a 1% reduction in operating costs in Year 1 of the plan (see note 2);</li> <li>developing a benefits tracking tool to capture DECA's enterprise value to Defence and establish measures for achievement of future enterprise savings.</li> </ul>	Achieved
<b>KPI 5: Business Development</b>	Delivering the planned levels of business growth agreed with the Owner and Customer by: <ul style="list-style-type: none"> <li>achieving the planned levels of business growth in Year 1 of the plan.</li> </ul>	Achieved

Note 1 - The 2% average variation in forecast does not reconcile with the Trading results table.

Note 2 - The 1% savings are based upon production overhead costs (see page 28) and do not reconcile to the primary financial statements.

## PERFORMANCE MEASURES FOR FINANCIAL YEAR 2019/20

The proposed KPIs for FY 2019/20 are:

<b>KPI 1: Financial Performance</b>	Operating efficiently and effectively by: <ul style="list-style-type: none"> <li>achieving a less than 2% average variation in forecast accuracy;</li> <li>achieving at least the planned level of profit agreed in Year 1 of the Plan.</li> </ul>
<b>KPI 2: Health, Safety,Quality &amp; Environmental Protection</b>	Successfully operating the business to deliver the Plan whilst maintaining the quality of products, services and processes by: <ul style="list-style-type: none"> <li>maintaining independently assured Health, Safety and Environmental Protection Management Systems;</li> <li>maintaining an independently assured Quality Management System.</li> </ul>
<b>KPI 3: Customer Delivery</b>	Delivering the agreed DECA Customer Programmes, associated support and services by: <ul style="list-style-type: none"> <li>achieving delivery of at least 96% of agreed DECA Customer Programmes in FY 2019/20.</li> </ul>
<b>KPI 4: Business Development</b>	Delivering planned levels of business growth agreed with the Owner by: <ul style="list-style-type: none"> <li>achieving the planned levels of business growth in Year 1 of the FY 2019/20 plan.</li> </ul>
<b>KPI 5: Efficiency</b>	Delivering the levels of transformation, efficiency and cost reduction agreed with the Owner by: <ul style="list-style-type: none"> <li>delivering a 28% increase in efficiency across DECA by FY 2023/24;</li> <li>rolling out the DECA benefits tracking tool across DECA and develop future targets for cost avoidance and saving targets for Defence.</li> </ul>

# BUSINESS PERFORMANCE REVIEW

## OVERVIEW

DECA's Purpose, Aim and Values (PAVs) were developed and agreed with Senior Managers, employees and Trade Unions. Agreement of the PAVs ensures that DECA's objectives continue to align with Defence Objectives and MOD's strategic requirements. We are a trusted partner to MOD and industry, continuing 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.

The period of this report has seen the continued development and deployment of the DECA Business Development sector strategies to meet the emerging needs of the Air, Land, Maritime and Joint Enabler customers in an increasingly dynamic strategic environment. The move to expand our portfolio of work has seen the continued development of DECA capabilities to meet requirements of an increasing customer base, increasing the growth of DECA workload in the short, medium and long terms. This growth is underpinned by the 10-year DECA Tasking Agreement (DTA) with MOD, providing an innovative commercial approach for MOD customers, and enduring agreements with key Industry partners and Original Equipment Manufacturers.

Following a second successful assignment by the US Department of Defense, F-35 JPO of global Maintenance, Repair, Overhaul, Upgrade and Sustainment Services for F-35 components, the MOD, along with the Sealand Support Services Limited Joint Venture industry partners (Northrop Grumman and BAE Systems), remain focused on establishing F-35 repair capability at DECA Sealand. A robust plan for delivery of repair capabilities has been established with the aim of delivering first repairs at MOD Sealand to support the F-35 programme in Oct 2020; remaining repair capabilities will be introduced incrementally to meet the emerging needs of the Programme over the next five years.

Notification of a further component assignment (Tier 3) by F-35 JPO in April 2019 provides a further opportunity for DECA and our industry partners to compete for additional workload to make MOD Sealand the European F-35 avionics repair centre of excellence.

With vigilance and continued emphasis on safety in the workplace, DECA achieved zero reportable incidents involving employees during the year. In addition, DECA continued to monitor closely the working environment to mitigate any risk and to ensure incidents continue to decrease whilst looking to constantly improve 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. The delivery of the second phase of the Sealand boiler upgrade programme is demonstrable evidence of DECA's commitment to environmental management. Equally DECA maintained its outstanding performance in waste management by diverting 90% of its waste from landfill of which approximately 70% was recycled and any incinerated waste was managed through energy considerate methods. Priority areas for DECA focus in future years will continue to target world class waste management, initiatives driving increased energy efficiency, associated reduction in CO<sub>2</sub> emissions as well as reduction in paper and potable water consumption.

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. In addition to this, procurement contracts for DECA goods and services continue to be reviewed, amended or replaced to ensure that they deliver improved performance and cost efficiencies. For example, the renewal of a number of key contracts such as the Microsoft Office Agreement and payroll provider have produced cost savings for DECA.

## DECA TRANSFORMATION PROGRAMME (DTP)

The forecasted growth of the DECA order book is underpinned by a number of increasingly complex business opportunities. These prospects necessitate a growth in DECA capability to ensure delivery of technical solutions to Defence ranging from a managed service provider across platforms through to industry partnerships with SSSL on F-35.

This expansion of capability in support of Defence includes a conscious decision to promulgate the DECA service provision across all pillars; no longer concentrating purely on air, DECA will increase their value to Defence through a scalable offering within the land, maritime, submarine and joint enabler environments also.

We are clear that this transformation brings with it challenges and opportunities in terms of capability development, cultural environment, and the size, structure and scalability of the business.

To achieve this we have endeavoured to create a major transformation programme that incorporates four key work streams:

**DECA People:** The people workstream aims to build a culture that continues to value our people through engaging our employees, teams and trade unions whilst providing opportunities to develop and improve. It will also create new ways of working to drive increased efficiency and effectiveness across the business.

**DECA Technology:** This workstream will focus on building technology that enables increased efficiency and resilience. DECA will invest capital expenditure to transform ways of working and increase business resilience. This will be done in conjunction with external customer requirements to ensure integration. Transformation in DECA technology will also increase business agility and allow a more flexible approach to working conditions, locations and hours, that is fully aligned with governmental drives and agendas.

**DECA Process:** Process is the cornerstone of all workstreams and DECA are building and improving processes to ensure we deliver existing and future products and services at the right cost, right time and right quality. This workstream will integrate with all workstreams to ensure alignment.

**DECA Infrastructure and Estate:** DECA and MOD will continue to invest in DECA's infrastructure to build resilience into our operation, which will align to wider rationalisation and environment drivers across government. This will include alignment with the Modernising Defence Programme and Government Estates Strategy to ensure best utilisation of the estate as a cornerstone of transformation. We are also working in partnership with Welsh Government and Dstl to transform MOD Sealand into an innovation hub and a global centre of excellence for depth component maintenance for defence.



## INVESTMENT AND CAPABILITY DEVELOPMENT

Responding to evolving customer requirements through the development of our people, DECA has continued to invest in technical, professional and leadership training, including the launch of an Institute of Leadership and Management accredited Management Development Programme. DECA further developed professional specialists in Engineering, Supply Chain & Inventory Management, as well as Material & Financial Accounting in our growing Managed Services area. Once again, DECA has invested in new test and repair technologies, which have built upon one of our core capabilities of reverse engineering, to enable us to support an ever-widening portfolio of older defence systems, where Original Equipment Manufacturer (OEM) support and documentation may no longer exist.

DECA maintained a close focus on the upgrade of our estate and buildings to deliver enhanced efficiency and sustainability, whilst aiming to reduce the Agency's environmental impact.

In addition, DECA boosted the resilience of the Sealand High Voltage Ring Main through a further upgrade and a substantial proportion of the road network was resurfaced to enable safer and more efficient movement of people and materials around the site. A key aspect was the construction of new crossing points, along with the addition of drop kerbs and textured paving to enhance the accessibility of the site.

Improvements within the Head Office facility at Sealand increased utilisation by accommodating the expansion of DECA's Managed Services team within the existing footprint. The latest phase of DECA's Information Technology upgrade programme delivered extensive mobile working solutions to more employees than ever before, contributing to increased flexibility, agility and employee engagement, all whilst creating opportunities to further reduce DECA's environmental impact and reduce costs.

A range of enhancements to both security and safety infrastructure was delivered at both Sealand and Stafford sites, on top of an extensive and rigorous program of planned preventative maintenance.

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 to provide MOD with assured capability and interoperability of test systems, regardless of OEM supplier.

## WINNING BUSINESS

2018/19 has seen the successful implementation of year 1 of the new 10 year DECA Tasking Agreement (DTA). Working closely with the joint DECA/DE&S DECA Management Office (DECAMO) and DE&S Commercial staff, the DTA has been fully embedded, establishing an easier and more agile tasking arrangement between DECA and MOD.

Over the year DECA has continued to expand its repair capabilities and develop innovative solutions for a wide range of Defence capabilities across technologies including electrical and fibre-optic cables, calibration support and consultancy activities. On the wider Air platform programmes, DECA now provide both on-site and remote maintenance support of General Purpose Automatic Test Equipment (GPATE) to March 2021. Additionally, implementation of the future test / repair of Power Generators continues with a new test bed installation complete and training for DECA personnel scheduled for late 2019.

DECA continues to support the MOD Reduce to Produce (RTP) programmes, with staff deployed at RAF Unit locations assisting with asset management and consignment, while providing strategic warehousing and inventory management at DECA Sealand.

2018/19 has witnessed the successful implementation of Managed Service provision to DE&S customers. DECA, as a Managed Services provider, delivering the functions necessary to support our customers in their decider role. This includes managing the respective inventories including warehousing and asset control, purchasing and through life support using existing MOD Information Systems at Sealand and delivering to contracted KPIs. This service has been recognised by our customers as a means to rationalise their own sustainment overhead and continues to attract significant interest following our notable early successes in the Avionics and ISTAR areas.

In maintaining our first class service to Information System & Services (ISS), DECA has secured a 3-year agreement with Cryptographic Services for Defence (CSD) to provide UK-wide maintenance, repair and modification of cryptographic equipment delivered by the DECA deployed teams working at the main operating bases and the cryptographic repair facility at Sealand across a wide range of Defence capabilities.

Progress continues this year on expanding our Maritime portfolio, with DECA investigating how it may provide support and availability improvements across a wide range of current and future naval platform. DECA has also been successful in securing orders for Test Solutions to produce

test methodology for a number of surface capabilities to mitigate obsolescence issues, having successfully delivered the first of these tasks associated with Fuel Systems at the end of FY18/19; further tasks are due for completion by the end of FY19/20.

DECA's support to both UK and overseas deployments has continued throughout the year and has provided support to a wide range of MOD customers and Original Equipment Manufacturers. Activities have included direct manpower support to frontline flying operations, equipment support at Main Operating Bases including test and calibration activities on both UK and overseas platforms such as Typhoon, Apache, Merlin and Sentry. Continuation and expansion of these activities is expected as we move into the new reporting period.

DECA has recently agreed a 5 year contract with our Qioptiq industry partners to test and repair optical systems. Full test and repair capabilities have been established at DECA Sealand with assets being successfully repaired and delivered to Qioptiq to support contingent operations. Although a commercial contract, it continues to meet our aim of supporting the MOD's strategic objectives, this time with one of our commercial partners. This contract is proving to be a huge success, with DECA routinely returning repaired equipment well ahead of schedule; DECA has agreed to assist Qioptiq in their wider output requirements, has resulted in an increase of throughput and investment in a more comprehensive testing capability.

DECA Stafford continues to develop its repair capabilities and workload. This year has seen the arrival of the first F-35 ground support equipment components for repair and calibration. Working under contract to Lockheed Martin, the range and scale of components has started to increase as the number of UK F-35 aircraft delivered increases. As well as the end-to-end service provider for Air Cylinder equipment, DECA Stafford supplies MOD and industry with a range of support services including manufacture of Special to Content Containers for various air-drop and Maritime components, repair and maintenance of a wide range of power generation capability, maintenance of other main stream aircraft ground support equipments. Investment in the rationalisation of the DECA Stafford footprint and infrastructure continues to deliver business improvement and efficiencies.

DECA continues to support MOD as its subject matter experts in the Automated Test Systems engineering environment. This role has been consolidated with DECA participating in a series of conferences, feasibility studies

and capability demonstrations with both Government and industry bodies. DECA also remains the lead for MOD in developing the Institute of Electrical Engineers Standards Associations standards for Test Programme Set transportability, and in the continuing and maturing joint working initiative with the US Department of Defense, developing support solutions for avionics test programmes.

## **BUSINESS DEVELOPMENT STRATEGY**

During the year DECA has deployed its revised Business Development Sector Strategies to meet emerging Defence market requirements, while re-enforcing DECA's own commitment to support UK operations. Major breakthroughs in the Land and Maritime environments have seen the deployment of DECA personnel in support of UK operations across the domains, working alongside both British Army and Naval operators and maintainers, assisting with availability issues, in each case demonstrating the versatility of DECA personnel.

Throughout this accounting period, other Business Development activities have successfully continued to build on the previous year's efforts, establishing strong relationships with the MOD, platform primes and Original Equipment Manufacturers. DECA continues to develop its organic repair capabilities to meet changing customer requirements including MOD partners in DE&S, ISS & Dstl. Through this continued joint work with MOD and Industry, intent to establish DECA as the UK's prime avionics, electronics and support equipment supplier of choice, and provider of managed services across the tri-service defence environment.

F-35 continues to be at the forefront of DECA's strategic planning, strengthened by the recent F-35 Joint Program Office assignment to Team UK (MOD, BAE Systems and Northrop Grumman) of Tier 2 F-35 Component Maintenance, Repair, Overhaul and Upgrade (MRO&U) for the European region in Mar 2019. The F-35 will provide a core element of UK Combat Air capability until at least 2050; as such, the UK has a major stake in the success of the overarching program and remains committed to delivering best value for the F-35 enterprise which includes the delivery of an efficient and cost effective MRO&U service, supporting the UK Government's Industrial Strategy.

The F-35 Joint Program Office announcement in Apr 2019 of the release of a F-35 Tier 3 Component MRO&U Request for Information (RFI) by JPO, expected in Sep 19, provides the opportunity for the UK, together with our industry



HMS St Albans, the sixteenth and last of the Royal Navy's Type 23 frigate  
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partners, to build on our previous assignment successes. With all European Partner Nations competing, the UK will continue to exploit the strategic, industrial and economic logic that underpinned the UK's value proposition from Tier 1 & Tier 2 to produce a compelling proposal to meet the needs of the global F-35 enterprise for Tier 3.

In parallel, DECA continues to be considered at the forefront of the Support Solution Envelope for future Unmanned Air System capabilities, with preliminary work on existing systems being jointly developed with DE&S.

Intent is to establish how DECA can support resolution of obsolescence issues on smaller platforms, while exploring and developing opportunities to partner with US and UK based Defence companies to provide support to new capabilities.

DECA have commenced a concerted effort to expand its Land portfolio, engaged with international and domestic customers, and in partnership with key strategic industry partners and Original Equipment Manufacturers in the Land environment. A key strategy is embedding DECA personnel into DE&S Land delivery teams, working jointly on current and future solutions; success in these arenas will provide great potential for DECA to significantly contribute to the Government's Prosperity agenda.

#### **MARKETING AND BRANDING**

DECA continues 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 broaden knowledge of DECA capacity and capability both internally within MOD and in the commercial Defence market through attendance at events such as the Royal International Air Tattoo (RIAT), Defence Security Equipment International (DSEi), Defence Vehicle Demonstration (DVD), Farnborough International Air Show and also through market stall events at DE&S, ISS and Front Line Commands to support generation of new opportunities for work.

The DECA brand continues to mature with our performance for UK MOD and industry customer underpinning this success. DECA intent is to continue to exploit our successes and use each opportunity to promote the brand and the supplier of choice for avionic, electronic and component repair for UK MOD stakeholders.

#### **BRIBERY AND CORRUPTION**

There were zero instances related to Bribery or Corruption in 2018/19 (2017/18: Nil). All staff have been made aware of the fraud and whistleblowing policies. All staff undertake a rolling 3 year programme of mandatory training in respect to counter fraud, bribery and Corruption.

#### **OUR ENVIRONMENTAL IMPACT**

It is our policy to manage our organisation in the most environmentally responsible manner, to comply with the applicable environmental legislation and with any other requirements necessary. Our direct environmental impacts include the greenhouse gas emissions associated with business travel and energy use, water use, paper consumption and waste generated in our buildings. We have challenging sustainability targets in all these areas; the related data is shown in the sustainability report on page 23. We assess the environmental impact of our activities and use an environmental management system to provide a framework for setting and reviewing environmental targets to support continuous improvement. We recognise the importance of independent assurance and have continued to maintain ISO 14001:2015 certification for our environmental management system.



# SUSTAINABILITY REPORT 2018/19

## GREENHOUSE GAS (GHG) EMISSIONS DATA

DECA is committed to managing our business in the most environmentally responsible manner and continuously seeking to enhance our sustainability, whilst complying with applicable environmental legislation and with any other requirements necessary. DECA aims to contribute positively to the Greening Government Commitment (GGC), which sets out the actions UK government departments and their agencies will take to reduce their impacts on the environment in the period 2016 to 2020. DECA sets stringent targets which align with the GGC, with the Primary DECA target for 2018/19 being to achieve a 5% reduction in Green House Gas (GHG) emissions compared to the previous year.

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

DECA has a wide range of environmental improvement initiatives that seek to build on work carried out in previous years. This ranges from a new heating delivery scheme which will produce significantly reduced gas consumption; much tighter monitoring of energy consumption on the site and engagement with EDF our electrical supplier, through to targets aimed at removal of single use plastics within DECA. This is set against the challenging background of an expanding, high energy dependent business with a global supply network. Consumption of gas has seen a significant fall but this was offset by increased electrical power consumption. This removes the impact on direct fossil fuel consumption to the more desirable use of renewable energy sources. DECA benefits from electricity generating companies moving to an increased proportion of renewable energy sources with a lower 'carbon equivalent' content in the energy supplied to DECA. It can be seen that DECA exceeded the 5% reduction target in Scope 1, but there has been a significant rise in the emissions for Scope 2.

The increase in emissions for Scope 3 can be directly attributed to the additional customer demand on DECA. The F-35 Component Repair program has impacted on the requirement for business travel, causing this to increase during the past 12 months. The needs of the contractual partnership approach, working with upwards of 15 US and UK based organisations cannot be satisfied remotely. Hence, there was a predicted increase in frequent national and international travel as a consequence of these requirements. In addition the implementation of new work streams in support of Land and Naval platforms has also placed demands for customer engagement in a number of areas of the UK not traditionally associated with DECA and resulted in increased travel demands. DECA staff were deployed to a number of locations up and down the UK for a variety of support roles to the UK MOD.

There is an obvious necessity to promote the use of video conferencing and teleconferencing to eliminate the need for travel wherever practicable. In addition, DECA continued to maintain stringent controls throughout the year to ensure that only essential travel was undertaken, it was conducted as efficiently as possible to minimise environmental impact. Vehicle rental has been embedded in the business and ensures that the most suitable vehicle type is used for each journey and car sharing is facilitated wherever possible.

The measures implemented will have had a positive impact but the necessary growth in business activity led to a net increase in travel and thus an increase in emissions within Scope 3. Due to the low level of baseline mileage, a single instance of international air travel has a significant impact on the emissions target.

The DECA GHG emissions performance is summarised in the table below.

	Type	Baseline	Target	Reporting period
Scope	GHG	2017/18 Kg Co2e	5% reduction total	2018/19 Kg Co2e
1	Gas	891,129	846,573	412,300 *
2	Electricity	1,835,932	1,744,135	2,429,166 *
3	Travel	161,501	153,426	199,889

\* Due to failure on the gas main alternative heating was required which significantly increased the usage of Electricity temporarily in year but this was offset by a significant reduction in Gas usage

## DECA MANAGEMENT OF WASTE

DECA policy on waste management remains to constantly strive for waste reduction across all areas of the business. Throughout the year the drive has been on physical waste reduction and also assurance of the amount recycled with figures going to landfill of below 10% of total waste generated. The change of Facilities Main Contractor has resulted in all waste being diverted from landfill which at

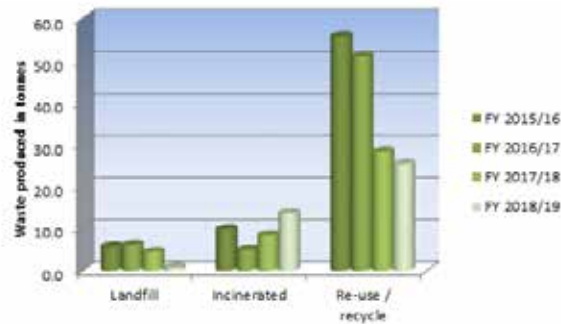
the very least will provide a source for energy recovery. DESA continues to collect waste on behalf of DE&S and reports these figures independently.

The table and graph below show the continued reduction in total waste produced and the ratio of waste recycled has increased year on year.

Waste category		FY 2015/16		FY 2016/17		FY 2017/18		FY 2018/19	
		Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%
Hazardous	Landfill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Incinerated	9.0	90.0	4.1	51.2	7.6	93.8	6.9	88.5
	Re-use/recycle	1.0	10.0	3.9	48.8	0.5	6.2	0.9	11.5
Non-Hazardous	Landfill	5.7	9.3	6.1	11.3	4.5	13.6	0.8	2.5
	Incinerated	0.9	1.5	0.9	1.7	0.9	2.7	6.8	21.2
	Re-use/recycle	54.8	89.2	47.1	87.0	27.8	83.7	24.5	76.3
	Composted	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total waste	Landfill	5.7	8.0	6.1	9.8	4.5	10.9	0.8	2.0
	Incinerated	9.9	13.9	5.0	8.1	8.4	20.4	13.7	34.3
	Re-use/recycle	55.8	78.1	51.0	82.1	28.3	68.7	25.4	63.7
	Composted	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>Total</b>	<b>71.4</b>		<b>62.1</b>		<b>41.2</b>		<b>39.9</b>	

DECA can now report that no waste is sent to landfill for disposal and going forwards if it cannot be reused, recycled or used in other recovery methods, it will be

utilised for energy recovery. The production of heat from incinerated waste has also provided an energy return recovered via the incinerator plant.



It should be noted that DECA continues to fully utilise the MOD disposal agency (DESA) to ensure that obsolescent, redundant, life expired, beyond economic repair and scrap equipment is returned to MOD for re-purposing wherever possible or disposal through an environmentally responsible route, which also enables MOD to recoup any residual monetary value. As a result of this activity, DECA's waste report does not include these items.

#### FINITE RESOURCE CONSUMPTION

DECA has committed to reducing its consumption of finite resources so as to maintain its long term sustainability and minimising environmental impacts. Specific targets have been set for 2018/19 in alignment with the GGC of which the primary target was intended to drive a reduction in paper consumption. The use of 100% recycled paper has been maintained and the introduction of initiatives such as the elimination of printing wherever possible by mandating electronic circulation of meeting 'packs' and double sided printing by default have ensured the amount of paper consumed has been restricted.

Paper Reams	2015/16	2016/17	2017/18	2018/19
A4	1,780	2,575	1,736	1,646
A3	0	30	15	17
<b>Total</b>	<b>1,780</b>	<b>2,605</b>	<b>1,751</b>	<b>1,663</b>

DECA now has a baseline of paper consumption in different areas of the business which provides detail for understanding specific areas and drivers. This provides areas for future initiatives to maintain the reduction of paper consumption. These initiatives include the adoption of electronic files, which have already been incorporated in a number of areas of the business and have proved beneficial in a number of ways.

There is also more focus on reducing finite resource consumption by aiming to target a reduction in potable water consumption through improved monitoring of water supplies.

#### SUSTAINABLE PROCUREMENT AT DECA

DECA promotes the procurement of sustainable and efficient products whilst, reducing the impact of the supply chain on the environment. There are process to identify and maintain a list of approved suppliers who can be regularly reviewed. Our procurement strategy encourages the use of MOD framework agreements that provide financial benefits as well as acceptance of an organisations environmental credentials. These operate over a range of areas from avionic piece part spares to the use of Crown Commercial Service framework contracts for employment of the Main Facilities Contractor. This also ensures alignment with MOD sustainability policy for all common goods and services.

The Department promotes sustainability in procurement by:

- working closely with its suppliers – buying products and services with local businesses which are less environmentally damaging through closer location to DECA than national companies.
- SHEF advisors regularly monitor newly enacted or amended law to ensure DECA compliance with environmental legislation and regulatory requirements.
- including relevant environmental conditions or criteria in specifications and tender documents, and evaluating supplier offers accordingly.
- raising awareness of environmental issues within the Department, and amongst suppliers and contractors.
- our Facilities Management provider has introduced more efficient machinery as well as vending machines that have the option of using your own cup, reducing paper cup consumption. They are also certified to the latest ISO 14001 standard.

## PEOPLE

Recognising our position as an Executive Agency of the Ministry of Defence, DECA's innovative Human Resources and People Strategy aims to blend the best of Civil Service values with best of commercial efficiency and delivery. Our strategy creates the environment, culture, structure and process in which people can deliver high performance, develop and use their skills, knowledge and experience, be recognised for their achievements, work creatively and collaboratively and continue to be proud to be part of DECA.

Strategic plans clearly articulate our commitment to ensure that the right mix of capable and motivated people, are available, now and in the future. DECA is committed to driving business efficiency and developing its capabilities and workforce to meet its strategic challenges and particularly to ensure a more agile business, capable of responding to ever changing customer requirements.

As at 31 March 19, 340 employees operate from DECA's Centre of Excellence for MRO&U based at Sealand, North Wales (within the Deeside Enterprise Zone) and a further 83 employees operate from our satellite site in Stafford, our customer base at Abbey Wood and various other deployed locations according to customer needs.

DECA is fully committed to open and honest engagement with our people and employs a wide range of modern channels to achieve regular and effective two way dialogue. Amongst these, the 2018 Civil Service People Survey (CSPS) provided a useful barometer of employee views.

The DECA people engagement strategy takes a holistic approach to consider all the features of life at work and their impact on employee engagement. Our engagement strategy focuses on how comfortable employees feel about where we work and with whom (our customers, colleagues and leaders) and how we feel about the value of what we do.

Recognising that actions have greater impact on engagement, DECA values, leadership statements and competencies will be embedded through all people management activities, especially leadership and management skills, performance management, talent management, succession and reward and recognition.

DECA's Pay and Grading review continues to gather momentum. The next step is delivery of definitions of job descriptions for all DECA generic and specific roles.

Our Pay Remit for 2018/19, which fully complied with HM Treasury Civil Service Pay Guidance, was approved by Minister for Defence Procurement and was successfully negotiated and implemented, whilst avoiding dispute with the Trades Unions.

## LEARNING & DEVELOPMENT

DECA's workforce continues to develop in order to meet the challenges of a competitive electronics and components sector.

DECA's internal Development Programme, open to all employees, has two overarching goals; the need for individuals to maximise their potential and DECA's need to obtain maximum benefit from its employees. The programme seeks to enhance an individual's performance in their current role and to encourage and foster innovation and creativity. It supports individuals, teams and the organisation in engaging positively and productively with the impact of ongoing transformation and to support DECA and its future.

To further develop management capability, DECA Management Development Programme, designed to meet the needs of new managers and refresh & update the knowledge of more experienced managers, is ongoing. The programme, in association with the Institute of Leadership and Management (ILM), comprises a number of modules and seeks to develop managers in areas such as engagement, managing diverse teams, managing projects and risks, leading change and effective communications. DECA also continues to encourage employee participation in new development opportunities such as MOD apprenticeships and Positive Action Pathway and remains an active participant in the Civil Service Senior Leaders Scheme (SLS), the Future Leaders Scheme (FLS), the MOD's High Potential Development Programme and Means of Identifying Internal Talent (MIDIT) scheme. It has also expanded innovative internal secondment career opportunities.

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

Key forthcoming Learning and Development activities include gaining a full understanding of current capabilities using a 'can do' matrix approach, which will identify gaps to be addressed. This will inform the creation of a skills and knowledge capture and development action plan that in turn can be costed and scheduled for delivery.

Work is ongoing in the proposed development of a dedicated Learning and Development (L&D) Hub, which will support the running of all L&D activities in DECA, including apprentice programmes.

# FINANCIAL PERFORMANCE REVIEW

## TRADING RESULTS

DECA successfully completed its fourth year as an Executive Agency with a net operating income of £2.356M which was a slight increase on plan.

Although there was an increase in variable costs in year and therefore net costs, this also generated an increase in income.

	2018/19		2017/18	
	Plan £M	Actual £M	Plan £M	Actual £M
Turnover	24.187	26.770	23.969	24.297
Non Turnover Receipts	0.270	0.280	0.411	0.327
<b>Total Operating Income</b>	<b>24.457</b>	<b>27.050</b>	<b>24.380</b>	<b>24.624</b>
Variable Costs	0.545	2.613	0.333	1.016
Production Overheads	21.747	22.081	21.536	21.097
<b>Total Operating Expenditure</b>	<b>22.292</b>	<b>24.694</b>	<b>21.869</b>	<b>22.113</b>
<b>Profit</b>	<b>2.165</b>	<b>2.356</b>	<b>2.511</b>	<b>2.511</b>

Note the figures above are contained within Statement of Comprehensive Income (Page 50) and Statement of Cash Flows (Page 52)

As part of the Corporate Bonus Scheme any surplus profit above plan can be distributed to all employees below SCS level. 53% of surplus profit, £213K was awarded in 2018/19 (2017/18: 100%, £109K).

At the 31 March 2019 the land and buildings occupied by DECA and all capital equipments were revalued following the application of MHCA Indices provided by the MOD.

## CASH FLOW AND FUNDING

DECA was able to repay the department its short term liability of £2.511M. Cash flow remained strong, despite there being a level of accrued revenue.

## ADMINISTRATION AND ACCOUNTING

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

## CAPITAL INVESTMENT

An initial amount of capital investment was undertaken in year with respect to the upgrade of the District Heating System (£0.012M).

## APPROVAL

The performance report is approved.



**Geraint Spearing**  
Accounting Officer  
9 July 2019





# ACCOUNTABILITY REPORT

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## 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
- Luke Dearden MOD Non-executive Director

# DIRECTORS REPORT

There have been 4 non-executive directors who are detailed below. In addition there were three executive directors on the DECA Agency Board, Geraint Spearing (Chief Executive), Lin Longman (Finance Director) and Jason Leeks (Head of Strategy, Governance and Secretariat).

Non-executive directors are appointed by the Secretary of State for Defence. Board members provide a valuable contribution to the ongoing work of DECA. The Non-executive Board members for 2018/19 are listed below.

Non-Executive Director	Date of original appointment	Date current or most recent appointment ends	Current Term (Years)	Audit & Risk Assurance Committee	Remuneration Committee
Alex Jablonowski	1st April 2015	31st July 2019	2		
Peter Shortt	1st July 2015	30th June 2019	1	Chair	
Tim Walton	1st July 2015	30th June 2019	1		Chair
Luke Dearden	31st July 2017	30th July 2019	2	✓	✓

Note: Alex Jablonowski was appointed on a two year contract which has been extended by a further two years and four months. Peter Shortt and Tim Walton were appointed on a three year contract and extended by a further one year. Peter Shortt is to be extended further for up to 2 years.

## 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.

## COMPOSITION OF MANAGEMENT BOARD

The composition of the management board can be found on page 10.

## PENSION LIABILITIES

Details of the pension liabilities and their treatment is contained within the Remuneration and staff report on page 43 and in the notes to the accounts.

## COMPANY DIRECTORSHIPS AND OTHER SIGNIFICANT INTERESTS HELD BY BOARD MEMBERS

Geraint Spearing held a non-executive directorship of MOD's joint arrangement SSSL. No other directors 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 2018/19 2017/18: Nil).

## SICKNESS ABSENCE

DECA's sickness absence data is shown in the Staff Report which can be found on page 43.

## REPORTING OF PERSONAL DATA RELATED INCIDENTS

There are no reported personal data related incidents for the financial year 2018/19 (2017/18: 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 give a true and fair view of the state of affairs of DECA and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

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

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

- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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

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





# 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 fourth DECA Agency Accounts for 2018/19. 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 2018/19 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 good practice guidance laid down in HMT Corporate Governance in Central Government Departments: Code of Good Practice 2017. 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 2017/18 where arrangements received substantive assurance. Further work throughout 2018/19 has ensured that DECA Corporate Governance remains in line with best practice.

The governance structure in place during 2018/19 was as follows:

- **DECA Performance and Risk Review (P&RR)**, the P&RR was chaired by MOD's Director of Sponsorship and Organisational Policy (DSOP) who was the Departmental Sponsor with delegated responsibility for oversight of DECA on behalf of MOD's Permanent Under Secretary and the Minister for Defence Procurement. The permanent membership of the P&RR comprised DSOP, DECA's Department NED,

DECA Chairman and the Chief Executive of DECA. The P&RR supports and advises the Sponsor on the review and setting of DECA's strategic objectives, and the approval of the Corporate Plan and major business decisions that will affect DECA's strategic direction and performance. The P&RR met two times during the year.

- **DECA Board**, the Board was chaired by our independent Non-Executive (NED) Chairman and comprises three additional NEDs, one of whom is the departmental NED as representative of MOD, 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, risk and control systems. The ARAC met four 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. 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. The RENCO met four times during the year.

- **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 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. The occurrence of the Review has now been fixed in relation to the Compliance Review and the Whitley Meeting to allow for timely escalation of compliance concerns if required.



Schedule of meetings and attendance during 2018/19:

Meeting	Members	Meetings held	No. attended	% attendance	% Overall attendance	No. of members	Scheduled frequency
<b>DECA Performance &amp; Risk Review</b>	MOD Director of Sponsorship and Organisational Policy (Chair)	2	2	100%	93%	7	Up to 3 times
	MOD NED	2	1	50%			
	DECA Board Chair	2	2	100%			
	DECA CE	2	2	100%			
	MOD Head of Enabling Organisations Sponsorship Team	2	2	100%			
	MOD Enabling Organisations Sponsorship Support	2	2	100%			
	DECA Head of Strategy & Governance	2	2	100%			
<b>Agency Board</b>	DECA Board Chair	6	6	100%	93%	7	At least quarterly
	Independent NED	6	6	100%			
	Independent NED	6	5	83%			
	MOD NED	6	4	67%			
	DECA CE	6	6	100%			
	DECA Finance Director	6	6	100%			
	DECA Head of Strategy & Governance	6	6	100%			
<b>Audit and Risk Assurance Committee</b>	Independent NED (Chair)	4	4	100%	100%	5	Up to 6 times annually (minimum 2)
	MOD NED	4	4	100%			
	DECA CE (by invitation) (Note 1)	1	1	100%			
	DECA Finance Director (by Invitation)	4	4	100%			
	DECA Chair (by invitation) (Note1)	3	3	100%			
<b>Remuneration Committee</b>	Independent NED (Chair)	3	3	100%	100%	4	Up to 6 times annually (minimum 2)
	MOD NED	3	3	100%			
	DECA Support Services Director	3	3	100%			
	DECA Head of Human Resources	3	3	100%			
<b>Executive Management Board</b>	Chief Executive (Chair)	12	12	100%	89%	7	Monthly
	Finance Director	12	11	92%			
	Commercial Director	12	10	83%			
	Support Services Director	12	11	92%			
	Operations Director	12	12	100%			
	Business Development Director	12	9	75%			
	Head of Strategy & Governance	12	10	83%			
<b>Executive Governance Review</b>	Chief Executive (Chair)	3	3	100%	81%	7	Up to 6 times annually (minimum 2)
	Finance Director	3	3	100%			
	Commercial Director	3	3	100%			
	Support Services Director	3	2	67%			
	Operations Director	3	2	67%			
	Business Development Director	3	2	67%			
	Head of Strategy & Governance	3	2	67%			

**Note 1:** Number of meetings attended differs as attendance is by invitation.

Formal minutes were taken and agreed at all of the meetings above. There was a requirement to report to DECA's CE, as Accounting Officer, any significant issues/risks and, if these arose, demonstrate how they were being effectively managed/mitigated including the assignment of owners and appropriate management through reviews of Corporate, Functional and Project risk registers.

DECA's 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 was held twice during the year with the DECA Board and Board sub-committees (Audit and Risk Assurance Committee (ARAC) and Remuneration and Nominations Committee (RENCO)) meeting six, four and three times respectively during the year.

The Executive Management Board and ARAC received regular reports from DECA 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 minutes and actions were recorded.

The DECA Chairman reviews the performance of the Board and sub-committees each year and determined that, during 2018/19 the Board and sub-committees had all performed satisfactorily and that there had been no departures from the Corporate Code of Good Practice.

In addition, the DECA Chairman completed a Stage 1 (Establishing the Board) review of DECA Board performance in line with Cabinet Office Guidelines during 2018/19.

## DECA BOARD EFFECTIVENESS EVALUATION QUESTIONNAIRE. STAGE 1: ESTABLISHING THE BOARD

Section	1. Governance arrangements	2. The work of the Board 2.1 Strategy 2.2 Performance, Audit & Risk	3. Culture and contribution 3.1 Culture 3.2 Contribution	4. Support and organisation 4.1 Support and training 4.2 Scheduling, agenda	5. Progress and impact
Rating					

## 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 (ARAC)

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. During the year the committee reviewed the definitions and scoring of the Corporate Risk Register as well as undertaking Deep Dive reviews of the non-corporate level F-35 Programme and Operations Directorate risk registers.

The audit programme was designed to provide assurance that the prior financial year's key performance Indicators had been achieved, three further audits were undertaken during the year which concentrated on Cyber Incident Management, Managed Services Contract Management and DECA Data Protection Legislation Change in respect to General Data Protection Regulation (GDPR).

The Audit work, and opinions provided during the year covered the following:

- Prior Year validation of Key Performance Indicators (Validated)
- Cyber Incident Management (Substantial Assurance)
- Managed Services – Contract Management (Substantial Assurance)
- DECA Data Protection Legislation Change - GDPR (Substantial Assurance)

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

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

### REMUNERATION AND NOMINATIONS 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, prior to onward submission through MOD Centre, to our Minister for final approval. Additional RENCO activity included the endorsement of the DECA Corporate Bonus Scheme and the review of wider activities across the MOD with potential impact on DECA.



## EXECUTIVE COMPLIANCE REVIEW (XCR)

There were no major attributable customer concerns during the year but there has been a slight rise in the number of RIDDOR incidents against the FY17/18 total of zero incidents. The XCR ensures that DECA's safety culture remains high on the agenda and consequently flows down through all the compliance review meetings across the business. This in turn promotes an ethos of 'no blame' incident reporting and proactive health and safety behaviour.

## CORPORATE GOVERNANCE

The structure of Corporate Governance in DECA has been effectively maintained and was regularly reviewed internally throughout the year in 2018/19. Therefore, in the CE's opinion, DECA has followed the Corporate Governance Code's requirements to the extent that it is deemed relevant and practical.

## INFORMATION REPORTING

DECA has a consolidated single enterprise resource planning system from which 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 fourth year has been to mature the risk management categorisation framework; Financial, Reputational, Operational, Governance and Strategic (FROGS), which enable the management of risk appetite and tolerance levels within the business.

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 - Failure to develop planned, and secure new, business growth opportunities
- F-35 – Delays in activation of Tier 1 and 2 assignment

Key business risks 208/19	Current risk		Target risk	
	Probability	Impact	Probability	Impact
Business growth	Medium	Very High	Low	Very High
F-35	Medium	Very High	Medium	Very High

Note: the above risks are a snapshot at 31 March 2019 and do not take into account any future risk mitigation.

## 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 Head of Internal Audit (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. Risk escalations or reductions of are reviewed and proposed in this meeting.

#### **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 continues to satisfy all network joining rules set down by the MOD Information System Services (ISS) and has maintained authority to operate on the MOD network.

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

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 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.

All employees have undertaken mandatory security training in accordance with DECA policy.

#### **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 (2017/18:Nil).

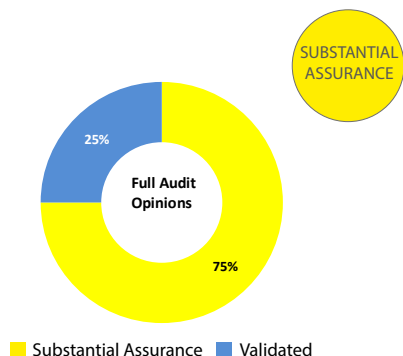
#### **BUSINESS CONTINUITY**

The organisation's risk of exposure to internal and external threats is regularly reviewed and forms the basis of the Business Continuity Plan (BCP). This considers threats such as natural disasters, loss of incoming power supply, major IT failure, data breaches or terrorism. DECA's BCP includes disaster recovery, business recovery, crisis management, incident management, emergency management and contingency planning. There are also a number of new work streams being developed within the business and any new requirements are considered during the new service provision process. 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 reportable incidents during the year rose from zero in 2017/18 to three in 2018/19. This was a return to the 2016/17 total and is indicative of the baseline figure for reportable incidents across DECA. Near miss reporting ensures potential problems are captured early and these continue to be recorded and thoroughly investigated. Independent 3rd party auditing from LRQA ensures the integrity of the Health and Safety Management system.

**ANNUAL AUDIT OPINION – HEAD OF INTERNAL AUDIT**



DECA Audit Assignments and Audit Opinions	
Audit	Audit Opinion
Performance Targets Validation	Validated
DECA Cyber Incident Management	Substantial
Managed Services Procurement Arrangements	Substantial
DECA Data Protection Legislation Change (GDPR)	Substantial

This is DECA’s fourth full year of operation and we continue to evidence maturing and effective systems of control. Management within DECA have demonstrated an ongoing commitment to internal control, as indicated by our audit on Sealand’s Physical Security. Quick to respond to the control weaknesses identified in our original audit, which had resulted in a limited assurance, remediation actions were implemented and our audit conducted in this year provided a full assurance opinion.

While there remain opportunities to strengthen the control environment still further, and acknowledging that the Agency’s operations will undergo significant change over the next couple of years as a result of the F-35 support contract, 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 2018/19. 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 continually mature and evolve. At every Audit Committee a sample of the strategic risks are presented by their respective owners which provide 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 REPORT

### REMUNERATION REPORT

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 3 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](http://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 2018/19 pay settlement year, All DECA pay spines below SCS and DECA Allowances were revalorised by 1.5%. The overall total cost did not exceed 1.5% 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 approved.

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

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

Officials	Salary (£'000)		Bonus Payments (£'000)		Benefits in kind (to nearest £100)		Pension Benefits (to nearest £'000)		Total (£'000)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive Geraint Spearing	80 - 85	80 - 85	-	10 - 15	-	-	24	22	105 - 110	110 - 115
Operations Director Wayne Baker	65 - 70	60 - 65	0 - 5	0 - 5	-	-	27	15	90 - 95	75 - 80
Finance Director Belinda Longman	70 - 75	65 - 70	0 - 5	0 - 5	-	-	32	21	100 - 105	90 - 95
Support Services Director Ian Doughty	65 - 70	65 - 70	0 - 5	0 - 5	-	-	27	20	90 - 95	85 - 90
Head of Strategy, Governance & Secretariat Jason Leeks	50 - 55	50 - 55	0 - 5	0 - 5	-	-	21	14	70 - 75	65 - 70
Business Development Director Ian Cole	60 - 65	65 - 70	0 - 5	0 - 5	-	-	2	6	65 - 70	70 - 75
Commercial & Contracts Director Keith Pavett	65 - 70	65 - 70	0 - 5	0 - 5	-	-	7	0	70 - 75	65 - 70

Note: In 2018/19 all members of the board, excluding Chief Executive, were awarded a bonus of £244.17 (2017/18: £239.25) each in line with the Corporate Bonus Scheme.

### 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 approved and become payable to the individual

## PENSION BENEFITS (SUBJECT TO AUDIT OPINION)

Officials	Accrued pension at pension age as at 31/03/19 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/19	CETV at 31/03/18	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Chief Executive Geraint Spearing (Note 1)	30 - 35 plus lump sum of 75 - 80	0 - 2.5 plus lump sum of 0	588	478	9
Operations Director Wayne Baker	15 - 20 plus lump sum of 40 - 45	0 - 2.5 plus lump sum of 0 - 2.5	275	222	11
Finance Director Belinda Longman	25 - 30	0 - 2.5 plus lump sum of 0	478	401	20
Support Services Director Ian Doughty	15 - 20	0 - 2.5 plus lump sum of 0 - 2.5	273	223	13
Head of Strategy, Governance & Secretariat Jason Leeks	15 - 20 plus lump sum of 10 - 15	0 - 2.5 plus lump sum of 0 - 2.5	299	250	11
Business Development Director Ian Cole	20 - 25 plus lump sum of 65 - 70	0 - 2.5 plus lump sum of 0 - 2.5	504	455	2
Commercial & Contracts Director Keith Pavett	30 - 35 plus lump sum of 90 - 95	0 - 2.5 plus lump sum of 0 - 2.5	665	594	6

Pension information is supplied by MyCSP, the administrators of Civil Service pensions. 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	2018/19	2017/18
Band of highest paid Director total remuneration	£80,000 - £85,000	£90,000 - £95,000
Median total remuneration	£28,188	27,771
Ratio	2.93	3.33

The remuneration of DECA's staff was in the range £14,562 per annum (2017/18: £14,347) to £80K to £85K per annum, these figures are for a full year. The median remuneration of the workforce was £28,188 (2017/18: £27,771).

The banded remuneration of the highest-paid director in DECA in the financial year 2018/19 was £80K to £85K (2017/18, £90K - £95K) (See Remuneration (salary, benefits in kind and pensions table)). This was 2.93 times the median remuneration of the workforce, which was £28,188 (2017/18: £27,771). The change in the median remuneration

of all DECA staff is affected by the pay award in 2018/19 which, in line with Government pay constraints, was 1.5% for those below Senior Civil Service.

In 2018/19, 0 employees received remuneration in excess of the highest-paid director (2017/18: 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 2018/19. (2017/18: Nil).

## OFF PAYROLL APPOINTMENTS

There were no new or existing off payroll appointments during the financial year (2017/18: Nil).

## REMUNERATION DETAILS OF NON-EXECUTIVE DIRECTORS (SUBJECT TO AUDIT OPINION)

Non-Executive Directors	Fees 2018/19 £'000	Fees 2017/18 £'000
Alex Jablonowski	20 - 25	20 - 25
Peter Shortt	10 - 15	10 - 15
Tim Walton	10 - 15	10 - 15
Luke Dearden (Note 1)	Nil	Nil

Note 1: Luke Dearden received no fee as representative of the MOD as a Non-Executive Director.

## STAFF REPORT STAFF NUMBERS (SUBJECT TO AUDIT OPINION)

The average number of persons employed during the year was:	2018/19	2017/18
Senior management	14	12
Civilian personnel	386	392
Agency staff	6	2
<b>Total</b>	<b>406</b>	<b>406</b>

All staff listed above are on permanent contracts with the exception of 6 Agency staff (2017/18: 2 Agency staff) and 14 Fixed Term Appointments (2017/18: 3 Fixed Term Appointments) who are included in the civilian personnel number.

The figure for senior management includes one member of the Senior Civil Service and is a Band 1.

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

	2018/19		2017/18	
	Males	Females	Males	Females
Senior management	10	4	10	2
Civilian personnel	336	50	343	49
Agency staff	4	2	1	1

## PAYROLL COSTS £'000 (SUBJECT TO AUDIT OPINION)

	2018/19	2017/18
Salaries, wages and allowances	12,173	11,837
Social security	1,171	1,166
Pension costs	2,428	2,425
Agency staff	288	58
<b>Total payroll costs</b>	<b>16,060</b>	<b>15,486</b>

Note: 2018/19 includes £44,998 (2017/18 £44,611) apprenticeship levy costs. The Apprenticeship Levy was introduced in April 2017, requiring employers with a pay bill more than £3 million each year to pay the levy.

## SICKNESS ABSENCE

The total number of days lost due to sickness absence was 2,921.5 which equates to 6.9 days per employee. (2017/18 3,659 at 8.8 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 & CONTINGENT LABOUR

There was no requirement for consultancy within DECA during 2018/19 (2017/18: Nil). Contingent Labour costs for 2018/19 were £288K (2017/18: £58K)

## PENSIONS

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date 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: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements 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. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015

and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%.

In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

For 2018/19, the employer contributions of £2.4 million were payable to My CSP (2017/18: £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 2018/19 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee

does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement). The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

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

#### **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 was one retirement on the grounds of ill-health during the year (2017/18: 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 (2017/18: nil). There were no DECA voluntary or compulsory redundancies during the year (2017/18: Nil). Further details about the Civil Service pension arrangements can be found at the website: [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).



Royal Air Force CH-47 Chinook flying with two USMC CH-53 Sea Stallions during a twilight training sortie in Arizona.  
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# PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

## REGULARITY OF EXPENDITURE (SUBJECT TO AUDIT OPINION)

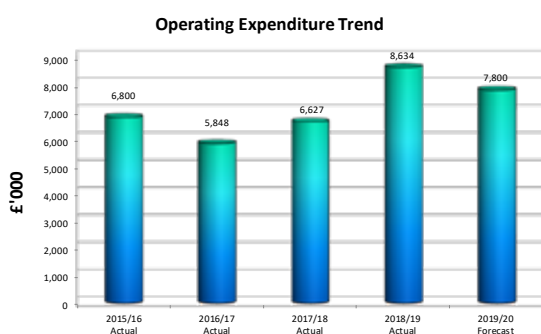
All expenditure made during the year was made in pursuit of DECA's business objectives

And there were no improper or irregular payments (2017/18: Nil).

There were no material losses or special payments (2017/18: Nil).

There were no severance payments or write-offs (2017/18: Nil).

## LONG-TERM EXPENDITURE TRENDS



Note the above figures do not include pay costs.

## FEES AND CHARGES (SUBJECT TO AUDIT OPINION)

An analysis of the Agency's fees and charges are shown below. It charges prices for its services based on negotiated contract prices with individual customers. No services are provided below full cost. In agreeing prices to be charged for work to be carried out for the MOD an agreed profit rate on costs is used to calculate prices.

FY2018/19	MOD	COMMERCIAL	TOTAL
	£'000	£'000	£'000
Revenue (Based on Hours)	20,011	4,856	24,867
Variable Revenue	1,655	248	1,903
<b>Total Revenue</b>	<b>21,666</b>	<b>5,104</b>	<b>26,770</b>

Variable Costs	2,397	216	2,613
Production Overheads	17,544	4,257	21,801
<b>Total Costs</b>	<b>19,941</b>	<b>4,473</b>	<b>24,414</b>
<b>Surplus</b>	<b>1,725</b>	<b>631</b>	<b>2,356</b>

FY2017/18	MOD	COMMERCIAL	TOTAL
	£'000	£'000	£'000
Revenue (based on hours)	18,672	4,518	23,190
Variable Revenue	946	161	1,107
<b>Total Revenue</b>	<b>19,618</b>	<b>4,679</b>	<b>24,297</b>

Variable costs	876	140	1,016
Production Overheads	16,992	3,778	20,770
<b>Total Costs</b>	<b>17,868</b>	<b>3,918</b>	<b>21,786</b>
<b>Surplus</b>	<b>1,750</b>	<b>761</b>	<b>2,511</b>

Total revenue and expenditure do not agree to the accounts due to rental income and non-rental income per note 2 being removed from both sides of the table. This is due to them not being fees & charges and are based on 100% cost recovery. The commercial figure in the table includes the £828k (2017-18 £Nil) of revenue not through contracts per note 2.

This analysis is not for International Financial Reporting Standards (IFRS) 8 (Segmental Reporting) purposes.

## REMOTE CONTINGENT LIABILITIES (SUBJECT TO AUDIT OPINION)

DECA has no remote contingent liabilities in 2018/19. (2017/18: Nil)

## APPROVAL

The Accountability report is approved

**Geraint Spearing**  
Accounting Officer  
9 July 2019

# THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

## OPINION ON FINANCIAL STATEMENTS

I certify that I have audited the financial statements of Defence Electronics and Components Agency for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, and Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of Defence Electronics and Components Agency's affairs as at 31 March 2019 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## OPINION ON REGULARITY

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

## BASIS OF OPINIONS

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

## CONCLUSIONS RELATING TO GOING CONCERN

I am required to conclude on the appropriateness

of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Electronics and Components Agency's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

## RESPONSIBILITIES OF THE ACCOUNTING OFFICER FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Defence Electronics and Component Agency's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

#### **OTHER INFORMATION**

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

#### **OPINION ON OTHER MATTERS**

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- the information given in the performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

#### **MATTERS ON WHICH I REPORT BY EXCEPTION**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

#### **REPORT**

I have no observations to make on these financial statements.

**Gareth Davies** Date: 12 July 2019  
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 2019

		2018/19	2017/18
	Note	£'000	£'000
Income from sale of goods and services	2	25,942	24,297
Other operating income	2	1,108	327
<b>Total operating income</b>		<b>27,050</b>	<b>24,624</b>
Staff costs	5	(16,060)	(15,486)
Purchase of goods and services	3	(6,887)	(4,850)
Depreciation and impairment charges	4, 6	(596)	(564)
Other operating expenditure (Excluding Depreciation)	4	(1,151)	(1,213)
<b>Total operating expenditure</b>		<b>(24,694)</b>	<b>(22,113)</b>
<b>Net operating income</b>		<b>2,356</b>	<b>2,511</b>
Total net income		2,356	2,511
Amounts due to parent department	10	(2,165)	(2,511)
Retained net income		191	0
<b>Other Comprehensive Income/(Expenditure)</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Net gain on revaluation of property, plant & equipment	6	313	740
<b>Total comprehensive Income/ (Expenditure) for the year</b>		<b>504</b>	<b>740</b>

The notes on pages 54 to 64 form part of these accounts.

# STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2019

		2018/19	2017/18
	Note	£'000	£'000
<b>Non Current assets</b>			
Property, Plant and Equipment	6	20,372	20,643
<b>Total Non Current Assets</b>		<b>20,372</b>	<b>20,643</b>
<b>Current assets</b>			
Inventories and work in progress	7	346	545
Trade and other receivables	8	17,556	7,688
Cash and cash equivalents	9	1,753	10,682
<b>Total current assets</b>		<b>19,655</b>	<b>18,915</b>
<b>Total Assets</b>		<b>40,027</b>	<b>39,558</b>
<b>Current liabilities</b>			
Trade and other payables	10	(8,502)	(6,665)
Provisions	11	(51)	(51)
<b>Total current liabilities</b>		<b>(8,553)</b>	<b>(6,716)</b>
<b>Total assets less total liabilities</b>		<b>31,474</b>	<b>32,842</b>
<b>Financed by</b>			
<b>Taxpayers equity and other reserves</b>			
Revaluation reserve	SOCTE	18,883	18,570
General fund	SOCTE	12,591	14,272
<b>Taxpayers' equity</b>		<b>31,474</b>	<b>32,842</b>



Geraint Spearing  
Accounting Officer  
9 July 2019

The notes on pages 54 to 64 form part of these accounts.

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

		2018/19	2017/18
Cash flows from operating activities	Note	£'000	£'000
Net operating income	SOCI	2,356	2,511
<b>Adjustments for non cash transactions:</b>			
Depreciation charges	6,4	596	564
Notional audit fee	4	31	31
MJDI Supplied Materials	3	86	0
DIO Notional Costs	4	399	389
Decrease / (increase) in inventories and work in progress	7	199	31
(Increase) / decrease in receivables	8	(9,868)	6,053
(Decrease) / increase in payables	10	2,183	(778)
(Decrease)/Increase in provisions for liabilities and charges	11	0	0
<b>Net cash outflow from operating activities</b>		<b>(4,018)</b>	<b>8,801</b>
Capital Expenditure	6	(12)	(297)
<b>Net cash outflow from investing activities</b>		<b>(12)</b>	<b>(297)</b>
<b>Cash flows from financing activities</b>			
Repayment of funding to parent department	10	(4,899)	(2,728)
<b>Net cash inflow from financing activities</b>		<b>(4,899)</b>	<b>(2,728)</b>
<b>(Decrease) / increase in cash and cash equivalents</b>		<b>(8,929)</b>	<b>5,776</b>
Cash and cash equivalents at start of year		10,682	4,906
Cash and cash equivalents at end of year	9	1,753	10,682

The notes on pages 54 to 64 form part of these accounts.



## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2019

		Revaluation Reserve	General Fund	Taxpayers' Equity
	Note	£'000	£'000	£'000
<b>Taxpayers' equity at 31 March 2018</b>		<b>18,570</b>	<b>14,272</b>	<b>32,842</b>
<b>Recognised in Statement of Comprehensive income for the year:</b>				
Net operating income	SOCI		2,356	2,356
Parent departments profit share	SOCI		(2,165)	(2,165)
Gain on revaluation of property, plant and equipment	6	313	0	313
<b>Other movements:</b>				
DIO Communicated costs	4		399	399
Repayment of equity to Parent department	10		(2,388)	(2,388)
MJDI Supplied Materials	3		86	86
Notional audit fee	4		31	31
<b>Taxpayers' equity at 31 March 2019</b>		<b>18,883</b>	<b>12,591</b>	<b>31,474</b>

## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2018

		Revaluation Reserve	General Fund	Taxpayers' Equity
	Note	£'000	£'000	£'000
<b>Taxpayers' equity at 31 March 2017</b>		<b>17,830</b>	<b>14,352</b>	<b>32,182</b>
<b>Recognised in Statement of Comprehensive income for the year:</b>				
Net operating income	SOCI	0	2,511	2,511
Parent departments profit share	SOCI	0	(2,511)	(2,511)
Gain on revaluation of property, plant and equipment	6	740	0	740
<b>Other movements:</b>				
DIO Communicated costs	4	0	389	389
Repayment of equity to Parent department	10	0	(500)	(500)
Notional audit fee	4	0	31	31
<b>Taxpayers' equity at 31 March 2017</b>		<b>18,570</b>	<b>14,272</b>	<b>32,842</b>

The notes on pages 54 to 64 form part of these accounts.

# NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

## 1 ACCOUNTING POLICIES BASIS OF ACCOUNTING

The accounts are prepared in accordance with the Government Financial Reporting Manual (FRM) for 2018/19 and the Accounts Direction, both issued by HM Treasury. The accounting policies contained in the FRM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRM 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.

### 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.

Income from contracts with customers is recognised in accordance with IFRS 15 as detailed. There has been no change to income recognition following the adoption of IFRS15.

### 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.

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.

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 is 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
- 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. The Executive Agency

is unable to identify its share of the underlying assets and liabilities and therefore it accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the schemes in respect of the accounting period

Details of rates and amounts of contributions during the year are disclosed in the Remuneration and Staff Report on page 43.

#### **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

#### **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**

In line with IFRS9, DECA makes provision for bad and doubtful debts as soon as they are expected to be irrecoverable based on analysis and reviews of aged receivables or management expectation. Expected loss allowances for receivables are recognised at the same time as the related asset where applicable.

#### **CASH**

Cash is held via a Government Banking Service bank account. DECA does not hold any cash equivalents.

Each year under the agency's framework document, DECA is required to repay to its parent department the planned level of profit.

#### **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. Where VAT is recoverable by the Department, amounts are included net of VAT. Irrecoverable VAT is included in operating costs and capital additions. The amount due to or from HM Revenue and Customs in respect of VAT is included within debtors or creditors as appropriate.

#### **EMPLOYEE BENEFITS**

DECA accrues for untaken employee leave entitlement at the end of the financial year. For permanent employees the leave year runs to 30th 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.

#### **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 or service 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. In accordance with IFRS15 revenue is recognised at either a point in time e.g. based on an output, or over time e.g. capacity based contracts where a fixed amount is invoiced monthly.

Substantially all turnover relates to the same class of business, the repair, overhaul and maintenance of equipment and components belonging to MOD.

#### CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 – Revenue from Contracts with Customers introduced changes to the timing of revenue recognition for contracts, matching revenue to performance obligations and is a change in accounting policy. DECA has applied IFRS 15, as adapted by the FReM, in full. The definition of 'contract' includes arrangements covered by Memoranda of Understanding (MoU), even though these are not legally enforceable. MOU are assessed on a case by case basis against the five step model set out in IFRS 15.

All of the services DECA provides to external customers are provided on a rolling basis, e.g. repair and maintenance services. The performance obligations in these contracts are satisfied over time using output methods to recognise revenue on the basis of direct measurement of value to the customer using methods such as milestones and time elapsed as per appendix B paragraph B15 of the Standard. Income recognition on such contracts will not change under IFRS 15. DECA has not discounted the promised consideration when it expects, at contract inception, that the period between the transfer of a promised good or

service to a customer and the date the customer pays for it will be for one year or less.

#### FIRSTTIME ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 has been adopted by the FReM with effect from 1 April 2018. We have determined that this has no material impact on the classification or measurement of the DECA's financial instruments. IFRS 9 eliminates the threshold in IAS 39 for the recognition of credit losses and it is no longer necessary for a credit event to have occurred before credit losses are recognised. However, because the majority of sales are to the MOD, we have determined they have very low credit risk and there is no expected credit loss to recognise as at 31 March 2019. In addition non-MOD sales are not seen as a credit risk as they are predominantly with major defence contractors.

#### IFRS'S ISSUED BUT NOT YET EFFECTIVE

**IFRS 16 Leases** – specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors will continue to classify leases as operating or finance with IFRS 16's approach to lessor accounting unchanged from the previous standard International Accounting Standard (IAS) 17 Leases. DECA currently has one operating lease for vehicles running until Dec 2019 and would therefore not be affected by the new standard requiring it to be classified as a Finance Lease under IFRS 16. The standard becomes effective for the reporting period 2020-21

2. INCOME	Timing of income recognition	2018/19	2017/18
		£'000	£'000
MOD Revenue	At a point in time	11,561	7,316
MOD Revenue	Over time	10,105	12,302
Non- MOD Revenue	At a point in time	4,276	4,679
<b>Total</b>		<b>25,942</b>	<b>24,297</b>

Other operating income	2018/19	2017/18
	£'000	£'000
Rental income	270	306
Non-rental income	10	21
Income not through contracts	828	-
<b>Total</b>	<b>1,108</b>	<b>327</b>

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

### 3. PURCHASES OF GOODS AND SERVICES

	2018/19	2017/18
	£'000	£'000
<b>Cash costs</b>		
Materials & sub contract costs	2,648	1,170
Accommodation costs	1,591	1,121
IT and Telecommunications	531	607
Utilities	844	844
Security	461	457
Equipment Support	409	425
Other services	317	226
<b>Total cash costs</b>	<b>6,801</b>	<b>4,850</b>

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

	£'000	£'000
<b>Non cash costs</b>		
MJDI Supplied materials (Included in Materials & Sub contracts costs)	86	-
<b>Total non cash costs</b>	<b>86</b>	
<b>Total purchases of goods &amp; services</b>	<b>6,887</b>	<b>4,850</b>

### 4. OTHER OPERATING EXPENDITURE

	2018/19	2017/18
	£'000	£'000
<b>Cash costs</b>		
Training	113	107
Insurance	216	208
Travel & subsistence	266	213
Other professional services	64	84
Lease and hire costs of plant, machinery & vehicles	204	181
Release of deferred income	(142)	-
<b>Total cash costs</b>	<b>721</b>	<b>793</b>
<b>Non cash costs</b>		
Notional Audit Fee	31	31
Depreciation	596	564
Notional costs for Rent & Rates (see note below)	399	389
<b>Total non cash costs</b>	<b>1,026</b>	<b>984</b>
<b>Total other operating expenditure</b>	<b>1,747</b>	<b>1,777</b>

Note: 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.

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

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.

## 5. STAFF COSTS

	2018/19	2017/18
	£'000	£'000
Salaries, wages and allowances	12,173	11,837
Social security	1,171	1,166
Pension costs	2,428	2,425
Agency Staff	288	58
<b>Total payroll costs</b>	<b>16,060</b>	<b>15,486</b>

## 6. PROPERTY, PLANT AND EQUIPMENT

The movements in each class of assets during 2018/19 were:

	Land	Buildings	Plant & Machinery	IT	Assets in Course of Construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation:</b>						
At 31 March 2018	7,226	13,981	521	131	87	21,946
Additions	0	0	0	0	12	12
Disposals	0	0	0	0	0	0
Reclassification	0	0	0	77	(-77)	0
Revaluation	181	144	7	1	0	333
<b>At 31 March 2019</b>	<b>7,407</b>	<b>14,125</b>	<b>528</b>	<b>209</b>	<b>22</b>	<b>22,291</b>
<b>Depreciation:</b>						
At 1 April 2019	0	1,073	124	106	0	1,303
Depreciation charged during the year	0	533	30	33	0	596
Disposals	0	0	0	0	0	0
Impairment	0	0	0	0	0	0
Revaluation	0	17	2	1	0	20
<b>At 31 March 2019</b>	<b>0</b>	<b>1,623</b>	<b>156</b>	<b>140</b>	<b>0</b>	<b>1,919</b>
<b>Net book value</b>						
<b>At 31 March 2019</b>	<b>7,407</b>	<b>12,502</b>	<b>372</b>	<b>69</b>	<b>22</b>	<b>20,372</b>

The movements in each class of assets during 2017/18 were:

	Land	Buildings	Plant & Machinery	IT	Assets in Course of Construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation:</b>						
At 31 March 2017	7,201	13,234	264	127	34	20,860
Additions			210		87	297
Disposals						0
Revaluation of Buildings previously Not in Use		170				170
Reclassification			34		-34	0
Revaluation	25	577	13	4		619
<b>At 31 March 2018</b>	<b>7,201</b>	<b>13,234</b>	<b>264</b>	<b>127</b>	<b>34</b>	<b>20,860</b>
<b>Depreciation:</b>						
At 1 April 2017	0	518	93	79	0	690
Depreciation charged during the year	0	511	29	24		564
Disposals						0
Impairment						0
Revaluation		44	2	3		49
<b>At 31 March 2018</b>	<b>0</b>	<b>1,073</b>	<b>124</b>	<b>106</b>	<b>0</b>	<b>1,303</b>
<b>Net book value</b>						
<b>At 31 March 2018</b>	<b>7,226</b>	<b>12,908</b>	<b>397</b>	<b>25</b>	<b>87</b>	<b>20,643</b>

Note: There were no finance leases during the year (2017/18: Nil)

## 7. INVENTORIES AND WORK IN PROGRESS

	2018/19	2017/18
	£'000	£'000
<b>Stocks</b>		
Opening Balance	309	320
Net movement during year	(239)	(11)
<b>Balance at 31st March</b>	<b>70</b>	<b>309</b>
<b>Work in Progress</b>		
Opening Balance	236	256
Net transfers to operating expenses during the year	40	(20)
<b>Balance at 31st March</b>	<b>276</b>	<b>236</b>
<b>Total at 31st March</b>	<b>346</b>	<b>545</b>

## 8. RECEIVABLES AND PREPAYMENTS

	31 March 2019	31 March 2018
	£'000	£'000
<b>Amounts falling due within one year</b>		
Trade and sundry invoiced receivables	13,618	2,719
Other receivables	12	13
Prepayments	392	339
Accrued income	3,534	4,617
	<b>17,556</b>	<b>7,688</b>

All the above balances fall due within 1 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 2019	12,560	800	73	112	48	25	13,618
At 31 March 2018	2,023	602	34	1	49	10	2,719



## 9. CASH AT BANK AND IN HAND

	31 March 2019	31 March 2018
	£'000	£'000
Cash held with Government Banking Service (GBS)	1,753	10,682
	<b>1,753</b>	<b>10,682</b>

Cash position has significantly reduced compared to the prior year due to delays in some MOD contracts getting signed resulting in invoices not being raised until the last period of the financial year.

## 10. PAYABLES

	31 March 2019	31 March 2018
Amounts falling due within one year	£'000	£'000
Trade payables	465	34
Taxation and social security	318	287
Value Added Tax	2,419	729
Accruals	1,996	1,074
Deferred income	464	1,411
Amounts due to pension schemes	265	255
Sundry payables	410	364
Payable to parent department	2,165	2,511
	<b>8,502</b>	<b>6,665</b>

Each year DECA is required to repay its parent department the level of planned operating profit. This classed as a short term payable.

In 2018/19 DECA also paid an element of its equity back to its parent department in the sum of £2.388M (2017/18: £500K).

## 11. PROVISIONS FOR LIABILITIES AND CHARGES

	<b>Total</b>
	<b>£'000</b>
Balance at 1 April 2018	51
Created during year	0
Utilised in year	0
<b>Balance at 31 March 2019</b>	<b>51</b>

	<b>Total</b>
	<b>£'000</b>
Balance at 1 April 2017	51
Created during year	0
Utilised in year	0
<b>Balance at 31 March 2018</b>	<b>51</b>

The balance on other provisions at 31st March was required to meet a variety of obligations, mainly to provide replacement stock for parts supplied by a customer.

## 12. OPERATING LEASES

Operating Lease payments recognised as expenses in the period were:

	<b>2018/19</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Leases of other Land and Buildings	399	389
Leases of vehicles & Other Equipment	204	181
<b>Total operating leases paid (i)</b>	<b>603</b>	<b>570</b>

(i) Contained within note 4

None of these payments were contingent rents or sublease payments.

No future minimum lease payments under non-cancellable operating leases are due.

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: DECA has lease of land and buildings at Stafford with DIO for £399k which is treated as a notional cost based on a market rental valuation.

	<b>31 March</b>	<b>31 March</b>
	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Operating Lease payments going forward</b>		
Payable within one year	64	61
Payable after one year and less than five years	3	46
	<b>67</b>	<b>107</b>

	31 March 2019	31 March 2018
Future minimum lease payments where DECA is acting as lessor:	£'000	£'000
Receivable within one year	204	202
	<b>204</b>	<b>202</b>

DECA received £270K in year from the rental lease of 2 buildings (£306K in 2017/18).

### 13. COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

DECA had no capital commitments at 31 March 2019 (Nil at 31 March 2018)

There are no financial commitments at 31 March 2019 (Nil at 31 March 2018)

There are no contingent assets at 31 March 2019 (Nil at 31 March 2018)

There are no contingent liabilities at 31 March 2019 (Nil at 31 March 2018)

### 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

The majority of DECA business is conducted in Sterling and is therefore subject to minimum foreign exchange risk. At 31 March 2019 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

For all assets and liabilities, amortised cost was a proxy for fair value due to the short term nature of the instrument.

		At 31 March 2019	At 31 March 2018
Financial assets	Note	£'000	£'000
Trade, sundry and other debtors	8	17,556	7,688
Cash at bank and in hand	9	1,753	10,682
		<b>19,309</b>	<b>18,370</b>

		At 31 March 2019	At 31 March 2018
Financial liabilities	Note	£'000	£'000
Trade and other payables	10	8,502	6,665
		<b>8,502</b>	<b>6,665</b>

## 15. 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.

DECA also has a related party with MOD's joint venture arrangement, Sealand Support Services Ltd (SSSL) which is based at DECA's Sealand facility. DECA has seconded one of its employees into SSSL to undertake the role as Finance Manager. In addition, Geraint Spearing, DECA Chief Executive represents MOD as one of its nominated non-executive directors on the SSSL Board.

During the year DECA provided, at arms length, management service to SSSL to the value of £828K (2017/18: £Nil)

No Board member, key manager or other senior management has undertaken any material transactions with the Agency during the year. Any compensation paid

to senior management is disclosed in the Remuneration Report on pages 43 to 51.

## 16. LOSSES AND SPECIAL PAYMENTS

There were no material losses or special payments. (2017/18: £Nil).

## 17. 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. (2017/18: £30.5K).

## 18. 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

AR&A	Annual Report and Accounts	ILM	Institute of Leadership and Management
ARAC	Audit and Risk Assurance Committee	ISA's	International Standards on Auditing
ASLC	Accrued Superannuation Liability Charges	ISO	International Organization for Standardization
BCP	Business Continuity Plan	ISS	Information System Services
CE	Chief Executive	ISTAR	Intelligence, Surveillance, Target Acquisition & Reconnaissance
CETV	Cash Equivalent Transfer Value	JPO	Joint Programme Office
CIMA	Chartered Institute of Management Accountants	JV	Joint Venture
CMAT	Classified Material Assessment Tool	KPIs	Key Performance Indicators
CO2e	Carbon Dioxide Equivalent	L&D	Learning and Development
CSD	Cryptographic Services for Defence	LPG	Liquid Petroleum Gas
CSPS	Civil Service People Survey	LRQA	Lloyd's Register Quality Assurance
DAIS	Defence Assurance & Information Security	MIDIT	Means of Identifying Internal Talent
DARA	Defence Aviation Repair Agency	Min(DP)	Minister for Defence Procurement
DE&S	Defence Equipment and Support	MJDI	Management of the Joint Deployed Inventory
DECA	Defence Electronics & Components Agency	MHCA	Modified Historical Cost Accounting
DECAMO	Defence Electronics & Components Agency Management Office	MOD	The Ministry of Defence
DESA	Defence Equipment Sales Authority	MoU	Memoranda of Understanding
DIA	Defence Internal Audit	MRO&U	Maintenance, Repair and Overhaul and Upgrade
DIO	Defence Infrastructure Organisation	MyCSP	My Civil Service Pension
DoD JPO	Department of Defence, Joint Program Office	NAO	National Audit Office
DSEI	Defence & Security Equipment International	NATO	North Atlantic Treaty Organization
DSG	Defence Support Group	NED	Non-Executive Chairman/Director
DSO	DECA Strategic Objectives	OEM's	Original Equipment Manufacturer
DSOP	Director of Sponsorship and Organisational Policy	PAVs	DECA's Purpose, Aim and Values
DSTL	Defence Science & Technology laboratory	PCSPS	Principal Civil Service Pension Scheme
DTA	DECA Tasking Agreement	P&RR	Performance & Risk Review
DTP	DECA Transformation Programme	RAF	Royal Air Force
DVD	Defence Vehicle Demonstration	RENCO	Remuneration & Nomination Committee
ERP	Enterprise Resource Planning	RFI	Request For Information
FIFO	First In First Out Basis	RIAT	Royal International Air Tattoo
FLS	Future Leaders Scheme	RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
FR&M	Financial Reporting Manual	RTP	Reduce to Produce
FROGS	Financial, Reputational, Operational, Governance and Strategic	SOCI	Statement of Comprehensive Income
FY	Financial Year	SCS	Senior Civil Servant
GBS	Government Banking Service	SHEF	Safety Health Environment Fire
GDPR	General Data Protection Regulation	SLS	Senior Leader Scheme
GGC	Green Government Commitment	SSSL	Sealand Support Services Limited
GHG	Greenhouse Gas	SSG	Security Services Group
GPATE	General Purpose Automatic Test Equipment	VAT	Value Added Tax
GPSS	Government Pipeline and Storage System	VOSA	Vehicle Operator Services Agency
HIA	Head of Internal Audit	UK	United Kingdom
HMT	Her Majesty's Treasury	US	United States
HOCS	Head Office & Commissioning Services	WIP	Work in Progress
IAS	International Accounting Standards	XCR	Executive Compliance Review
IFRS	International Financial Reporting Standards	XMB	Executive Management Board

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