



HQ DCSA

Basil Hill Site
Corsham
Wiltshire SN13 9NR
Telephone: 01225 814750
www.mod.uk/dcsa

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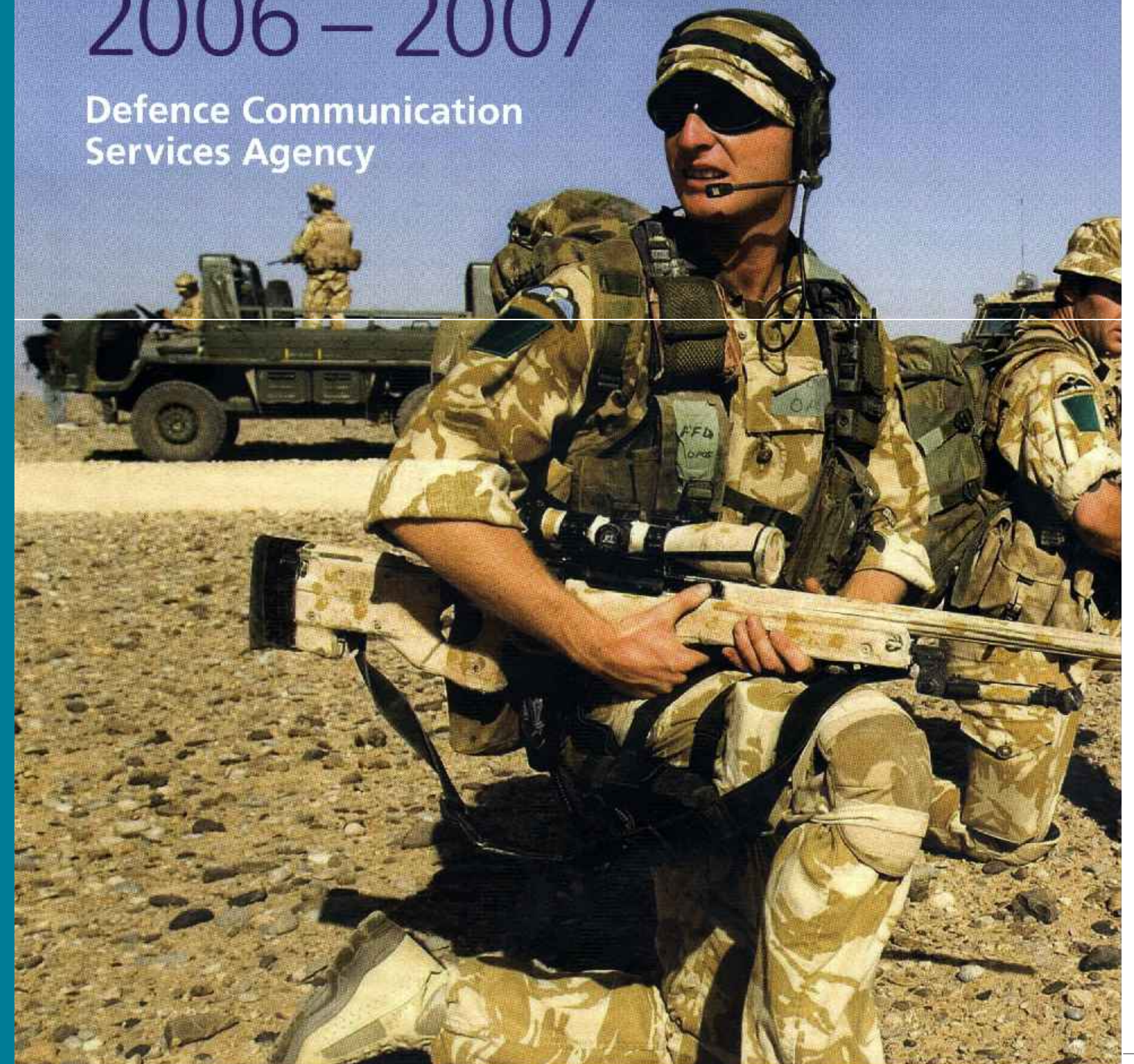


MINISTRY OF DEFENCE



Annual Report and Accounts 2006 – 2007

Defence Communication
Services Agency



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DEFENCE COMMUNICATION
SERVICES AGENCY

A Defence Agency of the
Ministry of Defence

Annual Report and Accounts 2006/2007

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Ordered by the House of Commons to be printed 19th July 2007

Agency Vision

Information anytime, anywhere –
transforming Defence effectiveness

Agency Mission

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

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Supporting Information

Glossary of Terms

DCSA	Defence Communications Services	IIP	Investors in People
DE&S	Defence Equipment and Support	IPT	Integrated Project Team
DFTS	Defence Fixed Telecommunications System	ISS	Information Systems & Services
DII	Defence Information Infrastructure	NATO	North Atlantic Treaty Organisation
E2E	End-to-End	TFOP	Telecommunications Follow On Project
FY	Financial Year		

Reference Documents

DCSA FY 2005/2006 Key Target Rationale Paper
Published June 2005

DCSA Corporate Plan 2006
Published April 2006

Defence White Paper
Delivering Security in a Changing World
Published December 2003

Supplement to Defence White Paper
Delivering Security in a Changing
World – Future Capabilities
Published July 2004

Points of Contact

DE&S ISS Head of Secretariat

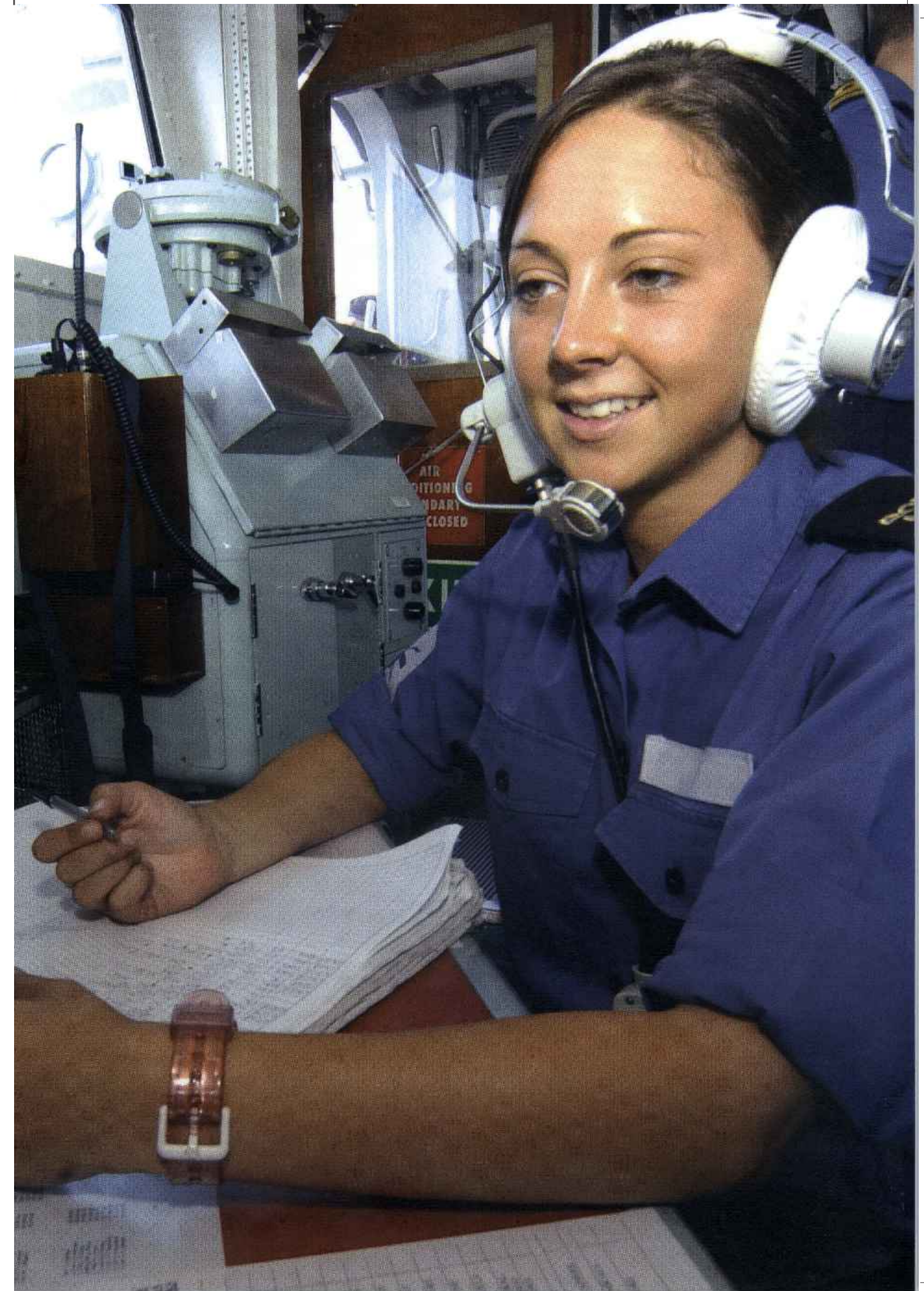
HQ ISS
Basil Hill Site
Corsham
Wiltshire
SN13 9NR

Email

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

Telephone

Mil: 94382 5524
Civ: 01225 815524



Chief Executive's Overview

Financial Year (FY) 2006/2007 was another testing year for the Agency, with targets exceeded and challenges overcome.

With an amalgamation of effective strategy, sustained good programme implementation and the realisation of key business and operational objectives FY 2006/2007 has been a successful period for the Defence Communication Services Agency (DCSA). This accomplishment is within the context of the continuing rise in demand for the information systems and services provided by the Agency in support of military operations and the required business change across the Department. This wider change has led to the formation of Defence Equipment and Support (DE&S)¹ on the 2 April 2007, which resulted in the Agency becoming a 2 Star Domain called Information Systems and Services (ISS). This will therefore be the final Annual Report & Accounts for the Agency.

The Agency Mission recognises that the delivery of integrated information solutions plays a key role in the sustainment of UK military capability. Our outputs reflect this as we establish and maintain essential and lasting relationships with our customers, strategic partners and the many organisations that contribute to achieving our Mission.

The continuing support to the UK Armed Forces military and peacekeeping operations is the Agency's main focus. This task is worldwide with the deployment of complex military and commercial solutions supporting 16 operations. The operations in Iraq and Afghanistan dominate. In Iraq, the Agency supports the redeployment of UK forces as part of the handover to the Iraqi Security Forces and the development of the Basra Air Station as the main UK Military site. In Afghanistan the Agency provides the strategic and operational level communication and information services. Against this setting, the Agency also provides services to the many other overseas operations including the Balkans, maritime operations in the Middle East and the evacuation of UK citizens from Lebanon in July 2006.

Again the Agency went beyond all of its Key Targets and saw the progress of a number of key projects, enabling the Defence community to meet the Defence Vision². For the Defence Information Infrastructure (DII) project,

this included the achievement of several major milestones, in particular the installation of DII at over 200 MoD sites including the main headquarters. The SKYNET 5 project achieved its first stage of operational service with the launch of the SKYNET 5a satellite in March 2007, delivering a step change in capability to military users. Additional infrastructure projects were successfully undertaken during the period including the continuing delivery of the Joint Personnel Administration System and the Pay, Personnel and Pensions Agency system. In addition, the Defence Fixed Telecommunication System (DFTS) negotiations to extend the existing contract were completed to ensure the continued provision of UK Armed Forces' Telecommunications requirement. In total the Agency also delivered £38m of efficiencies.

The Agency Blueprint has been endorsed and the Agency Change Programme remained a priority. The Blueprint describes the Vision end state for the organisation, to be achieved progressively between now and 2012. In particular it details how the Agency will be constructed and how it will function in the future. The Change Programme is the vehicle for delivering the Blueprint.

The degree of the challenges that UK Defence information systems and services face are significant, and the Agency has established a capacity to deliver operational capability and results across Defence. Looking forward under DE&S, the new organisation will be the catalyst of all significant Defence-wide programmes whilst operating at a time of demanding Defence budgets, and it is the Agency's top priority to deliver continuing performance improvement.



RGJ WARD CB
Rear Admiral
Chief Executive
9 July 2007

The Agency Financial Accounts

Notes to the Accounts

NOTE 23: Reconciliation of Net Operating Cost to Operating Cost Cashflow

		2006-07	2005-06
	Note	£'000	£'000
Net Operating Cost		1,489,512	1,340,926
Adjustments for Items not involving movements of Cash:			
Notional Costs		(72,743)	(146,087)
Non Cash Costs (excluding Net Working Capital movements)		(262,228)	(269,247)
Movements in Net Working Capital (other than Cash)			
Increase/(decrease) in Stocks	7	4,150	(14,221)
Add back Non-Cash Items:			
Stock Consumed		3,690	3,756
Net Disposal of Stock		7,676	28,657
Increase in Stock Provision		483	6,527
Decrease in Debtors	8	(43,739)	(8,824)
Add back Non-Cash Items:			
Change in Bad Debt Provision		(201)	233
Increase in Creditors	10	(116,808)	(67,280)
Net Cash Outflow from Operating Activities		1,009,792	874,440

¹ Formed from the Defence Procurement Agency and the Defence Logistics Organisation.

² Defending the UK and its interests. Strengthening international peace and stability...and producing battle-winning people and equipment that are ready for the tasks of today, fit for the challenge of tomorrow and capable of building for the future.

The Agency Financial Accounts

Notes to the Accounts

NOTE 21: Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the non-trading nature of its activities and the way in which government agencies are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their book values, in line with FRS 13, short-term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date), have been excluded from these disclosures (except for those relating to currency risk).

NOTE 22: Post Balance Sheet Events

On 20 April 2006 the Under Secretary of State for Defence announced to the House of Commons that from 1 April 2007 the DCSA would cease being an Agency. Consequently, these are the last set of accounts prepared on the Agency basis.

Interest rate risk

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

Currency risk

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

Liquidity risk

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

The activity of the Agency will continue within DE&S and therefore it remains appropriate for these accounts to be prepared on a going concern basis.

Key Agency Achievements FY 2006/2007

The Agency exceeded all of the Key Targets and delivered many other notable achievements.

- The Agency achieved £38m of efficiencies including £13m, which related to the delivery of the Change Programme.
- Deployment of complex communication and information systems solutions to the Armed Forces in support of worldwide operations.
- The £800m Corsham Development Project moved forward with the Inteq Consortium being selected as the preferred bidder in October 2006.
- DII Future (F) progressed and is now installed at over 200 sites with the rollout volume continuing to accelerate. The Business Case for Increment 2a was approved at Treasury and Ministerial level enabling an amendment being placed on the Contract in December 2006.
- The SKYNET 5 Public Finance Initiative project achieved an initial operating capability with the launch of SKYNET 5a in March 2007, a step change in capability to military users.
- The Defence Fixed Telecommunications Systems negotiations to extend the contract to 2012 were concluded, permitting the full range of DFTS services to be delivered to customers at reduced tariff rates.
- The Agency retained its Investors in People (IIP) recognition against the enhanced standard in February 2007.
- Support to the new BOWMAN battlefield communications system, on intense and critical operations in Iraq and Afghanistan, achieved levels of availability in excess of 90%.
- The Agency achieved the International Safety Award by the British Safety Council in recognition of effective safety policies, plans and its commitment to health and safety at the highest level.

Foreword to the Agency Report

History and Background

The Defence Communications Services Agency was created as a MoD Agency on 1 April 1998 with the mission to maximise Defence operational effectiveness and business efficiency through the delivery of integrated information solutions. As an Agency, the organisation was part of the Defence Logistics Organisation, being managed by the Agency Main Board chaired by Rear Admiral R G J Ward as the Chief Executive. From the 1 April 07 the DCSA ceased to be an Agency and is now a cluster area within DE&S.

Financial Performance

The Agency met its financial targets for both Direct Resource and Capital expenditure as set by the Defence Logistics Organisation for FY 2006/2007. Net operating costs increased by £149m (11%) from £1,341m in FY 2005/2006 to £1,490m. Staff costs decreased by £7m (4%), which was mainly due to a reduction of 432 staff (8%) offset by the annual pay award. The decrease in staff numbers was mainly due to the transfer of Airfield Operations Support and Air Defence Ground Based Systems on 31 March 2006 to another part of the Defence Logistics Organisation and the transfer of posts from the Agency, in late FY 2005/2006, to commercial service providers. Other operating costs increased by £158m (14%) which was mainly due to increased costs as the Defence Information Infrastructure (DII) is rolled out across defence and an increase in the Defence Fixed Networks Integrated Project team as they have taken on responsibility for paying for services previously borne by other parts of the MoD.

Risks and Uncertainties

The Agency faces a diverse range of risks and uncertainties and strives to reduce the probability of adverse events happening and the impact should they occur. For example the effectiveness of command and control at operational and business levels relies on the Agency providing a secure and reliable Defence network. Therefore it is important that the Agency focuses on the reliability and availability of the services it delivers. The Agency also has a business continuity planning initiative to reduce the impact of the unlikely event of a successful hostile cyber-attack.

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

Resources

Two key Agency assets are its people and the sites it operates from. The Agency has a robust reputation for delivering information system projects to performance, time and cost targets, as a result of its employees and their ability to manage the delivery of new or enhanced capability. The Agency owns several sites, the main site being Corsham, which is a significant resource. The Inteq Consortium has been selected as the preferred bidder for the Corsham Development Programme and will provide state-of-the-art facilities for the staff at Corsham by 2010.

Research and Development

The Agency constantly tracks significant research activities, funded and sponsored by the Director Equipment Capability Command, Control and Information Infrastructure, to support the future information systems requirement.

Equal Opportunities Policy

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

The Agency Financial Accounts

Notes to the Accounts

NOTE 18: Commitments Under operating Leases where the Agency is the Lessor

On 1 January 2002, the Agency entered into an agreement with Arqiva, formally NTL, whereby Arqiva lease non-operational communication towers over a 20-year period. The anticipated net receipts after charges over the 20-year period is approximately £17.4m

The towers had an original gross value of £294m and have been written down to a nominal value of less than £100.

NOTE 19: Related Party Transactions

The DCSA is an Executive Agency of the MoD.

The MoD is regarded as a related party. During the period 1 April 2006 to 31 March 2007 the Agency has had various material transactions with the MoD and with other entities for which the MoD is regarded as the parent department. These entities include the Meteorological Office, the Hydrographic Office and the Defence Aviation Repair Agency.

During the period of these accounts the Agency also had transactions with a number of other government

departments or their agencies. Most of these transactions were with the Learning Skills Council and Home Office.

The net amount due to related parties as at 31 March 2007 was £0.62m (31 March 2006 £1m). No provision was made against the debtor balances.

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

NOTE 20: Capital Commitments

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

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

Project	Outstanding Payments
	£'000
DECS	2,184
PTARMIGAN/TRIFFID	3,600
DII FUTURE	294,000
LF MASTS	3,116
LITS DELAMINATION	1,896
Other	1,322
Total	306,118

The Agency Financial Accounts

Notes to the Accounts

NOTE 16: Private Finance Initiative (PFI) Commitments

The payments made during the year in respect of off-balance sheet PFI transactions were £339,347,382 (FY 2005/2006 £233,402,179).

At 31 March 2007, the Agency had annual commitments under PFI contracts, as set out below:

	Off Balance Sheet PFIs	On Balance Sheet PFIs
	£'000	£'000
PFI commitments which expire:		
Within 1 year	-	-
Within 2 to 5 years	2,814	10,167
Within 6 to 10 years	194,546	-
Within 11 to 15 years	204,333	-
Over 15 years	-	7,411

Note:

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

NOTE 17: Commitments Under Operating Leases

	2006-07	2005-06
	£'000	£'000
Plant & Machinery		
Payments due under operating lease which expire:	27	2
Within one year	-	9
Between two and five years		
Transport		
Payments due under operating lease which expire:	56	-
Within one year	224	226
Between two and five years		
Total	307	237

Foreword to the Agency Report

Staff Involvement, Development and Training

The Agency recognises the importance of effective communication between staff at all levels. All published plans, reports, accounts and surveys, including the Agency's Staff Survey, are made freely available to all. The Agency website provides a valuable knowledge base for information such as the Main Board's 'Key Messages to Staff' and staff feedback forms. All staff receive the in-house magazine '@ DCSA', which provides information on both operational and social activities on a quarterly basis. Staff have the opportunity to question the Chief Executive through the Agency Webpage. Staff briefings take place through the Agency's cascade briefing system, supplemented by localised briefings. The Agency is fully committed to IIP and the business successfully retained its IIP recognition in February 2007. The Agency is totally committed to the Central Staff suggestion scheme, GEMS, and continues to encourage and support staff through nationally recognised qualifications. Training Liaison Officers have been appointed to coordinate training initiatives for Service and Civilian employees.

Environmental Issues

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

The Corsham09 programme will provide modern and environmentally compliant facilities including office space, a conference centre, a centralised sports centre and day care facilities for young children. The project will also provide other village retail amenities such as cash points, newsagents and hairdressers. During the build phase the local environmental impact will be kept to a minimum through liaison with the appropriate local and national authorities.

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

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



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
9 July 2007

Management Commentary

Support to Operations

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

Operation TELIC – Iraq

Project SYNERGY, through providing a comprehensive deployed Communication and Information Systems infrastructure, supported the redeployment of UK Forces as part of a handover to the Iraqi Security Forces and the development of Basra Air Station as the main UK military site.

Operation HERRICK - Afghanistan

The Agency took the lead in the rollout of new UK information systems capability, referred to as Project SPECTRE. The harsh environment with temperatures exceeding 62 centigrade, created significant challenges for the sensitive communications equipment. The Agency also provided a mobile capability in the form of a Land Rover based installation.

Operation Highbrow

The Agency responded immediately to meet the operational requirement following the Government's decision to evacuate UK citizens from Lebanon in July 2006. From a Maritime perspective, planning was carried out to allow HM Ships to immediately extend and increase their satellite connectivity. Due to the high media interest in the operation, the media link activated on HMS Bulwark and HMS Illustrious was used successfully by various media organisations to send reports back to the UK. As well as the high-profile Maritime-led evacuation there was a requirement for the immediate activation of a number of standing satellite accesses and the re-routing of new services via existing international landline connectivity. Although the operation has now ended, the Agency's support to the Lebanon continues through Operation JINA³.

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

- Operation OCULUS in the Balkans – the Agency continued to support the European Union Stabilisation Force in Bosnia and Kosovo
- Operations CALASH – the Agency continued support to maritime operations in the Middle East
- North Atlantic Treaty Organisation (NATO) Standing Forces – the Agency continued to meet its commitments to NATO standing forces in the Atlantic and the Mediterranean
- Atlantic Patrol Task North – support to ships engaged in tasks in the British dependent territories in the Caribbean during the hurricane season, counter drug operations alongside the US Coastguard
- Atlantic Patrol Task South – support to ships engaged in tasks in the British dependent territories in the South Atlantic (including the Falklands)

As well as operations, significant information systems and services support has been given to several tri-service exercises. Most notable of these were Exercise Joint Venture'06, Exercise Griffin Focus, Operation VELA, Operation VOLANS and Exercise Falklands Forum.

The Agency fully engages with Permanent Joint Headquarters and Front Line Commands in the development of the Joint Force communication information systems and the Joint Network Control Centre concepts. As a result the deployed centre in Khandahar continues to be supported as part of Operation HERRICK through the Agency staff deployed, and the Agency's Global Operations and Security Control Centre works to assure the services within the deployed environment.

The Agency Financial Accounts

Notes to the Accounts

NOTE 15: Non-Cash and Notional Costs

Other operating costs include cash and non cash costs as follows:

	2006-07		2005-06	
	£'000	£'000	£'000	£'000
Non Cash Costs				
Depreciation & Amortisation	196,481		183,967	
Impairment of Fixed Assets	35,298		77,592	
Loss on Disposal of Fixed Assets	34,772		12,118	
Increase in Stock Provisions	483		6,527	
Fixed Asset Write Ons	(4,323)		(2,782)	
Stock Consumed	3,690		3,756	
Net Loss on Disposal of Stock	7,676		28,657	
Unwinding of PFI Prepayment	24,469		25,559	
Decrease in bad debt provision	(201)		233	
Decrease In Provisions	-		(360)	
Utilised Provisions	-		(1,288)	
Total Non-Cash Costs		298,345		333,979
Notional Costs				
Interest on Capital	34,438		36,050	
Notional Paradigm PFI Service Charge	-		68,550	
Accommodation Charge for Lodgers	12,861		12,183	
Office Administration	2,655		3,346	
Property Management	6,579		6,152	
Permanent Posting Costs	752		849	
DCSA Element of MoD Central Overhead	3,757		4,867	
Training, Safety & Welfare	2,635		3,821	
Utilities	2,833		2,657	
IT & Telecommunications	4,262		4,154	
Insurance	1,143		2,389	
Miscellaneous	679		832	
Hospitality & Entertainment	48		142	
Audit fee	101		95	
Total Notional Costs		72,743		146,087
Total Non Cash and Notional Costs		371,088		480,066

DCSA took on responsibility for payment of the Paradigm PFI service charge from the start of FY 2006/2007. No notional service charge is therefore required in the FY 2006/2007 accounts.

³ Operation JINA – the name given to UK Military assistance of the United Nations (UN) in Lebanon.

The Agency Financial Accounts

Notes to the Accounts

NOTE 12: Statement of Movement on General Fund

Reconciliation of Net Operating Cost to changes in General Fund is as follows:

	2006-07	2005-06
	£'000	£'000
General Fund Opening Balance at 1 April	(984,082)	(948,424)
Net Operating Cost in period	1,489,512	1,340,926
Net cash inflow from financing	(1,222,353)	(1,003,594)
Notional Costs	(72,743)	(146,087)
Net Fixed Asset transfers	(34,681)	(213,760)
Net Other Transfers	(26,577)	(6,329)
Transferred to General Fund in respect of realised element of Revaluation Reserve	(195)	(6,814)
at 31 March	(851,119)	(984,082)

NOTE 13: Revaluation Reserve

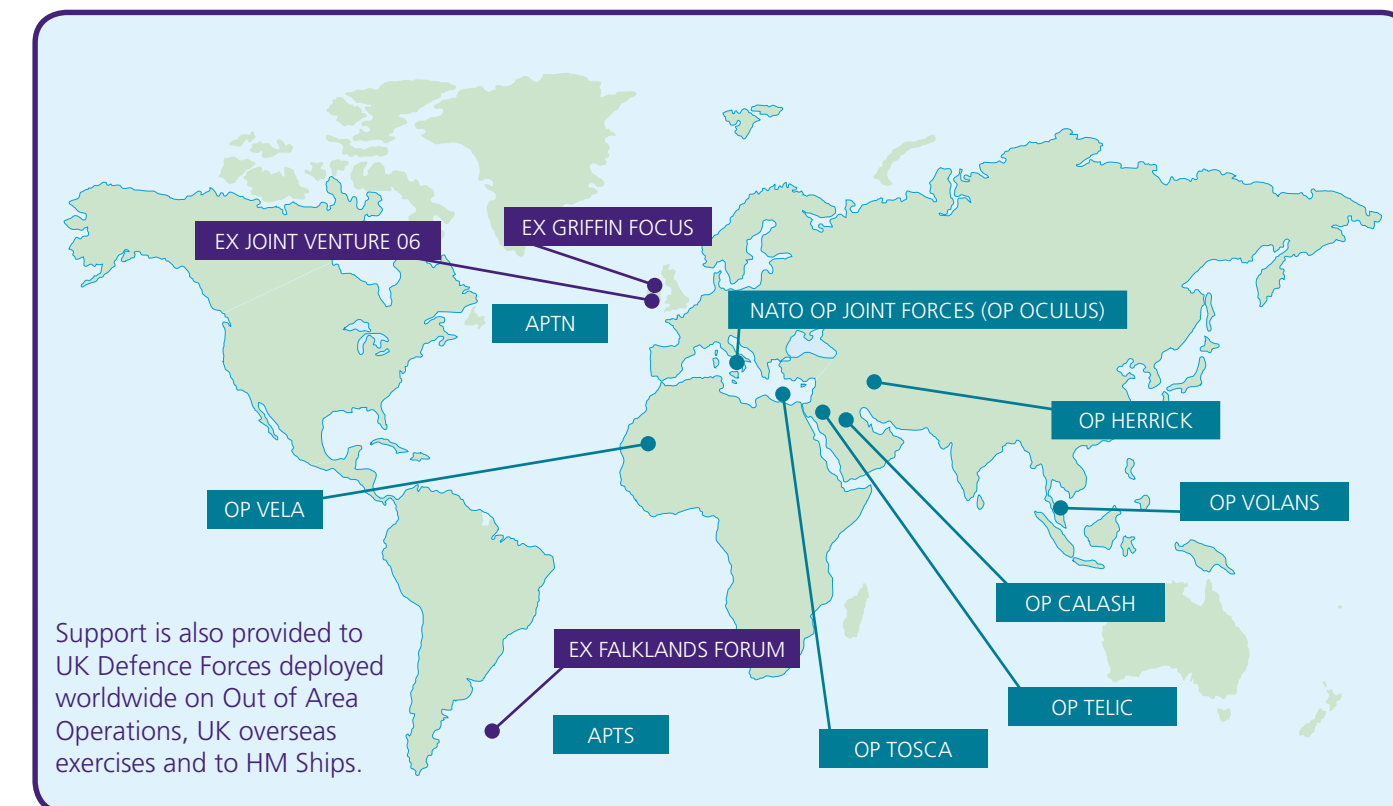
	2006-07	2005-06
	£'000	£'000
Revaluation Reserve at 1 April	(64,531)	(57,050)
Fixed Asset revaluation in year	(5,745)	(6,694)
Stocks revaluation in year	(5,476)	(5,985)
Realised element of Revaluation Reserve transferred to General Fund	195	6,814
Transfers	5,383	(1,616)
at 31 March	(70,174)	(64,531)

NOTE 14: Reconciliation of Movements in Government Funds

	2006-07	2005-06
	£'000	£'000
Balance at 1 April	(1,048,613)	(1,005,474)
General fund movement in year	132,963	(35,658)
Revaluation reserve movement in year	(5,643)	(7,481)
at 31 March	(921,293)	(1,048,613)

Management Commentary

Areas of Operational Support



KEY:

Operations

APTN – Atlantic Patrol Task (North)
 APTS – Atlantic Patrol Task (South)
 CALASH – Southern Arabian Gulf & Indian Ocean
 HERRICK – Afghanistan
 OCULUS – Balkans
 TELIC – Iraq
 TOSCA – Cyprus
 VELA – West Africa
 VOLANS – Five Powers Defence Agreement

Exercises

Joint Venture'06 – Joint Communication Exercise
 Griffin Focus – Army Communication Exercise
 Falkland Forum – Joint Capability Exercise

Management Commentary

Performance Indicators FY 2006/2007

In assessing the performance of the Agency, the Chief of Defence Logistics established a number of Key Targets. The percentage results against these Key Targets are as follows:

Key Target 1 – Service Assurance

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

Status: **Exceeded**

Performance		2005/2006	2006/2007
Service Assurance	Target	98	98
	Actual	99.4	99.8

Service Assurance represents the product of an aggregated index for service delivery against a revised Product Portfolio that takes into account the quantity and quality of services delivered. The trend for this target has steadily improved over the last year with a consistent level of performance of 99.8% being achieved in this FY.

Key Target 2 – Service Availability

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

Status: **Exceeded**

Performance		2005/2006	2006/2007
Service Assurance	Target	98	98
	Actual	99.1	99.6

The target for Service Availability remained at 98% but has been expanded to include business critical as well as operational service availability to generate an overarching Agency availability score. There has been a consistent level of performance in this FY of above 99%.

Key Target 3 - Service Restoration

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

Status: **Exceeded**

Performance		2005/2006	2006/2007
Service Assurance	Target	98	98
	Actual	99.4	99.9

There has been a consistent level of performance in this FY of above 99% resulting in the positive trend for this Key Target.

Key Target 4 - Efficiency Measurement

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

Status: **Exceeded**

Performance		2005/2006	2006/2007
Service Assurance	Target	7	2.5
	Actual	8.9	3.35

For FY 2006/2007 the Agency achieved an overall Efficiency realisation figure of 3.35%, equating to circa £38m. This was achieved against a hard target of 2.5% and a stretch target of 3%. Whilst there is a year on year performance drop, the savings made in FY 2006/2007 exceeded the stretch target. As each year passes and savings are realised the opportunity to make further efficiencies diminishes.

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

The Agency Financial Accounts

Notes to the Accounts

NOTE 9: Cash Balances

The Agency's cash balances are cleared to nil at the year end.

NOTE 10: Creditors

	2006-07	2005-06
	£'000	£'000
Amounts falling due within one year		
Trade creditors	(123,320)	(89,781)
Fixed Asset accruals	(86,564)	(47,059)
Deferred income	(190)	(151)
Accruals	(119,309)	(73,961)
Obligations Under PFI Contract	(1,687)	(1,623)
	(331,070)	(212,575)
	2006-07	2005-06
	£'000	£'000
Amounts falling due after more than one year		
Obligations under PFI/Finance leases:		
- In more than 1 year but not more than 2 years	(1,756)	(1,756)
- In more than 2 years but not more than 5 years	(4,355)	(5,736)
- In more than 5 years	(50,754)	(51,060)
	(56,865)	(58,552)
Total Creditors	(387,935)	(271,127)
Analysis of Total Creditors		
Other Central Government bodies	(2)	-
Public Corporation and Trading Funds	(755)	(2,056)
Bodies External to Government	(387,178)	(269,071)
	(387,935)	(271,127)

NOTE 11: Provisions for Liabilities and Charges

All provisions were fully released to the Operating Cost Statement in FY 2005/2006. The Agency has no new provisions for FY 2006/2007.

The Agency Financial Accounts

Notes to the Accounts

NOTE 8: Debtors and Prepayments	2006-07	2005-06
	£'000	£'000
Amounts falling due within one year		
Debtors		
Trade debtors	2,591	2,640
Provision for bad debt	(97)	(298)
Other debtors	1691	220
Accrued income	3,896	19,262
Prepayments		
Prepayments under PFI contracts	24,468	24,468
Other Prepayments	17,659	23,227
	50,208	69,519
Amounts falling due after more than one year		
Prepayments under PFI contracts	87,649	112,117
Prepayments	1,563	1,523
	89,212	113,640
Total Debtors	139,420	183,159
Analysis of Total Debtors		
Other Central Government bodies	93	53
Local Authorities	15	-
Public Corporation and Trading Funds	-	61
Bodies External to Government	139,312	183,045
	139,420	183,159

Management Commentary

Performance Indicators FY 2006/2007

Key Target 5 – Project Delivery

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

Status: **Exceeded**

Performance		2005/2006	2006/2007
Project Delivery	Target	91	92
	Actual	93.8	93.1

For FY 2006/2007 this Key Target measures the percentage of new projects that are successfully delivered to time, cost and performance targets. A summary of the projects monitored is outlined in the table below.

Key Target 5 – Projects Monitored

IPT and Project	Main Gate Approval	Approved In Service Date	Predicted In Service Date	Slippage
CSIS CAMP	ISD being defined during Assessment Phase (by Apr 07)	ISD being defined during Assessment Phase (by Apr 07)	IOC Q2 2008	Nil
DCBA DMICP	Apr 06	Jan 07	Jun 07	5 Months (55.56%)
DFN DFTS (Cyprus)	Feb 05	Initial ISD – Mar 06 Final ISD – Oct 06	Oct 06	Nil
DFN Abbeywood Flexible Working	N/A – funded in year	1st phase – Yew Dec 05 2nd phase – Larch Sep 06 3rd phase – Maple Oct 06	1st phase - Yew Dec 05 2nd phase - Larch Sep 06 3rd phase - Maple Oct 06	Nil
DFN Allenby/Connaught	Apr 06	35 year contract with numerous dates	Numerous	Nil
DII RAFCIS (Phase 2&3)	Nov 05	Sep 07	Sep 07	Nil
DII Navystar	Dec 95	Dec 05	Refit Dependant	Nil
DII Anson (C)	Sep 05	Jul 06	Sep 07	14 months (140%)
DII/C (Fleet Satellites)	Dec 04	Mar 06	May 06	Nil
DII ARRC Reachback	Sep 04	Oct 05	Oct 05	Nil
DII Ship Alongside Service	Nov 04	Mar 07	Jan 11	Nil

Management Commentary

Performance Indicators FY 2006/2007

Key Target 5 – Projects Monitored (cont.)

IPT and Project	Main Gate Approval	Approved In Service Date	Predicted In Service Date	Slippage
DII/F Single Point of Contact (SPOC)	Mar 05	SPOC 0: Nov 05 SPOC 1: Jan 06	SPOC 0: Dec 05 SPOC1: Jan 06	1 month (12.5%) Nil
DII/F (New Service Commencement Date)	Mar 05	Jan 06	May 06	4 months (40%)
DII RAF Process & Organisation Review	Mar 05	Jul 07	Jul 07	Nil
DII/F – Increment 1 Migration	Mar 05	Jul 07	Mar 08	8 months (28.57%)
D Ops Old War Office (OWO) Decant	Sep 08	Mar 09	Mar 09	Nil
DOps Northwood Development Project	Jul 05	May 11	May 11	Nil
DISD Land/AG Future Co-location (Hyperion)	Mar 07	Mar 09	Aug 09	Nil. Dates adjusted by Customer.
Skynet 5 – Full Operational Service	Jan 02	Mar 08	Mar 08	Nil

Performance Indicators FY 2007/2008

Ministers will set performance targets for the functions formerly carried out by the DCSA and these will be monitored and reported by DE&S.

The Agency Financial Accounts

Notes to the Accounts

NOTE 6: Tangible Fixed Assets – Additional Information

Private Finance Initiative

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

	Net Book Value as at 31 March 2007	Net Book Value as at 31 March 2006
	£'000	£'000
Land & Buildings	4,048	3,993
IT and Communications	41,828	44,234
Total	45,876	48,227

Net Transfers

The transfers figure in the above table represent the net effect on Cost/Valuation, and the net effect on Depreciation, of asset transfers into and out of the Agency. This can give rise to the disclosure of an aggregated Transfer value for Depreciation that exceeds the aggregated Transfer value for Cost/Valuation.

NOTE 7: Stocks

	2006-07	2005-06
	£'000	£'000
Gross book value of consumable stocks	70,438	77,651
Provision for obsolete and surplus stocks	(23,122)	(34,485)
Closing balance at 31 March	47,316	43,166

Notes to the Accounts – NOTE 6: Tangible Fixed Assets

Cost or Valuation	NOTE 1 Land & Buildings - Non Dwelling	NOTE 2 Single Use Military Equipment	NOTE 2 Plant & Machinery	NOTE 2 Transport - Fighting Equipment	NOTE 2 Transport - Other	IT&Comms	Capital Spares	Assets Under Construction	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation as at 1 April 2006	172,055	306,015	8,376	1,562	215	651,813	739,913	38,314	1,918,263
Additions	9	37,223	68	-	-	188,303	14,831	11,810	252,244
Transfers (to)/from other parts of MoD	-	17,887	1,084	(816)	(8)	(1,002)	15,559	32,149	64,853
Disposals	(1,671)	-	-	-	-	(10,097)	(128,565)	(784)	(141,117)
Revaluation	4,960	568	289	-	-	(148)	570	-	6,239
Permanent diminution	(8,647)	-	4	-	-	(20,600)	-	(476)	(29,719)
Reclassifications	-	-	-	-	-	12,609	140	(12,749)	-
Reclassifications to Intangibles	-	-	-	-	-	-	-	(29,997)	(29,997)
Closing balance as at 31 March 2007	166,706	361,693	9,821	746	207	820,878	642,448	38,267	2,040,766
	Land & Buildings - Non Dwelling	Single Use Military Equipment	Plant & Machinery	Transport - Fighting Equipment	Transport - Other	IT&Comms	Capital Spares	Assets Under Construction	TOTAL
Depreciation as at 1 April 2006	(21,649)	(189,554)	(2,063)	(308)	(142)	(208,438)	(437,595)	-	(859,749)
Charged in Year	(5,707)	(15,751)	(1,398)	-	-	(93,322)	(62,664)	-	(178,842)
Revaluation	(985)	-	(45)	-	-	120	416	-	(494)
Transfers (to)/from other parts of MoD	-	9,089	(740)	132	(9)	186	(41,572)	-	(32,914)
Disposals	66	-	-	-	-	384	105,895	-	106,345
Permanent diminution	2,008	-	(2)	-	-	7,233	-	-	9,239
Closing balance as at 31 March 2007	(26,267)	(196,216)	(4,248)	(176)	(151)	(293,837)	(435,520)	-	(956,415)
Net Book Value as at 31 March 2006	150,406	116,461	6,313	1,254	73	443,375	302,318	38,314	1,058,514
Net Book Value as at 31 March 2007	140,439	165,477	5,573	570	56	527,041	206,928	38,267	1,084,351

Note 1: Assets Transferred to Defence Estates

Note 2: Assets Transferred to Defence Logistics Organisation

Management Commentary

Progress of Major Projects

FY 2006/2007 has seen the continuing development of several key projects that are essential enablers to achieving the Defence Vision.

Defence Information Infrastructure (DII)

The DII project was initiated in October 2000 to provide Defence with a common infrastructure to underpin business change programmes and enhance operational capability in the deployed environment by bringing coherence to the numerous Defence information systems. DII is a key enabler of Network Enabled Capability.

DII (Convergence)

A resilient service has been introduced for over 300 key business users. Significant improvements have also been made to the Electronic Document Record Management System, thereby improving the end user experience, improving reliability and making it more effective.

DII (Future)

Several major milestones have been achieved this FY, including the Business Case for Increment 2a that was forwarded to Ministers and the Treasury. This was approved and an amendment was placed on contract on 29 December 2006. DII/F has been installed at over 200 sites and the roll out volume continues to accelerate. The first MoD wide Single Point of Contact helpdesk facility is now fully implemented across many systems and work is ongoing to expand its coverage to systems other than DII. This year has also seen the transition of 136 Agency posts to ATLAS as a result of DII/F Increment 1a.

SKYNET 5

The SKYNET project is the largest ever Government Private Finance Initiative deal, working in partnership with Paradigm Secure Communications to deliver British Military communication satellites. The launch of the SKYNET 5a communication satellite in March 2007, the first of three to be launched under the £3bn plus programme, is a huge step forward supplying 2.5 times the capacity of the previous system – allowing us to pass more data faster. The satellite, with its world beating antenna technology and far greater power and data rates, provides a significant enhancement to global communications and operational capability for our forces, whether deployed in Iraq, Afghanistan or at sea. It is also being used in the field of welfare services, to satisfy the Government's commitment

to provide free messages between service personnel on operations and their families and friends.

Defence Fixed Telecommunications Service (DFTS)

DFTS is provided through a 10 year Public Private Partnership deal with British Telecommunications plc that was extended by five years to 2012. The total value of the contract is in excess of £3.5bn and ensures the provision of the UK's Armed Forces telecommunications requirement in the form of a Wide Area Network, voice, data and video telecommunications services across the UK and overseas. These services are crucial to the strategic and operational running of the Department and the UK Armed Forces and the provision of Network Enabled Capability. DFTS services are also utilised by other Government Departments as part of the Government's shared services agenda.

Future Core Networks (FCN)

In 2006 it was confirmed that Telecommunications Follow on Project (TFOP) would be taken forward within the Transformational Government Strategy and the Defence Industrial Strategy. These strategies are intended to create the right industrial environment to achieve Network Enabled Capability by 2025 through influencing the investment decisions of existing and future commercial information system service providers.

DFTS and TFOP are key to achieving Network Enabled Capability. As a result TFOP has become part of a wider FCN programme that will encompass the replacement of the capability currently provided by the four principal Defence Telecommunications and Information Services⁴ as they come to the end of their existing contracts between 2012 and 2020. Management of this activity passed initially to Directorate of the Chief Technology Officer and from 1 April 2007 becomes an element of the newly formed Global Communication Services IPT.

In order to provide a new focus to this activity the post of FCN Assistant Director was created and filled from 5 March 2007 with a remit to build a small team and deliver a programme up to Initial Gate currently anticipated Autumn 2009.

⁴ The four principal Defence Telecommunications and Information Services are DFTS, DII, SKYNET and Defence High Frequency Communications Service.

Agency Organisation

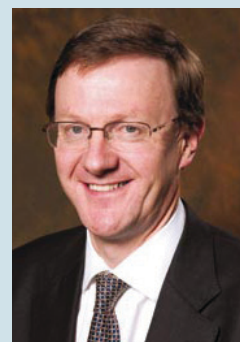
Agency Management Team

Agency Main Board

As at 31 March 2007 the Main Board members were:



Chief Executive
Rear Admiral R G J Ward



Director General Logistics (Resources)
Dr C Mace



Director Operations
Brigadier J Terrington



Director Resources
Mr N Jarvis



Director Strategic Transition
Air Cdre J Thompson



Director Procurement
Mr M C Greatwich



Chief Technology Officer
Cdre A Whyntie

The Agency Financial Accounts

Notes to the Accounts

NOTE 4: Operating Income	2006-07	2005-06
	£'000	£'000
MoD Trading Funds	74	728
Other Government Departments	143	131
NATO Income	1,743	2,856
Rental Income From Third Parties	455	335
Other Operating Income	8,102	4,530
Total Operating Income	10,517	8,580

NOTE 5: Intangible Assets	2006-07	2005-06
	£'000	£'000
Cost or Valuation at 1st April	67,496	6,665
Additions	2,958	3,173
Impairment	(20,375)	(942)
Transfers with other MoD Business Units	2,742	58,708
Disposals	-	(108)
Reclassifications from Tangible Assets (Note 6)	29,997	-
at 31 March 2007	82,818	67,496
Amortisation at 1st April	(32,595)	(2,290)
Charged in year	(17,639)	(4,438)
Transfers with other MoD Business Units	-	(27,646)
Disposals	-	1,373
Impairments	5,557	406
at 31 March 2007	(44,677)	(32,595)
Net Book Value at 31 March 2007	38,141	34,901

The Agency Financial Accounts

Notes to the Accounts

NOTE 3: Other Operating Costs

Other operating costs include cash and non cash costs as follows:

	2006-07		2005-06	
	£'000	£'000	£'000	£'000
Accommodation Costs:				
Property Management	13,149		15,064	
Utilities	5,369		4,853	
Rent	14,903		14,452	
		33,421		34,369
Supplies & Services Consumed:				
IT & Telecommunications	770,681		556,911	
Equipment Support	130,810		138,833	
Stock Movement	483		6,527	
Legal & Professional Fees	28,430		29,980	
R&D Expenditure	5,783		5,408	
Training, Safety & Welfare	10,883		13,931	
Stock Consumed	3,690		3,757	
Movements	6,964		8,862	
		957,724		764,209
Other Administration Expenses:				
Impairments	35,298		77,592	
Depreciation	178,842		179,529	
Amortisation	17,639		4,438	
Loss on Fixed Asset disposals	34,772		12,118	
Fixed Asset Write Ons	(4,323)		(2,782)	
Interest Charged On Capital	34,438		36,050	
Net loss on disposal of stock	7,676		28,657	
Office Administration	7,763		10,986	
Miscellaneous	3,274		3,148	
Interest Charges For PFIs	4,207		4,334	
Charges for Operating Leases	1,185		1,146	
Audit fee	101		95	
Decrease to bad debt provision	(201)		233	
Bad Debt Write Off	36		273	
Decrease in provision for liabilities and charges	-		(360)	
		320,707		355,457
Total Other Operating Costs		1,311,852		1,154,035

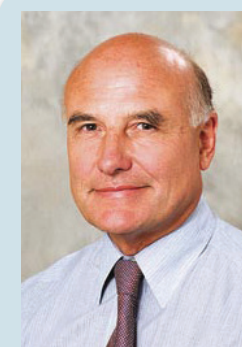
Stock Balance Sheet movements are affected by in year transfers with other MoD Departments causing upward/downward movements in the Balance Sheet. Such transfers have no OCS effect and do not therefore directly agree with OCS Stock movements reported above.

Agency Organisation

Agency Management Team

The Agency Main Board meet on a regular basis to review both strategy development and Agency performance against Balanced Scorecard indicators.

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



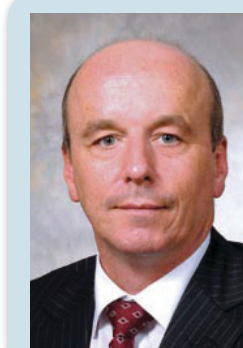
Director Information Services Delivery
Mr G Hyde



Defence Information Infrastructure IPT
Mr R Quick



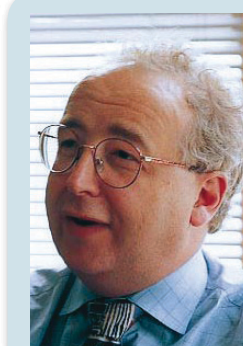
Logistic Applications IPT
Mr I Wakeling



Satellite Communications Acquisition IPT
Mr D Midgley



Non-Executive Director
Dr R Cliffe



Non-Executive Director
Dr D Cleevely

Agency Direction

Strategic Context

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

The Defence Vision and the Defence Change Programme

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

The Defence Change Programme is key to achieving this. It is through change and modernisation that the Department will be 'flexible and creative, harnessing new technologies and ideas to make best use of our resources'. The Agency contributes to the Defence Change Programme through the key programmes that the Agency is delivering, or has a significant input into, such as Joint Personnel Administration, the People Programme, Estate Modernisation, Defence Medical Information Capability Programme, Defence Travel Modernisation – Defence Travel and the Defence Logistics Transformation Programme.

The Drive for Efficiency

The Prime Minister and the Chancellor commissioned the Gershon Efficiency Review, an independent examination of potential public sector savings in order to release resources to the delivery of front-line services. Following the 2004 Spending Review the Department's contribution amounted to annual savings of £2.8bn by FY 2007/2008, to be re-invested in Defence to improve front-line capability. The majority of the Agency share of the savings will be provided through the key programmes listed above.

Network Enabled Capability

Network Enabled Capability is the coherent integration of sensors, decision-makers, weapon system platforms and support capabilities to achieve the desired military effect in the future strategic environment. This will be achieved through the more effective and efficient sharing

and exploitation of information within the UK Armed Forces and with coalition partners. To support the delivery of Network Enabled Capability the Agency must ensure that the systems it provides are as coherent, resilient and reliable as possible. This continues to be both a challenge and an opportunity.

Improving Customer Focus

The Agency is a customer-focused organisation, putting the customer at the forefront of everything that the Agency does. The Agency continues to simplify its customer interfaces by systematically rationalising existing helpdesks, whilst increasing the effectiveness through the Single Point of Contact initiative and the development of integrated services through the E2E Service pilots.

Rationalisation

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

At the centre of these challenges is the delivery of the continual improvement in information systems and services for the Defence community and enables the Department to realise its Vision. The Agency Blueprint and the Change Programme are the vehicles to enable the Agency to deliver the Defence Vision.

The Agency Financial Accounts

Notes to the Accounts

NOTE 2: Staff Costs and Numbers	2006-07	2005-06
	£'000	£'000
Wages & salaries	147,467	155,103
Social Security Costs (ERNIC)	11,406	11,817
Other Pensions Costs	29,304	28,551
Total	188,177	195,471

These costs include the following amounts in respect of agency and temporary staff:	2006-07	2005-06
	£'000	£'000
Agency and Temporary staff costs:	1,888	3,760

The average number of employees on the Agency's payroll during the period was as follows:	2006-07	2005-06
Average Civilian Staff numbers for the year:		
Non Industrial	3,456	3,742
Industrial	159	273
Average Military staff numbers for the year:		
Officers	303	352
Ratings/Other Ranks	913	896
Total staff numbers for the year:	4,831	5,263

	2006-07	2005-06
These staff numbers include the following numbers in respect of agency and temporary staff:	43	109

The Agency Financial Accounts

Notes to the Accounts

K Cash Balances And Liabilities

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

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

L Private Finance Initiative (PFI)

The treatment of PFI contracts is dealt with in accordance with FRS 5.

Where the substance of the transaction is such that the risks and rewards of ownership remain with the Agency, the assets and liabilities remain on the Agency's balance sheet.

The service charge in respect of an on-balance sheet PFI contract is apportioned between reduction in the capital obligation and charges in the Operating Cost Statement for service performance and finance cost.

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

M Operating Leases

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

Agency Direction

Delivery of the Strategy

The Agency has a future vision of itself (the desired outcome) in terms of what it provides (outputs), and the optimum structure it needs to adopt in order to deliver these outputs.

The Agency Blueprint

The Agency Blueprint was endorsed by the Main Board in July 2006 and describes the desired outcome for the Agency to be achieved progressively between now and 2012. In particular it provides a high level description of how the Agency will be constructed and function in the future, including:
the purpose of the Agency – **the outputs**;
the way the Agency will operate – **the processes**;
what the Agency needs to operate – **the resources**;
the way the Agency is organised – **the structure**.
The Blueprint is also a communication tool for all staff and stakeholders, ensuring that the many projects within the Change Programme are aligned and coherent to deliver Blueprint.

The Agency Change Programme

The Change Programme is a radical and ambitious programme, being personally led by the Chief Executive and directly supported by his top management team. It is made up of five core workstreams and two key enabling programmes each led by one of the Main Board Directors. The workstreams and enabling programmes will facilitate and deliver significant improvements in the Agency's ability to meet the future information system and service needs of UK Defence.

Phase 1 of the Change Programme was completed in December 2006 and moved the organisation towards delivering technical coherence across the business. It also achieved significant efficiencies through the introduction of modern acquisition techniques, and saw the initiation of pilots for the development and delivery of End-to-End (E2E) services, whose continued development is a key priority for Phase 2 of the Change Programme. Following endorsement of the Agency Blueprint in July 2006, the construct and composition of the Change Programme was reviewed and redesigned to align with the Blueprint. The Change Programme Board endorsed Phase 2 of the Change Programme in December 2006.

A summary view of the Agency Change Programme workstreams endorsed in Phase 2 follows:

E2E Services

This workstream is the prime effort of the programme and will transition existing services into the E2E model. It will manage all E2E processes and will deliver:

- A Service Requirements team to manage new sponsor requirements
- A Programme Office to manage Agency information system programmes
- A new Customer Management function

Organisation and Systems Support

This workstream will manage the transition to the new organisational structure and associated enabling projects and the reduction in manpower numbers to reach the Blueprint target. It will also sponsor the introduction into service of new systems to support E2E Service Management and deliver the full Single Point of Contact Management service.

Communication Information Systems Rationalisation

This workstream will continue to drive forwards its existing outsourcing and rationalisation programme and is key to the transformation of the Agency into a decider-based organisation.

Enabling Services

This workstream will optimise and transform the Agency's Enabling Services, such as finance and commercial area into a set of centralised or shared services.

Agency Direction

Delivery of the Strategy

People Capability

This workstream will facilitate the structural development of the Agency, for example managing Transfer of Undertakings (Protection of Employment) and staff relocation issues, and ensure we recruit, develop and retain the right people with the right skills, professionalism and behaviours.

Information and Knowledge Management

This enabling programme will move the Agency into a leading knowledge-based organisation by ensuring that maximum benefit is gained by managing and exploiting its information and knowledge.

Corsham09

This programme will provide the Agency with a state-of-the-art facility to establish the optimum-working environment, incorporating integrated ways of working.

The Change Programme made significant progress during FY 2006/2007 against some challenging targets. This included the delivery of some key successes for our customers and the laying of firm foundations for the future. The major milestones achieved in the first phase of the Change Programme include:

- Development of five E2E services
- Delivery of £11.9m of benefits to Defence from our Lean Support and Procurement Reform Programmes in FY 2006/2007
- Establishment of the Agency Lead Point of Contact function to provide a single human point of focus for all Agency products and services
- Implementation of the Single Point of Contact initiative, a single user electronic entry point for many Agency services
- Progression of the Corsham09 development programme to a successful Main Gate Business Case submission
- Introduction of an Information Security Management System

The Agency Financial Accounts

Notes to the Accounts

(c) IT and Communication Equipment

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

(d) Plant, Machinery and Transport

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

(e) Capital Spares

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

(f) Assets Under Construction (AUC)

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

(g) Depreciation

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

The average lives assigned to tangible fixed assets are:

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

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

H Stock

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

I Provision for Liabilities and Charges

Provision for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the balance sheet date. Provisions are charged to the Operating Cost Statement. All long-term provisions are discounted to current prices by the use of HM Treasury Discount Rate, currently 2.2%. The discount is unwound over the remaining life of the provision and is shown as an interest charge in the Operating Cost Statement.

J Pensions

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

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

www.civilservice-pensions.gov.uk

The Agency Financial Accounts

Notes to the Accounts

NOTE 1: Statement of Accounting Policies

A Introduction

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

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

On 1 April the Ministry of Defence transferred responsibility for accounting for fixed assets from the Defence Communication Services Agency to other parts of the Department. Where the Agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In all other cases the costs of the use of these assets are communicated to the Defence Communication Services Agency by the asset owners and charged to the operating cost statement.

The DCSA ceased to be an Agency with effect from 1 April 2007. The DCSA's functions will continue within DE&S and the accounts have therefore been prepared on a going concern basis.

B Value Added Tax

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

C Income

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

D Research and Development

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

the Operating Cost Statement (OCS) over the period in which it is incurred.

E Notional Charges

(a) Interest Charge on Capital
A notional charge for cost of capital is included in the OCS. This is calculated as 3.5% of the average value of total net assets in accordance with MoD policy.

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

(c) Intra-Departmental Charges
Notional amounts are included in the OCS for charges in respect of services provided from other areas of the MoD. The amounts are calculated to reflect the full cost of providing these services to the Agency.

F Intangible Fixed Assets

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

G Tangible Fixed Assets and Depreciation

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

(a) Land and Buildings

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

(b) Single Use Military Equipment (SUME)

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

Remuneration Report

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

Remuneration Policy

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

Service Contracts

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

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

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

Non-executive directors are not appointed as Civil Servants. Contracts may be terminated at one month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination would be immediate. They may be extended by mutual agreement at the end of the period for a maximum of ten years.

There are no compensation entitlements for early termination. Current contractual arrangements applying to the non-executive directors as at 31 March 2007 were as follows:

Dr D Cleevly was re-appointed as Non Executive Director for the Agency on 1 December 2006 until the loss of Agency status on 31 March 2007.

Dr R Cliffe was re-appointed as Non Executive Director for the Agency on 1 December 2006 until the loss of Agency status on 31 March 2007.

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

www.civilservicecommissioners.gov.uk.

Salary

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

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. There were no benefits in kind.

Remuneration Report

The salary and pension entitlements of the main board members were as follows (2005-2006 figures are in brackets);

Name and Title	Salary Band 2006-07 £'000	Real increase in annual pension £'000	Real increase in lump sum £'000	Pension at 31 March 2007 £'000	Lump Sum at 31 March 2007 £'000	CETV at 31/03/2007 £'000	Real Increase in CETV £'000
Executive Board Members							
Rear Admiral R G J Ward Chief Executive	100-105 (100-105)	0-2.5 (2.5-5)	5-7.5 (7.5-10)	50-55 (50-55)	160-165 (150-155)	1,051 (993)	56 (57)
Brigadier D Hargreaves Director Operations (to Nov 06)	55-60 (80-85)	2.5-5 (2.5-5)	7.5-10 (7.5-10)	35-40 (30-35)	105-110 (95-100)	336 (756)	-414 (62)
Brigadier J Terrington Director Operations (from Nov 06)	30-35 N/A	0-2.5 N/A	5-7.5 N/A	35-40 N/A	105-110 N/A	838 N/A	41 N/A
Cdre A Whyntie Chief Technology Officer	80-85 (80-85)	2.5-5 (2.5-5)	7.5-10 (7.5-10)	35-40 (30-35)	105-110 (95-100)	842 (760)	68 (64)
Mr N Jarvis Director Resources	65-70 (65-70)	0-2.5 (0-2.5)	0-2.5 (2.5-5)	25-30 (25-30)	85-90 (80-85)	639 (609)	7 (23)
Air Cdre J Thompson Director Strategic Transition	80-85 (65-70)	2.5-5 (2.5-5)	7.5-10 (7.5-10)	40-45 (35-40)	120-125 (105-110)	886 (814)	64 (71)
Mr G Hyde Director Information Services Delivery	60-65 (55-60)	0-2.5 (2.5-5)	0-2.5 (7.5-10)	20-25 (20-25)	65-70 (65-70)	470 (444)	11 (66)
Mr M Greatwich Director Procurement	65-70 (55-60)	0-2.5 (0-2.5)	0-2.5 (2.5-5)	15-20 (15-20)	45-50 (40-45)	229 (217)	9 (21)
Dr C Mace Executive Director representing The Defence Logistics Organisation	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

The Agency Financial Accounts

Cash Flow Statement

for the year ended 31 March 2007		2006-07	2005-06
	Note	£'000	£'000
Net Cash Outflow from Operating Activities	23	1,009,792	874,440
Interest element of finance leases and PFI contracts		4,207	4,334
Capital Expenditure		208,354	124,820
Financing		(1,222,353)	(1,003,594)
Movement in cash in year		-	-

The Agency Financial Accounts

Balance Sheet

as at 31 March 2007		31 March 2007		31 March 2006	
	Note	£'000	£'000	£'000	£'000
Fixed Assets					
Intangible assets	5	38,141		34,901	
Tangible assets	6	1,084,351		1,058,514	
		1,122,492		1,093,415	
Current assets					
Stocks and work in progress	7	47,316		43,166	
Debtors	8	50,208		69,519	
Debtors falling due after more than one year	8	89,212		113,640	
		186,736		226,325	
Creditors:					
amounts falling due within one year	10	(331,070)		(212,575)	
Net current (liabilities)/assets		(144,334)		13,750	
Total assets less current liabilities					
		978,158		1,107,165	
Creditors:					
amounts falling due after more than one year	10	(56,865)		(58,552)	
Provisions for liabilities and charges	11	-		-	
Net assets		921,293		1,048,613	
Taxpayers' equity					
General fund	12	(851,119)		(984,082)	
Revaluation reserves	13	(70,174)		(64,531)	
Total Government Funds	14	(921,293)		(1,048,613)	

The Financial Statements were authorised to be issued on 19 July 2007. The authorised for issue date represents the date of despatch by the Accounting Officer for laying before the House of Commons.



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

Remuneration Report

Name and Title	Salary Band 2006-07 £'000	Real increase in annual pension £'000	Real increase in lump sum £'000	Pension at 31 March 2007 £'000	Lump Sum at 31 March 2007 £'000	CETV at 31/03/2007 £'000	Real Increase in CETV £'000
Non-Executive Board Members							
Dr D Cleevely Non Executive Director	15-20 (10-15)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Dr R Cliffe Non Executive Director	10-15 (10-15)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

The factors used to calculate the CETV for the members of the PCSPS were revised for the FY 2006/2007 following advice from the Cabinet Office. The figures for 31 March 2006 have been recalculated using the new factors and this has led to changes to the figures published last year.

Notes:

- Both Dr Cleevely and Dr Cliffe received daily fees.
- Dr C Mace is employed by the Defence Logistics Organisation and his executive appointment is made in conjunction with his normal duties as Director General Logistics (Resources) in the Defence Logistics Organisation. He is not entitled to receive separate remuneration in undertaking these duties.
- No other member of the Main Board held positions or directorships which may conflict with their management responsibilities.

Remuneration Report

Pensions

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

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

For FY 2006/2007, employer's contributions were payable to the PCSPS and AFPS at one of five rates in the range of 17.1 to 36.3% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revaluation of the salary bands. Employer contributions for the PCSPS are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates are actually incurred, and reflect past experience of the scheme.

For FY 2006/2007 the rates for each class of member were as detailed below:

Scheme and Annual Salary Bands	%
Armed Forces Pension Scheme	
Ratings/Other Ranks	21.8
Officers	36.3
Principal Civil Service Pension Scheme	
PCSPS - Band 1 £17,000 and under	17.1
PCSPS - Band 2 £17,001 to £35,000	19.5
PCSPS - Band 3 £35,001 to £60,500	23.2
PCSPS - Band 4 £60,501 and over	25.5

From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between memberships of Premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at a rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

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

www.civilservice-pensions.gov.uk

The Agency Financial Accounts

Operating Cost Statement

for the year ended 31 March 2007		2006-07	2005-06
	Note	£'000	£'000
Staff costs	2	188,177	195,471
Other Operating Costs	3	1,311,852	1,154,035
Gross Operating Costs		1,500,029	1,349,506
Operating Income	4	(10,517)	(8,580)
Net Operating Costs		1,489,512	1,340,926

Statement of Recognised Gains and Losses

for the year ended 31 March 2007		2006-07	2005-06
		£'000	£'000
Net Gain on Revaluation		(5,838)	(14,295)

The Agency Financial Accounts

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the Chief Executive's Overview, Key Agency Achievements 2006/2007, the Foreword to the Agency Report, Management Commentary, Agency Organisation, Agency Direction and Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
10 July 2007

Remuneration Report

Cash Equivalent Transfer Values

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

Real Increase in CETV

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



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
9 July 2007

The Agency Financial Accounts

Foreword to the Agency Financial Accounts

Introduction

The Accounts cover the period from 1 April 2006 to 31 March 2007. They have been prepared in accordance with the Government Financial Reporting Manual (the FReM) and the Direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

Audit Arrangements

The Accounts of the Agency are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. A notional audit fee of £101,250 has been included in the non-cash costs.

Creditor Payment Policy

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

Audit

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

I can confirm that:

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



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
9 July 2007

The Agency Financial Accounts

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

I certify that I have audited the financial statements of the Defence Communication Services Agency for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Chief Executive's Overview, Key Agency Achievements 2006/2007, the Foreword to the Agency Report, Management Commentary, Agency Organisation, Agency Direction and Remuneration Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit,

or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed. I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

The Agency Financial Accounts

Statement of Agency's and Chief Executive's Responsibilities

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

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

In preparing the financial statements the Agency is required to:

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

The Departmental Accounting Officer for the MoD has appointed the Chief Executive of the DCSA as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in 'Government Accounting'.



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

The Agency Financial Accounts

Statement on Internal Control

Scope of Responsibility

As Accounting Officer for the Defence Communication Services Agency (DCSA), I have responsibility for maintaining a sound system of internal control that supports the achievements of the MoD's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am accountable to Chief Defence Logistics for the efficient and effective operation of the Agency's business and financial processes in accordance with agreed plans, budgets, existing internal controls and Government and Departmental regulations. My delegated authority is exercised in full accord with the Defence Logistics Organisation's (DLO) Strategic Plan and the more detailed business plans that flow from it to support the delivery of logistic support to our customers.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the DCSA for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to Handle Risk

The risk management system in place has improved in terms of operational effectiveness with greater emphasis being placed this year on risk communication and management across the DLO. Considerable effort has been expended to ensure the Agency's Risk Management strategy is compliant with current Departmental Risk Management policy. The aim will be to align to the Defence Equipment & Support risk management process in future years.

Risk and Control Framework

The Owners' Advisory Board, Main Board, Performance Management Board and Audit Committee oversee the Agency's Risk Management activities, ensuring that

broader top down risks are captured as part of the overall process.

The Risk Review Committee calls upon the expertise of other Integrated Project Teams and Directorates as necessary, to ensure that risks are appropriately articulated and mitigation plans are more fully developed at an earlier stage. The Risk Management assurance programme was completed in year, with the overall Agency risk maturity score increasing from 2.7 to 2.9 against the maturity model confirming that the risk process is continuing to improve.

Review of effectiveness

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

In line with departmental guidance, I have established the following processes:

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

The Agency Financial Accounts

Statement on Internal Control

The Agency has the responsibility for delivery of the Department's information systems infrastructure (DII(F)). This is a vital part of the MoD's change programme and the largest single DCSA controlled project. The appointed Delivery Partner, ATLAS, has faced numerous problems during the year with resulting slippage in the early programme of delivery. Nevertheless, there has been excellent co-operation and communication at all levels between ATLAS and DCSA that has resulted in the award of a contract extension towards the year end. This extension was only granted because ATLAS and its partners achieved significant milestones and committed to make up lost ground. The DCSA's Audit Committee has received a report of the audit activity of the Delivery Partner.

Risks continue to include concerns that there are an excessive number of changes to the requirements, as well as concerns that legacy systems may fail before handover to the new infrastructure. Defence Estates, the DII Programme Board led by DG Info, 2nd PUS and the Department's Change Delivery Group, are fully engaged with the project and have worked together with considerable success to have an estate ready in time to receive the new equipment.

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

Business and Financial Process Assurance

A number of significant business and financial processes were audited during the year by the Department of Internal Audit (DIA) and the DLO Assurance Team. Five were entirely focused on DCSA and of these, Corsham09 received a 'Full Assurance' opinion and three others: Project Accounting audit, Benefits Management Process audit and the Corporate Risk Management Process audit all received a 'Substantial Assurance' opinion, however Delivery against Headcount Targets received a 'Limited Assurance' opinion.

In addition, a number of rolling audits on Travel and Subsistence (T&S), Government Procurement Card, External Assistance and financial assurance audits have been undertaken by my Corporate Governance Team, with work continuing to strengthen any identified areas of weakness.

SHEF and Equipment Safety Management

Safety, Health, Environment and Fire (SHEF) management receives particular management and audit attention. DCSA complies with UK Environmental and Health and

Safety legislation, MoD SHEF Policy, targets and objectives. In addition the Agency continues to provide a robust SHEF training programme for all staff (including Senior Managers) to ensure standards are maintained and continually improved. As a consequence of this proactive approach and the Agency's recent SHEF performance, I am pleased to report that the DCSA has been awarded the British Safety Council's prestigious, International Safety Award for 2006. This award is made only to organisations and companies that can demonstrate commitment to health and safety at the highest level, have implemented good safety policies and plans, developed staff's H&S competences and achieved below average accident rates.

Business Continuity

Progress continues regarding Business Continuity (BC) as the Site Plan for Corsham was tested in conjunction with the Integrated Contingency Plan in September 2006. This was the first BC exercise that involved external players including, Police, Fire, Ambulance, Environment Agency, Wiltshire County Council Emergency Planning Department, Wiltshire Primary Care Trust, Social Services and Voluntary Agencies. The exercise enabled agencies to work together and highlighted the importance of coordinated and effective multi-agency working. Lessons learned have been captured and are being taken forward.

The Audit Assurance Programme continues to measure maturity of BC plans across the Agency with areas for improvement having been identified and monitored to ensure implementation.

A survey has been commissioned by Director Chief Technology Officer to identify shortfalls and risks with TLB provided power and infrastructure requirements to support the communications and information services provided by DCSA.

Health of Financial Systems (HOFS)

DCSA Directorates and DCSA hosted IPTs assessed the levels of control operating within their own financial systems and processes with the main findings as follows:

- **Resource Accounting & Budgeting**

On 1 April 2006 the Agency became the Single Balance Sheet Holder (SBSO) for all IT&Comms in the Ministry of Defence. Whilst this gives the Agency the added responsibility to account for all IT&Comms assets on behalf of the MoD the Agency will continue to show in its accounts only those assets for which it has beneficial use.

The Agency Financial Accounts

Statement on Internal Control

Initial problems related to validation of pay provided through the new Joint Personnel Administration military pay system have largely been overcome. The only outstanding problem for RAF and RN related to validation of T&S costs which represents a minor element of the total Military payroll.

New audit packs were introduced across the Agency at AP9 to improve the quality and availability of supporting audit trails. The adoption of comprehensive common audit packs in IPTs will have the additional benefit of enabling them to maintain the high standards of accountability that were embedded as the Agency was developed.

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

IAs and PPEs are being conducted in accordance with current policy.

- **Fraud And Theft**

Management checks, supplemented by internal audits indicates that the observance of key controls remains satisfactory to detect and deter fraud and a number of Fraud presentations have taken place this year to promote awareness across the Agency. The launch of the Defence Irregularity Reporting (DIR) Cell has not yet provided full visibility of the statistics promised however communication with the new DIR cell has been established.

- **Finance Staff**

The loading on finance staff at IPTs across the Agency is reported as having improved from 'heavy' to 'seasonally heavy'. The merger of DLO with DPA and the dis-establishment of the Agency impacted heavily on the Agency Accounts Team, however measures were put in place to ensure the successful completion of the FY 2006/2007 Agency accounts. In addition, finance staff across the Agency have been involved in successfully preparing for the changeover under the new DE&S organisation whilst continuing to be involved with the Agency's end of year accounts process as well as preparing for the NAO audit review.

Security and Information Assurance

The Agency continues to implement the Information Assurance (IA) Programme.

Risk ownership and associated management functions are now in place within DCSA business units and IPTs. An information security management system has been

established together with associated training and awareness. Work continues to ensure that this is adequately covered in user requirements and reflects emerging MoD policy, accreditation and business continuity.

Customer Review Programme

An annual survey of key customers is undertaken with support from external consultants. Outputs and actions are reported and tracked through the Performance Management Board. Positive changes have resulted since last year's actions and improvement is reflected against the Customer Confidence Index in a number of areas.

Significant internal control problems

The police investigation that commenced in FY 2005/2006 into suspected irregularities concerning one of our service delivery partners is coming to a satisfactory conclusion following a management review in parallel and with the engagement of the MoD Police. Lessons learned will be promulgated widely once the report has been issued. The DCSA will suffer no further financial loss as a result of this matter.

Action is being taken to address the control issues highlighted above and no further significant internal control problems were identified during FY 2006/2007.

Finally, I am pleased to conclude by reporting that over the last few years, significant progress has been made regarding the level of internal control across the Agency and the level of assurance that I have been able to provide as a result of this overall improvement.



RGJ WARD CB
Rear Admiral
Chief Executive and Accounting Officer, DCSA
9 July 2007