



Defence Electronics &
Components Agency

Annual Report and Accounts 2015/2016







Ministry
of Defence

Defence Electronics and Components Agency

Annual Report and Accounts

2015/2016

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DEFENCE ELECTRONICS AND COMPONENTS AGENCY ANNUAL REPORT AND ACCOUNTS 2015/2016

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Performance report

Overview

Introduction from the chairman

As Chairman of the Defence Electronics & Components Agency's (DECA) Board it is my responsibility, along with my fellow Non-Executive Directors, to provide expert advice, challenge and guidance to the DECA Executive Management Board using the varied skills and expertise we have developed in our various careers at senior management level in both private and public sector. The role of Chairman also extends to me supporting DECA's Chief Executive on the Steering Group chaired by MOD's Minister for Defence Procurement, Philip Dunne who holds this responsibility on behalf of the Secretary of State for Defence.



Alex Jablonowski
DECA Board Chairman

This is my first introduction to the Agency's Annual Report and Accounts (AR&A), which covers the 2015/16 financial year.

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

This AR&A provides a clear indication of DECA hitting the ground running and providing excellent performance in its first trading year. My role as Chairman has given me a great opportunity to witness the formation of the new business, see it seamlessly maintain high levels of assured electronics and components support to Defence and Industry customers and meet and exceed its financial and performance targets this year. DECA's employees have risen to the challenges of establishing the new Executive Agency and continued to deliver high quality services to the UK's Armed Forces both in the UK and overseas in support of operations.

Witnessing the commitment and enthusiasm

A handwritten signature in cursive script, reading 'Alex Jablonowski'.

Alex Jablonowski
Chairman
06 July 2016

of DECA's Executive Team and employees gives me great confidence for the future success of the business as it moves forward on the next exciting step of its journey. DECA's skills, knowledge and experience and unique position within the Defence Sector is widely acknowledged and held in high regard across MOD, Government and externally in industry.

This year has also seen MOD's rationale for retaining DECA strengthened with the Agency taking its first steps towards becoming the UK's avionics hub in Europe. DECA and its predecessors have always had an important and essential role supporting the UK's Armed Forces, but this has now been re-emphasised in the business taking a leading role on MOD transformation projects and avionics support strategies further demonstrating DECA's value to Defence.

I look forward to seeing how the innovative solutions, being developed by DECA, evolve and provide further enterprise cost savings in support of delivery of Defence Objectives and the outcomes of the Strategic Defence and Security Review 2015 published last year.

My first introduction would not be complete without my offering thanks to my fellow Directors for their valuable advice, expertise and support during DECA's successful first year. These thanks extend to DECA's Chief Executive, Geraint Spearing, his team of Executive Directors and very importantly DECA's workforce. All have shown great professionalism and commitment in continuing the Agency's pedigree of high levels of efficiency and standards of quality and service delivery.

In conclusion, following DECA's successful first year, I have every confidence in DECA and its employees continuing to provide its critical role as a support provider with an exciting future.

Statement by the Chief Executive

The 2015/16 Annual Report and Accounts of DECA demonstrate the solid performance of the business in its first year whilst meeting the challenges of establishing the new Agency and the increasing importance of DECA to MOD in emerging support strategies.



Geraint Spearing
DECA Chief Executive

As an Executive Agency DECA is wholly owned by and is an integral part of MOD and whilst forms part of the overall MOD accounts it is required to produce its own annual report and accounts as if it was a stand-alone business. This allows MOD's senior management team and the DECA Board full transparency on how efficiently and effectively DECA has managed its entrusted assets.

DECA's first year as an Executive Agency has been built on high levels of quality and operational delivery to our customers and the establishment of the DECA brand and identity in the market place following launch by the Minister for Defence Procurement at the Defence and Security Exhibition International 2015. Our continuing track record of strong business performance has given me great personal pleasure given the challenges that have been overcome to bring DECA back "on-vote" and successfully operate as an MOD Executive Agency without any negative impact on our critical outputs to Defence and Industry customers.

This performance has been measured against five ministerially endorsed, key performance indicators (KPIs) in areas that have been assessed by the Agency and MOD as critical to successful business performance. Details of these KPIs can be found in the Performance Analysis section at page 18 of this AR&A along with confirmation that DECA achieved all the

targets set and agreed with our Owner, Philip Dunne MP, Minister for Defence Procurement.

DECA's successful first year of trading, has been built on sound operating performance at our Head Office and Avionics Centre of Excellence at Sealand, North Wales as well as our satellite site at Stafford and our various deployed locations across the UK and overseas in support of operations.

All operational sites provided positive contributions to the success of the DECA bottom line performance and delivery of the financial plan through firm control of costs and transformation initiatives throughout the year that have seen efficiency improvements across the business. This has been supported by our drive and continued focus on operational excellence, maintaining critical outputs to customers, improved turnaround times and high levels of delivery which has remained above contracted targets with no major quality concerns during the year.

Shaping DECA's future was another business priority during the year. Significant work has been undertaken in collaboration with our Owner and customers to sow the seeds for a longer-term strategy for the business. This reflects changing Defence priorities and strategic direction for the Agency that will align the Agency with wider-Departmental initiatives and meet MOD's continuing desire for DECA to grow its capabilities to provide best value for Defence support solutions for current and future platforms across Air, Land, Sea and Cyber.

DECA's traditional Maintenance, Repair and Overhaul has seen expansion on Typhoon and Maritime activities work through expansion of our unique 'repair not replace' and obsolescence management capabilities. It has been pleasing to see a continued significant return on investment in these areas, particularly on Typhoon, where we have helped to identify potential cost avoidance savings of over £20M during the year.

In addition to DECA's traditional Maintenance, Repair and Overhaul role, further activity has



already been agreed during 2015/16 to identify areas where DECA can support the delivery of efficiencies and lower enterprise cost across MOD. In particular, this has seen greater DECA involvement within MOD Transformation programmes and the development of MOD's vision for DECA to become the UK's Avionics hub in Europe.

During the year, DECA has also played a role in Operation SHADER by responding to urgent operational requirements and ensuring increased availability of mission critical components and equipment in addition to various deployments to successfully declare additional capabilities at the front line.

To ensure DECA continues to provide value for Defence, and is best at what it does, our launch of the DECA Transformation Programme this year has developed the platform for the management and workforce to work together to embed DECA's values at the heart of the Agency. Together with the launch of the complementary Human Resources and People Strategy, this has meant that we have laid the firm foundations for meeting our aim of becoming "A highly professional team delivering benchmark support services to our customers".

Investment in business growth, through enhancements to equipment and capabilities across both the Sealand and Stafford sites has further supported DECA transformation

that has seen improvements in infrastructure and enhanced services to our customers across the three services. This has included a sustained focus to deliver further efficiency and sustainability enhancements including optimisation activity at Stafford delivering considerable operational efficiency, enhanced employee safety and reduced environmental impacts.

DECA's greatest asset is undoubtedly its world-class workforce with a long and proud heritage in supporting our Servicemen and women. We continue to have some of the best and most talented employees in the electronics and components fields and it is testament to them that these capabilities continue to be of strategic importance to MOD and our Defence customers. This continues to help ensure our success both now and into our increasingly exciting future.

I take great pride in leading such a customer focused business whose employees have demonstrated great resilience and commitment to MOD in a challenging and successful year. This year promises to be another year of exciting opportunities and challenges for DECA that I have every confidence will be met with the same enthusiasm, professionalism and success that we have achieved this year.



Geraint Spearing
Chief Executive
Defence Electronics & Components Agency
08 July 2016

Purpose, aim and values and Business Strategy

DECA's Purpose, Aim and Values were developed and agreed with senior managers, employees and Trades Unions and endorsed by the Customer and Owner as part of work to launch the new Agency on 1 Apr 15. They were designed to ensure alignment with Defence Objectives and MOD's strategic requirements for DECA and have been reviewed as part of DECA's business improvement activity during FY15/16.

Purpose

To be a trusted MOD and Industry partner, delivering assured electronics and components capability in support of Defence

Aims

We aim to be;
a highly professional team delivering benchmark support services to our customers

Values

Value our people
Promote teamwork and co-operation
Care for our customers and stakeholders
Deliver best value for defence and continuously improve

Business strategy

DECA was established as a MOD Executive Agency to provide MOD with secure access to assured onshore capacity and capability for through life Maintenance, Repair and Overhaul (MRO), upgrade and procurement services for equipment across Defence from its Sealand and Stafford sites and deployed locations around the UK.

DECA not only offers MOD capacity and capability in support of component repair, but also provides a value for money benchmark for current and future platform support solutions across the Air, Land, Maritime and Joint Enabler Defence environments. In addition, as a Government owned Agency, DECA's Crown access to Intellectual Property Rights (IPR), International Traffic in Arms Regulations (ITAR) and government to government arrangements continues to positively position the Agency in the development of holistic service support

solutions for Defence and Industry customers. The publication of Strategic Defence and Security Review (SDSR) 2015 and the National Security Strategy provided clarity on equipment programmes; equipment support programmes in the Air domain face increasing pressure through extension to current platforms and earlier procurement of new platforms. DECA is uniquely positioned to assist in delivering SDSR 2015 within budgetary constraints, and working with MOD to identify areas where DECA should engage.

DECA's business strategy continues to evolve to ensure it aligns and remains coherent with emerging MOD/Industry support strategies. To ensure alignment between DECA strategy, business performance and maintaining focus on MOD's agreed requirements and outputs for the Agency; DECA has agreed the following Strategic Objectives with its Owner:

- To maintain control of the business by operating efficiently and effectively as a stand-alone MOD Agency by:
 - ensuring effective financial control through improvements in forecasting accuracy
 - delivering the endorsed Financial Plan whilst maintaining the quality of products, services and processes
- To ensure customer delivery by providing the agreed DECA Programme, associated support and services to Customers by:
 - ensuring delivery of customer outputs to agreed performance levels and timescales
 - providing lean, agile and flexible responses to meet MOD's strategic aims for DECA and evolving operational requirements, throughout the UK, overseas and in-theatre
- To continue to implement the DECA Transformation Plan to deliver efficiencies and drive a business-wide customer focus in order to support wider MOD, Government and Industry transformation programmes through:
 - delivering the agreed levels of transformation, efficiency and cost reduction in the Plan
 - developing and maturing the DECA Transformation Strategy and align the Agency to MOD and Industry transformation strategies
 - ensuring Transformation takes into account the changing priorities and needs of the business, employees and other stakeholders through implementing the DECA Human Resources and People Strategy
- supporting the development and implementation of a benefits tracking tool to identify and demonstrate DECA value adding activities to Defence
- continuing to exploit DECA's ability to utilise MOD free user rights of third party IPR and ITAR
- To create greater value for Defence by sustaining and growing the DECA business through:
 - achieving the levels of business growth agreed in the Plan with the Owner and Customer
 - investigating the potential to develop DECA capability to provide supply chain and engineering solutions for the Customer
 - strengthening relationships with MOD and Industry Customers to ensure they understand DECA's core capacity and capability
 - ensuring alignment of DECA capacity, capability and strategic business development with Defence Objectives and MOD's strategic requirements for DECA
 - actively pursuing further opportunities in complementary commercial and military export markets where doing so is demonstrably in the wider interests of MOD and the taxpayer



Board of Directors

DECA BOARD

Alex Jablonowski
Independent
Non-Executive Chairman

Elliot Brinkworth
Departmental
Non-Executive Director

Peter Shortt
Independent
Non-Executive Director

Tim Walton
Independent
Non-Executive Director

Lin Longman
Finance Director

Geraint Spearing
Chief Executive

Jason Leeks
Head of Strategy

Ian Doughty
Support Services Director

Wayne Baker
Operations Director

Keith Pavett
Commercial and
Contracts Director

Ian Cole
Business Development
Director

EXECUTIVE MANAGEMENT BOARD

Geraint Spearing Chief Executive

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

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

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

An experienced Chartered Director and Aerospace Engineer, Geraint is a Fellow of both the Royal Aeronautical Society and Institute of Directors. Geraint has a proven capability

of running businesses and corporate support services through strong leadership and change management skills developed through repeated achievement of business objectives over his 26 year career in defence related businesses.

Lin Longman Finance Director

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

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

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

Jason Leeks

Head of Strategy, Governance and Secretariat

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

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

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

Wayne Baker

Operations Director

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

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

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

Ian Doughty

Support Services Director

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

Ian joined the Defence Aviation Repair

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

Keith Pavett

Commercial Director

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

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

Ian Cole

Business Development Director

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

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

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

Alex Jablonowski

Independent Non-Executive Chairman

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

As a government non-executive director, he has served on the boards of the Veterans Agency, Highways Agency, VOSA, Office of National Statistics, House of Commons and the Supreme Court.

Alex chaired the Defence Support Group board up to the sale to Babcock. He is currently a non-executive director on the boards of the Valuation Office Agency, Maritime Coastguard Agency and Wilton Park as well as chairing a small software company.

Elliot Brinkworth

Department Non-Executive Director

Elliot Brinkworth is the Head of Business Strategy & Governance in the Ministry of Defence, a post he has held since January 2016. Elliot joined the Ministry of Defence in 1995 as a Student Engineer and on completion of his graduate training, joined the Defence Procurement Agency, acquiring aircraft data link systems.

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

Peter Shortt

Non-Executive Director

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

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

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

Tim Walton

Non-Executive Director

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

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

Business overview

Going concern

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

DECA is tasked with covering its costs and making a profit by carrying repairs, maintenance and overhaul tasks for MOD and commercial customers but if required can obtain funding from MOD. DECA's assets and liabilities are contained within the overall balance sheet of MOD.

In these circumstances it is expected that DECA will continue to operate in the foreseeable future and has therefore adopted a going

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

Performance summary

DECA achieved its planned level of profitability during 2015/16 with a net trading income of £2.451m, £0.26m ahead of plan. DECA also achieved delivery of at least 96% of its agreed customer performance programmes. Further details of performance are shown in the performance analysis below

Risk

The major risks faced by DECA during 2015/16 were that; it would not be able to sustain an independent existence following separation from DSG due to the need to evolve its own systems and processes and sustaining business growth as a result of changing customer requirements

DECA mitigated these risks by careful planning and achieved a successful first year of independent trading.



Performance analysis

Performance against key performance indicators 2015/2016

DECA's purpose is to be a trusted MOD and Industry partner, delivering assured electronics and components capability in support of Defence. DECA's aim is to be a highly professional team delivering benchmark support services to our customers. In order to maintain Agency efficiency, structural alignment with DECA's purpose, aim and MOD planning assumptions, DECA developed and agreed Key Performance Indicators (KPIs) for FY2015/16 with the MOD Owner and Customer. Our performance against these agreed KPIs is as follows:

<p>Business Measure 1 Financial performance Operating efficiently and effectively as a stand-alone MOD Agency from 1 April 2015 by:</p> <ul style="list-style-type: none">• developing and maintaining an accurate and auditable baseline and in-year forecast variance for FY15/16• achieving at least the planned level of profit agreed in Year 1 of the Plan	Achieved
<p>Business Measure 2 Customer satisfaction Delivering the agreed DECA Customer Programmes, associated support and services to Customers by:</p> <ul style="list-style-type: none">• achieving no more than one Attributable Major Customer Concern in FY15/16• achieving delivery of at least 96% of agreed DECA Customer Programmes in FY15/16	Achieved
<p>Business Measure 3 Transformation Implementing an agreed transformation plan and efficiencies to create a customer focussed, value adding, support organisation through:</p> <ul style="list-style-type: none">• developing and agreeing a Business Excellence programme by 30 September 2015• developing and agreeing a Human Resources and People Strategy by 30 September 2015	Achieved
<p>Business Measure 4 Efficiency Developing and implementing an agreed transformation plan and efficiencies to create a customer focussed, value adding, support organisation through:</p> <ul style="list-style-type: none">• achieving at least the planned levels of efficiency improvement by delivering the Year 1 Direct Labour Utilisation target• achieving at least the planned levels of cost reduction agreed in Year 1 of the Plan	Achieved
<p>Business Measure 5 Sustainment and Growth To create greater value for Defence by sustaining and growing the DECA business through:</p> <ul style="list-style-type: none">• Producing a Business Development Strategy that identifies MOD and complementary market opportunities in adjacent commercial and military export markets to assist in delivery of the agreed business projections by 31 March 2016	Achieved

Performance indicators for 2016/2017

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

Business measure 1 **Financial performance**

Operating efficiently and effectively as a stand-alone MOD Agency by:

- improving financial control by achieving a 10% improvement in forecasting accuracy
- achieving at least the planned level of profit agreed in Year 1 of the Plan

Business measure 2 **Quality**

Successfully operating the business to deliver the Plan whilst maintaining the quality of products, services and processes by:

- achieving zero attributable Major customer concern in FY16/17
- reduce attributable Minor customer concerns by at least 5% compared to FY15/16

Business measure 3 **Customer satisfaction**

Delivering the agreed DECA Customer Programmes, associated support and services by:

- achieving delivery of at least 96% of agreed DECA Customer Programmes in FY16/17

Business measure 4 **Efficiency**

Delivering the levels of transformation, efficiency and cost reduction agreed with the Owner:

- achieving at least the planned levels of efficiency improvement by delivering a 7% increase in Direct Labour Utilisation against the FY15/16 baseline by 31 March 2017
- achieving at least a 5% saving in operating costs over the life of the Plan

Business measure 5 **Business development**

Sustaining the Agency and achieving the planned levels of business growth agreed with the Owner and Customer by:

- rolling out a consolidated Business Development Strategy that achieves at least a 20% increase in commercial revenue over the life of the Plan





Business performance review

As a trusted partner to MOD and Industry; our primary purpose is to retain a focus on supporting the UK's armed forces by delivering assured capability and developing and growing the skills and capabilities we need now and in the future.

In DECA's successful first year of trading, we have continued our focus through a drive for operational excellence, maintaining critical outputs to customers, improved turnaround times and high levels of delivery which have remained above contracted targets with no major quality concerns during the year. This focus has seen successful delivery of our first year financial plan delivering a 4% reduction in operating costs.

The launch and roll out of the DECA Transformation Programme has been a key factor in delivering this level of business performance and improvement throughout the year. Following the development of a robust governance structure, and with employee engagement across the Agency, the Programme is aligned to DECA's Corporate Plan and Values. Over 30 transformation projects and improvement initiatives have been established during the year.

These Transformation activities are aligned to wider Defence Transformation to establish the Agency's role in helping MOD successfully deliver the Strategic Defence and Security Review 2015.

Continuing to recognise that our people are our greatest asset, another key factor in enabling improved efficiency and capability growth has been the development and implementation of an innovative, complementary Human Resources and People Strategy. The development and in-year roll out of this Strategy has already begun to deliver enhanced employee engagement that is increasingly underpinning our ability to rapidly respond and flex to meet changing customer requirements.

Just over 350 employees continue to operate

from its Centre of Excellence for Avionics Maintenance, Repair, Overhaul and Upgrade based, at Sealand, North Wales (within the Deeside Enterprise Zone). A further 75 employees operate from our satellite site in Stafford and various deployed locations around the UK and overseas.

Our footprint on Typhoon has developed significantly this year through joint working with MOD and original equipment manufacturers that has seen investment in infrastructure to accommodate Typhoon test equipment and generator test facilities and capabilities at Sealand. Further Typhoon work to develop and manufacture a comprehensive suite of Typhoon fibre optic cables has led to improvements in aircraft and equipment availability at reduced cost to Defence. Responding to urgent operational requirements, we have provided additional support through the relocation of test equipment overseas and manufacture of electrical cables in support of Operation SHADER. Our staff at Stafford have also successfully developed and declared capability for Typhoon compressed gas cylinders, delivering critical availability to the front line.

Adapting new ways to exploit our vast experience of depth sustainment solutions has also been a priority this year. To accelerate the outward deployment of our unique skills, we have established a dedicated avionic development team. This team is providing valuable independent advice and enabling both MOD and Industry customers to save money through modern and innovative 'repair not replace' technologies. These technologies have been instrumental in identifying potential cost avoidance savings of over £20M on Typhoon equipment and components alone during the year.

During the year we have invested further in our people and technology to broaden both our technical and supply chain capabilities. This has enabled us to launch an obsolescence support service; one of a suite of innovative services

which is transforming the level of support that DECA provides and strengthening strategic relationships with MOD customers in support of wider transformation across Defence.

DECA's mobile Cryptographic Team have delivered critical security upgrades to Defence laptops around the UK, set-to-work commissioning of cryptographic systems on the UK's new Queen Elizabeth class aircraft carriers in addition to deploying to operational theatres to support secure battlefield communications.

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

From our facility at Donnington, DECA continues to successfully operate the European Service Centre for L3 Wescam, providing a factory licensed support solution for their highly sophisticated camera turret products including a deployable repair capability.

Further investment in business growth, through enhanced instrumentation in our class leading Calibration Laboratory, is supporting MOD's transformation programme to consolidate and rationalise MOD's calibration infrastructure. Similar development of DECA's Medical & Dental Support Services team has enhanced our geographical services and allowed closer collaboration across the three services.

Throughout the year there has been a sustained focus on the upgrade of our estate and buildings to deliver enhanced efficiency and sustainability. Reflecting the continual upgrade in operational capability, the outward appearance of the Sealand site has been considerably enhanced by some prudent facilities projects. At the same time, we have invested more than £100,000, at our Stafford

site, to optimise the physical layout of the facility delivering a financial payback within 17 months through considerable operational efficiency benefits. Equally this investment has contributed enhanced employee safety and reduced our environmental impact.

With vigilance and continued emphasis on safety in the workplace, DECA witnessed a fall in reportable incidents involving employees. DECA continued to monitor closely the working environment to mitigate any risk and to ensure incidents continue to decrease. Environmental management was a high priority for DECA, using the first year of trading as a stand-alone Executive Agency to establish baseline levels of performance and to identify stretching goals which will continue to drive improved performance to support wider government initiatives. Priority areas for DECA focus in future years include CO2 Emissions, reductions in generated waste and reductions in domestic air travel.



Winning business

During the year the Strategy team's primary focus has been work with MOD to establish a joint Management Office (DECAMO) at Abbey Wood, Bristol to take forward work to develop the DECA business and help assure DECA retained capabilities for MOD.

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

Further work by Strategy and Commercial staff saw significant progress made with MOD through the initiation of work to scope the potential benefits of establishing DECA as a strategic support supplier. This work will continue to develop during 2016 to establish where the Agency may best be able to contribute to wider MOD Transformation activities arising from the Strategic Defence and Security Review 2015.

Business development focus for FY15/16 has been on establishing the DECA 'brand' and identity in the market place at DSEI and

development of strategies to take forward work to establish DECA as the UK's avionics hub in Europe. This has been augmented by the reinvigoration of DECA's Business Development Strategy as one of the Agency's identified key performance indicators in delivering Year 1 of the DECA FY2015/16 Corporate Plan.

The Agency has identified the MOD and DECA business development activities that will help ensure delivery of future workload projections. In addition, complementary Business Development Sector Strategies for Land, Sea and Joint Enabler environments have been matured to enable capability growth of world leading, electronic and components capabilities across all four Pillars of Defence.

The primary focus for the commercial team during the year has been the consolidation of sales and procurement contracts following separation and establishment of DECA. Other activity has seen the New Commercial Arrangement successfully transitioned across to DECA, following sale of DSG, the first year of the new Air Commodities Transformation contract successfully delivered and longer term contracts established with key industry customers.



Sustainability report

Greenhouse gas emissions data

Previously DECA Greenhouse Gas (GHG) emissions and generated waste targets were reported as part of the DSG. On separation from DSG, it was determined that DECA needed to re-baseline its GHG Emissions and waste targets, as previous targets were derived from the DSG business land based portfolio which biased the levels significantly, the correlation between the GHG emissions and waste baseline was determined to be inappropriate as a suitable baseline for DECA.

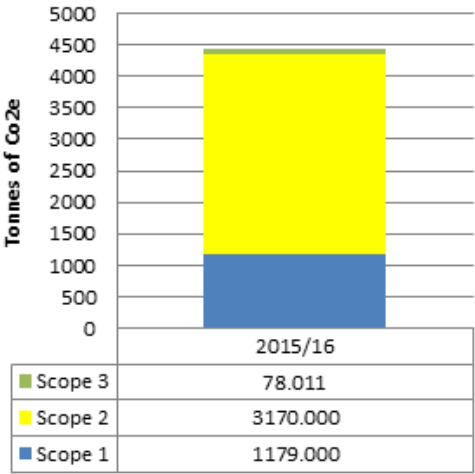
This baseline will be used in conjunction with the MOD Sustainment Delivery Plan to set future target improvements.

The 3 scopes of GHG emissions are:

- Scope 1 – Direct Greenhouse Gas Emissions (includes gas usage, fuel oil, LPG and fuel from vehicles owned and operated by DECA)
- Scope 2 – Energy Indirect Emissions (usage of electricity supplied to DECA)
- Scope 3 – Other Indirect Emissions (includes business travel by air, rail and hire/private car use)

The Table below shows the breakdown of the various emissions by scope for this financial year. The graph below depicts the breakdown by scope.

GHG	FY2015/16
	CO2e Tonnes '000
Scope 1 – Direct GHG emissions	
Natural gas	1,033
Fuel oil/LPG	N/A
DECA fleet vehicles	146
Scope 2 – Energy Indirect Emissions	
Electricity	3,170
Scope 3 – Official business travel emissions	
Domestic air travel	8.5
Rail travel	0.239
Hire private car	69



DECA CO2e emissions by scope

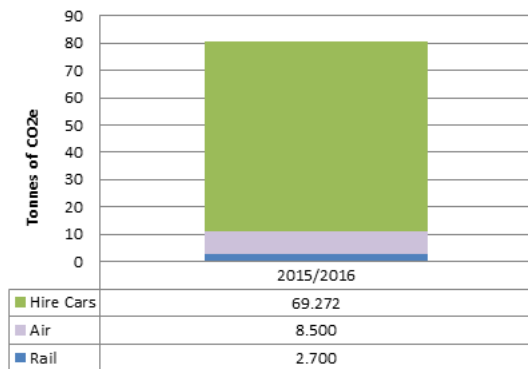
DECA business travel profile

DECA has adopted a policy whereby domestic air travel is only permitted to support front line operations, when alternative forms of surface travel would have an adverse impact on cost, quality or operational effectiveness. DECA have used the first year of trading as a stand-alone Executive Agency to establish baseline levels and to identify stretching goals which will continue to drive a reduction in domestic surface travel. Video and telephone conferencing was used whenever practicable, and rail travel usage is encouraged, especially between DECA Sealand and London.

International business development activity has led to a small number of unavoidable international flights, mainly to the USA.

The total number of miles travelled by car this year was 230,908 this includes vehicles on long-term lease and short-term hires.

There were 274 train journeys totalling 37,453 miles this year. Air travel resulted in 8 domestic flights, totalling 2,106 miles (There were also 4 International Flights – not part of the reported scope). The graph shows the CO2e breakdown by mode of travel.



DECA CO2e travel emissions



Test Solutions capability using Teradyne S9000 ATE
© DECA



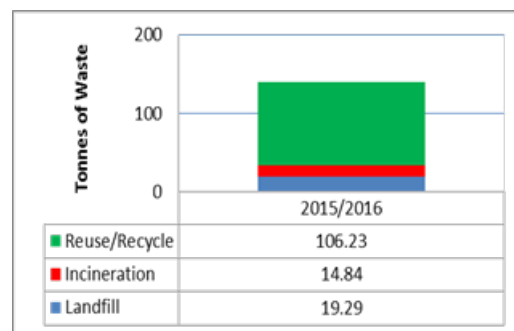
DECA management of waste

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

The majority of non-hazardous recyclable waste was disposed of through DSA, i.e. product

related waste such as metal, oils, etc. Financial data for waste disposal is not recorded; the volume is tabled and profiled below:

Waste category	FY2015/16
	Tonnes
Hazardous	
Landfill	0
Incinerated	13.98
Reuse/recycle	23.45
Non-hazardous	
Landfill	19.29
Incinerated	0.86
Reuse/recycle	82.78
Composted	0
Total waste	140.36



DECA waste disposal

People

The Human Resources team's primary focus during the year has been developing, obtaining approval and communicating the DECA Human Resources and People Strategy (HR&P). This strategy will help ensure that DECA's workforce continues to develop in order to meet the challenges within the competitive and challenging electronics and components sector. The HR&P Strategy has been aligned within, and forms a cornerstone to the wider Transformation Programme.

DECA participated in the 2015 Civil Service People Survey (CSPS). In summary, whilst the results showed improvement in all almost all

aspects, it is clear that DECA still has significant opportunity to build overall employee engagement. The HR team are taking the lead in responding to the survey in innovative ways. Success to date includes the launch of a comprehensive DECA Pay and Grading review, implementation of the cycle to work scheme and review of a range of people related policies. CSPS and engagement are a continuing theme of the Transformation Programme.

The DECA FY15-16 Pay Remit was successfully implemented, in full compliance with Public Sector Pay Policy and avoiding dispute with the Trades Unions.



Financial performance review

Trading Results

DECA successfully completed its first year as a Executive Agency with a net operating income of £2.451m which was £0.26m ahead of plan. Income from sales of goods and services was slightly below plan but this was offset by reduced costs.

Cash Flow and Funding

Cash flow was assisted by a £10m cash injection from the parent department which enabled DECA to manage its own working capital and close the year with a strong cash balance.

Capital Investment

There was no capital investment during the year. At the 31st March 2016 the land and Buildings occupied by DECA were professionally revalued by the Defence Infrastructure organisation and the results of the revaluation reflected in the financial statements.

Administration and Accounting

DECA successfully established its own accounting and administration systems following its separation from DSG and these systems performed well in the first year of trading.

Approval

The performance report is approved.



Geraint Spearing
Accounting Officer
08 July 2016

Accountability report

Corporate governance report

Board of Directors

Directors who served during the year were:

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

Non – Executive Directors who served:

Alex Jablonowski	Chairman (Non-executive Director)
Peter Shortt	Non-executive Director (From July 15)
Tim Walton	Non-executive Director (From July 15)
David English	MOD Non-executive Director (until Jan 16)
Elliot Brinkworth	MOD Non-executive Director (from Jan 16)

Directors report

Domicile

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

Pension liabilities

Details of the pension liabilities and their treatment is contained the Remuneration and staff report on Page 32 and in the notes to the accounts.

Company Directorships and other significant interests held by board members

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

Remuneration paid to the auditors for non-audit work

DECA made no remuneration to the auditors for non-audit work in the financial year 2015/16.

Sickness absence

The total number of days lost due to sickness absence was 2,865 which equates to 6.71 days per employee.

Reporting of personal data related incidents

There are no reported personal data related incidents for the financial year 2015/16.

Statement of accounting officer's responsibilities

Under the Section 7 (2) of the Government Resources and Accounts Act 2000, HM Treasury has directed DECA to prepare for the year ended 31st March 2016 accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must:

- a) give a true and fair view of the state of affairs as at 31 March 2016 and of the income and expenditure, changes in taxpayers' equity and cash flows of the agency for the financial year then ended; and
- b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting

standards as set out in the Government Financial Reporting Manual has been followed, and disclose and explain any material departures in the financial statements;

The AO of the Ministry of Defence designated the Chief Executive as AO of DECA for the year 2015/16. The responsibilities of an AO, including responsibility for the propriety and regularity of the public finances for which the AO is answerable, for keeping proper records and for safeguarding DECA's assets, are set out in Managing Public Money published by HM Treasury.

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

I confirm that the Annual Report & Accounts as a whole gives a fair, balanced and understandable view of DECA's activities for the year ended 31st March 2016 and its financial position as at 31st March 2016.

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

Governance statement

I was appointed as Accounting Officer for the Agency on its formation on 1 April 15 with responsibility for the preparation of these first DECA Agency Accounts for 2015-16. As Accounting Officer, I must be able to assure Parliament and the public of high standards of probity in the management of public funds.

The Annual Report and Accounts for 2015-16 as presented here have been produced under the guidance and oversight of the members of the Audit and Risk Assurance Committee.

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

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

Governance framework

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

The governance structure in place during 2015-16 was as follows:

- **DECA Steering Group**, the Group was chaired by our owner The Minister for Defence Procurement (Min(DP)) and Director General Head Office and Commissioning Services (DG(HOCS)) who has delegated responsibility for oversight of DECA on behalf of MOD's Permanent Under Secretary and the Minister for Defence Procurement. The Steering Group provides advice to Min(DP) and DG (HOCS) on the

review and setting of DECA's strategic objectives and Agency performance as well as the approval of the Corporate Plan and major business decisions. The Steering Group met two times during the year.

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

Board that provides on matters relating to the proper application of DECA pay strategy for all DECA employees below the Senior Civil Service. Additionally, the RENCO advises the DECA Chair and Chief Executive on appointments to the DECA Executive Agency Board (except for the Chair, whose appointment is the responsibility of the Owner). The RENCO also endorses nominations for consideration in the Honour's List and for other Civil Service awards such as campaign medals and long service awards, as appropriate.

- **DECA Executive Management Board (XMB)**, the XMB is chaired by the DECA Chief Executive and attended by all members of the Executive Management team (DECA's Operations Director, Support Services Director, Commercial and Contracts

Director, Business Development Director, Finance Director and Head of Strategy). The purpose of the XMB is to support and advise the Chief Executive on the day-to-day management of the Agency. The XMB met twelve times during the year.

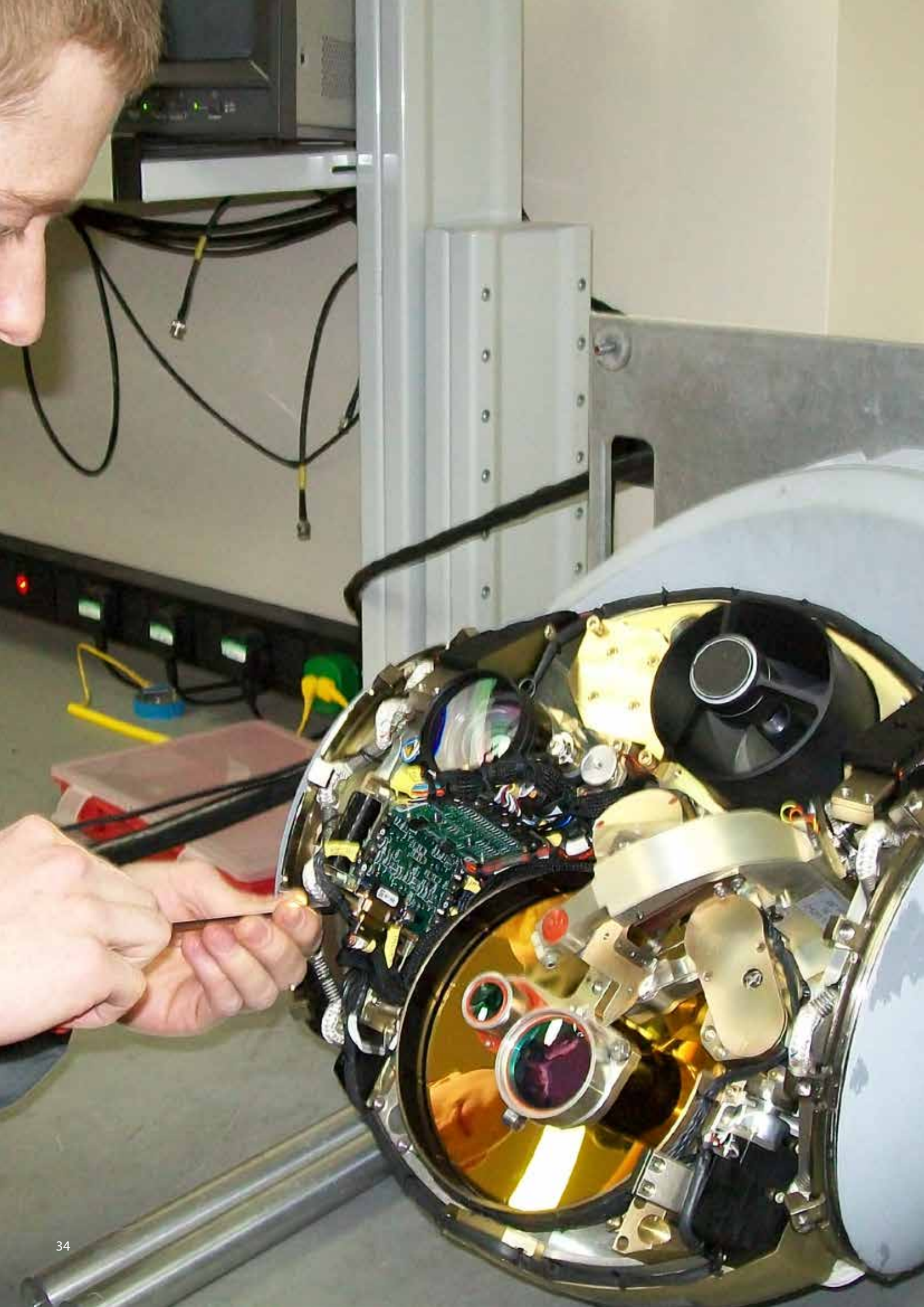
- **Executive Governance Group**, the Chief Executive, as Accounting Officer, chaired the Executive Governance Group which included all XMB members. The main responsibilities were to review the Governance Policy and Processes of DECA and manage the Internal Audit and Risk Management Policies and Processes. The Executive Governance Group met three times during the year.

Schedule of meetings and attendance during 2015-16:

Meeting	Members	Meetings held	No. Attended	% Attendance	% Overall Attendance	No. of Members	Scheduled frequency
Steering Group	Min(DP) (Chair)	2	2	100%	Full	6	Up to 3 times annually
	MOD DG HO&CS (vice-Chair)	2	2	100%			
	CoM(Air)	2	2	100%			
	MOD NED	2	2	100%			
	DECA Board Chair	2	2	100%			
	DECA CE	2	2	100%			
Agency Board	DECA Board Chair	5	5	100%	97%	7	At least quarterly
	Independent NED	5	5	100%			
	Independent NED	5	5	100%			
	MOD NED	5	5	100%			
	DECA CE	5	5	100%			
	DECA Finance Director	5	5	100%			
	DECA Head of Strategy & Governance	5	4	80%			
Audit and Risk Assurance Committee	Independent NED (Chair) (Note 1)	3	3	100%	100%	5	Up to 6 times annually (minimum x2)
	MOD NED	4	4	100%			
	DECA CE (by invitation) (Note 2)	1	1	100%			
	DECA FD (by invitation) (Note 2)	4	4	100%			
	DECA Chair (by Invitation) (Note 2)	3	3	100%			
Remuneration Committee	Independent NED (Chair)	4	4	100%	Full	4	Up to 6 times annually (minimum x2)
	MOD NED	4	4	100%			
	DECA Support Services Director	4	4	100%			
	DECA Head of Human Resources	4	4	100%			
Executive Management Board	Chief Executive (Chair)	12	12	100%	86%	7	Monthly
	Finance Director	12	12	100%			
	Commercial Director	12	10	83%			
	Support Services Director	12	11	92%			
	Operations Director	12	11	92%			
	Business Development Director	12	8	67%			
	Head of Strategy & Governance	12	8	67%			
Executive Governance Review	Chief Executive (Chair)	3	3	100%	Full	7	Up to 6 times annually (minimum x 3)
	Finance Director	3	3	100%			
	Commercial Director	3	3	100%			
	Support Services Director	3	3	100%			
	Operations Director	3	3	100%			
	Business Development Director	3	3	100%			
	Head of Strategy & Governance	3	3	100%			

Note 1. Not appointed until after the first meeting had been held.

Note 2. Number of meeting attended differs as attendance is by invitation.



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

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

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

A copy of the NED's Declared Conflicts of Interests Form was forwarded to the MOD TOG Boards Secretariat for inclusion, as necessary, on the central register of interests held by MOD Financial Management Policy & Accounting. Declaration of any conflicts of interest is also a standing item on the DECA Board and RENCO meeting agendas.

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

Board performance

The Steering Group met twice during the year with the Agency Board and Board sub-Committees (ARAC and RENCO) meeting 5, 4 and 4 times respectively during the last year.

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

The DECA Board reviews and assesses the performance of the Board sub-committees and

its own performance each year. The DECA Board determined that, during 2015-16 the Board and sub-committees had all performed satisfactorily and that there had been no departures from the Corporate Governance Code of Good Practice.

Highlights of board committee reports

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

Audit and Risk Assurance Committee

- The ARAC has been proactive in reviewing the Internal Audit activities and attending to process improvements for both Internal Audit and Risk Management; approving the annual internal audit plan and monitoring its progress during the year; and approving the terms of reference of the Risk Management Committee.
- The audit programme was designed to provide assurance that the basics such as governance and risk management were operating effectively and would aid DECA in the achievement of its objectives testing some of the enabling functions of the Agency such as the financial processes and the delivery of corporate systems. The Audit work, and opinions provided during the year covered the following areas:
 - Risk Management – Audit Opinion, Substantial Assurance
 - Governance – Audit Opinion, Substantial Assurance
 - Core Financial Controls – Audit Opinion, Substantial Assurance
 - S Separation from DSG – Audit Opinion, Full Assurance
- The Annual Report and Accounts were approved with no significant issues raised.

Remuneration committee

The RENCO's core activity has been to review and endorse the annual proposed DECA Pay Remit for employees below Senior Civil Service, including the DECA Corporate Bonus Scheme, prior to onward submission through MOD

Centre, to our Minister for final approval. The RENCO also reviewed and endorsed DECA's HR and People Strategy and has provided governance over the phased implementation. Whilst under its remit of Nomination, the RENCO reviewed and endorsed one nomination for Birthday Honour's.

Compliance meeting

During its first year, DECA has implemented a tiered structure of Compliance Reviews, with the most senior being the Executive Compliance Review (XCR). This has met 3 times and issued reports on findings and any exceptional items to the XMB. The XCR deals with all aspects of Compliance including Quality issues, Health & Safety (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) and accident data), results from Compliance audits, customer and supplier concerns, airworthiness concerns, security concerns, environmental performance and data on other significant operational and compliance issues.

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

Corporate governance

The structure of Corporate Governance in DECA has been effective and was regularly reviewed internally and through Defence Internal Audit during the year that provided substantial assurance. In the CE's opinion DECA, to the extent that it is deemed relevant and practical, has followed the Corporate Governance Code's requirements.

Information reporting

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

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

Risk management

Both the DECA Board and Executive Management Board carried out regular reviews of the Corporate Risk Register including further in-year work to conduct 'deep dive' activity on both Corporate and Functional Risk Registers to ensure focus on post-Separation business risks including business efficiency, business growth, forecast demand delivery and IS risks. Defence Internal Audit activity during the year assessed the adequacy and resilience of DECA's Risk Management Policy and Processes and provided a substantive assurance.

The focus of Risk Management within DECA during its first year has been to establish a risk management governance structure and to embed its risk management policies and procedures throughout the organisation. In addition, there has been particular focus on Project Risk Management in support of bids and proposals.

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

Assessment of the main risks

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

- separation from DSG and the need to evolve its own systems and processes
- business growth - as a result of changing customer requirements
- future business strategy – failure to secure strategic development opportunities for DECA
- securing short term workload in order to maintain business efficiencies

Key Business Risks FY15/16	Pre-Mitigation Risk		Target Risk	
	Probability	Impact	Probability	Impact
Separation from DSG	Medium	High	Low	Medium
Business growth	High	High	Medium	High
Future business strategy	Medium	High	Low	High
Securing short term workload	Medium	High	Low	High

Risk Management within DECA is structured as follows:

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

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

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

The Risk Management Process is structured as follows:

- DECA Board – owns the Corporate Risk Register and is responsible for ensuring mitigation is in place.
- XMB – carry out more frequent in-depth reviews of the corporate risks and recommend downgrading or approving and accepting upgrades of risks.
- Audit Committee – has approved the Risk Policy and Process and through HIA receives regular updates to incorporate central government advice and recommendations and implement recommendations from Internal Audit activity. The Audit Committee

also carried out reviews of the Corporate Risk Register and Functional Risk Registers.

- Risk Management Committee – meets at least 4 times a year and manages the policy and process for the Audit Committee and has recently reviewed its TOR, which has been approved by the Audit Committee. The chair is the Finance Director or their delegated deputy and membership includes Board Directors, or their deputies, and functional heads. Proposals for upgrading or downgrading of risks will normally be handled through this committee who will make the recommendations.
- ARM – is the software tool used to manage all risks throughout DECA and provides regular reports on risk activity for management. All new proposals/bids must include a risk assessment with a report from ARM.

Information assurance

DECA has ensured that all its Information Asset Owners have undertaken assessments to the required levels. The HR function maintained the Risk Register.

During the year Land Information Assurance Group (LIAG) undertook a comprehensive and in-depth vulnerability assessment against criteria set down by Defence Assurance and Information Security (DAIS). This assessment covered not only our physical infrastructure but potential cyber threat to our data, the outcome of which found no major weaknesses to be addressed and indicated that DECA had a good security culture within its organisation.

There have been no breaches of the Information Management Asset Process and no loss of corporate data.

Fraud & whistleblowing

DECA has counter fraud processes in place and has a zero tolerance policy in operation in line with the rest of the Department. There have been no reported incidents of fraud during the year. However, in order to rigorously test the processes, DECA has requested DIA to undertake a comprehensive audit.



Business continuity

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

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

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

Health & safety

There has been a 25% reduction in work-related incidents reported (RIDDORS) to just 3 across DECA, which currently averages less than 1 per 100 employees. There was no discernible trend, the incidents being 1 crush, 1 instance of dermatitis and 1 muscle strain. All incidents were thoroughly investigated and measures designed to prevent recurrence implemented.

Annual Audit Opinion – head of internal audit

This has been the first year of operations for the new Agency. Elements of the risk management and Governance processes were developing and taking shape, and were aligned to the Framework Document and best practice.

Governance arrangements were shadow run in parallel with DSG during the separation period. This period could have led to unintended operational issues, especially relating to IT systems. However, this inherent risk had been effectively managed by DECA.

Based on our audit work conducted this year the system of internal control within DECA is established and operating effectively with some minor weaknesses

Conclusion: DECA's corporate governance arrangements have evolved during the year to meet the needs of its status as a Executive Agency.

The overall trend during the year has been one of improvement and bedding down of the governance arrangements. I am satisfied that there is in place a robust assurance regime to provide me with assurance on the overall effectiveness of governance, risk management and internal controls for the Agency.

Remuneration and staff report

Remuneration report

Remuneration and Nomination Committee (RENCO)

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

Service Contracts

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

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

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

MOD appointed the independent Non-Executive Directors (NEDs) for a fixed term but not as Civil Servants, they are paid on a MOD administered payroll. Contracts may be terminated at one month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination would be immediate.

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

Remuneration Policy

DECA has no pay costs for Ministers. The Chief Executive is a senior civil servant (SCS). As such his pay was set through recommendations made by the Review Body on Senior Salaries. The Review Body on Senior Salaries provides independent advice to the Prime Minister and Secretary of State for Defence on the remuneration of the SCS taking account of evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at <https://www.gov.uk/government/organisations/office-of-manpower-economics>

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

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

For the 2015/16 pay settlement year, all employees were awarded a pay increase of 1% of their salaries on joining DECA from DSG which was consistent with Public Sector Pay Policy.

The DECA Pay and Grading Structure was approved by the DECA Board and Remuneration Committee and was designed to achieve the Corporate Business Strategy having due regard to the financial success of DECA, current Government and MOD policies and targets, and public sector pay guidance.

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

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

DECA directors and staff below SCS are eligible for a Corporate Bonus payment under a profit sharing scheme the outcome of which will not be definitely known until after the publication

of the Annual Report & Accounts. An accrual for the estimated overall level of the Corporate Bonus payment has been included in the Accounts.

All pay awards were subject to the satisfactory performance of the duties assigned.

Remuneration (including salary) and pension entitlements

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

Remuneration (salary, benefits in kind and pensions, subject to audit opinion)

Single total figure of remuneration					
Officials	Salary (£'000)	Bonus payments (£,000)	Benefits in kind (to nearest £100)	Pension benefits (to nearest £5,000) ¹	Total (£'000)
	2015/2016	2015/2016	2015/2016	2015/2016	2015/2016
Chief Executive Geraint Spearing	75 - 80	-	-	35 - 40	110 - 115
Operations Director Wayne Baker	55 - 60	-	-	40 - 45	95 - 100
Finance Director Belinda Longman	65 - 70	-	-	45 - 50*	115 - 120
Support Services Director Ian Doughty	65 - 70	-	-	30 - 35	95 - 100
Head of Strategy, Governance & Secretariat Jason Leeks	50 - 55	-	-	20 - 25	70 - 75
Business Development Director Ian Cole	55 - 60	-	-	25 - 30	80 - 85
Commercial & Contracts Director Keith Pavett	65 - 70	-	-	45 - 50	110 - 115

¹The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

Salary

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

Bonuses

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

(*) indicates purchase of added years

Pension benefits (subject to audit opinion)

Officials	Accrued pension at pension age as at 31/3/16 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/16 ²	CETV at 31/3/15	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Chief Executive Geraint Spearing	25-30 plus lump sum of 75-80	0-2.5 plus lump sum of 0-2.5	407	359	14
Operations Director Wayne Baker	10-15 plus lump sum of 40-45	0-2.5 plus lump sum of 2.5-5	183	148	17
Finance Director Belinda Longman	20-25 plus lump sum of 0-5	2.5-5 plus lump sum of 0-2.5	320	254	37
Support Services Director Ian Doughty	10-15 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	179	147	16
Head of Strategy, Governance & Secretariat Jason Leeks	10-15 plus lump sum of 10-15	0-2.5 plus lump sum of 0-2.5	211	184	10
Business Development Director Ian Cole	20-25 plus lump sum of 60-65	0-2.5 plus lump sum of 2.5-5	394	347	22
Commercial & Contracts Director Keith Pavett	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 5-7.5	523	453	38

² The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016

Pay multiples (subject to audit opinion)

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

The remuneration of DECA's staff was in the range £14,757 per annum to £78,324 per annum, these figures are for a full year. The median remuneration of the workforce was £27,223.

The banded remuneration of the highest-paid director in DECA in the financial year 2015-16 was £75-80k. This was 2.85 times the median

remuneration of the workforce.

In 2015-16, 0 employees received remuneration in excess of the highest-paid director.

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

Civil Service Pensions - see Annex A
Cash Equivalent Transfer Values - see Annex A
Real increase in CETV - see Annex A

Compensation for loss of office (subject to audit opinion)

There have been no payments by DECA for compensation for loss of office for Financial Year 2015 – 2016.

Off Payroll Appointments

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

Remuneration details of Non-Executive Directors

Non-Executive Directors	Fees 2015/2016 £'000
Alex Jablonowski ³	20 - 25
Peter Shortt ⁴	10 - 15
Tim Walton ⁵	10 - 15

³ Reflects NED fees for May 2015 – March 2016 only as fees for NED were transferred from DSG to DECA on 01/05/2015

⁴ Reflects NED fees for July 2015 – March 2016 only as individual was appointed as DECA NED 01/07/2015

⁵ Reflects NED fees for July 2015 – March 2016 only as individual was appointed as DECA NED 01/07/2015



Staff report

Staff numbers

The average number of persons employed during the year was:	Number of employees
Senior management	10
Service personnel	Nil
Civilian personnel	412
Agency staff	5
Total	427

All staff listed above are on permanent contracts with the exception of 5 Agency staff and 6 Fixed Term Appointments who are included in the civilian personnel number.

The figure for senior management includes one member of the Senior Civil Service who is a one star.

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

	Males	Females
Senior management	8	2
Service personnel	Nil	Nil
Civilian personnel	356	56
Agency staff	4	1

Payroll costs £'000 (subject to audit opinion)

Salaries, wages and allowances	11,958
Social security	855
Pension costs	2,428
Agency staff	132
Total payroll costs	15,373

Sickness absence

The total number of days lost due to sickness absence was 2,865, which equates to 6.71 days per employee.

Employment of disabled persons

Staff policies were applied during the financial year:

For giving full and fair consideration to

applications for employment by DECA made by disabled persons, having regard to their particular aptitudes and abilities; For continuing the employment of, and for arranging appropriate training for, employees of DECA who have become disabled persons during the period when they were employed by DECA; otherwise for the training, career development and promotion of disabled persons employed by DECA.

Consultancy

There was no requirement for consultancy within DECA during FY15/16.

Pensions

Pension benefits for civilian employees are provided through the Civil Service Pension arrangements.

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" are unfunded multi-employer defined benefit schemes but (DECA) is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation <http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>.

For 2015-16, employers' contributions of £2,424,111 were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £4,177 were paid to one or more of the panel of three appointed

stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £139, 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

No contributions were due to the partnership pension providers at the balance sheet date

There were no retirements on the grounds of ill-health during the year.

Reporting of Civil Service and other compensation schemes - exit packages

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

There were no exit packages for agreed or compulsory departures during the year or any costs relating to such packages. There were no voluntary or compulsory redundancies during the year.

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

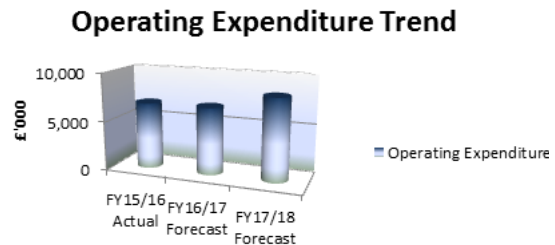
Regularity of Expenditure (subject to audit opinion)

All expenditure made during the year was made in pursuit of DECA's business objectives and there were no improper or irregular payments.

There were no material losses or special payments

There were no severance payments or write-offs.

Long-term expenditure trends



Note the above figures do not include pay costs. There is no historical comparison of expenditure trends as this is the first year of DECA as an Executive Agency.

Fees and Charges (subject to audit opinion)

DECA has no published scale of fees and charges, it charges prices for its services based on negotiated contract prices with individual customers. No services are provided below cost. In agreeing prices to be charged for work to be carried out by the MOD an agreed profit rate on costs is used to calculate prices.

Remote contingent liabilities

DECA has no remote contingent liabilities.

Approval

The Accountability report is approved.

Geraint Spearing
Accounting Officer
08 July 2016

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Defence Electronics and Components Agency for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Defence Electronics and Components Agency's affairs as at 31 March 2016 and of the retained net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and

Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

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

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

Date
14 July 2016

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

Financial statements

Statement of comprehensive income for the year ended 31 March 2016

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

The notes on pages 52 to 63 form part of these accounts.

Statement of financial position as at 31 March 2016

	Note	31 March 2016 £'000
Non Current Assets		
Non current assets		
Property, Plant and Equipment	6	19,211
Total Non Current Assets		19,211
Current assets		
Inventories and work in progress	7	512
Trade and other receivables	8	11,734
Cash and cash equivalents	9	7,295
Total current assets		19,541
Total Assets		38,752
Current liabilities		
Trade and other payables	10	(6,818)
Provisions	11	(51)
Total current liabilities		(6,869)
Non -Current liabilities		
Long term liability	10	(2,189)
Total assets less total liabilities		29,694
Financed by		
Taxpayers equity and other reserves		
Revaluation reserve	SOCTE	16,352
General fund	SOCTE	13,342
Taxpayers' equity		29,694



Geraint Spearing
Accounting Officer
08 July 2016

The notes on pages 52 to 63 form part of these accounts.

Statement of cash flows for the year ended 31 March 2016

	Note	2015/2016 £'000
Cash flows from operating activities		
Net operating income	SOCNI	2,451
Adjustments for non cash transactions:		
Depreciation charges	6	862
Notional audit fee	4	28
Decrease/(increase) in inventories and work in progress	7	(512)
(Increase)/decrease in receivables	8	(11,734)
(Decrease)/ increase in payables	10	6,818
(Decrease)/Increase in provisions for liabilities and charges	11	51
Transfers relating absorption accounting	1.1	(669)
Net cash outflow from operating activities		(2,705)
Cash flows from financing activities		
Equity from parent department	9	10,000
Net cash inflow from financing activities		10,000
(Decrease) / increase in cash and cash equivalents		7,295
Cash and cash equivalents at start of year		0
Cash and cash equivalents at end of year	9	7,295

The notes on pages 52 to 63 form part of these accounts.

Statement of changes in Taxpayers' equity for the year ended 31 March 2016

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

The notes on pages 52 to 63 form part of these accounts.

Notes to the accounts for the year ended 31 March 2016

1. Accounting policies

Basis of accounting

The accounts are prepared in accordance with the Government Financial Reporting Manual (FRoM) for 2015/16 and the Accounts Direction, both issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of DECA for the purpose of giving a true and fair view is selected. The particular policies adopted by DECA are described below. They are applied consistently in dealing with items considered material in relation to the accounts.

Going Concern

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

Domicile

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

Accounting convention

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

Turnover

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

Property, plant and equipment

Basis of Recognition

Expenditure on plant, equipment, computers and transport equipment is periodically

reviewed and capitalised where the useful life exceeds one year and the cost of acquisition exceeds the threshold of £25,000 excluding VAT. The value of capitalised plant, equipment and transport equipment is reviewed annually and adjustments made using appropriate indices published by the MOD Director Corporate Financial Management Capability. Non-current assets are recognised initially as Assets in the Course of Construction which are not depreciated. At the point that an asset becomes fully available for use, it is re-categorised appropriately and depreciation commences.

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

Basis of Valuation

Property plant and equipment is carried at fair value. A quinquennial professional valuation of Land and Buildings is carried out by the Defence Infrastructure Organisation. In the years between quinquennial valuations land and buildings are revalued using indices. All other property, plant and equipment are valued using relevant indices.

Impairment of assets

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

Depreciation

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

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

- **Buildings - not exceeding thirty five years**
- **Plant & Equipment - between ten and twenty five years**
- **Transport Equipment - between three and twenty years**
- **IT Equipment - between five and seven years**

Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and Armed Forces Pension Schemes (AFPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS or AFPS appropriately. The cost of pension cover provided is by payments of charges (Accrued Superannuation Liability Charges - ASLC) based on a percentage of salary. Salaries include gross salary, certain performance bonuses and recruitment and retention allowances. It does not include the estimated monetary value of benefits in kind. Payments are made at contribution rates determined by the Government Actuary's Department.

Inventories

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

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

Work in progress

Work in progress is valued on the basis of direct labour, where this is applicable to the contract, and indirect production support, plus those

business overheads that are directly related to normal levels of production activity. For spares inclusive contracts, the cost of the spares consumed is also included in the WIP valuation. The value is reviewed monthly to reflect the lower of cost or net realisable value and the rates used to value WIP are reviewed at least annually.

Long term contracts

Long term contract (LTC) balances are stated at costs incurred (net of amounts transferred to cost of sales), after deducting related payments on account. Profit on individual long term contracts is taken only when their outcome could be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Turnover on long term contracts is ascertained in a manner appropriate to the stage of completion of the contract.

Provision for bad and doubtful debts

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

Cash and cash equivalents

Cash is held via a Government Banking Service Bank account

Operating leases

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

There are no finance leases

Value added tax

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

Employee benefits

DECA accrues for untaken employee leave entitlement at the end of the financial year. For permanent employees the leave year runs to 30th April and employees are able to carry forwards an element of entitlement at the end

of the financial year. These amounts fall due within one year and the value of the liability is calculated using records of actual untaken leave and average pay rates to comply with IAS 19.

Significant accounting judgements and estimates

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

Provisions

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

Accounting accruals

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

Foreign Exchange

All foreign denominated transactions are translated at the average exchange rate for the previous month, being a proxy rate for that ruling at the time of the transaction. At

31 March balances are translated into Sterling at a year end spot rate. Foreign exchange differences are taken directly to the Statement of Comprehensive Income.

IFRS's issued but not yet effective

IFRS's amendments and interpretations in issue but not yet effective or adopted

IFRS 5 Non-Current Assets held for sale and discontinued operations

IFRS 7 Financial Instruments Disclosures relating to service contracts

IAS 19 Employee benefits- discount rates

IAS 34 Interim Financial Reporting

IAS 1 Disclosure initiative

IAS 27 Equity Method in separate financial statements

IAS16 and IAS38 Clarification of acceptable methods of depreciation

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

1.1 Transfer of Functions

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

As public sector bodies are deemed to operate under common control, business combinations are outside the scope of IFRS 3 and the FReM 2015/16 requires the use of absorption accounting for such transfers, where the transfer is within a departmental group. This treatment requires the net assets to be transferred at

their carrying value with the value of the transfers shown as a non-operating gain or loss. The FReM does not require retrospective adoption of the absorption accounting policy.

Consequently, prior year transactions have not been included.

The net asset values transferred to DECA from MOD were:

	Note	£'000	£'000
Non Current assets			
Property, plant & equipment	6		11,520
Current assets			
Inventory	7	566	
Receivables		4,524	
		5,090	
Current liabilities			
Payables		(5,708)	
Provisions	11	(51)	
		(5,759)	
Net current Liabilities			(669)
Net assets			10,851

2. Income

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

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

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

Analysis of turnover by business segment

	2015/2016
	£'000
MOD Revenue	18,879
Commercial Revenue	5,412
Total	<u>24,291</u>

Other operating income

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

3. Purchases of goods and services

Cash costs	2015/2016
	£'000
Materials & sub contract costs	632
Accommodation costs	1,290
IT and Telecommunications	452
Utilities	900
Security	543
Equipment Support	326
Other services	511
Total purchase of goods and services	<u>4,654</u>

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

4. Other operating expenditure

	2015/2016
Cash costs	£'000
Training	132
Insurance	212
Travel & subsistence	235
Other professional services	22
Lease and hire costs of plant, machinery & vehicles	650
Miscellaneous costs	5
Total cash costs	1,256
Non cash costs	
Audit	28
Depreciation	862
Total non cash costs	890
Total operating expenditure	2,146

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

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

5. Staff costs

	2015/2016
Payroll costs	£'000
Salaries, wages and allowances	11,958
Social security	855
Pension costs	2,428
Agency Staff	132
Total payroll costs	15,373

6. Property, plant and equipment

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

		Land	Buildings	Plant & machinery	IT	Assets in course of construction	Total tangible
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:							
At 1 April 2015		0	0	0	0	0	0
Additions		0	0	0	0	0	0
Transfers under absorption accounting	1.1	3,631	11,432	186	126	73	15,448
Disposals		0	0	0	0	0	0
Impairment / Reversal of Impairment		0	0	0	0	0	0
Reclassification		0	0	73	0	(73)	0
Revaluation		3,496	390	0	0	0	3,886
At 31 March 2016		7,127	11,822	259	126	0	19,334
Depreciation:							
At 1 April 2015		0	0	0	0	0	0
Depreciation charged during the year		0	818	20	24	0	862
Disposals		0	0	0	0	0	0
Impairment		0	0	0	0	0	0
Transfers under absorption accounting	1.1		3,849	48	31	0	3,928
Revaluation		0	(4,667)				(4,667)
At 31 March 2016		0	0	68	55	0	123
Net book value							
At 31 March 2016		7,127	11,822	191	71	0	19,211

Note: There were no finance leases during the year

7. Inventories and work in progress

	Note	£'000	£'000
Stocks			
Transfer under absorption accounting	1.1	267	
Net consumption during year		(13)	
Balance at 31 March 2016			254
Work in Progress			
Transfer under absorption accounting	1.1	299	
Net transfers to operating expenses during the year		(41)	
Balance at 31 March 2016			258
Total inventory at 31 March 2016			512

8. Receivable and prepayments

	31 March 2016
	£'000
Amounts falling due within 1 year:	
Trade and sundry invoiced receivables	4,107
Other receivables	334
Prepayments	255
Accrued income	7,038
	<hr/> 11,734 <hr/>

All the above balances fall due within 1 year.

Aged Trade and Sundry Invoiced Receivables Analysis	Not Yet Due	30 to 60 Days	60 to 90 Days	90 to 120 Days	120+ Days	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2016	3,889	118	63	34	3	4,107

The accrued income figure of £7m is due from the parent department and has full contractual cover.

9. Cash at bank and in hand

	31 March 2016
	£'000
Cash held with Government Banking Service (GBS)	7,295
	<hr/> 7,295 <hr/>

On 1st April 2015 MOD deposited £10m cash in DECA's GBS account representing its equity stake in DECA. There has been a short term reduction in this cash balance at 31 March 2016 due to an unbilled debt from its parent department.

10. Payables

Amounts falling due within one year:	31 March 2016
	£'000
Trade payables	79
Taxation and social security	268
Value Added Tax	1,081
Accruals	2,057
Deferred income	2,728
Amounts due to pension schemes	259
Sundry payables	346
	6,818
Long Term Liabilities	31 March 2016
	£'000
Profit due to Parent Department	2,189
	<hr/>
	2,189

Each year DECA is required to repay its parent department the planned level of operating profit

11. Provisions for liabilities and charges

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

The balance on other provisions at 31 March 2016 was required to meet an obligation to provide replacement stock for parts supplied by a customer.

12. Operating leases

Operating lease payments recognised as expenses in the period were:

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

(i) Contained within note 4

None of these payments were contingent rents or sublease payments.

	31 March 2016
	£'000
Payable within one year	214
Payable after one year	54
	268

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

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

Future minimum lease payments under non-cancellable operating leases where DECA is acting as lessor are:

	31 March 2016
	£'000
Receivable within one year	66
	66

This relates to a short term lease on facilities at the Sealand site.

There are no financial leases

13. Commitments, contingent assets and liabilities

DECA had no capital commitments at 31 March 2016

There are no contingent assets at 31 March 2016

There are no contingent liabilities at 31 March 2016

14. Financial instruments

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

Currency Risk

DECA conducts business in Sterling, US Dollars and Euros and is therefore subject to foreign exchange risk. At 31 March 2016 there are no existing liabilities.

Liquidity Risk

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

Counterparty / Credit Risk

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

Capital Management

The financial strategy of DECA supports its aim of sustaining its manufacturing capability and achieving the return on capital objectives set by its owner. The key elements of the strategy are:

- Sufficient flexibility for the funding of necessary capital expenditure and working capital required for any expansion of the business.
- Avoidance of risk and compliance with HM Treasury policies

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

Categories of financial instruments

Financial Assets

At 31 March 2016

	£'000
Trade, sundry and other debtors	11,734
Cash at bank and in hand	7,295
	<hr/>
	19,029

Financial Liabilities

At 31 March 2016

	£'000
Trade and other payables	6,818
Long term payables	2,189
	<hr/>
	9,007

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

There have been no other events after the reporting period.

These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

15. Related Parties

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

16. Losses and special payments

There were no material losses or special payments.

17. Auditors

The Government Resources and Accounts Act requires DECA's Annual Report and Accounts to be audited by the Comptroller and Auditor General. DECA's auditor is the National Audit Office (NAO). The cost of this audit is £28k.

18. Events after the reporting period

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

Annex A

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65. These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers

also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement) The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the

individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

GLOSSARY

List of acronyms and abbreviations

AFPS	Armed Forces Pension Schemes	GPSS	Government Pipeline and Storage System
AO	Accounting Officer	HIA	Head of Internal Audit
AR&A	Annual Report and Accounts	HR	Human Resources
ARAC	Audit and Risk Assurance Committee	HR&P	Human Resources and People Strategy
ARM	Active Risk Manager	IAS	International Accounting Standards
ASLC	Accrued Superannuation Liability Charges	IFRS	International Financial Reporting Standards
BCP	Business Continuity Plan	IPR	Intellectual Property Rights
CE	Chief Executive	ISTAR	Intelligence, Surveillance, Target, Acquisition and Reconnaissance's
CETV	Cash Equivalent Transfer Value	ITAR	International Traffic in Arms Regulations
CIMA	Chartered Institute of Management Accountants	KPIs	Key Performance Indicators
CO ₂ e	Carbon Dioxide Equivalent	LIAG	Land Information Assurance Group
CSOPS	Civil Servant and Other Pension Scheme	LTC	Long Term Contract
CSPS	Civil Service People Survey	Min(DP)	Minister for Defence Procurement
DAIS	Defence Assurance and Information Security	MOD	The Ministry of Defence
DE&S	Defence Equipment and Support	MRO	Maintenance, Repair and Overhaul
DECA	Defence Electronics & Components Agency	NAO	National Audit Office
DECAMO	Management Office	NED	Non-Executive Chairman/Director
DG(HOCS)	Director General Head Office and Commissioning Services	PCSPS	Principal Civil Service Pension Scheme
DIA	Defence Internal Audit	RENCO	Remuneration & Nomination Committee
DSA	Disposal Services Authority	RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
DSEI	Defence & Security Equipment International	SCS	Senior Civil Servant
DSG	Defence Support Group	SDSR	Strategic Defence and Security Review
EU	European Union	TOR	Terms of Reference
FIFO	First In First Out Basis	VAT	Value Added Tax
FReM	Financial Reporting Manual	VOSA	Vehicle Operator Services Agency
GBS	Government Banking Service	WIP	Work in Progress
GHG	Greenhouse Gas	XCR	Executive Compliance Review
		XMB	Executive Management Board

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