



Annual Report and Accounts 2004 - 2005

Defence Communication Services Agency



MINISTRY OF DEFENCE

Contents

Chief Executive's Overview	2
Key DCSA Achievements 2004/2005	3
Agency Review of Activities	6
Agency Direction	25
Agency Future Strategy	32
Financial Accounts	33
Supporting Information	64





DEFENCE COMMUNICATION
SERVICES AGENCY

A Defence Agency of the
Ministry of Defence

Annual Report and Accounts 2004/2005

Presented to the House of Commons pursuant to section 7 of the
Government Resources and Accounts Act 2000
No Parliamentary proceedings apply to this paper.

Ordered by the House of Commons to be printed 20th July 2005

Chief Executive's Overview

2004/2005 proved to be another intensive and challenging year for the Agency.

I am very pleased to present the Defence Communication Services Agency's (DCSA's) Annual Report and Accounts for 2004/2005. This last year has seen the Agency continue to provide critical support to the United Kingdom's peacekeeping and military operations around the globe, as well as providing for the delivery of key business enabling services and applications in support of the wider Defence community.

Our support to the UK Armed Forces remains one of the key outputs of the Agency. 2004/05 saw the DCSA respond to an intensive level of military activity with the Agency supporting 20 Operations, including Op TELIC – the name for the British contribution in Iraq – 21 major Exercises and eight standing Fleet commitments. Most notably, the Agency continued to support the EU Stabilisation Force in Bosnia and Kosovo, maritime operations in the Middle East, as well as supporting the Iraqi national elections at the end of January 2005. This was against the backdrop of a significant increase in the Agency's commitment to providing CIS in Afghanistan throughout 2004/05. Project SYNERGY – the DCSA-led CIS Urgent Operational Requirement to provide a comprehensive deployed communications infrastructure for Op TELIC – remained the cornerstone of our operations in Iraq, with some 100 DCSA and supporting contractor staff deployed in theatre at any one time.

I am very pleased to report that the Agency exceeded all of its Key Targets except Key Target 5 – Customer Satisfaction – where changes in the methodology of capturing customer satisfaction data invalidated the results. Detailed information relating to our performance against our Key Targets can be found on pages 8–13.

I am also very pleased to report the continued development of a number of key projects that are having a real impact in enabling the Defence community to meet the Defence Vision¹. For example, the Defence Information Infrastructure (DII) Convergence programme successfully delivered on time and on budget a DII-enabled MoD HQ, as well as to the FLEET and STRIKE HQs. The Future element of the programme also moved into a crucial next stage following the award of the Delivery Partner Contract to the ATLAS Consortium, marking the beginning of the roll-out of Increment 1 of DII(F) across Defence.

These are significant steps along the path of providing a coherent information infrastructure – stretching from the civil servant in Whitehall to a Front Line Commander in an Operational theatre. In addition, the Defence Fixed Telecommunications System (DFTS) contract was extended to 2012, thereby ensuring not only the continued provision of the UK's Armed Forces telecommunication requirements in terms of secure Wide Area Network voice, data and video services but also realising an expected £203m operational and financial benefits to the Department. The DCSA Change Programme continues apace, ensuring that the Agency is positioned to achieve its Vision End State² and progress along the Route is detailed on pages 27–31.

The challenges facing Defence ICS are significant, as is the importance of Assurance and Coherence of ICS across Defence and the Agency's role in achieving this. The DCSA is at the heart of many Defence-wide initiatives and we will continue to support them within an increasingly demanding economic environment.



RGJ Ward
Rear Admiral, Chief Executive

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

² Information anytime, anywhere – transforming Defence effectiveness.

Key DCSA Achievements 2004/2005

Significant achievements included:

- All Key Targets achieved except KT5 (Customer Satisfaction) where changes in processes have invalidated direct comparison of results against the set target
- DCSA Change Programme driving forward change, delivering £28m of hard benefit during 2004/2005, with £113m hard benefit and a further £211m of cost avoidance, identified across Short Term Plan 05 (STP 05)
- SKYNET 5 Private Finance Initiative delivered within budget and the February 2005 In Service Date achieved. On target for Full Operational Service by March 2008
- Defence Information Infrastructure (Convergence) (DII/C) programme proceeding on time and within budget – First User Live for MoD Head Office achieved on time (21 May 2004), with project completed by 30 September 2004 – Head Office project deemed a success by senior management team. Fleet HQ2004 and HQSTC milestones achieved and projects delivered on time
- DII (Future) (DII/F) Main Gate approval achieved in February 2005 and Delivery Partner contract awarded to ATLAS Consortium on 2 March 2005
- Defence Fixed Telecommunications System (DFTS) (Future) contract renegotiated with British Telecommunications Plc and contract extended until July 2012 on 1 April 2005
- Significant DCSA contribution to the Defence Modernisation Programme including the delivery of Phase 1 of the Head Officer Travel Service in June 2004, the award of a Defence e-Learning contract in July 2004 and the award of the Future Pay contract ahead of schedule in November 2004
- Replacement of the Comprehensive Royal Navy Inventory System and On-line Provisioning and Update System (CRISP) mainframe completed October 2004, resulting in significant processing time improvements. Land supply chain base inventory system (SS3) mainframe replacement completed December 2004, four months ahead of schedule with similar improvements anticipated
- Clansman radio systems initially fitted ahead of schedule to 208 SNATCH vehicles, with a further 100 installation kits dispatched during August 2004. BOWMAN HF also installed in SNATCH 2 vehicles ahead of 12 Mech Brigade deployment on Op TELIC in March 2005
- A key role in Op ADANA, the homeland defence operation, where the ADGBS IPT and ACCS IPT support the UK's ground-based air defence radars and some associated data and command and control links
- DHFCS Programme and SKYNET 5 teams awarded a Minister for Defence Procurement Award 2004 for excellence and endeavour in the application of Smart Acquisition principles





The Agency continues to support worldwide operations and is actively involved in delivering, testing and assuring complex Communication and Information Systems (CIS) solutions to the Defence community.

Agency Review of Activities

Support to Operations

The Agency continued to support worldwide operations and was actively involved in delivering, testing and assuring complex Communication and Information systems (CIS) solutions to the defence community.

Op TELIC, the generic name for the British contribution in Iraq, continued to dominate the operational sphere throughout 2004/2005. The commercialisation of the communications infrastructure provided by DCSA through Project SYNERGY continues. Project SYNERGY is the DCSA-led CIS Urgent Operational Requirement (UOR) to provide a comprehensive deployed communications infrastructure in support of Op TELIC. It provides framework CIS to all coalition and UK forces assigned to the Multi-National Division South East sector, from Baghdad to Basra, and the timely release of critical UK CIS capabilities to be reconstituted to support future Joint Rapid Reaction Force deployments. It also provides the communications infrastructure to the RAF base at Seeb (Oman) and Al Udeid (Qatar). Maximising the use of contractors for installation and, more significantly, for post-installation operations and maintenance, SYNERGY has made a significant impact in drawing down in-theatre military manpower to more sustainable levels. Approximately, 100 DCSA and supporting contractor staff are deployed in theatre in support of SYNERGY at any one time.

Notable activity included the successful deployment of four SYNERGY mobile detachments to support the national elections at the end of January 2005 and the completion of the CIS infrastructure at the Shaibah Logistics Base – two months early. Other significant deliverables were the re-establishment of the Private Managed Radio System (PMR) in the south of the Divisional area, a detailed technical review of all SYNERGY assets in order to firmly establish a baseline prior to acceptance and further deployments of SYNERGY.

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

- Op OCULUS in the Balkans – the Agency continued to support the EU Stabilisation Force in Bosnia and Kosovo
- Op HERRICK in Afghanistan – the Agency's commitment to CIS in Afghanistan increased throughout 2004/2005 with additional DCSA detachments being deployed to Kandahar, Mazar-E-Sharif and Meymaneh
- Ops ORACLE/ARMILLA/CALASH/REINSTATE – continued support to maritime operations in the Middle East
- Op GARRON – the Agency supported the UK military's response to the Tsunami disaster in Asia by providing communication information support to HMS Chatham and RFA Diligence
- NATO Standing Forces – the Agency continued to meet its commitments to NATO standing forces in the Atlantic and the Mediterranean
- Atlantic Patrol Task North – support to ships engaged in tasks in the British dependent territories in the Caribbean during the hurricane season, counter drug operations alongside the US Coastguard and the Royal Netherlands Navy
- Atlantic Patrol Task South – support to ships engaged in tasks in the British dependent territories in the South Atlantic (including the Falklands) and West Africa (in particular patrolling in the area of Sierra Leone)

As well as Operations, significant CIS support has been given to several tri-service exercises. Most notable of these were Ex AURORA and Ex RAPID ALLIANCE where a number of maritime units deployed, including the Fleet Flagship HMS Invincible; Ex MAGIC CARPET, which took place off the coast of Oman and the large land-based Ex JOINT VENTURE 04.

Finally, the Agency has been fully engaged with PJHQ and Front Line Commands (FLC) in the development of the Joint Force CIS (JFCIS) and Joint NETCEN concepts and has achieved Full Operational Capability (FOC). This development will ensure that the Agency has personnel at the required level of readiness, supported fully by equipment and sustainment capabilities, to provide CIS planning input across the spectrum of operations, including the post-conflict stage.

Agency Review of Activities

Area of Operational Support



KEY:

FPDA

HERRICK

OCULUS/NATO Op JOINT FORGE

TOSCA

TELIC

VOSPER

GARRON

ADANA

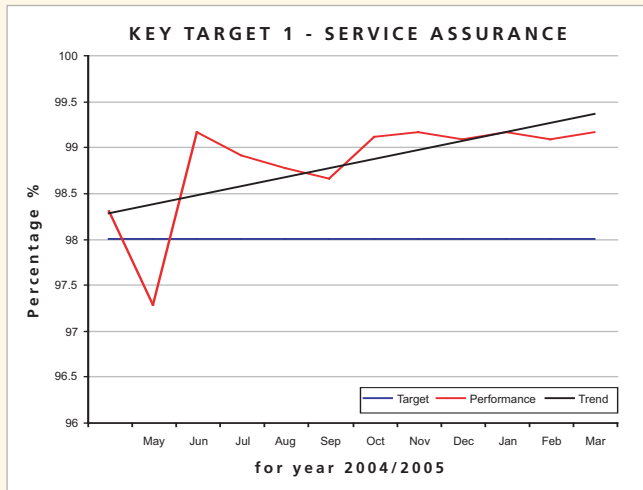
- Five Powers Defence Arrangement - HMS Exeter
- International Security Assistance, Afghanistan
- Bosnia/Kosovo and Balkans
- Cyprus
- Iraq
- Sierra Leone
- Indonesia/Thailand
- UK

Agency Review of Activities

Key Target Performance for 2004/2005

Key Target 1 – Service Assurance

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



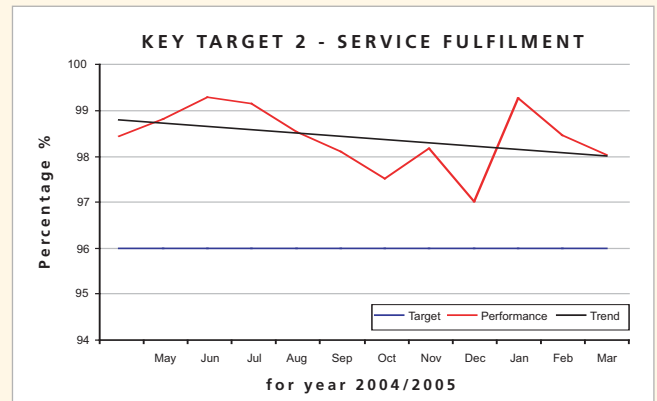
Target Performance – 98%
Final Performance – 98.8%

Despite an expected drop in performance following the introduction of new measurement systems, the Agency has met and exceeded this demanding Service Assurance target with the average performance of 98.8% for the year. A consistent level of performance of 99.1% has been maintained since October 2004.

New measurement systems were introduced to improve Key Target 1 (KT1) by aligning the performance target more closely with that of other CSAs, as well as changing the volume and nature of the performance metrics linked to this KT. These changes have delivered substantial benefits in the improved ability to quantify and measure outputs, and benefits will continue to accrue as the systems are developed to provide additional granularity of outputs. The apparent dip in performance in May/June 2004 was due to a reduction in data capture to about 60% of the reportable measures in May 2004. This data capture improved to the 95% reported from August 2004 onwards.

Key Target 2 – Service Fulfilment

To commission an average of 96% of new service requests on, or before, the dates agreed by Customers with the DCSA. Target Exceeded.



Target Performance – 96%
Final Performance – 98.4%

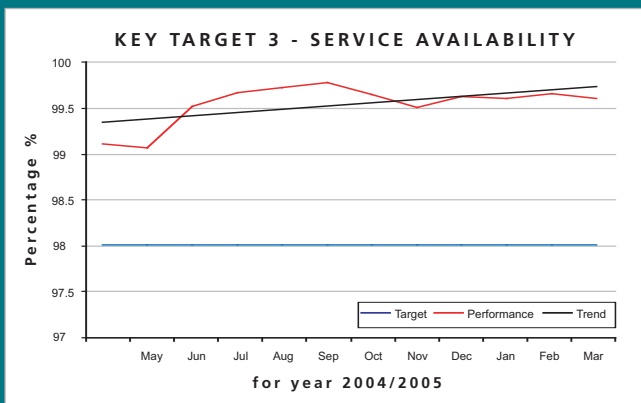
The Agency has exceeded its target for Key Target 2 (KT2) of 96% to produce an end of year average performance of 98.4%. This is despite an increase in this KT for 2004/2005 and a slight downward trend in Quarter 3 of 2004/2005 to 97%. This was due mainly to incorrect reporting from Agency Directorates and IPTs; however this was resolved and the outcome reflected in the improvement of performance in the final quarter of 2004/2005.

Agency Review of Activities

Key Target Performance for 2004/2005

Key Target 3 – Service Availability

To achieve an average service availability of 98% for all operational services. Target Exceeded.



Target Performance – 98%

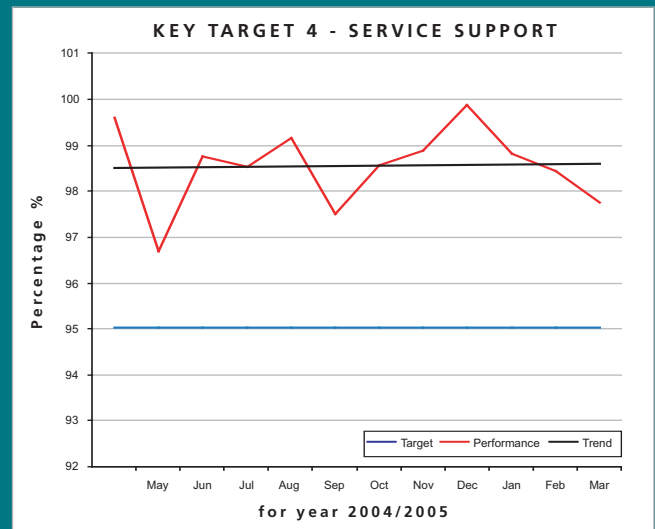
Average Performance – 99.6%

The Agency has exceeded its target of 98% for Key Target 3 (KT3) to achieve an average performance of 99.6% and has maintained a positive trend line throughout 2004/2005.

During 2003/2004, KT3 focused upon service restoration. The KT has been developed during 2004/2005, with the full agreement of the customer community, to reflect service availability. A new service configuration within the Global Operations and Security Control Centre (GOSCC) HOURGLASS information system has enabled individual service availability to be calculated more accurately. Additionally, 2004/2005 KT3 performance has reflected business critical performance measures reported by IPTs via the DCSAP1 Performance reporting tool as well as by capturing instances of QOS1³ failures via the GOSCC HOURGLASS process. Improvements in the processes and relationship with CIS staffs at PJHQ/FLCs have had a positive impact on this KT.

Key Target 4 – Service Support

To achieve an average 95% success rate against agreed standards in response to demands on all DCSA Operator Assistance Centres (OACs) and Helpdesk facilities. Target Exceeded.



Target Performance – 95%

Final Performance – 98.8%

Despite Key Target 4 (KT4) being increased significantly to 95% for FY 2004/2005 the Agency has exceeded its target coming in at 98.8%. This KT will continue to be developed in conjunction with the DCSA Service Management Strategy, which is designed to deliver improved Agency level service management.

³ Quality of Service (QOS) is a value term used to express the current status of a specific Defence Communication Service (DCS). It ranges from QOS1 'complete loss of service' to QOS3 'normal operations'. It encompasses both availability and performance of the delivery of DCSA services.





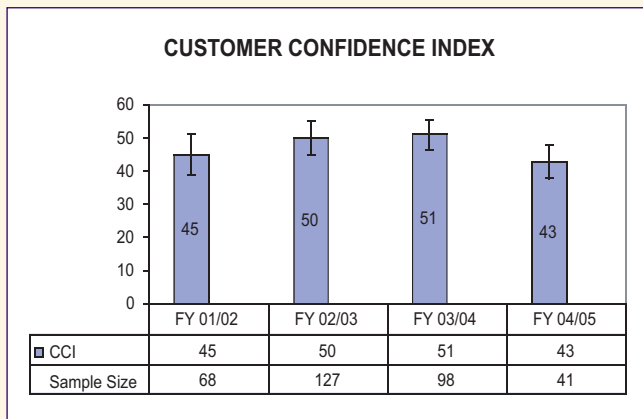
The SAT IPT transferred into the Agency on 1 April 2004. This through life, dual accountable IPT is responsible for a number of projects ranging from the delivery of operational communications services, conventional acquisition and service delivery through private and public/private partnerships, and the provision of secure long haul communications vital to the UK Armed Forces. The most prominent project is the SKYNET 5 PFI.

Agency Review of Activities

Key Target Performance for 2004/2005

Key Target 5 – Customer Satisfaction

To achieve a Customer Confidence Index of 54.
Target Withdrawn.



The Agency ran its first formal pilot programme to gauge Customer Satisfaction in FY2001/2002 using a Customer Confidence Index (CCI) methodology and scored a CCI of 45. The method was repeated in FY2002/2003 and FY2003/2004 with CCI scores of 50 (against KT of 50) and 51 (against KT of 54) showing some improvement but missing the target in the latter year.

As a result, the customer satisfaction measurement and action planning processes were revised in October 2004 and the programme refocused to concentrate on senior stakeholders, with external personnel conducting interviews and the questionnaire adjusted for a senior audience.

Whilst the adjustments improved the quality and consistency of qualitative comments, the changes in method destabilised the CCI measurement system, with individual scores varying from 2 to 70 and a margin of error on the result in excess of 12, making comparison with previous years' scores inappropriate. In these circumstances, it was considered that there was no value to be gained from reporting the score as a KT and with the approval of the DCSA Owner's Advisory Board and the DCSA 2* Customer Group, this target was withdrawn.

However, the qualitative comments gained during the Customer Satisfaction Review have proved to be of great value and are being used as the basis of an action plan to improve the Agency's behaviour to, and interface with, its customers.

Key Target 6 – Efficiency Measurement

To achieve an improvement in efficiency, reducing the average unit cost of DCSA output by 4%.
Target Exceeded.

The Agency achieved overall an Efficiency realisation figure of 11.4%, almost three times in excess of the original 4% target. Significant contributors to the overall efficiency achievement include the DII IPT (£36.2m) and the DFN IPT (£45.4m). In addition, Lean Support has generated efficiency savings of £12.5m and Procurement Reform has achieved £17.5m across the Agency in FY2004/2005.

The Agency has developed its Benefits Management Framework to provide a common approach for through-life benefits management across the DCSA. This is key to enable effective investment decision-making, allowing the business to better identify and deliver a range of benefits. It will also allow the Agency to understand the assisted benefits it enables for Defence customers, especially in terms of the DII/F programme.

Agency Review of Activities

Key Target Performance for 2004/2005

Key Target 7 – Project Management

To deliver new projects to time, cost and performance as expressed at the 90% confidence level within a tolerance of 9%. Target Met.

Of the projects identified for reporting against Key Target 7 (KT7) for FY 2004/2005 the following projects had In Service Dates (ISD) during the year. The overall slippage for the FY 2004/2005 expressed in time is 4.46%.

Project	Main Gate Approval	Approved ISD/ Acceptance	Predicted ISD/ Acceptance	Slippage
DFN DFTS(Germany)	Dec 1995	Dec 05	Dec 04	Time: 6 Months (5%).
SAT Delivery of Skynet 5 services by Paradigm	Jan 2002	Mar 05 IOS Mar 08 FOS	Feb 05 Mar 08	Project Completed Nil
DDI IPT - Provision of CIS for TYPHOON at MOBs	N/A – Typhoon procured under old approvals process	MOB 1 – Nov 04 MOB 2 – Mar 05	MOB 1 – Nov 04 MOB 2 – Mar 05	Project Completed Nil
DII IPT - DII (Army) - Implement DI/C at 2 Div (Area 2)	Dec 2001	May 04	Feb 05	Project Completed Time: 9 months (30%)
DII IPT - DII (Army) - Implement DI/C at 3 Div (Area 4)	Dec 2001	Sep 04	Dec 04	Project Completed Time: 3 months (9%)
DII IPT - DI/C Implementation at Fleet HQ	Jul 2003	Jun 04	Nov 04	Project Completed Time: 5months (45%)
DII IPT - DI/C Implementation at Head Office	Jul 2003	Jul 04	Nov 04	Project Completed Time: 4 months (33%)

Agency Review of Activities

Progress of Major Projects

The following provides an update on the Agency's Major Projects:

Defence Fixed Telecommunications Service (Future) (DFTS(F))

On 1 April 2005, the MoD signed a five year extension to the Defence Fixed Telecommunications System (DFTS) service Public Private Partnership contract with British Telecommunications (BT) plc. This is worth in excess of £1.5bn, taking the total contract value to over £3bn.

The DFTS(F) contract extension secures the continuation of global voice, data and video telecommunications services to July 2012. These services are vital to the daily operations of the Department and the UK Armed Forces. It will bring technological innovation, with the gradual migration of DFTS services onto a new digital core network, providing operational benefits and contributing to the Department's future capabilities, as set out in the Defence White Paper on 'Delivering Security in a Changing World' (July 2004). The extended contract will also make an important contribution to the Defence Modernisation Programme by maintaining a stable Wide Area Network (WAN) telecommunication service, which is critical to the successful roll-out of the Defence Information Infrastructure (Future) project. The extended contract is expected to realise some £203m of operational and financial benefits across the life of the contract.

Defence Information Infrastructure (Convergence) and (Future) (DII/C and DII/F)

The Defence Information Infrastructure project was formed in October 2000 to provide Defence with a common infrastructure (by initially bringing coherence to some 300 information systems) to underpin business change programmes and improve Command and Battlespace Management at both the strategic and operational level. DII is also a critical component of networked-enabled capability.

DII/C – The First User Live (FUL) for MoD HQ (in Whitehall, London) was achieved after considerable effort on time on 21 May 2004. The project remained on time during the infrastructure roll out of over 300 workstations per week and was completed by 30 September 2004 as planned. The two main business partners for Head Office, BT and Fujitsu, worked hard

to keep the roll-out on schedule and the project has been deemed a success by the Main Building senior management team. The FUL date of the 28 June 2004 for Fleet HQ2004 was successfully met and the building is now fully occupied with around 820 Fleet staff using DII/C (RESTRICTED and SECRET) accounts. Finally, FUL for STRIKE HQ was achieved in December 2004, three months later than originally planned due to site-wide power supply problems.

DII/F – On 2 March 2005 it was announced that the Atlas Consortium, comprising EDS as the Contractor, with Fujitsu, General Dynamics, EADS and Logica CMG as key sub contractors, was the preferred Delivery Partner for the DII/F project.

The Agency and its Delivery Partner have now moved into the Future stage of the project which, with Increment 1, will provide a fully networked and managed service to around 70,000 desktops around the world.

SKYNET 5

The SKYNET 5 PFI contract, worth around £2.5bn, and delivered through a Public Private Partnership with Paradigm Secure Communications, achieved ISD on 23 February 2005, on time and on budget. SKYNET 5 will deliver the next generation of military satellite communications to support UK peacekeeping and military operations and provide high capacity long haul communications and traffic growth up to 2018. It has identified substantial savings as a result of the PFI approach and saves approximately four per cent – around £100m – of the whole life costs of a conventional acquisition, while providing the same capability and greater flexibility.

The Intermediate Operating Services (INOS) is required by March 2007 and marks the point at which services can be delivered through the first In-orbit SKYNET 5 satellite. The target for Full Operational Service (FOS) remains as March 2008.

Agency Review of Activities

Organisational Changes

Corporate Restructuring

The Agency continues to evolve at a rapid pace and its success in consolidating Information and Communication Services (ICS) resources from across Defence has meant it is taking on more people, more assets and more responsibility. To maintain this evolution and manage the transition more smoothly, the Agency, restructured its functions across the organisation at year-end, creating a new life 1* post of Director Strategic Transition (D ST) from 1 April 2005. D ST is charged with delivering the Agency's Change Programme.

This enabled the redistribution of some of the tasks of Director Engineering, Interoperability and Information Services; the new directorate, Directorate Information Service Delivery (D ISD) focuses on internal provision of services. The new directorate of the Chief Technology Officer (CTO) has been created to provide a much needed focus on the technical coherence role. Once the DCSA transition has been realised, the post of D ST will be disestablished and any remaining strategic transition functions redistributed amongst the remaining Directorates.

In addition, the Agency's two main Personnel Management Authorities merged to create a single Human Resource (HR) department. This has standardised the Agency's HR processes in readiness for the implementation of the MoD's People Programme which will see the creation of a new MoD-wide HR shared service organisation delivering HR transactional activity in 2008/2009.

Major Mergers/Transfers In & Out of DCSA

The Agency has continued working with the appropriate IPTs and Top Level Budget holders on the transfer of assets, personnel and associated resources into the DCSA. As part of the Agency Corporate Change Programme, the mergers programme is well established and continues to manage the transfer of non-DCSA CIS service provider organisations into the Agency.

Some of the more significant changes are the following:

Communications Messaging (CMSG) IPT

On 1 April 2005, the DPA-hosted CMSG IPT disbanded and its staff transferred into the DII IPT and D ISD. The old CMSG IPT had responsibility for the delivery of High Grade messaging to Defence and the majority of these systems are planned to migrate into a single coherent system (Project ANSON) managed by the DII IPT.

Information & Communication

Systems Support (ICSS) IPT

On 1 November 2004, the ICSS IPT merged with the BOWMAN & Land Digitization (BLD) IPT to form the Bowman And Tactical Communications & Information Systems (BATCIS) IPT. The amalgamated IPT is dual accountable to the Defence Procurement Agency (DPA) and DCSA and is responsible for the through-life management of a range of tactical CIS equipment and systems used in the Land environment, including the associated amphibious and air manoeuvre components. The short to medium term focus of the IPT will be the successful introduction into service of Bowman. The IPT is expected to transfer to the DCSA in April 2006.

Military Airborne Communications (MAC) and Successor Identification Friend and Foe (SIFF) IPTs

The previously DPA-hosted MAC dual accountable IPT merged with the SIFF IPT on 1 April 05 to form the Identification and Communication Equipment (ICE) IPT. The IPT will no longer be dual accountable to the DCSA as its accountability transfers to DPA and DG (Log) Strike during FY 2005/2006.

Satellite Communications

Acquisition Team (SAT) IPT

The SAT IPT transferred into the Agency on 1 April 04. This through life, dual accountable IPT is responsible for a number of projects ranging from the delivery of operational communications services, conventional acquisition and service delivery through private and public/private partnerships, and the provision of secure long haul communications vital to the UK Armed Forces. The most prominent project is the SKYNET 5 PFI.

Special Projects and Communication

Surveillance & Reconnaissance (SPCISR) IPT

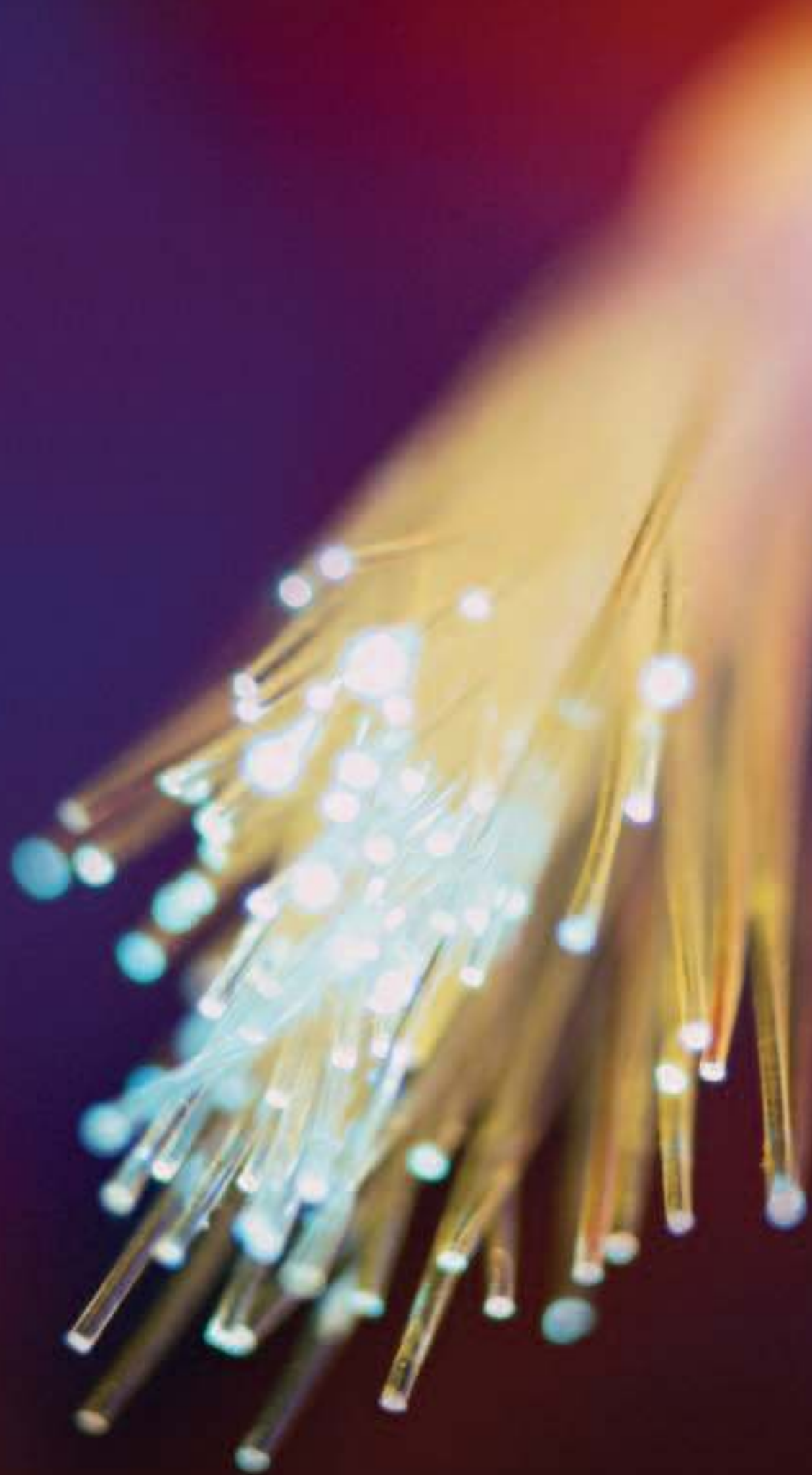
From 1 April 05, accountability for this IPT transferred to the DPA and DG (Log) Land.

Strategic Terrestrial Radio Systems (STRS) IPT

On 1 April 05, STRS IPT transferred from the DPA into the DCSA reflecting the increasing maturity of the programmes it delivers. The IPT is dual accountable to the DPA and is responsible for the development and delivery of Very Low Frequency (VLF) to High Frequency (HF) Strategic Radio Services and systems, on a tri-service and cradle to grave basis, with worldwide coverage.

On 1 April 2005, the MoD signed a five year extension to the Defence Fixed Telecommunications System (DFTS) service Public Private Partnership contract with British Telecommunications (BT) plc and is worth in excess of £1.5bn, taking the total contract value to over £3bn.

The DFTS(F) contract extension secures the continuation of global voice, data and video telecommunications services to July 2012. These services are vital to the daily operations of the Department and the UK Armed Forces.



Agency Review of Activities

Organisational Changes

The following DCSA organisational structures as at 1 April 2004 and 1 April 2005 show the significant changes undergone by the Agency during FY2004/2005.

DCSA Organisational Structure (as at 1 April 2004)

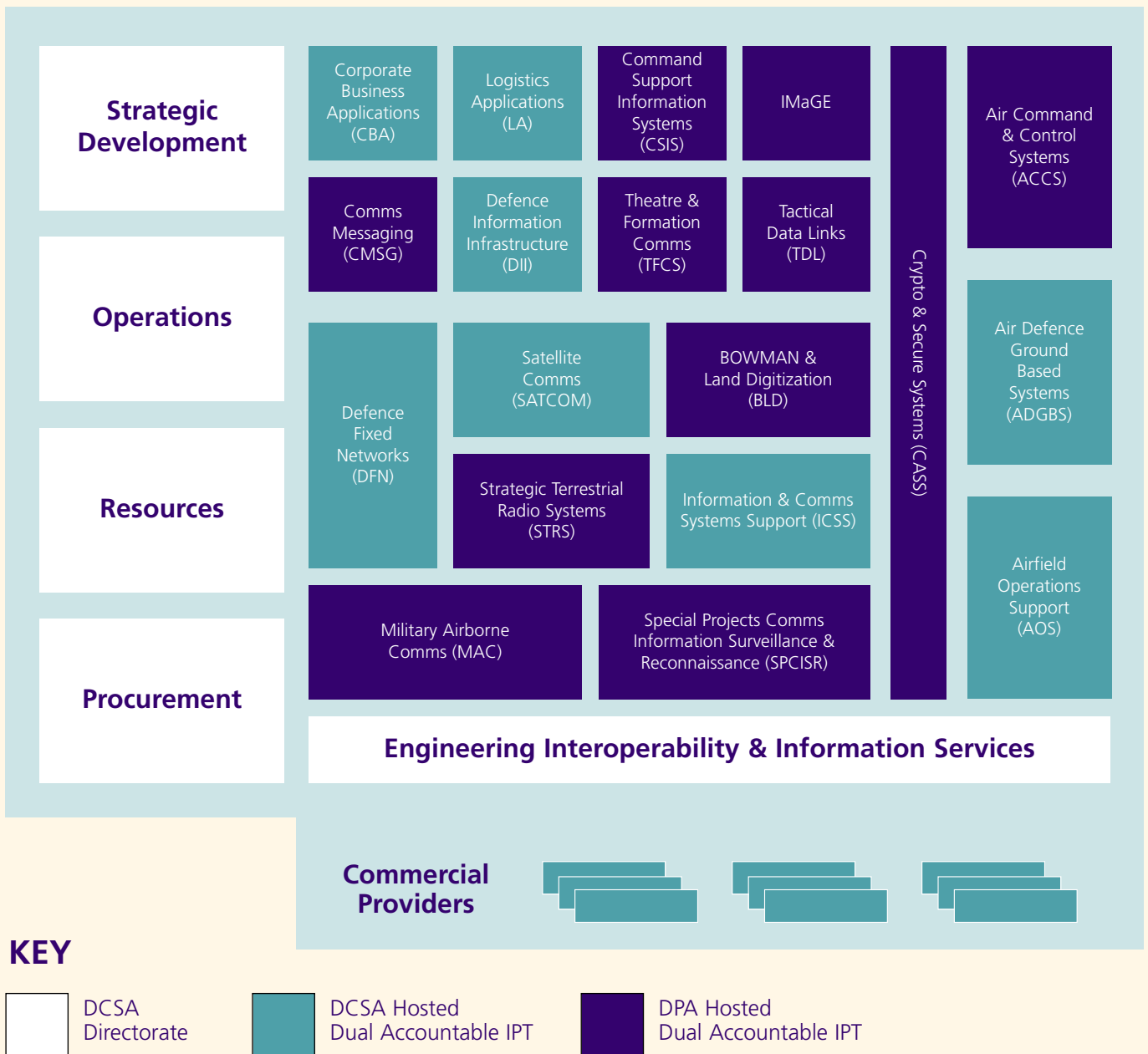
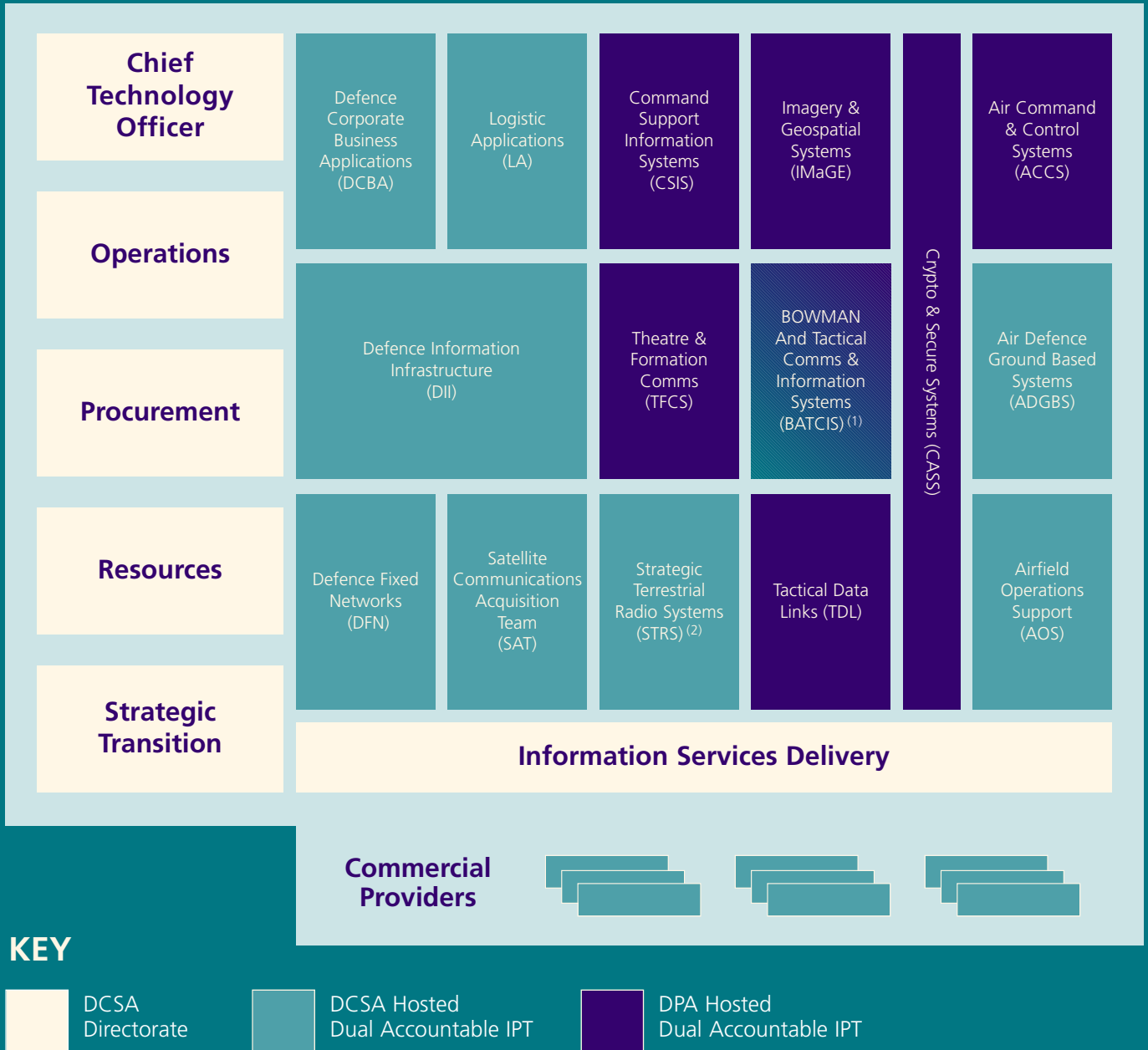


Figure 1 DCSA Organisational Structure April 2004

Agency Review of Activities

Organisational Changes

DCSA Organisational Structure (as at 1 April 2005)



Notes

- BATCIS IPT formed from the amalgamation of the BOWMAN & Land Digitization (BLD) and Information & Communications Systems Support (ICSS) IPTs as a DPA/DCSA co-hosted IPT in November 2004, DPA led until April 2006.
- STRS IPT DCSA hosted from 1 April 2005, previously DPA hosted.
- The previously DPA-hosted Military Airborne Communications (MAC) dual accountable IPT merged with the Successor Identification Friend or Foe (SIFF) IPT on 1 April 2005 to form the Identification and Communication Equipment (ICE) IPT, which will become dual accountable to DPA and DG (Log) Strike during FY 2005/2006.

Figure 2 DCSA Organisational Structure April 2005

Agency Review of Activities

Agency Top Level Boards

In FY2003/2004 an overarching DCSA Main Board was created to focus on the strategic issues facing the Agency and supported by a Performance Management Board (PMB), a Change Programme Board (CPB) and a Strategy Forum (SF).

Since then, this structure has been refined further, and a new Agency level board – the Main Board (Informal) – has been created in order to allow Main Board Members to focus on and debate the key internal and external strategic issues facing the Agency, prior to discussion and decision-making at the Main Board.

Under the new Agency Top Level Board structure the revised roles of the Boards are as follows:

Main Board

Chaired by the Chief Executive, the Main Board focuses on the progress of strategic issues facing the Agency and takes decisions that will drive the Agency towards its vision. The Main Board takes reports, by exception, from the Performance Management Board, the Change Programme Board and the Main Board (Informal) (MB(I)) and takes decisions as required at the higher level to feed back down to the Board concerned.

Main Board Informal

Chaired by the Chief Executive, the Main Board (Informal) will be the primary body responsible for the in-depth discussion and development of key internal and external strategic issues facing the Agency.

Performance Management Board

Chaired by Director Operations, the Performance Management Board is responsible for the in-year management of the Agency's business. Progress is assessed by the review of the Balanced Scorecard and analysis of the Agency's corporate risks and by agreeing actions required to ensure that objectives are met, both within the current Financial Year and over a rolling 12-month period. This includes dealing with emerging issues, priority setting against in-year resources and highlighting to the DCSA Main Board any particular issues of concern.

Change Programme Board

Chaired by the Chief Executive, the Change Programme Board is responsible for the development and implementation of the DCSA Change Programme. The CPB acts as Programme Manager for the Agency Change Programme, paying particular attention to the realisation of forecast benefits, reviews Business/Benefits Cases for candidate change projects and ensures coherence between the workstreams within the Agency Change Programme and between the Agency's programme and the DLO Change Programme, as well as endorsing the change activities and associated milestones that will be incorporated in the following year's business plan.

Strategy Forum

The Strategy Forum will be the primary forum to expose Key Agency development to a wider audience and provide the opportunity to discuss and agree internal operational-level concepts and plans.

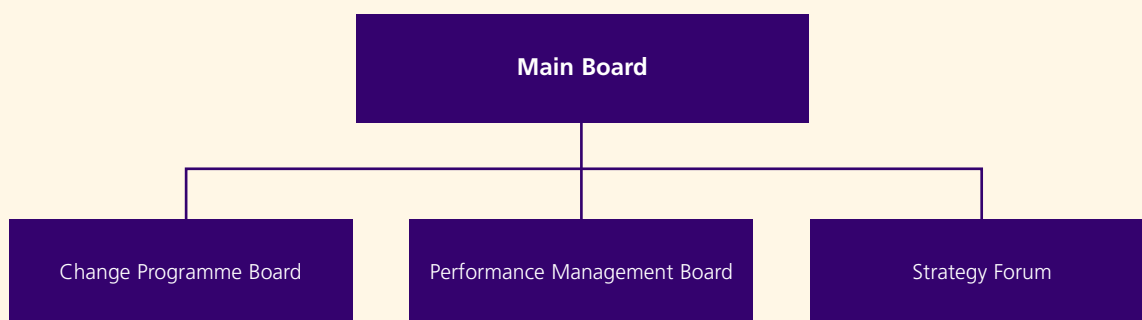


Figure 3 Agency Management Board Structure

Agency Review of Activities

DCSA Management Team (as at 31 March 2004)

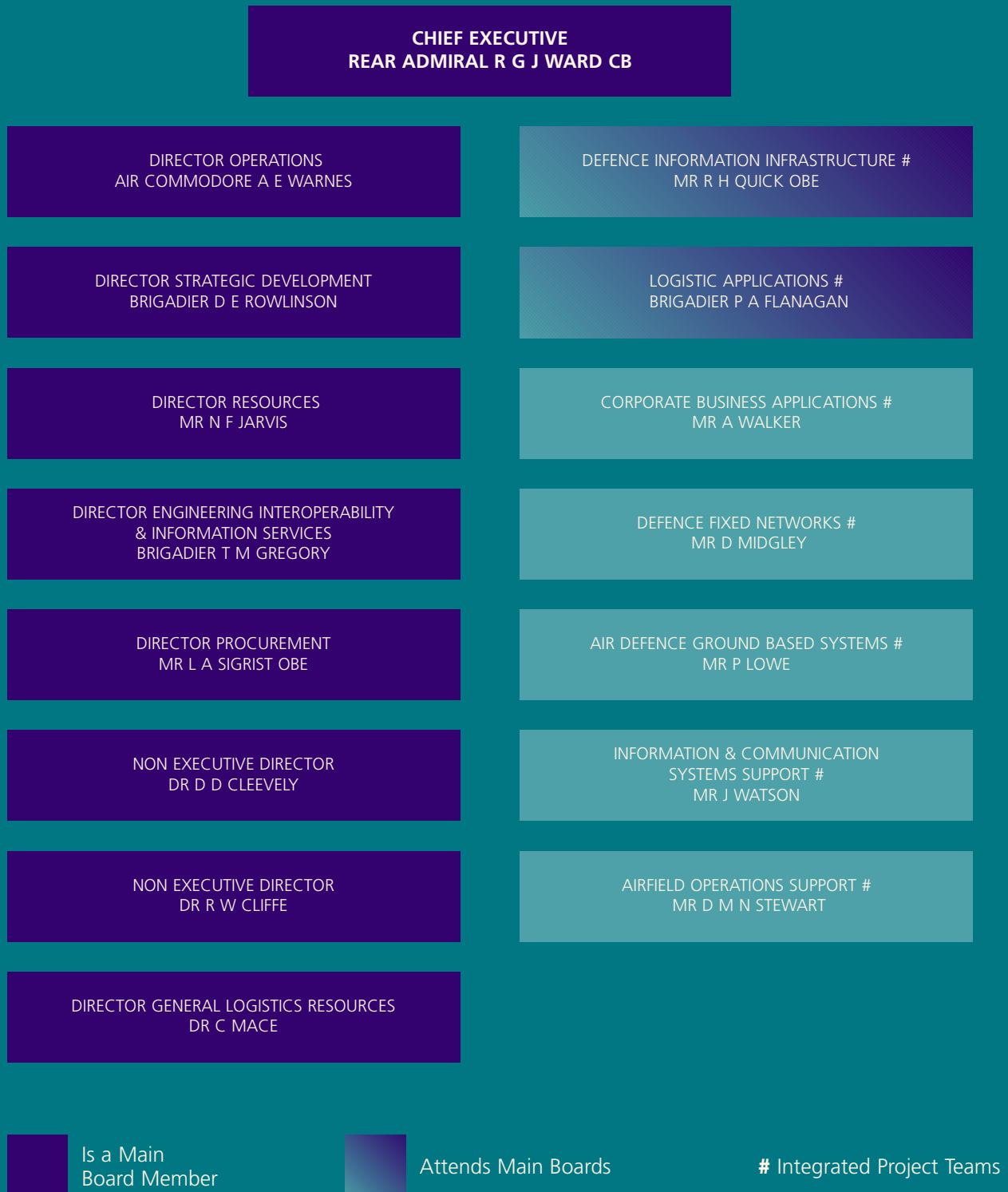



Figure 4 DCSA Management Team (as at 31 March 2004)

An aerial photograph of a dam with water cascading over its spillway. The sky is filled with heavy, dramatic clouds, and the overall lighting is somewhat dim, suggesting a late afternoon or overcast day. The dam's structure is visible in the foreground, with water flowing over its surface.

The Agency has continued to evolve towards our Vision with the goal of delivering integrated information solutions to our Defence-wide customer community. The Agency's Change Programme remains the vehicle to achieve our vision and enable us to support the delivery of Network Enabled Capability and the Defence Modernisation Programme.



Agency Review of Activities

DCSA Management Team (as at 1 April 2005)



Figure 5 DCSA Management Team (as at 1 April 2005)

Agency Direction

The Agency has continued to evolve towards our Vision with the goal of delivering integrated information solutions to our Defence-wide customer community. The Agency's Change Programme remains the vehicle to achieve our vision and enable us to support the delivery of Network Enabled Capability and the Defence Modernisation Programme.

Two major influences upon the Agency during FY2004/2005 and beyond, has been the Government's July 2004 Supplement to the December 2003 Defence White Paper, (Delivering Security in a Changing World – Future Capabilities) and the MoD's review of Defence End-to-End (E2E) ICS. The former has

reinforced the MoD's commitment to radical change of the future Defence force structure and has focused the Agency's attention on its manpower structure and the delivery and maintenance of its outputs to the Front Line and the wider Defence business community. Likewise, the Agency has played an active part in the VCDS/2nd PUS sponsored Review of Defence E2E ICS which is looking at the coherence of the many and variously sponsored ICS initiatives and ensuring that they have an E2E perspective and that there is clear ownership. The DCSA will play an important role in the implementation of the Review's recommendations⁴.

Vision

Information anytime, anywhere – transforming Defence effectiveness

The achievement of our vision is crucial to the delivery of Network Enabled Capability, which will enhance the effectiveness of our forces and efficiency of our business

by the timely provision of correctly tailored information where and when it is needed.

Mission

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

Our Mission recognises that the delivery of integrated Information Solutions plays a central role in the improved effectiveness of UK military capability and business efficiency.

The move towards assurance of end-to-end delivery within the Agency will be crucial to the delivery of the Mission.

Culture

Embracing the DCSA Culture and Values

The Agency is working to evolve into a 'Dynamic, Customer Facing, Learning Organisation' that encourages empowerment, focus, action and closure,

and where accountabilities are clear, senior management lead by example and coaching, and appropriate risk taking is encouraged.

⁴ Due to report by the summer of 2005

Agency Direction

DCSA Values

The living of the values is a key enabler for the Agency to achieve its Vision by allowing our personnel to work together more efficiently and effectively, focusing on the delivery of the required outputs to our customers. Collectively, they represent the way DCSA staff treat each other and those with whom we have contact, and enable us to support the development of a single unified Agency dedicated to delivery.

One Team

We will endeavour to be honest and open with each other and be flexible in our approach. We will work together across the Agency and use our best efforts to support all of our customers. Our aim is to deliver coherent and integrated services.

Radical

We will challenge the status quo and embrace new concepts. We will recognise that sometimes it's worth taking calculated risks; we will support each other and learn from our mistakes within a no-blame environment.

Dynamic

We will actively encourage and listen to new ideas. We will look to do things better and faster and to reward innovation.

Success through People

Our people are the key to our success as an Agency. We will strive to attract and retain motivated and dedicated people. Our culture will encourage trust and respect for each other and we will retain the trust of our people by managing the major outsourcing issues sensitively with openness and honesty. We will ensure that our people are trained and acquire the necessary skills to meet the changing needs of the Agency and its customers, and that our staff receive due recognition for a job well done.

Driving Customer Advantage

We will always go the extra mile to satisfy our customers. We will understand our customers' requirements and seek innovative ways to deliver their needs.

Agency Direction

DCSA Change Programme

The DCSA Change Programme (DCP), led by the Chief Executive, continues to be driven at pace across the Agency and is fundamental to ensuring that the Agency achieves its Vision and enables the optimum level of ICS support across Defence to be provided. The five Workstreams, each led by a Corporate Director with personal accountability for delivering the associated business change, have continued to make significant progress towards successfully delivering the customer-orientated outcomes and benefits identified in the 2004 DCSA Strategic Route Map.

A summary view of the outcomes from the DCSA Change Programme in FY2004/2005 is as follows:

Delivering Operational Effectiveness (DOE)

The DOE Workstream is the main point of effort in the DCP. The primary purpose of DOE is to improve radically the customer focus of the Agency to allow us to meet their future ICS requirements more effectively. Significant progress has been made with notable successes in:

- Development of Service, Product and Customer Management Strategies in order to drive future activity across the Agency. These strategies form the bedrock on which the Agency will now build to become truly 'joined-up', starting with the Agency developing a coherent portfolio of products and services available to customers through an effective and user-friendly interface.
- Delivery of Initial Operating Capability at Northwood and Cyprus to ensure assurance of all DCSA ICS outputs at PJHQ and Permanent Joint Operating Bases prior to the transfer of CIS support from PJHQ to DCSA, which was successfully achieved on 1 April 2005.
- Delivery of the web-enabled Corporate Customer Information Database, allowing all DCSA Customer Relationship Management staff to have access to a common information set when dealing with customers' issues.
- Commencement of a three month pilot in February 2005 at four key customer sites – Cyprus, Faslane, Devonport and Abbey Wood – of an Agency Lead Point of Contact (ALPOC). The ALPOC is designed to present a single DCSA 'face' to the customer and will better understand the Customer's business and provide a more effective interface with the DCSA. The pilots have been well received and the intention is to implement ALPOC across all key customer sites by December 2005.

Coherent Solutions

The main focus of the Coherent Solutions Workstream is to establish coherence across the DCSA Value chain to improve the quality and effectiveness of the ICS the Agency provides to Defence. The Workstream is divided into four interdependent areas, working together to deliver Coherent Solutions: Technical Coherence, Information Assurance, Support Coherence and Business Coherence. There have been significant successes over the past year:

- Mapping of the existing Defence ICS infrastructure, to establish the 'As Is' baseline architecture has proceeded at pace, engaging a wide range of DCSA IPTs and their respective service providers. The project completed the discovery phase and successfully mapped the Restricted level network, covering 1,700 service delivery points on time. The second phase to deploy a comprehensive system discovery client on all hosts (approximately 150,000 terminals) has started and remains on track to complete by September 2005. This work will enable Defence to establish an effective and proactive approach to Computer Network Defence (CND), whilst contributing to the Agency's ability to deliver Network Enabled Capability.
- The DCSA Perform Release Authority project was established and approved by Chief of Defence Logistics (CDL) in February 2005. It will provide Release Assurance to ensure that future Defence CIS systems plug into NEC's 'network of networks' without any detrimental effect on operations.
- The Embedding Architecture project was set up to assist DCSA IPTs to apply the MoD Architectural Framework (MODAF) to both current and future delivery of all CIS. The use of MODAF is critical to understand the end-to-end (E2E) structural design of systems that require interoperability in the drive towards NEC. Work has already been completed to successfully rationalise the 'Technical Standard' publications and the project is set to ensure that all new DCSA projects adopt MODAF by December 2005, subject to the approval of MODAF by MoD HQ.

We will endeavour to be honest and open with each other and be flexible in our approach. We will work together across the Agency and use our best efforts to support all of our customers. Our aim is to deliver coherent and integrated services.



Our people are the key to our success as an Agency. We will strive to attract and retain motivated and dedicated people.



Agency Direction

DCSA Change Programme

Rationalised CIS Support

The two key strands of the Rationalised CIS Workstream are the Mergers and Acquisition programme and the Transition programme. The Mergers and Acquisition programme is well established and is charged with managing the transfer of non-DCSA CIS service provider organisations into the Agency.

Key successes have been:

- The successful transfer of 350 CIS service provider staff from PJHQ and Cyprus and the transfer of the STRS and CMSG IPTs into the Agency.
- Agreement reached on 140 DCSA posts that will be subject to TUPE following the DII/F Increment 1 contract vesting day, planned for 1 August 2005. In order to keep the relevant MoD staff informed, the transition team continues to provide a programme of focused initiatives, including; road shows, TUPE briefings and a dedicated staff support cell. Planning is now in hand for DII/F Increments 2 and 3.

Optimised Acquisition

The Optimised Acquisition Workstream is responsible for transforming the relationship between the Agency and its commercial suppliers, through the introduction of best practice purchasing and the use of advanced supply chain tools, techniques and methodologies.

Key successes have been:

- The Procurement Reform programme has extended its coverage across the Agency and is embedded in the Information & Communications System Catalogue, the Applications, Infrastructure, and Communications & Networks layers, while preparing to roll out across the Battlespace layer during 2005.
- In November 2004, the DCSA Change Programme Board endorsed a joint Lean Support and Procurement Reform IPT engagement approach designed to maximise the complementary identification of new benefits opportunities. This novel approach has now been successfully implemented in the DCSA and has also been adopted by the wider DLO as a best practice engagement process.

- Both the Lean Support and Procurement Reform programmes continue to make significant contributions to the efficiency targets of both the DCSA and DLO. The initiatives delivered £30m of direct savings to the Agency in FY2004/2005 against a target of £8.2m. Additionally, the Procurement Reform programme has delivered a further £20m in assisted benefit across other Defence TLBs.

Right People, Right Skills, Right Environment (R3)

The R3 Workstream will deliver a fundamental change to the way the Agency operates, principally by collocating the headquarters and key IPT decider functions of the DCSA in modern, serviced accommodation in Corsham, Wiltshire. Working together in close proximity will enable Directorates, IPTs and product and service owners in the DCSA to effectively manage their supply chains to deliver integrated ICS solutions for Defence customers. The Corsham Development Project (CDP) also seeks to provide suitable accommodation and infrastructure for the other Defence organisations located on the Corsham estate, including Single Living Accommodation (SLA) for all Service personnel based on the site. It is intended that the serviced office and living accommodation will be delivered through a Private Finance Initiative over 25 years.

During FY2004/2005 a selection process was carried out and two bids were received and evaluated by Defence Estates and the DCSA. Evaluation of the bids has indicated that the project is very likely to be on-balance sheet, suggesting a rather different cost profile than hitherto expected. The Agency is therefore reviewing its funding provision for the project before it enters the Revise or Confirm phase of the competition and is aiming for a Main Gate business case submission by mid-2006.

Elsewhere in the R3 Workstream, the successful DCSA Management Team Development project has now been extended into FY2005/2006 to support recent staff changes at Management Board level. An Agency level DCSA induction process has been approved and was introduced for all new entrants from April 2005. The DCSA HR Transformation project, the Agency's input to the wider Defence People Programme, has also commenced.

Agency Direction

High-Level Key Deliverables of DCSA Change Programme (as at 31 March 2005)

	Key Deliverables April 04 – March 05	Report on Achievement
Delivering Operational Effectiveness	<p>DCSA Contingency Operations planning function established in Permanent Joint HQ.</p> <p>Shadow STP 05 conducted in output terms.</p> <p>Initial Electronic Issues Management in place.</p> <p>Customer Supplier Agreements (CSAs) renegotiated.</p> <p>DCSA service delivery and assurance boundaries agreed with customers.</p>	<p>Fully achieved and operational.</p> <p>Fully achieved.</p> <p>Fully achieved.</p> <p>Fully Achieved.</p> <p>Significant progress achieved. Customer and Service Management strategies now in place to drive future work with Customers.</p>
Coherent Solutions	<p>Current network mapped.</p> <p>Architecture process embedded in IPTs.</p> <p>New IPT Coherence Maturity Model (CMM) developed and IPTs baselined.</p> <p>Strategy developed for the release of CIS.</p> <p>DCSA is driving coherence in the Joint Network Integration Board (JNIB).</p> <p>New IPT quarterly review process in place.</p>	<p>Fully achieved at the Restricted network level. Secret and Above Secret networks to be mapped during FY2005/2006.</p> <p>Process established within the bounds of MoD Architecture Framework (MODAF). Pilots to be conducted during FY2005/2006.</p> <p>Following review of existing models, the joint DLO/ DPA/ DCSA Project Review and Assurance process has been adopted.</p> <p>Strategy developed, awaiting incorporation into the wider MoD integration assurance strategy.</p> <p>A JNIB pilot was successfully completed in FY2004/2005. The pilot clearly demonstrated the benefits to coherence of a joint MoD/Industry approach. Full JNIB programme to commence June 2005.</p> <p>Project Review and Assurance process implemented.</p>
Optimised Acquisition	<p>Lean Support Maturity Model generated and agreed.</p> <p>Lean Support Tranche 1 delivered (60% of STP benefits realised).</p> <p>Wave 1 of Procurement Reform rolled out.</p>	<p>Fully achieved and successful pilot completed. Model being rolled out across the business during FY2005/2006.</p> <p>Fully achieved. The Lean Support programme delivered £12.5m hard benefits during FY2004/2005.</p> <p>DCSA element of Wave 1 has commenced rollout, generating efficiency savings of £17.5m in FY2004/2005.</p>
Right People, Right Environment, Right Skills,Right Environment	<p>New induction programme in place.</p> <p>Training delivery rationalised.</p> <p>Full compliance with the Freedom of Information (FOI) Act.</p> <p>Directors and IPTLs act as one, owning and leading the DCSA Change Programme.</p> <p>New flexible Ways of Working pilot completed.</p>	<p>Fully achieved.</p> <p>Work has progressed with DG Procurement staff to establish an external training category management system with call-off contracts for the provision of external training.</p> <p>Fully achieved.</p> <p>Directors and IPTLs continue to work together to drive the Change Programme, and this commitment is reflected in their personal objectives.</p> <p>Fully achieved. Lessons learnt from the pilot are being applied to a further programme of flexible working trials within DCBA and DST.</p>
Rationalised CIS Support	<p>Common Enabling Services (CES) programme established.</p> <p>DII and DLO Application transfers into DCSA complete.</p> <p>Transition management tools and mechanisms in place to support IPT outsourcing plans.</p>	<p>Programme established but now transferred to the Coherent Solutions Workstream.</p> <p>DII transfer complete. DLO Applications transfer remains ongoing and now due to complete mid to late 2005.</p> <p>Achieved and being fully utilised in support of DII/F.</p>

Agency Future Strategy

DCSA's future strategy is framed against the backdrop of an increasing number of internal and external challenges. At the heart of these challenges is delivering the continual improvement in CIS that serves the Defence community and assists the MoD in realising its Defence Vision of 'Defending the UK and its interests. Strengthening international peace and stability...and producing battle-winning people and equipment that are ready for the tasks of today, fit for the challenge of tomorrow and capable of building for the future.'

Network Enabled Capability

Network Enabled Capability (NEC) is at the heart of this transformation and DCSA services are the bedrock upon which NEC must be built. To support the effective delivery of NEC to deployed forces we must ensure that DCSA provided systems such as SKYNET 5, the Defence Information Infrastructure and the Defence Fixed Telecommunications System are as coherent, resilient and reliable as possible. This will continue to be both a challenge and an opportunity for the Agency over the coming year. The Agency will ensure that new ICS capabilities can be incorporated into our existing and future networks and ongoing mapping of the Network will enhance the Defence Information Assurance capability by highlighting where we need to take action to make the network more resilient.

Improving Customer Focus

As part of the DCSA Change Programme and our evolving customer management strategy – which will include Customer Account Managers in the medium term – the Agency Lead Point of Contact (ALPOC) will represent a significant development for customers. The ALPOC will champion the customer's needs when finding solutions to complex issues, coordinate suppliers, work with customers to resolve any problems and conduct the regular reviews of the Agency's performance at site level with the customer.

The Agency continues to refine its processes and structures to improve our responsiveness to the operational customer base. Support to operations continues to improve with an increased emphasis on managing requirements across both the deployed and fixed domains, and meeting future operational needs in a timely and responsive manner.

The Agency will continue to build its working relationships with key users and stakeholders, such as PJHQ DG Info, the ECC and the DPA as the achievement of our Vision depends heavily upon capability improvements sponsored by these particular areas. In addition, closer links will be forged with Director Operations (Information Systems) in the DPA as our partner acquisition delivery organisation. This relationship will allow us to deliver coherent solutions on a whole life cost basis while maximising the effectiveness of ICS acquisition.

Rationalisation

The rate of technological change and the increased use of industry to support new capabilities will impact on our in-house provider organisation – the Directorate Information Service Delivery and the Logistic Applications IPT in particular. Rationalisation presents significant personnel issues and we are committed to active engagement with national Trade Union representative over and above the statutory consultation process.

Defence End-to-End (E2E) ICS Review

As mentioned earlier, the DCSA has played a crucial role in assisting the Review and will play an even greater role in the implementation of the recommendations flowing from it. Evolving Agency strategy will need to be set in context against this developing background of Defence E2E ICS coherency.

Financial Accounts

Foreword to the Accounts

Introduction

The Accounts cover the period from 1 April 2004 to 31 March 2005. They have been prepared in accordance with the Ministry of Defence (MoD) Resource Accounting Manual and the Direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

The Accounts have been audited by the Comptroller and Auditor General in compliance with the above Act.

History and Background

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

Agency Main Board

The DCSA Main Board meet on a regular basis to review both strategy development and Agency performance against balanced score-card indicators. The Main Board develops the organisation's strategic and business direction while also monitoring performance against key targets.

As at 31 March 2005 the Main Board members were:

Chief Executive
Rear Admiral R G J Ward

Director General (Resources)
Dr C Mace

Director Operations
Brigadier D A Hargreaves

Director Strategic Development
Brigadier D Rowlinson

Director Resources
Mr N Jarvis

Director Engineering Interoperability
& Information Services
Brigadier T Gregory

Director Procurement
Mr M C Greatwich

Non-Executive Directors
Dr R Cliffe
Dr D Clevely

Brigadier D A Hargreaves took over the position of Director Operations from Air Commodore A E Warnes on the 23 September 2004.

Mr M C Greatwich took over the position of Director Procurement from Mr L Sigrist on the 12 July 2004.

All military members of the Board were appointed through normal posting procedures. Civilian members were appointed under the standard MoD Civil Service procedures. Remuneration for Service and Civilian personnel is decided at National level by the MoD-based on recommendations of the Armed Forces Pay Review Body and negotiations between MoD and Civil Service Trade Unions.

Equal Opportunities Policy

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

The DCSA's future strategy is framed against the backdrop of an increasing number of internal and external challenges. At the heart of these challenges is delivering the continual improvement in CIS that serves the Defence community and assists the MoD in realising its Defence Vision of 'Defending the UK and its interests. Strengthening international peace and stability...and producing battle-winning people and equipment that are ready for the tasks of today, fit for the challenge of tomorrow and capable of building for the future.'





Financial Accounts

Foreword to the Accounts

Staff Involvement, Development & Training

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

Financial Review

As part of the MoD Simplify and Improve initiative, it is planned that DCSA will take responsibility for the majority of the MoD's non-operational IT & Comms assets. The process of transferring these assets to DCSA began in 2004-05 with the transfer in of £38.6m NBV of IT assets. As a result DCSA incurred an additional in year depreciation and impairment charge of £28.2m. The beneficial use for these assets is attributable to non-agency organisations within the MoD and therefore no costs have been communicated out in 2004-05 in relation to these transfers. The remaining asset transfers related to this project are expected to take place in 2005-06 with an estimated NBV of up to £250m.

The gross operating costs of the Agency for the year ended 31 March 2005 were £1,244m. This is £75m higher than 2003-04 primarily due to the additional depreciation and impairment charges shown above. DCSA also incurred higher service charge payments from Private Finance Initiatives which went live in the latter part of 2003-04. Total income was £12m, a decrease of £4m on 2003-04. This is primarily due to a reduction in receipts from the North Atlantic Treaty Organisation (NATO) for communication services provided to them.

Total assets less liabilities for the year ended 31 March 2005 were £1,005m compared to £954m for the year ended 31 March 2004. The majority of this £51m increase is due to the £38m NBV transfer of IT & Comms assets into the Agency mentioned above.

Audit Arrangements

The Accounts of the Agency are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. A notional audit fee of £74,000 has been included in the non-cash costs. No non-audit work was carried out on behalf of the Agency in 2004-05.

Creditor Payment Policy

The Agency's creditors are paid predominantly by the Defence Bills Agency (DBA). The DBA, as the MoD central bill payment authority has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.98% in 2004-05. The DBA did not incur any liability under the Late Payment of Commercial Debts (Interest) Act 1998.

Pension Arrangements

These are shown in Note 2 to the accounts.



R G J WARD
Rear Admiral
Chief Executive, DCSA
29 June 2005

Financial Accounts

Statement on Internal Control

Scope of Responsibility

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

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

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently and effectively and economically. The system of internal control has been in place in the DCSA for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to Handle Risk

The risk management system operated within the Agency has undergone considerable improvement over the past year. Further changes are planned as part of an ongoing evolutionary process designed to build on current strengths and fully exploit best practice. The infrastructure in place covers all management layers and is based on a risk management strategy that is in accordance with current MoD risk management policy. A risk maturity model consistent with that of the Defence Procurement Agency (DPA) has been introduced that allows assessment in terms of risk capability (including the way leadership is given to the risk management process), risk handling and use of the risk management system to achieve outputs. During FY2004/2005 assessment of the DCSA's level of maturity of risk management systems has been made using a risk maturity model comprising four levels, the highest being excellent and the lowest unsatisfactory.

To date, with all of the IPTs risk management systems having been reviewed, it is encouraging to note that 75% achieved the minimum overall target of 3 (equating to GOOD on the risk maturity assessment scale). In the coming months, action will be taken to bring those IPTs failing to meet the target up to standard. This latter assessment reflects strong evidence that there is a risk management culture embedded within the organisation, with sound knowledge of the way a business risk may impact across a number of areas. It is also a useful indicator of a general risk awareness, with an informed knowledge of the associated processes, and the reasons why sound risk management is a fundamental part of the risk management system operated by the business.

Financial Accounts

Statement on Internal Control

Risk and Control Framework

All Agency business units are required to produce a risk management strategy that is appropriate to conditions prevailing within their own theatre of operations. This must be carried out whilst adhering in principle to the MoD risk policy guidance and Agency risk management policy handbook. The business strategy documents are required to be updated annually and formally ratified by their management boards.

The strategy documents define the risk management process being embedded within Agency Business Unit's own organisations, with risk being an agenda item at all of their management board meetings.

Our current system allows risks to in year performance identified at the lower levels to be escalated to the Performance Management Board (PMB) through a newly formed Risk Review Committee (RRC). RRC membership includes representation from the Change Programme Board to ensure CPB risks are included. Both CPB and PMB risks can be further escalated to the DCSA Main Board and, if necessary, through to the Defence Management Board via the DLO Owners Advisory Board. The RRC is also used to invite those involved with risk in the business IPTs to discuss particular risks relevant to their areas, to further embed the risk culture, and to identify best practice in the way risks are managed. Additionally, an Operational Risk Mitigation Committee (ORMC) has been set up to assess Agency wide operational risks potentially having an impact on DCSA services. It ensures all operational risks to in year DCSA outputs are being effectively managed. The DCSA developed its own risk management tool several years ago as a means of automating the risk reporting process. Demonstrations were provided throughout the MoD as a means of spreading best practice, and its use became extensive.

As our risk management systems and procedures mature, we are examining ways of ensuring we have a risk management tool that continues to be appropriate to business needs, whilst being consistent with those operated by the wider DLO and DPA. Risk management workshops have been conducted throughout the DCSA to assist in the embedding and training programme. Risk appetite is the amount of risk the Agency and business IPTs are prepared to tolerate before action is adjudged to be necessary. Although guidance is provided to assist risk owners in setting tolerance levels, each business area has the responsibility for assessing its own risk appetite according to its own risk profiles.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

There are a number of sources available to examine my business and financial processes, and it is from these I derive an assurance that the systems of internal control are operating satisfactorily. These include the Management Board, the DCSA Audit Committee, NAO, DIA, DLOHQ Assurance Team, SHEF Team and the DCSA Corporate Governance team. A strategy has been developed to ensure the assurance process is properly coordinated, covers a representative part of the DCSA's business and financial operations, and that it properly supports my annual Statement on Internal Control. The Management Board meets monthly to consider the plans and strategic direction of the Agency, with two of its three Non Executive Directors attending. The Board receives papers from the Performance Management Board (PMB) and the Change Programme Board (CPB). The NEDs also attend the CPB and Strategy Forum, the latter being responsible for the development of the strategic direction of the Agency. The PMB is responsible for the in year management of the Agency's business, assessing progress by reviewing the Balanced Scorecard, analysing the Agency's corporate risks and agreeing appropriate actions for its objectives to be met.

The audit committee advises the DCSA Management Board on the strategic processes for risk, control and governance, the accounting policies and DCSA accounts, and the planned activity and results of both internal and external audit. It approves the audit programmes and significant audit recommendations, and has the opportunity to discuss how risks are being managed. As a member of my Management Board, its chairman, a Non Executive Director (NED), enables participation in the determination of the management strategy of the Agency and the decision making process. A further NED was recently recruited to provide membership of the committee with a greater knowledge and experience of business and financial processes relevant to private industry.

Financial Accounts

Statement on Internal Control

Business and Financial Process Assurance

All material financial processes were audited during the year by the Agency's own assurance team, with risk-based audits of key business processes being conducted by DLOHQ and DIA. These have enabled me to obtain a wide view of the controls in place, and the work being conducted to rectify perceived weaknesses through the implementation of audit recommendations. The financial reviews provide an assurance on an ongoing basis with regard to level of controls underpinning my In-Year Management and Accounting Operations processes. These internal reviews include an element of training and spreading best practice, and thus provide a useful contribution to the overall assurance gained in terms of the financial and accounting systems. The implementation of a new system of monthly review of the accounts following on from this work, and the introduction of an initiative to emphasise the financial and accounting advisory role offered by my HLB finance team, gives me greater confidence in the financial governance of the Agency.

My local assurance team's FY2004/2005 financial controls programme was recently concluded followed by a workshop attended by finance staff at all levels and included two Directors. An important outcome was a proposal to produce a control checklist of salient principles and best practice for use in the In Year Management process. Other topics covered included balance sheet management and practice to rectify weaknesses identified during the financial controls reviews.

The identification in FY2003/2004 of a major control weakness in the project accounting of the Defence Electronic Commerce Service (DECS), a DLO Change Programme project in which the DCSA provides a lead IPT, has led to a revision of the governance model. A review of other DCSA IS projects has also been conducted with a view to providing a generic governance template that would be appropriate for other projects with similar complex project accounting arrangements.

Following the introduction of the Departmental initiative of self certification for Travel & Subsistence (T&S) claims at the beginning of FY2004/2005, a DCSA Finance Instruction was issued requiring monthly management checks to be carried out within all DCSA business directorates and IPTs. An audit of the new system was included in my assurance team's FY2004/2005 audit programme. Similarly, a review of Overtime claims is also planned following the introduction of self certification in this area.

SHEF and Equipment Safety Management

Safety, Health, Environment and Fire (SHEF) management is another key area which receives particular audit attention, both from internal and external sources. DCSA complies with environmental legislation and MoD environmental targets and objectives. These MoD targets and objectives derive from environmental agreements such as the Kyoto and Montreal Protocols.

The Agency is currently reducing its environmental impact by conducting Land Quality Assessments, monitoring and reducing utility consumptions, developing a replacement programme for Ozone Depleting Substances, recycling and waste reduction etc. Plans for a formal Environmental Management System are underway, based on ISO 14001, with systems planned to be in place at all DCSA owned sites by March 2006. Environmental Impact Assessments will be undertaken for all equipment for which DCSA retains design responsibility.

The Agency has a robust SHEF training programme for all staff to ensure standards are maintained and improved. Due emphasis is paid to the training of senior managers to ensure they fully understand their roles and responsibilities, particularly with regard to the management of contractors who are a key element of the DCSA's business.

The DLO Audit Committee identified that within the DLO Environment and Safety Management System there was no mechanism for provision of assurance for Communication and Information Systems (CIS) equipment and services. To redress this shortcoming, the DLO Executive Board endorsed the appointment of CE DCSA as discipline lead for CIS from June 20 04. An equipment governance cell has been formed, responsible for ensuring CIS equipment and services are subject to a formal governance process. Policy will be enshrined in an Equipment Organisation and Arrangement document currently being compiled, and an audit process will be developed during FY2005/2006 to assess the levels of control and compliance with policy.

Financial Accounts

Statement on Internal Control

Business Continuity Plans

Loss of operational and business capabilities through successful cyber attack has been identified as a major risk. As it has Department-wide implications, the majority of which cannot be mitigated by the DCSA, DG Info has accepted ownership of the risk for MoD. The Agency has proposed a framework and governance regime for this risk, which is currently being considered by DG Info. Those elements of the risk which are contained within the Agency's boundary are subject to the standard risk mitigation process. Similarly, the DCSA has contributed to the inclusion of a defence-wide risk on ICS Resilience and Recovery. Those elements which lie within the Agency's boundary are also subject to standard Agency risk mitigation processes.

Transfers in to The DCSA

Transfers into the DCSA of elements from other MoD organisations have occurred on a regular basis since the Agency was formed. Consequently, the Agency continues to develop its formal procedures to ensure all assets are properly accounted for, including budgetary transfers, staff numbers, assets and liabilities.

The decision to transfer the CIS elements of the Permanent Joint Headquarters (PJHQ) to the DCSA, as part of the Communications and Information Services rationalisation programme, represents an increase in the level of risk which will need to be very carefully managed when the transfer takes place in FY2005/2006. Other transfers into the Agency due in FY2005/2006 include RAF CIS and 10 Signals.

Significant Internal Control Problems

No significant internal control problems have been identified for FY2004/2005.



R G J WARD
Rear Admiral
Chief Executive, DCSA
29 June 2005

Statement of Agency's and Chief Executive's responsibilities

Under Section 7(2) of the Resource Accounts Act 2000, Treasury has directed the Defence Communication Services Agency to prepare a statement of accounts for each financial year, in the form and on the basis set out in the Resource Accounting Manual.

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

In preparing the financial statements the Agency is required to:

- Observe the Accounts Direction issued by the Treasury, including relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting and financial reporting standards have been followed, and disclose and explain any material departures in the financial statements

- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

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



R G J WARD
Rear Admiral
Chief Executive, DCSA
29 June 2005

Financial Accounts

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

I certify that I have audited the financial statements on pages 33 to 63 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out in Note 1.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 40, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession. I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 37 to 40 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Financial Accounts

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

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Defence Communication Services Agency at 31 March 2005 and of the net operating cost, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- In all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General
7 September 2004

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

Financial Accounts

Operating Cost Statement

For the year ended 31 March 2005

	Note	2004-05 £'000	2003-04 £'000
Staff Costs	2	168,574	161,520
Other Operating Costs	3	1,075,169	1,007,262
Gross Operating Costs		1,243,743	1,168,782
Operating Income	4	(12,417)	(16,027)
Net Operating Costs		1,231,326	1,152,755

Statement of Recognised Gains and Losses

For the year ended 31 March 2005

	Note	2004-05 £'000	2003-04 £'000
Net (Gain)/Loss on Revaluation	13	(16,981)	(9,812)

Financial Accounts

Balance Sheet

For the year ended 31 March 2005

	Note	31 March 2005		31 March 2004	
		£'000	£'000	£'000	£'000
Fixed Assets:					
Intangible Assets	5	4,375		1,560	
Tangible Assets	6	957,223		882,241	
			961,598		883,801
Current Assets:					
Stocks	7	57,387		66,450	
Debtors	8	53,677		43,527	
Long Term Debtors	8	138,306		162,910	
Current Liabilities:					
Creditors: amounts falling due within one year	10	(143,671)		(138,497)	
Net Current Assets			105,699		134,390
Total Assets less Current Liabilities			1,067,297		1,018,191
Creditors: amounts falling due after one year					
	10		(60,175)		(61,802)
Provisions for Liabilities & Charges	11		(1,648)		(1,919)
Net Assets			1,005,474		954,470
Taxpayers' Equity:					
General Fund	12		(948,424)		(911,766)
Revaluation Reserve	13		(57,050)		(42,704)
Total Government Funds	14		(1,005,474)		(954,470)

During the year analysis conducted by the Defence Logistics Organisation resulted in changes to the balances held across the DLO's range of revaluation reserves. This amended DCSA's revaluation reserve balance from £6.9m to £42.7m for 2003-04.

Asset verification work within the Agency identified assets, originally classified as intangibles, which should have been included in the IT and Comms category. This reduced the intangibles balance (net book value) from £6.62m to £1.56m in 2003-04.



RGJ Ward
Rear Admiral
Chief Executive, DCSA
29 June 2005

Financial Accounts

Cash Flow Statement

For the year ended 31 March 2005

	2004-05 £'000	2003-04 £'000
Net Cash Outflow from Operating Activities	873,842	861,897
Interest element of finance leases and PFI contracts	4,456	1,449
Increase/(Decrease) in Fixed Asset Accruals	14,077	0
Capital Expenditure	91,444	88,518
Net Cash Outflow before Financing	983,819	951,864
Financing	983,818	951,882
Increase/(Decrease) in cash in the period	(1)	18
Reconciliation of Net Operating Cost to Operating Cost Cash Flows		
Net Operating Cost	1,231,326	1,152,755
Adjustment for items not involving movement of cash:		
Notional Costs	(119,091)	(111,082)
Non Cash Costs (excluding Net Working Capital movements)	(231,567)	(280,542)
Movements in Net Working Capital (other than cash):		
Increase/(Decrease) in Stock	10,976	(13,320)
Increase/(Decrease) in Debtors	(14,255)	175,813
(Increase)/Decrease in Creditors	(3,547)	(61,727)
Net cash outflow from operating activities	873,842	861,897

Financial Accounts

Notes to the Accounts

Note 1: Statement of Accounting Policies

A Introduction

The Accounts of the DCSA have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury.

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

B Value Added Tax

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

C Income

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

D Research and Development

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

E Notional Charges

(a) Interest Charge on Capital

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

(b) Audit Fee

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

(c) Intra-Departmental Charges

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

F Intangible Fixed Assets

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

G Tangible Fixed Assets and Depreciation

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

(a) Land and Buildings

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

(b) Single Use Military Equipment (SUME)

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

(c) IT and Communication Equipment

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

(d) Plant and Machinery and Transport

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

Financial Accounts

Notes to the Accounts

Note 1: Statement of Accounting Policies

(e) Capital Spares

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

Note:

A change in accounting policy for 2004-05 removed the previous £400 materiality threshold for Land related items to be classified as Capital Spares. This resulted in the reclassification in year of £13m of stock balances into Capital Spares. This reclassification is highlighted in Note 6 to the accounts.

(f) Assets Under Construction

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

(g) Depreciation

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

The average lives assigned to tangible fixed assets are:

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

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

H Stock

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

I Provision for Liabilities and Charges

Provision for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the balance sheet date. Provisions are charged to the Operating Cost Statement. All long-term provisions are discounted to current prices by the use of HM Treasury Discount Rate, currently 3.5%. The discount is unwound over the remaining life of the provision and is shown as an interest charge in the Operating Cost Statement.

J Pensions

Staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Armed Forces Pension Scheme (AFPS), which are described in Note 2. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefit. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS and AFPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and AFPS. In respect of the defined contribution elements of the schemes, the Agency recognises the contribution payable for the year.

K Cash Balances And Liabilities

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

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

Financial Accounts

Notes to the Accounts

Note 1: Statement of Accounting Policies

L Private Finance Initiative (PFI)

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

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

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

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

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

M Operating Leases

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

Note 2: Staff Costs and Numbers

1. Staff costs can be analysed as follows:

Wages & Salaries
Social Security Costs (ERNIC)
Other Pension Costs

Total

2004-05
£'000

137,385
10,509
20,680

168,574

2003-04
£'000

130,579
10,248
20,693

161,520

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

Agency and Temporary staff costs:

2004-05
£'000

5,868

2003-04
£'000

2,134

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

Average Civilian Staff numbers for the year:
Non Industrial
Industrial

Average Military staff numbers for the year:
Officers
Ratings/Other Ranks

Total staff numbers for the year:

2004-05
£'000

3,379
183

334
863

4,759

2003-04
£'000

2,996
226

343
1,116

4,681

Financial Accounts

Notes to the Accounts

Note 2: Staff Costs and Numbers

3. The Salary and Pension entitlements of DCSA's Main Board during the period of these accounts were:

Name	Salary including performance pay	Benefits In Kind	Real Increase in Pension and Related Lump Sum at Retirement	Total accrued pension at Retirement and related lump sum at 31 March 2005	CETV at 31 March 2004	CETV at 31 March 2005	Real Increase In CETV after adjustment for Inflation and changes in market investment factors
	£000	£000	£000	£000	£000	£000	£000
Rear Admiral R G J Ward – Chief Executive DCSA	90-95	-	1- 5	45-50 plus 135-140 lump sum	875	934	58
Dr C Mace – Director General Resources	Consent To Disclose Withheld						
Air Commodore A Warnes – Director Operations Until 23 September 2004	Consent To Disclose Withheld						
Brigadier D Hargreaves – Director Operations From 23 September 2004	75-80	-	0-2.5	25 – 30 plus 80 – 85 lump sum	648	674	23
Brigadier D Rowlinson – Director of Strategic Development	90-95	-	1- 5	30 – 35 plus 95 – 100 lump sum	675	743	56
Mr N Jarvis - Director Resources	55-60	-	1- 5	25-30	420	453	14
Brigadier T Gregory – Director Engineering Interoperability & Information Services	75-80	-	0-2.5	30-35 plus 90-95 lump sum	681	688	1
Mr L Sigrist - Director Procurement Until 4 August 2004	30-35	-	1- 5	25-30	398	416	4
Mr M Greatwich Director Procurement From 12 July 2004	35-40	-	5-10	10-15	119	146	20
Dr D Clevely – Non-Executive Director	1-5	-	-	-	-	-	-

NOTES

- (a) Brigadier Hargreaves succeeded Air Commodore Warnes as Director Operations on 23 September 2004. Mr Greatwich succeeded Mr Sigrist as Director Procurement on 12 July 2004
- (b) Non-executive member, Dr R Cliffe, is not remunerated.

Financial Accounts

Notes to the Accounts

Note 2: Staff Costs and Numbers

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

5. Pensions

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

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

For 2004-05, employer's contributions were payable to the PCSPS and AFPS at one of five rates in the range of 12 to 33.8% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions for the PCSPS are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates are actually incurred, and reflect past experience of the scheme.

For 2004-05 the rates for each class of member were as follows:

Scheme	Class of Member	Notified Rates (%)
Armed Forces Pension Scheme	Officers	33.8
	Ratings/Other Ranks	18.2
Principal Civil Service Pension Scheme	Civilians	
	Gross Salary £	
	59,001 and above	18.5
	34,001 – 59,000	16.5
	16,501 – 34,000	13.5
	16,500 and under	12

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

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on

retirement. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice-pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhancement as for widow(er) pensions.

Financial Accounts

Notes to the Accounts

Note 2: Staff Costs and Numbers

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the members pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of the Premium scheme, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

Pensions payable under Classic, Premium, and Classic Plus schemes are increased in line with the Retail Price Index.

(d) Partnership Pension Account

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

Financial Accounts

Notes to the Accounts

Note 3: Other Operating Costs

	2004-05		2003-04	
	£'000	£'000	£'000	£'000
Accommodation Costs:				
Property Management	21,822		21,438	
Utilities	3,790		4,758	
Rent	12,350		13,560	
		37,962		39,756
Supplies & Services Consumed:				
IT & Telecommunications	501,360		427,634	
Equipment Support	164,062		156,951	
Increase/(Decrease) in stock provision	3,428		(1,146)	
Legal & Professional Fees	32,583		24,745	
R&D Expenditure	6,023		11,237	
Training, Safety & Welfare	14,372		12,739	
Stock Consumed	669		672	
Movements	8,303		7,815	
		730,800		640,647
Other Administration Expenses:				
Impairments	44,597		31,359	
Depreciation	156,496		132,773	
Amortisation	474		6,557	
Loss on Fixed asset disposals	30,271		91,396	
Interest Charged on Capital	34,366		31,958	
Net loss on disposal of stock	15,942		8,075	
Office Administration	12,580		14,530	
Miscellaneous	6,116		7,247	
Interest Charges For Finance Leases	4,456		1,449	
Charges for operating leases	1,250		993	
Audit fee	74		72	
Increase/(Decrease) to bad debt provision	198		24	
Bad Debt Write Off	(142)		0	
Increase/(Decrease) in provision for liabilities and charges	(271)		426	
		306,407		326,859
Total Other Operating Costs		1,075,169		1,007,262

Financial Accounts

Notes to the Accounts

Note 4: Operating Income

	2004-05 £'000	2003-04 £'000
MoD Trading Funds	3,554	3,018
Other Government Departments	247	621
NATO Income	2,007	4,029
Rental Income From Third Parties	972	900
Other Operating Income	5,637	7,459
	12,417	16,027

Note 5: Intangible Fixed Assets

	2004-05 £'000	2003-04 Restated £'000
Cost or valuation:		
Balance at 1 April	3,390	81,534
Additions*	2,960	180
Impairments	(135)	(3,147)
Transfers with other MoD Business Units	450	769
Disposals	0	(75,946)
Balance at 31 March	6,665	3,390
Amortisation:		
Balance at 1 April	(1,830)	(45,028)
Charged in Year	(474)	(5,976)
Backlog Amortisation	0	(17)
Impairments	14	0
Disposal	0	49,191
Balance at 31 March	(2,290)	(1,830)
Net book value at 31 March	4,375	1,560

* Includes £872,182 Cash Additions

Asset verification work within the Agency identified assets, originally classified as intangibles, which should have been included in the IT and Comms category. This reduced the intangibles balance (net book value) from £6.62m to £1.56m in 2003-04.

Financial Accounts

Notes to the Accounts

Note 6: Reclassification of Tangible Fixed Asset Categories for FY04/05

	Fighting Equipment	Single Use Military Equipment	Plant, Machinery and Vehicles	Plant and Machinery	Transport – Fighting Equipment	Transport – Other	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation as at 1 April 2004	213,201	0	4,246	0	0	0	217,447
Re-Categorised:							
Single Use Military Equipment	(212,348)	212,348					0
Transport – Fighting Equipment	(349)				349		0
Transport – Other			(176)			176	0
Plant & Machinery	(504)		(4,070)	4,574			0
Revised Cost or Valuations	0	212,348	0	4,574	349	176	217,447
Depreciation at at 1 April 2004	(117,236)	0	(1,421)	0	0	0	(118,657)
Re-Categorised:							
Single Use Military Equipment	116,651	(116,651)					0
Transport – Fighting Equipment	162				(162)		0
Transport – Other			66			(66)	0
Plant & Machinery	423		1,355	(1,778)			0
Revised Depreciation	0	(116,651)	0	(1,778)	(162)	(66)	(118,657)

Note: MoD Accounting policy in relation to Tangible Fixed Assets changed from the start of FY2004/2005 with the creation of new Asset Categories for Transport – Fighting Equipment (previously Fighting Equipment), Transport-Other (previously in Plant, Machinery and Vehicles) and Single Use Military Equipment (previously Fighting Equipment). The table below shows the reclassification of DCSA's Fixed Asset Opening Balances into these new categories.

Financial Accounts

Notes to the Accounts

Note 6: Tangible Fixed Assets

	Land and Buildings – Non Dwellings £000	Land and Buildings – Dwelling £000	Single Use Military Equipment £000	Plant and Machinery £000	Transport – Fighting Equipment £000	Transport – Other £000	IT & Comms Restated £000	Capital Spares £000	Assets Under Construction £000	Total £000
Cost or Valuation as at 1 April 2004	178,523	0	212,348	4,574	349	176	409,999	592,098	60,582	1,458,649
Revaluation	12,902	0	0	58	0	3	0	10,835	0	23,798
Impairments	(12,315)	0	0	0	0	(7)	(39,308)	994	(668)	(51,304)
Transfers from/(to) other MoD Business Units	(14,637)	0	155,860	4,858	866	226	178,460	37,311	5,842	368,786
Additions*	1,025	1,072	97	526	7	0	91,308	6,300	14,474	114,809
Disposals	(657)	0	(31,596)	(422)	0	(119)	(6,951)	(78,760)	(7,158)	(125,663)
Reclassification	0	0	(20)	37	0	0	41,147	179	(41,343)	0
Reclassification from Stock	0	0	0	0	0	0	0	13,009	0	13,009
Closing Balance	164,841	1,072	336,689	9,631	1,222	279	674,655	581,966	31,729	1,802,084

Financial Accounts

Notes to the Accounts

Note 6: Tangible Fixed Assets

	Land and Buildings – Non Dwellings £000	Land and Buildings – Dwelling £000	Single Use Military Equipment £000	Plant and Machinery £000	Transport – Fighting Equipment £000	Transport – Other £000	IT & Comms £000	Capital Spares £000	Assets Under Construction £000	Total £000
Depreciation as at 1 April 2004	(14,611)	0	(116,651)	(1,778)	(162)	(66)	(61,933)	(381,207)	0	(576,408)
Charged in Year	(6,282)	(36)	(18,455)	(1,050)	(51)	(15)	(83,871)	(46,734)	0	(156,494)
Backlog Depreciation	(2,364)	0	0	(12)	0	(1)	(3,838)	(4,580)	0	(10,795)
Transfers from/(to) other MoD Business Units	1,440	0	(90,444)	(88)	155	(147)	(98,213)	(11,017)	0	(198,314)
Impairments	1,089	0	0	0	0	7	5,732	0	0	6,828
Disposals	657	0	23,751	186	0	30	3,035	62,663	0	90,322
Reclassifications	0	0	0	0	0	0	0	0	0	0
Closing Balance	(20,071)	(36)	(201,799)	(2,742)	(58)	(192)	(239,088)	(380,875)	0	(844,861)
Net Book Value at 31 March 2004	163,912	0	95,697	2,796	187	110	348,066	210,891	60,582	882,241
Net Book Value at 31 March 2005	144,770	1,036	134,890	6,889	1,164	87	435,567	201,091	31,729	957,223
*includes the following cash additions:	975	0	0	16	0	1,073	75,342	2,390	10,776	90,572

Financial Accounts

Notes to the Accounts

Note 6: Tangible Fixed Assets – Additional Information

Note: The FY2003/2004 balances have been re-stated from the original accounts to take account of five Assets identified in year as being IT & Comms Fixed Assets which had previously been shown as Intangibles.

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

	Net Book Value as at 31 March 2005	Net Book Value as at 31 March 2004
Land and Buildings	4,011	4,005
IT and Communications	52,856	58,662
Total	56,867	62,667

Note 7: Stocks

	2004-05 £'000	2003-04 £'000
Gross book value of consumable stocks	93,507	99,116
Provision For Obsolete and Surplus Stocks	(36,120)	(32,666)
Closing Balance at 31 March	57,387	66,450

Note 8: Debtors and Prepayments

	2004-05 £'000	2003-04 £'000
Amounts falling due within one year		
Balances with other central government bodies	67	400
Balances with Public Corporations and trading funds	921	166
Balances with bodies external to government	52,689	42,961
	53,677	43,527
Amounts falling due in greater than one year		
Balances with bodies external to government	138,306	162,910
Total Debtors	191,983	206,437

Financial Accounts

Notes to the Accounts

Note 9: Cash Balances

	2004-05 £'000	2003-04 £'000
Cash at Bank	(0)	(1)
Cash in hand	0	1
	<u>0</u>	<u>0</u>

Note 10: Creditors and Accruals

	2004-05 £'000	2003-04 £'000
Amounts falling due within one year		
Balances with Local Authorities	74	0
Balances with public corporations and trading funds	3,223	1,078
Balances with bodies external to government	140,374	137,419
	<u>143,671</u>	<u>138,497</u>
Amounts falling due after one year		
Balances with bodies external to government:		
Obligations under PFI/Finance Leases:		
- In more than 1 year but not more than 2 years	2,908	2,908
- In more than 2 years but not more than 5 years	8,724	8,724
- In more than 5 years	48,543	50,170
	<u>60,175</u>	<u>61,802</u>

Note 11: Provision for Liabilities & Charges

	Objective £'000	MOULD £'000	Total £'000
Provision at 1 April 2004	(850)	(1,069)	(1,919)
Movement in provision during the year	0	271	271
Provision at 31 March 2005	<u>(850)</u>	<u>(798)</u>	<u>(1,648)</u>

Project MOULD is the decommissioning of the UK-wide radio network used by the Government authorities during times of emergency. Work commenced 1 April 2003 and is due for completion by 31 March 2006.

Project Objective is the costs of avoiding an onerous contract. A contract was entered into that was

subsequently deemed not to provide value for money and did not meet the requirements due to advancing technology. The costs of avoiding this contract did not materialise in FY2004-05 as originally expected and will now fall into FY2005-06.

Financial Accounts

Notes to the Accounts

Note 12: Statement of Movement on General Fund

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

	2004-05 £'000	2003-04 Restated £'000
General Fund Opening Balance at 1 April	(911,766)	(754,228)
Net Operating Cost in period	1,231,326	1,152,755
Net cash inflow from financing	(1,011,686)	(951,882)
Notional Costs	(119,091)	(111,082)
Net transfers	(118,087)	(94,325)
Transferred to General Fund in respect of realised element of Revaluation Reserve	(2,635)	(84,295)
Fixed assets found in-year	(16,485)	(68,709)
General Fund Closing Balance at 31 March	<u>(948,424)</u>	<u>(911,766)</u>

Note 13: Movement on Revaluation Reserve

	2004-05 £'000	2003-04 £'000
Revaluation Reserve at 1 April	(42,704)	(117,187)
Fixed Asset revaluation in year	(13,003)	(15,522)
Stocks revaluation in year	(7,865)	6,327
Realised element of Revaluation Reserve transferred to General Fund	2,635	84,295
Transfers	3,887	(617)
Revaluation Reserve at 31 March	<u>(57,050)</u>	<u>(42,704)</u>

Note 14: Reconciliation of Movement of Government Funds

	2004-05 £'000	2003-04 £'000
Balance as at 1 April	(954,470)	(871,416)
Revaluation Reserve movement in year	(14,346)	74,484
General Fund movement in year	(36,658)	(157,538)
Balance as at 31 March	<u>(1,005,474)</u>	<u>(954,470)</u>

Financial Accounts

Notes to the Accounts

Note 15: Non-Cash and Notional Costs

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

Non Cash Costs

	2004-05		2003-04	
	£'000	£'000	£'000	£'000
Depreciation & Amortisation	156,970		139,330	
Impairments of Fixed Assets	44,597		31,359	
Loss on Disposal of Fixed Assets	30,271		91,396	
Increase/(Decrease) in Stock Provisions	3,428		(1,146)	
Stock Consumed	670		672	
Net Loss on Disposal of Stock	15,941		8,075	
Unwinding of PFI Prepayment	25,366		10,406	
Increase/(Decrease) in bad debt provision	198		24	
Increase/(Decrease) In Provisions	(271)		426	

Total Non-Cash Costs

277,170

280,542

Notional Costs

Interest on Capital	34,366		31,958	
Notional Paradigm PFI Service Charge	39,067		29,476	
Accommodation Charge for Lodgers	8,688		10,339	
Office Administration	3,891		4,808	
Property Management	6,001		9,152	
Permanent Posting Costs	797		601	
DCSA Element of MoD Central Overhead	5,578		8,379	
Equipment Support	6,546		6,902	
Training, Safety & Welfare	5,477		4,307	
Utilities	1,781		2,228	
IT & Telecommunications	2,843		1,377	
Insurance	2,749		990	
Miscellaneous	1,069		405	
Hospitality & Entertainment	164		88	
Audit Fee	74		72	

Total Notional Costs

119,091

111,082

Total Non Cash and Notional Costs

396,261

391,624

Financial Accounts

Notes to the Accounts

Note 16: Private Finance Initiative (PFI) Commitments

The payments made during the year in respect of off-balance sheet PFI transactions were £218,898,409.

At 31 March 2005, the Agency had annual commitments under PFI contracts, as set out below:

PFI commitments which expire:

Within 1 year

Within 2 to 5 years

Within 6 to 10 years

Within 11 to 15 years

Over 15 Years

	Off Balance Sheet PFIs £'000	On Balance Sheet PFIs £'000
Within 1 year	0	0
Within 2 to 5 years	149,300	0
Within 6 to 10 years	0	13,386
Within 11 to 15 years	97,951	0
Over 15 Years	0	7,148

Note: The off balance sheet commitments shown above include £97.951m in respect of the SKYNET 5 Commercial Satellite PFI. Future commitments are expected to increase significantly in future years to £165m in FY2006/2007 and to £230.2m in FY2007/2008.

Project Description	Capital Value £'000	Contract Start Date	Contract End Date
Defence Fixed Telecommunications System (DFTS): Integration of 50 fixed telecommunications networks used by the Armed Forces and MoD	70,000	Jul 1997	Jul 2007
Electronic Messaging Service: Interoperability of messaging services for the Army	33,000	Jul 1997	Apr 2007
RAF Mail: Provision of informal messaging services for the RAF	12,000	Nov 1998	Nov 2008
Tri-service White Fleet: Provision, management and maintenance of support vehicles in the UK	40,000	Jan 2001	Jan 2011
SKYNET 5 Commercial Satellite System: Provision of worldwide commercial satellite communication	1,079,000	Oct 2003	Feb 2018

Financial Accounts

Notes to the Accounts

Note 17: Commitments Under Operating Leases

	2004-05 £'000	2003-04 £'000
Plant & Machinery		
Payments due under operating lease which expire:		
Within one year	11	430
Between two and five years	69	104
Land and Buildings		
Payments due under operating lease which expire:		
Within one year	70	0
Between two and five years	0	0
Transport		
Payments due under operating lease which expire:		
Within one year	283	0
Between two and five years	0	0
TOTAL	433	534

Note 18: Commitments Under Operating Leases Where DCSA is the Lessor

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

The towers had an original gross value of £294m and have been written down to a nominal value of less than £100. The DCSA had rental income during 2004-05 to the value of £330,000 (£174,000 in 2003-04).

Note 19: Related Party Transactions

The DCSA is a Defence Agency of the Ministry of Defence.

The MoD is regarded as a related party. During the period 1 April 2004 to 31 March 2005 the DCSA has had various material transactions with the MoD and with other entities for which the MoD is regarded as the parent department. These entities include the Meteorological Office, the Hydrographic Office and the Defence Aviation Repair Agency.

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

Most of these transactions were with the Learning Skills Council and Home Office.

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

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

Financial Accounts

Notes to the Accounts

Note 20: Capital Commitments

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

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

Project	Outstanding Payments £'000
UK Type 2 MSSR Replacement	440
Low Level Sweep Contract	475
Sustainability Case Ship R HMS Portland	36
Synergy Provision of Deployable Terminals	47
Commercial Augmentation Washington	274
TOTAL	1,272

Note 21: Financial Instruments

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

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

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

excluded from these disclosures (except for those relating to currency risk).

Interest rate risk

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

Currency risk

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

Liquidity risk

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

Note 22: Post Balance Sheet Events

There have been no events since the end of the financial year that would affect the understanding of the accounts.

Supporting Information

Glossary

ACCS	Air Command and Control Systems
ADGBS	Air Defence Ground Based Systems
ALPOC	Agency Lead Point of Contact
AOS	Airfield Operations Support
BATCIS	Bowman And Tactical Communication & Information Systems
BT	British Telecommunications
CASS	Crypto & Secure Systems
CCI	Customer Confidence Index
CDL	Chief of Defence Logistics
CDP	Chief of Defence Procurement
CE	Chief Executive
CG	Customer Group
CIS	Communication and Information Systems
CISR	Rationalisation of Communication and Information Service Support Workstream
CM(IS)	Capability Manager (Information Superiority)
CMSG	Communications Messaging
CND	Computer Network Defence
CPB	Change Programme Board
CRISP	Comprehensive Royal Navy Inventory System and Online Provisioning and Update System
CRM	Customer Relationship Management
CS	Coherent Solutions Workstream
CSA	Customer Supplier Agreement
CSIS	Command Support and Information Systems
CTO	Chief Technical Officer
DCBA	Defence Corporate Business Applications
DCP	DCSA Change Programme
DCSA	Defence Communication Services Agency
DECS	Defence Electronic Commerce Service
DFN	Defence Fixed Networks
DFTS	Defence Fixed Telecommunications Service
DFTS(F)	Defence Fixed Telecommunications Service (Future)
DG Info	Director General Information
DGMO	Director General Management and Organisation
DHFCS	Defence High Frequency Communications Service
DII	Defence Information Infrastructure
D ISD	Director Information Services Delivery
DLO	Defence Logistics Organisation
DMB	Defence Management Board
DMP	Defence Modernisation Programme
D Ops	Director Operations
DPA	Defence Procurement Agency
D Proc	Director Procurement
D Res	Director Resources
D ST	Director Strategic Transition
E2E	End-to-End
FLC	Front Line Commands
FOC	Full Operational Capability
FOS	Full Operational Service
FUL	First User Live
FY	Financial Year
GOSCC	Global Operations and Security Control Centre
HQSTC	Headquarters Strike Command

HR	Human Resources
IAB	Investment Approval Board
ICS	Information and Communication Services
ICSS	Information and Communication Systems Support
INOS	Intermediate Operating Services
IPT	Integrated Project Team
IPTL	Integrated Project Team Leader
ISD	In Service Date
JFCIS	Joint Force CIS
KT	Key Target
KTRP	Key Target Rationale Paper
LA	Logistic Applications
MAC	Military Airborne Communications
MB	Main Board
MB(I)	Main Board (Informal)
MoD	Ministry of Defence
MODAF	Ministry of Defence Architectural Framework
NBV	Net Book Value
NEC	Network Enabled Capability
OA	Optimised Acquisition Workstream
OAB	Owners' Advisory Board
OGD	Other Government Department
PFI	Private Finance Initiative
PJHQ	Permanent Joint Headquarters
PMB	Performance Management Board
PMR	Private Managed Radio
PPP	Public Private Partnership
R3	Right People, Right Skills, Right Environment Workstream
SAT	Satellite Communications Acquisition Team
SF	Strategy Forum
SLA	Single Living Accommodation
SPCISR	Special Projects Communication Information Surveillance & Reconnaissance
STP	Short Term Plan
STRS	Strategic Terrestrial Radio Systems
TDL	Tactical Data Links
TFCS	Theatre and Formation Communication Systems
TLB	Top Level Budget
UOR	Urgent Operational Requirement
VES	Vision End States
WAN	Wide Area Network

Reference Documents

DCSA One Team
Published October 2004

DCSA Framework Document 2004
Published November 2004

DCSA FY 2004/2005 Key Target Rationale Paper
Published June 2004

DCSA Corporate Plan 2005/2006
Published April 2005

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

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

Network Enabled Capability Handbook
(Joint Service Publication (JSP) 777 Edition 1)
Published February 2005



HQ DCSA

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

All images and information Crown Copyright MoD 2005/2006

Sources for Imagery:

DLO TES TI Media, Photography and Video, Foxhill, Bath.
Defence Image Library, London.

Designed by: DCSA Corporate Communications
Cover image: DCSA Corporate Communications

Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers

ISBN 0-10-293433-9



9 780102 934335