Presented pursuant to Schedule 3, paragraphs 9(8) of the Oil and Pipelines Act 1985

The Oil and Pipelines Agency Accounts 2005-2006

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 11 JULY 2006

LONDON: The Stationery Office
HC 1479

3 November 2006
£9.00

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Chairman's Statement

The function of the Agency is to manage the Government Pipeline and Storage System on behalf of its Stakeholder, the Ministry of Defence (MoD). It operates a substantial Defence facility whilst generating a cash surplus for its Stakeholder.

The Agency is committed to continuous improvement in its methods of working and processes to obtain the best value for public money. As well as implementing the recommendations of the Quinquennial Review by the MoD, the Agency has carried out its own process and systems review with a view to improving efficiency and the flow of management information. The new system, having been evaluated and chosen by a process of competitive tendering, is now being implemented. Further investment in operational systems will be required to maintain operational integrity and effectiveness at its current high level. A strategic review is ongoing and the Agency has identified opportunities for consideration that would expand the Agency's field of operations, leverage its expertise, more closely align its strategy with the Stakeholder and improve staff succession and career planning.

The incident at Buncefield has emphasised yet again the vital importance of high standards in security, maintenance, inspection and the management of risk, particularly with regards to health, safety and the environment. Following the incident, an independent review of these matters has been carried out by the Regulatory Authority. No major deficiencies were identified and the minor issues are being addressed. As a parallel activity, a review of security is being undertaken. The importance of the continued operation of a safe, reliable, economic and secure service for the storage and transportation of military fuel and the contribution made to civil requirements was highlighted by the post Buncefield supply problems. The significance of the GPSS as a key national asset has never been so apparent.

I would like to pay tribute to the professionalism and commitment of the Agency's staff. During the year, there has been a significant increase in the volume of organisational change as well as the substantial ongoing operational requirements of the GPSS. The staff has worked extremely well to ensure that the high standards of the GPSS continue to be delivered, whilst accommodating the change process.

F Dobbyn 6 July 2006
Chairman

Report of the Agency

Introduction

The Oil and Pipelines Agency is a public corporation, formed at the end of 1985 by virtue of the Oil and Pipelines Act 1985. Its duties, powers and general functions are prescribed by this Act. Its task is to provide for the safe, efficient, economic and effective management of the Government Pipeline and Storage System (GPSS). This task includes the maximum development of private sector usage of the GPSS, provided this does not impinge upon its primary purpose of supplying the required fuel for defence purposes and does not require capital investment from public funds. The Agency is the Ministry of Defence's professional expert on bulk fuels storage and transportation by pipeline. The GPSS, a strategic defence asset, is the responsibility of the Secretary of State for Defence and the Ministry of Defence (MoD) sponsors the Agency as its Managing Agent through the Defence Fuels Group.

The GPSS

The GPSS consists of some 2,500 kilometres of underground cross-country pipelines of differing diameters, together with storage depots, salt cavities, associated pumping stations, receipt and delivery facilities and other ancillary equipment. An outline map of the GPSS is included on page 6. Most of the storage depots are connected to the pipeline ringmain, which in turn is supplied by the majority of the major refining centres and port areas in England. Other self-standing pipelines and depots are situated elsewhere in England and Scotland. The GPSS receives, stores, transports and delivers light oil petroleum products for military and civil users.

GPSS future development

Following the Quinquennial review of the Agency in its role as Managing Agency for the Secretary of State, the Agency and the Defence Logistics Organisation established a Review Group to consider the strategic future of the GPSS. This strategy review group has widened its remit to consider how the Agency could participate in, and contribute to, ways in which end to end fuel processes could be further improved. The Agency continues to work with MoD to maximise efficiency and effectiveness, hence delivering greater value for money to the taxpayer.

GPSS business activities

The demand for civil aviation kerosene in 2005 showed growth relative to 2004 with continuing growth in demand anticipated. The Agency reacted rapidly to optimise the use of the GPSS following the incident at Buncefield in December 2005 which dislocated petroleum distribution in the south east of England. During the year the Agency has continued to develop projects which would increase both the volumes of aviation kerosene that can be supplied through the GPSS and ground fuel trade in the GPSS. The expectation of continuing growth in demand is subject to external influences; heightened international tension, pandemics or similar events would adversely affect growth.

GPSS technical and contractual activities

The Agency has continued to maintain a close dialogue with the regulatory authorities, from whom an understanding of their evolving requirements in respect of widely drawn health, safety and environmental regulations has been derived. As a result, the impact of recently enacted environmental, health and safety legislation is becoming increasingly clear. The continuing programme of inspection and repair of bulk fuel storage tanks and terminal pipework as well as of cross-country pipelines has been active throughout the year with the aim of assuring the operational integrity of these facilities into the future. In the immediate aftermath of the incident at Buncefield in December 2005, which disrupted the distribution of petroleum in the south east of England, the Agency reviewed its programme of engineering works with a view to maximising the availability of GPSS capability. This did not delay the implementation of a project to enhance emergency shut-down facilities on the GPSS which had been the subject of a preceding study; this is one of a number of GPSS investments to assure the reliable and cost effective operation of the GPSS consistent with the requirements of environmental and health and safety legislation. Such projects will continue to be a requirement for the Agency in discharging its responsibilities for the management of the GPSS.

The Agency with other members of the Linewatch group, which acts to promote awareness of, and good working practices around refined liquid petroleum pipelines, continues to promote a one-call system. This is to provide a single focal point through which an individual or an organisation can establish whether activities would jeopardise the integrity of buried plant and, if they do, put in place the necessary plans and carry out their work in such a way as to prevent damage. During the year, further participants joined the group.

Substantial completion of a major project to enhance the import capability into the GPSS has reinforced the capability of the GPSS with work to enhance associated pipeline capacities nearing completion.

Crude oil supply and trading

There has been no activity in crude oil supply and trading since 1989 and none is anticipated in the future.

Members and principal officers

The following served as Members and as Principal Officers of the Agency during the year and since to 6 July 2006

Members

F Dobbyn	Appointed Chairman, 8 July 2005
Dr JD Hastie	Chairman, retired 7July 2005
Air Commodore AC Spinks	(Director, Defence Fuels Group, MoD)
MJ Burrett	
Dr ET Libbey	Appointed 8 July 2005
Dr JDC Vardon	

Principal officers

Dr JDC Vardon	Chief Executive and Accounting Officer
JR Merrett	Secretary to the Agency

Register of interests

The Agency maintains a Register of Interests and requires all Members and staff to sign annually a Conflict of Interest Declaration. There were no conflicts reported during the past year.

Agency employees

The Agency is an equal opportunity employer, fully committed to equal opportunity policies and aware of its statutory duty to support the employment of disabled persons where possible. The Agency's policy is that there should be no discrimination on any grounds whatsoever other than performance in the job. Employees are key to the ongoing performance of the Agency; access to opportunities within the Agency is based upon competence, knowledge and ability to do the work. An 'open door' policy is encouraged and employees meet regularly in various ways to encourage discussion and the dissemination of information across the Agency.

Agency administration

The total level of personnel, excluding non executive members, required by the Agency remained at nineteen and at the year-end all positions were filled with permanent staff.

Retirement benefits plan

Information on the Agency's pension scheme can be found in the Remuneration Report, Accounting Polices note 2d, and note 13 to the accounts.

Accounts

The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to the Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence (page 26).

Principal activities

The principal activity of the Agency is to manage the Government Pipeline and Storage System (GPSS) on behalf of the Secretary of State in accordance with the requirements and obligations of the agreement in place between them. The results of the GPSS are not included with those of the Agency.

Agency result

The financial objective of the Agency to contain its normal operating and administrative expenses, before non cash pension fund adjustments, within its allocated budget and to recover actual costs as a management fee from the Secretary of State for Defence was achieved during the year.

A net profit of £203,000 (2005: £110,000) was the result of the Agency for the year. The profit arose primarily from interest earned and a pension scheme credit.

Payment of creditors

It is the policy of the Agency to negotiate terms with its suppliers and to ensure that they know the terms on which payment will take place when business is agreed. It is the Agency's policy to abide by the Better Payment Practice Code. The number of days of billings from suppliers outstanding at the end of the financial year was twenty days (2005: nineteen days).

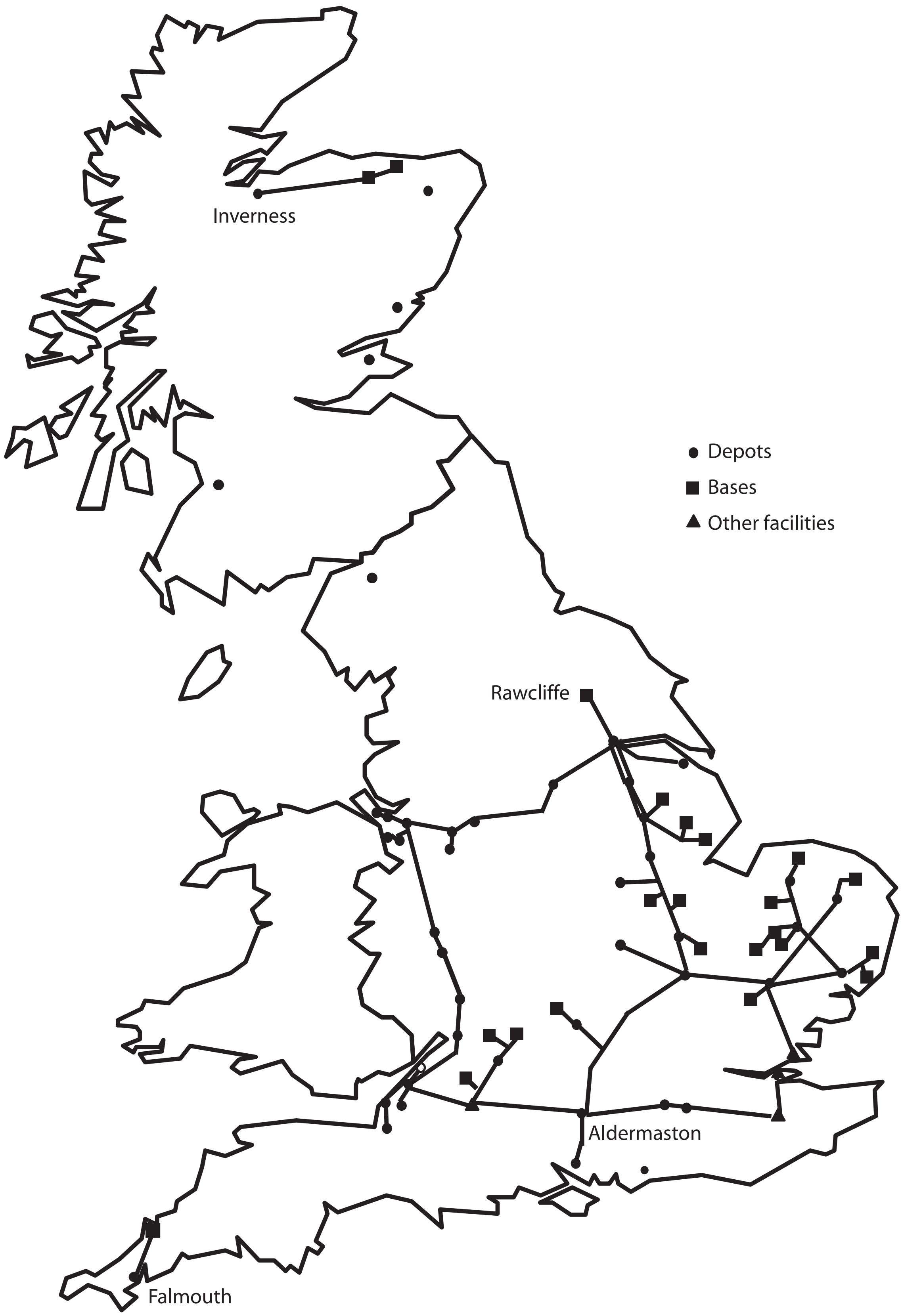
Auditors

Further to the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003, which came into force on 23 May 2003, the Comptroller and Auditor General was appointed as the independent auditor to the Agency. The cost of the audit was £8,000. No other services were provided by the Comptroller and Auditor General during the financial year.

The Certificate and Report of the Comptroller and Auditor General is attached on pages 27 and 28.

Dr J D C Vardon 6 July 2006
Chief Executive and Accounting Officer

General outline of the GPSS



Remuneration report

The Remuneration Committee

The members of the Remuneration Committee are the Chairman, the Chief Executive and one independent non executive Member of the Agency and the committee is responsible for reviewing the level of remuneration of employees of the Agency. The remuneration of non-executive Members is set by the Secretary of State on appointment for the duration of their term as non-executive Members and is therefore not a responsibility of the Agency or of the Remuneration committee.

Remuneration policy

The Agency sets its remuneration policy for all employees, including the Chief Executive, by comparison with competitive market rates including by periodic review with external commercial entities in similar industries. The Remuneration Committee, on which MoD is represented by its appointed Member, is responsible for the annual setting of salaries for employees including the Chief Executive.

Remuneration details

Non-executive Members are appointed by the Secretary of State for a fixed term at a fixed rate of emolument with no provision for compensation for early termination as follows:

		Appointed	Appointed to	2006 Salary band £000	2005 Salary band £000
Dr JD Hastie	Chairman	8 July 1999	7 July 2005	0–5	5–10
F Dobbyn	Chairman	8 July 2005	7 July 2007	10–15	
F Dobbyn	Member	8 July 2004	7 July 2007	0–5	0–5
Air Commodore AC Spinks	Member	1 July 2003	see below	0	0
MJ Burrett	Member	8 July 2004	7 July 2007	5–10	0–5
Dr ET Libbey	Member	8 July 2005	7 July 2008	0–5	
JC Morgan	Member	8 July 1999	7 July 2004		0–5

Air Commodore AC Spinks is appointed ex-officio as Director, Defence Fuels Group, MoD and continues as a Member of the Agency until he ceases to be Director, Defence Fuels Group. As a serving member of the RAF he is remunerated outside the Agency.

The Agency has not made any pension contributions in respect of non-executive Members, who are not members of the pension scheme, nor did they receive any benefits in kind except for the reimbursement of actual expenses.

The remuneration during the year of the Chief Executive and executive Member was £100,000 (2005: £94,000) and taxable benefits, derived from medical care and the use of a car, were £7,000 (2005: £6,000). The Chief Executive is a member of the Oil and Pipelines Retirement Benefits Plan and, during the year, accrued a real increase in pension payable of £3,000 per annum and had a total accrued pension payable at normal retirement age of between £42,500 and £45,000 per annum at 31 March 2006 (2005: range £37,500 to £40,000). His cash equivalent transfer value increased from £587,000 at 1 April 2005 to £741,000 at 31 March 2006 representing a real increase after adjustment for inflation and changes in market investment factors of £54,000.

Retirement Benefits Plan

The Agency operates a funded pension scheme providing benefits to employees based on final pensionable pay. The assets of the scheme are held separately from those of the Agency and are invested in a trustee administered fund.

All permanent employees are invited to join the Agency's pension scheme and, if they do so, contribute five percent of their pensionable salary to the scheme.

The constitution of the Plan and powers and duties of the Trustee were set out in a Trust Deed dated 27 September 1982 as amended. This was replaced by a Second Definitive Trust Deed and Rules dated 1 December 1992 as amended as of 13 December 1995. A Deed of Amendment dated 13 February 1996 was executed, the purpose of which was to make the Second Definitive Trust Deed compliant with the requirements of the Pensions Act 1995. A further Deed of Amendment dated 30 April 2002 was executed to make the Second Definitive Trust Deed compliant with the requirements of the Welfare Reform and Pensions Act 1999.

An actuarial valuation of the Plan was carried out as at 5 April 2005 and indicated that the value of the assets was at 110% of the value placed upon the liabilities. A review of the options available, prompted by the valuation, resulted in the Agency and the Trustee deciding to maintain the existing defined benefits scheme and to maintain the level of contributions of the Agency and employees at 20% and 5% respectively.

Pension costs are accounted for under Financial Reporting Standard 17 (FRS 17), notes 2d and 13 to the accounts, which required an independent qualified actuary to carry out an actuarial assessment of the pension scheme and, at the year end, the actuary has valued the pension scheme surplus before taxation at £1,092,000 (2005: £624,000).

Dr J D C Vardon 6 July 2006
Chief Executive and Accounting Officer

Corporate Governance

Best practice

The Oil and Pipelines Agency (the Agency), as a public corporation, is governed according to the Oil and Pipelines Act 1985, Cabinet Office Guidelines and, where appropriate, best practice in corporate governance as represented by the revised Combined Code on Corporate Governance.

Responsibilities of the Agency and Agency committees

Responsibility for assuring that high standards of corporate governance are observed at all times rests with Agency Members who are responsible for ensuring the maintenance of a control framework in which they can obtain assurance that risk is properly assessed and managed, appropriate internal controls are in place and complied with and business performance is properly monitored. Agency Members, who are appointed by the Secretary of State, set out the strategic framework within which the Agency operates and matters reserved to them include

- establishing committees of the Agency, reviewing their activities and, where appropriate, ratifying their decisions;
- reviewing and approving the Agency's Annual Report and Accounts and the Government Pipeline and Storage System (GPSS) report and Financial Statements following review by the Audit committee; and
- receiving and considering reports from the Audit committee on the control framework and risk management.

The Agency, which meets quarterly, has one executive Member and four non-executive Members, including the non-executive Chairman. The management of the Agency is delegated by the Agency to the Chief Executive, who is designated the Accounting Officer for the Agency by the Accounting Officer for the Ministry of Defence (MoD).

The Chairman

The Secretary of State appoints the Chairman of the Agency, who is responsible for the leadership of the Agency and ensuring that the Agency discharges the responsibilities set out above.

The Chief Executive and Accounting Officer

The Chief Executive, as Accounting Officer for the Agency, is responsible for

- the propriety and regularity of the public finances for which he is answerable;
- the keeping of proper accounts;
- prudent and economical administration;
- the avoidance of waste and extravagance and the effective and efficient use of all available resources;
- the maintenance of public service values within the Agency, and for the transparency and openness of its proceedings; and
- the taking of appropriate action if Agency Members consider taking a course that would not comply with these requirements.

The responsibilities of the Accounting Officer are set out in the Non-Departmental Public Bodies' Accounting Officer's Memorandum, issued by the Treasury and published in 'Government Accounting'.

The Audit Committee

The Audit committee of the Agency is comprised of two non-executive Members of, and the Secretary to, the Agency. The responsibility of the Audit committee, as set out in terms of reference approved by the Agency, is to provide advice to the Agency on

- strategy for corporate governance, risk management and internal controls;
- statement of internal controls;
- accounting policies, financial statements, including the annual report and accounts, as well as matters arising from external audit;
- status of control framework with actions arising from the control framework questionnaire and any related issues; and
- follow-up to external auditor's management letter and other external reviews including but not limited to Quinquennial Reviews of the Agency.

The Chief Executive does not sit on the Agency's Audit committee, which is chaired by an independent Member of the Agency.

The Remuneration Committee

The members of the Remuneration committee are the Chairman, the Chief Executive and one independent non executive Member of the Agency and the committee is responsible for reviewing the level of remuneration of employees of the Agency. The remuneration of non-executive Members is set by the Secretary of State on appointment for the duration of their term as non-executive Members and is therefore not a responsibility of the Agency or of the Remuneration committee.

Statement of Members' accounting responsibilities

Under Schedule 3 paragraph 9 of the Oil and Pipelines Act 1985, the Agency is required to prepare a statement of accounts for each financial year, in the form and on the basis determined by the Secretary of State for Defence with the consent of the Treasury. The accounts are prepared to show a true and fair view of the state of the Agency's finances at the year end and of the profit and loss of the Agency for the financial year. In preparing these accounts, Agency Members are required to

- observe the accounts direction issued by the Secretary of State, including relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Agency will continue in operation.

Statement on Internal Control

Responsibility

As Accounting Officer, the Chief Executive of the Agency is responsible for maintaining a sound system of Internal Control that supports the objectives of the Agency, whilst safeguarding public funds and government assets for which he is responsible. Such funds and assets include those relating to the GPSS, in respect of which the Agency exercises financial and technical control, within the constraints set by the Ministry of Defence, over its operation and maintenance in its capacity as Managing Agent for the Secretary of State. The Agency's Finance Manager assists him in this.

The System of Internal Control

The system of internal control is based on an ongoing process, recognising the small size of the Agency, to identify the principal risks to the continuing effective operation of the Agency, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. It does not eliminate all risk of failure to achieve policies, aims and objectives and therefore provides reasonable, and not absolute, assurance of effectiveness. The main elements of the processes, in place prior to the Quinquennial Review of the Agency, were

- a periodic external review of the system of internal controls;
- organisational structures and defined responsibilities within the Agency;
- weekly, monthly and quarterly reporting and review of financial progress against pre-agreed budgets; and
- weekly meetings of the Agency's managers to monitor and manage day to day activities.

Having put in place a strategy to build upon the existing regime of corporate governance and, recognising the small size of the Agency, to put in place a system which demonstrates the good corporate governance of the Agency in a manner that is fit for purpose and represents best value for taxpayers' money, the Agency has made considerable progress in the implementation of this strategy during the year. In particular

- the Audit committee of the Agency has carried out a review of the control framework for all three operating departments of the Agency to satisfy themselves as to the level of segregation of duties and authorisations to ensure that reasonable controls are in place and/or to identify areas that could be beneficially strengthened;
- executive personnel, starting from the policies in place, redrafted existing policies or created new policies to reflect existing practices or created new policies to meet governance requirements; a suite of some twenty such policy documents was issued to Members of the Agency and to DFG for comments, which were received at the end of the year; and
- executive personnel continued the development of a formalised internal controls framework document and risk register.

Work in these areas will continue, in particular the formalisation and implementation of procedures against the requirements of approved policies and the use of the formalised risk register both for the identification and management of risks within the Agency but also as a means of communicating information to Members and to the MoD.

Review of effectiveness

The Accounting Officer is responsible for reviewing the effectiveness of the system of internal control with the support and advice of the Agency's Audit committee. This review is informed by the work of external auditors and departmental managers within the Agency supported by the work of the Agency's Audit committee itself. Any anomalies or unexpected outputs are investigated and discussed with Members, where appropriate.

Statement on Disclosure to Auditors

So far as the Chief Executive and Accounting Officer is aware there is no relevant information of which the Agency's auditors are unaware, and he has taken all appropriate steps to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Dr J D C Vardon 6 July 2006
Chief Executive and Accounting Officer

Profit And Loss Account for the year ended 31 March 2006

	Notes	**2006 £000**	2005 £000
Turnover	2b	**1,747**	1,625
Operating and administrative expenses	5	**(1,778)**	(1,776)
Notional costs – cost of capital	7	**(207)**	(199)
Operating (loss) after notional costs		**(238)**	(350)
Interest receivable from bank accounts		**226**	226
Other finance income	13	**60**	70
Profit (loss) profit on ordinary activities before taxation		**48**	(54)
Tax on profit (loss) on ordinary activities	9	**(52)**	(35)
(Loss) on ordinary activities after taxation		**(4)**	(89)
Reversal of notional costs	7	**207**	199
Profit after reversal of notional costs		**203**	110

All operations undertaken during the year are continuing.

The accompanying notes on pages 18 to 25 form part of these accounts

Statement of Total Recognised Gains And Losses for the year ended 31 March 2006

	Note	**2006** **£000**	2005 £000
Profit after reversal of notional costs		**203**	110
Actuarial gain (loss) recognised in the pension scheme	13	**438**	(272)
Deferred tax arising on gain (loss) recognised in the pension scheme		**(83)**	52
Total recognised gains and losses relating to the year		**558**	(110)

The accompanying notes on pages 18 to 25 form part of these accounts.

Balance Sheet At 31 March 2006

	Notes	2006 £000	2005 £000
Fixed assets	8	**181**	195
Current assets			
Debtors	10	**158**	162
Cash at bank and in hand		**5,172**	4,905
		5,330	5,067
Creditors: amounts falling due within one year	11	**(199)**	(129)
Net current assets		**5,131**	4,938
Total assets less current liabilities excluding pension asset		**5,312**	5,133
Pension asset	13	**884**	505
Net assets		**6,196**	5,638
Represented by			
Contributed capital	1a	**2,380**	2,380
Profit and loss account	14	**3,816**	3,258
		6,196	5,638

F Dobbyn
Chairman
6 July 2006

Dr J D C Vardon
Chief Executive
6 July 2006

The accompanying notes on pages 18 to 25 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2006

Reconciliation of operating (loss) profit to net cash (outflow) inflow from operating activities

	Notes	2006 £000	2005 £000
Operating (loss) after notional costs		**(238)**	(350)
Depreciation charges		**44**	41
(Profit) loss on disposals of fixed assets		**(2)**	9
Pension fund charge	13	**189**	152
Notional costs		**207**	199
Decrease (increase) in debtors		**1**	(82)
Increase (decrease) in creditors/provisions		**27**	(6)
Net cash inflow (outflow) from operating activities		**228**	(37)

Cash Flow Statement

	Notes	2006 £000	2005 £000
Net cash inflow (outflow) from operating activities		**228**	(37)
Returns on investments and servicing of finance	16	**226**	226
Pension contributions paid		**(159)**	(149)
Taxation refunded (paid)		**0**	35
Capital expenditure	16	**(28)**	(161)
Increase (decrease) in cash		**267**	(86)

	Notes	2006 £000	2005 £000
Reconciliation of net cash flow to movement in net funds	17		
Net funds at 1 April		**4,905**	4,991
Increase (decrease) in cash		**267**	(86)
Net funds at 31 March		**5,172**	4,905

The accompanying notes on pages 18 to 25 form part of these accounts.

Notes to the Accounts

1 The Agency

a The Agency was created by the Oil and Pipelines Act 1985 and came into existence on 1 December 1985. The Agency's initial capital was established at £2,380,000.

b The duty of the Agency is to manage the GPSS, under the terms of an agency agreement between the Agency and the Secretary of State for Defence.

c The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to the Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence. This Accounts Direction is reproduced on page 26.

2 Accounting policies

a Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. Modified historical cost accounts, as required by the Treasury, are not presented since they would not be materially different from the historical cost accounts shown on pages 14 to 17.

b Turnover

Since the Agency manages the GPSS only as an agent of the Secretary of State for Defence, the result of this activity is excluded from the Agency's accounts.

Turnover (exclusive of VAT) represents the Agency's fees received from the Secretary of State for Defence in respect of the management of the GPSS and from the gross rentals receivable in relation to the letting of surplus office accommodation.

c Depreciation

Fixed assets at cost, less estimated residual values, are depreciated on a straight line basis over their estimated useful economic lives, as follows:

	Estimated useful economic life – years
Computers	3
Other electronic equipment	4
Other office furniture	10
Motor vehicles	4
Leasehold improvements	Over the lesser of ten years and the life of the lease.

d Pension costs

Pension costs are accounted for under FRS 17. The service costs of providing retirement benefits to employees, together with the cost of any benefits relating to past service, are charged to the profit and loss account. A credit equivalent to the expected return on scheme assets less a charge equivalent to the expected increase in the liabilities of the retirement benefits plan during the year is included in the profit and loss account as other finance income. Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year together with any differences arising from changes in assumptions.

e Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. Following FRS 19 Deferred Tax, deferred tax has been recognised as a liability or an asset if transactions have occurred at the balance sheet date that may give rise to an obligation to pay more, or a right to pay less, taxation in future. Deferred tax assets or liabilities are not discounted.

f Leases

Operating lease rentals are charged to the profit and loss account as incurred.

3 Information required by paragraph 2 of The Oil and Pipelines Agency Accounts Direction 2004

Statutory Borrowing Limit

The Secretary of State for Defence has given the Agency consent, under Paragraph 1(4) of Schedule 3 to the Oil and Pipelines Act 1985, to borrow, temporarily, from sources other than himself, up to the current limit of £20 million, which is specified in that Schedule. This limit may be raised to such greater amount, not exceeding £80 million, as the Secretary of State for Defence may specify by Order, made with the approval of the House of Commons. At no time during the year did the Agency borrow any amount.

4 Emoluments of Members and Chief Executive

The aggregate emoluments of non-executive Members are as follows:

	2006 £000	2005 £000
Aggregate emoluments of non-executive Members	**29**	21

The Agency has not made any pension contributions in respect of non-executive Members, who are not members of the pension scheme, nor did they receive any benefits in kind except for the reimbursement of actual expenses. Other emolument details are shown in the remuneration report.

The remuneration, excluding pension contributions, during the year of the Chief Executive and executive Member was £100,000 (2005: £94,000) and taxable benefits, derived from medical care and the use of a car, were £7,000 (2005: £6,000). Other pension benefits are described in the remuneration report.

5 Operating and administrative expenses

Operating and administrative expenses include:

	2006 £000	2005 £000
Depreciation	**44**	41
Auditors' Remuneration : Audit	**8**	7
Operating Leases – Land and Buildings	**186**	302

6 Employees

The average number of permanent employees, including Members, during the year was 23 (2005: 23) and the number of employees at 31 March 2006 was 23 (2005: 23). In respect of these employees:

	Note	**2006** **£000**	2005 £000
Total remuneration paid or payable		**864**	808
Social security costs incurred by the Agency		**84**	78
Pension costs	13	**189**	152
		1,137	1,038

7 Notional costs

The Treasury Accounts Guidance requires a notional cost of capital to be included in the profit and loss account to represent the opportunity cost to the Exchequer of the assets employed by the Agency. Notional costs of capital have been calculated at 3.5% of the average capital employed (2005: 3.5%).

8 Fixed assets

The movement in fixed assets and accumulated depreciation during the year is shown below:

	Leasehold improvements £000	Office furniture £000	Office equipment and computers £000	Motor vehicles £000	**Total** **£000**
Cost					
At 1 April 2005	131	51	143	30	355
Additions	0	1	15	18	34
Disposals	0	0	0	(15)	(15)
At 31 March 2006	131	52	158	33	374
Depreciation					
At 1 April 2005	8	31	104	17	160
Charge for year	13	5	18	8	44
Disposals	0	0	0	(11)	(11)
At 31 March 2006	21	36	122	14	193
Net book value					
At 31 March 2006	110	16	36	19	181
At 31 March 2005	123	20	39	13	195

9 Tax on profit on ordinary activities

The tax charge in the profit and loss account is derived as follows:

	2006 £000	2005 £000
Current tax		
UK corporation tax on profits for the year	**46**	21
Adjustment in respect of prior period	**0**	1
Total current tax	**46**	22
Deferred tax		
Pension asset (liability) adjustment	**6**	13
Total tax on profit on ordinary activities	**52**	35

The tax assessed for the year is different from the standard rate of small company corporation tax (19%). The differences are explained below:

	2006 £000	2005 £000
Profit (loss) on ordinary activities before tax	**48**	(54)
Corporation Tax		
Profit (loss) on ordinary activities multiplied by small company rate of corporation tax of 19% (2005: effective rate 19%)	**9**	(10)
Effects of		
Expenses not deductible for tax purposes	**2**	5
Non taxable notional charge	**39**	38
Non taxable pension asset costs less credit	**24**	15
Excess of depreciation over capital allowances for period	**8**	(2)
UK corporation tax on profits for the year	**82**	46
UK corporation tax refund on pension contributions to pension asset	**(30)**	(28)
Timing difference on one-off additional pension contribution deferred tax	**0**	(71)
Timing difference as trading loss carried forward as deferred tax asset	**(9)**	53
UK corporation tax due within 12 months at 31 March	**43**	0

10 Debtors

	2006 £000	2005 £000
Trade and other debtors	**19**	19
Prepayments	**61**	62
Debtor falling due after more than one year	**33**	33
Deferred tax asset (falling due after more than one year)	**45**	48
	158	162

11 Creditors

	Note	2006 £000	2005 £000
Creditors falling due within one year comprise:			
Trade and other creditors		**33**	37
Accruals and deferred income		**26**	21
Corporation tax due	9	**43**	0
Other taxation and social security		**97**	71
		199	129

12 Commitments

a Capital Commitments

At the end of the year there were no capital commitments authorised (2005: Nil).

b Office Leasehold

The Agency occupies office premises under a lease that will expire in 2015. Until then there is an annual commitment to pay rent of £133,000 (2005: £133,000) and a variable service charge.

13 Retirement Benefits Plan

The Agency operates a funded pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Agency and are invested in a separate trustee administered fund. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

An actuarial valuation of the Plan was carried out as at 5 April 2005 and indicated that the value of the assets was at 110% of the value placed upon the liabilities. A review of the options available, prompted by the valuation, resulted in the Agency and the Trustee deciding to maintain the existing defined benefits scheme and to maintain the level of contributions of the Agency and employees at 20% and 5% respectively.

Financial Reporting Standard 17 (FRS 17) – Retirement Benefits

Further to the requirement of the Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance, issued by the Treasury, the Agency has adopted FRS 17.

Actuarial assumptions

A qualified independent actuary carried out an actuarial assessment as at 31 March 2006 and the major assumptions used were

	2006	2005
Inflation rate	**3.0%**	3.0%
Rate of increase in salaries	**4.0%**	4.0%
Rate of increase in pensions in payment	**3.0%**	3.0%
Discount rate for liabilities	**5.0%**	5.5%

Charge to the profit and loss account

Profit and loss account has been charged as follows

	Note	2006 £000	2005 £000
Current service cost		**(189)**	(152)
Past service cost		**0**	0
Amount charged to operating (loss)	6	**(189)**	(152)
Expected return on scheme assets		**242**	212
Interest on scheme liabilities		**(182)**	(142)
Amount credited to profit (loss) before taxation as other finance income		**60**	70
Amount charged to profit (loss) before taxation		**(129)**	(82)

Statement of total recognised gains and losses actuarial gain (loss) can be analysed as follows:

	2006 £000	2005 £000
Actuarial return less expected return on assets	**809**	201
Experienced gains and losses on liabilities	**(12)**	(68)
Changes in assumptions	**(359)**	(405)
Actuarial gain (loss)	**438**	(272)

Balance Sheet Pension asset

The assets and liabilities in the scheme and the expected rate of return were

	2006	2006 £000	2005	2005 £000
Equities	6.00%	**4,284**	6.50%	3,204
Bonds	4.25%	**396**	4.75%	404
Cash	4.00%	**280**	4.00%	202
Total fair value of assets		**4,960**		3,810
Present value of liabilities		3,868		3,186
Surplus in the scheme		1,092		624
Related deferred tax (liability)		(208)		(119)
Net pension asset		**884**		505

The pension asset before taxation has moved over the year as follows

	2006 £000	2005 £000
Surplus in the pension scheme at 1 April	**624**	829
Current service cost	**(189)**	(152)
Contributions to the scheme	**159**	149
Net return on assets	**60**	70
Actuarial gain (loss)	**438**	(272)
Pension scheme asset before taxation at 31 March	**1,092**	624

History of experience gains and losses

	2006	2005	2004	2003
Actuarial return less expected return on assets				
Amount (£000)	**809**	201	406	(641)
Percentage of scheme assets (%)	**16.3**	5.3	12.6	(36.2)
Experienced gains and losses on liabilities				
Amount (£000)	**(12)**	(68)	(28)	(11)
Percentage of the present value of the scheme liabilities (%)	**(0.3)**	(2.1)	(1.2)	(0.6)
Changes in assumptions (£000)	**(359)**	(405)	(112)	(5)
Actuarial gains (losses)				
Amount (£000)	**438**	(272)	266	(657)
Percentage of the present value of the scheme liabilities (%)	**11.3**	8.5	11.2	(33.4)

14 Profit and Loss Account Reserve

	Profit and Loss account £000	Pension Reserve £000	**Total £000**
At 1 April 2005	2,753	505	**3,258**
Total recognised gains and losses for the year	179	379	**558**
At 31 March 2006	2,932	884	**3,816**

15 Contingent Liabilities

Under the terms of the agency agreement for the management of the GPSS, the Secretary of State for Defence indemnifies the Agency against any liabilities to third parties arising from the performance of its duties under the agreement.

At 31 March 2006 there were no contingent liabilities recorded (2005: Nil).

16 Gross cash flows

	2006 £000	2005 £000
Returns on investments and servicing of finance		
Interest received	**226**	226
Capital expenditure		
Payments to acquire tangible fixed assets	**(34)**	(161)
Receipts from disposals of tangible fixed assets	**6**	0
	(28)	(161)

17 Analysis Of Changes In Net Funds

	At 1 April 2005 £000	Cash flows £000	**At 31 March 2006 £000**
Cash at bank and in hand	4,905	267	**5,172**

18 Related Party Transactions

The Agency is sponsored by the Ministry of Defence (MoD), through the Defence Fuels Group, as its Managing Agent to manage the GPSS, a strategic defence asset, and in the MoD is regarded as a related party. The Agency receives a fee for the services it provides.

During the year none of the board members, members of staff or other related parties have undertaken any material transactions with the Agency.

19 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks faced in undertaking its activities generally by a listed entity or a bank or similar institution. The Treasury has deemed the standard to apply to all entities within the resource accounting boundary.

As the duty of the Agency is to manage the GPSS and to charge a fee that materially covers its operating costs, including actual pension contributions but not non cash pension asset charges or credits, it is not exposed to financial risk. The Agency has borrowing powers (note 3(b)); however it has not borrowed during the year, and has cash at bank that is available on demand and attracts interest at a floating rate related to bank base rate and is therefore not exposed to liquidity risks. All assets and liabilities are denominated in sterling and therefore the Agency is not exposed to currency risk.

Accounts Direction given by the Secretary of State for Defence, with the approval of the Treasury, in accordance with Schedule 3, Paragraph 9(3), to The Oil and Pipelines Act 1985 (The Act)

1 The annual accounts shall give a true and fair view of the Oil and Pipeline Agency's profit or loss and cash flows for the financial year and the state of affairs as at the year-end. Subject to this requirement the Agency shall prepare accounts for the financial year ended 31 March 2004 and subsequent financial years in accordance with

a the Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance, issued by the Treasury, in force for the financial year for which the accounts are prepared;

b other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;

c any other specific disclosures required by the Secretary of State;

except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

2 The notes to the accounts shall contain a statement of the position during the year and at the year-end in relation to the borrowing limit contained in the Secretary of State's consent given on 1 December 1985 pursuant to Paragraph 1(1)(b) of Schedule 3 to the Act.

3 This accounts direction supersedes The Oil and Pipelines Agency (Accounts) Notice 1992.

Signed by authority of the Secretary of State for Defence

G Hoon 3 March 2004

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Oil and Pipelines Agency for the year ended 31 March 2006 under the Oil and Pipelines Agency Act 1985. These comprise the Profit and Loss Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency and Auditor

The Agency is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Oil and Pipelines Agency Act 1985 and directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Members' Accounting Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Oil and Pipelines Agency Act 1985 and directions made thereunder by the Secretary of State for Defence. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 12 and 13 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the Oil and Pipelines Agency Act 1985 and directions made thereunder by the Secretary of State for Defence, of the state of the Agency's affairs as at 31 March 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Oil and Pipelines Agency Act 1985 and directions made thereunder by the Secretary of State for Defence; 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 July 2006

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

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

DG Ref: E15165 6792RC

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
11/06

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ISBN 0-10-328656-X

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