



**Armed Forces Personnel  
Administration Agency**

**Annual Report and Accounts 2005/2006**



# ANNUAL REPORT AND ACCOUNTS 2005 / 2006

Accounts, prepared pursuant to Section 7(2) of the Government Resources and Accounts Act 2000,  
together with the report of the Comptroller and Auditor General thereon.

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# Chief Executive's Foreword



**Rear Admiral Trevor Spires**

This report presents the outcome of an exceedingly challenging but fruitful year of change and continued high quality service delivery for AFPAA. The Agency's services are a crucial component of the personnel support MoD provides to Service personnel and pensioners. The Armed Forces' morale and hence operational effectiveness depends in part upon AFPAA's continued ability to deliver a quality service that relieves individuals of administrative worries and distractions.

I and my MoD and EDS colleagues in AFPAA therefore take the maintenance of service excellence very seriously indeed. But we also understand how essential it is that we simultaneously modernise our operations to deliver, through the new business processes of Joint Personnel Administration (JPA), the sort of service that individuals are used to experiencing in their private lives and to enable savings on administration costs that can be ploughed back into the front line. Balancing these twin goals has been a constant and demanding struggle in the past year and I am extremely proud of how the Agency's people have risen to the challenge. Without tremendous dedication, skill and teamwork by MoD and EDS colleagues throughout the Agency, we simply could not have delivered successfully the vast majority of our key services and have driven JPA forward to enable its roll out to the RAF to commence as planned on 20 March 2006.

Several notable areas of customer service in 2005/2006 are worth highlighting.

- The delivery of pay and pensions lie at the heart of our business and rightly attract extremely challenging key targets. With one minor shortfall these targets have all been met, notwithstanding the need to divert many of our operational experts to support the introduction of JPA.
- The MoD Medal Office, in its first year of tri-service operation, has dealt

with an unprecedented volume of medal applications arising from current operations in Iraq combined with an upsurge in interest in historic medals for Second World War service and the Suez operation. The Medal Office has met its key target to reduce dramatically the inherited backlog of applications for Suez medals and has been reinforced to help reduce radically the time taken to process Second World War medal applications.

- The Joint Casualty and Compassionate Centre, was launched in April 2005 at Innsworth and has achieved extremely high levels of operational effectiveness and user satisfaction from the outset. The current operational tempo for the Armed Forces renders the JCCC's role, regrettably, all the more essential.

The backdrop to this ongoing successful delivery of an expanded range of services by AFPAA is the dramatic volume of significant change that has been driven forward during the year. The work to design and build JPA reached a level of intensity that drew in almost every part of the Agency and culminated with JPA's implementation across the RAF in March 2006. The volume and complexity of the work required to configure this standard commercial technical package to support the new harmonised personnel processes for the Armed Forces should not be underestimated. Although JPA has some distance to go before it is fully and successfully rolled out to all three Services, the extent of the achievement thus far is very significant. That is not all. A new Compensation and Pension System for the Services has been introduced to work alongside JPA based upon an AFPAA-developed technical solution. CAPS is

designed to support the implementation of the new Armed Forces Pension Scheme (AFPS) to facilitate which we have also conducted a very successful "Offer to Transfer" process for existing Service personnel.

To get the best out of these new processes and technology AFPAA itself has had to embark upon a fundamental transformation of its structure and working methods. At one level this is about the reinforcement of the values and behaviours required to underpin the future success of the Agency. To this end we have drawn all staff, MoD and EDS, into a development programme entitled "The AFPAA Way". Changed processes have also demanded reorganisation of the Agency. For example, in December we created a Joint Pay and Allowances Casework Cell in Glasgow to establish for the first time a consistent approach to the handling of pay related casework. In addition, by linking together the Glasgow and Gosport based enquiry services we have been able to create a single team dealing with calls from all three Services as well as those relating to medals and pensions.

Looking to the future, we have continued to reinforce the close links with our sister organisation the Veterans Agency (VA) as part of a drive to strengthen veterans' support. And scoping work is underway to determine the future strategy for the Agency following the expiry in November 2009 of the current partnering contract with EDS.

If the theme of the past year has been one of change and transformation this process is only set to continue, if not to accelerate. JPA will remain at the heart of our modernisation plans as we learn the lessons from RAF implementation and delivery of the system to the RN (October 2006) and the Army (March 2007). Continued Agency transformation will see the loss of MoD and EDS posts across AFPAA and further uncertainty for our staff with the expected closure of our Worthy Down and Innsworth sites before the end of 2008. We will also be working to draw AFPAA and VA together

under a single organisational framework to unlock the potential to provide a "one stop shop" service in support of both current and ex-Service personnel. The work to prepare for the re-let of the AFPAA service provision contract in 2009 will be drawn together into a well defined strategy and submitted for approval by the MoD Investment Approvals Board. Throughout we will be paying lots of attention to supporting our staff in this difficult period of change. Their performance over the past year gives me every confidence that they will continue to deliver the high quality of service that the Armed Forces have a right to expect.



Rear Admiral Trevor Spires  
Chief Executive

# Management Commentary

## Part 1 - Operating Review

### Introduction

The Report and Accounts which follow cover the period 1 April 2005 to 31 March 2006 and have been prepared with the direction dated 16 Jan 2006 given by the Treasury and in accordance with section 7 (2) of the Government Resources and Accounts Act 2000. Its purpose is to provide a public report on AFPAA's performance and results for the Financial Year 2005/06.

### History

The Armed Forces Personnel Administration Agency (AFPAA) vested as a Tri-Service Defence Agency in April 1997, to provide a full range of pay, pensions and personnel administration services to the Armed Forces. In January 1998 the Agency's commercial Public Private Partnership (PPP) partner, Electronic Data Systems Defence Ltd (EDS), assumed responsibility for the delivery of Information Systems (IS).

The following are significant events which have shaped the AFPAA of today and have contributed to the Agency's drive to improve and increase the services it provides to its primary customers, the individual men and women of the Armed Forces.

- **November 2000.** A renewed contract for the administration and payment of Armed Forces retired pay and pensions was awarded to Paymaster (1836) Ltd.
- **June 2001.** An amended agreement was signed with EDS redefining the partnering relationship to the mutual benefit of both parties.
- **October 2001.** The Army's Personnel, Pay and Pensions administration (PPPA) organisation transferred to AFPAA, at which time AFPAA was re-launched.
- **September 2002.** The formal incorporation of the Joint Personnel Administration Strategy Study within AFPAA ensured closer liaison with the rest of the Agency as the Joint Personnel Administration (JPA) project moves forward.
- **June 2004.** Creation of Tri-Service pensions delivery in Glasgow as the first

phase of Joint Personnel Administration Centre (JPAC) implementation.

- **October 2004.** Completion of negotiations and amendment of contract with EDS for JPA implementation.
- **April 2005.** Joint Casualty and Compassionate Centre (JCCC) fully operational.
- **April 2005.** MoD Medal Office fully operational.
- **December 2005.** Tri Service Pay and Allowances Casework Cell (PACC) was formed within AFPAA Glasgow.
- **March 2006.** First Phase roll out of the Compensation and Pensions System to support both the Armed Forces Pension Schemes and the Veterans Agency's Pension and Compensation Schemes.
- **March 2006.** Roll-out of Joint Personnel Administration (JPA) to the Royal Air Force.

### Vision and Mission

The AFPAA vision is:

***To deliver excellent Armed Forces personnel administration through outstanding customer service***

This supports the vision of the Agency Owner DCDS(Pers):

*To identify and take forward the actions required to deliver and sustain better the people component of operational capability*

and contributes to operational capability and the overarching Defence vision :

*A Force for Good in the World*

The AFPAA Mission is therefore:

*To support UK Defence Capability through the accurate payment of military personnel and provision of quality personnel administration and information services on a harmonised basis*

# Departmental Structure

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The Agency Owner chairs the Owners Advisory Board which comprises senior officials of the Ministry of Defence and whose prime responsibility is to support the Owner in his responsibilities on behalf of the Secretary of State for Defence. The Board monitors the Agency's progress and performance against pre-determined aims, objectives and targets and represents the interests of the Agency's customers. There is one Non Executive Director on the board whose remuneration is met by the Agency.

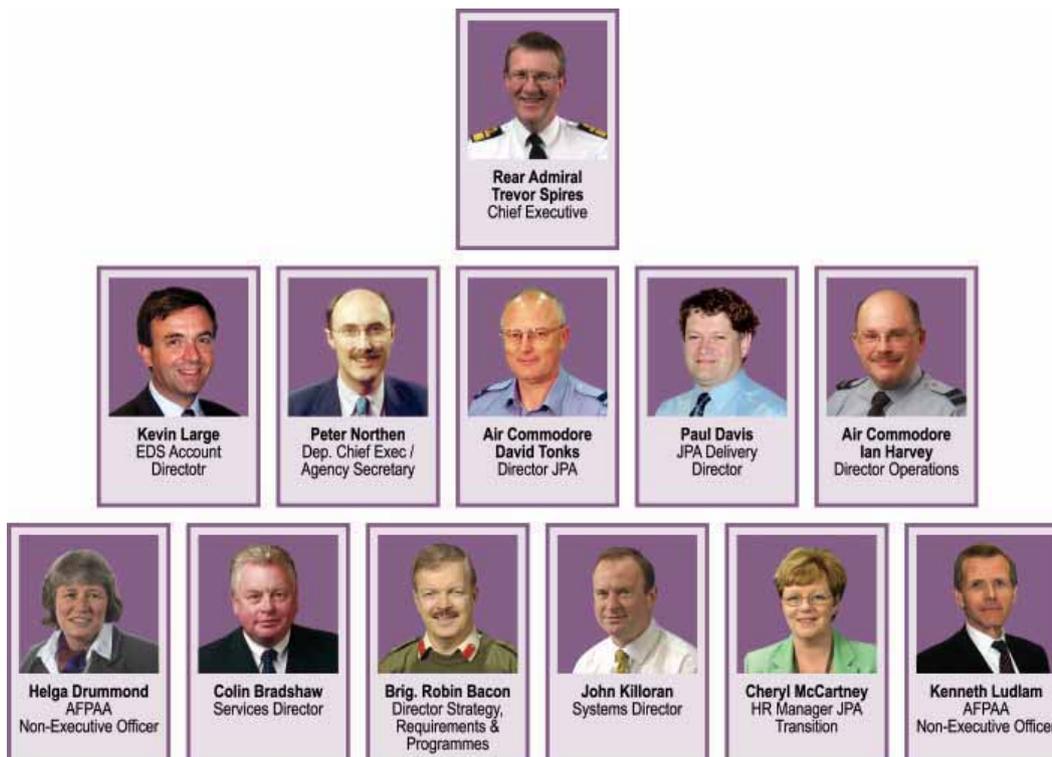
## During the year 2005/06 the membership of the Board consisted of:

Deputy Chief of Defence Staff (Personnel)	Air Marshal D Pocock (from Jul 05) (previously Lieutenant General A M D Palmer Apr 05 – June 05)
Chief of Staff (Personnel & Support) /2nd Sea Lord	Rear Admiral M Kimmons
Deputy Adjutant General / Director General Service Conditions (Army)	Major General M F N Mans CBE (from Nov 05) (previously Major General T Tyler Apr 05 – Oct 05)
Director Personnel Policy (RAF)	Air Vice Marshal P Dye
Defence Services Secretary	Rear Admiral P J Wilkinson
Director General Service Personnel (Policy)	Mr C Baker OBE (from Feb 06) (previously Mr J Miller CBE Apr 05 – Jan 06)
Non Executive Director AFPAA	Professor H Drummond (from Dec 05) (previously Mrs A Beech Apr 05 to Oct 05)

# Agency Structure

## AFPAA Joint Partnering Management Team (JPMT)

The JPMT is responsible for the management of the Agency, its performance, risks and partnering relationships. It provides the forum for business requiring joint consultation or agreement across the partnership. The JPMT membership during the year 2005/06 was as follows.



\*

\*\*

\* Prior to 31 Oct 2005 this post was held by Alison Beech.

\*\* Prior to 18 Jan 2006 this post was held by Brigadier Tony Harking, who has subsequently attended the Board in a temporary role as Director AFPAA Transformation.

## Non-Executive Directors

Kenneth Ludlam (Non Executive Director 1) is a member of the JPMT and the AFPAA Executive Board (AEB) and also chairs the AFPAA Audit Committee. The Non Executive Director 2 is a member of the JPMT, DCDS (Pers) Owners Advisory Board (OAB) and the AFPAA Audit Committee. This position was held by Alison Beech until October 2005 and is currently held by Professor Helga Drummond. The principal role of the Non Executive Directors is to offer the Chief Executive, and the Boards for which they are members, an independent view on AFPAA strategy and performance and on the implementation of JPA.

## AFPAA Executive Board (AEB)

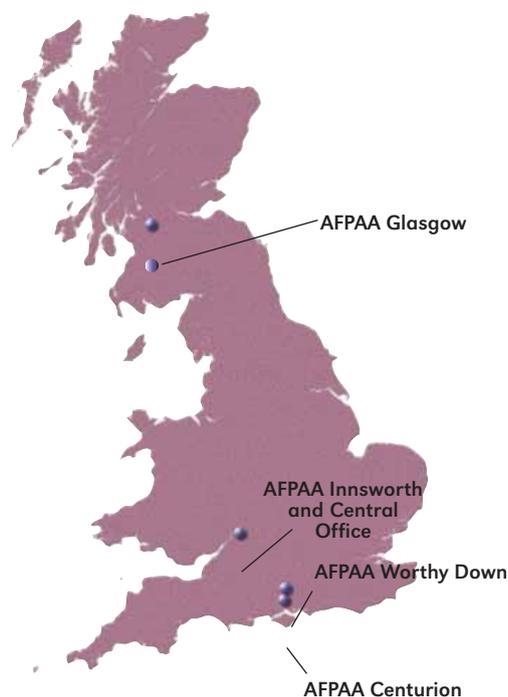
The AEB is responsible for the direction and governance of the MoD components of the Agency: it complements the role of the JPMT. The AEB membership during the year 2005/06 was as follows:

Chief Executive ( <i>Chairman</i> )	RAdm Trevor Spires
DCE/Agency Sec	Peter Northen
Director JPA	Air Cdre David Tonks
Director SR&P	Brig Robin Bacon (from Feb 06) Brig Tony Harking (from Jan 06)
Director AT	Brig Tony Harking (from Feb 06)
Director Ops	Air Cdre Ian Harvey
Deputy Director Fin & C G	Tony Maynard
Deputy Director JPA	Dr Paul Collins
Non Executive Director 1	Kenneth Ludlam

During the year, none of the Directors held company directorships or other significant interests which may conflict with their management responsibilities.

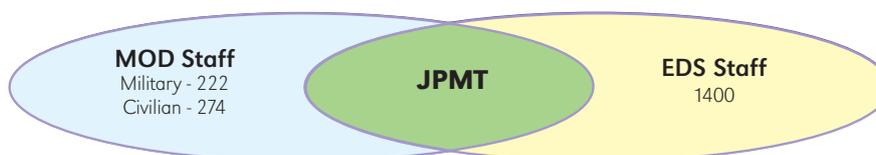
## Locations and Staff

AFPAA currently operates from 4 sites at Gosport, Glasgow, Innsworth and Worthy Down. Over the next two years the Agency will consolidate its operations as it reconfigures to deliver Joint Personnel Administration. The Agency currently plans to vacate the Worthy Down site before 2008. During 2005/06 Ministers announced that the RAF Integrated Command Headquarters would form at RAF High Wycombe by June 2008 and that, assuming no other MoD or Government user for the RAF Innsworth site could be found, Defence Estates would dispose of the site. The Agency has formed a Future Accommodation Study Team to assess the options for the relocation of the AFPAA functions currently at Innsworth by 2008.



## Staff Numbers

As at 31 March 2006, AFPAA strength<sup>1</sup> was as follows:



<sup>1</sup>Civilian number includes contractors

# Customers

## Customers

### Serving or Former Service Personnel and Dependants

These are the end Customers of AFPAA's pay, pension and administration services. The quality of these services are measured against Key Targets (KTs) 1 and 2 (further details on KT's can be found on pages 11 and 12). The delivery of these KT's has a significant impact on the morale of current and former Service personnel and their dependants, and the effectiveness of their units.

### Volumes of payments and records maintained each month

Activity	Volume <sup>2</sup>
Pay records of Regular Services personnel	200,000
Records of Reserve personnel and Cadet Instructors	75,000
Pensions records of Regular Service, Gurkha and Locally Enlisted personnel including dependants maintained by Paymaster (1836) Ltd)	380,000
Pensions records maintained but not currently in payment i.e. personnel still serving or with deferred or preserved pensions	485,000
Total records maintained	1,140,000

<sup>2</sup> Volume rounded to nearest 5,000.

### Expenditure on pay, allowances and pensions in 2005/2006 (in £ billions)

	Pay	Pensions	Total
Navy	1.653	0.655	2.308
Army	4.249	1.747	5.996
RAF	2.096	0.960	3.056
<b>Totals</b>	<b>7.998</b>	<b>3.362</b>	<b>11.360</b>

### The Personnel Management Authorities

Timely provision of accurate data is essential to enable effective manning and career management by each of the Service Personnel Management Authorities. The importance of this is reflected in 2005-06 KT6.

### MOD Planning Staffs and Policy Makers

MoD and individual Service policy making and planning branches and other Defence Agencies require information and advice from AFPAA. This is to support the development and implementation of new policies, to inform the MoD's resource allocation process and to support Ministers in their discharge of Parliamentary business. The value of the funds disbursed on behalf of the Department by AFPAA, through its pay and pension service delivery, means that the Agency also plays a key role in informing MoD's financial reporting processes. In addition to the direct delivery of services to the Armed Forces, AFPAA must continue to discharge its responsibilities as part of a Department of State. The introduction of JPA Key Targets 3 and 4 and the consequential streamlining of processes will allow us to improve the evidence we provide to support Service personnel policy development within the Department.

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### Customer Satisfaction Survey

As in previous years, AFPAA will be conducting a Customer Satisfaction Survey (CSS) to cover performance during the period 2005/06. This reinforces AFPAA's commitment to continuously monitor customers' views on Agency performance. The results of the 2004/05 CSS showed little improvement from previous surveys, due largely to the build up of pressure on most areas of the Agency with the significant amount of change generated through the JPA programme. Particular concerns revolved around change management, a number of errors in pay delivery and some weaknesses in customer feedback mechanisms. A follow-up Action Plan has been formulated and completed actions resulting from the plan include:

- Development of better systems for rapid resolution of errors/problems.
- A streamlined change management process.

Post JPA roll-out, a two-tier approach to the survey should be possible, that captures the views of the individual serviceman or woman as well as the corporate level customers.

# Management Commentary

## Part 2 – Performance Review

### Performance Against 2005-06 Key Targets including Historical Data

The Agency management team used a monthly Balanced Scorecard (BSC) to help it manage all aspects of the business and has ensured a robust risk management structure is in place to allow it to manage key business risks. Performance is reported monthly to the Agency Owner DCDS(Pers). During 2005/2006 the Agency narrowly missed one Key Target, relating to error rates on pay, as a consequence of a single incident affecting 7500 individuals.

Key Target	2003-04		2004-05		KT	2005-06	
	Target	Performance	Target	Performance		Target	Performance
<b>Pay Accuracy:</b>							
Error rate of accuracy No. of errors per 1,000 not to exceed	0.1%	Achieved 0.03%	0.1%	Achieved 0.08%	KT1 <sup>3</sup>	0.1%	Not Achieved 0.23%
<b>Timeliness:</b>							
To make payments by the due date	99.9%	Achieved 99.9%	99.9%	Achieved 99.9%	KT1	99.9%	Achieved 99.975%
<b>Pensions Accuracy:</b>							
Error rate of accuracy No. of errors per 1,000 not to exceed	0.1%	Achieved 0.02%	0.1%	Achieved 0.0%	KT2	0.1%	Achieved 0.00038%
<b>Timeliness:</b>							
To make payments by the due date	99%	Achieved 99%	99%	Achieved 99%	KT2	99%	Achieved 99.98%
<b>Service Enhancement:</b>							
All change projects (Major Change ) to be delivered within project tolerances	96%	Achieved	96%	Achieved	-	-	-
All other change to be delivered in accordance with the AFPAA Change Control Steering Group	95%	Achieved	96%	Achieved	-	-	-
To support the delivery of the JPA Programme	Main Gate Business Case to IAB	Achieved	Main Gate Approval Sep 04	Achieved	KT3	RAF Live Service Mar 06	Achieved Mar 06
To transform the Agency to deliver JPA services by delivering 100% of key critical path milestones in the Transformation Plan	-	-	Stage 1 Jun 04 Stage 2 Mar 05	Achieved	KT4	100% of Plan milestones	Achieved 100%
To confirm that the broad range of AFPAA's outputs are delivered to the agreed Service levels selected by the customer	-	-	Develop and agree KT	Achieved	KT6	90% of service levels selected by customer	Achieved 97.22%
To deliver an efficient and effective MoD medal service	-	-	-	-	KT8	Reduce backlog from 45,000 to 21,000 by 31 Mar 06	Achieved Backlog 18,587 at 31 Mar 06
<b>Responsiveness:</b>							
To determine, implement and maintain a responsive and flexible Business Improvement Plan	31 Mar 04	Achieved	-	-	-	-	-
<b>New contract post-2009:</b>							
To prepare for delivery of AFPAA services post-2009	-	-	-	-	KT5	Identify milestones by 31 Jul 05	Achieved
<b>Efficiency:</b>							
To reduce the average unit cost of AFPAA services by n% (Total unit cost of reduction of 12% for a 4 year period from 2002-03)	0.5%	Achieved 3.9%	6%	Achieved 10.3%	KT7	Four-year cumulative 12%	Achieved 13.6%

<sup>3</sup> To keep monthly error rate of accuracy for the volume of payments within 0.1% (accurate within 2% of net pay per individual pay account).

The metric used for accuracy monitors those elements of the end to end pay process that falls within AFPAA's control and, as such, does not represent the accuracy of the complete, end to end process. Specifically, it assumes a correct record of service, which is used to inform the pay calculation software.

## Key Targets 2006-07

	2006-07	2007-11
<b>Key Target 1 - To deliver Pay</b>		
To make 99.9% of all payments by the due date.	99.9%	99.9%
To keep the monthly error rate of accuracy for the volume of payments within 0.5%. (for 1 year only)	0.5%	0.1%
<b>Key Target 2 - To deliver Pension Services</b>		
To make 99% of all payments (including new awards) by the due date.	99%	99%
To keep the monthly error rate of accuracy for the volume of payments within 0.1%.	0.1%	0.1%
<b>Key Target 3 - To support the delivery of JPA Programme</b>		
Live service to the RN and Army	RN Oct 06 <sup>6</sup> Army Mar 07	-
Decommissioning of legacy systems complete	-	2007- 08 - Oct 07
<b>Key Target 4 - To deliver an effective Enquiry Centre Service</b>		
To deal with 75% of queries received on first contact.	75%	2008-09 - 80%
To answer X% of calls within 90 seconds.	-	TBD
To answer X% of calls within 20 seconds.	-	TBD
<b>Key Target 5 - Preparation for delivery of AFPAA services post 2009</b>		
Achieve MOD Investment Approval Review (Main Gate) endorsement.	Achieve MOD Investment Approval Review (Initial Gate) endorsement	2007-08 Finalise detailed requirement for up to 3 shortlisted providers  2008-09 - Achieve MOD Investment Approval Review (Main Gate) endorsement
<b>Key Target 6 - To meet approved efficiency targets for the delivery of core services</b>		
To deliver Joint Personnel Administration (JPA) efficiencies in line with the benefits identified in the approved business case for JPA.	Achieve JPA Target Cost	Achieve JPA Target Cost
<b>Key Target 7 - To deliver an efficient and effective MoD Medal Office</b>		
To deliver medals from receipt of application to issue in respect of:		
Current campaign medals within:	35 working days	35 working days
Conduct and Reserve medals within:	45 working days	45 working days
Historic medals including Canal Zone within:	70 working days	70 working days

<sup>6</sup> Illustrative dates as published in Key Targets placed in Parliament on 30 March 2006.

# Current Operations

Notwithstanding the immense challenge of maintaining current services whilst also delivering JPA, AFPAA has successfully maintained a very high level of accuracy and timeliness in the delivery of Pay and Pensions against an increasing monthly volume of activity as detailed on page 9. KT 2 for Pensions was met in full and there was only a very minor shortfall against KT 1 on Pay. This was caused by a software error which resulted in a double collection of charitable monthly donations in April 2005. This was corrected the following month and management action taken to prevent repetition.

The Joint Casualty and Compassionate Centre (JCCC) became fully operational in April 2005 taking on responsibility for all casualty and compassionate reporting action from the three Services' individual teams. During the subsequent months of operations, the JCCC's

Major Incident Centre has been activated on three occasions to deal with enquiries following incidents in Iraq. The JCCC has also dealt with providing appropriate support in respect of;

- 136 deaths
- 430 ill and seriously ill
- 127 incapacitating injuries or illnesses
- 1,726 unlisted casualty personnel or dependants.
- 5,700 requests for Compassionate leave travel
- 50 historical cases resulting from the discovery of human remains in aircraft crash sites and battlefields.



The Historic Casework Team arranged the interment of a Halifax Crew in the British Military Cemetery in Berlin



DCDS(Pers) researching records of service in the Medal Office

The MoD Medal Office (MoDMO) also became fully operational in April 2005 with a backlog of over 50,000 applications for medals awaiting assessment. AFPAA has invested heavily into the MoDMO infrastructure, organisation and processes. Despite an upsurge in World War II applications and the ongoing troop deployment in Iraq, the ministerial Key Target (KT8) to reduce the backlog to 21,000 has been successfully achieved. As at 31 March 2006, the MoDMO had received a further 89,000 applications and despatched a total of 117,500 medals to eligible recipients.

On 12 December 2005, a new tri-Service Pay and Allowances Casework Cell (PACC), was formed within AFPAA to ensure that the casework in respect of new tri-Service regulations (being issued in support of JPA) and write-off/recovery action is resolved in a fair and consistent manner across all three Services. During the first three months it dealt with 450 regulation cases and 750 write-off/recovery cases.

2005-06 has been a transitional year following the introduction of the new AFPS 05 and, in support of this, AFPAA has delivered Offers To Transfer arrangements to enable all relevant personnel to decide whether or not to switch from the old to the new pension scheme.

# Building for the Future

## Joint Personnel Administration

The scope and complexity of JPA, one of the top 5 modernisation programmes in MoD, has broken new ground in the utilisation of the Oracle HRMS COTS system and associated complementary applications. JPA will provide personnel services directly to the individual service men and women by the introduction of a software package designed to harmonise and simplify personnel policies and processes. JPA Build and Test activities progressed through the year and, following a programme of testing and reviews, culminated in the system being introduced to the RAF on 20 March 2006, in accordance with the planned schedule.

This success derived from the joint efforts of MoD and EDS team members, working in close collaboration with JPA's customer base. A JPA application for use in deployed operations has also been developed, including an off-line variant for use where full time communications back to UK cannot be guaranteed. The RAF implementation plan for deployed locations commenced on 20 March 2006, initially focusing on the core on-line variant and with an expected end-date for delivery of the off-line application of 1 June 2006.

Pensions work has been focussed on readiness for JPA and the new Compensation and Pensions System (CAPS). CAPS is a complementary system to JPA and is designed to support both the Armed Forces Pensions Schemes (AFPS) and the Veterans Agency's Pension and Compensation Schemes. The first phase of roll-out for CAPS was delivered successfully in March 2006.

## Customer Care Charter

In order to articulate the standards individual servicemen and women may expect from AFPAA, a JPA Customer Care Charter has been developed which has been individually distributed to all RAF servicemen and women. It sets out the service they have a right to expect from AFPAA, the methods of contact with the Agency and what they

should do if they have a complaint about how they have been treated. The Charter will be distributed to individuals by Service as JPA is rolled out to the Royal Navy and Army.

## Agency Transformation

The MoD led tri-Service elements of the JPAC such as the MoD Medal Office, the Joint Casualty and Compassionate Centre and the Pay and Allowance Casework Cell are all in place and operating successfully. The final external element in the process of Transformation concerns Service Discipline although the introduction of this final organisation has been delayed until the introduction of JPA to the Army is complete. Within AFPAA, the reorganisation necessary to support the introduction of JPA is largely complete although there remain staff supporting legacy activity for the Royal Navy and Army and these staff will be reorganised later in the rollout programme. Services to the customer and working relationships with the commercial partner EDS were reinforced by the completion of an extensive training programme across AFPAA to develop and embed the values and behaviours known as 'The AFPAA Way' required for a customer focused culture. The future closure of Innsworth has removed one of the JPAC sites and this has complicated Transformation planning. A study has been undertaken to determine the location of those functions based in Innsworth; it is due to report by July 2006.

# Corporate Services

The Agency Secretary is responsible for ensuring the services to achieve AFPAA outputs through the delivery of a range of corporate enabling functions. These include the operation of performance management tools such as the Balanced Scorecard and Risk Registers; performance reporting to the Agency Owner on Key Targets; financial management including support of JPA; commercial (contracts) management; handling Parliamentary and public correspondence; personnel support to MoD staff; business planning and reporting; Corporate Governance including support to the AFPAA Audit Committee; communications and delivery of a culture change programme. The following paragraphs provide further details on Agency performance.

## Corporate Governance

The Agency's Corporate Governance is founded upon two essential elements: an Audit Committee supported by an Assurance team that provides independent advice to

the Chief Executive, the JPMT and the AFPAA Executive Board (AEB); and a robust risk management process that is embedded throughout the Agency's management structure.

Audit Committee membership consists of the Agency's two Non Executive Directors (NEDs) and DCE/Agency Secretary with both the National Audit Office and Defence Internal Audit invited to observe. The Committee met 4 times in 2005-06 and looked critically at a variety of key areas of the Agency's business to ensure that adequate controls had been identified to manage and mitigate risks to the business outputs. The Committee also directed the audit programme of the Internal Assurance Team. Both NEDs are part of the JPMT, one also serves on the AEB and the other on the Agency Owner's Advisory Board.

## Risk Management

Risk management is embedded throughout the Agency. The highest level risks, with the potential to impact across the Agency,

## AFPAA Top Three Risks

Risk	Migration Activities include:
The Agency's key outputs are the implementation of JPA and the maintenance of current services and there is a risk that pressures on one will cause the other to fail.	<ul style="list-style-type: none"> <li>• A freeze on all but unavoidable change to create stability</li> <li>• Regular monitoring of resource requirements across the Agency</li> <li>• Strengthen manpower and skills within key areas e.g. Project Office management team.</li> <li>• Prepare to run legacy systems for longer than was anticipated</li> </ul>
Inability to retain the right skills and numbers of personnel to ensure that the JPA programme and Agency Transformation succeeds.	<ul style="list-style-type: none"> <li>• Training and development, and recruitment and retention strategies</li> <li>• Detailed manpower plans</li> <li>• Retention allowance for key Project Management staff</li> <li>• Reinforce the importance of the "The AFPAA Way" behaviours.</li> </ul>
Over-demands are placed on JPAC which will affect the delivery of the Agency Key Targets and JPA Programme.	<ul style="list-style-type: none"> <li>• Effective training and communication strategies for Service personnel using JPAC</li> <li>• Monitoring calls to assess behaviours and effectiveness of processes</li> <li>• Analysis of calls to match needs and resources</li> </ul>

## Human Resources

AFPAA is committed to the principles of Equality and Diversity and opposes all forms of unlawful or unfair discrimination on the grounds of colour, race, ethnic or national origin, gender, age religious beliefs, marital status, sexual orientation or disability. It is in AFPAA's best interests and those who work in it, to ensure that all human resources, talents and skills are considered when employment opportunities arise. Every measure possible is taken to ensure that individuals, whether they are already in AFPAA or applicants for posts from outside AFPAA, are treated fairly and that decisions made on recruitment, selection, promotion and career management are based solely on objective and job related criteria. Approximately 5% of MoD civilian staff, men and women were employed in part time or job share posts. Additionally the same group had 13 people registered as disabled.

The Agency continues to be an accredited Investor in People and has demonstrated its commitment to developing its people by delivering core training and tailored training events to meet individual and business needs. The management team received quarterly updates and reports on Health and Safety to help ensure the Agency maintained its good record.

## Communication and Employee Involvement

AFPAA believes that communications and involvement are essential to the successful running of the Agency. Communication with employees is achieved by regular cascade briefings on key issues throughout the Agency. The Chief Executive and the EDS Account Director carry out comprehensive site briefings on a regular basis, which include the opportunity for staff questions and feedback. The Joint Personnel Management Team also carry out regular site briefings which include the opportunity for staff questions and feedback.

Additionally a news magazine is distributed quarterly and there is a corporate intranet site which staff on all sites can access. The intranet site contains up to date information on all important issues relating to AFPAA and is supplemented by well maintained and comprehensive notice boards at each site.

## Parliamentary Business

During 2005/06 531 letters from MPs were answered, comprising 332 drafts for ministers and 199 replies from CE /AFPAA or his deputy. Draft answers were provided to 23 Parliamentary Questions. 665 replies were sent to members of the public who had written with questions about AFPAA services.

## Impact on the Community

The Agency is conscious of its impact on the local community on both social and environmental issues and makes considerable contributions through charity work with EDS making donations of IT equipment to schools and local projects.

## Looking Ahead

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Clearly JPA will continue to be a key feature of our work in 2006/07. Not only do we have to learn the lessons from the RAF implementation but the RN (October 2006) and Army (March 2007) implementations will bring their own challenges. The follow-on dates for Release 2 of JPA (to the RN) and Release 3 (the Army) have been re-planned to accommodate the revised schedule for provision of the future Defence Information Infrastructure DII(F).

However, of equal significance will be work to bring AFPAA and the Veterans Agency under a single organisational umbrella and thus, for the very first time, unlock the opportunity to provide 'one stop shop' delivery capability in support of both current and ex-Service personnel. Some short term steps towards closer working have already been agreed for example, instead of letters from both Agencies to widows in a 'death in service' case a combined letter is sent thereby providing the client with a single point of contact.

The work to transform the Agency in support of JPA and other strategic changes will also continue throughout the year and will involve considerable change in staff numbers and locations. Not only will functions be transferred from Worthy Down in 2007 but also Innsworth is currently earmarked for closure before the end of 2008. Clearly such uncertainty erodes morale and, therefore, we will be paying much attention to supporting staff through this period.

Last, but by no means least, work is underway within the Agency to prepare its strategy for the delivery of AFPAA services post-2009 when its current contracts with EDS and Paymaster expire. Running a major competition is a lengthy and intensive process and there are strategic decisions to be taken about the scope of future private sector partnering and the range of services AFPAA should seek to deliver. An Integrated Project Team has been established and its work is the subject of Key Target 5. During the coming year the aim is to achieve MoD 'Initial Gate' approval which will require clarity over the scope and the procurement strategy for the project.

All of these activities are supported by Key Targets and strategic objectives and, taken together will ensure AFPAA's drive towards achieving excellent service delivery and customer satisfaction throughout 2006/07 and beyond.

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# Management Commentary

## Part 3 - Financial Review

### Budgetary Structure

AFPAA operates as a Basic Level Budget within DCDS(Pers)'s Higher Level Budget. The breakdown of expenditure shown below provides detail of the Agency expenditure over the year to administer £7.998bn in Pay and Allowances and £3.362bn in Pensions.

### Financial Performance

The gross operating costs for the year ended 31 March 2006 were £138,295k (2004-05 restated £112,741k) and net operating costs were £138,247k (2004-05 restated £112,695k). Total net assets at 31 March 2006 amounted to £12,595k (2004-05 restated £25,197k).

### Expenditure Breakdown for FY 2005-06

		FY05-06 Outturn	FY05-06 Budget
		£000	£000
	Note		
Service Pay	2	13,313	14,098
Civilian Pay	2	8,610	8,516
Travel	4	939	1,114
IT	4	325	4,283
Training	4	118	426
Partnering	4	91,589	86,711
Contracted costs	4	3,919	4,015
Stock costs	4	2,398	1,252
Depreciation	3 & 4	10,891	5,237
Other	4	6,145	2,187
<b>TOTAL OPERATING COSTS</b>		<b>138,247</b>	<b>127,839</b>

The difference between 05-06 outturn and 05-06 budget was primarily caused by higher than expected partnering and depreciation costs. Higher partnering costs were due to the re-profiling of EDS costs related to JPA. Higher depreciation costs resulted from the application of indices under Modified Historic Cost Accounting (MHCA).

The resource budget allocation for FY 2005-06 was £121.5m. Actual outturn was £125.6m, with the overspend resulting primarily from the re-profiling of EDS costs related to JPA.

### Departmental Resource Accounts (DRAc)

AFPAA also provides input to Centre Top Level Budget (TLB) for the completion of the TLB DRAc. AFPAA's input comprises all costs incurred by the Agency, regardless of where responsibility for the charge lies. Communicated costs are not included in DRAc accounts.

The biggest difference between AFPAA's DRAc submission and its Agency accounts is the inclusion in the former of debtor and creditor balances in respect of Armed Forces pay and allowances.

## Financial Administration of Managed Funds

AFPAA manages RN, Army and RAF pay and pensions delivery, and the monies disbursed on behalf of the Department are known as Managed Funds. Information from these pay systems transfers income and expense data on the Managed Funds to MoD's core financial accounting system Departmental Financial Management System.

AFPAA is currently responsible for some 160 Control Accounts (temporary accounts used to record payments and receipts), the reconciliation of which has historically proved difficult. A project was implemented during the year designed to further enhance AFPAA's financial management of these accounts. The implementation of JPA and the changed business processes introduced by the new system will remove many of the causes of unreconciled accounts, as well as reduce the number of accounts down to about 35 separate accounts.

## Financial Monitoring and Audit of the EDS Contract

Improvements in the budgeting, monitoring and verification of EDS costs have continued. A programme of validation exercises has been undertaken in year and quarterly reports provided to the Audit Committee detailing the work undertaken and findings.

An Output Cost Model has now been implemented to support the Actual Target Prices (ATP) for legacy and JPA services, providing further financial management data to enhance the Agency's decision making processes.

## Armed Forces Pension Scheme (AFPS)

CE AFPAA is the AFPS Scheme Administrator and Senior Finance Officer for the AFPS TLB. AFPAA has an independent Resource Accounting and Budgeting (RAB) system for the AFPS, which produces monthly In Year Management accounts as well as the year end AFPS Scheme Statements. The National Audit Office (NAO) formally audits the Scheme Statements and the accounts for 2004-05 successfully received an unqualified audit opinion for the sixth consecutive year.

From April 2005, the new Armed Forces Compensation Scheme (AFCS), administered by the Veterans' Agency, forms part of the resource accounts for the AFPS. The combined Resource Accounts are being produced by AFPAA.

The AFPS continues to participate in the National Fraud Initiative (NFI), the main aim of which is the detection and prevention of fraudulent pension claims against public sector schemes. The NFI 2003 exercise concluded with 253 cases where the pension continued in payment after the date of death. The actual overpayment of pension amounted to £1m with £600k recovered to date. The projected savings to the Scheme were £11.4m. Five cases have so far been prosecuted for fraud and a further 16 cases are currently being investigated by MoD Police. The NFI 2004 exercise resulted in 219 cases where the pension continued after the date of death. The actual overpayment of pension amounted to £425.7k. To date £162.6k has been recovered and the projected savings to the Scheme amounts to £9.8m. Two cases have so far been referred to the MoD Police for investigating. None have yet been prosecuted.

In addition to the AFPS, CE AFPAA is also the Scheme Administrator for the Non-Regular Permanent Staff Pension Scheme and the Army Career Officers Pension Scheme. These schemes are included in the AFPS accounts.

## Statement on disclosure of audit information

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

### **Policy and achievements on supplier payments**

It is MoD policy to settle terms of payments with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment, and to settle all bills within 30 days of receipt or earlier.

Payments to suppliers are predominantly made by the Defence Bills Agency (DBA) on AFPAA's behalf. Overall DBA performance reported in their accounts for 2005-06 was that 99.9% of all certified bills submitted for payment were paid within 11 days.

### **Pension liabilities**

Details of the pension schemes available to AFPAA employees and the costs of these schemes are disclosed in the Remuneration Report on page 23.

### **Auditors**

The accounts of the Agency are audited by the Comptroller and Auditor General under Section 7(2) of the Government Resources and Accounts Act 2000.

The fee of £44k is in respect of statutory audit work only. No other services were provided by the auditors.



Trevor A Spires

Chief Executive

Armed Forces Personnel Administration Agency

06 June 2006

# Remuneration Report

## A. Remuneration Policy

1. The AFPAA Executive Board is composed of officers of HM Armed Forces, civil servants and two Non Executive Directors.
2. AFPAA does not have a Remuneration Committee and the salaries of all military and civilian Board members, including the Chief Executive, are determined at national level. Military Board members' salaries are recommended by the Armed Forces Pay Review Body and ratified by Parliament. The Agency Secretary/ Deputy Chief Executive's remuneration was determined by the Senior Civil Service Salaries Review Body. The salaries of the Deputy Director of Finance and Corporate Governance and Deputy Director Joint Personnel Administration were determined by negotiation between Ministry of Defence and Civil Service Trade Unions. The salaries of the Non Executive members are determined by the Chief Executive in line with Ministry of Defence guidelines.

## B. Service Contracts

3. Military members of the Board are appointed by standard service posting procedures. MoD civilian members of the Board are appointed by MoD Civil Service standard procedures. Non Executive members of the Board are appointed on fixed term contracts renewable by agreement.
4. Mrs Alison Beech left the Agency on 31 October 2005.
5. Prof. Helga Drummond was appointed on a two year contract commencing 1 December 2005.
6. Brigadier Robin Bacon was appointed Director Strategy Resources & Plans on 18 January 2006.

## C. Salary and Pension Entitlements

7. Details of remuneration and pension entitlements of Board members are shown in the following table.
8. '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 to the extent that it is subject to UK taxation.
9. None of the members of the Board received any Benefits in Kind.
10. The table in para 12 below refers to remuneration during the financial year, and is subject to audit. The schedules reflect remuneration for that part of the year during which individuals were either providing services to, or employed by, AFPAA.
11. For 2005-06, employers' contributions of £3,746k were payable (2004-05 restated £3,374k) at rates in the range 16.2 to 34.3 percent of pensionable pay, based on salary bands. Employer contributions for PCSPS were reviewed in 2004-05 and employer contributions for the AFPS were reviewed during 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

12. The salary and pension entitlements of the Executive Board of Armed Forces Personnel Administration Agency for the year ended 31 March 2006 are as follows:

	Salary including Performance Pay 2005-06 £'000	Salary including Performance Pay 2004-05 £'000	Real increase in Pension and related lumpsum £'000	Total Accrued Pension at 31/3/06 and related lumpsum	CETV at 31/3/05 £'000	CETV at 31/3/06 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account incl risk benefit cover £'000
Rear Admiral T A Spire Chief Executive	90-95	85-90	0-2.5 plus 5-10 lumpsum	40-45 plus 130-135 lumpsum	832	866	34	0
Mr P D Northen Agency Sec/Deputy Chief Executive	** 65-70	60-65	0-2.5	20-25	224	263	26	0
Air Commodore I Harvey Dir Ops	80-85	75-80	0-2.5 plus 5-10 lumpsum	35-40 plus 110-115 lumpsum	794	851	51	0
Air Commodore J D Tonks Dir JPA	80-85	80-85	0-2.5 plus 0-5 lumpsum	40-45 plus 120-125 lumpsum	791	797	6	0
Brigadier A D Harking Dir AT	80-85	75-80	2.5-5 plus 5-10 lumpsum	30-35 plus 100-105 lumpsum	734	814	66	0
Brigadier R J Bacon Dir SR&P	20-25	0	0-2.5 plus 0-5 lumpsum	30-35 plus 100-105 lumpsum	802	821	24	0
Mr A L Maynard Deputy Dir Finance & Corp Gov	# 50-55	45-50	0-2.5 plus 0-5 lumpsum	15-20 plus 55-60 lumpsum	257	282	14	0
Dr P H Collins Deputy Dir JPA	# 60-65	55-60	0-2.5 plus 0-5 lumpsum	20-25 plus 70-75 lumpsum	409	441	18	0
Mr K J Ludlam Non Executive Dir	15-20	10-15	0	0	0	0	0	0
Ms A Beech Non Executive Dir	0-5	5-10	0	0	0	0	0	0
Prof H Drummond Non Executive Dir	5-10	0	0	0	0	0	0	0

\*\* opted to join PCSPS Premium scheme # opted to remain in PCSPS Classic scheme  
No directors received any benefits-in-kind during the year

## D. Pension Benefits

13. Pension benefits are provided through the Armed Forces Pension Scheme (AFPS) and the Principal Civil Service Pension Schemes (PCSPS). These schemes are unfunded multi-employer defined benefits schemes but AFPAA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2005 for AFPS and 31 March 2003 for PCSPS. Details can be found in the resource accounts for these schemes, which are published and laid before the House of Commons.

### a) Armed Forces Pension Scheme (AFPS)

AFPS is a non-contributory defined benefit scheme that provides benefits at a normal retirement age of 55. Benefits in the scheme accrue unevenly throughout service and in addition a lump sum equivalent to three years' pension is payable on retirement.

### b) Principal Civil Service Pension Scheme (PCSPS)

From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. 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).

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

14. The table shown above discloses the member's cash equivalent transfer value (CETV) accrued at the beginning and end of the reporting period. The real increase in CETV is effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

15. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2003-04

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the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

A handwritten signature in blue ink that reads "Trevor Spires". The signature is written in a cursive style with a horizontal line underneath the name.

Trevor A Spires

Chief Executive

Armed Forces Personnel Administration Agency

06 June 2006

# Financial Statements for the Year Ending 31 March 2006

## Statement of Agency's and Chief Executive's responsibilities

Under Section 7(2) of the Resource Accounts Act 2000, Treasury has directed the Armed Forces Personnel Administration Agency to prepare a statement of accounts for each financial year, in the form and on the basis set out in the Financial Reporting Manual.

The financial statements are to be prepared on an accruals basis and must give a true and fair view of the state of the Agency's affairs at the year end, and of its income, expenditure 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; and
- 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 Armed Forces Personnel Administration 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".

# Statement on the System of Internal Control

## Scope of responsibility

1. As Chief Executive, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of the Armed Forces Personnel Administration Agency's (AFPAA) 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.
2. I am accountable directly to the Ministry of Defence Principal Accounting Officer for the propriety and regularity of AFPAA's expenditure, and for prudent and economical administration of the Agency in compliance with Departmental rules. As Chief Executive, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained by AFPAA.

## The purpose of the system of internal control

3. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all 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 Agency policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in AFPAA for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with current Treasury guidance.

## Capacity to handle risk

4. AFPAA is an executive agency of the Ministry of Defence. AFPAA services are principally delivered through a commercial partnering agreement with EDS (Defence) Ltd. The arrangement for joint working with EDS is managed via the Agency's joint management board, the Joint Partnering Management Team (JPMT) chaired by the Chief Executive. The JPMT review all 'Business Level' risks. Controls in place, and controls to be put in place, are identified and recorded in individual risk register reports, including appropriate target dates. Mitigation actions are reviewed at each meeting. A separate register of business level risks relating to Ministry of Defence only risks is considered 2/3 times a year, out of committee, by a separate management board attended only by MOD senior staff.
5. Risk owners and risk managers are identified as part of the risk management process within the Agency. Members of AFPAA's project management teams are trained in appropriate risk management skills. Information and guidance is available to other managers involved in the risk management process, as appropriate. AFPAA is currently delivering the core of one of the Ministry of Defence's top 5 modernisation projects, Joint Personnel Administration (JPA), which will introduce new harmonised pay and personnel processes across the three services. The JPA project continue to use external consultants to assist in the management of the project; and new skills have been transferred to the Project Management Office as the project progresses.

## The risk and control framework

6. The AFPAA contract with EDS sets out the structure for the ownership and management of risk. The risk element of the contract was reviewed as part of the JPA contract amendment. The Joint Risk Policy Statement outlines the approach to management of risk within the Agency and is signed by both CE AFPAA and EDS Account Director.
7. Risk Process and Procedures support both the Contract and the Risk Policy and include the structure for management and escalation of risks. The procedures outline the requirement to consider risks to the achievement of business and personal objectives.
8. AFPAA Agency 'Business Level' risks are linked to Agency objectives through the Balanced Scorecard and Critical Success Factors. They are reviewed monthly by the JPMT. Risks to service delivery performance

are managed by the Service Delivery Working Group and early identification of potential risks flows from EDS Service Delivery Reports, as well as customer feedback. Risks to support functions are managed by the Business Support Steering Group and its specialist working groups.

9. The risks identified to the delivery and introduction of JPA, both AFPAA specific and also wider programme risks, are managed on a daily basis within the JPA project teams and through the MoD Governance structure for JPA. AFPAA specific JPA risks are managed through the JPMT at its monthly meetings and specific JPA readiness reviews.

10. AFPAA Audit Committee is fully established and meets quarterly. The Defence Internal Audit organisation and the National Audit Office observe on the Audit Committee and provide advice and guidance where appropriate. An Agency Assurance Team is in place to provide internal assurance through an agreed programme of work based on a balanced review of the Agency risks.

### **Business continuity**

11. The Agency has a Business Continuity Management strategy that was reviewed in the current year. All IT plans are reviewed at least three times a year and are tested at least annually. None of the current IT Business Continuity Plans have been fully live tested due to the potential impact on day to day business and the meeting of key targets but desk-top exercises are conducted regularly. All current Business Continuity Plan practitioners have completed the relevant training and regular workshops are held as part of the continuous improvement of the process.

### **Review of effectiveness**

12. As Chief Executive, I also have personal 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 MoD internal auditors, AFPAA's own internal assurance team, and the executive managers within AFPAA, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors, in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the AFPAA Executive Board, the AFPAA Audit Committee and Joint Partnering Management Team who are responsible for managing business risk and a plan to address weaknesses and ensure continuous improvement of the system is in place.

13. In the current year the effectiveness of the systems of internal control operating within my Agency has been subject to continuous review. Activities that have significantly contributed to maintaining and improving effectiveness include:

- The Agency's two non-executive directors were fully involved in the management of the Agency's business providing independent advice to AFPAA's Owner's Advisory Board, the JPMT and the AFPAA Executive Board. During this period one of the non-executive directors completed her period of appointment and opportunity was taken to replace her with a non-executive director on the Board of the Veterans Agency thereby establishing closer links with an Agency involved in related business.
- The AFPAA Audit Committee, chaired by a non-executive director, undertook a full programme of business which included the close examination of procedures in place to manage Agency risks in relation to financial propriety and the introduction of JPA.
- The AFPAA Assurance Team completed a number of compliance and assurance activities in relation to both financial propriety and business risks. They also worked closely with JPA to obtain assurance that adequate management controls are properly reflected within the new system and business processes.
- JPMT steering groups and working groups continued to manage risk utilising risk registers put in place following revised risk management guidance issued in February 2005. The JPMT carried out a further

strategic review of all risks and the overall agency risk management process in Jan 06.

- Regular checkpoints of progress and Armed Forces readiness reviews took place in respect of JPA. An Agency “Ops Room” has been created, manned by staff with specific skills, to pre-empt and overcome problems that may arise during JPA Rollout to the Services. The “Ops Room” team have developed contingency plans to manage the top ten risks should any of these mature.
- A Service Delivery Support Team has recently been established to serve as a central conduit for receipt and progression of customer complaints following rollout of JPA. In so doing the team will perform trend analysis to identify potential process issues and provide timely advice to the Business where processes and/or procedures are in urgent need of review.
- The Agency Transformation Management Team, created in 2005 to provide strategic direction and formulate an agency-wide transformation plan, was instrumental in the creation of an Agency “Roadmap” thereby bringing together all of the various strands of AFPAA JPA-related activities into a single cohesive plan with milestones and dependencies. This Roadmap is reviewed on a monthly basis by the JPMT.
- An Agency Operating Model was created to manage the manpower resources required to take the Agency forward in both the pre and post JPA eras. This Model is a tool that is used to help manpower planning and ensure that Agency staff with the appropriate skill sets and competences are matched to the new Joint Personnel Administration supporting roles.
- Work on developing a robust cost model facilitating the interpretation of Agency Costs on an output basis continued. The cost model is now fully functional and management information on an output basis will begin to be presented to the Board in 2006/07.
- A “Model Office” was established to provide a facility for “dry running” newly created and revised processes in a controlled environment. This has proved to be successful in reducing Agency risks as it has enabled a number of potential gaps and weaknesses in procedures to be resolved without exposing them in a live environment.
- Business Continuity Plans for the new Joint Personnel Administration Centre (JPAC), Joint Casualty and Compassionate Centre (JCCC) and MoD Medal Office were developed.
- A single Change Management focal point was established within the Agency to manage changes to AFPAA systems.

14. Further improvements in the risk and internal control framework are planned over the coming year and include:

- Improvements to the quality of input data and mapping of costs in the Cost Model will continue. Management information will begin to be presented on an Output basis.
- Continuation of regular checkpoints of progress and Armed Service readiness reviews in respect of JPA.
- Medal Office stock control and stock holding processes will be substantially improved in line with external audit recommendations.
- Enhancement of the management of change process, with the MoD Service Personnel Joint Requirements Steering Group (JRSG) becoming responsible for prioritising all changes within JPA.

#### **Significant internal control problems**

15. I do not have any areas that have significant internal control problems but there are two areas of business where controls are currently inadequate:

- **Managed Funds - Control Accounts.** Our ability to reconcile a number of the 160 Control Accounts managed by the Agency has improved over the last year. A more stringent reporting regime has been put in place and the team has been strengthened by the allocation of additional resources, including a qualified accountant, thereby enabling the resolution of a number of the older and more complex entries. Transactions are also being posted back to military units where they are unable to produce the documentation required by AFPAA to enable account reconciliation. The JPMT has reviewed progress monthly through the Balanced Scorecard and the AFPAA Audit Committee has also reviewed progress on a quarterly basis. This area will continue to be kept under the closest scrutiny. These problems will not impact on the rollout of JPA to the RAF. However until such time as the complex legacy pay and accounting systems are subsumed by JPA, it is unlikely that it will be possible to overcome this problem totally.
- **Ministry of Defence Medal Office (MoDMO) – Stock Control of Medals.** The formation of a Tri-service medals office within AFPAA early in 2005 resulted in AFPAA assuming responsibility for assets of some £3M worth of medals and clasps. As confirmed by a recent external governance review, existing former single-service inventory management processes and procedures were inadequate. A number of improvements have been made since the external review and others will follow in the next few weeks as staff are trained to embrace the revised procedures. I fully expect a sound system of internal control to operate within this area within a few weeks.



Trevor A Spires  
Chief Executive  
Armed Forces Personnel Administration Agency  
06 June 2006

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

I certify that I have audited the financial statements of AFPAA for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## **Respective responsibilities of the Agency, Chief Executive and Auditor**

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

My responsibility is to audit the financial statements 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 part of the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I 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 the relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 28 to 31 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 to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the unaudited part of the Remuneration Report, the Chief Executive's Foreword and the Management Commentary. 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 opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Remuneration Report to be audited. 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 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.

## Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the net operating costs, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- 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.



Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

09 June 2006

# Financial Statements for the Year Ending 31 March 2006

<b>Operating Cost Statement</b>			
<b>For the year ending 31 March 2006</b>			
<b>Operating Costs</b>	<b>Note</b>	<b>2005/06 £'000</b>	<b>2004/05 £'000</b>
			<b>Restated</b>
Staff Costs	2	21,923	20,950
Accommodation costs	3	4,314	4,583
Administration costs	4	112,058	87,208
<b>Gross operating costs</b>		<u>138,295</u>	<u>112,741</u>
<b>Less: Commutation Fees</b>		(48)	(46)
<b>Operating income</b>		-	-
<b>Net operating costs</b>		<u><u>138,247</u></u>	<u><u>112,695</u></u>

All of the Armed Forces Personnel Administration Agency activities are continuing.

<b>Statement of Recognised Gains and Losses</b>			
<b>For the year ending 31 March 2006</b>			
	<b>Note</b>	<b>2005/06 £'000</b>	<b>2004/05 £'000</b>
Unrealised net (gain)/loss:			
On revaluation of fixed assets and stocks	11	824	7,043
Recognised (Gains)/Losses relating to the year		824	7,043
Prior year restatement arising from 2004/05 Merger		-	3,509
<b>Recognised (Gain)/Losses</b>		<u><u>824</u></u>	<u><u>10,552</u></u>

The machinery of government change relating to the JCCC and the PACC did not result in additional recognised gains and losses for 2005/06. The prior period restatement in 2004/05 related to the transfer of functions of the MoD Medal Office to AFPAA which was accounted for in the 2004/05 financial statements. The movement in Government Funds is set out at Note 12 on page 46. The notes on pages 38 to 50 form an integral part of these financial statements.

# Financial Statements for the Year Ending 31 March 2006

		31 March 2006		31 March 2005	
		Note	£'000	£'000	£'000
<b>Balance Sheet as at 31 March 2006</b>					
<b>Fixed assets</b>					
Intangible assets	5	6,991		11,104	
Tangible assets	5	25,317		29,658	
		<u>          </u>	32,308	<u>          </u>	40,762
<b>Current assets</b>					
Stocks	6	1,309		2,494	
Debtors and prepayments	7	4,467		7,341	
		<u>          </u>		<u>          </u>	
		5,776		9,835	
<b>Current liabilities</b>					
Creditors due within one year	8	(22,712)		(18,331)	
		<u>          </u>		<u>          </u>	
<b>Net current assets</b>			(16,936)		(8,496)
			<u>          </u>		<u>          </u>
<b>Total Assets less Current Liabilities</b>			15,372		32,266
Creditors due in more than 1 year	8		(2,553)		(6,870)
Provisions for liabilities and charges	9		(224)		(199)
			<u>          </u>		<u>          </u>
<b>Net assets</b>			<b>12,595</b>		<b>25,197</b>
			<u>          </u>		<u>          </u>
<b>Taxpayers' equity</b>					
General Fund	10		4,225		17,067
Revaluation Reserve	11		8,370		8,130
			<u>          </u>		<u>          </u>
			<b>12,595</b>		<b>25,197</b>
			<u>          </u>		<u>          </u>

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The notes on pages 38 to 50 form an integral part of these financial statements.

A handwritten signature in blue ink that reads "Trevor Spires". The signature is written in a cursive style with a horizontal line underneath the name.

Trevor A Spires  
Chief Executive  
Armed Forces Personnel Administration Agency  
06 June 2006

# Financial Statements for the Year Ending 31 March 2006

<b>Cash Flow Statement</b>			
<b>For the year ending 31 March 2006</b>			
	<b>Note</b>	<b>2005/06 £'000</b>	<b>2004/05 £'000 Restated</b>
<b>Net cash outflow from operating activities</b>	18	116,576	100,627
<b>Capital expenditure</b>			
Payments to acquire intangible fixed assets		887	11,300
Payments to acquire tangible fixed assets		1,211	6,616
Repayments of financing		4,537	4,792
<b>Net cash outflow before financing</b>		<u>123,211</u>	<u>123,335</u>
<b>Financing</b>			
Payments on Defence Resource Accounts		123,211	123,335
Receipts on Defence Resource Accounts			
<b>Voted expenditure appropriated in year</b>		<u>123,211</u>	<u>123,335</u>
<b>Increase/(decrease) in cash</b>		0	0

The notes on pages 38 to 50 form an integral part of these financial statements

# Financial Statements for the Year Ending 31 March 2006

## Notes to the Accounts

### Note 1: ACCOUNTING POLICIES

#### A. Basis of accounting

The financial statements for the Armed Forces Personnel Administration Agency have been prepared in accordance with the Financial Reporting Manual issued by HM Treasury. The financial statements 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 Ministry of Defence accounts for VAT centrally. The Agency's accounts do, however, include non-recoverable VAT attributable to its activities.

#### C. Notional charges

- 1) A notional charge for interest on 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 Ministry of Defence accounting policy. Where AFPAA is the principal, but not exclusive user of a building, the full cost of capital and depreciation charges are offset by notional income from the other occupants.
- 2) Notional amounts are included in the Operating Cost Statement for charges and income in respect of services provided to and from other areas of the Ministry of Defence. The amounts charged are calculated to reflect the full cost of providing these services to the Agency.
- 3) AFPAA is not charged an audit fee by the National Audit Office. The audit fee shown represents the notional charge to the Operating Cost Statement based on the advised costs of the services provided.

#### D. Fixed assets and depreciation

##### (1) Intangible Assets

Software licences are capitalised as Intangible Assets where the Agency is the beneficial user, the useful life exceeds 1 year and the costs of acquisition and installation exceeds the Agency's capitalisation threshold.

##### (2) Land and buildings

Where the Agency is the beneficial user of the Departmental Estate, such estate is treated as an asset of the Agency although legal ownership rests with the Secretary of State for Defence. All of the Agency's assets are freehold.

Professional valuations of land and buildings are carried out every 5 years, the last full valuation having been carried out in 2005.

##### (3) Plant equipment

Plant equipment is capitalised where the Agency is the beneficial user, the useful life exceeds 1 year and the cost of acquisition and installation exceeds the Agency's capitalisation threshold. Plant equipment assets are revalued annually using indices in accordance with MOD policy.

##### (4) IT equipment

IT equipment is capitalised where the Agency is the beneficial user, the useful life exceeds 1 year and the cost of acquisition and installation exceeds the Agency's capitalisation threshold. IT equipment assets are revalued annually using indices in accordance with MoD policy.

Under the Agreement with EDS, although EDS holds legal title to the IT and Communications equipment assets, the Agency has continuing and exclusive use of those assets. Following a review of the accounting treatment in 2004, the EDS owned assets and, where appropriate, the associated liability to EDS have been capitalised.

#### **(5) Depreciation and Amortisation**

Freehold land and Assets Under Construction (AUC) are not depreciated. Depreciation and amortisation on all other fixed assets is calculated to write-off the cost or valuation of assets by equal instalments over their estimated useful lives, which are normally assumed to be as follows:

<b>Asset Category</b>	<b>Life</b>
Intangible	3-5 years
Buildings	25 years
Plant equipment	15 years
Office equipment	5 years
IT equipment	3-5 years
IT assets (EDS owned)	3-5 years

#### **(6) Disposal of assets**

The Agency does not receive any cash benefit for assets disposed of, any cash receipts being accounted for centrally by the Ministry of Defence.

#### **(7) Capitalisation Threshold**

Assets are capitalised by the Agency where the useful life exceeds one year and the cost of acquisition and installation is greater than £10,000 inclusive of VAT.

### **E. Cash, Taxation and Social Security Liabilities**

The Agency does not pay or receive money on its own account. Cash payments are made and receipts collected by the Ministry of Defence's central accounting organisations on behalf of the Agency. All transactions are brought to account by the Ministry of Defence in the Departmental Resource Accounts and are recorded by the Agency when charged to this account. All such transactions are disclosed in aggregate in the Cash Flow Statement.

As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance Contributions due to Agency employees, the Department is liable for the payment of any liabilities which may be due to HM Revenue and Customs or Department for Work and Pensions at the balance sheet date, and these are not disclosed in the Agency's balance sheet.

### **F. Debtors**

Long outstanding debts are assessed on a bi-annual basis to ensure that action is taken to write off bad debts. Debts are monitored regularly in normal day to day activities.

The Agreement with EDS contains tight guidelines for the imposition of failure charges where performance levels fall below set criteria. Such charges will be raised as debtors and recovered from EDS under the timescales set down in the Agreement. AFPAA additionally has the right to waive part or all of these charges and in the event of this happening, write off action is required and will be reflected in the accounts.

The amended Agreement allows for a reconciliation between the Annual Target Price and actual costs incurred by EDS. Where actual costs are below the Annual Target Price, the Agreement provides for a sharing of these efficiency savings. Such amounts are included in debtors.

## **G. Stocks**

Stocks are stated at the lower of current replacement cost and net realisable value. Cost comprises purchase price and includes expenses incidental to acquisition. Current replacement cost applies to stocks expected to be used or sold in the ordinary course of business and represents the cumulative revaluation of stock using the latest cost of acquisition. Net realisable value applies to stocks which are not intended to be used or sold in the ordinary course of business.

Where appropriate, provision is made for obsolete, surplus and defective stock. The provision is based on 100% of the purchase price of the medals, excluding bullion scrap value, for surplus stocks.

## **H. Pension Costs**

Staff are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) and the Armed Forces Pension Scheme (AFPS). Contributions are paid to AFPS and the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. These contributions were charged to the Agency as a cash cost for the period of these financial statements.

The AFPS is an unfunded defined benefits scheme and the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2005.

The PCSPS are unfunded multi-employer defined benefits schemes and the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003.

## **I. Accruals**

The Agency's accruals policy is to accrue for work in progress at the year end and this is reflected in the accounts.

## **J. Provisions for Liabilities and Charges**

Provisions are included in the accounts for future liabilities due in respect of AFPAA staff who leave under the Flexible or Compulsory Early Retirement Schemes. The provision is charged to the Operating Cost Statement for the year in which the obligation was made. Future costs are charged on an accruals basis against the related provision.

## **K. Revaluation Reserve**

Adjustments arising on revaluation of fixed assets are transferred to a Revaluation Reserve or the Operating Cost Statement as appropriate.

## **L. Merger Accounting**

The Joint Compassionate and Casualty Centre was officially opened on 11 April 2005, and the Pay and Allowances Casework Cell was officially opened on 12 December 2005. In line with HM Treasury guidance, the transfer of responsibilities to form the JCCC and PACC is being treated as a merger. Accordingly, the Agency's financial statements include operating costs for the full year and the balance sheet includes appropriate current and fixed assets. Prior year comparatives have also been restated where appropriate to ensure comparability. The restatement has added £2,004k to prior year operating costs and has had nil effect on prior year balance sheet.

## Note 2: STAFF COSTS AND NUMBERS

Rear Admiral Spires received an annual remuneration of £92K, excluding pension contributions. He is a member of the Armed Forces Pension Scheme.

In line with Departmental policy, contract staff numbers and costs are included in this heading.

1. The average number of employees during the year was as follows:

	2005/06	2004/05
	No.	No.
Military	222	225
Civil Service	226	256
Contract Staff	48	23
	<u>496</u>	<u>504</u>

Previous year comparative staff numbers do not include staff transferred to AFPAA in 05/06 as part of the integration of the JCCC and PACC.

2. Staff costs can be analysed as follows:

	2005/06	2004/05
	£'000	restated £'000
Salaries and wages	15,390	15,524
Contract staff costs	1,454	748
Social Security costs (ERNIC)	1,333	1,304
Pension costs	3,746	3,374
	<u>21,923</u>	<u>20,950</u>

Previous year comparative staff costs have been restated to include JCCC and PACC staff costs.

## Note 3: ACCOMMODATION COSTS

	2005/06	2004/05
	£'000	restated £'000
Worthy Down costs	-	5
Innsworth costs	1,132	1,622
Glasgow costs	1,508	1,407
Works maintenance	282	458
Building depreciation	884	687
Building impairment reversal	-	(73)
Utilities	74	88
Rent	434	389
	<u>4,314</u>	<u>4,583</u>

Accommodation costs comprise cash costs, communicated costs and capitation rate based costs.

Prior year comparative amounts have been recategorised to simplify presentation and understanding of communicated costs

#### Note 4: ADMINISTRATION COSTS

	2005/06 £'000	2004/05 £'000 restated
EDS Contractual costs	91,589	71,206
Paymaster	2,684	2,616
Net Write offs (see note 17)	955	655
IT equipment, maintenance and software	325	397
Consultancy	1,235	1,518
Travel and subsistence	939	898
Supplies and services consumed	748	775
Pension costs	41	49
Training	118	142
Interest on long term creditor balances	453	648
Office supplies	152	130
Audit fee	44	36
Miscellaneous	77	104
Funeral costs	523	600
Telecommunications	816	466
Currency charges	689	200
Cost of capital charges	717	406
IT & Communications equipment depreciation	2,712	2,654
IT & Communications equipment impairment	2,265	925
Plant equipment depreciation	30	14
Intangible asset amortisation	1,895	1,055
Intangible asset impairment	3,105	126
Stock provisions	189	1,023
Stock consumption	2,261	1,561
Stock write on	(52)	-
Disposal costs of excess stocks	7	-
Provisions movement	75	21
Notional income from Veterans Agency (see note 5)	(2,534)	(1,017)
	<b><u>112,058</u></b>	<b><u>87,208</u></b>

Prior year comparative amounts have been recategorised to simplify presentation and understanding of communicated costs

Prior year comparative amounts have been restated to include JCCC and PACC costs

## Note 5: FIXED ASSETS

	Intangible Fixed Assets £'000	Land and Buildings £'000	Plant equipment £'000	IT & Comms equipment £'000	AUC £'000	Tangible Fixed Assets £'000	Total Fixed Assets £'000
<b>Cost or valuation</b>							
At 1 April 05	12,337	24,197	350	12,728	448	37,723	50,060
Additions	887	-	126	637	-	763	1,650
Revaluations		806	7	-	-	813	813
Impairments	(3,465)	-	-	(3,713)	-	(3,713)	(7,178)
Transfers	-	-	-	70	-	70	70
Disposals	-	-	-	(1,973)	-	(1,973)	(1,973)
Reclassification	-	-	-	448	(448)	-	0
<b>At 31 March 06</b>	<b>9,759</b>	<b>25,003</b>	<b>483</b>	<b>8,197</b>	<b>0</b>	<b>33,683</b>	<b>43,442</b>
<b>Depreciation and Amortisation</b>							
At 1 April 05	1,233	2,869	25	5,171	-	8,065	9,298
Amount in year	1,895	884	30	2,712	-	3,626	5,521
Revaluations	-	96	-	-	-	96	96
Impairments	(360)	-	-	(1,448)	-	(1,448)	(1,808)
Write (off)/on	-	-	-	-	-	-	0
Disposals	-	-	-	(1,973)	-	(1,973)	(1,973)
Reclassifications	-	-	-	-	-	-	0
<b>At 31 March 06</b>	<b>2,768</b>	<b>3,849</b>	<b>55</b>	<b>4,462</b>	<b>0</b>	<b>8,366</b>	<b>11,134</b>
<b>Net Book Value</b>							
At 1 April 05	11,104	21,328	325	7,557	448	29,658	40,762
<b>At 31 March 06</b>	<b>6,991</b>	<b>21,154</b>	<b>428</b>	<b>3,735</b>	<b>0</b>	<b>25,317</b>	<b>32,308</b>

Included within IT assets are £634k of assets legally owned by EDS for exclusive beneficial use by AFPAA and £120k of assets legally owned by EDS for beneficial use by AFPAA and Veterans Agency. Included within Intangible assets are £996k of assets legally owned by EDS for beneficial use by AFPAA and Veterans Agency. These assets have been accounted for in accordance with FRS 5 (Substance of transactions). A notional income amount of £292k has been included in Administration Costs (note 4) in respect of Veterans Agency's share of the depreciation charges and cost of capital charges in respect of assets used in the Compensation and Pensions System (CAPS) project.

**Note 6: STOCKS**

	2005/06 £'000	2004/05 £'000
Medals stocks owned by AFPAA	1,309	2,494
	<u>1,309</u>	<u>2,494</u>

**Note 7: DEBTORS AND PREPAYMENTS**

	2005/06 £'000	2004/05 £'000
Trade debtors: EDS	4,236	7,162
Other	-	-
Prepayments	231	179
	<u>4,467</u>	<u>7,341</u>

There are no balances with Central Government Departments, NHS Trusts or Local Authorities

**Note 8: CREDITORS**

Amounts falling due within one year		2005/06 £'000	2004/05 £'000
Trade creditors: EDS	103	1,097	
Trade creditors: Other	460	204	
	<u>563</u>	<u>1,301</u>	
Accruals: EDS	21,744	16,579	
Accruals: Other	<u>405</u>	<u>451</u>	
	22,149	17,030	
	<u>22,712</u>	<u>18,331</u>	
Amounts falling due after one year			
Trade creditors: EDS		2,553	6,870
		<u>25,265</u>	<u>25,201</u>

There are no balances with Central Government Departments, NHS Trusts or Local Authorities. There is a balance of £78k with Royal Mint, a Public Corporation, included in Accruals.

## Note 9: PROVISIONS FOR LIABILITIES AND CHARGES

<b>Early Retirement Provision</b>	<b>2005/06 £'000</b>	<b>2004/05 £'000</b>
Opening Balance at 1 April 2005	199	233
Utilised in year	(50)	(52)
Increase in provision	75	18
<b>Balance at 31 March 2006</b>	<b><u>224</u></b>	<b><u>199</u></b>

Payments of £34k are expected to be made in 2006-07 with the remainder of the payments expected to be made by 2013-14.

## Note 10: GENERAL FUND

	<b>Note</b>	<b>2005/06 £'000</b>	<b>2004/05 £'000 Restated</b>
Net Voted Expenditure		123,211	123,335
Notional costs	19	1,610	3,207
Realised element of the revaluation reserve	11	584	1,571
Less:			
Net expenditure for the year in respect of the Agency operations	18	(138,247)	(112,695)
Net increase/(decrease) in General Fund		(12,842)	15,418
General Fund at 1 April		17,067	1,649
<b>General Fund at 31 March</b>		<b><u>4,225</u></b>	<b><u>17,067</u></b>

Prior year comparative amounts for Net Voted Expenditure, Notional Costs and Net Expenditure for the year have been restated to include JCCC and PACC costs

## Note 11: REVALUATION RESERVE

	<b>Note</b>	<b>2005/06 £'000</b>	<b>2004/05 £'000</b>
Revaluation reserve at 1 April		8,130	2,658
Depreciation on revalued element of fixed assets	5	(96)	(865)
Revaluation in year on fixed assets	5	813	7,988
Revaluation in year on stocks		107	(80)
Realised element transferred to General Fund	10	(584)	(1,571)
<b>Revaluation reserve at 31 March</b>		<b><u>8,370</u></b>	<b><u>8,130</u></b>

**Note 12: RECONCILIATION OF MOVEMENT IN GOVERNMENT FUNDS**

	Note	2005/06 £'000	2004/05 £'000 Restated
At 1 April		25,197	4,307
Revaluation Reserve movement in year	11	240	5,472
General Fund movement in year	10	(12,842)	15,418
Total movement in year		(12,602)	20,890
<b>At 31 March</b>		<b><u>12,595</u></b>	<b><u>25,197</u></b>

### **Note 13: RELATED PARTY TRANSACTIONS**

AFPAA is an Executive Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. Due to the partnering relationship that exists between AFPAA and EDS, 5 members of the EDS Management team sit on the Joint Partnering Management Team (JPMT) alongside the AFPAA Executive Board. These senior managers oversee the partnering agreement, contributing and reviewing on a regular basis major activities of the Agency. AFPAA also receives supplies from Royal Mint, a Public Corporation, also regarded as a related party.

During the period 1 April 2005 to 31 March 2006, AFPAA has had various material transactions with the Ministry of Defence, EDS and with other entities for which the Ministry of Defence is regarded as the parent Department, as well as with Royal Mint.

During the year none of the senior and other key management staff, or other related parties, has undertaken any material transactions with AFPAA.

### **Note 14: FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES**

There are no capital commitments to be disclosed in these financial statements. However, at 31 March 2006, the Agency was committed, under the amended Agreement with EDS, to make payments totalling £211m up to the end of the contract in 2009.

At contract termination, due to take place on 31 December 2009, AFPAA has an option to buy back the IT equipment that is being utilised by EDS at Fair Market Value.

### **Note 15: DERIVATIVES AND OTHER 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.

Because of the largely 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 does, however, bear the foreign exchange costs of payments made in local currencies to Service personnel serving overseas. The Agency is not exposed to significant currency risk.

The Ministry of Defence, through whose Resource Account the Agency is financed, enters into forward purchase contracts annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. The details of the outstanding foreign currency contracts are given in its Departmental Resource Account.

#### **Liquidity risk**

The Agency is not exposed to significant liquidity risk, as the 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 16: POST BALANCE SHEET EVENTS**

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from AFPAA to other parts of the Ministry of Defence. Where the agency retains the risks and rewards of ownership of these assets they will continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In other cases the costs of the use of these assets will be communicated to AFPAA by the asset owners and charged to the operating cost statement. Consequently, these centrally accounted for assets will not be included on the Agency's balance sheet as they will be accounted for as operating leases under SSAP 21. There is no effect on the 2005-06 accounts as a result of this change, and as a result no adjustments have been made to these financial statements.

#### **Note 17: LOSSES STATEMENT**

Under the Service Provision Agreement between AFPAA and EDS, a Failure Charge can be deducted from the monies payable to EDS. Failures are defined as being where performance against a specified and agreed Service Level has not been achieved. Under the charging mechanism in place, a maximum charge that could be invoked is calculated. Discretion exists for a lesser sum to be charged in instances where the maximum charge is deemed inappropriate (e.g. when the reason for a service delivery failure cannot be apportioned solely to EDS). Additionally, the charge can be waived in total, for example when a Service Delivery Failure is adjudged to be as a consequence of circumstances outside EDS' control. During the Financial Year 2005/2006 the total sum waived under the Service Provision Agreement was £1,022k.

**Note 18: RECONCILIATION OF NET OPERATING COST TO NET CASH FLOWS**

	2005/06 £'000	2004/05 £'000 Restated
<b>Net Expenditure from operating activities</b>	<b>138,247</b>	<b>112,695</b>
<b>Adjustments for non cash transactions</b>		
Increase in Provisions from Operating Cost Statement	(75)	(18)
Depreciation, amortisation and amounts written off fixed assets	(10,839)	(5,395)
Cost of capital	(717)	(406)
Notional costs	(3,356)	(3,818)
Stock Provisions	(189)	(1,023)
Notional Income from Veterans Agency	2,534	1,017
<b>Movements in net current assets:</b>		
Increase/(Decrease) in Stocks	(1,156)	88
Increase/(Decrease) in debtors	(2,874)	1,909
(Increase)/Decrease in creditors	(5,049)	(4,474)
<b>Payments made against Provisions for Liabilities and Charges</b>	<b>50</b>	<b>52</b>
<b>Net Cash Outflow from operating activities</b>	<b>116,576</b>	<b>100,627</b>

**Note 19: NON CASH AND NOTIONAL COST ITEMS**

<b>The Notional Cost</b>	<b>2005/06 £'000</b>	<b>2004/05 £'000</b>
<b>NON CASH COSTS:</b>		
IT depreciation	2,712	2,654
IT Impairment	2,265	925
Buildings Depreciation	884	687
Buildings Impairment reversal	-	(73)
Plant & Machinery Depreciation	30	14
Intangibles Amortisation	1,895	1,055
Intangibles Impairment	3,105	126
Write Off of Fixed Assets	-	7
Write on of stock	(52)	-
	<b>10,839</b>	<b>5,395</b>
	<b>2005/06 £'000</b>	<b>2004/05 £'000 Restated</b>
<b>NOTIONAL COSTS:</b>		
Worthy Down costs	-	5
Innsworth costs	1,132	1,622
Glasgow costs	1,508	1,407
MoD Overhead costs	672	738
Audit fee	44	36
Compulsory Early Retirement Payments in Year	71	10
Cost of Capital charge	717	406
Notional Income from Veterans Agency	(2,534)	(1,017)
	<b>1,610</b>	<b>3,207</b>

## Glossary of Terms

AEB	AFPAA Executive Board
AFCS	Armed Forces Compensation Scheme
AFPAA	Armed Forces Personnel Administration Agency
AFPS	Armed Forces Pensions Schemes
AT	Agency Transformation
ATP	Actual Target Price
AUC	Assets Under Construction
BSC	Balanced ScoreCard
CAPS	Compensation and Pensions System
CETV	Cash Equivalent Transfer Value
COTS	Commercial Off The Shelf
CSS	Customer Satisfaction Survey
DBA	Defence Bills Agency
DCDS(Pers)	Deputy Chief of Defence Staff (Personnel)
DII	Defence Information Infrastructure
DFMS	Defence Financial Management System
DRAc	Departmental Resource Accounts
EDS	Electronic Data Systems Defence Ltd
ERNIC	Earnings Related National Insurance Contributions
Fin & CG	Finance and Corporate Governance
FTRS	Full Time Reserve Service
HRMS	Human Resources Management System
IPT	Integrated Project Team
IS	Information Systems
IT	Information Technology
JCCC	Joint Casualty and Compassionate Centre
JPA	Joint Personnel Administration
JPAC	Joint Personnel Administration Centre
JPMT	Joint Partnering Management Team
JRSG	Joint Requirements Steering Group
KT	Key Targets
MHCA	Modified Historic Cost Accounting
MoDMO	MoD Medal Office
MP	Member of Parliament
NED	Non-Executive Director
NFI	National Fraud Initiative
OAB	Owners Advisory Board
PACC	Pay and Allowances Casework Cell
PAYE	Pay As You Earn
PCSPS	Principal Civil Service Pension Scheme
PPP	Public Private Partnership
PPPA	Army's Personnel, Pay and Pensions Administration
RAB	Resource Accounting and Budgeting
SDMP	Service Delivery Monitoring Programme
SDST	Service Delivery Support Team
SLA	Service Level Agreement
SR & P	Strategy Requirements & Programmes
TLB	Top Level Budget
VA	Veterans Agency
VAT	Value Added Tax

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