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The Oil & Pipelines Agency Account 2004-2005

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Chairman's Statement

The function of the Agency is to manage the Government Pipeline and Storage System (GPSS), on behalf of its principal, the Ministry of Defence (MoD). The Agency has been busy, throughout the year, working, with MoD where appropriate, to implement improvements to certain procedures and processes that the Quinquennial Review of the Agency, by MoD, identified. The Agency has been careful to ensure that these improvements are handled in a manner which, whilst recognising the small size of the Agency results in an improved method of working that is fit for purpose and represents best value for taxpayers' money.

The Agency continued to pursue the key activities with which it is tasked, which is the provision of a safe, reliable and economic service for the storage and transportation of military fuel together with the optimisation of net revenue from private sector usage of the remaining peacetime capacity of the GPSS. Commercial demand for aviation fuel rose during the year and, subject to the effect of events such as further terrorist attacks, global health scares or international conflict, this trend is expected to continue.

The Agency has been in a continuing dialogue with MoD concerning a number of strategic issues relating to the long term future of the GPSS which will form a part of the framework within which the Agency will continue to discharge its responsibilities for the GPSS. The Agency has continued to be heavily involved in ensuring that the GPSS remains compliant with the requirements of increasingly stringent Health, Safety and Environmental legislation as such legislation affects the operation of the GPSS with particular emphasis on emergency planning as well as the frequency and extent of plant integrity inspections and the repairs arising out of such inspections.

Finally, it has been my privilege and pleasure, for the last six years, to serve as the Chairman of the Agency, from which post I retire today. I would like formally to thank all of the Agency staff for their dedication and professionalism throughout this time in ensuring that the Agency continued to discharge its responsibilities, especially against the background of the uncertainties engendered by the Quinquennial Review of the Agency to which I have previously alluded. It has also been a pleasure to work with the Members of the Agency during my term as Chairman and I hand over the Chairmanship of the Agency into the capable hands of Mr Francis Dobbyn; I wish him well for the challenges that the Agency will, without question, face in the years ahead. I extend those good wishes to the Members and all employees of the Agency.

Dr JD Hastie 7 July 2005
Chairman

Report of the Agency

Introduction

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

The members and principal officers of the Agency are shown on page 6.

The GPSS

The GPSS consists of some 2,500 kilometres of underground cross-country pipelines of differing diameters, together with 46 storage depots, salt cavities, associated pumping stations, receipt and delivery facilities and other ancillary equipment. An outline map of the GPSS is included on page 5. Most of the storage depots are connected to the pipeline ringmain, which in turn is supplied by the majority of the major refining centres and port areas in England. Other self-standing pipelines and depots are situated elsewhere in England and Scotland. The GPSS receives, stores, transports and delivers white oil petroleum products for military and civil users.

GPSS future development

The series of reviews of the Agency and the GPSS that MoD had undertaken beginning in 1998 was followed by a Quinquennial Review of the Agency which was concluded in March 2004. As the review did not address the strategic future of the GPSS, as had been anticipated, the Agency has, during the course of the year, prepared and issued two papers which have been discussed with MoD. The Agency will continue to work with MoD to come to a common position concerning the strategic future of the GPSS.

GPSS business activities

The demand for civil aviation kerosene in 2004 showed growth relative to 2003 with continuing growth in demand anticipated. During the year the Agency has continued to develop projects which would increase both the volumes of aviation kerosene that can be supplied through the GPSS and ground fuel trade in the GPSS. The expectation of continuing growth in demand is subject to external influences; heightened international tension, pandemics or similar events which would adversely affect growth.

Crude oil supply and trading

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

GPSS technical and contractual activities

The Agency has maintained a continuing close dialogue with the regulatory authorities, from whom an understanding of their evolving requirements in respect of widely drawn health, safety and environmental regulations has been derived. As a result, the impact of recently enacted environmental, health and safety legislation is becoming increasingly clear. The programme of inspection and repair of bulk fuel storage tanks and cross-country pipelines has continued through the year with the aim of assuring the operational integrity of these facilities into the future; a programme of testing and repair has been undertaken in respect of pipework within various GPSS terminals. The Agency continues to invest significant sums in engineering projects to assure the reliable and cost effective operation of the GPSS consistent with the requirements of environmental and health and safety legislation. This will be a continuing requirement for the Agency in discharging its responsibilities for the management of the GPSS.

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

A major project to enhance the import capability into the GPSS is drawing towards a conclusion with work to enhance associated pipeline capabilities now underway.

Agency employees

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

Agency administration

The total level of personnel, excluding non executive members, required by the Agency remained at nineteen; however one position was vacant for a short period during the year. At the year-end all positions were filled with permanent staff.

Dr JDC Vardon 7 July 2005
Chief Executive and Accounting Officer

General Outline of the GPSS

Foreword

Introduction

The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to the Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence (page 25).

Principal activities

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

Agency result

A net profit of £110,000 (2004: £153,000) was achieved by the Agency for the year. The profit arose primarily from interest earned and a pension scheme credit less an operating loss resulting from the costs of the office relocation.

Members and Principal Officers

The following served as Members and as Principal Officers of the Agency during the year and since to 7 July 2005

Members

Dr JD Hastie	Chairman
JC Morgan	Retired 7 July 2004
Air Commodore AC Spinks	Director, Defence Fuels Group, MoD
F Dobbyn	Appointed 8 July 2004
MJ Burrett	Appointed 8 July 2004
Dr JDC Vardon	Appointed 8 July 2004

Principal officers

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

Payment of creditors

It is the policy of the Agency to negotiate terms with its suppliers and to ensure that they know the terms on which payment will take place when business is agreed. It is the Agency's policy to abide by the Better Payment Practice Code. The number of days of billings from suppliers outstanding at the end of the financial year was nineteen days (2004: five days).

Retirement benefits plan

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

An actuarial valuation of the Plan was carried out at 5 April 2003 and indicated that the value of the assets had fallen to a level of 74% of the value placed upon the liabilities. However, following a revised level of employer contributions from January 2003, a one off additional employer contribution in July 2003 and a recovery in the equity market, assets had risen to be in excess of liabilities by the date of completing the report in December 2003. A review of the options available, prompted by the valuation, resulted in the Agency and the Trustee deciding to maintain the existing defined benefits scheme and to maintain the level of contributions of the Agency and employees at 20% and 5% respectively. A further actuarial valuation will be carried out as at 5 April 2005.

Pension costs are accounted for under Financial Reporting Standard 17 (FRS 17) which required an independent qualified actuary to carry out an actuarial assessment of the pension scheme and, at the year end, the actuary has valued the pension scheme surplus before taxation at £624,000 (2004: £829,000).

Register of interests

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

Auditors

Further to the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003, which came into force on 23 May 2003, the Comptroller and Auditor General was appointed as the independent auditor to the Agency. The cost of the audit was £7,000. No other services were provided by the Comptroller and Auditor General during the financial year.

The Certificate and Report of the Comptroller and Auditor General is attached on page 26.

Dr JDC Vardon 7 July 2005
Chief Executive and Accounting Officer

Corporate Governance

Best practice

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

Responsibilities of the Agency and Agency committees

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

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

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

The Chairman

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

The Chief Executive and Accounting Officer

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

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

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

The Audit committee

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

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

Neither the Chairman of the Agency nor the Chief Executive sits on the Agency's Audit committee.

The Remuneration committee

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

Statement of Members' Accounting responsibilities

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

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

Statement on Internal Control

Responsibility

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

The system of internal control

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

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

The Quinquennial Review of the Agency completed in the middle of March 2004 with the issue by the review team of the phase 2 report to MoD on 12 March 2004, some two years after the start of the review in April 2002. The MoD team carrying out the phase 1 Quinquennial Review had indicated that the formalised system of internal control did not accord with MoD practice and that finalisation of the system should be informed by the phase 2 Quinquennial Review activity. The phase 2 work, focusing on a detailed review of the way in which the Agency operates, recommended that the existing regime of corporate governance should be strengthened to ensure that good corporate governance could be clearly demonstrated. The Agency, having accepted these recommendations, has put a strategy in place to build upon the existing regime of corporate governance and, recognising the small size of the organisation, to produce a system, which demonstrates the good corporate governance of the Agency in a manner that is fit for purpose and represents best value for taxpayers' money.

Considerable progress in the implementation of this strategy has been made during the year. In particular, building upon the processes already in place as set out above, the Agency has

- put the Audit committee of the Agency onto a formal footing with an independent Member of the Agency acting as Chairman of the Audit committee;
- started, through the Audit committee, a top-down audit by department of procedures and processes in place for completeness and correctness, so that they can be revised as appropriate; and
- initiated a strengthening of the risk management system by the development of a formalised internal controls framework document.

The overall findings of MoD's progress review, conducted one year on from the issue of the phase 2 report of the Quinquennial Review of the Agency, were that the Agency had made good progress, despite significant pressures arising from normal day-to-day business, and that the Chief Executive has tackled enthusiastically the issues arising from stage 2. Considerable progress has been made towards the undertaking of an external review of processes and procedures which will identify any enhancements or changes necessary in the light of good practice and against the requirements of good governance.

Review of effectiveness

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

Dr JDC Vardon 7 July 2005
Chief Executive and Accounting Officer

Profit and Loss Account for the year ended 31 March 2005

	Notes	**2005**	2004
		£000	£000
Turnover	2(b)	**1,625**	1,974
Operating and administrative expenses	4	**(1,776)**	(1,972)
Notional costs - cost of capital	7	**(199)**	(190)
Operating (loss) after notional costs		**(350)**	(188)
Interest receivable	8	**226**	187
Other finance income	14	**70**	2
(Loss) profit on ordinary activities before taxation		**(54)**	1
Tax on (loss) profit on ordinary activities	10	**(35)**	(38)
(Loss) on ordinary activities after taxation		**(89)**	(37)
Reversal of notional costs	7	**199**	190
Profit after reversal of notional costs		**110**	153

All operations undertaken during the year are continuing.

Statement of Total Recognised gains and losses for the year ended 31 March 2005

	Note	**2005**	2004
		£000	£000
Profit after reversal of notional costs		**110**	153
Actuarial (loss) gain recognised in the pension scheme	14	**(272)**	266
Deferred tax arising on (loss) gain recognised in the pension scheme		**52**	(51)
Total recognised gains and losses relating to the year		**(110)**	368

The accompanying notes on pages 17 to 24 form part of these accounts.

Balance Sheet at 31 March 2005

	Notes	2005 £000	2004 £000
Fixed assets	9	**195**	84
Current assets			
Debtors	11	**162**	137
Cash at bank and in hand		**4,905**	4,991
		5,067	5,128
Creditors: amounts falling due within one year	12	**(129)**	(135)
Net current assets		**4,938**	4,993
Total assets less current liabilities excluding pension asset		**5,133**	5,077
Pension asset	14	**505**	671
Net assets		**5,638**	5,748
Represented by			
Contributed capital	1(a)	**2,380**	2,380
Profit and loss account	15	**3,258**	3,368
		5,638	5,748

Dr JD Hastie
Chairman
7 July 2005

Dr JDC Vardon
Chief Executive
7 July 2005

The accompanying notes on pages 17 to 24 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2005

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

	2005 £000	2004 £000
Operating (loss) after notional costs	**(350)**	(188)
Depreciation charges	**41**	38
Loss (profit) on disposals of fixed assets	**9**	(4)
Pension fund charge (note 14)	**152**	128
Notional costs	**199**	190
(Increase) decrease in debtors	**(82)**	230
(Decrease) in creditors/provisions	**(6)**	(97)
Net cash (outflow) inflow from operating activities	**(37)**	297

Cash flow statement

	2005 £000	2004 £000
Net cash (outflow) inflow from operating activities	**(37)**	297
Returns on investments and servicing of finance (note 17)	**226**	187
Pension contributions paid	**(149)**	(887)
Taxation refunded (paid)	**35**	(38)
Capital expenditure (note 17)	**(161)**	(25)
Management of liquid resources	**0**	2,700
(Decrease) increase in cash	**(86)**	2,234

Reconciliation of net cash flow to movement in net funds (note 18)

	2005 £000	2004 £000
Net funds at 1 April	**4,991**	5,457
(Decrease) increase in cash	**(86)**	2,234
(Decrease) in liquid resources	**0**	(2,700)
Net funds at 31 March	**4,905**	4,991

Notes to the Accounts

1 The Agency

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

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

c The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to the Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence. This Accounts Direction is reproduced on page 25.

2 Accounting policies

a Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. Modified historical cost accounts, as required by the Treasury, are not presented since they would not be materially different from the historical cost accounts shown on pages 13 to 16.

b Turnover

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

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

c Depreciation

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

	Annual rate (%)
Computers	33
Other electronic equipment	25
Other office furniture	10
Motor vehicles	25
Leasehold improvements	Over the lesser of ten years and the life of the lease.

d Pension costs

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

e Taxation

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

f Leases

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

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

Statutory borrowing limit

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

4 Operating and administrative expenses

Operating and administrative expenses include

	2005	2004
	£000	£000
Depreciation	**41**	38
Auditors' remuneration: Audit	**7**	7
Operating leases - land and buildings	**302**	711

5 Emoluments of Members and Chief Executive

The emoluments of non-executive Members are as follows

		2005	2004
		£000	£000
Dr JD Hastie Chairman	(aged 60)	**10**	10
JC Morgan	(aged 60) Retired 7 July 2004	**1**	4
Air Commodore AC Spinks	(aged 52)	**0**	0
F Dobbyn	(aged 57) Appointed 8 July 2004	**5**	0
MJ Burrett	(aged 58) Appointed 8 July 2004	**5**	0
Aggregate emoluments of non-executive Members		**21**	14

The Agency has not made any pension contributions in respect of non-executive Members.

The remuneration during the year of the Chief Executive and executive Member from 8 July 2005 (aged 56) was £94,000 (2004: £89,000) and taxable benefits, derived from medical care and the use of a car, were £6,000 (2004: £5,000). The Chief Executive is a member of the Oil and Pipelines Retirement Benefits Plan and, during the year, accrued a real increase in pension payable of £3,000 per annum and had a total accrued pension payable at normal retirement age of between £35,000 and £40,000 per annum at 31 March 2005 (2004: range £30,000 to £35,000). His cash equivalent transfer value increased from £493,000 at 1 April 2004 to £587,000 at 31 March 2005 representing a real increase after adjustment for inflation and changes in market investment factors of £43,000.

6 Employees

The average number of permanent employees, including Members, during the year was 23 (2004: 21) and the number of employees at 31 March 2005 was 23 (2004: 22). In respect of these employees

	2005	2004
	£000	£000
Total remuneration paid or payable	**808**	739
Social security costs incurred by the Agency	**78**	71
Pension costs (note 14)	**152**	128
	1,038	938

7 Notional costs

The Treasury Accounts Guidance requires a notional cost of capital to be included in the profit and loss account to represent the opportunity cost to the Exchequer of the assets employed by the Agency. Notional costs of capital have been calculated at 3.5% of the average capital employed (2004: 3.5%).

8 Interest

	2005	2004
	£000	£000
Interest receivable arising from short-term deposits and balances on current accounts	**226**	187

9 Fixed assets

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

	Leasehold improvements	Office furniture	Office equipment and computers	Motor vehicles	**Total**
	£000	£000	£000	£000	**£000**
Cost					
At 1 April 2004	57	67	162	30	**316**
Additions	131	1	29	0	**161**
Disposals	(57)	(17)	(48)	0	**(122)**
At 31 March 2005	131	51	143	30	**355**
Depreciation					
At 1 April 2004	46	41	135	10	**232**
Charge for year	11	6	17	7	**41**
Disposals	(49)	(16)	(48)	0	**(113)**
At 31 March 2005	8	31	104	17	**160**
Net book value					
At 31 March 2005	123	20	39	13	**195**
At 31 March 2004	11	26	27	20	**84**

10 Tax on profit on ordinary activities

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

	2005 £000	2004 £000
Current tax		
UK corporation tax on profits for the year	**21**	61
Adjustment in respect of prior period	**1**	0
Total current tax	**22**	61
Deferred tax		
Pension asset (liability) adjustment	**13**	(23)
Total tax on profit on ordinary activities	**35**	38

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

	2005 £000	2004 £000
(Loss) profit on ordinary activities before tax	**(54)**	1
Corporation tax		
(Loss) profit on ordinary activities multiplied by small company rate of corporation tax of 19% (2004: effective rate 19%)	**(10)**	0
Effects of		
Expenses not deductible for tax purposes	**5**	1
Non taxable notional charge	**38**	36
Non taxable pension asset costs less credit	**15**	24
Capital allowances for period in excess of depreciation	**(2)**	0
UK corporation tax on profits for the year	**46**	61
UK corporation tax refund on pension contributions to pension asset	**(28)**	(168)
Timing difference on one-off additional pension contribution deferred tax	**(71)**	71
Timing difference as trading loss carried forward as deferred tax asset	**53**	0
UK corporation tax (receivable) within 12 months at 31 March	**0**	(36)

11 Debtors

	2005 £000	2004 £000
Trade and other debtors	**52**	12
Prepayments	**62**	20
Corporation tax refund (note 10)	**0**	36
Deferred tax asset (falling due after more than one year)	**48**	69
	162	137

12 Creditors: falling due within one year comprise

	2005	2004
	£000	£000
Trade and other creditors	**37**	15
Accruals and deferred income	**21**	32
Other taxation and social security	**71**	88
	129	135

13 Commitments

a Capital commitments

At the end of the year there were no capital commitments authorised (2004: Nil).

b Office leasehold

During the year the Agency moved office premises and in the process surrendered a lease that was due to expire in December 2005 and entered into a new lease which will expire in 2015 and has a break clause after five years. There is now an annual commitment to pay rent of £133,000 (previously £271,000) and a variable service charge.

14 Retirement benefits plan

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

An actuarial valuation of the Plan was carried out at 5 April 2003 and indicated that the value of the assets had fallen to a level of 74% of the value placed upon the liabilities. However, following a revised level of employer contributions from January 2003, a one off additional employer contribution in July 2003 and a recovery in the equity market, assets had risen to be in excess of liabilities by the date of completing the report in December 2003. A review of the options available, prompted by the valuation, resulted in the Agency and the Trustee deciding to maintain the existing defined benefits scheme and to maintain the level of contributions of the Agency and employees at 20% and 5% respectively. A further actuarial valuation will be carried out as at 5 April 2005.

Financial Reporting Standard 17 (FRS 17) - retirement benefits

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

Actuarial assumptions

A qualified independent actuary carried out an actuarial assessment as at 31 March 2005 and the major assumptions used were

	2005	2004
Inflation rate	**3.0%**	3.00%
Rate of increase in salaries	**4.0%**	4.00%
Rate of increase in pensions in payment	**3.0%**	3.00%
Discount rate for liabilities	**5.5%**	5.75%

Charge to the profit and loss account

Profit and loss account has been charged as follows

	2005 £000	2004 £000
Current service cost	**(152)**	(128)
Past service cost	**0**	0
Amount charged to operating (loss) (note 6)	**(152)**	(128)
Expected return on scheme assets	**212**	114
Interest on scheme liabilities	**(142)**	(112)
Amount credited to (loss) profit before taxation as other finance income	**70**	2
Amount charged to (loss) profit before taxation	**(82)**	(126)

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

	2005	2004
Actuarial return less expected return on assets	**201**	406
Experienced gains and losses on liabilities	**(68)**	(28)
Changes in assumptions	**(405)**	(112)
Actuarial (loss) gain	**(272)**	266

Balance Sheet pension asset

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

	2005	2005 £000	2004	2004 £000
Equities	**6.50%**	**3,204**	6.75%	2,672
Bonds	**4.75%**	**404**	5.00%	381
Cash	**4.00%**	**202**	4.00%	159
Total fair value of assets		**3,810**		3,212
Present value of liabilities		**3,186**		2,383
Surplus in the scheme		**624**		829
Related deferred tax (liability)		**(119)**		(158)
Net pension asset		**505**		671

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

	2005 £000	2004 £000
Surplus (deficit) in the pension scheme at 1 April	**829**	(198)
Current service cost	**(152)**	(128)
Contributions to the scheme	**149**	887
Net return on assets	**70**	2
Actuarial (loss) gain	**(272)**	266
Pension scheme asset before taxation at 31 March	**624**	829

History of experience gains and losses

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

15 Profit and loss account reserve

	Profit and loss account £000	Pension reserve £000	**Total £000**
At 1 April 2004	2,697	671	**3,368**
Total recognised gains and losses for the year	56	(166)	**(110)**
At 31 March 2005	2,753	505	**3,258**

16 Contingent liabilities

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

At 31 March 2005 there were no contingent liabilities recorded (2004: Nil).

17 Gross cash flows

	2005 £000	2004 £000
Returns on investments and servicing of finance		
Interest received	**226**	187
Capital expenditure		
Payments to acquire tangible fixed assets	**(161)**	(29)
Receipts from disposals of tangible fixed assets	**0**	4
	(161)	(25)

18 Analysis of changes in net funds

	At 1 April 2004 £000	Cash flows £000	**At 31 March 2005 £000**
Cash at bank and in hand	4,991	(86)	**4,905**

19 Related party transactions

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

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

20 Financial instruments

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

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

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

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

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

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

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

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

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

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

Signed by authority of the Secretary of State for Defence

G Hoon 3 March 2004

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

I certify that I have audited the financial statements on pages 13 to 24 under the Oil and Pipelines Act 1985. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 17 and 18.

Respective responsibilities of the Agency and Auditor

As described on page10, the Agency is responsible for the preparation of the financial statements in accordance with the Oil and Pipelines Act 1985 and directions made thereunder by the Secretary of State for Defence and for ensuring the regularity of financial transactions. The Agency is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

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

I review whether the statement on pages 11 and 12 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by HM Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Oil and Pipelines Agency at 31 March 2005 and of the loss, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Oil and Pipelines Act 1985 and directions made thereunder by the Secretary of State for Defence; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

11 July 2005

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