



**People, Pay  
and Pensions  
Agency**

*'Putting People First'*

# **Annual Report and Accounts 2007/2008**





# Annual Report and Accounts



**People, Pay  
and Pensions  
Agency**

Presented in Parliament in pursuance to the

Government Resources and Accounts Act 2000

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## Chief Executive's Statement

The People, Pay and Pensions Agency was launched in 2006. In April 2008 we reached our full operating capability, providing a full range of shared services to civilian staff and their managers in the Ministry of Defence, for all their people related tasks from joining to leaving.

We have achieved the targets set by the Department when it approved the programme in 2005 for major change in the delivery of HR services. Most notably, along with the new services launched during the year, we have delivered a new civilian payroll system and we are one of the first organisations to have been awarded the new Customer Service Excellence standard launched earlier in 2008.

But that is just the start. Others' experience suggests that it takes a number of years from putting shared services in place to taking them to maturity. Many rules and processes are not yet simple enough to support the kind of confident self-service we aim to promote. Many transactions are not yet fully automated. And our services are sometimes separate, not yet providing a fully integrated experience.

We have been reviewing our vision for the Agency's future. At its heart is the idea that we are here to make it possible for our customers to do their people related tasks themselves, simply and well. So our success will be judged by theirs: whether managers and staff make better staff-related decisions, and therefore make the best contribution to Defence.

We are now embarking on a maturity programme for the next four years to take us to a deeper level of effectiveness and efficiency. Our challenge is to achieve that plan while meeting the service standards set by our customers. There are wider reviews too that may affect us significantly, including those by the Cabinet Office into civil service pensions delivery, and by the Ministry of Defence into its future strategy for shared services. But whatever the impact of wider developments, we will need to take what we currently do to the next level.

The Agency's staff are rightly proud of what has been achieved to date; and their achievements give me every confidence that we can face up to the future challenges and deliver a shared service experience of real benefit to our customers.



David Ball  
Chief Executive  
7th July 2008

# Management Report for Financial Year 1 April 2007 to 31 March 2008

## 1. The Agency

### Our Purpose

We provide a comprehensive and integrated personnel service for Ministry of Defence civilian staff and their line managers, which is also available in whole or part to other customers on repayment.

### Our Part in Defence

We are part of the Ministry of Defence working with other parts of the Department, primarily the Corporate Services area of which we form a part.

Our services help the Defence effort by

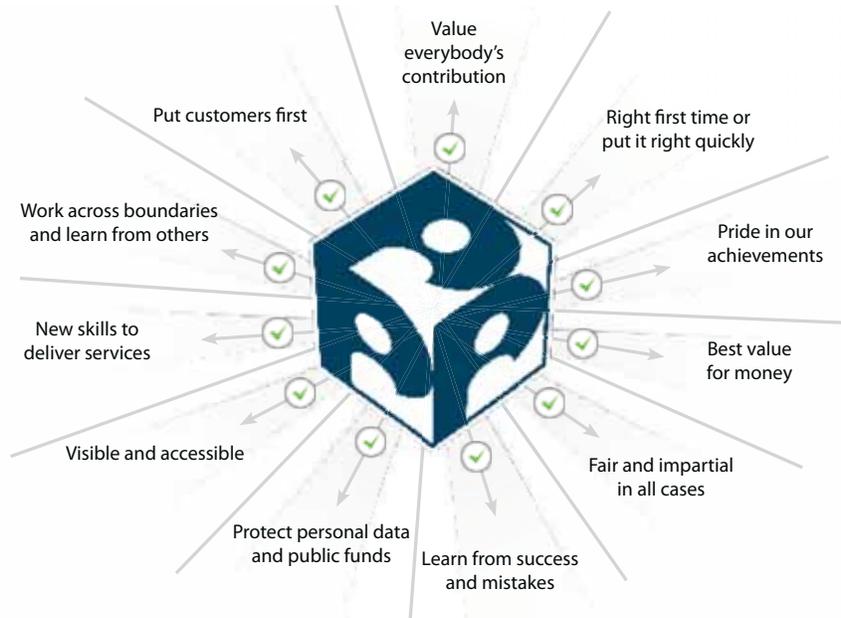
- Improving the experience of working in Defence
- Freeing staff and their managers to focus more on their core business, less on administration
- Providing the tools to help managers and staff improve their skills and performance
- Keeping administration costs to the minimum so as much Defence resource as possible goes to the front line
- Promoting the support to military operations by civilian staff



### Agency Development Programme

Candidates meeting during the launch of the Agency's Band D/C2 Development Programme.

**Our values and ideals**



**The Board members as at 31st March 2008 were:**



**David Ball**  
**Chief Executive**  
 Responsible for the management of the Agency and accountable to the Owner (the MOD Personnel Director).



**John Quinn**  
**Deputy Chief Executive**  
 Delivering services in accordance with the Service Level Agreement including a People Services Centre providing a first point of contact for all customers; specialist business and support offices; and management of customer issues and relations.



**Dave Wealthall**  
**Director, System Exploitation**  
 Ensuring that the Agency makes best use of systems and infrastructure to support the business. Joined Board 1st Oct 2007



**Tony Maynard**  
**Director, Corporate Development**  
 Providing corporate planning, finance, HR business partner, communications and risk support to the Board; developing the Agency in the wider HR and shared services environment and markets.



**Caroline Rumming**  
**Director, Service Integration**  
 Supporting the continuous improvement and integration of the Agency's services. Providing effective management information and a knowledge base to support our documented processes. Ensuring effective management of all change. Joined Board 1st Oct 2007



**Shelagh Owen**  
**Director, Customer Service**  
 Leading and managing the Agency's customer facing operation to deliver the agreed service portfolio; reporting against the agreed service levels and managing the customer relationship, including direct liaison with MOD policy leads, individual customers and repayment customers to ensure issues are properly resolved; responding to customer complaints and issues. Joined Board 1st Oct 2007



**Margaret Savage**  
**Non-Executive Director**  
 Independent advice and assurance, chair of Audit Committee.

## How we manage ourselves

The plans and strategic direction of the People, Pay and Pensions Agency are managed by a board consisting of the Chief Executive and his directors. The primary role of the Board is the identification and setting of Agency key and business performance targets through the Corporate Planning process, assessment of the risks to the achievement of those targets and the regular monitoring of performance against them. The composition of this Board reflects the importance, both to the Agency and the Department, of the successful implementation of the Human Resources services modernisation programme, part of the MOD's wider People Programme.

The appointment of the Agency Chief Executive is governed by the processes set out in the Civil Service Management Code.

No member of the Management Board holds any directorships or has any other significant interests which may conflict with their management responsibilities.

This Management Board is supported by a number of subsidiary boards that each deal with areas of specific interest to the Agency. Examples of these boards are the Finance Board, which meets to consider the financial position of the Agency, to take reports from the Audit Committee and to decide on the financial policy of the Agency, and the People Board which deals with all aspects of Agency operations that impact on the people it employs. These boards are attended by some or all of the Directors and are supported by senior Agency managers specialising in the subject.

The Agency's Owner, the Personnel Director for the Ministry of Defence, is supported by an Advisory Board comprising senior officials of the MOD, whose prime responsibility is to support the Owner in meeting his responsibilities on behalf of the Secretary of State for Defence. This Board meets on, on average, three times a year to review the Agency's targets, plans and performance, advise on resources, and represent the interests of the Agency's customers.

The Management Board includes a non-executive member from the private sector. The Management Board is chaired by the Agency Chief Executive, supported by the Deputy Chief Executive and his Directors.

During the year Derek Bunting retired from the MOD (September 2007) and Douglas Looman transferred out of the Agency (January 2008)

A fuller description of the policy for the management of the Agency and the risks attending its operations is set out in the Statement on Internal Control that accompanies this report and accounts.



### PPPA Staff Conference 2008

Roger Black, former Olympic athlete gives a motivational speech at the PPPA Staff Conference 2008. The theme for the 2008 Conference was 'Looking back, Moving forward' and focussed on the PPPA Maturity Programme and the challenges ahead

## **Our recruitment and employment policy**

Recruitment into the Agency is governed by the Civil Service Order in Council 1995, and is in accordance with the Civil Service Commissioners' Recruitment Code.

In accordance with the Order and the Code, every person appointed to a post in the Agency is selected on merit on the basis of fair and open competition, regardless of race, gender or, subject to the requirements of the job, disability. Facilities and special equipment are provided for disabled staff and appropriate training arranged.

Staff joining the Agency from elsewhere in the Ministry of Defence or Civil Service are appointed through internal competition or managed postings following the rules and policies of the Ministry of Defence.

## **Our policy on staff involvement**

Involvement of all staff is central to the management philosophy of the Agency. The Agency is fully accredited as an Investor in People organisation. Staff are kept informed through regular staff meetings, monthly team briefs, an in-house magazine, the corporate intranet and an annual staff conference. They are encouraged to contribute ideas for improvement through the MOD's GEMS staff suggestion scheme and a Junior Management Board. Formal and informal discussions take place with trades unions, mainly through the regular meetings of the Functional and Official Whitley Committees.

## **Our policy on payment of creditors**

Apart from a very small number of low value payments, all invoices due for payment by the agency are cleared by the MOD central bill-paying authority, the Financial Management Shared Service Centre (FMSSC), formerly the Defence Bills Agency (DBA). Following implementation of the Late Payment of Commercial Debt (Interest) Act 1998, the FMSSC has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.8% in 2007/08. No interest payments arose.

## **Post Balance Sheet Events**

Full Details are provided in Note 15 to the Accounts.

## **Auditors**

The accounts of the Agency are audited by the Comptroller and Auditor General under Section 7 (3) of the Government Resources and Accounts Act 2000. The notional cost of the statutory audit is £30,000. In preparing for the audit of the 2007/08 Accounts of the People, Pay and Pensions Agency I have ensured:

- that there is no relevant audit information of which the auditors are unaware,
- that I have taken all necessary steps to make them aware of relevant audit information,
- that I have taken all the necessary steps to establish that the auditors are aware of the information.

## 2. Remuneration Report

The salary and pension entitlements of Agency senior managers during the period of these accounts were :  
[this information is subject to audit]

	Salary, including performance pay 2007/08 £k	Real Increase in pension and related lump sum at age 60 £k	Total Accrued pension at age 60 at 31/03/08 and lump sum £k	CETV at 31/03/2007 nearest £k	CETV at 31/03/2008 nearest £k	Real increase CETV after adjustment for and changes in market investment factors (nearest £k)	Employer contribution to partnership pension account including risk benefit cover to nearest £100	Salary, including performance pay 2006/07 £k
<b>David Ball</b> Chief Executive	100 - 105	0.0 - 2.5 plus 2.5 - 5.0	25.0 - 30.0 plus 85.0 - 87.5	423	513	21	Nil	95 - 100
<b>John Quinn</b> Deputy Chief Executive	140 - 145	0.0 - 2.5 plus N/A (Premium)	2.5 - 5.0 plus N/A (Premium)	31	61	22	Nil	115 - 120
<b>Tony Maynard</b> Director of Corporate Development	60 - 65	0.0 - 2.5 plus 0.0 - 2.5	20.0 - 22.5 plus 65.0 - 67.5	347	409	6	Nil	55 - 60
<b>Derek Bunting</b> (Retired Sept 30, 2007) Director of Information Services	55 - 60	0.0 - 0.0 plus 0.0 - 0.0	25.0 - 27.5 plus 75.0 - 77.5	549	564	N/A	Nil	55 - 60
<b>Douglas Looman</b> (Ceased Jan 07, 2008) Director of HR Service Delivery Modernisation	50 - 55	0.0 - 2.5 plus 0.0 - 2.5	22.5 - 25.0 plus 70.0 - 72.5	376	429	6	Nil	60 - 65
<b>David Wealthall</b> (Started Oct 01, 2007) Director of System Exploitation	35 - 40	0.0 - 2.5 plus 0.0 - 2.5	32.5 - 35.0 plus 97.5 - 100	794	843	2	Nil	N/A
<b>Shelagh Owen</b> (Started Oct 01, 2007) Director of Customer Service	20 - 25	0.0 - 2.5 plus 5.0 - 7.5	17.5 - 20.0 plus 55.0 - 57.5	356	437	45	Nil	N/A
<b>Caroline Rumming</b> (Started Oct 01, 2007) Director of Service Integration	25 - 30	0.0 - 2.5 plus 0.0 - 2.5	17.5 - 20.0 plus 57.5 - 60.0	323	375	11	Nil	N/A

In the above table, salary is the amount paid in year and is not annualised. Due to certain factors being incorrect in last years CETV calculator there may be a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

The Agency also employed a non-executive Director, Margaret Savage, on a consultancy basis to help develop the Agency's corporate governance processes. Ms Savage's remuneration for the period was £17,850 (2006/07 £12,600).

In the above table, 'Salary', in bands of £5,000, includes gross salary; performance pay or bonuses (paid in-year but based on performance in an assessment period ended prior to the start of the financial year); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that is subject to UK taxation. It also includes the monetary value of any benefits in kind received. Benefits in kind covers any benefits provided by the employer and treated by the HMRC as a taxable emolument. None of the above received any benefits in kind during either year.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus) or a 'whole career' scheme (nuvos). Classic, premium and classic plus are now closed to new members. These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under nuvos, classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index (RPI). Recent entrants to premium (after 1 October 2002) and nuvos (from 30 July 2007) may choose between membership of the scheme or joining a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account). The accrued pensions quoted above are the pensions the members are entitled to receive when they reach 60 (nuvos 65), or immediately on ceasing to be an active member of the scheme if they are already 60 (nuvos 65).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service; in addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service; unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in Premium. In nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (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, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary 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).

The table shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The 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.

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 and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service 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 frame work prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

### 3. Financial Review

During the year the agency consumed net resources of £54.6M (2006/07: £48.5M). This has been charged to the Agency's General Fund. The resources were consumed in meeting the Agency's obligations and commitments to the Department and to other Government Departments, which included:

- meeting its Service Level Agreement commitments to Director General Civilian Personnel as the Agency's principal customer;
- fulfilling its obligations to Cabinet Office as an Authorised Pensions Administration Centre for the Principal Civil Service Pension Scheme and as a payroll provider;
- developing new processes and business structures to meet the requirements of the MOD's People Programme;
- continuing the development and implementation of the new payroll systems;
- implementing the new IS systems required to improve the Agency's capacity to sustain electronic business processes across the Department and ensure resilience against systems failure.

During the period a total of £3.0M was expended on new fixed assets, predominantly on the final stages of the construction of the new payroll systems.

The accounts of the Agency represent the resources employed in delivering the payroll, pensions and HR shared services required under the Service Level Agreement with MOD and in the development of new payroll and HR service delivery processes. The accounts do not include the payroll costs of the MOD's civilian workforce, nor do they include the assets and liabilities accruing to the MOD that are a result of the operation of the payroll and pensions processes other than those employed in the delivery of the service. Details of the pension arrangements for the Agency's own employees are shown in the Remuneration Report and in note 2 of the attached accounts.

## 4. Operating Review

The Agency's Corporate Plan for 2007/08 addressed the targets and challenges to be faced under four headings: delivering results, reputation, how we work and the future. This review will use these headings along with the subdivisions within them to demonstrate the agency's operating performance during the year.

### Delivering Results

#### Value for Money

The key unit cost targets for the delivery of the services taken over from the Pay and Personnel Agency were all met by the end of the year. The pay and claims targets, a percentage reduction in real cost compared to 2004/05, were substantially exceeded. The pensions target, however, was only just achieved due to the additional resources needed in the short term to manage the effects of the migration to the new payroll system and the additional demands placed on the business by pensions reforms. The unit costs of a number of the Agency's new services have been shadowed during the year and will become part of the key target in 2008/09.

#### Promised Service Levels for Established Services

For the pay service timeliness and accuracy targets have largely been met. The pay office, however, has been under sustained pressure as a result of issues generated by the newly automatic interface between the HR system and the new payroll system. These resulted in some increase in the number of customer queries, emergency payments and overpayments. The target for paper based claims was narrowly missed due to the increased number of claims being submitted on paper resulting from the unavailability of on-line forms during the roll-out of the new payroll system. For the reasons mentioned above, the pensions targets were also very narrowly missed. Internal recruitment achieved 77% timeliness against a target of 95%, but even this has required higher than planned staffing. Improvement of this level will be addressed by a deep review of the process in 2008/09.

#### Promised Service Levels for New Services

In the Health, Welfare and Conduct area, the new case advisory service was successfully launched for new cases in April 2007 and was extended to be all cases by October 2008. Transition to the new service was seamless, although case volume proved higher than planned and had a particular effect on the timeliness of harassment and grievance cases.

Following the pilot with the Air Force in February 2007, the service for external recruitment of main Civil Service grades was successfully extended to the whole department in June 2007. A number of issues with the external recruitment website affected the quality service for a period, but have been resolved.

The initial Casualty Clearing Information System service was successfully launched in September 2007. This service provides 24 hour access to MOD Civilian business continuity and welfare information.

The Support to Operations (S2O) service was launched in December 2007 with full capability on track to be available from April 2008. The service provides a transactional recruitment service and support for individuals who wish to apply for civilian posts in operational theatres and reflects close co-operation with Permanent Joint Headquarters of the Ministry of Defence.

#### Responsiveness and Availability

The People Service Centre (PSC) managed around 60,000 calls a month, including an increase of some 20% in calls relating to pay. Some 50% of calls were answered within the target time of 20 seconds, well below the 80% target, with higher than intended querying time particularly at peak periods. A substantial package of work reviewing all aspects of the PSC operation is in progress, and on track to return performance to full target levels by October 2008. In November 2007 a new call steering option for customers was introduced. The overall responsiveness target of responding to 90% of enquiries within 10 days was met and we also achieved our PSC availability target.

We achieved 95.9% for our on-line services. Availability was affected by the need to take our services down to allow three phased migrations of records to our new payroll system. Excluding these unavoidable outages, the on-line services achieved the availability target mainly due to carrying out as much maintenance work as possible out of hours to minimise disruption to customers. However, because of a number of technical issues, our external website was available for 96.2% of the time against a target of unbroken availability.

## Reputation

### Customer Satisfaction

Two PPPA customer satisfaction survey questionnaires were launched in January 2008: one covering pay, pensions and expenses services and the other covering HR services. The results showed that the level of satisfaction in pay, pensions and expenses remained high at 78%. From late 2006 until late 2007, the Agency completely replaced the Department's payroll system. The changeover was one of the largest and most complex project of its kind that our commercial partner, IBM, had ever undertaken. That we delivered this without adversely affecting customer satisfaction with service is a major achievement. Satisfaction with our HR Services also increased to 62%. Although customers do not yet consider these services to be wholly satisfactory, levels of satisfaction match those in 2004 where the service provided before the move to shared services was well established, integrated and mature. This gives the Agency real confidence that satisfaction levels will increase significantly as our maturity programme is delivered.

### Staff Involvement and Satisfaction

We have delivered a range of initiatives, which in many cases were suggested by our staff themselves at Staff Conferences and Roadshows run by the Deputy Chief Executive. In September, the first meeting of our Junior Management Board was convened and included representatives from all grade levels across the Agency. The group were tasked to deliver specific pieces of work by the Management Board including a review of our Staff Survey results and the Agency Charter.

We launched the "Ask CE" facility on our corporate intranet to enable staff to raise questions and issues directly with the Chief Executive. This has proved to be popular with staff. We have also taken the opportunity to revitalise the GEMS Staff Suggestion scheme to encourage greater participation amongst staff.

We have also improved the cascade of information to our staff through improved monthly team briefs, regular issues of "People Talk" which supplements our in-house corporate journal "PPPA News" and a booklet which provides staff with details of all business areas, their roles and responsibilities and details of the senior management teams in each area. Our staff satisfaction survey demonstrated a continuing high level of staff engagement against a background of sustained change in a new organisation.

### Customer Service Excellence

The Agency was awarded the Cabinet Office's new customer standard - Customer Service Excellence - in March 2008. Our decision to be assessed at a time when the Agency was not yet fully operational was commended by the lead assessor. We were also successful in our application to become a Standard Bearer for the new standard.

### Environment

During 2007/08 the Agency was subject to its regular 6 month re-assessment, under the ISO14001 environmental standard. Accreditation for all three PPPA sites was successfully retained. We also achieved an 8% reduction in paper consumption and a 0.6% reduction in electricity.

## How We Work

### Improve and integrate business processes

Following a full assessment in November 2007 by our external assessors the Agency's current ISO 9001 accreditation was maintained and extended to cover all of our services.

We have introduced the concept of Lean across the Agency with the Leavers team and Internal Recruitment being the first areas to be reviewed. This has proved very effective and provides a basis on which to build a genuinely integrated process model for the maturity programme.

### Complete roll-out of new systems and infrastructure

Migration to the CHRIS infrastructure platform was completed in November 2007.

The new CHIPS pay system successfully replaced the old Non-Industrial pay system in July 2007 and is now operating with over 95,000 employees, across 9 separate payrolls. The successful delivery of the project on time and within cost and quality targets was a significant achievement. We have been undertaking a continual programme of knowledge transfer to reduce our dependency on contractors and consultants and prepare our staff for the fuller role in support of the new pay system in the future. The interface with the Cabinet Office Penserver pensions system remains an issue and manual workarounds have had to be introduced. This affected our timeliness and accuracy of pensions awards. A project has also been established to resolve the quality of data on HRMS which the pay system now depends on directly.

### **Develop further e-enablement**

We have established a project to support the management of documents and records relating to our customers. An Electronic Data and Records Management (EDRM) capability has been rolled out to all HR Services.

The difficulty of accessing and navigating a wide range of policy and other documents in real time poses a major challenge to our staff in the PSC. To improve this we launched an interim Knowledge Base. A formal project was initiated to look at Knowledge Management across all the Agency businesses. The implementation phase of the project started in February 2008 and it is planned that a pilot will be launched in July 2008.

The numbers of IS support contracts has been rationalised from 14 to 2. This has increased significantly our clarity over responsibility for resolving issues on our IS systems.

### **Data Protection and Information Security**

The Agency expects the publication of the Hannigan Report to have major implications on the way that we currently manage data. The report is expected to be finalised in 2008. A number of work packages are already underway on bulk data transfers, laptops and mass media storage.

The Agency has committed to achieving the Information Security Management Standard (ISO 27001) and has undertaken a gap analysis which will be turned into a detailed action plan.

From November 2007 all PPPA staff have been required to complete mandatory Data Protection training. On completion, all staff are required to sign a Confidentiality Agreement demonstrating our commitment to the proper management of personal information. We have also introduced a requirement for all visitors to the Agency, both MOD and non-MOD, to sign a Visitors Confidentiality Agreement.

## **The Future**

### **Strategic direction**

As the Agency moved towards Full Operating Capability in 2008, it recognised the importance of understanding how to move from delivering the full set of HR Services to turning them into an integrated and mature service with high levels of effectiveness and efficiency. The Agency undertook a study in 2007 and early 2008, working closely with external experts and other stakeholders, to understand and define our vision and establish a Blueprint for achieving that vision by 2012. The Blueprint was completed in March 2008 and endorsed by the Owners Advisory Board. It has now developed into a series of project proposals that will be taken forward over the next four years as our Maturity Programme.

## 5. Performance Review

### Review of Performance Against Key Targets 2007/08

#### Value for Money

##### **Key Target 1**

*Reduce unit costs in real terms for Service Level Agreement tasks compared to 2003/04:*

<i>Salary payments</i>	<i>15%</i>
<i>Expenses payments</i>	<i>43%</i>
<i>Pension awards</i>	<i>25%</i>

We maintained our consistent record of reducing the unit costs for our salary payments (25%), pension awards (26%) and expenses payments services (65%). Our cost reporting system provides the Agency with a robust understanding of our costs (overheads, indirect costs and direct costs) related to these key business outputs. From April 2008 our Key Target covers unit cost performance for the majority of PPPA services (people service centre, recruitment, development, pay, performance, reward, working patterns, leavers/pensions, health, welfare, conduct, new service design).

#### Promised Service Levels

##### **Key Target 2**

*Achieve Key Performance Indicators for timeliness and accuracy for established services.*

In addition to the services we provide for salary payments, expenses payments and pension awards, we extended the measurement of timeliness and accuracy to include the new services we provide including internal recruitment, the advice we provide and the accuracy of a range of HR transactions. The performance of the civilian pay system was maintained (99.9% timeliness, 98.9% accuracy) despite the necessary work and changes required to support the final transition to and full operation of the new system which was completed in July 2007. However, the migration to the new pay system did have data implications, particularly with the interface with the Cabinet Office Penserver pensions system, which did impact on the Agency's ability to meet its targets for pension awards (99.4% timeliness, 96.8% accuracy). The timeliness of the new internal recruitment service is reported at 77% however, this shortfall against our target of 95% can be partly attributed to the methodology adopted for measurement which included elements outside the control of the PPPA. This has been reviewed for 2008/09. We achieved the targets set for accuracy of advice (97%) and transactions (98%).

##### **Key Target 3**

*Achieve In-Service Date in June 2007*

The range of services planned to be operational by June 2007 were in place following the full roll out of the external recruitment service. These services were underpinned by a Service Level Agreement.

## Responsive and Available

### **Key Target 4**

*Achieve Key Performance Indicators for responsiveness and availability*

Our targets for responsiveness on implementing changes and dealing with issues and enquiries were both met. We achieved 96.2% for availability of the external website against a target of 99.9%. The shortfall was due to technical issues. We achieved 95.9% for our on-line services against a target of 98.5%. Availability was affected by the need to take our services down to allow three phased migrations of records to our new payroll system. This minimised the impact of the roll out of the new payroll system to our customers. Without this unavoidable downtime, we would have exceeded the target of 98.5%

## Excellent Customer Experience

### **Key Target 5**

*Extend Charter Mark to whole Agency by March 2008*

The PPPA was awarded full certification for the new Cabinet Office Customer Service Excellence standard in March 2008. We also successfully applied to become a Standard Bearer for the new standard and a number of public sector organisations have already contacted us for feedback on the pre-assessment process.

### **Key Target 6**

*Demonstrate higher customer satisfaction*

The results of the January 2008 staff satisfaction survey showed that levels of satisfaction in pay, pensions and expenses rose to 78% but was slightly below our target of 79%. It was a significant achievement to maintain satisfaction given the roll out of the new pay system. Satisfaction with our HR services increased to 62.2%, achieving our target of 62% although we recognise that levels are not yet satisfactory.

## Cutting Edge Systems

### **Key Target 7**

*All main MOD accounts on new pay system.*

Following the successful launch of the new civilian pay system in April 2006 we successfully completed the final phase of implementation with some 95,000 employees across 9 separate payrolls now being successfully paid on the new system. This was a major achievement with the project being delivered to time and on budget.

## Delivering Results

Corporate Objective	Target	Achievement
<b>Value for money</b>	<b>Reduce unit costs of pay/pensions/expenses</b>  Reduce unit costs in real terms compared to 2003/04 ( <b>Key Target 1</b> )  a. Salary Payments 15% b. Pension awards 25% c. Expenses payments 43%	We exceeded our targets by achieving 25%, 26% and 65% respectively. This performance reflects our efforts to reduce costs, lean processes and increase the use of online services by our customers.
	<b>Set unit costs for new services</b>  Shadow targets for all new services - June 2007	Achieved. A further nine outputs have been shadowed during 2007/08 and have been included in the key target for 2008/09.
<b>Promised Service Levels</b>	<b>Achieve Key Performance Indicators for timeliness and accuracy of pay, pensions, expenses &amp; Internal Recruitment</b>  Timeliness: a. Salary Payments on time 99.9% b. Pension awards on time 99.4% c. Expenses (paper based) 99% in 8 days d. Internal Recruitment 95%  Accuracy: a. Salary payments 97% b. Pension awards 99.4% c. Advice 97% d. Transactions 98%	<b>Pay</b> We achieved 99.9% timeliness and 98.9% accuracy during a year when all 95,000 employees were migrated from the legacy to the new pay system (the Future Pay project). All staff had to be trained on the new system and teams were working with both systems during the transition period. This was a significant achievement.  <b>Pension awards</b> We achieved 99.4% timeliness and 96.8% accuracy. Performance dipped between July and September as a direct result of the roll-out of the new pay system and extra demands resulting from pension reforms. . Performance for the remainder of the year has met the targets set.  <b>Expenses</b> We achieved 98.5% timeliness; Performance was affected because of a large increase in the number of paper claims due to the unavailability of online services during necessary system downtime for Future pay roll-out.  <b>Internal Recruitment</b> We achieved 77% timeliness. Performance was most affected in the early part of the year and has steadily improved in the latter half.  <b>Advice</b> We achieved 97% accuracy  <b>Transactions</b> We achieved 98.0% accuracy.

**Delivering Results...continued**

Corporate Objective	Target	Achievement
<b>Promised Service Levels</b>	<p><b>Achieve timeliness for new services</b></p> <p>a. Health &amp; Conduct casework 90%</p> <p>b. External recruitment 90%</p> <p>c. Information and Records 100%</p>	<p><b>Health &amp; Conduct casework</b> This new service was launched in April 2007. We exceeded our casework response target month on month never dropping below 93% of responses delivered within 5 working days.</p> <p><b>External Recruitment</b> Figures not published</p> <p><b>Information and Records</b> We achieved 100%.</p>
	<p><b>Improve take-up of principal online service</b></p> <p>a. Travel expenses – 75%</p> <p>b. Salary related claims – 45%</p> <p>c. Internal Recruitment – 80%</p> <p>d. Sickness absence reports – 60%</p>	<p><b>Online Services</b> We achieved 86% Travel expenses and 47% Salary related claims, 86% for Internal Recruitment and 69% Sickness absence. The improvement demonstrates improving customer confidence in using on-line services.</p>
	<p><b>Achieve acceptance plan for services</b></p> <p>Milestones in the acceptance plan including external recruitment and health and conduct casework</p> <p>a. Tranche 1 - April 2007</p> <p>b. Tranche 2 - October 2007</p>	<p><b>Acceptance plan for services</b> Achieved.</p>
	<p><b>Complete roll-out of services</b></p> <p>Deliver agreed plan for services to non-standard employment groups and gaps in service coverage.</p>	<p>Achieved. All planned services implemented.</p>
	<p><b>Achieve In Service date (ISD) for PPPA in June 2007</b></p> <p>A full suite of services working for real to main MOD population</p> <p>a. Version two of Service Level Agreement (SLA) agreed and published</p> <p>b. Organisation, people, controls and IS to deliver SLA in place</p> <p>c. Issues and change management regimes in place</p>	<p>Achieved. The range of services planned to be operational by June 2007 were in place following the full roll-out of external recruitment.</p> <p>Version two of the SLA was signed and came into effect on 1 April 2007 .</p> <p>Achieved</p>

## Delivering Results...continued

Corporate Objective	Target	Achievement
<p><b>Responsiveness and available</b></p>	<p><b>Achieve Key Performance Indicators for responsiveness and availability</b></p> <p><b>Responsiveness:</b></p> <ul style="list-style-type: none"> <li>a. Calls answered within 20 seconds 80%</li> <li>b. Calls abandoned after 20 seconds &lt;10%%</li> <li>c. Issues and enquiries within ten days or agreed target 90% ten</li> <li>d. Agreed changes implemented</li> </ul> <p><b>Availability</b></p> <ul style="list-style-type: none"> <li>a. People Service Centre available in normal hours 99%</li> <li>b. On-line services available in normal hours 98.5%</li> <li>c. People Services Portal available in all media 99.9%</li> </ul>	<p><b>Calls answered/calls abandoned</b></p> <p>Throughout the year we achieved 50% of calls answered within 20 seconds and an abandonment rate of under 10% for most of the year. Staff turnover, recruitment difficulties, high volume of calls and correspondence and lack of management skills contributed to the under performance.</p> <p>A full review and programme of improvements for the People Service Centre was carried out in the latter half of 2007 and the benefits of this will be realised throughout 2008.</p> <p><b>Issues and Enquirie</b></p> <p>We achieved 97%</p> <p><b>Changes</b></p> <p>We achieved 100%.</p> <p><b>PSC availability</b></p> <p>We achieved 99.3%</p> <p><b>Online services availability</b></p> <p>We achieved 95.9% availability of on-line services through the MOD intranet ( the principal channel for customers )</p> <p><b>People Portal availability</b></p> <p>We achieved 96.2% in other media reflecting some technical issues with the external website.</p>

## Reputation

Corporate Objective	Target	Achievement
<b>Excellent Customer Experience</b>	<b>Extend Charter Mark to whole Agency</b> Extend Charter Mark or Equivalent to new services by March 2008	The Agency was awarded the Cabinet Office's new customer standard – Customer Service Excellence – in March 2008. We have also been accepted as a Standard Bearer
	<b>Demonstrated higher customer satisfaction</b>  a. Improved satisfaction index for pay/pensions/ expenses services to 79% b. Improve satisfaction index for HR services to 62% c. Sampled users satisfied or better 82% d. Call backs to hasten or express user dissatisfaction <5%	Satisfaction Index 78%  Satisfaction Index 62.2%  <b>Sampled users</b> We achieved 86% <b>Call backs</b> Restricted to 1%
	<b>Provide effective Management Information to customers</b>  a. New MI reports for key data: phase 1 – April 2007; phase - 2 July 2007; phase 3 – September 2007; phase 4 – December 2007. b. Full report for customers against Service level Agreement Key Performance Indicators – May 2007 c. Publish Agency guide – May 2007 d. Reports on key people metrics for TLB Management Boards: pilot July 2007; final October 2007.	<b>Management Information</b> Phase 1, 2 and 3 reports released. Remainder of the report schedule (increment 5) has been slipped to FY08/09.  <b>SLA KPI report</b> Achieved. Report is now issued monthly in collaboration with our main customer.  <b>Agency Guide</b> Guide published in October 2007. Second, updated version to be issued in April 2008.  <b>Key people metrics</b> Deferred to form part of the Management Information project in our Maturity Programme.
<b>Employer of Choice</b>	<b>Increase staff engagement</b>  a. Increase satisfaction with communications and involvement by 4% b. Revised staff suggestion scheme – April 2007 c. Publish Roles and Responsibilities handbook – May 2007 d. Introduce 'temperature check surveys' – Jun 2007 e. Convene Junior Management Board September 2007	<b>Satisfaction with communication</b> We achieved 59%, an increase of 1% on 2006/07.  <b>Staff suggestion scheme</b> Achieved. GEMS Scheme subsequently relaunched in Summer 2007, and has since seen an increased number of suggestions.  <b>Roles and responsibilities handbook</b> Published in September 2007, reflecting change to Management Board structure.  <b>Temperature check surveys</b> A variety of surveys have been run, with plans to increase use of the facility in 2008/09.  <b>Junior Management Board</b> Achieved. The Board have begun by identifying actions resulting from the 2007 Staff Opinion Survey.

## Reputation...continued

Corporate Objective	Target	Achievement
	f. Staff participating in 2007 Staff Opinion Survey 60% g. Maintain satisfaction with Staff Conference	<b>Staff Survey participation</b> 48% of staff responded to the survey.  <b>Staff Conference</b> 2008 Staff Conference postponed to April 2008.
	<b>Attract and keep the right talent</b> a. Formal process for evaluation of learning and development - April 2007 b. Quarterly review of learning and development - July 2007 c. Average working days lost to sickness per Full Time Equivalent - <9 d. Increase staff satisfaction compared to 2006/07 i. Overall satisfaction with working in PPPA by 2% ii. Satisfied with training and development by 4% iii. Satisfied with fair and respectful treatment by 4%	<b>Learning and Development</b> Process and review completed, with further work to develop more robust processes and assessment to take place in 2008/09.  <b>Average working days lost to sickness</b> We achieved 9 days.  <b>Staff Satisfaction</b> We achieved: i. 71% - the same as 2006/07 ii. 89% - an increase of 17% iii. 75% - a decrease of 3%
<b>Good neighbour</b>	<b>Reduce environmental impact</b> Achieve ISO 14001 plan targets a. Reduce paper consumption by 2% b. Reduce electricity consumption by 1.5%	<b>Paper</b> We achieved 8%  <b>Electricity</b> We achieved 0.6% reduction, Reduction was affected by the purchase of two new IS servers which increased our consumption.
	<b>Build community links</b> Engage with local schools and community – March 2008	Achieved. Cross Agency Charity Committee, formed September 2007, has raised in excess of £2000 to date. Nine work experience students visited the Agency, all reporting positive experience. We are looking at how to develop links with local schools further in 2008.

## How We Work

Corporate Objective	Target	Achievement
<b>Cutting Edge Systems</b>	<b>Improve and integrate business processes</b> a. Extend ISO 9001 accreditation to new service - March 2008 b. Revised issue and change management processes in place - June 2007 c. High level process model for internal processes September 2007	<b>ISO 9001</b> Achieved. External assessors extended the Agency's accreditation in November 2007.  <b>Issue and Change Management processes</b> Achieved.  <b>High Level Process Model</b> Lean workshops have taken place across the Agency and will be further taken forward in 2008/09.
	<b>Complete Phase 1 e-enablement</b> Complete migration to new CHRIS platform (phase 3) – November 2007	Achieved
	<b>Complete roll-out of new pay system</b> Full Operating Capability – July 2007	Achieved. The new system is now operating with some 95,000 employees across nine payrolls.
	<b>Deliver further e-enablement</b> a. Electronic Data and Records management (EDRM): phase 1 - June 2007 phase 2 - December 2007 b. Implementation plan for Knowledge Base - April 2007 c. Agree plan for integrated system support - March 2008	<b>EDRMS</b> Project established and rollout taking place across all HR services.  <b>Knowledge Base</b> Interim Knowledge Base delivered, with pilot of long term solution to be launched in July 2008.  <b>Integrated system support</b> Achieved
	<b>Migrate to Defence Information Infrastructure</b> a. Complete migration to secure operating system – June 2007 b. Ready for migration to DII(F) Infrastructure – March 2008 c. Agree plan for integrated system support - March 2008	<b>Secure operating system</b> Achieved.  <b>Migration to DII(F)</b> Migration now scheduled to begin in October 2008.
	<b>Improve data quality and management</b> a. Data quality baseline and improvement plan – May 2007 b. Demonstrate improvement in external audit – October 2007	A data quality project has been launched to consider issues between the pay and HR system interface. The Agency conducted a gap analysis that identified areas for improvements as part of the preparation for being externally assessed under ISO27001, the Information Security management standard.
	<b>Project / Change control</b> <ul style="list-style-type: none"> <li>• Manage change effectively</li> <li>• New change regime Oct 06</li> <li>• Integrated plan for change March 07</li> </ul>	Introduction of new change regime endorsed in December 2006 to meet the requirements of the organisation and enable effective and efficient management of the large number of internal and external change requests.

## How We Work...continued

Corporate Objective	Target	Achievement
<b>Centre of expertise</b>	<b>Exploit HRMS based training management and evaluation for all Agency</b>  a. Established as a training provider on HRMS - April 2007  b. Take up of HRMS training management by staff by October 2007- 95%	Achieved. The Agency is now a training provider on HRMS.  Achieved. Some 90% of staff recorded their training using HRMS.
	<b>Prepare for Central TLB Bath collocation (2011)</b>  Successful contribution to Main Gate Business Case – October 2007	Centre TLB Main Gate Business case submission delayed due to affordability issues; however PPPA has led two of the four project work-streams: Workplace Transformation and Communications.
<b>Resilient against the unexpected</b>	<b>Maintain continuity of business and systems</b>  a. Test continuity plans to agreed schedule  b. Full system resilience to power loss - December 2007	New Business Continuity and Risk Board established. New testing regime to be introduced in 2008. <b>Resilience</b> - The standby generator and uninterrupted power supply have both been upgraded. Work on providing a second supply continues (underground).
<b>Effective controls</b>	<b>Integrate supplier &amp; contract management</b>  a. Take on current Occupational health contract from DS&C – April 2007  b. New Agency staff contracts for admin and clerical – May 2007  c. New Occupational Health contract – August 2008	Achieved  Achieved  The new contract will commence from 1 September 2008.
	<b>Improve risk management</b>  Independent assessment of risk management maturity – Mar 08	The Non Executive Director conducts an independent assessment and challenge to our strategic and business level risk registers.
	<b>Manage within budget allocation</b>  a. Nil excess over agreed allocation  b. Turn efficiency assumptions into plans – Jul 07	<b>Excess over agreed allocation</b> As a result of unprogrammed work imposed on us, the Agency overspent against its revised, agreed net cash allocation by £339,000 <b>Efficiency assumptions</b> Efficiencies have been identified and built into delegated budgets for 2008/09.

## The Future

Corporate Objective	Target	Achievement
<b>Strategic Direction</b>	<b>Support review of People Services Portal and Policy, Rules and Guidance</b>  Support DGCP review to agreed timetable	Work expected to begin in 2008/09 as part of the Maturity Programme.
	<b>Propose prioritised menu for simplification of the employment framework</b> a. Analyse customisation configuration baseline of HR and pay systems - December 2007  b. Assess future HRMS migration options - December 2007  c. Prioritised menu of change to enable future system migration March 2008	This work will be taken forward as part of the Maturity Programme
	<b>Agree PPPA Blueprint</b> a. Agree future operating model – October 2007  b. Convert existing roadmap into detailed plan – October 2007  c. Set performance aspirations for specific business areas – March 2008	Blueprint completed, endorsed by Owners Advisory Board and now developed into the PPPA Maturity Programme.
<b>Competitive Edge</b>	<b>Achieve new business and market recognition</b> a. Maintain repayment business for HR, pensions, pay, claims and relocations  b. Develop and exploit an agency market profile – July 2007  c. Full set of client plans in place – October 2007	Our strategy for new business has been reviewed as a result of Cabinet Office advice to other governments seeking shared services to use HMRC or DWP, and the expected outcome of the Cabinet Office APAC review. These targets were overtaken, therefore, by initiatives outside of our control.
<b>Tomorrow's talent</b>	<b>Secure recognition as a learning organisation</b> Assess option for external recognition – February 2008	Considered, as planned, but there is no specific external process in place to achieve this.
	Develop skills for future  a. Complete review of long term skills gap – September 2007  b. Launch training programme for future skills – March 2008	Skills gap: Review undertaken as part of the Blueprint work. Training programme: Development Scheme for Band D/C2 staff launched, with further work taking place in 2008/09 for Band E and Band C1 staff.

## A Year in Pictures

### May 2007

The agency celebrated 'Learning at Work Day' on May 24. There were presentations at all three sites, covering such subjects as holistic therapies, Tai Chi, Yoga, Reflexology and Indian head Massage.

*Right: Tai Chi presentation at Foxhill.*



### June 2007

Agency visit RFA Argus in Falmouth Docks.

*Right: Capt RFA David Smith greets agency staff and welcomes them aboard.*



### July 2007

The Agency held its first cross agency sports day, Events included 5-a-side-football, snooker, bowls, cricket, netball and rounders.





**October 2007**

Senior figures from the International Forum for Civilians in Defence including the US, Canada, Australia and New Zealand, visited the Agency's People Service Centre (PSC) during a fact-finding mission to UK.

*Left: An overseas guest listens in on a helpdesk call*



The agency launch the band D/C2 Development Programme.

*Left: John Quinn explains all*



The PPPA held its second annual staff conference,

## Reporting of Personal Data Related Incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

**TABLE 1 : SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2007/08**

Date of incident ( Month )	Nature of Incident	Nature of data involved	Number of people potentially affected	Notification Steps
	No incidents to report for the whole year	N/A	N/A	N/A
<b>Further action on information risk :</b> The department will continue to monitor and assess its information risks, in order to identify and address any weaknesses and ensure continuous improvement of its systems.				

**TABLE 2 : SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2007/08**

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally are not cited in the figures.		
Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	N/A
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	N/A
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	N/A
IV	Unauthorised disclosure	N/A
V	Other	N/A

## Reporting of Personal Data Related Incidents...continued

<b>TABLE 3 : YEAR-ON-YEAR TOTAL NUMBERS OF PROTECTED PERSONAL DATA RELATED INCIDENTS PRIOR TO 2007 - 08</b>						
<b>Total number of protected personal data related incidents formally reported to the Information Commissioner's Office, by category number</b>						
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	<b>Total</b>
<b>2006 - 07</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>2005 - 06</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>2004 - 05</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total number of other protected personal data related incidents</b>						
<b>By category number</b>						
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	<b>Total</b>
<b>2006 - 07</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>2005 - 06</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>2004 - 05</b>	N/A	N/A	N/A	N/A	N/A	N/A



David Ball  
 Chief Executive  
 7th July 2008

## Statement of the Accounting Officer's & Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the People, Pay and Pensions Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to comply with the Government Financial Reporting Manual (FReM) prepared by HM Treasury and in particular to:

- Observe the Accounts Direction issued by Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

It has been agreed with HM Treasury that, although Chief Executives of Defence Agencies are not appointed Agency Accounting Officers, analogous arrangements will apply. These responsibilities, including responsibility for the propriety and regularity of the public finances for which the Chief Executive is answerable and for keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in 'Managing Public Money'.

# Statement on Internal Control

## **1. Scope of responsibility**

The People, Pay and Pensions Agency was launched on 1st April 2006. It provides services to Ministry of Defence civilian staff and their management and is a key enabler for the MOD's People Programme. 2007/08 has been the final year of the main roll-out of new services and of consolidation of services already delivered.

As its Chief Executive I have responsibility for maintaining a sound system of internal control that supports the achievement of Agency policies, aims and objectives, set by the Agency's owner, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I am required to report regularly to the Agency's owner on the performance of the Agency against the objectives set for it and the action being taken to mitigate risks to their achievement.

The Agency has four business areas, each led by a Budget Holder who is also a member of the Agency's Management Board. I have delegated to each Budget Holder a set of objectives and responsibilities. Each is required to provide me with regular reports on achievement against those objectives and responsibilities, including their assessment of the risks to their achievement and the action being taken to mitigate or manage those risks. The Budget Holders have the authority to similarly delegate objectives and responsibilities to managers within their areas provided the manner of the delegations accord with relevant guidance and Agency policies.

## **2. The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate 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 within the Agency has been in place throughout the year ending 31 March 2008. It accords with Treasury guidance and is based on an ongoing process designed to identify and prioritise risks to the achievement of Agency policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact, should they be realised. It then addresses how to manage them efficiently, effectively and economically.

## **3. Capacity to handle risk**

The risk management process is led by the Management Board. Strategic risks are shared and discussed with the Owner's Advisory Board and Director General Civilian Personnel; and the Agency's input is sought to the identification of potential strategic risks to the successful operation of the Department's Central Top Level Budget, of which the Agency is a part. The Management Board oversees the identification, assessment and management of risks affecting the achievement of objectives and targets, and assigns responsibility for the management of risks to an appropriate officer of the Agency, taking into account their ability to influence the outcome, and the level of knowledge and expertise they possess. Training and general support is given, as necessary.

The Agency has recognised the importance of sustaining awareness amongst its people. The build-up of new services, the nature of a shared services business and Departmental career development patterns mean that there has been a significant flow of staff into and out of the Agency. The provision of training and refresher training is a constant commitment. We have designed internal training courses that provide guidance on the management of day to day business and project risks, common across the Agency. In addition, the Agency has provided external training courses in a number of specialised areas, such as finance, fraud, IS, Data Protection compliance, Health and Safety business continuity planning and risk based auditing. The Agency has also undertaken a number of projects and initiatives to benchmark its operational and management processes against other organisations, in both the public and private sector, to identify aspects of best practice in order to stimulate continuous process improvement across the Agency.

Under this process a thorough review of the Agency's Operational, Financial and People Risks has taken place during the year. Risk registers are in place and their contents are captured and included on a central database. The registers are reviewed by the Business Continuity, People, Finance and Operations Boards on a regular basis.

## **4. The risk and control framework**

Comprehensive matrices of assurance activities underpin the Internal Control process of the Agency. This includes Risk Management; various forms of Audit activity; Benchmarking; the achievement of external quality or performance standards and professional assurance reviews. The outcome and feedback from these are fed into the Management Board and the Owner's Advisory Board to aid and inform decision making. They also contribute to the assessment of the effectiveness of the internal control system.

The Management Board meets monthly to consider the strategic direction and execution of the business plan of the Agency. The plan includes the Agency's principal performance targets, including the Key Targets agreed by Ministers, the key performance indicators agreed in a service agreement with Director General Civilian Personnel and other performance indicators set by the Board. It assesses the risks to the achievement of those targets and regularly monitors performance against them. The membership of this board during 2007/08 is shown in the Management Review section of this Report and Accounts. The external

member attends the Management Board meetings, chairs the Agency's Audit Committee, attends the Owner's Advisory Board, the Business Continuity Board and Environmental Management Board as well as observing meetings of the other subsidiary Boards on a rotational basis.

The Management Board is assisted in this process by three subsidiary Boards that drive performance and monitor risk at a more detailed level. These focus specifically on business operations, people and financial management. Towards the end of 2007 the agency introduced a Risk and Business Continuity Board, also reporting to the Management Board. From April 2008 a revised board structure will be introduced that will further strengthen the effective management of risk and business continuity across the agency.

The Agency's Owner's Board meets three times a year to receive my report on the Agency's performance in managing its most strategic risks and in achieving its objectives.

## **5. Review of effectiveness**

The Audit Committee, under the chairmanship of the external Board member, reviews the Agency's internal control systems and the processes of risk identification, assessment and management. A key role of the Committee is the review of the various strategic and corporate risks faced by the Agency. The Committee challenge the assumptions and circumstances underlying them and the effectiveness of the plans to mitigate them. It also works to establish closer links between these risks and the Agency's internal audit programme, receiving regular reports by the Agency's Internal Audit team on the programme of risk based audits undertaken by the team. These reports include the Internal Audit Manager's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement. It also reviews reports by the National Audit Office and the MOD's Directorate of Internal Audit that consider aspects of the Agency's operations, either directly or as part of a wider review of MOD processes, and provide an independent opinion on the adequacy and effectiveness of the Agency's control processes. The Audit Committee Chair submits a quarterly report on assurance activities to me and the Management Board. The Chair has also presented to the Central Top Level Budget (CTLB) Audit Committee and attends their meetings regularly.

The committee comprises the Deputy Chief Executive and the Director of Corporate Development with other Directors, Senior Managers and members of the Owner's team being invited to attend as appropriate. Representatives of the National Audit Office and MOD's Directorate of Internal Audit also attend each meeting. This year also saw the attendance of a CTLB Audit Committee representative and a representative of Director General Financial Management.

The operation of the internal control framework during 2007/08 has afforded me considerable assurance that the management of the Agency at all levels has been of a consistently high standard. This has been apparent in the continuous review of controls and processes and in the manner in which Agency staff responded to and resolved risks to the continuity of business service delivery.

### **A. Health of Financial Systems (HoFS)**

During the year, the agency's prime financial information source, the Defence Financial Management System (DFMS), worked effectively with only previously planned maintenance of the systems affecting access. The agency's internal commitment recording process also worked well. The increased size of the Agency and management of its increasing scope and size during 2007/08 has stretched the internal in-year financial management processes. New processes are now in place to manage in-year delegations to senior managers more efficiently.

One cause of delays in the development of these new processes, and also a significant risk to the Agency during 2007/08, was staff shortage in the finance team. Some 117 man weeks were lost due to the gapping of important posts as a result of sickness and overseas deployment. It also proved difficult to recruit staff to fill other new and vacant posts. During August and September 2007 the agency employed temporary staff to alleviate the problem. By early February 2008 the team had been brought up to full strength and the new processes set in place. There is continuing concern that the retention and potential recruitment of suitably experienced and qualified finance staff will remain an acknowledged risk into the future.

May 2007 saw the start of the main phase of a major system migration. Under development since 2004, a new generation pay system, CHIPS, was introduced. The Agency migrated some 80,000 pay records from its old Non-Industrial Pay System onto this replacement system. The main migration was successfully completed in July 2007. The previous system has been closed down.

Following completion of the migration a number of process problems were experienced, in line with expected experience with a migration of this scale and complexity. Issues included difficulties with the systems accounting processes in reconciling a number of the Agency's payroll control accounts. July 2007 saw the agency declare 52 of its 217 accounts unreconciled, with some £6m held in Feeder Suspense Accounts as a result of system misattributions, with some £7.5M being held in suspense accounts. By September 2007 this had reduced as the system related causes were identified and corrected. In January 2008 the issue of system misattributions was resolved. At the end of March 2008, the Agency declared 30 of its accounts unreconciled as the Accounting Team gained experience with new management information being produced by the system processes. A related difficulty was the quality of Unit Identity Number data held on the Human Resources Management System (HRMS) which resulted in some £1.5m being held in Feeder Suspense due to invalid UIN data being passed to the pay system. This issue is the subject of an on-going project within the Agency to correct the existing data and to put in place processes that minimise the possibility of incorrect data being present in the future.

There was one instance of non-compliance with the 2007 Defence Competitive Procurement 'Gateway' processes. An independent inquiry was undertaken by my Non-Executive Director and the five recommendations resulting from her report are being taken forward. The report concluded, inter alia, that the non-compliance on this occasion caused no detriment and did not affect the outcome of the competition. I agree with that judgment.

## **B. Business Continuity**

The Agency complies with the Central Top Level Budget strategy and policy for business continuity planning. The Agency has a single, overarching Business Continuity Plan covering all aspects of its operations. This plan is constantly reviewed to ensure that its constituent plans are relevant and cohesive and that lessons learned from events are incorporated. We experienced several events during 2007/08 that tried and tested these practically, enabling us to adapt and/or validate their applicability and viability. These included:

- The vulnerability of the overland electricity supply to the Cheadle Hulme site. Continuing spasmodic failures, the last of which in November 2007 was exacerbated by the malfunction of the stand-by generator. A full report on the cause of the generator failures was requested and prepared by the site maintenance contractor. A long term solution to this problem, the provision of an underground supply, is currently under discussion with the local authority;
- Also in November 2007, the Agency suffered a complete failure of its IS systems at both Bath and Cheadle Hulme. This failure also affected customer access to the agency's on-line systems. Systems were restored within 24 hours with minimal impact on customers. Lessons were learnt about communications to systems users and corrective action is being taken.
- In January 2008 the heating system failed in Foxhill. Replacement heaters were distributed to offices but these overloaded the electrical system resulting in a complete loss of power for some hours, causing staff to be sent home. Site support staff, and contractors, have prepared a report of the incident detailing the lessons learnt and outlining actions necessary to avoid similar events in the future;
- In order to further strengthen the Agency's approach to the management of business continuity, a Risk and Business Continuity Board was established during the latter half of 2007.

## **C. Other Specialist Assurance**

- The Agency's certification under ISO BS EN 9001:2000 Quality Management System Standard was confirmed following review visits by independent assessors in May and November 2007. The November 2007 visit was a full Agency three year assessment against the ISO 9001 Quality Management System Standard, which saw the successful inclusion of the new services being launched into the scope of the Agency certificate;
- In October 2007, the Agency successfully achieved the new Cabinet Office Customer Service Standard (formerly known as Charter Mark status), which it had previously held only for services formerly provided by the Pay and Personnel Agency. Six minor non-compliances were raised which will be addressed by an action plan prior to the next visit in twelve months;
- During December 2007, the Agency underwent an inspection by the BACS Bureau. The assessments were in the categories of Bureau Organisation and Financial Information; Physical Security; Computer Operations; Applications and Systems Support and BACS processing and Operations. The ratings given for each category ranged from Good to Excellent and are determined through the high level assessment of business practices, standards, procedures and controls in respect of provision of the BACS services. The recommendations from the report will be monitored and subject to an Internal Audit to ensure closure;
- The Agency is currently undertaking work preparatory to attaining the ISO BS EN 27001 Data Security Standard; and ISO BS EN 25999 Business Continuity Planning;

#### ***D. Safety, Health, Environment and Fire (SHEF) and Security***

- In November 2007, the Agency was successful in attaining the ISO BS EN 14001 Environmental Management Systems Standard following an assessment by independent consultants
- During February the PPPA took part in a Safety, Health, Environmental & Fire (SHEF) audit, which was conducted by the Centre Environmental Safety Officer (CESO). The audits took place on the 7th February at Foxhill, 8th February at Warminster Road and the 28th to 29th February at Cheadle Hulme. The audit gave me full assurance that SHEF standards were being properly and fully applied, awarding the Agency an 'A' rating with 92% compliance with MOD SHEF Standards.

#### ***E. Data Security***

- A programme of work, with external consultancy support, is underway to prepare the agency for certification under the Information and Data Security Standard, BS EN ISO 27001. Originally planned for completion in the early part of 2008/09, this project is being afforded a high degree of urgency as a result of well publicised data security issues in other parts of Government and has been brought forward into the last quarter of 2007/08. In parallel with this work the Agency is also reviewing the instances when data is transferred and the methods used to accomplish that transfer. This review is being led by Director Systems Exploitation with the support of Defence Systems Support Organisation, the security accreditor;
- In addition to the work on systems data security, the Agency has also undertaken a mandatory programme of training in Data Protection for all staff and implemented a requirement for all staff, visitors and contractors to sign a confidentiality agreement once they have satisfactorily completed this training. This was substantially completed by the end of March 2008;

#### ***F. Audit Activity by Defence Internal Audit (DIA) and National Audit Office (NAO)***

- DIA conducted a review of Civilian Personnel Harassment and Bullying where part of the review included different elements of casework management from historic and current complaints of harassment;
- DIA provided consultancy support to the Agency's HRMS Data Quality Project. Their work included reviews of data control processes. The final report was delivered in March 2008.
- As a consequence of the DIA review of the Data Download from the Civilian Travel System, DIA offered substantial assurance with regard to the quality and integrity of Civilian Travel Claims data;
- The DIA conducted an Audit of Civilian Pay Data, where there remained issues over some data fields that would render Management Information inaccurate if not resolved and minor data quality concerns that required resolution by the PPPA Data Cleansing Team. The risks presented by these issues were not of great significance in terms of achieving business objectives. Based on their analyses of the data, DIA provided substantial assurance on the quality and integrity of the Civilian Pay data reviewed. This assurance relates specifically to the files provided and the data analysed for October 2006.

## **G. Internal Assurance**

The Internal Audit programme consists of an integrated approach in reviewing the adequacy and effectiveness of the controls within the Agency's processes. Highlights of the programme include:

- An audit of Travel and Subsistence claiming across the Agency. Similar to audits carried out in previous years, the audits of self-certified claims for Travel & Subsistence confirmed a very high level of compliance with Departmental rules. Where the audit raised issues relating to individuals appropriate action has been taken;
- Extensive preparation for the Agency's three year assessment to the ISO 9001 Quality Management System Standard, which included reviews of.
  - Health, Welfare and Conduct; Occupational Welfare Service (OWS) Helpline;
  - Learning and Development – Band D Assessment Centre; Career Consultancy;
  - New Business Development;
  - Issue Management;
  - Management Information.

## **H. Agency Performance**

The Agency's performance against its Key Targets and its other business plan objectives are set out in the Report attached to these Accounts. Some Key Targets have not been fully met mainly because of the volumes of transactions, the knock-on effects of the pay system migration, and staff shortages in the People Service Centre. But as a whole the Agency has maintained service standards through a period of intense build-up and has succeeded in delivering the planned range of new services, including the major new services for external recruitment (June 2007) and personal case advice (September 2007).

The results of the 2007/08 Staff Attitude Survey were generally positive. The results showed that satisfaction remains high despite the impact of operational challenges including :-

- Higher than forecast volumes
- Staffing volatility
- New pay systems, and
- Increasing customer awareness and expectations of the Agency's services

## **6. Conclusion**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework. My review is also informed by the comments made by the external auditors in their management letter and other reports. In conducting my review of the effectiveness of the system of internal control I have also taken the advice of the Agency's Management Board and Audit Committee. My review has concluded that the system of internal control within the Agency is operating effectively and that plans are in place to address any weaknesses that have been identified and to ensure continuous improvement of the system.



David Ball  
Chief Executive  
7th July 2008

## **The Certificate & Report of the Comptroller & Auditor General to the House of Commons**

I certify that I have audited the financial statements of the People Pay and Pensions Agency for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration 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 and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the management commentary and the financial review, included in the Annual Report, is consistent with the financial statements. 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.

In addition, I report to you 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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. This other information comprises the management commentary and the financial review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinions**

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

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

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the 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 2008, and of the net operating cost, 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
- information, which comprises the management commentary and the financial review, included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

In my opinion, 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.

## Report

I have no observations to make on these financial statements.

**T J Burr**

**14 July 2008**  
**Comptroller and Auditor General**  
**National Audit Office**  
**151 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SS**

**Note:** The maintenance and integrity of the People, Pay and Pensions Agency's website is the responsibility of the Agency's Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Operating Cost Statement For the year ended 31 March 2008

	Note	2007/2008	2006/2007
		£'000	£'000
<b>Operating Costs</b>			
Staff costs	2	31,751	27,354
Supplies & services consumed	3	1,360	1,216
Accommodation costs	4	1,881	2,240
Other administration costs	5	21,285	19,688
<b>Gross Operating Costs</b>		<b>56,277</b>	50,498
<b>Operating Income</b>			
Less income from repayment customers	7	(1,657)	(1,979)
<b>Net Operating Cost</b>		<b>54,620</b>	48,519

All activities of the People, Pay and Pensions Agency are continuing.

The notes on pages 41 to 50 form part of these accounts.

## Statement of Recognised Gains and Losses For the year ended 31 March 2008

	Note	2007/2008	2006/2007
		£'000	£'000
Revaluation	11	0	0
<b>RECOGNISED GAINS &amp; LOSSES</b>		<b>0</b>	0

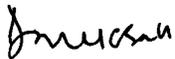
The notes on pages 41 to 50 form part of these accounts.

## Balance Sheet as at 31 March 2008

	Note	March 2008 £'000	March 2007 £'000
<b>FIXED ASSETS</b>			
Computers and office equipment		16,887	2,688
Assets under construction		231	14,675
	8	17,118	17,363
<b>CURRENT ASSETS</b>			
Debtors	9	902	657
<b>CURRENT LIABILITIES</b>			
Creditors: amounts falling within one year	10	(3,715)	(8,627)
<b>NET CURRENT LIABILITIES</b>		<b>(2,813)</b>	<b>(7,970)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>14,305</b>	<b>9,393</b>
<b>Financed by:</b>			
General Fund	12	14,305	9,393
Revaluation Reserve	11	0	0
<b>TOTAL GOVERNMENT FUNDS</b>		<b>14,305</b>	<b>9,393</b>

The notes on pages 41 to 50 form part of these accounts.

The accounts were authorised for use on 14 July 2008



David Ball  
Chief Executive  
7th July 2008

## Cash Flow Statement For the year ended 31 March 2008

	2007/2008 £'000	2006/2007 £'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(48,273)</b>	(42,862)
<b>CAPITAL EXPENDITURE</b>		
Payments to acquire tangible fixed assets	<b>(8,302)</b>	(6,037)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>	<b>(56,575)</b>	(48,899)
<b>FINANCING:</b>		
Payments on Defence Resource Account	<b>58,232</b>	50,878
Receipts on Defence Resource Account	<b>(1,657)</b>	(1,979)
<b>NET FINANCING FROM THE DEFENCE RESOURCE ACCOUNT</b>	<b>56,575</b>	48,899
<b>INCREASE/(DECREASE) IN CASH</b>	<b>Nil</b>	Nil

## Notes to the Accounts

### NOTE 1: ACCOUNTING POLICIES

#### **A Statement of Accounting Policies**

The financial statements have been prepared in accordance with the 2007/08 FReM issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

These accounts have been prepared under the Modified Historical Cost Accounting convention to account for the revaluation of fixed assets.

#### **B Value Added Tax**

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected is accounted for centrally by the Ministry of Defence. The Agency's Accounts do, however, include non-recoverable VAT attributable to its operating expenses..

#### **C Income**

Income comprises the invoiced value of transactions of services to private companies, other Governments, other Government Departments and agencies of the Ministry of Defence with the status of Trading Funds. The charging basis is determined centrally by the Ministry of Defence to meet the full cost to the Department of providing pay and pension services to external customers. The costs of providing these services represent the full cost to the People, Pay and Personnel Agency. No value is attributed in the accounts to services provided to the Ministry of Defence or its supply funded agencies. The funding of the Agency by the Ministry of Defence is shown in cash terms in the Cash Flow Statement.

#### **D Notional Charges**

- (a) A notional charge for interest on capital is included in operating costs. This is calculated as 3.5% of the average value of net total assets.
- (b) Notional amounts are included in the operating costs for charges in respect of services provided 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.

#### **E Pension Costs**

Staff are covered by the provisions of the Principal Civil Service Pension Scheme. Contributions are paid to 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 accounts.

#### **F Fixed Assets and Depreciation**

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from the People, Pay and Pensions Agency to other parts of the Department. Where the agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the agency's balance sheet in accordance with FRS 5 and SSAP 21. In all other cases the costs of the use of these assets are communicated to the People, Pay and Pensions Agency by the asset owners and charged to the operating cost statement.

The Agency's assets are revalued by indexation using indices published as amendments to the MOD's 'Resource Accounting Policy Manual' and supplied by the DASA. Revaluation gains or losses are treated in accordance with Financial Reporting Standard No.15 on fixed assets.

Assets are capitalised where the cost of acquisition and installation exceeds the Agency's capitalisation threshold of £5,000 and where the useful life exceeds two years. Depreciation on 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>
Payroll ( CHIPS ) Software	10 years
Hardware	5 years

The useful economic life of assets is reviewed regularly and where a valuation has provided a more accurate assessment this has been used. Assets Under Construction are not depreciated.

In common with all MOD Executive Agencies, tangible assets are transferred to other parts of the MOD on a nil gain / nil loss basis. Under this accounting treatment, net asset transfers are made through the General Fund with no effect on the Operating Cost Statement.

### ***G Cash Balances and Liabilities***

Apart from minor transactions through local imprest accounts which are cleared to nil balances at the balance sheet date, the Agency does not pay or receive money on its own account. The majority of cash payments are made, and receipts collected, by the Ministry of Defence's central accounting organisations on behalf of the Agency.

All transactions, both locally and centrally processed, are brought to account by the Ministry of Defence in the Defence Resource Account 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 the Her Majesty's Revenue and Customs or Department of Work and Pensions at the balance sheet date and these are not disclosed in the Agency's balance sheet.

## NOTE 2: STAFF COSTS AND NUMBERS

(1) The average number of full time equivalent employees during the period was:

	2007/2008	2006/2007
	No	No
Non-industrial	1,095	1,006
Industrial	3	3
Locally employed overseas	4	4
Locally employed temps	22	19
	<b>1,124</b>	1,032

(2) Staff Cost can be analysed as follows:

	2007/2008	2006/2007
	£'000	£'000
Salaries and wages	25,287	21,747
Social Security costs (ERNIC)	1,765	1,512
Pension costs	4,307	3,809
Locally employed temps	392	286
	<b>31,751</b>	27,354

The PCSPS is an unfunded multi-employer defined benefit scheme but PPPA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Employees who joined after October 2002 could opt for a partnership or stakeholder pension account with an employer contribution. The Agency has no employee who has opted for this facility.

For 2007/2008, employers' contributions of £4,306,795.10 were payable to the PCSPS (2006/07: £3,809,165.62) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Salary costs also include taxable payments attributable to a special bonus scheme whereby staff are paid a bonus in recognition of a well-performed one-off task. There is no limit on the number of awards which can be made within a financial year, although the total value of these bonus payments should not represent more than 0.4% of the overall payroll.

### NOTE 3: SUPPLIES AND SERVICES CONSUMED

Supplies and services consumed comprise capitation rate based charges as follows:

	<b>2007/2008</b>	2006/2007
	<b>£'000</b>	£'000
HQ Charges	<b>1,360</b>	1,216

### NOTE 4: ACCOMMODATION COSTS

Accommodation costs comprise cash costs and capitation rate based charges as follows:

	<b>2007/2008</b>	2006/2007
	<b>£'000</b>	£'000
Works maintenance	<b>283</b>	609
Utilities (gas, water, fuel, electricity)	<b>448</b>	615
Rates	<b>158</b>	181
Accommodation costs from SBSO : Defence Estates	<b>992</b>	835
	<b>1,881</b>	2,240

### NOTE 5: OTHER ADMINISTRATION COSTS

Other administration costs comprise cash costs and capitation rate charges as follows:

	<b>2007/2008</b>	2006/2007
	<b>£'000</b>	£'000
Training	<b>840</b>	630
Travel and movement	<b>1,644</b>	1,115
Catering	<b>6</b>	18
Medical	<b>6</b>	19
Administration	<b>3,371</b>	2,822
Equipment support	<b>30</b>	27
Telecoms	<b>831</b>	233
IS	<b>10,843</b>	13,315
Depreciation	<b>2,708</b>	791
Write down of Computer Equipment on valuation	<b>561</b>	413
Cost of Capital charge	<b>415</b>	275
Audit fee	<b>30</b>	30
	<b>21,285</b>	19,688

There were no fees payable to the auditors for non-audit services in either year.

## NOTE 6: NON-CASH & NOTIONAL ITEMS

The non-cash and notional costs element included under the headings Supplies and Services Consumed, Accommodation Costs and Other Administration Costs are as follows:

	2007/2008 £'000	2006/2007 £'000
Notional Costs:		
Accommodation costs	1,152	1,129
HQ Charges	1,360	1,216
Audit Fee	30	30
<b>Total departmental costs</b>	<b>2,542</b>	<b>2,375</b>
Cost of Capital Charge	415	275
<b>Total notional items</b>	<b>2,957</b>	<b>2,650</b>
Other non-cash costs:		
Write down computer equipment	561	413
Depreciation	2,708	791
<b>Total non-cash costs</b>	<b>3,269</b>	<b>1,204</b>

Accommodation charges represent the assessed cost of rent and rates for the agency's Warminster Road, Cheadle Hulme and Foxhill sites and the assessed costs of utilities and works maintenance for the Foxhill site.

## NOTE 7: INCOME FROM REPAYMENT CUSTOMERS

	2007/2008 £'000	2006/2007 £'000
Ministry of Defence Trading Funds	727	937
Other Government Departments, their Agencies and Other Governments	930	1,042
	<b>1,657</b>	<b>1,979</b>

Analysis of operating income is as follows:

	2007/2008 £'000	2006/2007 £'000
Repayment income	1,657	1,979
Full cost	1,657	1,979
Deficit	<b>NIL</b>	<b>NIL</b>

The full cost makes no allowance for irreducible spare capacity. Prices charged to customers are set at a level to allow for downstream savings that accrue over the agreed repayment period. Charges are reviewed when agreements or contracts with individual customers become due for renewal or reappraisal. This information is provided for fees and charges purposes and not SSAP25 purposes.

## NOTE 8: FIXED ASSETS

An analysis of the balances and movements of cost and depreciation on the main categories of Fixed Assets is shown below:

	Computers & office equipment £'000	Assets Under Construction £'000	Total Assets £'000
<b>Cost or Valuation</b>			
At 1 April 2007	4,380	14,675	19,055
Additions	292	2,732	3,024
Disposals	(318)	0	(318)
Reclassification	16,342	(16,342)	0
Revaluation	291	(834)	(543)
<b>At 31 March 2008</b>	<b>20,987</b>	<b>231</b>	<b>21,218</b>
<b>Depreciation</b>			
At 1 April 2007	1,692	0	1,692
Charge for the year	2,708	0	2,708
Disposals	(300)	0	(300)
Reclassification	0	0	0
Revaluation Adjustment	0	0	0
<b>At 31 March 2008</b>	<b>4,100</b>	<b>0</b>	<b>4,100</b>
<b>NET BOOK VALUE</b>			
<b>At 31 March 2008</b>	<b>16,887</b>	<b>231</b>	<b>17,118</b>
At 1 April 2007	2,688	14,675	17,363

The 2007/8 revaluations represent the adjustments from the application of the MOD indexation factors.

## NOTE 9: DEBTORS

	2007/2008	2006/2007
9a Analysis by type	£'000	£'000
Amounts falling due within one year		
Trade Debtors	615	419
Prepayments	287	238
	<b>902</b>	657
9b Intra-Government Balance		
Amounts falling due within one year		
Balances with Central Government Departments	354	181
Balances with MoD Trading Funds	261	238
Total Intra-Government Balance	615	419
Prepayments	287	238
Total Debtors as at 31 March	<b>902</b>	657

## NOTE 10: CREDITORS

	2007/2008	2006/2007
	£'000	£'000
Trade Creditors	1,208	1,821
Other creditors and accruals for operating expenses	2,507	6,806
	<b>3,715</b>	8,627

The agency has no long term creditors. No amounts are due to the MOD or other Government departments.

## NOTE 11: REVALUATION RESERVE

	2007/2008	2006/2007
	£'000	£'000
Revaluation Reserve at 1 April	0	16,631
Arising on revaluation in year	0	0
Backlog depreciation	0	0
Transferred to General Fund in respect of realised element of Revaluation Reserve	0	(16,631)
Revaluation Reserve at 31 March	<b>0</b>	0

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

## NOTE 12: GENERAL FUND

Reconciliation of Net Operating Cost to changes in general fund.

	<b>2007/2008</b>	2006/2007
	<b>£'000</b>	£'000
Net financing from the Defence Resource Account	<b>56,575</b>	48,899
Transferred to General Fund in respect of element of Revaluation Reserve	<b>0</b>	(1,191)
Notional charges	<b>2,957</b>	2,650
Net Operating Cost	<b>(54,620)</b>	(48,519)
Net increase / (decrease) in General Fund	<b>4,912</b>	1,839
General Fund at 1 April	<b>9,393</b>	7,554
General Fund at 31 March	<b>14,305</b>	9,393

## NOTE 13: RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	note	<b>2007/2008</b>	2006/2007
		<b>£'000</b>	£'000
Government funds at 1 April		<b>9,393</b>	24,185
Movement on General Fund	12	<b>4,912</b>	1,839
Movement on Revaluation Reserve	11	<b>0</b>	(16,631)
Government funds at 31 March		<b>14,305</b>	9,393

## NOTE 14: RELATED PARTY TRANSACTIONS

The People Pay & Pensions Agency is an Executive Agency of the Ministry of Defence.

The Ministry of Defence is regarded as a related party. During the period 1 April 2007 to 31 March 2008 (and 1 April 2006 to 31 March 2007) the People Pay & Pensions Agency has had various material transactions with the Ministry of Defence and with other entities for which the Ministry of Defence is regarded as the parent department. These entities were the former Defence Evaluation and Research Agency, the Meteorological Office, the Hydrographic Office and the Defence Aviation Repair Agency.

During the period of these accounts the People Pay & Pensions Agency also had transactions with a number of other government departments or their agencies. Most of these transactions were with the Department for International Development, DEFRA and the Government Car & Despatch Agency.

During this and the previous year none of the senior and other key management staff, or other related parties, has undertaken any material transactions with the People Pay & Pensions Agency

## NOTE 15: POST BALANCE SHEET EVENTS

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

## NOTE 16: CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The People, Pay and Pensions Agency has no contingent liabilities to report as at 31 March 2008  
Capital Commitments for which no provision has been made in these statements were as follows:-

	31 March 2008 £000's	31 March 2007 £ 000's
Contracted but not provided for	0	1,461

## NOTE 17: OTHER LOSSES AND NOTES AND SPECIAL PAYMENTS

The People, Pay and Pensions Agency has no losses and notes and special payments to report in this or the previous year.

## NOTE 18: OPERATING LEASES

Commitments under operating leases

IS & Communications	31 March 2008 £000's	31 March 2007 £ 000's
The lease expired in year	0	220

This was for the Nova hardware which became redundant following the full implementation of Future Pay.

## NOTE 19: FINANCE LEASES

The People, Pay and Pensions Agency has no finance leases to report in this or the previous year.

## NOTE 20: 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.

### Interest rate risk

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

### Currency risk

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

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 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 21: Reconciliation of NOC to Net Cash Flow

Reconciliation of Net Operating Cost to Net cash flow from operating activities.

		<b>2007/2008</b>	2006/2007
		<b>£'000</b>	£'000
Net operating cost	Note 12	<b>54,620</b>	48,519
Adjustments for non-cash transactions:			
Depreciation		<b>(2,708)</b>	(791)
Write-down of computer equipment		<b>(543)</b>	(413)
Loss on disposal of computer equipment		<b>(18)</b>	0
Departmental costs		<b>(2,542)</b>	(2,375)
Cost of Capital Charge		<b>(415)</b>	(275)
Movements in Net current assets:			
Increase/(Decrease) in debtors & prepayments		<b>245</b>	171
(Increase)/Decrease in creditors		<b>4,912</b>	(1,974)
Change in Fixed Assets creditors		<b>(5,278)</b>	0
Net cash outflow from operating activities	Cash Flow	<b>48,273</b>	42,862



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