Presented pursuant to the Oil and Pipelines Act 1985, as amended by the Government Resources and Account Act 2000, section 23(8) and (7) of the Government Resources and Accounts Act 2000 (Audit of Public Bodies)

Oil & Pipelines Agency Account 2007-2008

LONDON: The Stationery Office
HC 883

26 September 2008
£9.25

Presented pursuant to the Oil and Pipelines Act 1985, as amended by the Government Resources and Account Act 2000, section 23(8) and (7) of the Government Resources and Accounts Act 2000 (Audit of Public Bodies)

Oil & Pipelines Agency Account 2007-2008

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 30 JUNE 2008

LONDON: The Stationery Office
HC 883

26 September 2008
£9.25

The National Audit Office
scrutinises public spending
on behalf of Parliament.

The Comptroller and Auditor General, Tim Burr,
is an Officer of the House of Commons.
He is the head of the National Audit Office
which employs some 850 staff.
He and the National Audit Office
are totally independent of Government.

He certifies the accounts of all Government
departments and a wide range of other public
sector bodies; and he has statutory authority
to report to Parliament on the economy, efficiency
and effectiveness with which departments and
other bodies have used their resources.

Our work leads to savings and other efficiency
gains worth many millions of pounds; at
least £9 for every £1 spent running the Office.

This account can be found on The Stationery Office's
web site at www.tsoshop.co.uk

Contents

Chairman's Statement

The Agency manages the Government Pipelines and Storage System, a substantial defence facility, on behalf of its Stakeholder, the Ministry of Defence. The Agency maintains it to a high standard, in accordance with best practice in respect of Health, Safety, and the environment and generates a cash surplus.

The Agency has conducted a review of its activities and structure and concluded that, particularly in the areas of health, safety and environment, there is a need for some of the tasks currently within the remit of its Operating Contractors to be within its direct control. Changes in the organisation to bring this into effect will take place during the coming financial year. The Agency will also re-align its technical resource to enable closer co-operation with Operating Contractors on technical matters.

The Agency is now reaping the benefit of a significant investment in systems with improved management information and costing and much improved communication technology for staff. An investment has also been made in staff development and joint projects with the Ministry of Defence.

In May the Agency welcomed Mr Tony Nicholls as its new Chief Executive and I look forward to a long and fruitful association working with him. I would like to put on record my appreciation for the contribution made to the Agency by Dr John Vardon, the retiring Chief Executive, a first-class engineer and a man of outstanding integrity. Dr Vardon will remain an employee until his retirement in October this year assisting in the handover of his role and doing some vital work on GPSS resilience.

As a result of the Buncefield incident the role of the GPSS as a critical National Infrastructure asset has become widely appreciated and the Agency has initiated a system wide resilience study. This work is also consistent with the philosophy of the Government's National Security Strategy that was launched in March of this year. The first phase of this work has been completed and it is anticipated that the second phase of the study will be completed during the next financial year. The agency continued its informal and formal consultation with the Regulatory Authorities in relation to the risks associated with the operation of facilities, both pipelines and terminals, that transport or store refined liquid hydrocarbons and remains committed to ensuring a safe, cost-effective regime of regulation of such facilities.

Membership of the Agency has changed in the last year. Major General Malcolm Wood, Air Commodore Spinks and Mr Mike Burrett have stepped down as non-executive members of the Agency; I thank them for their contribution and wish them well for the future. Major General Wood has been replaced by Air Vice-Marshall Matthew Wiles. Brigadier Ian Abbott has replaced Air Commodore Spinks. I welcome them and I look forward working with them in the coming years. Dr John Vardon has been replaced by Tony Nicholls.

Finally, I must pay tribute to the Agency's staff during this period of significant change. Without their hard work, commitment, skill and expertise, the Agency could not function. They have ensured that the Government Pipelines and Storage System has continued to meet the requirements of its stakeholder and customers whilst remaining self-funding.

Francis Dobbyn 26 June 2008
Chairman

Report of the Agency

Introduction

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

The GPSS

The GPSS consists of some 2,500 kilometres of underground cross-country pipelines of differing diameters, together with storage depots, salt cavities, associated pumping stations, receipt and delivery facilities and other ancillary equipment. An outline map of the GPSS is included on page 7. Most of the storage depots are connected to the pipeline ringmain, which in turn is supplied by the majority of the major refining centres and port areas in England. Other self-standing pipelines and depots are situated elsewhere in England and Scotland. The GPSS receives, stores, transports and delivers light oil petroleum products for military and civil users.

GPSS business activities

The GPSS continued to play a significant role in supplying major civil airports during the year, as the ramifications of the Buncefield incident continue to have an impact on fuel delivery. The full military fuel movement requirement has also been delivered and as a result, fuels throughput achieved record levels. The Agency has completed a resilience study for the GPSS, which was carried out in conjunction with a review of the minimum military requirement. Major maintenance works on pipelines and storage facilities have been completed on time and to budget. A review of storage safety and control equipment has been conducted as a result of the Buncefield recommendations, which confirmed that the GPSS conforms to industry standards.

GPSS technical and contractual activities

The Agency continued its programme of inspection and repair of bulk fuel storage tanks, terminal pipework and cross-country pipelines to ensure the operational integrity of these assets into the future. The Agency has also undertaken a review of the structure of its Operating Contractor agreements and will be making significant changes aimed at improving safety, quality and operational efficiency during the coming year. As part of its commitment to ensure that there is in place a cost-effective regime to provide the necessary assurance that oil pipeline and terminal operations are safe, the Agency continues to work with regulatory authorities and other interested parties.

The outcome of the resilience study work will inform the future investment process for the MoD. Discussions with commercial shippers will take place during the coming financial year. The Agency believes that this valuable work will help in providing assurance that the GPSS will continue to provide its essential service into the future.

Parts of the GPSS were subject to the effects of flooding during the summer storms. As a result the Agency has completed a flood risk survey of all GPSS sites and is in the process of developing a strategy for ensuring flood resilience. The Agency will be considering the outcome of the Pitt Review and looking to apply lessons as appropriate.

The on-line inspection of pipelines continues at a high level, with some 20 per cent of GPSS pipelines inspected in the year, and necessary repair works to assure the ongoing integrity of a number of key pipelines were completed with minimum disruption to operations. Tank inspection and repair continues at a high level with work on a total of some 30 tanks inspected and repaired in the year.

The Agency benefits from working within a number of industry bodies, including the United Kingdom Onshore Pipeline Operators' Association, the Tank Storage Association and the Pipeline Industries Guild where industry initiatives and good practices are developed and shared. The Agency, with other members of the Linewatch group, works to promote the awareness of organisations involved in excavating, to the risks of working without taking the necessary precautions in the vicinity of buried apparatus. The support that the Linewatch participants have given to a one-call system has ensured that an increasingly wide range of such organisations are now routinely taking the necessary precautions.

Crude oil supply and trading

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

Members and principal officers

The following served as Members and as Principal Officers of the Agency during the year

Members

F Dobbyn	Chairman
Dr ET Libbey	
Air Vice-Marshall MJG Wiles	Appointed 28 January 2008
Brigadier IW Abbott	Appointed 4 May 2007
AR Nicholls	Appointed 28 January 2008
Major General M Wood	Appointed 8 July 2007 – retired 28 January 2008
MJ Burrett	Retired 7 July 2007
Air Commodore AC Spinks	Retired 4 May 2007
Dr JDC Vardon	Resigned 30 April 2007

Principal officers

Dr JDC Vardon	Chief Executive and Accounting Officer – Resigned 30 April 2007
AR Nicholls	Chief Executive and Accounting Officer – Appointed 1 May 2007

Secretary to the Agency

JR Merrett

Though Dr JDC Vardon resigned as a Member, Chief Executive and Accounting Officer on 30 April 2007 he remains an employee of the Agency.

Register of interests

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

Agency employees

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

Agency administration

The total level of personnel, excluding non executive members, required by the Agency as at 31 March 2008, remained at 19 and at the year-end all positions were filled with permanent staff. The Agency plans to recruit an additional two permanent staff in year to 31 March 2009.

Retirement benefits plan

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

Accounts

The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to The Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence (page 27).

Principal activities

The principal activity of the Agency is to manage the GPSS on behalf of the Secretary of State in accordance with the requirements and obligations of the agreement in place between them. The results of the GPSS are not included with those of the Agency, however, are included within MoD's Department Resource Account.

Agency result

The financial objective of the Agency to contain its normal operating and administrative expenses, before non-cash pension fund adjustments, within its allocated budget and to recover actual costs as a management fee from the Secretary of State for Defence was achieved during the year. Additional costs associated with the development of the Agency have increased operating costs that, in turn, have eroded net profit derived primarily from interest earned from the Agency funds resulting in a reduced net profit of £44,000 (2007: £114,000).

Payment of creditors

It is the policy of the Agency to negotiate terms with its suppliers and to ensure that they know the terms on which payment will take place when business is agreed. It is the Agency's policy to abide by the Better Payment Practice Code. The number of days of billings from suppliers outstanding at the end of the financial year was eight days (2007: 17 days).

Auditors

Further to the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003, which came into force on 23 May 2003, the Comptroller and Auditor General was appointed as the independent auditor to the Agency. The cost of the audit was £8,200. During the year the Comptroller and Auditor General also carried out a review of the Agency's Internal Controls at no additional cost.

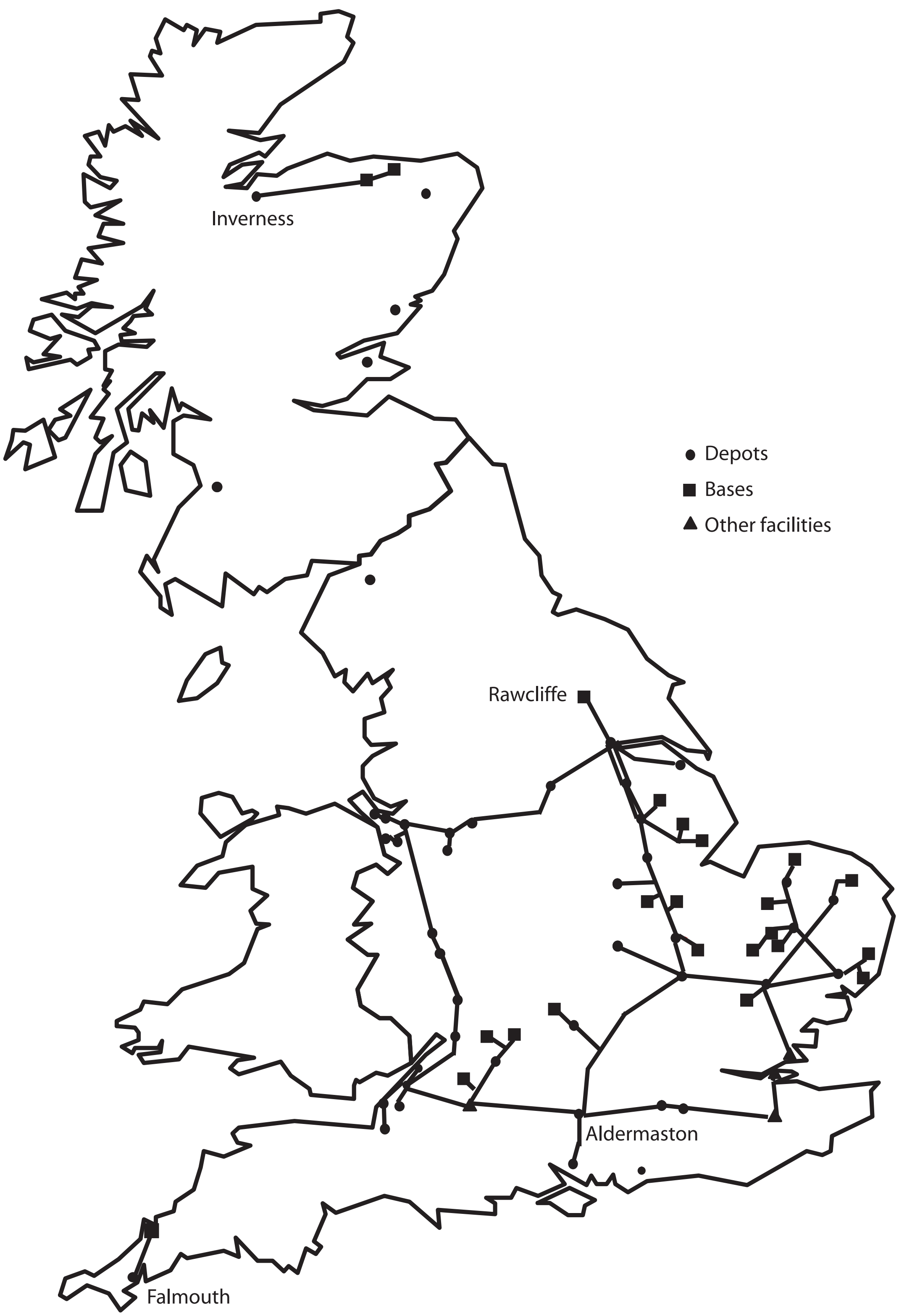
The Certificate and Report of the Comptroller and Auditor General is attached on pages 28 and 29.

Statement on disclosure to auditors

So far as I am aware there is no relevant information of which the Agency's auditors are unaware, and I have taken all appropriate steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

AR Nicholls 26 June 2008
Chief Executive and Accounting Officer

General outline of the GPSS



Rumeration report

The Remuneration Committee

The members of the Remuneration Committee are the Chairman, the Chief Executive and one independent non executive Member of the Agency and the committee is responsible for reviewing the level of remuneration of employees of the Agency. It is not responsible for the remuneration of the non-executive directors. The Secretary of State determines the remuneration of the non-executive members on their appointment. Their remuneration was reviewed during the year and changes will take effect from 1 April 2008.

Remuneration policy

The Agency sets its remuneration policy for all employees, including the Chief Executive, by comparison with competitive market rates including by periodic review with external commercial entities in similar industries. The work of the Remuneration Committee, on which MoD is represented by its appointed Member, in setting the annual salaries for employees including the Chief Executive going forward, was informed by a review of remuneration carried out by external consultants both with regard to salary levels and the payment of a non-consolidated bonus.

Remuneration details (section subject to audit)

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

		Appointed	Appointed to	2008 Salary band £000	2007 Salary band £000
F Dobbyn	Chairman	8 July 2005	7 July 2008	10 – 15	10 – 15
Dr ET Libbey	Member	8 July 2005	7 July 2008	5 – 10	5 – 10
MJ Burrett	Member	8 July 2004	7 July 2007	1 – 5	5 – 10
Air Vice-Marshall MJG Wiles	Member	28 January 2008	see below	–	–
Brigadier IW Abbott	Member	4 May 2007	see below	–	–
Major General M Wood	Member	8 July 2007	28 January 2008	–	–
Air Commodore AC Spinks	Member	1 July 2003	4 May 2007	–	–

Air Commodore AC Spinks was appointed ex-officio as Director, Defence Fuels Group, MoD and continued as a Member of the Agency until he ceased to be Director, Defence Fuels Group on 4 May 2007. On that date Brigadier IW Abbott was appointed ex-officio as Director, Defence Fuels Group in his place. Major General M Wood was and Air Vice-Marshall MJG Wiles is appointed ex-officio as Director General Joint Supply Chain. As serving members of the RAF and Army they were and are remunerated outside the Agency. The Agency has not made any pension contributions in respect of non-executive Members, who are not members of the pension scheme, nor did they receive any benefits in kind except for the reimbursement of actual expenses.

On 30 April 2007 Dr JDC Vardon resigned as a Member, Chief Executive and Accounting Officer and his remuneration during the year to 30 April 2007 was £9,000 (2007: year £103,000) and taxable benefits, derived from medical care and the use of a car, were £1,000 (2007: year £8,000). Dr JDC Vardon is a member of the Oil and Pipelines Retirement Benefits Plan and, during the period, accrued a real increase in pension payable of £0 to £2,500 per annum and had a total accrued pension payable at normal retirement age of between £45,000 and £47,500 per annum at 30 April 2007 (2007: range £45,000 to £47,500). His cash equivalent transfer value decreased from £800,000 at 1 April 2007 to £794,000 at 30 April 2007 representing a real increase after adjustment for inflation and changes in market investment factors of £5,000. Since 30 April 2007 Dr Vardon continued to be employed by the Agency.

Mr AR Nicholls was appointed Chief Executive and Accounting Officer on 1 May 2007 and in the period 1 May 2007 to 30 April 2008 his remuneration was £111,000 and taxable benefits, derived from provided accommodation, medical care and the use of a car, amounted to £12,000. Mr AR Nicholls also became a member of the Oil and Pipelines Retirement Benefits Plan and, during the period, accrued a real increase in pension payable of £0 to £2,500 per annum and had a total accrued pension payable at normal retirement age of between £0 and £5,000 per annum at 31 March 2008. His cash equivalent transfer value increased to £19,000 at 31 March 2008 representing a real increase after adjustment for inflation and changes in market investment factors of £14,000.

Retirement benefits plan

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

All permanent employees are invited to join the Agency's pension scheme and, if they do so, contribute 5 per cent of their pensionable salary to the scheme.

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

An actuarial valuation of the Plan was carried out as at 5 April 2005 and indicated that the value of the assets was at 110 per cent of the value placed upon the liabilities. A review of the options available, prompted by the valuation, resulted in the Agency and the Trustee deciding to maintain the existing defined benefits scheme and to maintain the level of contributions of the Agency and employees at 20 per cent and five per cent respectively. A further actuarial valuation of the Plan as at 5 April 2008 is being carried out.

Pension costs are accounted for under Financial Reporting Standard 17 (Notes 2 (d) and 13 to the accounts), which required an independent qualified actuary, Mr P Hardesty BSc FIA of Capita Hartshead, to carry out an actuarial assessment of the pension scheme and, at the year end, the actuary has valued the pension scheme surplus before taxation at £461,000 (2007: £1,153,000).

AR Nicholls 26 June 2008
Chief Executive and Accounting Officer

Corporate Governance

Best practice

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

Responsibilities of the Agency and Agency Committees

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

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

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

The Chairman

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

The Chief Executive and Accounting Officer

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

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

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

The Remuneration Committee

The Remuneration committee has been constituted and empowered as described in the Remuneration report above.

The Audit Committee

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

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

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

Statement of Members' accounting responsibilities

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

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

Statement on Internal Control

Responsibility

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

The system of internal control

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

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

The Agency has continued to review and update policies, procedures and authorities.

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

- the Audit committee requested the National Audit Office to undertake a review of internal controls, and continued to review the risk register of the Agency and is satisfied that the risk register provides the basis for a satisfactory process for evaluating and monitoring risk management; and
- executive personnel now have policies in place to meet governance requirements and will continue to review policies and procedure to ensure that good governance and effective management processes are in place.

Review of effectiveness

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

During the financial year the National Audit Office conducted a review of the Agency's internal controls. The review concluded that the Agency's controls framework 'appears to be robust and operating effectively, with no fundamental weaknesses identified'.

AR Nicholls 26 June 2008
Chief Executive and Accounting Officer

Profit and Loss Account for the year ended 31 March 2008

	Notes	**2008 £000**	2007 £000
Turnover	2(b)	**1,800**	1,770
Operating and administrative expenses	5	**(2,123)**	(1,961)
Notional costs – cost of capital	7	**(213)**	(219)
Operating (loss) after notional costs		**(536)**	(410)
Interest receivable from bank accounts		**285**	244
Other finance income	13	**101**	90
(Loss) on ordinary activities before taxation		**(150)**	(76)
Tax on (loss) on ordinary activities	9	**(19)**	(29)
(Loss) on ordinary activities after taxation		**(169)**	(105)
Reversal of notional costs	7	**213**	219
Profit after reversal of notional costs		**44**	114

All operations undertaken during the year are continuing

The accompanying notes on pages 18 to 26 form part of these accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2008

	Notes	**2008 £000**	2007 £000
Profit after reversal of notional costs		**44**	114
Revaluation of fixed assets	8	**2**	2
Actuarial (loss) gain recognised in the pension scheme	13	**(735)**	44
Deferred tax arising on (loss) gain recognised in the pension scheme		**143**	(8)
Total recognised gains and (losses) relating to the year		**(546)**	152

The accompanying notes on pages 18 to 26 form part of these accounts.

Balance Sheet At 31 March 2008

	Notes	**2008 £000**	2007 £000
Fixed assets	8	**217**	311
Current assets			
Debtors	10	**183**	217
Cash at bank and in hand		**5,190**	5,128
		5,373	5,345
Creditors: Amounts falling due within one year	11	**(158)**	(202)
Net current assets		**5,215**	5,143
Total assets less current liabilities excluding pension asset		**5,432**	5,454
Pension asset	13	**369**	934
Provisions for liabilities and charges	14	**0**	(40)
Net assets		**5,801**	6,348
Represented by			
Contributed capital	1(a)	**2,380**	2,380
Profit and loss account	15	**3,417**	3,966
Revaluation reserve	16	**4**	2
		5,801	6,348

F Dobbyn
Chairman
26 June 2008

AR Nicholls
Chief Executive
26 June 2008

The accompanying notes on pages 18 to 26 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2008

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

	2008 £000	2007 £000
Operating (loss) after notional costs	**(536)**	(410)
Depreciation charges	**109**	76
(Profit) on disposals of fixed assets	**–**	(2)
Pension fund charge (note 13)	**245**	235
Notional costs	**213**	219
Decrease (increase) in debtors	**34**	(48)
(Decrease) increase in creditors/provisions	**(51)**	49
Net cash inflow from operating activities	**14**	119
Cash Flow Statement		
Net cash inflow from operating activities	**14**	119
Returns on investments and servicing of finance (note 18)	**285**	244
Pension contributions paid	**(187)**	(162)
Taxation (paid)	**(37)**	(43)
Capital expenditure (note 18)	**(13)**	(202)
Increase (decrease) in cash	**62**	(44)
Reconciliation of net cash flow to movement in net funds (note 19)		
Net Funds at 1 April	**5,128**	5,172
Increase (decrease) in cash	**62**	(44)
Net Funds at 31 March	**5,190**	5,128

The accompanying notes on pages 18 to 26 form part of these accounts.

Notes to the Accounts for the year ended 31 March 2008

1 The Agency

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

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

c The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to the Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence. This Accounts Direction is reproduced on page 27.

2 Accounting policies

a Basis of preparation

The accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets to reflect their value to the business by reference to their current costs and in accordance with applicable accounting standards.

b Turnover

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

Turnover (exclusive of VAT) represents the Agency's fees received from the Secretary of State for Defence in respect of the management of the GPSS.

c Depreciation

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

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

d Pension costs

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

e Taxation

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

f Leases

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

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

Statutory Borrowing Limit

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

4 Emoluments of Members and Chief Executive

The aggregate emoluments of non-executive Members are as follows

	2008	2007
	£000	£000
Aggregate emoluments of non-executive Members	**25**	30

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

The remuneration, excluding pension contributions, during the year of the Chief Executive and executive Member to 30 April 2007 was £9,000 (2007: £103,000) and taxable benefits, derived from medical care and the use of a car, were £1,000 (2007: £8,000). The remuneration, excluding pension contributions, during the year of the Chief Executive and executive Member from 1 May 2007 to 30 April 2008 was £111,000 and taxable benefits, derived from provided accommodation, medical care and the use of a car, were £12,000. Other pension benefits are described in the remuneration report.

5 Operating and administrative expenses

Operating and administrative expenses include

	2008	2007
	£000	£000
Depreciation	**103**	76
Devaluation of assets	**6**	0
Auditors' Remuneration: Audit	**8**	8
Operating Leases – Land and Buildings	**200**	186

6 Employees

The average number of permanent employees, including Members, during the year was 23 (2007: 23) and the number of employees at 31 March 2008 was 24 (2007: 23). In respect of these employees

	2008	2007
	£000	£000
Total remuneration paid or payable	**985**	939
Social security costs incurred by the Agency	**102**	88
Pension costs (note 13)	**245**	235
	1,332	1,262

7 Notional costs

The Treasury Accounts Guidance requires a notional cost of capital to be included in the profit and loss account to represent the opportunity cost to the Exchequer of the assets employed by the Agency. Notional costs of capital have been calculated at 3.5 per cent of the average capital employed (2007: 3.5 per cent)

8 Fixed assets

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

	Leasehold improvements	Office furniture	Office equipment and computers	Motor vehicles	**Total**
	£000	£000	£000	£000	**£000**
Cost or valuation					
At 1 April 2007	134	52	317	34	**537**
Revaluations	3	2	(17)	–	**(12)**
Additions	–	1	12	–	**13**
At 31 March 2008	137	55	312	34	**538**
Depreciation					
At 1 April 2007	35	40	143	8	**226**
Revaluations	1	2	(11)	–	**(8)**
Charge for year	13	4	78	8	**103**
At 31 March 2008	49	46	210	16	**321**
Net book value					
At 31 March 2008	88	9	102	18	**217**
At 31 March 2007	99	12	174	26	**311**

9 Tax on profit on ordinary activities

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

	2008 £000	2007 £000
Current tax		
UK corporation tax on profits for the year	**13**	26
Adjustment in respect of prior period	**(10)**	–
Total current tax	**3**	26
Deferred Tax		
Pension asset (liability) adjustment	**16**	3
Total tax on profit on ordinary activities	**19**	29

The tax assessed for the year is different from the standard rate of small company corporation tax (20 per cent). The differences are explained below

(Loss) on ordinary activities before taxation	**(150)**	(76)
Corporation Tax		
(Loss) profit on ordinary activities multiplied by small company rate of corporation tax of 20 per cent (2007: 19 per cent)	**(30)**	(15)
Effects of		
Expenses not deductible for tax purposes	**1**	1
Non taxable notional charge	**42**	42
Non taxable pension asset costs less credit	**29**	27
Excess of depreciation over capital allowances for period	**7**	13
Reversal of provision non deductible for tax purposes	**(8)**	–
UK corporation tax on profits for the year	**41**	68
UK corporation tax refund on pension contributions to pension asset	**(37)**	(31)
UK corporation tax due within 12 months at 31 March	**4**	37

10 Debtors

	2008 £000	2007 £000
Trade and other debtors	**16**	59
Prepayments	**77**	69
Debtor falling due after more than one year	**33**	33
Corporation tax refund	**10**	–
Deferred tax asset (falling due after more than one year)	**47**	56
	183	217

11 Creditors

	2008 £000	2007 £000
Creditors falling due within one year comprise		
Trade and other creditors	**15**	38
Accruals and deferred income	**44**	48
Corporation tax due (note 9)	**4**	37
Other taxation and social security	**95**	79
	158	202

12 Commitments

a Capital commitments

At the end of the year there were no capital commitments authorised (2007: Nil).

b Office leasehold

The Agency occupies office premises under a lease that will expire in 2015 with a rent review or break clause in 2009. Until then there is an annual commitment to pay rent of £133,000 (2007: £133,000) and a variable service charge.

13 Retirement benefits plan

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

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

Financial Reporting Standard 17 (FRS 17) – Retirement Benefits

Further to the requirements of the Financial Reporting Manual, issued by the Treasury, the Agency continues to apply FRS17.

Actuarial assumptions

A qualified independent actuary carried out an actuarial assessment as at 31 March 2008 and the major assumptions used were

	2008 %	2007 %
Inflation rate	**3.6**	3.4
Rate of increase in salaries	**4.6**	4.4
Rate of increase in pensions in payment	**3.6**	3.4
Discount rate for liabilities	**5.5**	5.4

Charge to the profit and loss account

Profit and loss account has been charged as follows

	2008 **£000**	2007 £000
Current service cost	**(245)**	(235)
Past service cost	**–**	–
Amount charged to operating (loss) (note 6)	**(245)**	(235)
Expected return on scheme assets	**344**	290
Interest on scheme liabilities	**(243)**	(200)
Amount credited to (loss) before taxation as other finance income	**101**	90
Amount charged to (loss) before taxation	**(144)**	(145)

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

Actuarial return less expected return on assets	**(314)**	75
Experienced gains and (losses) on liabilities	**1**	(12)
Changes in assumptions	**(422)**	(19)
Actuarial (loss) gain	**(735)**	44

Balance sheet pension asset

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

	2008 **%**	**2008** **£000**	2007 %	2007 £000
Equities	**7.90**	**3,767**	6.40	4,274
Bonds	**4.80**	**1,597**	4.90	884
Cash	**5.25**	**422**	5.25	374
Total fair value of assets		**5,786**		5,532
Present value of liabilities		**5,325**		4,379
Surplus in the scheme		**461**		1,153
Related deferred tax (liability)		**(92)**		(219)
Net pension asset		**369**		934

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

	2008 £000	2007 £000
Surplus in the pension scheme at 1 April	**1,153**	1,092
Current service cost	**(245)**	(235)
Contributions to the scheme	**187**	162
Net return on assets	**101**	90
Actuarial (loss) gain	**(735)**	44
Pension scheme asset before taxation at 31 March	**461**	1,153

History of experience gains and losses

	2008	2007	2006	2005	2004
Actuarial return less expected return on assets					
Amount (£000)	**(314)**	75	809	201	406
Percentage of scheme assets (%)	**(5.4)**	1.4	16.3	5.3	12.6
Experienced gains and (losses) on liabilities					
Amount (£000)	**1**	(12)	(12)	(68)	(28)
Percentage of the present value of the scheme liabilities (%)	**0.0**	(0.3)	(0.3)	(2.1)	(1.2)
Changes in assumptions: (£000)	**(422)**	(19)	(359)	(405)	(112)
Actuarial gains (losses)					
Amount (£000)	**(735)**	44	438	(272)	266
Percentage of the present value of the scheme liabilities (%)	**(13.8)**	1.0	11.3	8.5	11.2

14 Provisions for liabilities and charges

	2008 £000	2007 £000
Additional staff costs relating to a bonus scheme to reward performance and innovation in meeting key performance targets in its management of the GPSS for the year ended 31 March 2007 was not paid and was reversed.	**–**	40

15 Profit and loss account reserve

	Profit and Loss account £000	Pension Reserve £000	**Total £000**
At 1 April 2007	3,032	934	**3,966**
Total recognised gains and losses for the year	16	(565)	**(549)**
At 31 March 2008	3,048	369	**3,417**

16 Revaluation reserve

	Total £000
At 1 April 2007	**2**
Revaluation of fixed assets for the year	**5**
Revaluation of depreciation for the year	**(3)**
At 31 March 2008	**4**

17 Contingent liabilities

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

At 31 March 2008 there were no contingent liabilities recorded (2007: Nil).

18 Gross cash flows

	2008 £000	2007 £000
Returns on investments and servicing of finance		
Interest received	**285**	244
Capital expenditure		
Payments to acquire tangible fixed assets	**(13)**	(205)
Receipts from disposals of tangible fixed assets	**–**	3
	(13)	(202)

19 Analysis of changes in net funds

	At 1 April 2007 £000	Cash flows £000	**At 31 March 2008 £000**
Cash at bank and in hand	5,128	62	**5,190**

20 Related party transactions

The Agency is sponsored by the Ministry of Defence (MoD), through the Defence Fuels Group, as its Managing Agent to manage the GPSS, a strategic defence asset, and in the MoD is regarded as a related party. The Agency receives a fee for the services it provides. At the year end none of the annual fee was outstanding (2007: £40,000).

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

21 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks faced in undertaking its activities generally by a listed entity or a bank or similar institution.

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

22 Post balance sheet events

The accounts were authorised for issue by the Accounting Officer on 26 June 2008 being the date of despatch by the Agency, to the Comptroller and Auditor General, for laying before the Houses of Parliament. There were no post balance sheet events that had an impact on these financial statements.

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

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

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

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

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

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

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

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

Signed by authority of the Secretary of State for Defence

Air Commodore AC Spinks 3 March 2004

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

I certify that I have audited the financial statements of the Oil and Pipelines Agency for the year 31 March 2008 under the Oil and Pipelines Act 1985 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies). These comprise the Profit and Loss Account, the Balance Sheet, the Cashflow Statement and the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Agency and Auditor

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

My responsibility is to audit the financial statements 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 the Oil and Pipelines Act 1985 and the directions made thereunder by the Secretary of State for Defence. I report to you whether, in my opinion, the information, which comprises the Report of the Agency, the part of the Remuneration Report not subject to audit and the Corporate Governance Report, 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 Oil and Pipelines 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 Oil and Pipelines 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 form an opinion on the effectiveness of the Oil and Pipelines 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 Report of the Agency, the part of the Remuneration Report not subject to audit and the Corporate Governence Report.I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the Oil and Pipelines Act 1985 and directions made thereunder by the Secretary of State for Defence, of the state of the Oil and Pipelines Agency's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Oil and Pipelines Act 1985 and the directions made thereunder; and
- information, which comprises Report of the Agency, the part of the Remuneration Report not subject to audit and the Corporate Governance report, 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
Comptroller and Auditor General

27 June 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

For further information about the National Audit Office please contact:

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

DG Ref: E17165 008678

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
09/08

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

Online
www.tsoshop.co.uk

Mail,Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone 0870 240 3701

TSO Shops
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliamentary Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax Orders 020 7219 3866
Email bookshop@Parliament.uk
Internet bookshop.Parliament.uk

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-328796-6

9 780103 287966