



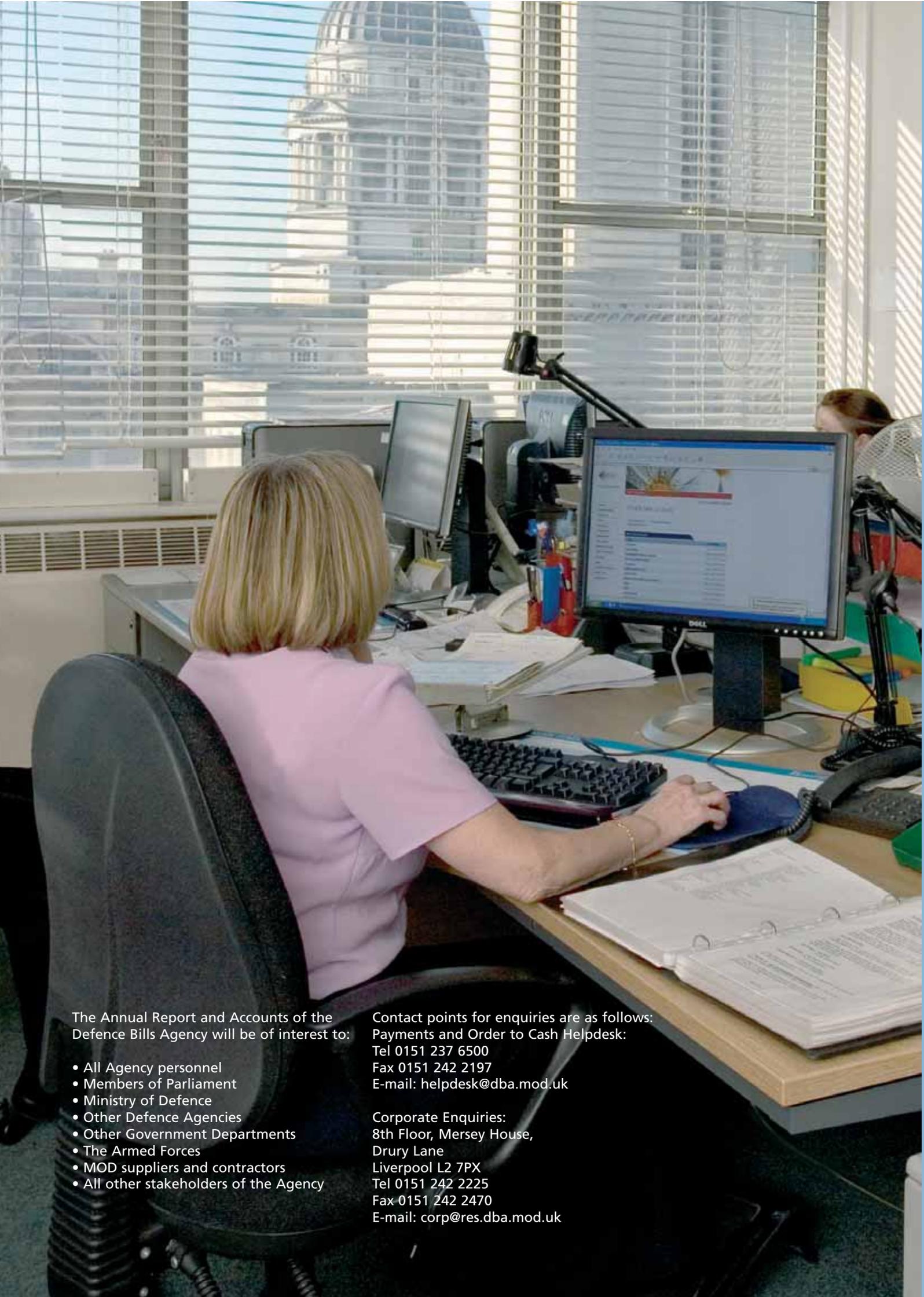
DBA | DEFENCE BILLS AGENCY

Defence



Agency

Annual
Report
and
Accounts
2007



The Annual Report and Accounts of the Defence Bills Agency will be of interest to:

- All Agency personnel
- Members of Parliament
- Ministry of Defence
- Other Defence Agencies
- Other Government Departments
- The Armed Forces
- MOD suppliers and contractors
- All other stakeholders of the Agency

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The Defence Bills Agency

Annual Report and Accounts

For the period 1st April 2006 to 31st March 2007

Presented in Parliament under Section 7(3)(c) of
the Government Resources and Accounts Act 2000

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Foreword

This has been another successful year for the DBA. The Agency achieved all its key targets for the fifth year in succession despite the challenges presented by the programme of change being implemented in Liverpool.

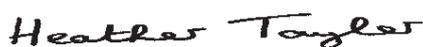
This is the first Foreword to the Annual Report and Accounts that I have had the privilege to write but this is also the last time that DBA will be publishing a document of this kind. From 1 April 2007 DBA ceased to be an agency and formed part of the Financial Management Shared Service Centre which includes the activities currently undertaken in Liverpool and also Fixed Asset Processing and Cash and Banking Services in Bath.

We have put considerable effort in the last year into improving the service that we provide to our customers. We have introduced a system to automate the transfer of invoice requests from originators to the DBA (web-enabled IRIS) and we have been actively encouraging MOD finance staff to use Bills Direct as a means of electronically passing miscellaneous payments to us. Both these initiatives should ensure that the invoice and revenue processes become even more efficient.

We have continued to reduce the paper records held in Mersey House by scanning the revenue documents. This should also enhance our service as records will be available electronically rather than searching through paper files for critical information.

By far the biggest change with which we have been closely involved is the Purchase to Pay project. This project will introduce a new system and business process to support bill payment, implementation will take place incrementally between June and September 2007. This has absorbed a substantial amount of DBA resource in the last year but this effort is now paying dividends.

With the achievement of the key targets, the successful implementation of a series of business improvements and the move to Purchase to Pay I believe everyone in the DBA can look forward to the new organisation with confidence and optimism for the future.



Heather Tayler
Chief Executive



Welcome to the Defence Bills Agency

Heather Tayler
Chief Executive



Operating from Liverpool city centre, the Agency delivers bill paying, invoicing, debt chasing and accounting services to the Ministry of Defence and other customers. The Agency operates from a single site in Liverpool employing over 500 people.

MISSION

To enhance defence business effectiveness by providing quality, responsive, value-for-money services

VISION

To add greater value to MoD financial and procurement functions by exploiting to the full the opportunities offered by the Shared Service Centre concept

OUR SHARED VALUES:

Professionalism

Striving for excellence in all we do

Commitment

To improve quality, performance and value-for-money

Respect

For all customers and stakeholders

Honesty

Probity and integrity at all times

Within the Agency we work in accordance with the following team values:

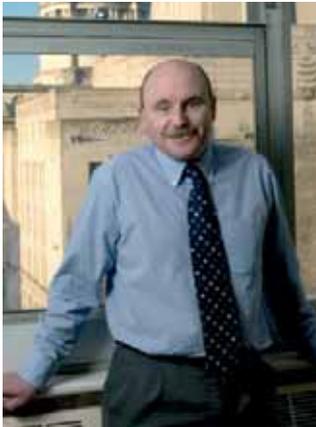
- We respect each other
- We aim for a work-life balance
- We talk to each other
- We work well together



October 2006 saw the retirement of Norman Swanney who had served as DBA Chief Executive since 2002. Under Norman's guidance the Agency grew from strength to strength achieving all key targets in four consecutive years, attaining accreditation to Charter Mark and re-accreditation as an Investor in People organisation. We wish him well in his retirement.

Management Commentary

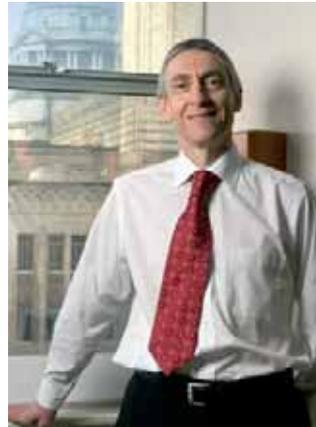
Rob Hughes
Director of Resources



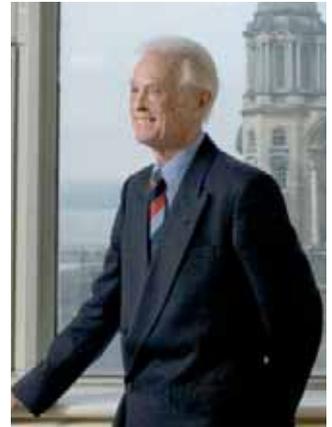
Rob Willis
Deputy Chief Executive



Dave Blohm
Director of Operations



Ashley Adams
Non-Executive Director



PERFORMANCE AGAINST KEY TARGETS

The DBA carries out the following functions for the Ministry of Defence:

- Corporate bill payment and invoicing and debt management services
- Provision of accounting records for the MoD resource accounts.
- Associated financial management information for MoD customers

KT	ACTIVITY	TARGET	OUTCOME 2006/07	TARGET MET	PREVIOUS TARGET MET	
					2005-6	2004-5
1	To pay 99.9% of correctly presented bills within 11 calendar days of receipt as part of the Department's 30-day payment target.	≥ 99.9%	✓	YES	✓	✓
2	To deliver 99% of the required accounting and financial information feed for bill payments to the Defence Management System portal within 1 working day.	≥ 99%	✓	YES	✓	✓
3	To make a progressive reduction in the unit costs for bills of at least 2% by March 2007, over the 2005/06 baseline.	≥ 2%	✓	YES	✓	✓
4	To raise 99% of invoices accurately within 4 days of receipt of a correctly authorised claimable document.	≥ 99%	✓	YES	✓	✓
5	To keep overdue collectable debt for UK customers to 12% or less.	≤ 12%	✓	YES	N/A	N/A
6	To keep overdue collectable debt for foreign customers to 35% or less.	≤ 35%	✓	YES	N/A	N/A
7	To update the Top Level Budget General Ledgers with Order-to-Cash accounting information within 2 working days.	100%	✓	YES	N/A	N/A

Management Commentary



PERFORMANCE FOR THE YEAR

In 2006-2007 DBA:

- Authorised and processed the payment of 5.2m bills
- Raised 60,000 invoices to recover money due to MoD
- Recovered £982m on behalf of MoD customer groups
- Received and successfully responded to in excess of 70,000 customer calls to the DBA Help Desk
- Provided a comprehensive service of financial management information and administrative support to MoD's customer community
- Delivered a 6% reduction over the 2005/06 baseline for unit costs of bills

Monitoring Future Performance

DBA ceased to be an agency with effect from 1st April 2007. The Agency's functions will continue within the MoD's new Financial Management Shared Service Centre (FMSSC). The performance of the FMSSC will be monitored using key performance indicators (KPIs), and the FMSSC Business Plan for 2007-08 contains KPIs agreed with the MoD's Director General Financial Management.

Going Concern

The balance sheet at 31 March 2007 shows negative Taxpayers' Equity of £2.068m. This reflects the inclusion of liabilities falling due in future years which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament to meet the Net Cash requirement of the MoD of which the DBA is part. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund by the MoD other than required for the service of the specified year or retained in excess of that need. In common with government departments, the future financing of DBA's liabilities is accordingly to be met by future grants of Supply to the MoD and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming and it has accordingly been considered appropriate to adopt a going concern basis for the preparation of the 2006-07 Agency financial statements.

Financial Performance

Net operating cost for the year of £18.276m has been charged to the General Fund. Net operating cost for the year excluding notional and non-cash costs was £14.909m. Capital expenditure for the year was £0.117m. All expenditure was contained within agreed budget allocations.



The Components of Success



One of the key recommendations of the Finance Director's Simplify & Improve initiative was the creation of a financial accounting Shared Service Centre which would have responsibility for a wide range of 'end to end' financial accounting processes. The first step in the process was the successful introduction of the Order to Cash system in December 2005 along with the creation of a new Accounting and Management Information team responsible for reconciling accounting data with Top Level Budget areas. The third phase of the Shared Service Centre implementation will be the introduction of Purchase to Pay in late 2007. The Shared Service Centre also includes a Fixed Asset accounting function carried out by staff based in Bath.

Once Purchase to Pay is introduced, the MoD will have a Shared Service Centre in Liverpool which:

- Pays bills and collects receipts
- Generates accruals, debtors and creditors in the Departmental Financial Management System (Accounting Operations), and provides contract information

Order to Cash

Further improvements to the system were delivered as part of phase 2 during May 2006 leading to faster invoice production and better information on debt accounts.

The main event this year has been the development and release of a web enabled Invoice Request Input System. This is a system (similar to Bills Direct) whereby MoD originators can input electronic requests for invoice to the Order to Cash teams. The benefits of the system are in-built validation of key input fields prior to submission and the removal of the requirement to re input information. Additionally attachments to the invoices can be accepted electronically helping to speed up the invoicing process.

Under the Finance Director's Simplify & Improve initiative work has continued to migrate from Cash Offices to DBA. This and additional work transferred from Defence Estates contributed to a 12% increase in revenue invoicing volumes in year and a 25% rise in the number of cheques received.

We have continued to review and streamline certain processes by working closely with our colleagues in the wider MoD in particular Finance Policy (Repayment) and the Departmental International Defence Training teams. In addition, we have utilised scanning technology to store images of all DBA issued invoices and attachments, leading to further reductions in paper records and improved efficiencies.



Our contract with Dun and Bradstreet gives us electronic access to their world-wide database of around 75 million suppliers. For each supplier this records their legal status (including any changes of name), address details, and a risk assessment of financial stability. This information, which is regularly updated, is used to revise the MoD's Authorised Payee File ensuring that payments are made correctly. This is particularly important in cases where there has been a change in legal status, such as a supplier going into liquidation. The data on financial stability is also of value to MoD's commercial branches, and can inform decisions in the contract tender process. For this reason, we are discussing with Commercial Services Group how best to share the Dun and Bradstreet data.

Accounting and Management Information (AMI)

The Accounting and Management Information team is responsible for ensuring that General Ledger activity is correctly reflected in the individual ledgers belonging to Top Level Budget (TLB) holders.

The enhancements to the Oracle system this year have aided the AMI processes. The resources required to prepare and issue manual journals, that represent all accounts receivable activity has been replaced by a General Ledger-to-General Ledger (GL-GL) interface that automatically calculates the entries required and presents them to the TLBs as unposted journals. This has enabled the team to perform transfers on a weekly rather than monthly basis, providing TLBs with a more up-to-date picture of their Revenue and Debt.

A 'Cash Management' process was introduced to provide an integrated Oracle solution to reconcile our bank accounts by balancing the entries to daily bank statements. This has proved beneficial in handling the additional number of payments received as a result of increased invoicing volumes.

Also introduced in year was the ability to automatically enter receipts into Accounts Receivable through the 'AutoLockbox' process using LloydsLink. The system validates the data at the point of entry into Oracle and creates a receipt for each payment received. Where an invoice reference number is quoted the system automatically applies the receipt to the invoice.

This year, we are trialling a facility to allow debtors to make payments to reduce or settle their debts by debit or credit card. The service is offered gratis to private individuals with invoices not exceeding £500 but a two percent charge is levied on larger invoices paid by credit card. It is hoped that, following the initial trial period, the facility will be open to all Debtors to enable us to recover expenditure more effectively.



Purchase to Pay

The implementation of the Purchase to Pay element of the Shared Service Centre has been given top priority during the year. The project team finalised the system design through extensive consultation and a series of workshops at which DBA and Top Level Budget issues were addressed. The design focused on four areas of concern – the approach for maintaining contract data, the potential use of the purchase ordering module, the solution for payables and the handling of interfaces.

A new Purchase to Pay Assurance Panel was created to handle governance arrangements and to provide a means of scrutinising project progress and representing and reassuring stakeholders.

Phased implementation began in June 2007 with the processing of foreign currency and Defence Fixed Telecommunications Service invoices. Full implementation follows in two more phases in August and September. The phased approach will minimise risk to the project and demonstrate the full functionality of the solution.

The involvement of DBA staff has continued throughout the project implementation. Not only have people been released to join the project, many other staff have played a significant role in ensuring that business needs are met. This has involved examining current processes with a view to streamlining, reviewing documents associated with the project such as User Requirements, Systems Requirements, Architectural Design, Processes, Organisational Design, Training – to name but a few – as well as contributing to workshops and presentations.

Without doubt it has been an extremely busy time. It is only through careful planning and prioritising that the impact on the day to day business has not been greater. We have worked hard to ensure Key Targets have not been jeopardised and we will need to sustain this level of effort until after all phases of implementation have been completed in autumn 2007.

Continuing Improvement



BillsDirect

Our "BillsDirect" system handles the processing of non-contract bills i.e. those claiming payment for goods or services supplied to MoD for which no Headquarters contract exists and which emanate from various sources within MoD. The web-enabled system for the submission of £ sterling miscellaneous bills allows Authorising Branches with access to the Restricted LAN Interconnect to submit bills on-line, rather than on paper or diskette. To date, almost a third of Authorising Branches have signed up to BillsDirect, with about 25% of bills being paid this way – over 100,000 bills with a total value in excess of £500m.

Among the benefits of the system is the validation of key parts of the Departmental Chart of Accounts (MoD's coding system for financial transactions) at the input stage, thus speeding up the payment process and reducing the number of rejected bills. Supplier details are also validated, enabling payments to be made by Banker's Automated Clearing System (BACS) – MoD's preferred payment method.

The next step is to move remaining branches across to the system, and the BillsDirect team are currently carrying out a number of geographical promotional visits which will encompass Top Level Budget sites.

Payable Order Processing

We continue to encourage our customers to use BACS to receive their payments as Payable Orders are expensive to prepare and issue, as well as representing a far greater risk of fraud than electronic transactions. Within the last two years, the average number of Payable Orders has fallen from around 9,000 to just over 5,000 per month – a reduction of 41%.

Safety, Health, Environment & Fire (SHEF)

Keen not to rest on its laurels following previous years' achievements, the SHEF team have been busy maintaining and ensuring DBA's compliance with current and new SHEF legislation and MoD Policy. A key priority has been to ensure completion of all risk assessments, ranging from individual Display Screen Equipment assessments to floor, fire and building risk assessments. DBA's commitment to SHEF was highlighted in a mid year audit in which the MoD Chief Environmental and Safety Officer described DBA as "a high performing organisation."





Scanning

The Scanning project ended this year, after successfully implementing all key deliverables and handing the system over to become part of normal business. The project was set up to digitise the MoD contract documentation DBA requires to authorise payments to suppliers. The aim of the project was to reduce unit costs by lowering the overheads related to manual paper handling while improving efficiency.

We now have a comprehensive, modern digital archive of transaction related documents.

All live contracts, amendments and bills received after September 2006 have been scanned or electronically imported, as have outgoing invoices, attachments and debtor files. All are now available to staff on-line for instant retrieval. The scanned paper records have been placed in storage, facilitating the removal of the 290 empty pirouettes and numerous filing cabinets that housed this paper mountain. The additional space created has resulted in a more comfortable working environment.

So what's in the Digital Archive so far?

- More than:
- 50 thousand contract, bill, invoice and debtor files
 - 5 million A4 pages
 - 200GB of storage used
 - If we printed it all out, we would need more than 25 tons of office paper, equal to 500 tall trees
 - Laid end-to-end that would be easily more than enough paper to stretch the entire length of the M6, and back again!

The stats are impressive, but using digital images in the workflow instead of paper realises numerous benefits, such as a slicker bill authorisation process and an end to mundane, non-productive filing tasks.

The Financial Management Information and Help Desk teams now benefit by having immediate access to bills, so improving our customer service. There are also the aesthetic and environmental benefits to the workplace due to the removal of paper contracts and the antiquated cabinets storing them. Staff and visitors alike can now see that we are a modern, professional organisation, as well as knowing that we deliver an ever improving first-class service. All this combines to drive improvements in efficiency and effectiveness. Paul Mills, from the Scanning Project Team gives this example:

"The Asset Accounting Centre recently requested sight of a particular contract. Rather than spending time and expense visiting Liverpool to thumb through hoards of paper, as they have often had to do, we were able to email them a fully text-searchable copy of the scanned contract without delay. Needless to say, they were very satisfied with this arrangement and they called to thank us. A simple but effective example of how our scanned archive will become a valuable resource for the wider MoD community."

Key Activities



Raising the Profile

Open days helped to improve customer relations with both suppliers and originators alike and provided the opportunity to advise and educate our customers on the best way to submit bills and invoices to ensure quick and efficient processing.

A number of supplier representatives attended the latest Open Day, the aim of which was to reduce the number of returned claims. A typical comment received on the day was 'Presentations like today assist companies such as ours to deal more easily and to ensure we communicate effectively between each other to supply the right product at the right time to the right location and get paid'.

The first Originators' Open Day was held in September and we were able to explain the changes introduced under Order to Cash and to raise awareness of the benefits that the IRIS system can deliver. The event was well attended and in the words of one of the attendees. 'In terms of our business relationship it was a thoroughly worthwhile and rewarding experience. The sheer enthusiasm of the people shone through the presentation and the organisation of the event itself was outstanding. The genuine desire to please the customer was everywhere and the professionalism and approachability of the people on the groups was impressive. Compared to some of the manufactured Customer service visits I have sat through this was a breath of fresh air.'

DBA staff raised the profile of the services the Agency provides by attending Corporate exhibitions and events. In October the Roadshow team attended the DCSA exhibition in Cardiff and were able to inform and educate suppliers on bill payment processes and to meet MoD staff to discuss issues and problems.

Estimated visitors to the DBA stand during the show were in excess of 700 – mainly MoD staff – who asked a variety of questions and requested further information about existing services provided and the planned enhancements to our services.

The AMI team carried out a number of visits to Top Level Budget areas during the course of the year. The visits were aimed at helping with debt reconciliation, problem solving and assessing customer satisfaction with regard to the financial information provided by means of self serve and e-mail. Further visits are planned in the near future.





Business Continuity

The Agency has a robust, coherent Business Continuity strategy which safeguards the interest of all stakeholders. A number of initiatives were introduced this year in an attempt to increase staff awareness of planning and to improve existing processes. This includes:

- A revised out-of-hours cascade procedure – introduced to ensure that all staff could be notified in the event of an emergency. A test of this in October was largely successful.
- The issue of Emergency Contact cards showing a contact freephone telephone number for use in the event of an incident/emergency affecting Mersey House.
- Awareness sessions and improved internal communications.
- A strategy to take account of pandemic flu planning.

Work is now underway to formulate a Business Continuity Management Strategy that will serve the Shared Service Centre.

Corporate Governance

The DBA approach to Corporate Governance is based on a commitment to transparent and open reporting and to the importance of maintaining a comprehensive good corporate governance regime.

Risk management is firmly linked to business objectives and is supported by working level processes. Management is committed to the effective operation of the system of internal control and during the year, carried out several reviews of the risk register to ensure that the contents continue to reflect current business concerns.

To underpin the review process, the DBA Non-Executive Director carried out an independent assessment of the Agency's Risk Management Strategy, processes and supporting documentation during the year and judged them to be in line with best practice guidance.

The Agency's Audit Committee, chaired by the Non-Executive Director, plays an important part in the governance process, overseeing the risk identification process and providing a valuable additional layer of assurance concerning the effectiveness of Agency procedures for identifying, evaluating and managing strategic and business risks, including key areas such as business continuity planning, security and SHEF.

On Reflection

In 1996, the Defence Bills Agency was launched as an Executive Agency of the Ministry of Defence. Since 1996:

The number of bills submitted for payment has increased by over 70%

Although the number of invoices raised has remained constant, the amount of monies collected continues to increase.

1996/97

The first Interactive Learning Facility within MoD opened in DBA



The Agency was successful in achieving accreditation to ISO 9001



New in-house magazine 'Watermark' established

1997/98

DBA achieved Investor in People status



The DBA football team won the MoD National Cup Final



DBA signed up to the Liverpool COMPACT programme

1998/99

Prior Options Review of the DBA carried out and five-year Service Level Agreement awarded



Helpdesk facility set up to provide a single point of contact for customers



1999/00

New interactive internet website and intranet site launched



Records storage contracted out

Pirouette storage introduced

2000/01

Customer Liaison and Marketing visits programme started

Agency recommended to become an Approved NVQ centre



2001/02

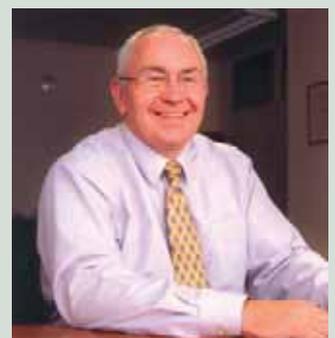
Members of DBA staff received CTLB commendations



Automated Invoicing System developed and rolled-out

Colin Balmer became Agency Owner

Iain Elrick, DBA Chief Executive since its creation in 1996, retired. Norman Swanney succeeded him



2002/03

Agency trialled term-time working

DBA GEMS Local Award Group presented with the award for MoD GEMS award group of the year.

New NOVA Enterprise server purchased



2003/04

Project FIRE implemented

DBA recycles! Environmental policy and management system introduced



Trevor Woolley appointed MoD Finance Director and Agency Owner



2004/05

DBA continues family friendly policies. Childcare voucher scheme introduced

Agency achieved accreditation to Charter Mark



Scanning project started



2005/06

Ownership of the Agency passed to Carole Tolley, Director General Financial Management (DGFM)



First part of the SSC implemented with the introduction of Order to Cash

The Agency gained accreditation to the new IIP standard

2006/07

Scanning Team received CTLB Commendation



Transition continues towards Shared Service Centre. New organisational logo created

DBA Agency status removed

The MoD Minister of State, Mr. Adam Ingram, announced to the House of Commons in a written ministerial statement on 28 March 2007 that DBA will cease to have agency status with effect from Sunday 1st April 2007. He added that "Removal of agency status from the DBA has been precipitated by the advent of MOD's new Financial Management Shared Service Centre, which has responsibility for end-to-end accounting processes"

1st April 2007 New Shared Service Centre launched

Shared Service Centre Management Board (top to bottom) Heather Tayler, Rob Willis, Rob Hughes and Tony Woodison



Directors' Report

History of the DBA

The origins of the Defence Bills Agency (DBA) can be traced back to 1939 in Liverpool. From the 1970s it was part of the Defence Accounts organisation where it remained until 1 January 1996 when the DBA was launched as a discrete Executive Agency in its own right.

Statutory Background

The DBA is an Executive Agency of the Ministry of Defence (MoD). The Agency's Owner is the Department's Director General Financial Management. The Owner receives advice from the Owner's Advisory Board on the standards of service supplied by the Agency. The composition of the Advisory Board as at 31 March 2007 is as follows:

Carole Tolley	Director General Financial Management and Owner
Jackie Adams	Director Financial Development Projects
Bill Davis	Director of Finance Policy
Nick Evans	Director General Resources Land Forces (from November 2006)
David Johnson	Defence Logistics Organisation, Director General Resources (from September 2006)
Chris Mace	Defence Logistics Organisation, Director General Resources (until September 2006)
Liz McLoughlin	HQ Land, Command Secretary (until August 2006)
David Noble	Defence Procurement Agency, Finance Director
Robin Thompson	Non-Executive Director
Mike Venables	Director of Performance and Analysis

Principal Activities

The Agency is responsible for providing the following services to MoD: the authorisation and payment of bills from MoD suppliers and contractors; the invoicing and collection of MoD receipts; and the provision of management and accounting information to budget holders and other MoD customers. We underpin our core outputs with a wide range of value-added services, to safeguard MoD's best interests. For example:

- Supplier master data **set-up** and **maintenance**, which includes **validation** checks of financial, banking and legal status, and legal referrals where appropriate.
- **Fast** invoice processing and secure **archiving** of all documentation
- **Debt collection**, including the ability to **set-off** accounts receivable from accounts payable
- Payment processing in any currency, full bank **reconciliation** and provision of **management information** (accruals, performance and forecasts)
- We have a **full audit** and quality management function and we work closely with the National Audit Office and MoD internal auditors to ensure complete and confirmed **integrity**
- Query resolution (including customer **helpdesk**)
- We bring together financial functions and continue to develop our Shared Service Centre capability, to provide **vital support** efficiently and at a **lower cost**.

Management of the Agency

The day-to-day management of the Agency is carried out by the Agency's Management Board, which at 31 March 2007 consisted of:

Heather Tayler	Chief Executive (from November 2006)
Rob Willis	Deputy Chief Executive
Rob Hughes	Director Resources
Dave Blohm	Director Operations

Ashley Adams, Non-Executive Director, attended most Management Board meetings.

Norman Swanney was Chief Executive until his retirement in October 2006.

Grant Lovett was Director Customer Services and a member of the Management Board until October 2006 when the post of Director Customer Services ceased to exist.

The members of the Management Board were appointed, and appointments may be terminated, in accordance with 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.

Equal Opportunities Policy and Employment and Training of Disabled Persons

The Agency is committed to the MoD programme on equal opportunities and has produced its own equal opportunities statement. We currently exceed the recommended MoD guidelines for accommodating staff with disabilities.

Policy On The Payment Of Creditors

The Agency as MoD's central bill payment authority has a target of paying 99.9% of correctly-presented bills within 11 calendar days of receipt. Actual performance against this target was 99.95% in 2006-2007.

Auditors

The accounts of the Agency are audited by the National Audit Office (NAO) under section 7(3)(b) of the Government Resources and Accounts Act 2000. The notional cost of the statutory audit is £31,000. The NAO has not carried out any non-audit work for the Agency during 2006-2007.



Heather Tayler
Chief Executive
26 June 2007

Remuneration Report

(The contents of the remuneration report are subject to audit by the National Audit Office).

The salary and pension entitlements of Agency senior managers for 2006-07 (with comparative salary disclosures for 2005-06) were as follows:

	Column 1 Salary including performance pay	Column 2 Real increase in pension and related lump sum at age 60	Column 3 Total accrued pension at age 60 at 31 March 07 and related lump sum	Column 4 CETV at 31 March 07	Column 5 CETV at 31 March 06	Column 6 Real increase in CETV after adjustment for inflation and changes in market investment factors £'000	Column 7 Employer contribution to partnership pension account (to nearest £100)	Column 8 Salary including performance pay 2005-06
	£'000	£'000	£'000	£'000	£'000	£'000		£'000
Heather Tayler Chief Executive (from Nov 2006)	20-25	0.0-2.5 plus 2.5-5.0 lump sum	15-20 plus 45-50 lump sum	256	231	17	Nil	Not applicable
Norman Swanney Chief Executive (until Oct 2006)	55-60	0.0-2.5	40-45	872	866	2	Nil	Not disclosed
Rob Willis Dep Chief Executive	50-55	0.0-2.5 plus 2.5-5.0 lump sum	15-20 plus 55-60 lump sum	402	367	22	Nil	45-50
Rob Hughes Dir Resources	35-40	0.0-2.5 plus 0.0-2.5 lump sum	10-15 plus 40-45 lump sum	238	228	7	Nil	40-45
Dave Blohm Dir Operations	40-45	0.0-2.5 plus 2.5-5.0 lump sum	15-20 plus 45-50 lump sum	315	284	23	Nil	0-5
Grant Lovett Dir Customer Services (until Oct 2006)	30-35	0.0-2.5 plus 0.0-2.5 lump sum	15-20 plus 50-55 lump sum	330	314	4	Nil	20-25

Heather Tayler joined the Agency as Chief Executive on 13th November 2006, and her salary disclosure, therefore, relates only to the period from November 2006 to March 2007. Also, her pension CETV value of 231 in column 5 above relates to 13th November 2006.

Norman Swanney retired as Chief Executive with effect from 31st October 2006, and his salary disclosure, therefore, relates only to the period from April 2006 to October 2006. Also, his pension CETV value of 872 in column 4 above relates to October 2006. Comparative salary information for 2005-06 is not available for Mr Swanney as consent to disclosure was previously withheld.

Dave Blohm joined the Management Board on 9th March 2006 and his comparative salary disclosure for 2005-06, therefore, relates to less than one month for 2005-06.

Grant Lovett left the Agency with effect from October 2006, and his salary disclosure for 2006-07, therefore, relates only to the period April 2006 to October 2006. Also, his pension CETV value of 330 in column 4 above relates to October 2006. Mr Lovett's comparative salary

disclosure for 2005-06 in column 8 above relates to the period from September 2005 (when he joined the Agency as Director Customer Services) to March 2006.

None of the Agency Management Board members received any benefits in kind during their membership of the Board during either year.

The Chief Executive's remuneration was determined by the Senior Civil Service Salaries Review Body. The Agency does not itself operate a Remuneration Committee.

During 2006-07, Ashley Adams, Non-Executive Director, received fees of £10,150 from the Agency.

The factors used to calculate the CETV for members of the PCSPS were revised for 2006-07, following advice from the Cabinet Office. The figures for 31st March 2006 have been recalculated using the new factors and this has led to changes to the figures published last year.

Explanations of terms

Salary

'Salary' includes gross salary; performance pay or bonuses paid in 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 it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

Pension

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution).

Columns 4 & 5 of the above table show the member's cash

equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 6 reflects the increase in CETV 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 Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Agency Contribution to Pensions

For the classic, premium and classic plus pension schemes, employers make contributions based on salary bands at rates in the range 17.1% to 26.5%. For 2006-07, the Agency paid employer's contributions of £1,705,412.91 (2005-06 £1,724,736) to the Civil Service Pension Scheme in respect of these schemes.

Additionally, the Agency paid employer's contributions of £4,718.85 (2005-06 £4,267) to partnership pension accounts (see above).



Heather Tayler
Chief Executive
26 June 2007

Statement of the Agency's and Accounting Officer's responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Defence Bills Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in an Accounts Direction dated 19 December 2006. 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:

observe the Accounts Direction issued by the 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;

prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Departmental Accounting Officer for the Ministry of Defence has designated the Chief Executive of the Defence Bills Agency as the Accounting Officer for the Agency. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in 'Government Accounting'.

Statement on Internal Control

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Defence Bills Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

2. Additionally, the responsibilities placed on me through letters of designation and delegation, require me to have effective controls in place. Risks which cannot be managed by the Agency alone are controlled in conjunction with the Department.

The purpose of the system of internal control

3. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Defence Bills Agency for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

4. During the year, as part of the continual improvement process, the DBA Non-Executive Director carried out an independent review of the Agency's Risk Management Strategy, processes and supporting documentation and judged them to be sound, with all the necessary components in place.

5. The risk register contains both risks (potential future events) and issues (current events that require closer scrutiny to enable a positive outcome) so that both are visible and managed appropriately.

6. Risks and issues are sponsored by individual board members. A senior manager, a specific post holder, or a committee may be appointed to act as a Risk Owner to ensure the risk/issue is adequately controlled. Risk Sponsors also act as Risk Owners whenever this is appropriate, for example in cases where a risk has

strategic/planning implications. Risk Sponsors ensure that risk management responsibilities within their control are properly discharged, either directly, or by senior managers through formal delegation of authority in cases where risk control measures are an integral part of process management. Risk Owners prepare Action Plans to manage risks and issues and are responsible for ensuring these are carried out. These arrangements ensure visibility is maintained and that responsibility and authority for handling risks and issues is expressed and clearly understood.

7. Both the strategic risks/issues the Agency faces and the functional risks/issues within processes owned by senior management are recorded in the Agency Risk Register and are subject to review. All risks and issues on the register are prioritised in terms of probability and impact. Together with the Management Board and the Agency Risk Manager, I carry out regular reviews of the top 5 risks and issues on the risk register and the associated risk responses on a quarterly basis. Full reviews of the contents of the Risk Register (also carried out quarterly) by the Executive Committee supplement the process.

8. The Agency Risk Manager has responsibility for the oversight and communication of the Agency's risk management strategy, ensuring it is consistent with current best practice in accordance with departmental and HM Treasury guidance and for providing an independent annual assurance on the continuing effectiveness of the Agency's risk management process. The Risk Manager initiates the annual risk management review cycle and notifies me of its completion, confirming that risk management responsibilities have been properly discharged throughout the year. A "Letter of Assurance" is issued to me by the Quality Assurance & Risk Manager each quarter, summarising risk management activities and audit findings from all sources. This process supports me in reaching a reasonable conclusion on the overall performance of the internal control environment.

9. The Agency recognises the importance of formal training for staff engaged in this task and for staff generally and a planned programme of training is in place. Training requirements are identified and carried out in line with MoD personal training and development arrangements and according to business needs.

The risk and control framework

10. The Agency management board is responsible for the effective performance of the system of internal control and delegates the task of establishing, operating and

monitoring the system to senior managers through a system of formal delegation of authority. As part of the risk review process, the Agency management board considers the nature of the risks facing the Agency and the extent and categories of risk it regards as acceptable for the Agency to bear. Agency policy is actively to manage the risks the Agency is exposed to and operate within a controlled, risk-taking culture.

11. DBA has areas of risk relating to operational, technological, reputational, human resources, finance and external aspects, as well as health and safety factors. Operational risk covers the majority of risks relating to the achievement of key targets. However, the Agency's risk appetite demands that no risk or control activity be tolerated where this may leave the Agency exposed to the potential for litigation through failure to comply with statutory or regulatory requirements. The Agency supports and encourages change and innovation, and the risk appetite extends to opportunities taken to improve Agency processes and performance. Improvement opportunities taken during the year include the successful introduction and use of scanning technology to facilitate the quick and efficient import of contract and bill data, eliminating the need to retain paper records; increased use of the web-enabled "Bills Direct" billing system, through which 25% of all miscellaneous bills submitted to the Agency are now processed and development of a web-enabled automated invoice request input system ("IRIS.") All have realised benefits in terms of reduced clerical and IT intervention.

12. All staff are empowered to report candidate risks to the Agency management board to be considered for inclusion in the Agency risk register. This is managed informally in the initial stages, to encourage active participation in the process and typically consists of a preliminary discussion with the risk manager to articulate the risk and the potential impact on the business and to support the individual in preparing a short, written brief for the Board to consider.

13. The Agency has mapped the key sources of assurance underpinning this Statement of Internal Control to demonstrate that all relevant risk and control issues are being addressed. Risk management is embedded within the Agency by promoting awareness of the risk management process and the risk register. These are readily accessible to all staff through the local intranet. Awareness of the main risks and issues faced by the Agency amongst staff is high due to the Team Brief process, part of the Communications Strategy. Additionally, the majority of systems and processes are mature, risks identified and management controls are

embedded within them. Active key risk measures include:

- a. Effective design and operation of control systems;
- b. Business Continuity Planning
- c. Comprehensive and up-to-date internal procedures;
- d. Proper use of key management controls;
- e. Effective management spot checks and reviews;
- f. Continuous review of business activities;
- g. Internal and external audit;
- h. A planned programme of IT Security Audits to both detect & deter violations of information systems and to protect their integrity;
- i. Fraud awareness

14. Management review of processes is a vital part of managing risk and is carried out principally through management supervision, balancing and reconciliation of financial records, segregation & rotation of duties. Technical measures such as firewalls and anti-virus protection, open fraud deterrence through policy statements, signed commitments by staff, fair and open competition in the tendering and recruitment processes, physical protection, recording and verification of Agency assets and the maintenance and review of write-off registers also contribute.

Review of effectiveness

15. 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 department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

16. The Agency has established the following processes:

- a. A management board which meets monthly to consider the strategy, plans and operations of the Agency (the board comprises the most senior members of the Agency);
- b. Regular reports by the Agency's audit and assurance team, to the risk based Government Internal Audit standards, which include the Quality Assurance Manager's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement;

- c. Regular reviews by managers on the steps they are taking to manage risks in their areas of responsibility;
- d. Reports from Senior Managers concerning progress on projects and the interdependencies between them;
- e. Promotion of Risk awareness;
- f. Implementation of a robust prioritisation methodology based on risk ranking and cost-benefit analysis;
- g. Establishment of key performance and risk indicators;
- h. Maintenance of an organisation-wide risk and issues register.

17. In addition to these measures, the Agency has an Audit Committee chaired independently by the Non-Executive Director appointed by the Agency's Owner. The Audit Committee, which meets three times a year, advises on corporate governance, internal controls and audit issues and also comments on the Agency Accounts prior to finalisation and submission for audit, providing reports to me and to the Agency's management board on these matters.

18. My review of the effectiveness of the system of internal control is informed by the work of the Agency's Audit Committee, the audit and assurance team and by all managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

19. My review is also informed by reports by Defence 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 in those respects together with recommendations for improvements.

20. Mindful of my obligation to ensure that the integrity of the internal control environment is safeguarded during the business restructuring process the Agency is currently implementing, I undertook my own review of the organisational structure in preparation for the transition to Shared Service Centre status, mapping existing posts across to ensure that continuity of service delivery is achieved. This structure will be reviewed again in twelve months time to ensure it is robust. I have also been engaged in the business process development for Purchase to Pay to ensure that adequate controls are introduced.

Significant internal control issues

21. The Agency defines a "significant internal control issue" as one that has had a bearing on its ability to

achieve any or all of its key targets and/or objectives or which has impacted adversely on the successful operation of a key process. A problem was identified in year relating to the process for preventing duplicate payments and an investigation into the cause was carried out. A lapse in adherence to the set procedure had occurred within the affected process. Steps were taken to rectify the matter and strengthen the procedure to prevent a recurrence.

Heather Tayler

Heather Tayler
Chief Executive
26 June 2007

Defence Bills Agency

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of Defence Bills Agency for the year ended 31st March 2007 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 Cashflow 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, certain information given in the Annual Report, which comprises the Management Commentary and Director's 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. 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 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 *Audit Opinion*

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cashflows 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

- The information given within the Annual Report, which comprises the Management Commentary and Directors' Report, is consistent with the financial statements.

Audit 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.

John Bourn

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

Date: 2 July 2007

Operating Cost Statement

For the year ended 31 March 2007

	Note	2006-2007 £'000	2005-2006 £'000
Operating Costs			
Staff Costs	2	12,498	13,189
Supplies and Services Consumed	3	1,888	1,331
Accommodation Costs	4	1,370	1,242
Other Administration Costs	5	2,529	3,419
Gross Operating Costs		18,285	19,181
Operating Income			
Less income from repayment customers	6	(9)	(14)
Net Operating Cost		18,276	19,167

All activities undertaken during the year are continuing

The movement in Government Funds is set out at note 12 on page 34

Statement of Recognised Gains and Losses

For the year ended 31 March 2007

	2006-2007 £'000	2005-2006 £'000
Unrealised surplus on revaluation of plant and machinery	8	6
Gains and Losses recognised since last report	8	6

The notes on pages 29 to 36 form part of these accounts

Balance Sheet

As at 31 March 2007

	Note	31 March 2007		31 March 2006	
		£'000	£'000	£'000	£'000
Fixed Assets					
Computers and Office Equipment		144		1,256	
Plant and Machinery		472		690	
	7		616		1,946
Current Assets					
Debtors and Prepayments	9	7		202	
Current Liabilities					
Creditors due within one year	10	(292)		(1,564)	
Net Current Liabilities			(285)		(1,362)
Total Assets Less Current Liabilities			331		584
Provisions for Liabilities and Charges	11		(2,399)		(2,098)
Net Assets / (Liabilities)			(2,068)		(1,514)
Taxpayers' Equity					
General Fund	12		(2,083)		(1,521)
Revaluation Reserve	13		15		7
			(2,068)		(1,514)

Heather Tayler

Heather Tayler

Chief Executive
26 June 2007

The notes on pages 29 to 36 form part of these accounts.

The accounts were authorised for issue on 2 July 2007. The authorised for issue date represents the date of despatch by the Accounting Officer for laying before the House of Commons.

Cash Flow Statement

For the year ended 31 March 2007

	Note	2006-2007	2005-2006
		£'000	£'000
Net Cash Outflow from Operating Activities	14	15,013	17,036
Capital Expenditure			
Cash payments to acquire tangible fixed assets		1,090	916
Net Cash Outflow before Financing		16,103	17,952
Financing			
Payments on Defence Resource Accounts		16,113	17,968
Receipts on Defence Resource Accounts		(10)	(16)
Net Financing from the Defence Resource Accounts		16,103	17,952
Increase/(Decrease) in Cash		0	0

The notes on pages 29 to 36 form part of these accounts.

Notes to the Accounts

NOTE 1. ACCOUNTING POLICIES

Basis of Accounting

1.1 The accounts for the Defence Bills Agency cover the period 1 April 2006 to 31 March 2007 and have been prepared in accordance with a direction given by the Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000. The Defence Bills Agency ceased to be an agency with effect from 1st April 2007. The Agency's functions will continue within MoD's new Financial Management Shared Service Centre, and the accounts have, therefore, been prepared on a going concern basis. The accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

Value Added Tax

1.2 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 activities.

Income

1.3 Income comprises the invoiced value of transactions for services to repayment customers. The charging basis is determined centrally by the Ministry of Defence to meet the full cost to the Department of providing bill payment services to external customers. The cost of providing these services represents the full cost to DBA. No value is attributed in the accounts to services provided to the Ministry of Defence. The funding of the Agency by the Ministry of Defence is shown in cash terms in the Cash Flow Statement.

Notional Charges

1.4 A notional charge for cost of capital is included in operating costs. This is calculated as 3.5% of the average value of net assets in 2006-07 (3.5% in 2005-06).

1.5 Notional amounts are included in the operating costs for charges in respect of services provided from other areas of the Ministry of Defence. These have been calculated using centrally produced Departmental capitation rates.

1.6 The Agency is not charged an audit fee by the National Audit Office. The audit fee shown represents the notional charge to the Operating Cost Statement based

on the cost of the services provided. No non-audit work was carried out by the auditors during 2006-07.

Fixed Assets

1.7 On 1 April the Ministry of Defence transferred responsibility for accounting for fixed assets from the 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 Agency by the asset owners and charged to the operating cost statement. Where the Agency retains the risks and rewards of ownership, assets are capitalised where the useful life exceeds one year and the cost of acquisition and installation exceeds £5,000. Additionally, grouped items of lower value are capitalised where the omission of the assets would cause the balance sheet to be materially understated. Depreciation on fixed assets is calculated to write off the cost or valuation of assets by equal instalments over their estimated useful lives. Estimated asset lives are in the range 3-5 years for computers and office equipment and in the range 5-20 years for plant and machinery.

1.8 The useful economic life of assets is reviewed regularly and where a valuation has provided a more accurate assessment this has been used.

Revaluation and Impairment of Fixed Assets

1.9 Through the application of the Modified Historical Cost Accounting Convention (MHCA), fixed assets are expressed at their value to the Agency on an inflation-adjusted basis, ie at actual or estimated current values. This is achieved through the application of prospective indices, provided by the Department, that are applied at the beginning of each financial year and look ahead to the subsequent balance sheet date.

1.10 Any reduction in valuation, below historical cost, arising either from the use of indices or professional revaluation, is treated by the Agency as an impairment and charged to the Operating Cost Statement.

1.11 Impairment also arises when a decision is made to dispose of fixed assets. In those circumstances the assets for disposal are written down in value to the net recoverable amount, and the write down is charged to operating costs as an impairment.

1.12 For 2006-07 the total charged to the Operating Cost Statement in respect of impairment of fixed assets was

£0.243m (see Note 5). This total consisted of £0.082m in respect of revaluation arising from the application of indices (see Note 1.9 above) and £0.161m arising on write down of assets due for disposal.

Operating Leases

1.13 Rentals due under operating leases are charged over the lease term on a straight line basis or on the basis of actual rentals payable where this fairly reflects usage.

Stocks

1.14 The Agency does not hold significant stocks.

Cash Balances and Liabilities

1.15 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 Departmental Resource Account and are disclosed in aggregate in the Cash Flow Statement.

1.16 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 responsible for the payment of any liabilities which may be due to the Inland Revenue or Department for Work and Pensions at the

balance sheet date, and these are not disclosed in the Agency's balance sheet.

Provisions for Liabilities and Charges

1.17 Provisions for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date. The cash flows are discounted using the HM Treasury Discount Rate. For 2006-2007 this rate was 3.5% (3.5% for 2005-2006).

Pensions

1.18 Past and present employees are covered by the Civil Service Pension (CSP) scheme, which is described in the Remuneration Report. The defined benefit scheme is an unfunded multi-employer defined benefit scheme. However, since the Agency is unable to identify its share of the underlying assets and liabilities it is accounted for as a defined contribution scheme. Contributions are paid at rates determined from time to time by the government Actuary. The Actuary valued the scheme as at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk)

NOTE 2. STAFF NUMBERS AND COSTS

The average number of whole-time equivalent persons employed (including Agency senior managers) during the year was as follows:

	2006-2007 Permanent Staff	2006-2007 Others	2006-2007 Total	2005-2006 Total
Numbers of Staff	495	15	510	544
Staff costs consist of:	2006-2007 Permanent Staff £'000	2006-2007 Others £'000	2006-2007 Total £'000	2005-2006 Total £'000
Salaries and wages	9,816	333	10,149	10,793
Social Security costs (ERNIC)	630	9	639	667
Other pensions costs	1,710	-	1,710	1,729
	12,156	342	12,498	13,189

NOTE 3. SUPPLIES AND SERVICES CONSUMED

Supplies and Services consumed comprise notional costs as follows:

	2006-2007 £'000	2005-2006 £'000
Share of MoD costs	599	659
Centrally funded staff	488	472
Centrally provided IT services	801	200
	1,888	1,331

NOTE 4. ACCOMMODATION COSTS

Accommodation costs comprise the following cash and notional costs:

	2006-2007 £'000	2005-2006 £'000
Works maintenance	247	282
Operating lease costs – buildings	589	562
Rates	221	130
Fuels and utilities	200	158
Contracted out accommodation services	113	110
	1,370	1,242

NOTE 5. OTHER ADMINISTRATION COSTS

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

	2006-2007 £'000	2005-2006 £'000
IT Maintenance and software	368	643
Depreciation	285	334
Impairment of fixed assets	243	428
Contracted out services	341	504
Cost of capital charge	(63)	(50)
Provisions - charged in-year	266	264
Provisions - unwinding of discount	35	90
IT systems not capitalised	65	102
Stationery	88	108
Postage	188	169
Telecommunications	224	229
Training and recruitment	87	109
Permanent posting costs	125	134
Travel and subsistence	92	149
Furniture	45	92
Office machinery	0	8
Operating lease costs - hire of plant and machinery	72	38
Audit fee	31	30
Miscellaneous	37	38
	2,529	3,419

NOTE 6. OPERATING INCOME

Analysis of operating income is as follows:

	2006-2007 £'000	2005-2006 £'000
Repayment income	9	14
Full cost	9	14
Surplus	-	-

Operating income reduced during 2006-2007. This was due to reductions in levels of demand from repayment customers.

NOTE 7. FIXED ASSETS

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

	Computers and Office equipment £'000	Plant and Machinery £'000	Total £'000
Cost or valuation:			
31 March 2006	1,944	773	2,717
Additions	117	0	117
Revaluations	(127)	24	(103)
Impairments	0	(211)	(211)
Reclassification	0	0	0
Transfers	(1,725)	0	(1,725)
31 March 2007	209	586	795
Depreciation:			
31 March 2006	688	83	771
Charged in Year	207	78	285
Revaluations	(45)	3	(42)
Impairments	0	(50)	(50)
Reclassification	0	0	0
Transfers	(785)	0	(785)
31 March 2007	65	114	179
Net book value:			
31 March 2007	144	472	616
31 March 2006	1,256	690	1,946

a. Total additions in the year were £117,000. These consisted of: £87,000 in respect of purchases where cash payment was completed in-year and £30,000 in respect of accrued assets.

b. The total charged to the Operating Cost Statement in respect of impairment of fixed assets was £243,000 (see Note 5). This total consisted of £82,000 (£127,000 less £45,000) in respect of revaluation of computers and office equipment, arising from the application of indices, and £161,000 (£211,000 less £50,000) arising on impairment in value of assets due for disposal.

c. The transfers of computers and office equipment relate to assets transferred to the Defence Communication Services Agency (DCSA).

NOTE 8. COMMITMENTS UNDER OPERATING LEASES

Annual commitments under non-cancellable operating leases as at 31 March were:

	31March 2007 £'000	31March 2006 £'000
Buildings leases which expire:		
within one year	-	-
in the second to fifth years inclusive over five years	562 -	562 -
Office equipment leases which expire:		
within one year	5	-
in the second to fifth years inclusive over five years	10 -	16 -
	577	578

NOTE 9. DEBTORS AND PREPAYMENTS

Amounts falling due within one year:

	31March 2007 £'000	31March 2006 £'000
Trade debtors (central government bodies)	1	2
Trade debtors (other)	0	0
Prepayments (central government bodies)	0	0
Prepayments (other)	6	200
	7	202

NOTE 10. CREDITORS AND ACCRUALS

Amounts falling due within one year:

	31March 2007 £'000	31March 2006 £'000
Trade Creditors relating to net operating cost:		
Central government bodies (excluding taxation)	0	0
Central government bodies (taxation)	0	0
Other	32	33
Accruals relating to net operating cost:		
Central government bodies (excluding taxation)	37	36
Central government bodies (taxation)	0	2
Other	141	438
Trade creditors relating to capital additions	0	0
Accruals relating to capital additions	82	1,055
Total creditors and accruals	292	1,564

NOTE 11. PROVISIONS FOR LIABILITIES AND CHARGES

	2006-2007 £'000	2005-2006 £'000
Provision 1 April	2,098	1,744
Provisions - charged in-year	266	264
Provisions - unwinding of discount	35	90
Utilised in year	-	-
Provision 31 March	2,399	2,098

Provisions for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date. It is not considered appropriate to disclose details of the purpose of provisions made on the grounds that such disclosure would be prejudicial to the Agency's legal position.

NOTE 12. GENERAL FUND

Reconciliation of Net Operating Cost to changes in General Fund:

	2006-2007 £'000	2005-2006 £'000
Net financing from the Defence Resource Account	16,103	17,952
Notional costs (Note 15)	2,538	1,445
Net operating cost	(18,276)	(19,167)
Transfer of realised element of revaluation reserve	13	4
Fixed Asset transfers (see Note 7)	(940)	(423)
Net increase/(Decrease) in General Fund	(562)	(189)
General Fund: Opening Balance 1 April	(1,521)	(1,332)
General Fund: Closing Balance 31 March	(2,083)	(1,521)

This note also reflects the movement in Government Funds

NOTE 13. REVALUATION RESERVE

	2006-2007 £'000	2005-2006 £'000
Revaluation of fixed assets	21	6
Transfer of realised element of revaluation reserve	(13)	(4)
Net increase/(Decrease) in General Fund	8	2
Revaluation Reserve: Opening Balance 1 April	7	5
Revaluation Reserve: Closing Balance 31 March	15	7

NOTE 14. RECONCILIATION OF NET OPERATING COST TO OPERATING COST CASH FLOWS

	2006-2007 £'000	2005-2006 £'000
Net Operating Cost	18,276	19,167
Adjustments for non-cash transactions:		
Increase in provisions (Note 5)	(301)	(354)
Depreciation (Note 7)	(285)	(334)
Impairment of fixed assets (Note 5)	(243)	(428)
Departmental costs (Note 15)	(2,601)	(1,495)
Cost of capital charge (Note 15)	63	50
Movements in net current assets:		
Increase/(Decrease) in debtors and prepayments (see Note 9)	(195)	158
(Increase)/Decrease in creditors and accruals (see Note 10)	1,272	(351)
Adjustment for movements in creditors and accruals relating to fixed asset acquisitions (see Note 10)	(973)	623
Net Cash Outflow from Operating Activities	15,013	17,036

NOTE 15. NOTIONAL AND OTHER NON-CASH COSTS

The notional and other non-cash cost elements included under the headings of supplies and services consumed, and other administration costs are as follows:

	2006-2007 £'000	2005-2006 £'000
Notional costs:		
Share of MoD costs	599	659
Centrally funded staff	488	472
Centrally provided IT services	801	200
Works maintenance paid centrally	236	0
Rates paid centrally	221	0
Fuels and utilities paid centrally	20	0
Telecommunications paid centrally	80	0
Permanent posting costs	125	134
Audit fee	31	30
Departmental costs	2,601	1,495
Cost of capital charge	(63)	(50)
Total notional costs	2,538	1,445
Other non-cash costs:		
Provisions	301	354
Depreciation	285	334
Impairment of fixed assets	243	428
Total other non-cash costs	829	1,116

NOTE 16. RELATED PARTY TRANSACTIONS

The Defence Bills Agency is an Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. During the period 1 April 2006 to 31 March 2007, the Defence Bills 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 were: the Defence Science and Technology Laboratory, the Meteorological Office, the Hydrographic Office, the Defence Aviation Repair Agency, and the Army Base Repair Organisation).

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

NOTE 17. CAPITAL COMMITMENTS

There were no contracted capital commitments at 31 March 2007.

NOTE 18. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2007.

NOTE 19. FINANCIAL INSTRUMENTS

FRS13, 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 agencies are financed, Defence Bills 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 FRS13 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.

Liquidity risk.

The Agency's revenue and capital resource requirements are voted annually by Parliament and are therefore not exposed to significant liquidity risk

Interest rate risk.

All the Agency's financial assets and liabilities carry no interest.

Foreign currency risk.

The Agency does not transact in foreign currencies on its own behalf and is therefore not exposed to foreign currency risk

Fair values.

Financial assets. The Agency has no financial assets other than short term debtors which do not require disclosure.

Financial liabilities. The fair value of the provision approximates to the book value. The Agency has no other financial liabilities other than short-term creditors which do not require disclosure.

NOTE 20. POST BALANCE SHEET EVENTS

There are no events since the end of the financial year which would affect the understanding of the accounts.

On 28th March 2007, the Minister of State, Ministry of Defence, Mr Adam Ingram, announced to the House of Commons, in a written ministerial statement, that with effect from 1st April 2007 the Defence Bills Agency would cease to hold agency status. Consequently, these are the last set of accounts to be prepared on the agency basis. The activities of the Agency will continue within the Ministry of Defence, and, therefore, it remains appropriate for these accounts to be prepared on a going concern basis.



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