The Oil and Pipelines Agency Account 2012-13

LONDON: The Stationery Office
HC 391 £10.75

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Presented to Parliament pursuant to the Oil and Pipelines Act 1985, Schedule 3 paragraph 9(8)

Ordered by the House of Commons to be printed on 8 October 2013

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The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

ISBN: 9780102986204

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty’s Stationery Office
10/13

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Chairman's statement

The Oil and Pipelines Agency (OPA) manages the Government Pipeline and Storage System (GPSS) and the Oil Fuel Depots (OFDs) in the UK, on behalf of its Departmental Stakeholder, the Ministry of Defence (MoD). In addition to fulfilling its defence obligations, the agency provided commercial access to the GPSS for supply of jet fuel to most major airports in England.

The final report on the Buncefield incident published in 2011 highlighted a number of lessons learned and changes in regulatory oversight. For OPA, whilst initiating the Industry recommendations for Process Safety Leadership, there has been a Competent Authority intervention which has highlighted the known deficiencies and required further improvements in our operation with the issuance of Enforcement Notices during the year. A substantial Control Of Major Accident Hazards (COMAH) compliance programme has been initiated with an aggressive timetable to bring the GPSS and OFD operations and assets in line with the rigorous application of the standard in hazardous industries. We and Costain, our OandM contractor, are working closely together and are fully committed to achieving this.

The work of MoD's Asset Management Programme continues and the Agency has and will continue to co-operate fully with plans to prepare GPSS for sale and to optimise the benefit to the taxpayer that is derived from our activities.

In this difficult year the Agency staff demonstrated their energy and determination to meet the challenges and I thank them for this and their continued commitment and support.

G Ellis 27 August 2013
Chairman

Report of the Agency

Introduction

The Oil and Pipelines Agency (OPA) 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. Where capital investment in new assets is required for commercial purposes, public funds are not used. The Agency is the Ministry of Defence's professional expert on bulk fuels storage and transportation by pipeline. Since July 2011 the OPA has had responsibility for managing the Oil Fuel Depots (the 'OFDs'). The GPSS and OFDs, strategic defence assets, are the responsibility of the Secretary of State for Defence. The Ministry of Defence (MoD) sponsors the Agency as its Managing Agent through the MoD Director Commerical.

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 assets are owned by the MoD and are accounted for in the MoD's Department Resource Account.

The OFDs

There are six Oil Fuel Depots in the UK owned by the MoD but managed and operated by the Oil and Pipelines Agency (OPA). The OFDs receive, store and issue middle distillate fuels to support Naval Command. Commercial storage is utilised at two sites where spare capacity is available.

The two OFDs located in Southern England at Gosport and Thanckes support the adjacent HM Naval Bases namely Portsmouth and Devonport. The site at Garelochhead supports Faslane Naval Base, whilst OFDs at Loch Striven, Loch Ewe and Campbeltown provide bulk storage and regional support to visiting Royal Fleet Auxiliary tankers and warships. All sites are supplied by sea.

Agency business activities

The GPSS continued to play a significant role in supplying major civil airports during the year. Throughputs for the year remained at a reduced level as a result of the general reduction in aviation activity. The full military fuel movement requirement has also been delivered. A number of HSE related maintenance projects on pipelines and storage facilities were undertaken following additional funds provided by MoD.

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 appointment of a new Asset Operations Director and two additional process safety engineers will enable the Agency to continue to improve safety, quality and operational efficiency. As part of its commitment to ensure that there is a cost-effective regime in place 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 on-line inspection of pipelines increased this year and tank inspections and repair continued at a high level with work on a total of some 12 tanks inspected and repaired in the year.

The Agency benefits from working with a number of industry bodies, including the United Kingdom Onshore Pipeline Operators' Association, Conservation of Clean Air and Water in Europe (CONCAWE), the Tank Storage Association and the Pipeline Industries Guild where industry initiatives and good practices are developed and shared. The Agency is also a member of the Linewatch group where, together with other members, it works to promote awareness amongst organisations involved in excavation of the risks of working without taking the necessary precautions in the vicinity of buried apparatus. The support that the Linewatch participants have given has resulted in more organisations undertaking the appropriate level of precautions.

OFD technical and contractual activities

The transfer of the OFDs to the OPA completed on 31 December 2012. The transition process undertaken by the depots resulted in significant change as staff, equipment, procedural systems and regulatory authorities transferred from military to civilian standards.

The transition process was project managed by the MoD with 8 separate work streams largely headed by OPA staff and including:

- HR
- Commercial
- Finance
- HSE
- Infrastructure
- IT and Communications
- Secretariat and Media Relations
- Policy.

Crude oil supply and trading

There has been no activity in crude oil supply or crude oil trading during the year.

Members and principal officers

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

Members:	G Ellis	Chairman – Non-executive (appointed 1 April 2012)
	CJS Price	Chief Executive and Accounting Officer
	L Mosco	Non-executive
	P Shortt	Non-executive (appointed 16 April 2012, resigned 17 June 2013)
	T Woolley	Non-executive (appointed 16 April 2012)
Principal Officers:	CJS Price	Chief Executive and Accounting Officer
Secretary to the Agency:	ME Edwards	

Register of interests

The Agency maintains a Register of Interests and requires all Members and staff to sign a Conflict of Interest Declaration annually. 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 number of personnel required by the Agency as at 31 March 2013, excluding non-executive members, was 122. This includes the OFD staff whose transfer from the MOD to the Agency commenced on 1 July 2012 and was completed on 31 December 2012.

Retirement benefits pension schemes

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

Accounts

These financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Principal activities

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

Agency result

The financial objective of the Agency is 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. This was achieved during the year. As a result of recruiting additional staff with the expertise necessary to meet current and future business requirements of the Agency and industry regulators, particularly the Competent Authorities, the Agency's staff costs increased. The management fee has increased accordingly. After adjustment for non-cash pension fund adjustments the Agency's result for the year was a net income after taxation of £150,000 (2012: net income after taxation £104,000).

Financial position

The Agency is in a position of strong liquidity. It is the opinion of management that the Agency has sufficient reserves to operate as planned for the foreseeable future and beyond. Sufficient cash reserves are maintained in order to meet costs that could arise in the event of The Agency being wound up and/or sold including potential commitments to ensure sufficient funds are available to meet pension liabilities.

Payment of trade and other payables

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 outstanding between receipt of invoices and date of payment calculated by reference to the amount owed to trade creditors at the period end as a proportion of the amounts invoiced by suppliers during the period, was seventy one days (2012: fifty three days). When invoices received from MoD during the last two weeks of the year are excluded, the number of days of billings from suppliers outstanding at the end of the financial year was twenty two.

Personal data related incidents

In common with other government and public bodies, MoD agencies are now required to set out in their accounts a summary of any losses (or unauthorised disclosures, or insecure disposals) of protected personal data, whether formally reported to the Information Commissioner or not but recorded centrally by the Agency. The Agency had no such reportable incidents.

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 carried out by the National Audit Office (NAO) was £16,500. No further payments were made to the NAO for non-audit work. The Certificate and Report of the Comptroller and Auditor General is attached on pages 36 and 37.

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.

CJS Price 27 August 2013

Chief Executive and Accounting Officer

General outline of the GPSS and OFDS

Remuneration report

The Remuneration Committee

The members of the Remuneration committee are the Chairman, the Chief Executive and the non executive Members 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. The Chief Executive is not involved in setting his own remuneration.

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 MoD is represented by its appointed Member.

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**	**2013 Salary band £000**	2012 Salary band £000
G Ellis	Chairman	1 April 2012	31 March 2015	**15–20**	15–20
L Mosco	Member	18 November 2008	see below	**–**	–
P Shortt	Member	16 April 2012	16 April 2015	**–**	–
T Woolley	Member	16 July 2012	16 July 2015	**5–10**	–

Mr L Mosco, Director Commercial DE&S and Mr P Shortt, Head of Business Strategy and Governance, as employees of MOD, were 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 schemes, nor did they receive any benefits in kind except for the reimbursement of actual expenses.

The remuneration during the year of Mr CJS Price, Chief Executive and executive Member from 1 April 2012 to 31 March 2013, was £129,000 which included a bonus of £9,000 relating to the year ended 31 March 2012, and no taxable benefits were paid. The bonus payment is a prior year performance related payment for 2011-12. Mr CJS Price is a member of the Oil and Pipelines Agency Group Pension Plan, the defined contribution pension scheme, and, during the year employer contributions of £14,400 were made on his behalf. Mr Price's contract can be terminated at any time giving three months' notice and includes a provision for a performance related bonus of between 0 per cent and 10 per cent of basic salary.

The remuneration of the highest paid director for the year was £129,000 (2012: £122,000), being a ratio of 4.6 of the median remuneration paid for the year which was £28,158. (2012: £37,958)

Retirement Benefits Pension Schemes

The Agency operates two funded defined benefits pension schemes, the Oil and Pipelines Agency Retirement Benefits Plan and the Federated Pension Plan, providing benefits based on final pensionable pay. The Agency also operates a defined contribution scheme. Both of the defined benefits schemes are closed to new entrants and all new employees of the Agency are offered membership of the defined contribution pension scheme.

Oil and Pipelines Agency Retirement Benefits Plan

The Oil and Pipelines Agency Retirement Benefits Plan is a defined benefits scheme managed by The OPA Pension Trustees Limited. Separate financial statements for the Plan are produced each year which show the movements on the fund account and the value of its assets. The constitution of the Plan and the powers and duties of the Board of the Trustees are set out in the Third Definitive Trust Deed and Rules dated 13 September 2010 (together hereinafter referred to as the Trust Deed). The Trust Deed replaced the Second Definitive Trust Deed and Rules dated 1 December 1992 as amended which in turn replaced the trust deed and rules dated 27 September 1982 (referred to in the Trust Deed as the First Definitive Trust Deed and Original Rules) as amended.

The Third Definitive Trust Deed and Rules was put in place to consolidate the Second Definitive Trust Deed and Rules with amendments to it and to ensure that the retirement benefits plan remained compliant with current pension legislation.

The assets of the scheme are held separately from those of the Agency and are invested in a separate trustee administered funds. The contributions are determinded 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 2011 and indicated that the value of the assets was at 100 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 increase the level of contributions of the Agency and employees from 20 per cent and 5 per cent to 32.8 per cent and 8 per cent respectively.

Pension costs are accounted for under International Accounting Standard 19 (notes 2(e) and 13 to the accounts), which require an independent qualified actuary, Mr J McCoy FIA of Capita Hartshead, to carry out an actuarial assessment of the pension scheme. At the year end, the actuary has valued the pension scheme surplus before taxation at £362,000 (2012: £96,000). Separate financial statements for the plan are produced each year.

Federated Pension Plan

The Federated Pension Plan is a GAD certified defined benefits multi-employer scheme managed by PAN Trustees Limited, a professional trustee that runs the scheme on behalf of the various organisations who particpate in it. This scheme is used to provide the OFD staff who transferred into OPA on 1 July 2012, benefits complying with the Fair Deal that are broadly equivalent to those enjoyed by members of the Prinicipal Civil Service Pension Plan.

The assets of the scheme are held separately from those of the Agency and are invested in a separate trustee administered fund. The Agency are the Trustee have agreed to make employer contributions of 35 per cent and employee contributions ranging between 2.1 per cent and 5.1 per cent according to the employee's job level. OPA commenced with the scheme on 1 July 2012 and consequently the liability is not significant. However, members were given the option to transfer in past service from the Principal Civil Service Pension Scheme and if a significant number of members exercise this option the liability could increase. Members had until 18 April 2013 to decide whether to exercise this option. Any resulting past service to be transferred will be by way of a bulk transfer under the terms agreed between GAD and the scheme trustee.

Pension costs are accounted for under International Accounting Standard 19 (notes 2(e) and 13 to the accounts), which require an independent qualified actuary. Ruth Ward, JLT Benefits Solutions Ltd, to carry out an actuarial assessment of the pension scheme. At the year end, the actuary has valued the pension scheme surplus before taxation at £79,000 (2012: nil). Separate financial statements for the plan are produced each year.

Defined Contributions Scheme

The Agency operates a defined contribution scheme. Defined employer and employee contributions are paid into externally managed funds.

CJS Price 27 August 2013

Chief Executive and Accounting Officer

Statement of the Chief Executive and Accounting Officer's 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 comprehensive net expenditure and cash flows 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 going concern basis unless it is inappropriate to presume that the Agency will continue in operation.

The Chief Executive, as Accounting Officer for the Agency, is also 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 "Managing Public Money".

Governance Statement

As Accounting Officer and Chief Executive, this statement provides me with the opportunity to outline how I have discharged my responsibilities to manage and control the Oil and Pipelines Agency's (the 'Agency') resources during the course of the year. I have responsibility for ensuring delivery of the 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 Managing Public Money. Such funds and assets include those relating to the Government Pipeline and Storage System ('GPSS') and Oil Fuel Depots ('OFDs'), which are the property of the Ministry of Defence. The Agency exercises financial and technical control over the operation and maintenance of these funds and assets, within the constraints set by the Ministry of Defence, in its capacity as Managing Agent for the Secretary of State. The Agency's Business Services Director assists me in this.

Best Practice

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

The Agency board seeks to drive improvements in the performance and efficiency of the Agency by providing leadership on strategic and operational issues. As such, the board seeks to comply where it is deemed relevant and practical with the 2011 Code (Corporate governance in central Government departments: Code of Good Practice), which is focused on the role of boards.

Role of the Board

The Code states that every Board should agree and document its role and responsibilities. This information for this accounting year was detailed in our Framework Document and Terms of Reference.

Board composition

The OPA Board comprises five members, as defined by the Oil and Pipeline Act 1985. As at 31 March our Board comprised a non-executive Chairman, three non-executive members (two of which are representatives from MOD) and one executive director.

A formal appointment procedure exists to ensure the Board contains an appropriate balance of skills to deliver its objectives.

The Chairman

Minister (DEST), acting on behalf of Secretary of State for Defence, 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.

Board effectiveness

There have been 3 Board workshops during the year to focus on specific areas of the business including Board performance which focused particularly on roles and behaviours at board meetings. The Chairman has conducted individual meetings with all Agency members, changes have been made to terms of references for the Board and for the Committees. Improvements have been made to the information provided in, and timeliness of, Board papers, particularly in relation to introducing meaningful KPIs. A Board plan has also been developed and is continually evolving throughout the year.

In addition to a minimum of quarterly meetings and 2 Board workshops, the Board receives management accounts which deliver high quality information in a timely fashion. The Management accounts are reviewed against budget and prior years in order to assess performance. This assists in identifying any potential areas of weakness as well as in decision making.

Risk management is a key focus of the Board, which has established the Health, Safety, Environment and Quality ('HSEQ') Committee in addition to the Audit Committee to assist the Agency in mitigating the industry specific risks it faces. The roles and activities of these committees are detailed below.

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 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 management of the Agency is delegated by the Agency to the Chief Executive, who is appointed the Accounting Officer for the Agency by the Permanent Secretary.

The Audit Committee

The Audit committee of the Agency comprises three members, Mr T Woolley, Ms M Black and Mr G Watts. Mr T Woolley, who was appointed during the year and is the Chair of the Audit Committee, is also a Member of the Agency. Mr G Watts was also appointed as a member of the Audit Committee during the year. 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 of the Agency.

The Chief Executive is not a member of the Agency's Audit committee. However, he does attend meetings.

During the year the Audit Committee held 3 meetings and received comprehensive reports from management and the internal and external auditors. In particular it reviewed the Agency's risk register and monitored the effectiveness of the procedures for identifying and mitigating risks and internal control over financial reporting. It also discussed with management, the external auditors and internal auditors issues that arose on accounting policies. The Audit Committee also requests reports on such matters it deems appropriate. With a new Chairman and another new member of the Audit Committee appointed during the year the Audit Committee's activities were considered and recommendations were made and implemented to improve the effectiveness of the Committee. A thorough review of the Audit Committee's effectiveness is planned for later in 2013.

The Audit Committee reviews the annual accounts of the Agency, GPSS and the OFDs, together with the plans and reports of The Agency's internal and external auditors. The external auditors are the National Audit office, which provides annual assurance on the financial accounts of the Agency. The internal auditors are Defence Internal Audit (DIA), who provide regular assurance on the adequacy and effectiveness of The Agency's arrangements for risk management, internal controls and corporate governance.

Throughout the year, DIA conducted a thorough audit of The Agency, focusing on the following areas:

Security and Integrity of IS Systems, which received an audit opinion of substantial assurance, Governance, OFD Fuel Quality, Legal Aspects of Employment and Continuity of Product Supply. Amongst DIA's key findings were that the audit committee and risk management system are operating effectively and continuing to improve. Overall the DIA have concluded that based on the audits conducted during the year, the Agency has limited assurance.

DIA's audit of OPA Governance concluded that OPA had made progress implementing components of their governance framework; however, this progress has been constrained by emerging HSE issues which have consumed much of the senior management team's time. The Agency has recognised that there is a pressing need to improve asset management, internal processes and staff skill sets in order to achieve the desired level of performance that meets client and stakeholder requirements. OPA management have set a clear aim to improve performance and this programme has been 'branded' the High Reliability Organisation Programme. Given the importance of this improvement programme, in terms of strategic risk mitigation, this will be subject to independent assurance and review as part of the 2013-14 audit programme.

The Health, Safety, Environment and Quality ('HSEQ') Committee

As previously mentioned, the Agency has established a Health, Safety, Environment and Quality (HSEQ) Committee as a Committee of the Board to support them in their responsibilities for issues of Health, Safety, Environment and Quality. The role of the Committee is to consider information received and provide the Board with assurance (and supporting evidence) that an effective HSEQ management system is operated throughout the Agency. Information received includes HS&E performance data, the outputs of the assurance process and external audits and reports. The Committee shall also provide the Board with assurance that a strong safety culture and leadership is in place within the Agency.

As at 31 March 2013, The HSEQ Committee comprises five members and is chaired by Mrs Rosalind Roberts. Mr Richard Sims is appointed as the Agency's liaison with MOD. The remaining four members are Agency employees:

Charles Price – Chief Executive and Accounting Officer

Nancy Harmer – Assurance Manager

Simon Cook – Asset Technical Director

Alister Walgate – Asset Operations Director

The HSEQ Committee met three times as a formal committee and once as a workshop this year. Key improvements and activities during the year were as follows:

- Appointment of Asset Operations Director to lead the Agency in improving asset operations, particularly those of our Operating and Maintenance contractor across the GPSS and OFDs.
- Continuation of Process Safety Leadership through competence development of the Board, regular site tours by Senior Management and the further development of process safety performance indicators.
- Appointment of two additional Process Safety Engineers to lead the hazard identification and risk analysis for the COMAH Sites.
- Development of clear standards for an asset management policy, pipeline integrity management policy, electrical safety policy, alarm management, secondary and tertiary containment policy and bulk storage tank overfill protection policy.

Remuneration Committee

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

Attendance at Board and Board committee meetings

Attendance during the year for all Board and Board committee meetings is given in the table below. Board and committee meetings were held quarterly, except for the Remuneration Committee which is held bi-annually.

	Board	**Audit Comitteee**	**HSEQ Committee**	**Remuneration Committee**
Charles Price	4/4		3/3	2/2
Les Mosco	3/4			2/2
Graham Ellis	4/4			2/2
Peter Shortt	4/4			2/2
Trevor Woolley*	3/3	2/2		2/2
Moira Black		3/3		
Graham Watts*		2/2		
Edward Libbey		1/1**		
Rosalind Roberts			3/3	
Simon Cook			3/3	
Nancy Harmer			3/3	
Alister Walgate*			1/1	
Richard Sims			3/3	

* Appointed part way through the year
** Resigned part way through the year

The risk and control framework

The Agency has continued to develop and implement formal Governance and Assurance Strategies which clearly set out the governance framework, roles, responsibilities and detailed internal controls during the year.

The Agency's corporate governance framework consists of the following, together with effective information and communication systems:

- Code of conduct and accountability
- Roles and responsibilities
- Risk Management System
- Internal Financial Control
- Internal Control System
- Assurance System

The Agency's Internal Control Framework comprises:

- Committee Structure (Agency, Audit, HSSEQ and Remuneration Committees)
- Organisation structure and reporting lines
- Business Planning Process
- Risk Management System
- Performance Management System
- Human Resources System
- Review
- Monitoring

Risk assessment

One of the Board's main tasks is to ensure that the Agency, the GPSS and the OFDs are run effectively and that material risks are identified, understood and that the systems of risk management and internal control are in place to manage these risks.

This is done by:

- Regular reviews of the material risks using the Agency Risk Register and considered in the Agency's business plan (monthly by the Management team and at least quarterly by the HSEQ Committee, Audit Committee and Board).
- Ensuring that the approach to risk is filtered down to all employees within the Agency.
- Maintaining, through the board and its committees, clear oversight of the system of internal control and risk management established and maintained by the Accounting Officer.

The Board has also conducted a thorough review of the Agency's risk management framework. It was agreed that the next steps in developing the risk management system was to set and formally approve the risk tolerability criteria. The Board aims to ensure the risk management system is in line with best practice as part of the High Reliability Organisation Programme.

The following are newly identified risks/mitigation actions since 1 April 2012:

- Operational compliance

  The task of the OPA 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. Any operational shortcomings could compromise these tasks, resulting in reputational damage and the loss of income. The OPA identified a need to become more pro-active in managing the various sites under its control and subsequently instituted cultural and structural changes to ensure asset and reputational integrity going forward.

- Integration of OFDs

  At the end of the 2012 financial year the year the Agency took over full management responsibility from the MoD of the six OFDs based in the UK. The Agency faces significant exposure to Enforcement Action from the Competent Authority as a result of the lack of investment in these aging assets. Defence Infrastructure Organisation has been engaged to deliver key infrastructure improvement projects but these are medium to long term measures, and in the short term OPA has to implement mitigations to reduce business risk.

- Project and O&M safety

  The OPA is subject to Control Of Major Accident Hazard Regulations (COMAH), Environmental Protection Act and Construction, Design and Management (CDM) regulations due to the nature of its activities. Any failure in safety procedures and systems could potentially result in environmental damage, serious injury or even loss of life due to the risks associated with these activities. The Agency therefore takes Process Safety and Occupational safety very seriously, and has increased activity in this area due to the additional responsibility of managing the OFDs. A four year High Reliability Organisation (HRO) Programme for improvement has been developed and approved by the Board for rollout in the following financial year. Amongst the key responsibilities of The Health Safety Environment and Quality ('HSEQ') Committee are to ensure the OPA and any third party O&M contractors comply with the above legislation, and to develop safety leadership amongst OPA and O&M contractor staff.

- Transition to a Single O&M Contractor

  The new O&M contractor started control of operations at the start of the year as planned. Both OPA internal audits and interventions by the Competent Authority have identified gaps between good practice in Process Safety Management and current capabilities which are being addressed via the HRO Programme noted above.

Review of effectiveness of risk management and internal control

I am 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 and supported by the work of the Agency's Audit Committee itself. Any anomalies or unexpected outputs are investigated and discussed with Members where appropriate. As mentioned earlier in this report, the DIA have conducted a number of audits during the year, in areas where I believe significant improvements can be made. Their audit findings have given the Agency limited assurance. Myself and my team will work with the DIA to implement the agreed recommendations from the audits completed during the year.

I have now completed my second full accounting year as Chief Executive Officer and Accounting Officer. Following the appointment of an executive management team during 2011-12 which strengthened the internal controls in place, a further executive management position was identified. As a result we have appointed an Asset Operations Director to reinforce the existing management team. The risk management system continues to be robustly reviewed at monthly management meetings and then further reviewed by the Audit Committee and the Agency.

The Framework Document between MOD and the Agency sets out the roles, responsibilities and accountability of both parties.

CJS Price
Chief Executive and Accounting Officer

Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

	Notes	**2013**	2012
		£000	£000
Expenditure			
Staff costs	5	**(4,910)**	(2,947)
Depreciation	8 & 9	**(51)**	(64)
Other expenditures	6	**(1,340)**	(1,266)
		(6,301)	(4,277)
Income from activities	2 b	**6,406**	4,275
Net income (expenditure)		**105**	(2)
Interest receivable from bank accounts		**70**	71
Other finance income	13	**16**	70
Net income (expenditure) after interest and other finance income		**191**	139
Tax on taxable net income (expenditure) after interest and other finance income	7	**(41)**	(35)
Net income (expenditure) after taxation		**150**	104

Other comprehensive expenditure

Net (loss) gain on revaluation of property plant and equipment		**–**	4
Actuarial gain/(loss) recognised in the pension scheme	13	**157**	(409)
Deferred tax arising on loss recognised in the pension scheme		**(31)**	87
Total comprehensive income (expenditure) for the year		**276**	(214)

The accompanying notes on pages 21 to 34 form part of these accounts.

Statement of Financial Position at 31 March 2013

	Notes	**2013** £000	2012 £000
Non-current assets			
Property, plant and equipment	8	**45**	86
Intangibles	9	**3**	15
Total non-current assets		**48**	101
Current assets			
Trade and other receivables	10	**1,166**	1,326
Bank short term deposit		**–**	–
Cash at bank and in hand		**5,358**	5,280
Deferred tax asset		**58**	58
Total current assets		**6,582**	6,664
Total assets		**6,630**	6,765
Current liabilities			
Corporation tax due		**(3)**	(12)
Trade and other payables	11	**(1,126)**	(1,253)
Total current liabilities		**(1,129)**	(1,265)
Total assets less current liabilities		**5,501**	5,500
Non-current assets			
Pension assets	13	**352**	77
Assets less liabilities		**5,853**	5,577
Reserves			
Contributed capital	1 a	**2,380**	2,380
General fund reserve	14	**3,471**	3,193
Revaluation reserve	15	**2**	4
		5,853	5,577

Graham Ellis (Chairman) 27 August 2013
CJS Price (Chief Executive and Accounting Officer)

The accompanying notes on pages 21 to 34 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2013

	2013	2012
	£000	£000
Cash flows from operating activities		
Net expenditure after interest before other finance income and taxation	**175**	69
Depreciation charges	**51**	64
(Profit) / loss on disposal of fixed assets	**(6)**	(9)
Revaluation of property, plant and equipment	**–**	1
Defined benefit pension fund charge (note 13)	**308**	141
Defined benefit pension contributions paid (note 13)	**(480)**	(128)
Taxation (paid) refunded	**(11)**	(7)
(Increase)/decrease in trade and other receivables	**160**	(1,181)
Increase/(decrease) in trade and other payables	**(127)**	823
Net cash inflow (outflow) from operating activities	**70**	(227)
Cash flow from investing activities		
Purchase of non-current assets (note 17)	**8**	(36)
Increase (decrease) in cash and equivalents	**78**	(263)
Cash and equivalents at the beginning of the year	**5,280**	5,543
Cash and equivalents at the end of the year (note 18)	**5,358**	5,280

The accompanying notes on pages 21 to 34 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	Contributed Capital £000	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 1 April 2011	2,380	3,411	–	5,791
Changes in taxpayers' equity for the year ended 31 March 2012				
Net gain/(loss) on revaluation of property, plant and equipment	–	–	4	4
Net income/(expenditure)	–	104	–	104
Actuarial gain/(loss) recognised in the defined benefit pension fund	–	(409)	–	(409)
Deferred tax arising on gain recognised in the defined benefit pension fund	–	87	–	87
Balance at 31 March 2012	2,380	3,193	4	5,577
Changes in taxpayers' equity for the year ended 31 March 2013				
Net gain/(loss) on revaluation of property, plant and equipment	–	–	–	–
Net income /(expenditure)	–	150	–	150
IAS 16 transfer between reserves		2	(2)	–
Actuarial gain/(loss) recognised in the defined benefit pension fund	–	157	–	157
Deferred tax arising on loss recognised in the defined benefit pension fund	–	(31)	–	(31)
Balance at 31 March 2013	2,380	3,471	2	5,853

The accompanying notes on pages 21 to 34 form part of these accounts.

Notes to the Accounts for the year ended 31 March 2013

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 and OFDs under the terms of agency agreements 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 35.

2 Statement of accounting policies

These financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where a FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of The Oil and Pipelines Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by The Oil and Pipelines Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

a Basis of preparation

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

Since the Agency manages the GPSS and OFDs only as an agent of the Secretary of State for Defence, the result of this activity is excluded from the Agency's accounts. The assets of The GPSS and OFDs are excluded from the Agency's Statement of financial position.

b Operating Income

Operating income (exclusive of VAT) represents the Agency's fees received from the Secretary of State for Defence in respect of the management of the GPSS and OFDs:

	2013	2012
	£000	£000
GPSS	**3,680**	3,815
OFDs	**2,726**	460
	6,406	4,275

c Property, plant and equipment

IAS 16 requires measurement of property, plant and equipment at fair value. Expenditure on property, plant and equipment of £1,000 or more is capitalised.

d Depreciation

Property, plant and equipment 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	
Leasehold Improvements	Over the lesser of ten years and the life of the lease.
Other Office Furniture	10
Computers	3
Other electronic equipment	4
Motor Vehicles	4

e Pension costs

Pension costs incurred in respect of the defined contribution pension fund are charged to the statement of comprehensive net expenditure.

Pension costs incurred in respect of the defined benefit pension fund are accounted for under IAS 19. The service costs of providing retirement benefits to employees, together with the cost of any benefits relating to past service, are charged to the statement of comprehensive expenditure. 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 statement of comprehensive expenditure as other finance income. Differences between actual and expected returns on assets during the year are recognised in the general reserves account in the year together with any differences arising from changes in assumptions.

f Taxation

The charge for taxation is based on the taxable profit for the year and takes into account deferred taxation. Following IAS 12 (Income Taxes), deferred tax has been recognised as a liability or an asset if transactions have occurred at the year end 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.

g Leases

Operating lease rentals are charged to the statement of comprehensive net expenditure as incurred.

h Staff costs

Under IAS 19 Employee Benefits legislation, all staff costs must be recorded as an expense as soon as the organisation is obliged to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave has been determined and charged to the statement of comprehensive expenditure.

i Financial instruments

The Oil and Pipelines Agency does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables (notes 10 and 11). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the Agency will be unable to collect an amount due in accordance with agreed terms.

j Operating segments

The Agency reports its activities as a whole and does not have any sections of business which represent separate income streams as per the definition of operating segment under IFRS 8.

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:

	2013	2012
	£000	£000
Aggregate emoluments of non-executive Members	**24**	17

The Agency has not made any pension contributions in respect of non-executive Members, who are not members of the pension schemes, 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 was £129,000 including £9,000 bonus (2012: £122,000 including £2,000 bonus). No taxable benefits were derived during the year. Other pension benefits are described in the remuneration report.

5 Staff costs

The average number of permanent employees, including Members and Committee Members, during the year was 108 (2012: 53) and the number of employees at 31 March 2013 was 127 (2012: 57). This increase was due to the transfer of staff from MoD to OPA during the year. The average of whole-time equivalent non-permanent persons employed during the year was two (2012: 4). Staffing costs were as follows:

	2013	2012
	£000	£000
Wages and salaries – to permanently employed staff	**3,846**	2,122
– to other contract and temporary staff	**96**	344
Social security costs incurred by the Agency	**382**	229
Defined benefit pension costs	**349**	141
Defined contribution pension costs	**237**	111
	4,910	2,947

6 Other expenditures

	2013	2012
	£000	£000
Office operating lease – buildings (note 12)	**205**	200
Other occupancy costs	**166**	141
Staff related costs	**168**	103
Travel, subsistence and hospitality	**209**	181
Recruitment and training	**213**	194
Professional fees	**131**	125
Provision for compensation (note 11)	**–**	115
Auditors' Remuneration: Audit (NAO)	**17**	12
Office supplies and equipment	**137**	120
Other administration costs	**100**	83
Non-cash items		
Revaluation of property, plant and equipment	**–**	1
Loss on disposal of property, plant and equipment	**(6)**	(9)
	1,340	1,266

7 Tax on net operating income on ordinary activities

The tax charge in the statement of comprehensive net expenditure is derived as follows:

	2013	2012
Current Tax	**£000**	£000
UK corporation tax on taxable profits (losses) for the year	**4**	12
Adjustment in respect of prior period	**(1)**	5
Total current tax	**3**	17
Deferred tax	**38**	18
Total tax on net income (expenditure)	**41**	35

8 Tangible assets – property, plant and equipment

The movement in property, plant and equipment and accumulated depreciation during the year is shown below:

	Leasehold Improvements	**Office Furniture**	**Computers and Office Equipment**	**Motor Vehicles**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation:					
At 1 April 2012	82	69	311	17	479
Revaluations	–	–	–	–	–
Additions	–	–	1	–	1
Disposals	–	–	–	(17)	(17)
At 31 March 2013	82	69	312	–	463
Depreciation:					
At 1 April 2012	49	53	278	13	393
Revaluations	–	–	–	–	–
Charge for year	14	2	22	1	40
Disposals	–	–	–	(14)	(14)
At 31 March 2013	63	55	300	0	418
Net Book Value:					
At 31 March 2013	19	14	12	(0)	45
At March 2012	33	16	33	4	86

Note

IAS 16 requires measurement of property, plant and equipment at fair value.

8 Tangible Assets – property, plant and equipment (continued)

The movement in property, plant and equipment and accumulated depreciation during the year ended 31 March 2012 is shown below:

	Leasehold Improvements	Office Furniture	Computers and Office Equipment	Motor Vehicles	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation:					
At 1 April 2011	49	51	307	49	456
Revaluations	9	1	(1)	–	9
Additions	24	17	5	–	46
Disposals	–	–	–	(32)	(32)
At 31 March 2012	82	69	311	17	479
Depreciation:					
At 1 April 2011	32	49	255	31	367
Revaluations	6	1	(1)	–	6
Charge for year	11	3	24	13	51
Disposals	–	–	–	(31)	(31)
At 31 March 2012	49	53	278	13	393
Net Book Value:					
At 31 March 2012	**33**	**16**	**33**	**4**	**86**
At March 2011	17	2	52	18	89

9 Intangible assets – computer software

Intangible net current assets comprise purchased software licences and other software. The movement in computer software and accumulated amortisation during the year is shown below:

	At 1 April 2012	Revaluations	Additions	Charge for year	At 31 March 2013
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation	39	–	–	–	39
Amortisation	24	–	–	12	36
Net Book Value	15	–	–	(12)	3

10 Trade and other receivables

	2013	2012
	£000	£000
Trade and other receivables falling due within one year comprise:		
Trade and other receivables	**589**	1,164
Accrued Income	**370**	3
Prepayments	**174**	126
Trade and other receivables falling due after more than one year comprise:		
Other receivables	**33**	33
	1,166	1,326

Included in Trade and other receivables is £90,339 due from the MOD relating to purchase invoices received on behalf of the OFDs (2012; £249,170).

Included in Trade and other receivables is £nil due from the MOD relating to purchase invoices received regarding the Operational Efficiency Program (OEP) (2012; £302,369).

11 Trade and other payables

	2013	2012
	£000	£000
Trade and other payables falling due within one year comprise:		
Trade and other payables	**577**	293
Accruals and deferred income	**244**	525
Provisions	**–**	115
Other taxation and social security	**305**	320
	1,126	1,253

Included in Trade and other payables is £58,638 relating to purchase invoices received on behalf of the MOD relating to the OFDs. (2012; £165,030)

Also included in Trade and other payables is £nil relating to purchase invoices received on behalf of the MOD regarding the Operational Efficiency Program (OEP) (2012; £102,100).

Included in Accruals and deferred income are costs incurred on behalf of the MOD regarding the OEP of £nil (2012; £58,750)

12 Commitments

a Capital Commitments

At the end of the year there were no capital commitments authorised (2012: Nil).

b Office Leasehold

The Agency occupies office premises under a lease that will expire in July 2014 and contains an annual commitment to pay rent of £143,000 (2012: £143,000) and a variable service charge. Rental amounts payable under the lease due within 1 year and between 1 and 5 years and are £143,000 and £36,000 respectively.

c Motor leases

The Agency operates eight motor vehicles under leases that will expire between 2013 and 2015. Lease amounts payable under these leases due within 1 year and between 1 and 5 years and are £34,000 and £17,000 respectively.

13 Retirement benefits pension schemes

The Agency operates two funded pension schemes providing benefits based on final pensionable pay, which are closed to new entrants. Further information on both schemes can be found in the Agency's Remuneration Report, which is included in these accounts on Page 8.

The Agency adopts the accounting requirements set out in IAS 19 Employee Benefits.

Actuarial assumptions

OPA Retirement Benefits Fund

A qualified independent actuary carried out an actuarial assessment as at 31 March 2013 and the major assumptions used were:

	2013	2012	2011
	%	%	%
Inflation rate	**3.5**	3.4	3.7
Rate of increase in salaries	**4.5**	4.4	4.7
Rate of increase in pensions in payment	**3.5**	3.4	3.7
Discount rate for liabilities	**4.4**	4.6	5.5
Mortality birth table and cohort	**PXNA00 Long cohort**	PXNA00 Long cohort	PXNA00 Long cohort

13 Retirement benefits pension schemes (continued)

Federated Pension Plan

A qualified independent actuary carried out an actuarial assessment as at 31 March 2013 and the major assumptions used were:

	2013
	%
Inflation rate (RPI)	3.60
Inflation rate (CPI)	2.85
Rate of increase in salaries	4.60
Rate of revaluation of deferred pension (CPI)	2.85
Rate of increase in pensions in payment (CPI)	2.85
Discount rate for liabilities	4.80
Allowance for commutation of pension for cash at retirement	None

Charge to the statement of comprehensive net expenditure

The statement of comprehensive net expenditure has been charged as follows:

	Federated Pension Plan	OPA Retirement Benefits Plan	**Total 2013**	2012
	£000	£000	**£000**	£000
Current service cost (included in net expenditure)	(243)	(65)	**(308)**	(141)
Expected return on scheme assets	8	374	**382**	447
Interest on schemes liabilities	(4)	(362)	**(366)**	(377)
Amount credited (debited) to net expenditure before taxation as other finance income	4	12	**16**	70
Amount (charged) to net expenditure before taxation	(239)	(53)	**(292)**	(71)

General reserves include an actuarial gain which can be analysed as follows:

	Federated Pension Plan	OPA Retirement Benefits Plan	**Total 2013**	2012
	£000	£000	**£000**	£000
Actuarial return less expected return on assets	17	670	**687**	381
Experienced gains on liabilities	(93)	73	**(20)**	70
Changes in assumptions underlying liabilities	(48)	(462)	**(510)**	(860)
Actuarial gain/(loss)	(124)	281	**157**	(409)

13 Retirement benefits pension schemes (continued)

Statement of Financial Position Pension asset

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

OPA Retirement Benefits Plan

	2013	**2013**	2012	2012
	%	**£000**	%	£000
Equities	**7.1**	**2,440**	7.5	2,437
Government Debt	**3.1**	**5,911**	3.5	5,246
Corporate Bonds	**4.1**	**283**	4.6	138
Cash	**2.9**	**234**	3.0	224
Total fair value of assets		**8,868**		8,045
Present value of liabilities		**8,506**		7,949
Surplus in the scheme		**362**		96
Related deferred tax (liability) asset		**(73)**		(19)
Net pension asset		**289**		77

The total contributions to the plan for the year ended 31 March 2014 are expected to be £20,000.

Federated Pension Plan

	2013	**2013**	2012	2012
	%	**£000**		
Equities	6.9	**293**	–	–
Government Debt	2.9	**147**	–	–
Corporate Bonds		**–**		
Cash	2.7	**1**	–	–
Total fair value of assets		**441**		–
Present value of liabilities		**362**		–
Surplus in the scheme		**79**		–
Related deferred tax (liability) assets		**(16)**		–
Surplus		**63**		–

The best estimate of contributions to be paid by the Agency to the plan for the year commencing 1 April 2013 is £513,000.

13 Retirement benefits pension schemes

Statement of Financial Position Pension asset (continued)

The total value of assets before taxation has moved over the year as follows

	Federated Pension Plan	OPA Retirement Benefits Plan	**2013 Total**	2012
	£000	£000	**£000**	£000
Opening fair value of assets at 1 April	–	8,045	**8,045**	7,291
Expected return on assets	8	374	**382**	447
Employer contributions	442	38	**480**	128
Contributions by Members	30	8	**38**	26
Actuarial gains over those expected	17	670	**687**	381
Benefits (paid)	(56)	(267)	**(323)**	(228)
Total fair value of assets before taxation at 31 March	441	8,868	**9,309**	8,045

Changes in present value of defined liabilities over the year are as follows:

	Federated Pension Plan	OPA Retirement Benefits Plan	**2013 Total**	2012
	£'000	£'000	**£'000**	£'000
Opening fair value of liabilities at 1 April	–	7,949	**7,949**	6,843
Current service cost	243	65	**308**	141
Interest cost	4	362	**366**	377
Contributions by Members	30	8	**38**	26
Actuarial (gains)	141	–	**141**	
Change in assumptions	–	462	**462**	860
Liability experience (gains)	–	(73)	**(73)**	(70)
Benefits (paid)	(56)	(267)	**(323)**	(228)
Present value of defined liabilities before taxation at 31 March	362	8,506	**8,868**	7,949

13 Retirement benefits pension schemes (continued)

Plan history

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Fair value of assets before taxation	**8,868**	8,045	7,291	6,916	5,129
Present value of defined liabilities before taxation	**8,506**	7,949	6,843	6,889	6,711
Surplus (deficit) before taxation	**362**	96	448	27	(1,582)

History of experience gains and losses

	2013	2012	2011	2010	2009
Actuarial return less expected return on assets:					
Amount (£000)	**670**	381	46	1,075	(1,238)
Percentage of scheme assets (%)	**7.6**	4.7	0.6	15.5	(24.1)
Experienced gains on liabilities:					
Amount (£000)	**73**	70	93	167	116
Percentage of the present value of the scheme liabilities (%)	**0.9**	0.9	1.4	2.4	1.7
Changes in assumptions: (£000)	**(462)**	(860)	257	264	(912)
Actuarial gains (losses)					
Amount (£000)	**281**	(409)	396	1,506	(2,034)
Percentage of the present value of the scheme liabilities (%)	**3.3**	(5.1)	5.8	21.9	(30.3)

Defined Contributions Scheme

During 2009-10 a defined contribution scheme was opened and defined employer and employee contributions were paid into externally managed funds. During the year employer contributions amounted to £237,000 (2012: £111,000).

14 General fund reserve

	Operating Cost Accounting	**Pension Reserve**	**Total**
	£000	**£000**	**£000**
At 31 March 2011	3,057	354	3,411
Changes to the general fund reserve for the previous year	59	(277)	(218)
At 31 March 2012	3,116	77	3,193
Changes to the general fund reserve for the year	3	275	278
At 31 March 2013	3,119	352	3,471

15 Revaluation reserve

	2013	2012
	£000	£000
At 1 April	**4**	–
Revaluation of property, plant and equipment for the year	**–**	11
Revaluation of depreciation for the year	**–**	(7)
IAS 16 transfer to General Reserve	**(2)**	–
At 31 March	**2**	4

16 Contingent liabilities

Under the terms of the agency agreements for the management of the GPSS and OFDs, 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 2013 there were no other contingent liabilities recorded (2012: Nil).

17 Gross cash flows

	2013	2012
	£000	£000
Returns on investments and servicing of finance		
Interest received	**70**	71
Capital expenditure		
(Payments) to acquire tangible property, plant and equipment	**(1)**	(46)
(Payments) to acquire intangible computer software	**–**	–
Receipts from disposals of tangible property, plant and equipment	**9**	10
	8	(36)

18 Analysis of changes in net funds

	At 1 April 2012	Cash Flows	**At 31 March 2013**
	£000	£000	**£000**
Cash at bank and in hand	5,280	78	**5,358**

19 Related party transactions

The Agency is sponsored by the Ministry of Defence (MoD), through the Defence Equipment and Support Commercial Directorate, as its Managing Agent to manage the GPSS and OFDs, strategic defence assets, and in the MoD is regarded as a related party. The fees the Agency receives for the services it provides to the MOD are detailed in Note 2b).

During the year, The Agency was charged £9,480 by the MOD for services provided by Defence Internal Audit.

During the year, Two Members of the Agency were employees of the MOD; Mr L Mosco, MOD Director Commercial, and Mr P Shortt, MOD head of Business Strategy and Guidance.

The current Chairman and Chief Executive are both Trustees of OPA Pensions Trustees Ltd. The transactions between OPA and OPA Pension Trustees Ltd are as per Note 13. Neither are members of the scheme.

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

20 Financial instruments

IFRS 7, Financial Instruments – Disclosures, requires disclosure of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Agency is exposed and how these risks are managed.

As the duty of the Agency is to manage the GPSS and OFDs 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 significant financial risk. The only financial instruments relate to debtors, creditors and cash balances and therefore liquidity and cash flow risk is very low. All assets and liabilities are denominated in sterling and therefore the Agency is not exposed to currency risk. The Agency has no embedded derivatives.

Interest Rate Risk Management

The Agency has its cash deposited with its bankers that is available on 10 days notice and attracts interest at a floating rate related to bank base rate. The Agency has no other deposits subject to market interest rate fluctuations, and is therefore subject to only limited interest rate risk.

Liquidity and Cash Flow Risk

The Agency has borrowing powers (note 3). These have not been exercised during the year. The cash funds are deposited with its bankers which are available immediately. Therefore the Agency is not exposed to any significant liquidity risk or cash flow risk.

Credit Risk

The Agency is subject to some credit risk. The carrying amount of trade and other receivables, which is net of impairment losses, represents the Agency's maximum exposure to credit risk. Trade and other receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable.

21 Events after the reporting date

The accounts were authorised for issue on the date of certification by the Comptroller and Auditor General. There were no other adjusting events or material non adjusting events that had an impact on these financial statements.

The Oil and Pipelines Agency accounts direction 2004

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 House of Commons

I certify that I have audited the financial statements of the Oil and Pipelines Agency for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The Financial statements comprise the Statement of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity 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 Chief Executive and Auditor

As explained more fully in the Statement of Chief Executive and Accounting Officer's Responsibilities, the Agency and the Chief Executive are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Oil and Pipelines Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Oil and Pipelines Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report of the Agency to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Oil and Pipelines Agency's affairs as at 31 March 2013 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Oil and Pipelines Act 1985 and directions issued thereunder by the Secretary of State.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Oil and Pipelines Act 1985; and
- the information given in the Report of the Agency for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

4 September 2013

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DG Ref: 10216

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ISBN 978-0-10-298620-4

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