

Service Personnel
& Veterans Agency
An Executive Agency of the Ministry of Defence



Annual Report and Accounts 2009/2010

Supporting Services Through Life

ANNUAL REPORT AND ACCOUNTS 2009/2010

Presented to House of Commons in pursuant to section 7(2) of the Government Resources and Accounts Act 2000.

Ordered by the House of Commons to be printed 22nd July 2010

© Crown copyright 2010

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk.

Any enquiries regarding this publication should be sent to us at:
<http://www.veterans-uk.info>

This publication is also available on <http://www.official-documents.gov.uk/>

ISBN: 9780102968200

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2378009 12/10

Printed on paper containing 75% recycled fibre content minimum.

Contents

| | |
|--|-----------|
| Chief Executive's Foreword | 4 |
| Management Commentary for Financial Year 2009-10 | |
| PART 1 - OPERATING REVIEW | 5 |
| Introduction | 5 |
| Ownership and Accountability | 6 |
| Management of the Agency | 7 |
| Customers | 9 |
| PART 2 - PERFORMANCE REVIEW | 11 |
| Performance against 2009-10 Priorities | 11 |
| Military Services | 13 |
| Veterans Services | 17 |
| Future Development | 18 |
| Strategy and Programmes | 20 |
| Corporate Services | 21 |
| PART 3 - FINANCIAL REVIEW | 23 |
| Budgetary Structure | 24 |
| Financial Performance | 24 |
| Programme Expenditure for Financial Year 2009-10 | 24 |
| Departmental Resource Accounts | 24 |
| Financial Administration of Managed Funds | 24 |
| Financial Monitoring and Audit of the Contract for Armed Forces Pay, Pensions and Administration Service Provision | 25 |
| Armed Forces Pension Scheme | 25 |
| Statement on disclosure of audit information | 25 |
| Policy and achievements on supplier payments | 25 |
| Pension liabilities | 25 |
| Auditors | 25 |
| REMUNERATION REPORT | 26 |
| Remuneration Policy | 26 |
| Service Contracts | 26 |
| Salary and Pension Entitlements | 26 |
| Pension Benefits | 28 |
| FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 | 30 |
| Statement of Agency's and Chief Executive's Responsibilities | 30 |
| 2009-10 Statement on the System of Internal Control | 31 |
| The certificate and report of the Comptroller and Auditor General to the House of Commons | 35 |
| Financial Statements for the Year Ended 31 March 2010 | 37 |
| Notes to the Accounts | 41 |
| GLOSSARY OF TERMS | 59 |

Deliberately left blank

Chief Executive's Foreword



Kathy Barnes

I am delighted to be able to introduce the 2009-10 SPVA Annual Report and Accounts, which records significant progress and some notable successes, in a time of difficult challenges.

The wide range of services the Agency provides are a crucial component of the personnel support MoD delivers to the Armed Forces and Veterans, many of whom have deployed on Operations in Afghanistan. Our work in providing a quality service that allows those deployed to give their full concentration to the difficult tasks they face, and supporting individuals injured during active service, and their families, is something we take very seriously indeed. The satisfaction levels of these customers, along with all other customer segments continues to improve, and the results of our Customer Satisfaction Surveys and benchmarking assessments confirm that SPVA continues to deliver high levels of performance in terms of efficiency and effectiveness. However we are far from complacent - there is always more to do, especially in ensuring that all our services reach a consistently high quality; and that we work better together within SPVA for the good of our user communities.

Our intention to deliver excellent levels of service is demonstrated in SPVA's achievement of all six of its 2009-10 Objectives, covering the delivery of timely and accurate service pay, timely and accurate pensions and compensation decisions and payments, customer satisfaction and transfer to an Interim Contract with Hewlett Packard Enterprise Services (HPES).

Other notable achievements for 2009-10 include the launch of the SPVA Joint Personnel Administration (JPA) Optimisation and Outreach programme to improve and enhance the use of the JPA system; issuing the new Elizabeth Cross emblem to the families of those who have been killed on Operations since 1948; the continuing professional support provided by Joint Casualty and Compassionate Centre (JCCC) staff in difficult circumstances; and the successful completion of the Veterans Welfare Service service delivery project which has rationalised the IT systems and reduced accommodation costs, whilst enhancing the quality of service delivered to Veterans.

I have recently undertaken a series of face to face meetings at the four main SPVA sites, in order to share with staff the importance of what we have achieved, and to discuss how best we can improve further and face the difficult financial challenges ahead. We start from a strong position; with the new Interim Contract in place our staff will continue to work together under the One Agency - One Team programme to promote core values which underpin our successful organisation.

Finally, a word about our priorities for 2010-11. Owing to the timing of the election, consultation with Ministers has still to be completed so details are not included in this Report.

A handwritten signature in black ink that reads "Kathy Barnes". The signature is written in a cursive, flowing style.

Kathy Barnes
Chief Executive
Service Personnel and Veterans Agency
14 July 2010

Management Commentary

Part 1 - Operating Review

Introduction

The Report and Accounts which follow cover the period 1 April 2009 to 31 March 2010 and have been prepared with the direction dated 22 December 2009 given by the Treasury and in accordance with section 7 (2) of the Government Resources and Accounts Act 2000. Its purpose is to provide a public report on SPVA's performance and results for the Financial Year 2009-10.

History

SPVA was formed as an Executive Agency of the Ministry of Defence on the merger of the Armed Forces Personnel Administration Agency and the Veterans Agency on 1st April 2007.

Mission and Strategic Intent

SPVA's mission is:

To deliver reliable, trusted and efficient personnel services to the serving and veterans' communities.

These services include the delivery of pay, pensions and compensation, records of service, casualty and compassionate reporting, medal entitlement and veterans' welfare services, with the provision of a single point of contact for both serving personnel and veterans, facilitating access to information and advice. In seeking qualitative improvements in the delivery of personnel services, the Agency's strategic intent is the:

Dynamic delivery of appropriate, comprehensive and responsive through-life services to the serving and veterans' communities.

Ownership and Accountability

SPVA is owned by the Deputy Chief of Defence Staff (Personnel) who is responsible to Ministers for the strategic direction of the Agency and, through the Owners Advisory Board (OAB) acts on behalf of the Secretary of State for Defence. The OAB monitors the Agency's progress and performance against pre-determined aims, objectives and priorities and represents the interests of the Agency's customers. There is one Non-Executive Director (NED) on the Board whose remuneration is met by the Agency.

As at 31st March 2010 the membership of the Board was:

| | |
|--|---|
| Deputy Chief of Defence Staff (Personnel) | Vice Admiral Peter Wilkinson |
| CE SPVA | Mrs Kathy Barnes |
| Naval Secretary/Fleet COS Pers | Rear Admiral Charles Montgomery |
| Director General Personnel (Army) | Major General A R Gregory |
| Chief of Staff Personnel (RAF)/Air Secretary | Air Vice Marshal Michael Lloyd |
| Defence Services Secretary/ACDS(Pers) | Major General Matthew Sykes |
| Director Service Personnel Policy | Mr Gavin Barlow |
| Director Financial Management | Mr Terence Jagger |
| Chairman Confederation of British Service and Ex-Service Organisations | Air Vice Marshal Tony Stables (Retired) |
| NED SPVA | Ms Bronwen Curtis |

Management of the Agency

Agency Management Group (AMG)

The AMG is responsible for the management of the Agency, its performance, risks and partnering relationship. It provides the forum for business requiring joint consultation or agreement across the business.



Chief Executive
Kathy Barnes



Deputy Chief Executive/
Head of Strategy &
Programmes
Cdre Ross Albon



Head Military
Operations &
Development
Air Cdre Chris
Bray(1)



Head of Veterans
Services
Alison Sansome



Head of Change
Air Cdre Paul Nash(2)



Head of Corporate
Services
Kim Humberstone



HPES Account
General Manager
Kevin Large



HPES Account
Manager
Paul Couch



HPES Client Manager
Jo Wilkinson



Non-Executive Director
Bronwen Curtis



Non-Executive Director
Alex Jablonowski

(1) Commodore Angus Ross until 13 November 2009.

(2) Head Change post (Air Commodore Paul Nash) disestablished 31 March 2010.

(3) Head Transition Services post (Brigadier Robin Bacon) disestablished 20 July 2009.

Non-Executive Directors (NEDs)

The principal role of the NEDs is to offer the CE, and the Boards of which they are members, an independent view on SPVA strategy and performance. Bronwen Curtis is a member of the AMG, the OAB, the Agency Executive Board (AEB) and the SPVA Audit Committee (AC). Alex Jablonowski is a member of the AMG and also chairs the AC. Margaret Savage is a member of the AC (see page 20).

Agency Executive Board (AEB)

The AEB is responsible for the direction and governance of the MoD components of the Agency; it complements the role of the AMG. The AEB membership during the year 2009-10 was as follows:

| | |
|---------------------------------------|---|
| CE | Mrs Kathy Barnes |
| DCE/Head Strategy & Programmes (HS&P) | Commodore Ross Albon |
| Head Military Services(HMS) | Air Commodore Chris Bray (Commodore Angus Ross until 13 November 2009) |
| Head Veterans Services(HVS) | Alison Sansome |
| Head Transition Services (HTS) | Brigadier Robin Bacon (Post disestablished 20 July 2009) |
| Head Change (H Ch) | Air Commodore Paul Nash |
| Head Corporate Services (HCS) | Kim Humberstone |
| NED 1 | Alex Jablonowski |
| NED 2 | Bronwen Curtis |

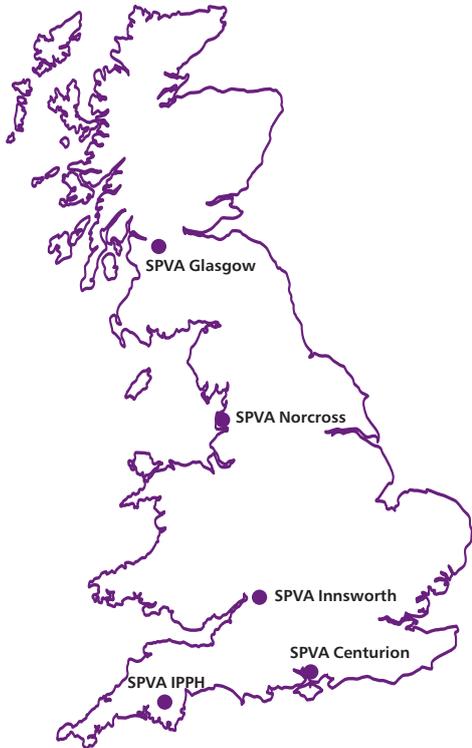
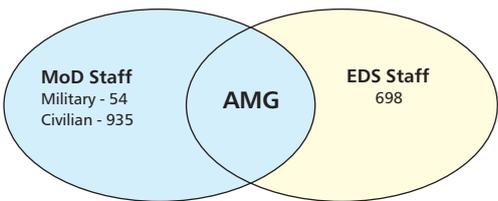
During the year none of the Heads held company directorships or other significant interests which may conflict with their management responsibilities.

Agency Sites

During 2009-10 SPVA operated from four main sites at Gosport, Glasgow, Innsworth and Norcross as well as welfare offices and the Ilford Park Polish Home (IPPH).

Staff Numbers

As at 31st March 2010 the number of staff in full-time equivalent terms was:



Customers

The SPVA has a customer base of approximately one million people. The tables below show the breakdown in respect of serving personnel, ex-serving personnel and their dependants. In supporting this large customer base, the Agency administers £14.2 billion of public funds annually.

Volumes of payments and records maintained at 31st March 2010

| Activity | Volume |
|---|------------------|
| Pay records of Regular Services personnel, Full Time Reservists and Gurkhas | 198,000 |
| Records of other Reserve personnel and Cadet Instructors | 52,000 |
| Armed Forces Pension Scheme active members including dependants | 198,000 |
| Armed Forces Pension Scheme deferred and non-claiming members | 368,100 |
| War Disablement/War Widows Pensions | 184,000 |
| Armed Forces Compensation Scheme | 4,300 |
| Total | 1,004,400 |

Expenditure on pay, allowances and pensions in 2009/10 (in £ billions)

| Activity | £ Billion |
|----------------------------------|-------------|
| Armed Forces Pay & Allowances | 9.6 |
| Armed Forces Pension Schemes | 3.5 |
| War Pensions | 1.0 |
| Armed Forces Compensation Scheme | 0.1 |
| Total | 14.2 |

Customers include not only individual Service personnel and veterans but also the Services' Personnel Management Authorities, MoD planning staff and policy makers, a variety of other Defence Agencies and other Government Departments, such as HM Revenue and Customs, Department for Work and Pensions and the Department of Health. The Agency also has a key role in support of the Government-wide veterans' programme.

SPVA aims to get matters right first time every time and provide the very best service. However, if customers are not satisfied with the way their pay, allowance claim or pension has been dealt with, they are able to contact the Enquiry Centre or Veterans Help line, as appropriate, where a Customer Service Manager will arrange a full review of their case. All enquiries or complaints that are not resolved by this procedure can be escalated to the Chief Executive or the relevant Independent Complaints Panel.

In addition to the above rights of redress, most War Pension Scheme (WPS) and Armed Forces Compensation Scheme (AFCS) pension decisions carry a statutory right of appeal, and this is mentioned in the notification of decision and any accompanying leaflet. Armed Forces Pension Scheme (AFPS) members may invoke the Internal Disputes Resolution Process in cases of maladministration or the Discretionary Awards Appeal Process when a discretionary award is involved. Subsequent appeal may be made to the Pension Ombudsman.

Customer Satisfaction Surveys

SPVA measures its level of customer satisfaction through surveying Joint Personnel Administration users twice yearly, the Veterans community yearly and by annual one-to-one interviews with SPVA Key Partners. Each customer segment is weighted with the cumulative score going towards SPVA Priority 5 – Customer Satisfaction.

JPA Online Survey

Since the introduction of the first on-line Customer Satisfaction Survey for self service and Human Resource (HR) Professionals November 2007, a further four surveys have been completed through 2008 and 2009.

The most recent was completed during November – December 2009 and, with the support of the single-Service Focal Points got an excellent response rate of 89% from the sample of 5,000 representative users. Self-service users accounted for 68%¹ of respondents while the HR Professionals accounted for 32%.

Key highlights were in the areas of *“Correct Pay, Allowances and Charges”* which increased from 76% to 78%: *“Expenses paid correctly”* which scored 91% and the satisfaction with the Joint Personnel Administration Enquiry Centre which continues its positive trend increasing from 28% in 2007 to the current level of 62%. The overall satisfaction with SPVA JPA services was 78%.

The survey is a useful tool that helps SPVA monitor the views of its customers and, where appropriate, to take action to address issues. The current survey sample of 5,000 gives very high confidence that the customer satisfaction results are statistically valid and accurate to +/- 2%. The survey is scheduled to run in May and November and is reviewed with the same frequency with the support of the single-Service Focal Points to ensure the survey continues to be a valuable tool to support the evolution of both the JPA user-experience and SPVA services.

Veterans' Survey

In May 2009, as part of the wider goal of One Agency - One Team a review was conducted of the approach used to capture feedback from SPVA Veterans customers. The outcome of this review recommended a revised approach to future surveying with the eight separate surveys of Veterans services merged to create a single

annual survey.

The first single Veterans' survey was conducted during January and February 2010. A random sample of 12,000 survey recipients was selected from the Compensation and Pensions System (CAPS) and the WPS.

In all five areas that were surveyed SPVA scored highly in the services it provides e.g. in the area of *“Contact us by Phone”* 89% of those surveyed were Very Satisfied or Satisfied. In the *“Payments you receive”* 98% of those surveyed were Very Satisfied or Satisfied. The overall satisfaction with SPVA Veterans services was 93%.

Corporate Customer Interviews

Annually, the key partners of SPVA are personally interviewed by the Deputy CE SPVA. The key partners are MoD Head of Pay and Manning; Head of Pensions, Compensation and Veterans; Defence Analytical Services and Advice; Financial Management Shared Service Centre; Defence Vetting Agency; Royal Navy, Army and RAF Focal Points; Permanent Joint Headquarters; and, representing the Veterans, the Confederation of British Service and ex-Service Organisations, War Widows Association and the Veterans Advisory and Pensions Committees (formerly the War Pension Society).

In the interviews, four areas are discussed and scored in terms of satisfaction: *service delivery, customer focus, business knowledge and communications*. The general theme in the responses was that SPVA is more proactively listening to the needs of its customers and that there is a high level of satisfaction in its services. This was reflected in the scoring that increased from 68% in 2008-09 to 77% in 2009/10.

One Agency - One Team

Underlying the Agency's commitment to its customers is the principle that, across the Agency, staff should seek to offer a seamless service to our shared set of customers. Whether that staff member is a member of the Armed Forces, a civil servant or a contractor, and whatever part of SPVA they work in, the aim is to ensure that the customer receives a good service. To underpin this cultural change, the OAOT programme has been introduced to embed good communications training and continuous improvement throughout SPVA.

¹ Within the Army sample the survey was primarily completed by those with access to DII

Management Commentary

Part 2 - Performance Review

Performance Against 2009/10 Priorities

The Agency Management Group has used a quarterly Strategic Scorecard (SSC) to help it manage all aspects of the business and has ensured that a robust risk management structure is in place to allow it to manage key business risks. Performance is also reported quarterly to the Agency Owner, DCDS (Pers). During 2009-2010, the Agency successfully achieved all six of its Priorities.

The following performance table covers the last two years. Not all Priorities are directly comparable year to year. Where there are differences an explanation can be found in the table footnotes.

| Key Priority | 2008-09 | | 2009-10 | |
|--|--|--|--|--|
| | Target | Performance | Target | Performance |
| Priority 1 – To deliver timely Service Pay To make a % of all pay payments by the due date. | 99.9% | 99.9% | 99.9% | 99.9% |
| Priority 2 – To deliver accurate Service Pay A % of all Service Pay to be 100% accurate (excluding errors caused by inaccurate external inputs). | 98.0% | 97.9% | 98.3% | 99.4% |
| Priority 3 – To deliver timely Pension and Compensation decisions Overall reporting against Priority 3 to be weighted by the achievement of the sub component measures below: Armed Forces Pension Scheme – to make 99.3 % of all Service Pension payments (including new awards) by the due date. Armed Forces Compensation Scheme – 98% of all decisions (and resultant payments) within 40 working days of receipt of required external evidence (predominantly medical evidence), except for high priority cases ² where 95% will be cleared within 20 working days of receipt of required external evidence (predominantly medical evidence). War Pension Scheme – to clear claims for War Pensions within x working days average clearance time (including y days average clearance time for Widows pensions). | 99.3% | 99.9% | 99.3% | 99.9% |
| | 98.0% of all decisions within 40 WDs | 99.6% of all decisions within 40 WDs | 98.0% of all decisions within 40 WDs | 99.9% of all decisions within 40 WDs |
| | 95.0% of all high priority decisions within 20 WDs | 97.8% of all high priority decisions within 20 WDs | 95.0% of all high priority decisions within 20 WDs | 100.0% of all high priority decisions within 20 WDs |
| | War Pensions Average clearance time 50 WDs from receipt | War Pensions Average clearance time 57 WDs from receipt | War Pensions Average clearance time 52 WDs from receipt | War Pensions Average clearance time 45 WDs from receipt |
| | War Widows Pensions Average clearance time 19 WDs from receipt | War Widows Pensions Average clearance time 17 WDs from receipt | War Widows Pensions Average clearance time 19 WDs from receipt | War Widows Pensions Average clearance time 16 WDs from receipt |

²Priority cases are those involving or likely to involve injury at tariff level 8 or above.

| | | | | |
|--|--|--|--|---|
| Priority 4 – To deliver accurate Pensions and Compensation decisions and payments | | | | |
| To deliver an overall target of all Service Pensions accurately. | - | - | 98.0% | 99.4% |
| Armed Forces Pension Scheme financial accuracy | 99.9% | 99.9% | 99.9% | 99.9% |
| Armed Forces Compensation Scheme and War Pension Scheme financial and decision accuracy | 99.5% | 100.0% Compensation Claims 98.7% War Pension Scheme | 98.0% | 99.2% |
| Priority 5 – To achieve approved targets for customer satisfaction | | | | |
| To achieve an overall customer satisfaction average of 80% satisfied or very satisfied, with not less than 70% in any one of the four identified SPVA customer segments. | 75% Overall satisfied or very satisfied | 83% Overall satisfied or very satisfied | 80% Overall satisfied or very satisfied | 81% Overall satisfied or very satisfied |
| Self-service Customers | - | - | 70% | 78% |
| HR Professional Customers | - | - | 70% | 78% |
| Corporate Customers | - | - | 70% | 77% |
| Veterans Customers | - | - | 70% | 93% |
| Priority 6 – To ensure a seamless transition from current contract to Interim Contract | | | | |
| 100% of transition programme milestones met. | - | - | 100% | 100% |

Military Services

Current Operations and Optimisation of Joint Personnel Administration (JPA)

The main effort of the SPVA Military Services Team has been to develop further synergies with the single Service and Joint Top Level Budget Focal Points in order to improve JPA usability and to ensure that user observations are better communicated within the Agency. A number of issues addressed this year indicate that SPVA processes to resolve ongoing issues have improved: the rectification of an issue related to the processing of certain pay account debits and the processing of operational allowance were notable successes. Building on these successes, the SPVA JPA Optimisation and Outreach programme was launched in early 2010. It seeks to improve and enhance the use of the JPA system through more focused interaction between SPVA, the single Service Focal Points and JPA users. It sets out to improve the capture and understanding of issues as well as their root causes: importantly, it dovetails with and complements a number of tri-Service programmes such as the Army Culture Change initiative. Optimisation will address in part the reduced scope for future Information Technology (IT) functional attainment in the current financial climate together with the SPVA desire to:

- Improve the end service user experience of JPA.
- Reduce Agency operating costs caused by user input errors.
- Exploit current JPA capability by sharing best practice, drive the adoption of good behaviour and explore business process enhancement without the necessity of expensive IT changes.

Core to Optimisation is a rolling programme of "Outreach" visits to establishment professional users across all three Services to obtain feedback from personnel on their specific issues, capture and share best practice and, where appropriate, provide onsite coaching by subject matter experts. The approach will enable a more comprehensive view of issues to be captured by SPVA from sources within and outwith the Agency to enable us to better understand the root cause of problems and drive associated service improvement initiatives in conjunction with the Single Service Focal Points. This programme complements and builds upon single and tri-Service initiatives and specifically works to more coherently address the challenges that we jointly face. Throughout 2010, SPVA will gather intelligence and identify

trends to more effectively apply scarce resource to the JPA process to maximise the effectiveness of investment in training and the associated prioritisation of the limited scope for the technical Change Programme. The initiative will also inform work on the Future Contract (FC). Concurrently, observations will be used to inform Control Framework activity through engagement with the SPVA Process Control Management Team. This should facilitate greater assurance of the Department Resource Accounts.

Part of the remit of the Military Services Team is the support of SPVA applications specific to deployed organisations and RN vessels, and to advise on the policy of their use. This has seen the Team working closely with industry IT infrastructure providers to ensure that SPVA applications continue to work on the different IT infrastructures being introduced. It has also closely supported RN trials aimed at reducing overall satellite costs, specifically those related to the use of JPA. The Deployed Office Offline JPA application was accepted as a suitable alternative for large areas of functionality and alternatives are still being investigated for areas that it does not cover.

Service Delivery

For the financial year 2009-10 the priority for pay was split into separate measurements against timeliness and accuracy. Priority 1 (Pay Timeliness) achieved a 99.99% success rate against the 99.9% target. Priority 2 (Pay Accuracy) achieved a 99.477% success rate against the 98.3% target. A total of 16,469 individual pay failures were reported, the most significant of those occurring in August 2009 impacting 10,642 personnel which resulted in Priority 2 failing in month. However, to put these failures into context, the Agency successfully disbursed £7.4 billion (gross), £5.6 billion (net) pay and allowance payments to its customers. Whilst the Agency has made great strides to minimise failures, the failure rate was nonetheless encouraging given the 'in theatre' banking issues which resulted in overall failure against this objective for the last financial year and the more challenging measures of performance brought about by transition to the Interim Contract. The accuracy tolerance for the Financial Year will see an increase in the performance target to 98.5%. This incremental rise presents a further challenge on the Agency to maintain high levels of pay accuracy but, based on current predictions, it is envisaged that measured performance will once again be exceeded.

Enquiry Centre (EC)

The Agency's first point of contact is usually the EC. Over the course of this financial year the EC received an average of 47,000 calls per month, successfully answering 99% of that total. Achievement for first call resolution was 88% against a target of 80%. Overall, there has been a continued improvement with increased levels of customer satisfaction reported across the Joint Personnel Administration Centre (JPAC) function from 55% in November 2008 to 62% in November 2009. Whilst this is a recognisable achievement, there remains a focus on continuous improvement in respect of refresher training, enhanced pay and pensions training and a popular visit programme, both into the EC by the Services, and the EC regularly going out to military establishments to improve knowledge and awareness.

Service improvement activities include workshops to improve error rates in the key claims processes.

Pay and Allowance Casework and Complaints Cell (PACCC)

The PACCC is responsible for processing pay and allowances casework from Service personnel and the single-Service chains of command. During 2009-10 the PACCC processed 2,351 pay and allowance cases, a 9.7% increase on the casework processed in the previous year, and produced four quarterly reports to provide DCDS(Pers) and the single-Service Pay Colonels with an analysis of casework issues and trends to inform the development of pay and allowances policy. In addition, the PACCC provided the Military Services pay and allowances focal point for the Ministerial Enquiry Line and provided support to the single-Service Boards e.g. the Army Board and also the single-Service Litigation Departments.

The PACCC also provided support to the Joint Service Delivery Complaints Team (JSDCT) to deal with complaints about JPA Service Delivery and the AFPS. In 2009-10 the JSDCT dealt with 612 complaints; this complicated and challenging work required the research of problems and regulations, and liaison with units and other SPVA departments. The JSDCT works very closely with the Hewlett Packard Enterprise Services Complaints Team and the Debt Management (Recoveries and Write-off) Team. The cohesion of these three departments allows for the prompt and accurate resolution of issues that are affecting Service personnel and their Chains of Command. Last year the Complaints Section was awarded the CE SPVA commendation in recognition of the valuable contribution they have made to the Agency.



PACC staff receiving CE's commendation certificate

Joint Casualty and Compassionate Centre (JCCC)

The JCCC has once again faced continual operational pressures throughout its fifth year of being responsible for all casualty and compassionate reporting action for the Armed Forces and other entitled personnel. There were increases over the previous record year of over 30% in deaths and listed casualties (Very Seriously Ill, Seriously Ill and Incapacitating Injuries and Illnesses). Nearly a quarter of the deaths were concentrated during July and August 2009 as a result of Operation PANTHER'S CLAW, the first of the year's two major operations in Afghanistan.

- 248 Deaths (126 of which were operational)
- One non-operational missing
- 540 Very Seriously Ill and Seriously Ill
- 435 Incapacitating injuries and Illnesses
- 870 Unlisted casualties, personnel or dependants
- 3,746 requests for Compassionate Leave travel
- 92,368 telephone calls to and from the Operations Room
- 28,088 Incoming/Outgoing Ops Room signals
(1 June 2009 to 31 March 2010)

Although the Major Incident Centre was not activated, there were two multi-casualty incidents in the UK which were handled by the JCCC: the collision of two Warriors on Salisbury Plain and a mid-air collision over Oxfordshire.

In addition to this unremitting casework loading, the JCCC has also overseen the creation of a reservist Support Squadron to support the JCCC in times of crisis as well as establishing a new alternate location at RAF Brize Norton following the transfer of the JCCC onto Defence Information Infrastructure (DII). In a novel piece of work, we have arranged for the Royal British Legion to fund 250,000 JCCC Fridge Magnets for

issue to families, and organised and carried out numerous briefings both in the UK and overseas as well as hosting a myriad of visitors to the JCCC itself.

The Repatriation Contract was re-let this year and, following close scrutiny of the requirement, we have already managed to make a 12% saving on the costs of repatriation under the new contract. This is based on a case by case comparison of the pricing schedules of the previous contract compared with the current schedule.

The JCCC Historic Casework Team was renamed JCCC Post Death Administration during 2009 to reflect the range of tasks it performs that arise from both current and historic fatalities in military service. Significant achievements in year included:

- Dealing with the estates of 349 serving and former members of the Armed Forces whose deaths were notified to the JCCC in FY 2009-2010. Arranging the return of personal effects and making a total of 341 payments to the executor, or next of kin, totalling over £9 million.
- Granting 142 exemptions from Inheritance Tax under section 154 of the Inheritance Tax Act, for deaths arising from active service. 126 of these exemptions arose from deaths in Afghanistan, but a further 16 were granted for deaths in retirement, which could be linked to injuries or illness sustained in active military service. A further 22 historic applications are still under consideration.
- Tracing relatives of over 200 British soldiers believed killed in the World War I battle of Fromelles following the discovery of and decision to recover 250 bodies from communal graves in Northern France. Through letters and a series of road shows in locations as widespread as Stirling, Liverpool, Warwick, Gloucester and London, JCCC staff have also worked closely with Australian military authorities and the Commonwealth War Graves Commission, which has resulted in over 70 sets of remains (as at 31 March 2010) being positively identified.

The MoD Medal Office (MoDMO)

The MoDMO is the sole authority for the delivery of United Kingdom military medals, and is responsible for the integrity of the United Kingdom Medal system.



Major Walsh and Dave Coppel with a Gurkha veteran from the Battle of Monte Cassino and a village elder

Over the course of the past year the MoDMO has received, and actioned, 63,000 medal applications. This represents a slightly reduced trend from previous years, which is indicative of three major factors: the almost complete withdrawal from Iraq; the increased number of personnel serving on second and subsequent operation tours of duty who do not qualify for a medal; and the continual downturn of applications for World War II medals reflecting the demographics of an aging population.

MoDMO has benefited from the maturing personnel movement and tracking data held on JPA by introducing an automated medal award system which went live during March 2009. The system provides a service for all but a small population of service personnel, and is proving highly successful. It has enabled MoDMO to select and despatch all current campaign medals to peace time locations before the Service person returns from their operational tour of duty. The exceptions are Aircrew who rely on flight logs, a ship's crew who rely on the Navigation Officer's report, and protective populations such as Special Forces. Throughout the year MoDMO has also been involved with the institution of the Elizabeth Cross, an award to the Next of Kin of those who lost their lives during an operational tour of duty. The MoDMO has been responsible for the design and procurement contract for this award. Looking to the future, the MoDMO has been selected to lead on behalf of the MoD and all other Government Departments on the contractual arrangements for the delivery of the Queen's Diamond Jubilee Medal, if approval for the medal is given. The MoDMO consistently works within the agreed Service Level Agreement framework for the delivery of medals.

Data Security

SPVA continues to be committed to safeguarding the personal data it holds on behalf of its customers and using, processing, storing and distributing it in accordance with the provisions of the Data Protection Act, JSP440, Government Data Handling Reviews and the Information Assurance Maturity Model (IAMM). The Agency achieved IAMM Level 1 on 31 March 2010 and is working towards achieving IAMM Level 2 by December 2010. Significant work has taken place to ensure that a robust Information Assurance Governance structure is in place, which has included comprehensive training for the Information Asset Owners/Custodians (IAO/Cs), their deputies and key line managers. The Agency has produced a number of policies, procedures and an overarching Information Assurance Strategy which complements MoD and Her Majesty's Government's Information Assurance Policies, as well as producing a detailed Information Asset Register and Information Assurance and

Security Risk Register. All data exchanges to third parties are now regulated by a Memorandum of Understanding which clearly articulates how the data is to be handled once it leaves the Agency's boundary. As part of IAMM Level 2 a programme of Information Assurance Behavioural Change will be rolled out over the next few months to ensure that Information Assurance is fully embedded across all staff members within the Agency. There were no significant losses of personal data throughout the year, however full details of the data security losses are shown in the table on pages 33 and 34.

Veterans Services

Service Delivery

Veterans Services continued to deliver a wide range of outputs predominantly but not exclusively to ex-Service personnel. These outputs included delivery of the main pension and compensation schemes, the Armed Forces Pension Schemes, the Widows Pension Scheme and the Armed Forces Compensation Scheme. All of the five component objectives within the overall Priority 3 covering timely delivery were successfully achieved, as were the challenging accuracy objectives set out under Priority 4. The Veterans Helpline continue to handle 16,000 calls per month providing guidance and support to callers on a wide variety of issues.

War Pension Scheme

Over 29,000 new claims were processed under the WPS in addition to the continued payment and maintenance of over 184,000 ongoing War Disablement and War Widows Pensions. As outlined above performance on War Pension work achieved average clearance time of 45 days against an objective average of 52 days. An accuracy rate of 99.2% was achieved against an objective of 98.0%. In the coming year we expect to have less resources and therefore maintaining the 52 day objective will present some challenge.

Armed Forces Pension Scheme

The AFPS continues to provide accurate and timely payments to over 400,000 ex-Service personnel or dependants each month via our service provider, Xafinity Paymaster. Additionally, the scheme maintains pension records on some 390,000 preserved pensioners, and links with JPA to consider the pension liability in respect of current Service personnel who have or may accrue pension benefit.

Armed Forces Compensation Scheme

In addition to the War Pensions Scheme, SPVA is also responsible for the administration of the AFCS which covers injury, illness and death caused by service on or after 6 April 2005. During Financial Year 2009-10 SPVA made 4,272 payments under this scheme and all delivery objectives were met. The objectives allow a focus on the most seriously injured and 100% of these cases were completed within 20 days of the required medical information being available, against an objective of 95%. For all other cases, 99.9% were completed within 40 days of the required medical information being available, against an objective of 98.0%. Performance against financial and decision accuracy was 99.4% against an objective of 98.0%. The implementation of the recent AFCS Review will be the focus of attention going forward. SPVA

staff are working closely with policy leads to gain the required clarity in support of the necessary legislation and subsequent delivery. Much of the detail is still to be agreed but any preparatory work that can be undertaken is being pursued. It will take some time following the legislation coming into effect to complete the retrospective review of cases back to the start of the scheme.

Veterans Welfare Service (VWS)

The VWS continues to provide advice and guidance to Veterans, especially in respect of the statutory schemes (WPS and AFCS) supporting the operational delivery of these core business outputs. The VWS have successfully forged closer working relationships with the in-Service welfare organisations to assist personnel achieve as smooth a transition as possible from service to civilian life. The VWS also play a key role in providing initial and ongoing support to bereaved families and those who leave the Services seriously injured. This year has also seen the successful implementation of a VWS restructuring project. This has achieved its aims of fostering stronger integration with the wider MoD, better support through a new IT system and a streamlined organisation with improved ways of working. VWS continue to work closely with ex-Service Charity organisations to jointly address an individual's specific welfare needs in the most cost effective manner.



Veterans Welfare Service Mobile Advice Unit

Iford Park Polish Home

SPVA also administers a home open to Polish nationals who qualified under the Polish Resettlement Act of 1947. This high quality residential and nursing care facility is regularly audited and endorsed by the Commission for Social Care Inspection. Despite the increasing age of residents considerable demand for places at IPPH continues. The Home accommodates 98 residents, with an average age of 84.

Future Development

Joint Personnel Administration

Continued improvement and development of JPA functionality has been successfully delivered during 2009-10 through the JPA Release Programme. Last year saw the delivery of 3 major JPA releases and monthly minor releases, delivering 109 JPA changes, 7 Deployed/Offline changes, 8 Complementary Applications and Standalone Systems changes, and 149 problem fixes. A further 51 ORACLE software patches were also applied.

These developments covered the complete functional scope of JPA including Armed Forces Pay Review Board (AFPRB) rate and structural changes. Significant additions to JPA included the incorporation of the Armed Forces Act 2006, implementation of the discipline tracking functionality previously delivered through the Army's Pandora system and the introduction of a completely new automated Resettlement process for Service Personnel. A comprehensive range of improvements to Career Management were also delivered. Notable changes to Pay and Allowances included a revision of i-Expenses and an interim solution for Unpleasant Living Allowance for personnel on operations in Forward Operating Bases and Patrol Bases.

A key future development driver for SPVA is the JPA Upgrade Programme. Much of JPA's underlying Commercial Off the Shelf technology (both software and hardware) becomes obsolete and unsupported shortly after the start of the new Future Service Delivery Contract. Once the underlying ORACLE software becomes obsolete no further upgrades are provided. This includes the annual legislative, tax and National Insurance updates required at the start of each Financial Year. In order to ensure the continuity of accurate Service pay and allowances it is essential to upgrade to Oracle e-Business Suite version 12. This upgrade programme is now in the feasibility stage with an initial business case planned for submission during the summer 2010. The programme plan is to complete the upgrade by June 2012 allowing a period of stability in advance of the start of the new SPVA Future Service Delivery Contract which commences in November 2012. Given the complexity and extensive testing involved in the upgrade programme the ability to undertake structural changes to JPA in the interim period will be limited from March 2011 until March 2013. AFPRB rate change and legislative and statutory changes will continue to be applied. The JPA Upgrade Programme will be the main focus of development during 2010-12 and is essential to ensure sustained delivery of Agency

objectives and helping Defence deliver HR support and administration to individual service personnel as effectively and efficiently as possible from recruitment, throughout career and into and during retirement after service.

SPVA is committed to collaborating with wider Defence HR on improving the efficiency and effectiveness of end to end military HR so that services that are "Best for Defence" are delivered. As a result, informed by ever stronger engagement with its customer base, SPVA is contributing to removing some of the technical frustrations and concerns faced by our Service personnel. To that end SPVA is supporting development trials of internet access to redacted aspects of JPA. SPVA has also been providing hardware to enable wider JPA access via the internet using Internet Access to Shared Systems cards and readers for these trials. Along with contributing to technical developments in the Military HR context SPVA has also been progressing work with wider Military HR involvement on making JPA easier for self service use and improve the understanding of JPA. Various work strands have been put in place, some of which have successfully completed, to develop a Self Service User Guide, the Media Centre, as well as the ongoing review of Business Process Guides.

War Pensions Computer System (WPCS)

Since the merger of the Veterans Agency there has been a strategic intent to integrate veterans' services more closely into the MoD and disengage from the reliance on Department of Works and Pensions (DWP) provided systems. The DWP has given notice that elements of the WPCS will become obsolete from 2013 onwards. The War Pensions system is an old system which is becoming increasingly expensive to support and needs to be replaced before support is withdrawn in 2013. In order to reduce the risk and cost to the SPVA Future Contract it is essential that this system is replaced by November 2012 and to this end requirements and feasibility work is already underway. Current estimates indicate that the replacement system could be introduced by January 2012.

Compensation and Pensions System (CAPS)

Over the past year CAPS has seen a number of legislative and system enhancements implemented. Significant changes have been made to the system design to cater for Multiple Period of Service for both the AFCS and AFPS which have streamlined and standardised processing in both of these functional areas.

Future Development

These changes have considerably reduced the need for manual intervention along with the automation of the process of notifying the Compensation Awarding Branch of any reassessments of pension payments that may have an impact on Compensation awards.

During the year further data integrity issues have been identified and are actively being managed. Concerns raised by the National Audit Office (NAO) regarding the reporting of Pensioner data have been addressed and the data will now be provided via a redeveloped and enhanced report which is on target to deliver as scheduled in July 2010.

Work has already commenced on the AFCS Review for those changes due for implementation in both August 2010 and early 2011. These developments form part of a challenging programme of work with the priority being governed by the high profile legislative requirements which need to be managed alongside a much needed upgrade to the core Commercial Off The Shelf package and a complex hardware refresh programme which are currently planned for 2011.

Strategic Management Information (MI)

Since JPA go-live the user community's highest priority change has been for improved MI, this requirement assumed even greater urgency after ORACLE declared the impending obsolescence of JPA's current MI technology (ORACLE Discoverer 10gR2 product). A product selection exercise was undertaken and ORACLE's ORACLE Business Information Enterprise Edition (OBIEE) was selected and a proof of concept demonstrator shown to the user community. An enthusiastic user response to the demonstrator led to the project moving into the development stage. Funding issues have dogged the project with higher than estimated software licences and development costs resulting in the project breaching cost tolerances and a significant reduction in the original scope of development. The project is now in the development stage with an Initial Operating Capability (IOC) planned for the second quarter of 2011.

Strategy and Programmes

Implementation of the Interim Contract³

Following the MoD Investment Approvals Board's endorsement of the Interim Contract Business Case and selected supplier, SPVA has successfully implemented a new commercial arrangement with Hewlett Packard Enterprise Services. The new contract builds on the successes of previous partnering approaches in order to sustain Military HR Administration service capabilities through to November 2012. The Future Contract is taking a fresh look at the delivery of SPVA services including market testing MoD retained service delivery in order to recommend what further services could be outsourced with advantage to MoD.



The MoD contract team

Progress on Future Contract⁴

The FC project is seeking approval of its Assessment Phase with the submission of an Initial Gate Business Case to the Investment Approvals Board early in 2010. This submission seeks approval to run a competition under the European Union's Competitive Dialogue procedure that will inform the selection of SPVA's preferred partner late in 2011.

The Oracle package on which JPA is built requires regular upgrades to keep it properly supported. Further details on the potential consequences of not maintaining that support can be found on page 18.

Service Delivery Benchmarking⁵

SPVA continues to benchmark its performance against:

- UK HR Shared Service industrial counterparts through the SARATOGA⁶ approach.
- The Government's Operational Efficiency Programme standards.
- Internationally with its Military HR equivalents.

Results of these assessments confirm that SPVA can be justifiably proud of its ongoing successes in improving its efficiency. The summary from the last round of SARATOGA benchmarking indicated generally upper quartile and in some areas best practice performance from SPVA. This is within a context of high and growing levels of complexity involved in Military HR Administration. Benchmarking assessments and Customer Satisfaction Survey results continue to confirm that SPVA delivers high levels of performance in terms of efficiency and effectiveness.

³ Links to DCDS(Pers) Business Plan 2010 to 2014 objective 4.1.1 and 4.1.2.

⁴ Links to DCDS(Pers) Business Plan 2010 to 2014 objective 4.1.4, 4.1.5, 4.1.6 and 4.1.7.

⁵ Links to DCDS(Pers) Business Plan 2010 to 2014 objective 4.1.1

⁶ SARATOGA is an independently performed objective comparison of pre-defined qualitative and quantitative measures of business performance against a wide spectrum of UK Human Resource Shared Service providing organisations.

Corporate Services

Corporate Services is responsible for delivering the corporate enabling functions which are vital to ensuring that the SPVA business outputs are met. These include the operation of performance management tools such as the Strategic Scorecard and Risk Registers; performance reporting to the Agency Owner on its Objectives; financial management; commercial (contracts) management; handling Parliamentary and public correspondence; personnel support to MoD staff; business planning and reporting; Corporate Governance including support to the SPVA Audit Committee; communications and the employee survey. The following paragraphs provide further details on Agency performance.

Corporate Governance

The Agency's Corporate Governance is founded upon two essential elements: the Audit Committee (AC) supported by an Assurance team that provides independent advice to the CE and the AMG; and a robust risk management process that is embedded throughout the Agency's management structure.

AC membership consists of the Agency's two Non Executive Directors (NEDs), one of whom assumes the role of Chair, and a third NED (currently from the People, Pay and Pensions Agency) to provide independent external advice. The National Audit Office and Defence Internal Audit are invited to attend each meeting with the Chair empowered to seek the attendance of Agency staff as required. The Committee met four times in 2009-10 and looked critically at a variety of key areas of the Agency's business to ensure that adequate controls had been identified to manage and mitigate risks to the business outputs. The Committee continued to apportion significant amounts of its time monitoring progress in respect of JPA but for 2010-11 and beyond it is anticipated that JPA will become just one element of routine AC business. The Committee also directed the audit programme of the Internal Assurance Team. Both SPVA NEDs attend the Agency Management Group and the Agency Executive Board. The AMG which also includes three directors from the commercial partner, met eight times during the year and received reports from a variety of working groups, including the Agency Operating Board which measures the delivery of operational outputs. The

accompanying Statement of Internal Control (SIC) at page 31 provides specific details of the risk management framework, control procedures and information in respect of in-year and ongoing corporate governance issues.

Risk Management

Risk management is embedded throughout the Agency. The highest level risks, with the potential to impact across the Agency, were reviewed monthly by the Operating Board who consider probability and the impact on time, cost and performance against the Agency's objectives and key targets. Particular attention is also paid to the controls that are put in place to mitigate the risks.

Human Resources

The Agency is accredited against the MoD Corporate HR standards as an Investor in People and has demonstrated its commitment to developing its people by delivering core training and tailored training events to meet individual and business needs. 32.3% of MoD civilian staff, men and women, are employed in part-time or job share posts. Overall the Agency has 10% staff registered as disabled.

One Agency One Team (OAOT) and Communications

SPVA believes that appropriate and high quality communication is essential to the successful running of the Agency. Good communication with employees was achieved by a series of activities. These included provision of an Agency Infocentre intranet system; monthly cascade briefings on key issues throughout the Agency; an on-line 'Ask the Boss' facility for staff to raise specific issues of concern; a regular staff magazine '@SPVA' with a mix of business and light-hearted articles; a periodic 'Staff Update' email bulletin; and an urgent issues email cascade system. CE and the HP Account Manager have also carried out comprehensive in-person site briefings on a regular basis, which include the opportunity for staff questions and feedback. These activities are an integral part of the One Agency One Team programme (see page 10).

The Agency has also been proactive in its external communications. Activities included an awareness campaign in Edinburgh including advertisements, publicity packs and presentations on the Agency's Services to Service Personnel; an awareness event in the Houses of Parliament aimed at MPs and Lords; the generation of over 60 items of coverage about SPVA in the media (including national publications and TV); a media facility at SPVA's Innsworth site working with the British Forces Broadcasting Service; an email/website based awareness campaign aimed at MoD Communicators; display stands/ mobile advice units at many Armed Forces Day events; and the publication of three editions of 'Veterans World', SPVA's 19,000 distribution magazine aimed at those who advise and support veterans in a professional capacity.

Employee Survey

The second SPVA Employee Survey was undertaken in March/April 2009. The findings with trend analysis provided evidence that, following the first SPVA Employee Survey, undertaken in February 2008, there had been a steady improvement in the vast majority of areas. Work to enhance themes for continuous improvement were again developed and progressed through the action plan. The action plan remains a living document taking forward issues from numerous areas such as the Agency employee survey, the MoD 'Have Your Say' survey, SPVA Conferences and One Agency One Team.

The Agency Management Group took the decision in December 2009 that because the MoD staff survey was to be repeated biannually a specific SPVA Employee Survey would not be undertaken in 2010. Employee views and areas for continuous improvement remain of significant importance to the Agency and continue to be gathered through various forums as detailed above and progressed via the action plan.

Safety, Health, Environment and Fire (SHEF)

The Agency is committed to maintaining its high standards in all aspects of SHEF. The SPVA SHEF Committee met three times in 2009-10 to manage Agency-wide SHEF policies and practices, including the SPVA SHEF policy statement, energy policy, environmental policy and travel guidance, and to produce consolidated monthly reports of accident statistics, training, fire safety and environmental issues for review at the quarterly AMG meetings.

The annual internal SHEF audit was completed in March 2010 to ensure compliance and best practice across all SPVA sites.

Parliamentary Business

During 2009-10 781 letters from Members of Parliament were answered, comprising 581 drafts for ministers and 200 replies from CE or DCE. Draft answers were provided to 75 Parliamentary Questions. 728 replies were sent to members of the public who had written with questions about SPVA services, including Freedom of Information requests. In addition the Data Protection team dealt with 3,273 Data Protection/Service Access Requests, 2,248 by telephone and 1,028 written.

Impact on the Community

The Agency is conscious of its impact on local communities and encourages staff at all levels to engage in activities within the local area. Many Agency personnel used their skills that they develop in the working environment to benefit local schools and voluntary groups. At Imjin Barracks, Innsworth a close relationship has been developed with the Art and Design faculty at Churchdown School. Some of the student's outstanding artwork is on display and a future tour of the Medal Office agreed. Earlier in the year the Agency's all-site Charity Week raised £11,000 shared equally by Help for Heroes and St Dunstan's. In addition more than £7,000 was raised for Cancer Research's Think Pink Day, the Glasgow Charity Fund, Erskine Hospital, Yorkhill Children's Hospital, Marocaround the Clock (clean water in Senegal), Harbour Cancer Support Centre, shoeboxes for Afghanistan, the RNLI and various local charities. The Agency is also currently developing strategies to further improve its recycling provision and to reduce its carbon footprint.



Kathy Barnes and Kevin Large present the cheques from the Agency's Charity Week

Management Commentary

PART 3 - FINANCIAL REVIEW 2009-2010

Management Commentary for Financial Year 2009/10

Budgetary Structure

SPVA operates as a Basic Level Budget within DCDS(Pers)'s Higher Level Budget. The breakdown of expenditure shown below provides detail of the Agency expenditure over the year to administer £9.6bn in Pay and Allowances and £4.6bn in Pensions.

Financial Performance

The gross operating costs for the year ended 31 March 2010 were £136,810k and net operating costs were £135,624k. Total net liabilities at 31 March 2010 amounted to £5,106k. Net current liabilities are shown as negative as cash is held centrally by the MoD and until this is released to pay for the creditors this has an adverse effect on the asset balance. This does not impact on the Agency's ability to conduct its business.

Programme Expenditure for Financial Year 2009-10

| | Notes | FY09/10 Outturn £000 | FY09/10 Budget £000 |
|--|-------|-------------------------|------------------------|
| Service Pay | 3 | 5,030 | 4,736 |
| Civilian Pay | 3 | 30,051 | 30,469 |
| Travel & Subsistence | 5 | 1,248 | 1,252 |
| IT | 5 | 1,446 | 2,605 |
| Training | 5 | 273 | 107 |
| Partnering | 5 | 66,289 | 65,348 |
| Contracted costs (Paymaster and Consultancy) | 5 | 5,628 | 4,446 |
| Stock costs (including provisions) | 5 | 2,036 | 2,477 |
| Depreciation/ Amortisation/Impairment | 5 | 6,325 | 6,325 |
| Other | 4 & 5 | 17,298 | 16,180 |
| TOTAL OPERATING COSTS | | 135,624 | 133,945 |

The Statement of Financial Position movement from FY 2008-09, reflects an increase in the HP Enterprise Services payables balance of 88%, reflecting the ongoing process of bedding in the new Interim Contract. The effect being that the Statement of Financial Position shows an increased net liability.

Departmental Resource Accounts (DRAc)

SPVA also provides input to Central Top Level Budget (CTLB) for the completion of the DRAc. SPVA's input comprises all costs incurred by the Agency, regardless of where responsibility for the charge lies. Communicated costs are not included in DRAc accounts. The biggest difference between SPVA's DRAc submission and its Agency accounts is the inclusion in the former of debtor and creditor balances in respect of Armed Forces pay, pensions and allowances.

Financial Administration of Managed Funds

SPVA manages tri-Service pay and war pensions delivery, and the monies disbursed on behalf of the Department are known as Managed Funds. Data on the Managed Funds is transferred to MoD's core financial accounting system to provide information on service pay costs.

Financial Monitoring and Audit of the Contract for Armed Forces Pay, Pensions and Administration Service Provision

Improvements in the budgeting, monitoring and verification of HP Enterprise Services costs continued until the end of the contract November 2009. A programme of validation exercises was undertaken and reports were provided to the Audit Committee detailing the work undertaken and findings. From November 2009 monitoring of the Interim Contract, with HP Enterprise Services, is by verification of the Cost Driver Volumes Report, the volumes provided are checked on a 6 month rolling programme. The results of the validation are documented for audit purposes.

Armed Forces Pension Scheme (AFPS)

The Chief Executive (CE) of SPVA has been designated by the Departmental Accounting Officer to be the Scheme Administrator for both the AFPS and Armed Forces Compensation Scheme (AFCS). The Head of Corporate Services for SPVA has been designated by the Departmental Accounting Officer to be the Senior Finance Officer for both the AFPS and AFCS. SPVA has an independent Resource Accounting and Budgeting (RAB) system to account for both AFPS and the AFCS system, which produces monthly management accounts as well as the year end Scheme Statements. The Comptroller and Auditor General formally audits the Scheme Statements and the accounts for 2008-09 were laid in Parliament on 20 July 2009.

In addition to the AFPS, CE SPVA is also the Scheme Administrator for the Non-Regular Permanent Staff Pension Scheme, The Armed Forces Compensation Scheme and the Army Career Officers Pension Scheme as well as several others. These schemes are included in the AFPS accounts.

Statement on disclosure of audit information

So far as the Accounting Officer is aware, there is no relevant audit information of which the Agency's auditors are unaware and the Accounting Officer has taken all reasonable steps to make herself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information.

Policy and achievements on supplier payments

It is MoD policy to settle terms of payments with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment, and to settle all bills within 30 days of receipt or earlier.

SPVA are following the Government initiative to move towards making all payments within 5 days. Payments to suppliers are predominantly made by the Financial Management Shared Service Centre at Liverpool, which is part of Director Finance Management, on SPVA's behalf.

Pension liabilities

Details of the pension schemes available to SPVA employees and the costs of these schemes are disclosed in the Remuneration Report on Page 26 to 29.

Auditors

The accounts of the Agency are audited by the Comptroller and Auditor General under Section 7(2) of the Government Resources and Accounts Act 2000. The fee of £88k is in respect of statutory audit work only. No other services were provided by the auditors.



Kathy Barnes
Accounting Officer
Service Personnel and Veterans Agency
14 July 2010

Management Commentary for Financial Year 2009/10

REMUNERATION REPORT

Remuneration Policy

1. The SPVA Executive Board is composed of officers of HM Armed Forces, senior civil servants and two Non Executive Directors.
2. SPVA does not have a Remuneration Committee and the salaries of all military and civilian Board members, including the Chief Executive, are determined at national level. Military Board members' salaries are recommended by the Armed Forces Pay Review Body and ratified by Parliament. The senior civil servants' remuneration is determined by the Senior Civil Service Salaries Review Body. The salary of Head of Veterans Services was determined by negotiation between Ministry of Defence and Civil Service Trade Unions. The salaries of the Non Executive members are determined by the Chief Executive in line with Ministry of Defence guidelines.

Service Contracts

3. Military members of the Board are appointed by standard service posting procedures. MoD civilian members of the Board are appointed by MoD Civil Service standard procedures. Non Executive members of the Board are appointed on fixed term contracts renewable by agreement.
4. Brig R J Bacon left the appointment of Head of Transition on 20 July 2009.
5. Commodore A Ross left the appointment of Head of Military Services on 13 November 2009.
6. Air Commodore C Bray assumed the appointment of Head of Military Services on 14 November 2009.

Salary and Pension Entitlements

7. 'Salary' includes gross salary, performance pay or bonuses; 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.
8. None of the members of the Board received any Benefits in Kind.
9. The table in para 11 below refers to remuneration during the financial year, and is subject to audit. The schedules reflect remuneration for that part of the year during which individuals were either providing services to, or employed by SPVA.
10. For 2009-10, employers' pension contributions of £5,334k were payable at rates in the range 16.7 to 39.8 percent of pensionable pay, based on salary bands. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

11. The salary and pension entitlements of the Executive Board of Service Personnel and Veterans Agency for the year ended 31 March 2010 are as follows:

| | Salary Including Performance Pay 2009-10 £'000 | Salary Including Performance Pay 2008-09 £'000 | Real increase/(decrease) in Pension and related lump sum £'000 | Total Accrued Pension at 31/03/10 and related lump sum £'000 | CETV at 31/03/09 £'000 | CETV at 31/03/10 £'000 | Real increase/(decrease) in CETV £'000 |
|--|---|---|---|---|------------------------------|------------------------------|--|
| Mrs K Barnes Chief Executive | 105-110 | 45-50 | 2-2.5 Plus 5-10 lump sum | 35-40 Plus 105-110 lump sum | 492 | 546 | 30 |
| Commodore R Albon Deputy Chief Executive/Head S&P | 95-100 | 60-65 | 10-15 Plus 30-30.5 lump sum | 45-50 Plus 135-140 lump sum | 363 | 518 | 116 |
| Mrs A Sansome Head Vet Svcs | 65-70 | 65-70 | 1-1.5 Plus 0-5 lump sum | 15-20 plus 50-55 lump sum | 277 | 313 | 21 |
| Air Commodore P Nash Head Change | 95-100 | 50-55 | 3.5-4 Plus 10-15 lump sum | 45-50 Plus 145-150 lump sum | 520 | 619 | 46 |
| Commodore A Ross Head Mil Svcs | 60-65 | 90-95 | 1.5-2 Plus 0-5 lump sum | 45-50 plus 145-150 lump sum | 504 | 606 | 19 |
| Brig R Bacon Head Transition Services | 30-35 | 95-100 | 1.5-2 Plus 5-10 lump sum | 40-45 plus 130-135 lump sum | 483 | 519 | 23 |
| Ms K Humberstone Head Corporate Services | 80-85 | 40-45 | 1-1.5 | 0-5 | 32 | 53 | 14 |
| Air Commodore C Bray Head Mil Svcs | 30-35 | N/A | 0.5-1 Plus 0-5 lump sum | 30-35 Plus 90-95 lump sum | 0 | 710 | 15 |
| Mrs B Curtis Non Executive Dir | 10-15 | 0-5 | 0 | 0 | 0 | 0 | 0 |
| Mr A Jablonowski Non Executive Dir | 10-15 | 20-25 | 0 | 0 | 0 | 0 | 0 |

No directors received any benefits-in-kind during the year.

Pension Benefits

12. Pension benefits are provided through the Armed Forces Pension Scheme (AFPS) and the Principal Civil Service Pension Schemes (PCSPS). These schemes are unfunded multi-employer defined benefits schemes therefore SPVA is unable to identify its share of the underlying assets and liabilities. An interim actuarial valuation was carried out as at 31 March 2008 for AFPS. A full actuarial valuation was carried out as at 31 March 2007 for PCSPS. Details can be found in the resource accounts for these schemes, which are published and laid before the House of Commons.

a) Armed Forces Pension Scheme (AFPS)

AFPS is a contracted-out, unfunded, defined benefit occupational pension scheme. On 06 April 2005 the scheme, known as AFPS75 was closed to new entrants and a new scheme AFPS05 opened. Benefits in the schemes accrue unevenly throughout service and in addition a lump sum equivalent to three years' pension is payable on retirement. Those officers who took the Armed Forces Pension Scheme's Offer To Transfer transferred their benefits into the new scheme. Under the terms of the new scheme the benefits are structured differently and different actuarial assumptions are applied to the valuation of the benefits.

Employer contribution is 39.8% for Officers and 23.7% for other ranks based on pensionable salary.

b) Principal Civil Service Pension Scheme (PCSPS)

From 01 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 01 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder based 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 or 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 01 October 2002 calculated broadly as 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, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensions.gov.uk.

13. The table shown above discloses the member's cash equivalent transfer value (CETV) accrued at the beginning and end of the reporting period. The real increase in CETV is effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

14. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves 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 the

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 PCSPS or AFPS and for which the relevant scheme 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.

A handwritten signature in black ink that reads "Kathy Barnes". The signature is written in a cursive, flowing style.

Kathy Barnes
Accounting Officer
Service Personnel and Veterans Agency
14 July 2010

Financial Statements for the year ended 31 March 2010

Statement of Agency's and Chief Executive's responsibilities

Under Section 7(2) of the Resource Accounts Act 2000, Treasury has directed the Service Personnel and Veterans Agency to prepare a statement of accounts for each financial year, in the form and on the basis set out in the Financial Reporting Manual.

The financial statements are to be prepared on an accruals basis and must give a true and fair view of the state of the Agency's affairs at the year end, of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the financial statements the Agency is required to:

- observe the Accounts Direction issued by the Treasury, including 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 and financial reporting standards have been followed, and disclose 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 Departmental Accounting Officer for the Ministry of Defence has appointed the Chief Executive of the Service Personnel and Veterans 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 for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in *Managing Public Money*.

2009-10 Statement on the System of Internal Control

Scope of responsibility

1. As Chief Executive of the Services Personnel and Veterans Agency (SPVA), I have responsibility for maintaining a sound system of internal control that supports the achievement of the SPVA'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.
2. I am accountable directly to the Ministry of Defence Principal Accounting Officer for the propriety and regularity of SPVA's expenditure and for prudent and economical administration of the Agency in compliance with Departmental rules. As Chief Executive, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained by SPVA.

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 Agency 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 SPVA for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with current Treasury guidance.

Capacity to handle risk

4. SPVA is an Executive Agency of the Ministry of Defence and its services are delivered through a combination of MoD Civilian/Service Personnel and Hewlett Packard Enterprise Services Ltd (HP) via a commercial partnering agreement.⁷ The arrangement for joint working with HP is managed via the Agency Management Group (AMG) chaired by the Chief Executive.
5. Risk and Performance Management processes within the SPVA have remained strong throughout the year. The systematic and consistent approach adopted by the Agency to manage risk, enhanced by the creation of the Operating Board (OB), ensures that risk registers are visible and remain current at all levels. The strategic level risks, which have the potential to impact across the Agency, are formally reviewed and updated at the AMG meetings. The risk management and performance management procedures themselves are formally reviewed by the AMG on an annual basis.
6. Risk owners and risk managers are identified as part of the risk management process. Formal risk management training is provided to SPVA project and operational teams. Risk management information and guidance is available to all staff via the SPVA Intranet.
7. Agency Business and accounting operations are periodically reviewed by a number of audit bodies, including Defence Internal Audit and the National Audit Office.

The risk and control framework

8. Active management of risk is fundamental to the effective achievement of the SPVA's Vision, Mission, Strategic Objectives, Key Performance Targets and other key deliverables. The risk process and procedures give consideration to the probability and the impact on time, cost and performance against the Agency's objectives and key targets. Particular attention is also paid to the controls that are put in place to mitigate the risks based on the Agency's risk appetite. The risk policy includes procedures for the management and escalation of risks. The procedures outline the requirement to consider risks to the achievement of business and personal objectives. Agency Business Level risks are reviewed on a monthly basis by the OB. Major Business Level risks are linked to one of the five main Agency objectives and further reviewed on a quarterly basis by the AMG in its review of performance as detailed in the SPVA Strategic Scorecard. There are further quarterly reports on Risk and Performance supplied to DCDS (Pers) which are considered at HLB Management Board meetings. Lower level risks are managed at Directorate, Project or Working Group levels and are each subject to regular review.
9. The SPVA contract with HP sets out the structure for the ownership and management of risk. While HP fully supports the SPVA risk management processes, they have also developed their own internal control and risk management procedures to embrace their business objectives.

⁷Up until Nov 2009 SPVA had a separate contract with Xafinity Paymaster to manage the payment of authorised AFPS pensions. Post November the contractual arrangements with HP changed and Xafinity Paymaster became a third party provider responsible to HP.

10. The SPVA Audit Committee (AC), under the chairmanship of one of its Non Executive Directors, is well established and meets quarterly. Defence Internal Audit and the National Audit Office attend the AC and provide advice and guidance where appropriate.

11. The Agency Internal Assurance Team (IAT) review the systems of internal control that underpin the working practices of the SPVA to ensure that those systems operate effectively and that any MoD guidance, regulations and instructions are complied with by Agency staff.

12. In the past year the SPVA has further enhanced its physical controls around data storage and introduced additional controls over the movement of data. It is also working towards compliance with the Information Assurance Maturity Model. Controls in place ensure compliance with the Data Protection Act and accord with Cabinet Office guidelines. Data management is also subject to debate at each AC and AMG.

Business Continuity

13. Agency Business Continuity (BC) Plans were extended to include a Pandemic Flu plan in April 2009. This was given full endorsement and declared fit for purpose by the MoD Pandemic Flu Crisis Management Team. As well as BC and Disaster Recovery (DR) Plans covering critical outputs, the Agency continues to develop site plans and, as in 2008-2009, a full schedule of BC and DR testing has taken place covering all major systems.

14. As well as Pandemic Flu, the Agency BC Team has successfully managed industrial action by Royal Mail postal services and adverse weather affecting all sites during January 2010. Extensive work has also been done to ensure Business Continuity is fully prepared for changes prompted by the Interim Contract (IC) and the ongoing Service Transfer project. In 2010-11 the aim will be to maintain the good standards of management achieved thus far and improve the continuity culture through publicity and education, completing outstanding BC Plan projects and ensuring compliance with MoD BC strategy as per JSP 503.

Review of effectiveness

15. As Chief Executive, I also 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 MoD internal auditors, SPVA's own internal assurance team and the executive 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by my Agency Board's and AC and a plan to address weaknesses and ensure continuous improvement of the system is in place.

16. In the current year the effectiveness of the system of internal control operating within my Agency has been subject to continuous review. Activities that have significantly contributed to maintaining and improving effectiveness include:

- The SPVA Agency Executive Board, AMG and Operating Board met on a regular basis in order to advise and support me in developing a strategy and overseeing plans for delivering the Agency's objectives and key performance targets;
- The Agency's Non-Executive Directors were fully involved in the management of the Agency's business providing independent advice to the Centre, the AMG, the AC and the SPVA Executive Board;
- The AC provided advice on the adequacy of internal and external audit arrangements and on the implications of assurances provided in respect of risk, control and governance processes within the organisation. The AC monitored progress made on audit recommendations (made by IAT, DIA and the NAO) and progress with current initiatives.
- The IAT completed a number of compliance and assurance activities in relation to both financial propriety and business risks, the scopes of which specifically embraced the examination of records for potential fraud. They also worked closely with business areas to assist them to develop adequate management controls.
- The Agency has a fraud focal point situated within the IAT offering advice and guidance on fraud related matters, additionally all staff have direct access to the Defence Fraud Analysis Unit to escalate any instances of suspected fraud. In addition to the work of the IAT, the Agency continued to utilise the National Fraud Initiative (NFI) to identify potential Armed Forces Pension Scheme (AFPS) fraudulent claims and a small internal team is resourced to investigate any potential fraudulent War Pension Scheme and Armed Forces Compensation Scheme claims.
- The JPA Payroll, Controls and Performance Team continued to address JPA control, accounting and management information issues alongside the Single Service focal points.

- The processes in place to manage and reconcile control accounts have been refined thereby ensuring that any issues potentially impacting upon their successful reconciliation are addressed and resolved at an early stage. As a direct result of this work the majority of all control accounts are now fully reconciled month on month. An appropriate escalation procedure is now in place and operating effectively to manage unreconciled items.

Significant internal control problems

17 My review of the effectiveness of internal controls has not highlighted any significant internal control problems. The SPVA has now addressed the internal control problems highlighted in my 2008-09 SIC⁸ and, in the context of this SIC, I regard these issues as now closed.

18. In respect of JPA, work has continued on improving the accuracy of pay and allowances and the number of pay errors continues to decrease. The review of the military pay and allowances control framework has been very successful in identifying areas of potential risk and determining where the end-to-end control needed to be improved. Work remains ongoing but it is anticipated that by December 2010 most of this activity will be built into steady-state. This review has now been expanded to include the Armed Forces Pension and Compensation Schemes and the War Pensions Scheme. Following completion of this review the process maps will become working documents that will be regularly updated to ensure that controls remain relevant and robust.

19. Erroneous payments of Local Overseas Allowance to personnel deployed in Afghanistan have occurred due to misapplication of current regulations and insufficient HR governance. The overpayments stretch back to 2007 (the introduction of JPA on a tri-Service basis). The number of personnel who are currently judged to have been overpaid is 4,153. Of the 4,153 to whom overpayments have been made, 3,081 are Officers and 1,072 Other Ranks. Among all these personnel, 75% (3,133) have been overpaid by less than £500 (with the average being £250). Approximately £2.2M of overpayments has been recovered and work is ongoing to recover the remaining £400K.

20. The following personal data related incidents occurred during 2009-10, in respect of data for which SPVA was the custodian. While none resulted in a material loss I have highlighted them for completeness:

⁸Up until Nov 2009 SPVA had a separate contract with Xafinity Paymaster to manage the payment of authorised AFPS pensions. Post November the contractual arrangements with HP changed and Xafinity Paymaster became a third party provider responsible to HP.

| Month of Incident | Nature of Incident | Nature of Data Involved | Number of People Potentially Affected | Notification Steps |
|-------------------|---|--|---------------------------------------|---|
| May 2009 | Loss of USB memory stick at Centurion. | NPM presentations. | 0 | MSF submitted to JSyCC and CTLB WARP. |
| Sept 2009 | Loss of USB Memory stick in transit to SPVA Centurion via Parcel Force. | Name, service number, date of birth, limited personal information. | 1- 1000 | Sent on 15/9/2009 via 24hr service investigated through Parcel Force. USB memory stick returned to SPVA on 18/12/2009 through Parcel Force. |
| Dec 2009 | Loss of USB memory stick at Centurion. | Unclassified software transfer (software patches for Oracle from Development Network to Production). | 0 | HP incident report passed to ASyO. MSF submitted to JSyCC and CTLB WARP. |
| Dec 2009 | Accidental disclosure of personal information to a 3rd Party. | Pension Data issued to incorrect recipient. | 3 | Letter erroneously issued by Xafinity Paymaster (XP). Procedures reviewed within XP and DPA training refresh. |
| Feb 2010 | Disclosure of personal data from WPCS to a 3rd Party. | Zipped datafile forwarded to Erodine (3rd Party approved by DWP) for test purposes, but not de-personalised. | 4 | Investigated by DWP Security, datafile has been deleted from all IT Systems within Erodine. |

Kathy Barnes

Kathy Barnes
Accounting Officer
Service Personnel and Veterans Agency
14 July 2010

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 Service Personnel and Veterans Agency for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows 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 Responsibilities, the Chief Executive is 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 the financial statements in accordance with applicable law and 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

In addition, 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 have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary 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 are not in agreement with the accounting records or returns; or

-
- I have not received all of the information and explanations I require for my audit.
 - the Statement on Internal Control 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
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

19 July 2010

Financial Statements for the year ended 31 March 2010

OPERATING COST STATEMENT

For the year ended 31 March 2010

| Administration Costs | Note | 2009-10 £'000 | 2008-09 £'000 |
|------------------------------|-------------|--------------------------|--------------------------|
| Staff costs | 3 | 35,081 | 34,369 |
| Accommodation costs | 4 | 6,888 | 8,082 |
| Other Administrative costs | 5 | 94,841 | 73,234 |
| Gross operating costs | | <u>136,810</u> | <u>115,685</u> |
| Operating income | 6 | (1,186) | (992) |
| Net operating costs | | <u>135,624</u> | <u>114,693</u> |

All of the Service Personnel and Veterans Agency activities are continuing.

The notes on pages 41 - 58 form an integral part of these financial statements.

Statement of financial position

for the year ended 31 March 2010

| | Note | 31 March 2010 | | 31 March 2009 | | 01 April 2008 | |
|--|------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Non-current assets | | | | | | | |
| Property, plant & equipment | 7 | 4,960 | | 10,616 | | 3,408 | |
| Intangible assets | 7 | <u>5,749</u> | | <u>2,534</u> | | <u>3,105</u> | |
| Total non-current assets | | | 10,709 | | 13,150 | | 6,513 |
| Current assets | | | | | | | |
| Inventories | 8 | 410 | | 418 | | 778 | |
| Trade & other receivables | 9 | 210 | | 308 | | 181 | |
| Cash & cash equivalents | 11 | <u>6</u> | | <u>4</u> | | <u>3</u> | |
| Total current assets | | | <u>626</u> | | <u>730</u> | | <u>962</u> |
| Total assets | | | 11,335 | | 13,880 | | 7,475 |
| Current liabilities | | | | | | | |
| Trade & other payables | 12 | <u>(16,094)</u> | | <u>(14,730)</u> | | <u>(22,180)</u> | |
| Total current liabilities | | | <u>(16,094)</u> | | <u>(14,730)</u> | | <u>(22,180)</u> |
| Non-current assets less net current liabilities | | | (4,759) | | (850) | | (14,705) |
| Non-current liabilities | | | | | | | |
| Provisions | 13 | (319) | | (402) | | (164) | |
| Other Payables | | <u>(28)</u> | | <u>0</u> | | <u>0</u> | |
| Total non-current liabilities | | | (347) | | (402) | | (164) |
| Assets less liabilities | | | <u>(5,106)</u> | | <u>(1,252)</u> | | <u>(14,869)</u> |
| Taxpayers' equity | | | | | | | |
| General Fund | | (5,220) | | (1,329) | | (14,902) | |
| Revaluation Reserve | | <u>114</u> | (5,106) | <u>77</u> | (1,252) | <u>33</u> | (14,869) |
| Total Taxpayers' equity | | | <u>(5,106)</u> | | <u>(1,252)</u> | | <u>(14,869)</u> |

The notes on pages 41 - 58 form an integral part of these financial statements.

Kathy Barnes

Kathy Barnes
Chief Executive
Service Personnel and Veterans Agency
14 July 2010

Cash Flow Statement

For the year ending 31 March 2010

| | Note | 2009-10 £'000 | 2008-09 £'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Net operating cost | | (135,624) | (114,693) |
| Adjustment for non-cash transaction | 20 | 9,257 | 6,053 |
| Decrease/(increase) in trade and other receivables | 98 | (127) | |
| Decrease in inventories | 33 | 397 | |
| Increase in trade payables | 1,391 | (7,450) | |
| less movements in payables relating to items not passing through the OCS. | | <u>(645)</u> | <u>(1,127)</u> |
| Use of provisions | 13 | (248) | (65) |
| Net cash outflow from operating activities | | <u>(125,738)</u> | <u>(117,012)</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant & equipment | 7 | (1,748) | (6,911) |
| Purchase of intangible assets | 7 | (1,482) | (1,564) |
| Proceeds of disposal of property, plant & equipment | | 32 | 26 |
| Net cash outflow from investing activities | | <u>(3,198)</u> | <u>(8,449)</u> |
| Cash flows from financing activities | | | |
| Defence Resource Accounts Payments | | 128,930 | 125,461 |
| Defence Resource Accounts Receipts | | 2 | 1 |
| Capital element of payments in respect of finance leases and on-balance sheet PFI contracts | | 6 | 0 |
| Net Financing | | <u>128,938</u> | <u>125,462</u> |
| Net increase in cash and cash equivalents in the period | | <u>2</u> | <u>1</u> |
| Cash and cash equivalents at the beginning of the period | 11 | <u>4</u> | <u>3</u> |
| Cash and cash equivalents at the end of the period | 11 | <u><u>6</u></u> | <u><u>4</u></u> |

The notes on pages 41 to 58 form an integral part of these financial statements.

STATEMENT OF CHANGES IN TAXPAYERS EQUITY

For the year ended 31 March 2010

| | Note | General Fund £'000 | Revaluation Reserve £'000 | Total Reserves £'000 |
|--|------|-----------------------|------------------------------|-------------------------|
| Balance at 31 March 2008 | | (13,335) | 33 | (13,302) |
| Changes in accounting policy | | | | |
| IAS 19 Employee Benefits | | | | |
| 2007/08 Bonus | | (816) | 0 | (816) |
| 2007/08 Annual Leave | | (682) | 0 | (682) |
| 2007/08 Overtime | | (69) | 0 | (69) |
| Restated balance at 1 April 2008 | | (14,902) | 33 | (14,869) |
| Changes in Taxpayers' equity for 2008-09 | | | | |
| Net gain on revaluation of property, plant & equipment | | 0 | 7 | 7 |
| Net gain on revaluation of inventories | | 0 | 37 | 37 |
| Non cash charges – cost of capital | 20 | (419) | 0 | (419) |
| Non cash charges – auditors remuneration | 20 | 83 | 0 | 83 |
| Notional costs | 20 | 3,140 | 0 | 3,140 |
| Net operating cost for the year | | (114,693) | 0 | (114,693) |
| Total recognised income and expense for 2008-09 | | (111,889) | 44 | (111,845) |
| Funding from parent | | 125,462 | 0 | 125,462 |
| Balance at 31 March 2009 | | (1,329) | 77 | (1,252) |
| Net loss on revaluation of property, plant & equipment | | 0 | 12 | 12 |
| Net gain on revaluation of inventories | | 0 | 25 | 25 |
| Non cash charges – cost of capital | 20 | (112) | 0 | (112) |
| Non cash charges – auditors remuneration | 20 | 88 | 0 | 88 |
| Notional costs | 20 | 2,825 | 0 | 2,825 |
| Net operating cost for the year | | (135,624) | 0 | (135,624) |
| Total recognised income and expense for 2009-10 | | (132,823) | 37 | (132,786) |
| Funding from parent | | 128,932 | 0 | 128,932 |
| Balance at 31 March 2010 | | (5,220) | 114 | (5,106) |

NOTES TO THE ACCOUNTS

Note 1: ACCOUNTING POLICIES

Introduction

1.1 As directed by HM Treasury, the Agency has prepared financial statements. These financial statements have been prepared in accordance with the 2009-2010 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 and this is the first time that accounts have been produced under IFRS. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Service Personnel and Veterans Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Service Personnel and Veterans Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

On the grounds of materiality, HM Treasury has also agreed that the information normally required by the FReM on Fees and Charges disclosures (paragraph 7.4.32) is not required and the disclosure provided at Note 6 is sufficient.

1.2 The Operating Cost Statement consists of administration costs. Administration costs reflect the costs of running the Department. The classification of expenditure as administration follows the definition of administration costs set by HM Treasury.

Change in Accounting Policies

1.3 The Agency has adopted IFRS 1 First-time Adoption of International Financial Reporting Standards in its 2010 financial statements. This standard has been applied retrospectively.

1.4 Significant effects on current and prior periods arising from the first-time application of IAS 1 (Revised) in respect of presentation, recognition and measurement are described in note 2. An overview of standards, amendments and interpretations issued, but not yet effective are detailed in note 2.

Accounting Convention

1.5 These financial statements for the Service Personnel and Veterans Agency have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets and inventories to reflect their value to the business by reference to their current costs.

Net Operating Costs

1.6 Costs are charged to the Operating Cost Statement in the period in which they are incurred and matched to any related income.

1.7 Income from services provided to third parties is included within operating income, net of related VAT.

1.8 The Agency is not separately registered for Value Added Tax (VAT) as the Ministry of Defence accounts for VAT centrally. The Agency's account, include costs of contracted-out services, net of VAT, as well as costs inclusive of non-recoverable VAT attributable to its activities.

1.9 A notional charge for interest on capital is included in the Operating Cost Statement. This is calculated as 3.5% of the average value of total net assets in accordance with Ministry of Defence accounting policy.

1.10 Notional amounts are included in the Operating Cost Statement for charges in respect of services provided by other areas of the Ministry of Defence. The amounts charged are calculated to reflect the full cost of providing these services to the Agency.

1.11 SPVA 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 advised costs of the services provided.

Non Current Assets and Depreciation

1.12 On 01 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from AFPAA and VA (now the merged Agency SPVA) to other parts of the Department. Where the Agency retains control of these assets they continue

to be accounted for in the Agency's Statement of Financial Position in accordance with IFRIC 12. In all other cases the costs of the use of these assets are communicated to SPVA by the asset owners and charged to the Operating Cost Statement.

1.13 The Agency's non-current assets are expressed at their fair value through the application of the Modified Historical Cost Accounting Convention (MHCA). Prospective indices, which are produced by Defence Analytical Services and Advice (DASA), are applied at the start of each financial year to the non-current assets which fall within the categories listed below. These indices, which look ahead to the Reporting Period date, are also adjusted to reflect the difference between the actual change in prices in the prior year and the earlier prediction. Details of the indices used are:

| | |
|--|-------|
| IT and Communications Equipment – Communications Equipment | 68.8 |
| IT and Communications Equipment – Office Machinery and Computers | 24.7 |
| Plant and Machinery | 121.6 |
| Transport – Other | 115.8 |
| Assets under Construction | 24.7 |

1.14 Assets under construction are valued at cost and are subject to indexation. On completion, they are released from the project account into the appropriate asset category.

Intangible Non-Current Assets

1.15 Development costs are capitalised where they contribute towards defining the specification of an asset that will enter production. Those not capitalised are charged to the Operating Cost Statement. Capitalised development costs are amortised, on a straight line basis, over the planned operational life of the resultant asset. Amortisation commences when the asset type first enters operational service within the Agency. If it is decided to withdraw the whole class of an asset type early, then any residual unamortised development costs relating to that class are written off to the Operating Cost Statement, along with the value of the underlying tangible non-current assets.

1.16 Externally purchased software including licences (other than the operating system) are capitalised where they contribute to the provision of services or other Agency outputs for a period in excess of one year. Capitalised software is amortised, on a straight line basis, over the shorter of either the economic life or the licence period.

Tangible Non-Current Assets

1.17 The useful economic lives of tangible non-current assets are reviewed annually and adjusted where necessary. The MoD's capitalisation threshold is £10,000 and it is this which determines whether or not an asset is recorded in the Non-Current Asset Register (NCAR). Agencies may apply a lower capitalisation threshold to those assets which form part of their Statement of Financial Position. The decision to record an asset on the NCAR normally takes place at the point of initial acquisition. Additionally, any identical assets purchased through the contract whose combined value is greater than £10,000 inclusive of VAT are also capitalised. Transport purchases of a lower value are capitalised due to their bespoke use by the Agency.

1.18 All the assets are depreciated on a straight line basis, except Assets under Construction which are not depreciated. Depreciation and amortisation on all other non current assets is calculated to write-off the cost or valuation of assets by equal instalments over their estimated useful lives, which are normally assumed to be as follows:

| Asset Category | Life | |
|---|------|-------|
| Intangible | 3-5 | years |
| Plant & equipment | 15 | years |
| Office equipment | 5 | years |
| IT equipment | 3-5 | years |
| IT assets (HP Enterprise Services owned formerly EDS) | 3-5 | years |
| Transport | 4-10 | years |

1.19 Plant & equipment and IT equipment is capitalised where the Agency is the beneficial user, the useful life exceeds one year and the cost of acquisition and installation exceeds the Agency's capitalisation threshold. Plant & equipment, IT equipment assets and Assets under Construction are re-valued annually using indices in accordance with MOD policy.

1.20 Under the Agreement with HP Enterprise Services (formerly EDS), although HP Enterprise Services holds legal title to the IT and Communications equipment assets, the Agency has continuing and exclusive use of those assets. Following a review of the accounting treatment in 2004, the HP Enterprise Services owned assets and, where appropriate, the associated liability to HP Enterprise Services have been capitalised.

Impairment

1.21 Impairment charges to the Operating Cost Statement occur in circumstances which reduce the carrying value of non-current assets to their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale. All impairment losses are written off against the Revaluation Reserve (or Donated Asset Reserve, as appropriate) until the carrying value of the asset reaches its depreciated historic cost. Impairment losses below this amount are charged to the Operating Cost Statement. Any reversal of an impairment charge is recognised in the Operating Cost Statement to the extent that the original charge was previously recognised there. The remaining amount is recognised in the Revaluation Reserve.

Leased Assets

1.22 Assets held under finance leases are capitalised as non-current assets and depreciated over the shorter of the lease term or their estimated useful economic life. Rentals paid are apportioned between reductions in the capital obligations included in payables, and finance costs charged to the Operating Cost Statement. Expenditure under operating leases is charged to the Operating Cost Statement in the period in which it is incurred.

1.23 The Agency may also enter into arrangements that do not take the legal form of a lease but nevertheless, under IFRIC 4, convey to the Agency the right to control the use of an underlying asset in return for payment. Where these arrangements are deemed to contain a lease the lease should be accounted for as either a finance or an operating lease.

Public Private Partnerships (PPP) including Private Finance Initiative (PFI) Transactions

1.24 Where PPP including PFI arrangements fall within the scope of the IFRIC 12 definition of Service Concession Arrangements, the infrastructure assets are reported on the Agency's Statement of Financial Position. The value is charged to the Operating Cost Statement for service performance.

1.25 Where PPP including PFI arrangements do not fall within the scope of IFRIC 12, the arrangement is assessed to establish whether it contains a lease under IFRIC 4. If it does contain a lease, the lease will be accounted for as either a finance or an operating lease. Where the arrangement does not contain a lease, the expenditure will be recognised as it falls due.

Cash, Taxation and Social Security Liabilities

1.26 The Agency does not directly pay or receive money, except for transactions dealt with via the Dublin cash office and Ilford Park Polish Home. 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 are brought to account by the Ministry of Defence in the Departmental Resource Accounts and are recorded by the Agency when charged to this account. All such transactions are disclosed in aggregate in the Statement of Cash Flows.

1.27 As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance Contributions, due to Agency employees, the Department is liable for the payment of any liabilities which may be due to HM Revenue and Customs or Department for Work and Pensions at the Statement of Financial Position date, and these are not disclosed in the Agency's Statement of Financial Position.

Going Concern

1.28 The Service Personnel and Veterans Agency have been prepared on a going concern basis.

Financial Instruments

1.29 As the cash requirements of SPVA are met through the Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk.

1.30 Receivables, including trade receivables, staff loans and advances are classified Receivables and are initially measured at fair value and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate and will be received in excess of one year. However, the Agency's receivables that are due within 1 year are not discounted on the grounds of materiality.

1.31 Long outstanding debts are assessed on a bi-annual basis to ensure that action is taken to write off bad debts. Debts are monitored regularly in normal day to day activities. Provisions are only made for specific bad debts.

1.32 Liabilities covering trade payables, accruals and loans are classified as Other Liabilities and are initially measured at fair value and subsequently at discounted cost. This applies to those liabilities carrying a nil or a subsidised rate of interest and will be payable in excess of one year. On the grounds of materiality, the Agency's liabilities falling due within 1 year are not discounted.

1.33 The Agreement with HP Enterprise Services contains tight guidelines for the imposition of failure charges where performance levels fall below set criteria. Such charges will be raised as a reduction in the liability with HP Enterprise Services and recovered under the timescales set down in the Agreement. SPVA additionally has the right to waive part or all of these charges and in the event of this happening, write off action is required and will be reflected in the accounts.

1.34 The amended Agreement allowed for a reconciliation between the Annual Target Price (ATP) and actual costs incurred by HP Enterprise Services. Where actual costs were below the ATP, the Agreement provided for a sharing of these efficiency savings. Such amounts are included as a reduction in the HP Enterprise Services accrual. From the start of the Interim Contract HP Enterprise Services received a Firm Baseline Payment each month, major deviations in volumes may result during reconciliation. Such amounts if they occur are included as a reduction in the accrual.

Inventories

1.35 Inventories are recognised on the Agency's Statement of Financial Position from the point of acquisition to the point of issue for consumption.

1.36 Medal inventories are stated at the lower of current replacement cost and net realisable value. Cost comprises purchase price and includes expenses incidental to acquisition. Current replacement cost applies to stocks expected to be used or sold in the ordinary course of business and represents the cumulative revaluation of stock using the latest cost of acquisition. Net realisable value applies to stocks which are not intended to be used or sold in the ordinary course of business. Where appropriate, provision is made for obsolete, surplus and defective stock. The provision is based on 100% of the purchase price of the medals, excluding bullion scrap value, for surplus stocks.

1.37 The Agency holds inventories of stationery, computer spares and similar consumable materials. Due to the nature of these items, the Agency does not consider it appropriate to reflect their value in the Statement of Financial Position. Accordingly, the Agency has charged all expenditure on consumable items to the Operating Cost Statement.

1.38 Inventories written-off, included within Other Operating Costs, represent the book value of inventories which have been scrapped, destroyed or lost during the year, and also adjustments to bring the book values into line with the figures recorded on the supply systems.

Provisions for Liabilities and Charges

1.39 Provisions for liabilities and charges have been established under the criteria of IAS 37 and are based on realistic estimates of the expenditure required to settle future legal or constructive obligations that exist at the Reporting Period date.

1.40 Under IAS 19 Employee Benefits provisions are included in the accounts for future liabilities due in respect of SPVA staff that left under the Flexible or Compulsory Early Retirement Schemes. The provision is charged to the Operating Cost Statement for the year in which the obligation was made. Future costs are charged on an accruals basis against the related provision. The Agency provides in full for the cost of meeting pensions up to the minimum retirement age in respect of military and civilian personnel early retirement programmes. Pensions payable after the minimum retirement age are met by the Armed Forces Pension Scheme for military personnel and by the Civil Service pension arrangements for civilian personnel. Redundancies are provided for in full.

1.41 All long-term provisions are discounted to current prices using the rate advised by HM Treasury. The rate for financial year 2009-10 is 3.2% (2.2% for 2008-09). The discount is unwound over the remaining life of the provision and shown as an interest charge in the Operating Cost Statement.

Reserves

1.42 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets and inventories. Adjustments arising on revaluation of owned non current assets are transferred to a Revaluation Reserve or the Operating Cost Statement as appropriate.

1.43 The General Fund represents the balance of the Taxpayers' Equity.

Pensions Costs

1.44 Present and past employees are mainly covered by the Civil Service pension arrangements for civilian personnel and the AFPS for Service personnel. There are separate scheme statements for the AFPS and Civil Service pensions as a whole.

1.45 Both the AFPS and the main Civil Service pension schemes are unfunded defined benefit pension schemes, although, in accordance with the HM Treasury FReM, the Agency accounts for the schemes in its accounts as if they were defined contribution schemes. The employer's charge is met by payment of a Superannuation Contribution Adjusted for Past Experience (SCAPE), which represents an estimate of the cost of providing future superannuation protection for all personnel currently in pensionable employment. In addition, civilian personnel contribute 1.5% of salary to fund a widow/widower's pension if they are members of classic, and 3.5% if they are members of premium, classic plus or nuvos. Money purchase pensions delivered through employer-sponsored stakeholder pensions have been available as an alternative to all new Civil Service entrants since October 2002.

1.46 The pension schemes undergo a reassessment of the SCAPE contribution rates by the Government Actuary at four-yearly intervals. Provisions are made for costs of early retirement programmes and redundancies up to the minimum retirement age and are charged to the Operating Cost Statement.

1.47 Further details are included in: the Remuneration Report and on the websites of the Civil Service Pension Scheme and the Armed Forces Pension Scheme. Note 3 – Staff Costs and Numbers, gives details of pension costs in the year.

Accruals

1.48 The Agency's accruals policy is to accrue for work in progress at the year end and this is reflected in the accounts. The work in progress at the year end is in respect of non current assets.

Cost of Capital Charge

1.49 A charge, reflecting the cost of capital utilised by the Agency, is included in the Operating Cost Statement and credited to the General Fund. The charge is calculated using the HM Treasury standard rate for Financial Year 2009-10 of 3.5% (2008-09: 3.5%) in real terms and applied to all assets less liabilities except for the following, where the charge is nil:

- Donated assets and cash balances with the Office of HM Paymaster General (OPG).
- Liabilities for the amounts to be surrendered to the Consolidated Fund and for amounts due from the Consolidated Fund.
- Assets financed by grants.
- Additions to heritage collections where the existing collection has not been capitalised.

Foreign Currency

1.50 All transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR) at the date of each transaction. For each currency, from 1 September 2008, the GAR is updated monthly based on spot rates; for US Dollars and Euros the GAR is based on the published spot rate in the week immediately preceding the new month. Exchange differences will arise when a currency transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. In addition, monetary assets and liabilities are translated at the mid-market closing rate applicable at the Reporting Period date and the exchange differences are reported in the Operating Cost Statement.

Contingent Liabilities

1.51 In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of 'Managing Public Money'.

1.52 Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.53 The International Accounting Standards Board (IASB) issued IFRS 9, Financial Instruments, in November 2009. The Standard, which simplifies the classification and measurement of financial assets, becomes effective from 01 January 2013, although it is not yet known when and how the Financial Reporting Advisory Board will implement it. At this early stage, it is not envisaged that the Standard will have a significant impact on the Department's financial statements.

1.54 The FREM has introduced a number of changes for financial year 2010-11. The main ones applicable to the Department are:

- The removal of the notional cost of capital charge. As an indication of the likely financial impact, the amount charged to the Operating Cost Statement in these financial statements is a credit of £112k.
- Implementation of FRS 30, Heritage Assets. This is unlikely to affect the Agency, as it does not hold any heritage assets.
- An adoption of IAS 36, Impairment of Assets. This will mandate the charging of all impairments caused by a clear consumption of economic benefits to the Operating Cost Statement. Current policy is to charge such impairments to the Revaluation Reserve. The financial impact of this change is not yet known.

Note 2: FIRST TIME ADOPTION OF IFRS.

IFRS 1 First-time Adoption of International Financial Reporting Standards.

2.1 The Agency has adopted IFRS 1, First-time Adoption of International Financial Reporting Standards, in its financial statements. This standard has been applied retrospectively.

2.2 The adoption of the standard has significantly affected the financial position of the Agency, and gives rise to additional disclosures. The measurement and recognition of the Agency's assets, liabilities, income and expenses is changed in the following respect:

- The adoption of IAS 19 Employee Benefits has meant that the Agency has had to provide for all untaken annual leave and any unpaid performance related pay awards as at 31 March. The monetary value of these adjustments is detailed below.

| | Note | General Fund £'000 | Revaluation Reserve £'000 |
|--|------|-----------------------|------------------------------|
| Taxpayers' equity at 31 March 2009 under UK GAAP | | 138 | 77 |
| Prior year adjustment for errors under previous GAAP (net) | 22 | <u>0</u> | <u>0</u> |
| | | 138 | 77 |
| IFRS adjustments for: | | | |
| IAS 19 Employee Benefits | | <u>(1,467)</u> | <u>0</u> |
| Taxpayers' equity at 1 April 2009 under IFRS | | <u>(1,329)</u> | <u>77</u> |
| | | | £'000 |
| Net operating cost for 2008-09 under UK GAAP | | | 118,947 |
| Prior year adjustment for errors under previous GAAP (net) | 22 | | <u>(4,154)</u> |
| | | | 114,793 |
| IFRS adjustments for: | | | |
| IAS 19 Employee Benefits | | | <u>(100)</u> |
| Net operating cost for 2008-09 under IFRS | | | <u>114,693</u> |

2.3 In accordance with the new standard the Agency does not present a 'Statement of recognised gains and losses (SRGL)', as was presented in the 2009 financial statements. Further, a 'Statement of changes in taxpayers' equity' is presented.

Note 3: STAFF COSTS AND NUMBERS

1. The average number of whole-time equivalent employees during the year was as follows:

| | 2009-10 | 2008-09 |
|------------------------------------|--------------|------------|
| | No. | No. |
| Military | 62 | 65 |
| Civil Service – Central Operations | 745 | 720 |
| Civil Service – Welfare Services | 125 | 121 |
| Civil Service - IPPH | 51 | 57 |
| Contract Staff | 20 | 28 |
| | 1,003 | 991 |

During 2009-10 the convention for calculating the average number of staff has been changed. The new method of calculating average staff numbers gives a more reliable basis for accounting for all employees that SPVA is liable for. It was not possible to restate the comparative figures for 2008-09 on the same basis.

2. Staff costs can be analysed as follows:

| | Military Services | | Veterans Services | | Strategy & Programmes | | Change | | Corporate Services | | Total | |
|-------------------------------|-------------------|--------------|-------------------|---------------|-----------------------|--------------|--------------|--------------|--------------------|--------------|---------------|---------------|
| | 2009-10 | 2008-09 | 2009-10 | 2008-09 | 2009-10 | 2008-09 | 2009-10 | 2008-09 | 2009-10 | 2008-09 | 2009-10 | 2008-09 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Salaries & Wages | 4,890 | 4,474 | 15,700 | 14,685 | 847 | 989 | 1,937 | 2,030 | 3,738 | 3,841 | 27,112 | 26,019 |
| Social Security costs (ERNIC) | 375 | 341 | 1,048 | 964 | 81 | 85 | 170 | 179 | 268 | 271 | 1,942 | 1,840 |
| Pension costs | 1,068 | 921 | 2,707 | 2,614 | 266 | 265 | 597 | 617 | 696 | 740 | 5,334 | 5,157 |
| Contract staff costs | 480 | 814 | 3 | 26 | 0 | 53 | 0 | 0 | 210 | 460 | 693 | 1,353 |
| Total | 6,813 | 6,550 | 19,458 | 18,289 | 1,194 | 1,392 | 2,704 | 2,826 | 4,912 | 5,312 | 35,081 | 34,369 |

Staff are covered by the provisions of the Principal Civil Service Pensions scheme (PCSPS) and the Armed Forces Pension Scheme (AFPS). Contributions are paid to the schemes at rates determined from time to time by the Government Actuary and advised by the Treasury. These contributions were charged to the Agency as a cash cost for the period of these financial statements.

The AFPS is an unfunded defined benefits scheme and the Agency is unable to identify its share of the underlying assets and liabilities. An interim actuarial valuation was carried out as at 31 March 2008. Details can be found in the accounts of the AFPS. www.mod.uk

The PCSPS is an unfunded defined benefits scheme and the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the accounts of the Cabinet Office. www.cabinetoffice.gov.uk

For 2009-10, employers' pension contributions of £5,334k, (£5,157k in 2008-09) were payable at rates in the range 16.7 to 39.8 percent of pensionable pay, based on salary bands. Employer contributions for PCSPS were reviewed in 2005-06 and employer contributions for the AFPS were reviewed during 2007-08. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Note 4: ACCOMMODATION COSTS

| | Military Services | | Veterans Services | | Strategy & Programmes | | Change | | Corporate Services | | | Total | |
|-----------------------|-------------------|-----------------|-------------------|------------------|-----------------------|------------------|------------------|------------------|--------------------|------------------|------------------|------------------|------------------|
| | 2009-10 £'000 | 2008-09 '000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2008-09 £'000 |
| Glasgow costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,343 | 1,333 | 1,343 | 1,333 | 1,333 |
| Works Maintenance | (8) | 6 | 23 | 31 | 0 | 585 | 0 | 0 | 380 | 253 | 395 | 875 | 875 |
| Communicated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 765 | 1,153 | 765 | 1,153 | 1,153 |
| Building Depreciation | | | | | | | | | | | | | |
| Utilities | 0 | 0 | 0 | 0 | 0 | 42 | 0 | 0 | 1,032 | 463 | 1,032 | 505 | 505 |
| Rent | 0 | (1) | 3 | 26 | 0 | 0 | 0 | 0 | 3,350 | 4,191 | 3,353 | 4,216 | 4,216 |
| Total | (8) | 5 | 26 | 57 | 0 | 627 | 0 | 0 | 6,870 | 7,393 | 6,888 | 8,082 | 8,082 |

Accommodation costs comprise cash costs, communicated costs and capitation rate based costs.

Note 5: OTHER ADMINISTRATIVE COSTS

| | Military Services | | Veterans Services | | Strategy & Programmes | | Change | | Corporate Services | | Total | |
|--|-------------------|------------------|-------------------|------------------|-----------------------|------------------|------------------|------------------|--------------------|------------------|------------------|------------------|
| | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 |
| HP Enterprise Services Contractual costs | 52,863 | 37,410 | 1,413 | 76 | 974 | 2,380 | 10,698 | 6,353 | 341 | 65 | 66,289 | 46,284 |
| Paymaster | 0 | 0 | 1,648 | 2,852 | 0 | 0 | 0 | 7 | 0 | 0 | 1,648 | 2,859 |
| Net Write offs (Note 19) | 3,225 | 5,401 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,225 | 5,401 |
| (Gain)/ Loss on Disposal of Fixed Asset | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (33) | (26) | (33) | (26) |
| IT equipment, maintenance and software | 1,218 | 806 | 36 | 28 | 144 | 342 | 2 | 36 | 46 | 96 | 1,446 | 1,308 |
| Consultancy | 2,467 | 663 | 971 | 979 | 450 | 935 | (29) | 102 | 121 | 199 | 3,980 | 2,878 |
| Travel and subsistence | 299 | 314 | 792 | 712 | 57 | 73 | 71 | 98 | 29 | 258 | 1,248 | 1,455 |
| MOD Staff Overheads | 123 | 107 | 417 | 379 | 18 | 17 | 52 | 42 | 83 | 85 | 693 | 630 |
| Training | 0 | 6 | 82 | 125 | (2) | 54 | 0 | 19 | 193 | 143 | 273 | 347 |
| Office supplies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 198 | 179 | 198 | 179 |
| Audit fee | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 88 | 83 | 88 | 83 |
| Miscellaneous | 155 | 196 | 25 | 54 | (10) | 12 | (5) | 3 | 30 | 55 | 195 | 320 |
| Funeral costs | 2,389 | 1,865 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,389 | 1,865 |
| Telecommunications | 365 | 286 | 97 | 73 | (7) | 209 | 0 | 0 | 11 | 21 | 466 | 589 |
| Currency charges | 0 | 0 | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 2 |
| Cost of capital charges | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (112) | (419) | (112) | (419) |
| IT & Communications equipment depreciation * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,838 | 600 | 3,838 | 600 |
| IT & Communications equipment impairment * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 408 | 55 | 408 | 55 |
| Asset Under Construction impairment * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 130 | 129 | 130 | 129 |
| Plant equipment depreciation * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45 | 56 | 45 | 56 |
| Communicated Costs Plant and Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 24 | 24 | 24 | 24 |
| Intangible asset amortisation * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,331 | 1,944 | 1,331 | 1,944 |
| Plant and Equipment Impairment * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (28) | (3) | (28) | (3) |
| Intangible asset impairment * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 601 | 191 | 601 | 191 |
| Stock provisions | (15) | (51) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (15) | (51) |
| Stock consumption | 1,887 | 1,563 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,887 | 1,563 |
| Provisions movement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 165 | 303 | 165 | 303 |
| Medical Adjudication | 2 | 2 | 2,065 | 2,374 | 0 | 0 | 0 | 0 | 0 | 0 | 2,067 | 2,376 |
| Rental under operating Lease | 0 | 1 | 18 | 27 | 0 | 0 | 0 | 0 | 39 | 37 | 57 | 65 |
| Bank Charges | 406 | 172 | 739 | 959 | 0 | 0 | 0 | 0 | 0 | 1 | 1,145 | 1,132 |
| Postal and Administration Services | 363 | 195 | 463 | 539 | 3 | 0 | 0 | 0 | 142 | 67 | 971 | 801 |
| Admin Claims – Special Services | 0 | 0 | 185 | 215 | 0 | 0 | 0 | 0 | 0 | 0 | 185 | 215 |
| Publicity | 0 | 0 | 19 | 29 | 0 | 30 | 0 | 0 | 15 | 20 | 34 | 79 |
| | 65,747 | 48,936 | 8,973 | 9,423 | 1,627 | 4,052 | 10,789 | 6,660 | 7,705 | 4,163 | 94,841 | 73,234 |

- The Agency is required, in accordance with HM Treasury's Fees and Charges Guide, to disclose performance results for the areas of activities where fees and charges are made.
- The financial objective of Ilford Park Polish Home is to deliver optimum occupancy rate, a 98.22% (2008-09 97.12%) occupancy rate has been achieved against this objective.
- The charges to DWP are primarily for work completed by staff in Dublin for the Pension Overseas Directorate.

Operating income relates directly to the operating activities of the Agency. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes not only income apportioned in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the IFRS FReM is treated as operating income. Operating income is stated net of VAT.

Note 7: NON CURRENT ASSETS

| Cost or valuation | Intangible Assets | | Plant & Equipment | | Information Technology | | AUC | | Total Plant & Equipment Assets | | Total Non Current Assets | |
|--------------------------------------|-------------------|------------------|-------------------|------------------|------------------------|------------------|------------------|------------------|--------------------------------|------------------|--------------------------|------------------|
| | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2008-09 £'000 |
| At 01 April | 10,312 | 9,275 | 384 | 378 | 5,017 | 1,625 | 6,416 | 2,651 | 11,817 | 4,654 | 22,129 | 13,929 |
| Additions | 465 | 1,564 | 0 | 38 | 1,546 | 1,549 | 1,426 | 6,451 | 2,972 | 8,038 | 3,437 | 9,602 |
| Revaluations | 1,083 | 0 | 28 | 7 | 336 | 0 | 0 | 0 | 364 | 7 | 1,447 | 7 |
| Impairments | 0 | (527) | 0 | 0 | 0 | (92) | 197 | (129) | 197 | (221) | 197 | (748) |
| Transfers | 4,590 | 0 | 0 | 0 | 0 | 2,557 | (4,590) | (2,557) | (4,590) | 0 | 0 | 0 |
| Disposals | (9,402) | 0 | (223) | (39) | (2,400) | (622) | 0 | 0 | (2,623) | (661) | (12,025) | (661) |
| At 31 March | 7,048 | 10,312 | 189 | 384 | 4,499 | 5,017 | 3,449 | 6,416 | 8,137 | 11,817 | 15,185 | 22,129 |
| Depreciation and Amortisation | | | | | | | | | | | | |
| At 01 April | 7,778 | 6,170 | 243 | 229 | 958 | 1,017 | 0 | 0 | 1,201 | 1,246 | 8,979 | 7,416 |
| Amount in year | 1,969 | 1,944 | 30 | 56 | 4,382 | 600 | 0 | 0 | 4,412 | 656 | 6,381 | 2,600 |
| Revaluations | 201 | 0 | 15 | 0 | 146 | 0 | 0 | 0 | 161 | 0 | 362 | 0 |
| Impairments | (325) | (336) | 0 | (3) | (73) | (37) | 0 | 0 | (73) | (40) | (398) | (376) |
| Disposals | (8,324) | 0 | (172) | (39) | (2,352) | (622) | 0 | 0 | (2,524) | (661) | (10,848) | (661) |
| At 31 March | 1,299 | 7,778 | 116 | 243 | 3,061 | 958 | 0 | 0 | 3,177 | 1,201 | 4,476 | 8,979 |
| Net Book Value | | | | | | | | | | | | |
| At 01 April | 2,534 | 3,105 | 141 | 149 | 4,059 | 608 | 6,416 | 2,651 | 10,616 | 3,408 | 13,150 | 6,513 |
| At 31 March | 5,749 | 2,534 | 73 | 141 | 1,438 | 4,059 | 3,449 | 6,416 | 4,960 | 10,616 | 10,709 | 13,150 |

Note 7: NON CURRENT ASSETS

During the year £(595)k (2008-09 £372k) was charged to the Operating Cost Statement relating to impairments. Full details are given under note 5. Nothing in respect of impairments was charged to the revaluation reserve.

| Cost or valuation | Intangible Assets | | Plant & Equipment | | Information Technology | | AUC | | Total Plant & Equipment Assets | | Total Non Current Assets | |
|--------------------------------------|-------------------|------------|-------------------|--------------|------------------------|---------------|---------|---------|--------------------------------|---------|--------------------------|---------|
| | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 | 2007-08 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 01 April (Restated) | 9,835 | 412 | 5,910 | 734 | 7,056 | 16,891 | | | | | | |
| Additions | 0 | 0 | 350 | 1,959 | 2,309 | 2,309 | | | | | | |
| Revaluations | 0 | (2) | 0 | 0 | (2) | (2) | | | | | | |
| Impairments | (559) | 0 | (322) | (42) | (364) | (923) | | | | | | |
| Reclassifications | (1) | 2 | (1) | 0 | 1 | 0 | | | | | | |
| Disposals | 0 | (34) | (4,312) | 0 | (4,346) | (4,346) | | | | | | |
| At 31 March | 9,275 | 378 | 1,625 | 2,651 | 4,654 | 13,929 | | | | | | |
| Depreciation and Amortisation | | | | | | | | | | | | |
| At 01 April (Restated) | 4,564 | 184 | 4,043 | 0 | 4,227 | 8,791 | | | | | | |
| Amount in year | 1,865 | 64 | 1,513 | 0 | 1,577 | 3,442 | | | | | | |
| Impairments | (259) | 0 | (228) | 0 | (228) | (487) | | | | | | |
| Disposals | 0 | (21) | (4,311) | 0 | (4,332) | (4,332) | | | | | | |
| Reclassifications | 0 | 2 | 0 | 0 | 2 | 2 | | | | | | |
| At 31 March | 6,170 | 229 | 1,017 | 0 | 1,246 | 7,416 | | | | | | |
| Net Book Value | | | | | | | | | | | | |
| At 01 April (Restated) | 5,271 | 228 | 1,867 | 734 | 2,829 | 8,100 | | | | | | |
| At 31 March | 3,105 | 149 | 608 | 2,651 | 3,408 | 6,513 | | | | | | |

Note 8: INVENTORIES

| | 2009-10 | 2008-09 | 2007-08 |
|----------------------------------|------------|------------|------------|
| | £'000 | £'000 | £'000 |
| Medals inventories owned by SPVA | 559 | 582 | 993 |
| Less Obsolescence Provision | (149) | (164) | (215) |
| Net Inventory Value | 410 | 418 | 778 |

Note 9: TRADE RECEIVABLES AND OTHER CURRENT ASSETS

| | 2009-10 | 2008-09 | 2007-08 |
|--------------------------|------------|------------|------------|
| Trade receivables: Other | 210 | 112 | 139 |
| Prepayments | 0 | 196 | 42 |
| | 210 | 308 | 181 |

Balances in prior years have been amended to show amounts due from HP Enterprise Services against the current liability, as this more accurately reflects the position at the year end.

Included within trade receivables is a specific bad debt provision of £10k in respect of Pension Sharing on Divorce.

Note 10: INTRA GOVERNMENT BALANCES

| Receivables | 2009-10 | 2008-09 | 2007-08 |
|------------------------------|------------|------------|------------|
| | £'000 | £'000 | £'000 |
| Other Government Departments | 59 | 25 | 28 |
| Local Authorities | 8 | 9 | 19 |
| External to Government | 143 | 274 | 134 |
| | 210 | 308 | 181 |

| Payables | 2009-10 | 2008-09 | 2007-08 |
|------------------------------|---------------|---------------|---------------|
| | £'000 | £'000 | £'000 |
| Other Government Departments | 552 | 515 | 889 |
| Public Corporation | 87 | 150 | 145 |
| External to Government | 15,455 | 14,065 | 21,146 |
| | 16,094 | 14,730 | 22,180 |

Note 11: CASH AND CASH EQUIVALENTS

| | 2009-10 | 2008-09 | 2007-08 |
|------------------------------|----------|----------|----------|
| | £'000 | £'000 | £'000 |
| Balance at 01 April | 4 | 3 | 1 |
| Net Changes in cash balances | 2 | 1 | 2 |
| Balance at 31 March | 6 | 4 | 3 |

The following balances at 31 March were held at :
Commercial banks and cash in hand

| | | | |
|--|----------|----------|----------|
| | 6 | 4 | 3 |
|--|----------|----------|----------|

Note 12: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| Amounts falling due within one year | 2009-10 | | 2008-09 | | 2007-08 | |
|-------------------------------------|---------|---------------|---------|---------------|---------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade payables: Other | | 305 | | 63 | | 243 |
| Accruals: HP Enterprise Services | 8,945 | | 6,378 | | 17,915 | |
| Accruals: Other | 6,844 | | 8,289 | | 4,022 | |
| | | 15,789 | | 14,667 | | 21,937 |
| | | 16,094 | | 14,730 | | 22,180 |

Balances in prior years have been amended to show amounts due from HP Enterprise Services against the current liability, as this more accurately reflects the position at the year end.

Note 13: PROVISIONS FOR LIABILITIES AND CHARGES

| Early Retirement Provision | 2009-10 £'000 | 2008-09 £'000 | 2007-08 £'000 |
|---|------------------|------------------|------------------|
| Opening Balance at 01 April | 402 | 164 | 194 |
| Provided in year | 156 | 299 | 0 |
| Utilised in year | (248) | (65) | (34) |
| Unwinding of discount | 9 | 4 | 4 |
| Closing Balance at 31 March | 319 | 402 | 164 |
| Analysis of expected timing of discounted flows | | | |
| Between 2009 and 2013 | 0 | 0 | 161 |
| Between 2010 and 2014 | 0 | 314 | 11 |
| Between 2011 and 2015 | 223 | 0 | 0 |
| Between 2012 and 2016 | 0 | 117 | 0 |
| Between 2016 and 2021 | 122 | 0 | 0 |
| Balance at 31 March 2010 | 345 | 431 | 172 |

Note 14: RELATED PARTY TRANSACTIONS

SPVA is an Executive Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. Due to the partnering relationship that exists between SPVA and HP Enterprise Services, three members of the HP Enterprise Services Management team sit on the Agency Management Group (AMG) alongside the SPVA Executive Board. These senior managers oversee the partnering agreement, contributing and reviewing on a regular basis major activities of the Agency.

During the period 01 April 2009 to 31 March 2010, SPVA has had a significant number of material transactions with other Government Departments and other Central Government bodies. Most of these transactions have been with the Department for Work and Pensions, the Post Office ® Ltd. and the Foreign and Commonwealth Office. SPVA also receives supplies from Royal Mint, a Public Corporation, also regarded as a related party.

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

Note 15: COMMITMENTS UNDER OPERATING LEASES

Total future minimum lease payments under operating leases are given in the table below, for each of the following periods.

| | 2009-10 £'000 | 2008-09 £'000 |
|---|------------------|------------------|
| Not later than one year | 50 | 57 |
| Later than one year and not later than five years | 24 | 60 |
| | 74 | 117 |

Note 16: FINANCIAL COMMITMENTS, CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2010 the Agency had a capital commitment, not otherwise included in these accounts of £0.496m, in respect of migration of the SPVA site at Innsworth to Defence Information Infrastructure (Future) (DII(F)).

At 31 March 2010 the Agency was committed, under the Interim Contract with HP Enterprise Services, to make payments totalling £113.151m up to the end of the contract in 2012. At contract termination, due to take place in November 2012, SPVA has an option to buy back the IT equipment (excluding DII(F) IT equipment) that is being utilised by HP Enterprise Services at Fair Market Value. These assets have been recognised under IFRIC 12 and the fair market value at the end of the contract is expected to be £nil.

Note 17: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Key Sources of Estimation Uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as stated below:

Useful Lives of Intangibles, Plant and Equipment and Information Technology

The Agency estimates the useful lives of intangibles, plant and equipment and information technology based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates, due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. It is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the intangibles, plant and equipment and information technology would increase the recorded expenses and decrease the non current assets.

Allowance for doubtful debts

The Agency makes allowance for doubtful debts based on the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

Allowance for inventories written down

Reviews are made periodically on damaged, obsolete and slow moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

Amounts recoverable from HP Enterprise Services

The amended Agreement with HP Enterprise Services allowed for a reconciliation between the ATP and the actual costs incurred by HP Enterprise Services. Where the actual costs were below the ATP, the Agreement provided for a sharing of the efficiency savings. The value of the efficiency savings recoverable is calculated based on the efficiency savings expressed as a percentage of the difference between the ATP and the contractor's actual costs. Any changes in these components would result in revisions to the valuation of the amount recoverable from HP Enterprise Services.

Modified Historical Cost Accounting

Modified historical cost accounting (MHCA) expresses non current assets at actual or estimated current (replacement) values through the application of indices. These indices, which look ahead to the reporting period date, are adjusted to reflect the difference between the actual change in prices in the prior year and the earlier prediction. Any changes in the indices will affect the carrying value of the non current asset, together with any associated carrying value in the revaluation reserve or the expense recorded in the operating costs statement.

Note 18: DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Financial Instruments

FRS 29 Financial Instruments: Agencies are required to provide disclosures in respect 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. For each type of risk arising from financial instruments, the Agency is also required to provide summary quantitative data about its exposure to the risk at the reporting date.

As the cash requirements of the Agency are met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little liquidity risk.

The Agency is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses, represents the Agency's maximum exposure to credit risk, £210k at 31 March 2010. Trade and other receivables consist of a large number of diverse customers spread over a wide geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that the customer will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. An analysis of receivables details those past their due date and the impairment is shown in the table below:

| | 0-3 months £'000 | 3.-6 months £'000 | 6-12 months £'000 | Over 12 months £'000 |
|--|---------------------|----------------------|----------------------|-------------------------|
| Receivables past due date – not impaired | 20 | 15 | 23 | 0 |
| Receivables past due date - impaired | 0 | 0 | 0 | 7 |
| | <u>20</u> | <u>15</u> | <u>23</u> | <u>7</u> |

The remainder of receivables have no due date.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 1 to the financial statements.

Categories of Financial Instruments

Details of the Financial Instruments, by category, were

| | Carrying value at 31 March 2010 £'000 | Carrying value at 31 March 2009 £'000 | Carrying value at 01 April 2009 £'000 |
|---|---|---|---|
| Financial Assets | | | |
| Loans and Receivables (including cash and cash equivalents) | 216 | 312 | 184 |
| Financial Liabilities | | | |
| Payables and Accruals | 16,094 | 14,730 | 22,180 |

The net gains and losses in respect of Financial Instruments are taken through the Operating Cost Statement.

Interest Rate Risk Management

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

Foreign Currency risk

The Agency only holds assets denominated in a foreign currency, and income and expenditure denominated in a foreign currency is negligible. The Agency does, however, bear the foreign exchange costs of payments made in local currencies to Service personnel serving overseas. Once calculated these are transferred to Headquarters LAND Command. The Agency is therefore not exposed to significant currency risk.

The Ministry of Defence, through whose Resource Account the Agency is financed, enters into forward purchase contracts for Euros and the US dollar annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. The details of the outstanding foreign currency contracts are given in its Departmental Resource Account.

Liquidity risk

The Agency is not exposed to significant liquidity risk, as the liquidity requirements are met by financing from the Ministry of Defence Resource Account, and it has no borrowing facilities. The Department's resource requirements are voted annually by Parliament.

Embedded Derivatives

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the operating cost statement in accordance with FRS 26. The Agency operates a commercial framework whereby it does not currently hold financial risks of this nature and places restrictions on doing so in the future.

Fair Value of Financial Instruments

Details of the financial instruments by valuation method are shown in the table below:

| | Carrying value at 31 March 2010 £'000 | Carrying value at 31 March 2009 £'000 | Carrying value at 01 April 2009 £'000 |
|------------------------------|---|---|---|
| Financial Assets | | | |
| Historic Cost | 216 | 312 | 184 |
| Financial Liabilities | | | |
| Historic Cost | 16,094 | 14,730 | 22,180 |

The valuation difference when measuring at historic cost rather than amortised cost is not considered material.

Note 19: LOSSES STATEMENT

Under the Service Provision Agreement between SPVA and HP Enterprise Services, which ended in November 2009, a Failure Charge could be deducted from the monies payable to HP Enterprise Services. Failures were defined as being where performance against a specified and agreed Service Level had not been achieved. Under the charging mechanism in place, a maximum charge that could be invoked was calculated. Discretion existed for a lesser sum to be charged in instances where the maximum charge was deemed inappropriate (e.g. when the reason for a service delivery failure could not be apportioned solely to HP Enterprise Services). Additionally, the charge could be abated in total, for example when a Service Delivery Failure was adjudged to be as a consequence of circumstances outside HP Enterprise Services' control. Under the terms of Government Accounting the Agency has to apply to HM Treasury for overall authority to abate the charge after its calculation. During the Financial Year 2009-10 the total calculated adjusted sum under the Service Provision Agreement was £3,189k, compared to the total of £5,471k in 2008-09. The £3,189k is part of the net £3,225k figure declared in the write offs in the Other Administrative Costs at Note 5. The balance is due to the difference between the declared write off of £5,471k in 2008-09 the actual loss being £5,497k together with the Pension sharing on Divorce bad debt provision.

Note 20: NON CASH AND NOTIONAL COST ITEMS

The notional cost elements, included under the headings of Accommodation Costs (note 4), and Other Administrative Costs (note 5), are as follows:

| | 2009-10 £'000 | 2008-09 £'000 |
|---------------------------------------|------------------|------------------|
| NON CASH COSTS: | | |
| IT depreciation | 3,838 | 600 |
| IT Impairment | 408 | 55 |
| Asset under Construction Impairment | 130 | 129 |
| Gain on Disposal of Non Current Asset | (33) | (26) |
| Plant & Machinery Depreciation | 45 | 56 |
| Plant & Machinery Impairment | (28) | (3) |
| Intangibles Amortisation | 1,331 | 1,944 |
| Intangibles Impairment | 601 | 191 |
| Increase in Provisions | 164 | 303 |
| Cost of Capital | (112) | (419) |
| Notional costs | 2,913 | 3,223 |
| | <u>9,257</u> | <u>6,053</u> |
| | | |
| | 2009-10 £'000 | 2008-09 £'000 |
| NOTIONAL COSTS: | | |
| Glasgow costs | 1,343 | 1,333 |
| Communicated Building Costs | 765 | 1,153 |
| MOD Overhead costs | 693 | 630 |
| Plant and Machinery Comm Costs | 24 | 24 |
| Audit fee | 88 | 83 |
| | <u>2,913</u> | <u>3,223</u> |

Note 21: EVENTS AFTER THE REPORTING PERIOD

These accounts have been authorised for issue by the Accounting Officer on the same date as the signing of the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

Note 22: PRIOR YEAR ADJUSTMENT

As detailed in the accounting policies paragraph 1.20, the legal title of the assets purchased to deliver the contracted services to the Agency is held by HP Enterprise Services. In previous years, the Agency has incorrectly treated these assets as donated assets with a corresponding increase in notional funding from the parent.

As the asset purchases are separable from the payments made for the delivery of the contract these costs should have decreased the annual reported cost of the contract as opposed to increasing the notional funding from parent.

A prior year adjustment has therefore been processed to correct this treatment as follows. The effect on reserves at 1 April 2008 and 31 March 2009 is £nil as the adjustment is between income and expenditure.

| | Note | General Fund £'000 | £'000 |
|---|------|-----------------------|------------|
| Reserves at 1st April 2008 as previously stated | | | (13,335) |
| Prior year adjustment – decrease in operating costs | | 3,515 | |
| Prior year adjustment – decrease in notional funding from parent | | (3,515) | 0 |
| | | | |
| Taxpayer equity at 1st April 2008 adjusted for previous GAAP errors | | | (13,335) |
| 2008-09 Notional Costs | | | 2,804 |
| 2008-09 operating costs as previously stated under UK GAAP | | (118,947) | |
| Prior year adjustment – decrease in operating costs | | 4,154 | (114,793) |
| | | | |
| 2008-09 funding from parent as previously state under UK GAAP | | 129,616 | |
| Prior year adjustment – decrease in notional funding from parent | | (4,154) | 125,462 |
| | | | |
| Taxpayers equity at 31st March 2009 adjusted for previous GAAP errors | 2 | | <u>138</u> |

Glossary of Terms

| | |
|------------|--|
| AC | Audit Committee |
| AEB | Agency Executive Board |
| AFCS | Armed Forces Compensation Scheme |
| AFPRB | Armed Forces Pay Review Board |
| AFPS | Armed Forces Pensions Schemes |
| AMG | Agency Management Group |
| ATP | Annual Target Price |
| BC | Business Continuity |
| CAPS | Compensation and Pensions System |
| CE | Chief Executive |
| CETV | Cash Equivalent Transfer Value |
| CTLB | Centre Top Level Budget |
| DASA | Defence Analytical Services and Advice |
| DCDS(Pers) | Deputy Chief of Defence Staff (Personnel) |
| DCE | Deputy Chief Executive |
| DIA | Directorate of Internal Audit |
| DII | Defence Information Infrastructure |
| DR | Disaster Recovery |
| DRAC | Departmental Resource Accounts |
| DWP | Department of Work and Pensions |
| EC | Enquiry Centre |
| FC | Future Contract |
| FReM | HM Treasury Financial Reporting Manual |
| FY | Financial Year |
| GAR | General Accounting Rate |
| H Ch | Head Change |
| H CS | Head Corporate Services |
| H MS | Head Military Services |
| HPES | Hewlett Packard Enterprise Services |
| HR | Human Resources |
| H S&P | Head Strategy and Programmes |
| H TS | Head Transition Services |
| H VS | Head Veterans Services |
| IAOs/Cs | Information Assets Owners/Custodians |
| IAMM | Information Assurance Maturity Model |
| IAS | International Accounting Standards |
| IAT | Internal Audit Team |
| IC | Interim Contract |
| IFRS | International Financial Reporting Standards |
| IPPH | Ilford Park Polish Home |
| IT | Information Technology |
| JCCC | Joint Casualty and Compassionate Centre |
| JPA | Joint Personnel Administration |
| JPAC | Joint Personnel Administration Centre |
| JSDCT | Joint Service Delivery Complaints Team |
| MHCA | Modified Historical Cost Accounting |
| MoDMO | MoD Medal Office |
| NAO | National Audit Office |
| NCAS | Non Current Asset Register |
| NED | Non-Executive Director |
| NFI | National Fraud Initiative |
| OAB | Owners Advisory Board |
| QAOT | One Agency One Team |
| OB | Operating Board |
| OPG | Office of Paymaster General |
| PACCC | Pay and Allowance Casework and Complaints Cell |
| PCSPS | Principal Civil Service Pension Scheme |
| PFI | Private Finance Initiative |
| PPP | Public Private Partnership |
| RAB | Resource Accounting and Budgeting |
| SCAPE | Superannuation Contribution Adjusted for Past Experience |
| SHEF | Safety, Health, Environment and Fire |
| SIC | Statement of Internal Control |
| SPVA | Service Personnel and Veterans Agency |
| SSC | Strategic Scorecard |
| TLB | Top Level Budget |
| VAT | Value Added Tax |
| VWS | Veterans Welfare Service |
| WDs | Working Days |
| WPCS | War Pensions Computer System |
| WPS | War Pensions Scheme |
| XP | Xafinity Paymaster |

Designed by Design and Production Services, Norcross

Photographs courtesy of:

Design & Production Services

(Photographer)/MoD

images from www.defenceimages.mod.uk



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

Online

www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail

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

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,
London SW1A 2JX
InsertBarcode
Telephone orders/ General enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from

TSO Ireland
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401

ISBN 978-0-10-296820-0

