



Armed Forces Personnel  
Administration Agency

# Annual Report and Accounts 2004/2005





# ANNUAL REPORT AND ACCOUNTS 2004 / 2005

Accounts, prepared pursuant to Section 7(2) of the Government Resources and Accounts Act 2000,  
together with the report of the Comptroller and Auditor General thereon.

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# Chief Executive's Statement

This report presents the results of an extremely busy, challenging but successful year for AFPAA. Everywhere one looks within the Agency one sees change in progress. Much of this is due to the Joint Personnel Administration (JPA) Programme, which impacts on every single part of the organisation. However, there are also a number of other factors which are driving us to look at new ways of delivering our outputs; outputs which are so vital to maintaining the morale and wellbeing of both current and former serving members of the Armed Forces and which underpin the personnel component of Defence capability. However, in spite of all this pressure to prepare for the future, I am delighted to report that we have kept our focus on today's business and have delivered our current services without interruption or significant error; all Agency Key Targets for the year were achieved in full. This is to the huge credit of those MOD and Electronic Data Systems (Defence) Ltd (EDS) members of staff employed in the current systems environment, all of whom show great dedication despite, in many cases, facing considerable uncertainty over their future roles within AFPAA.

Whilst JPA is far from being the only new initiative the Agency is taking forward, there can be no doubt that it is the one that will have the greatest impact on our future role. As such it is demanding an ever-increasing proportion of management attention. During the year the technical requirement reached a state of maturity that enabled us to conduct complex commercial negotiations with EDS, with the contract being signed on 26 October. In parallel with the commercial activity we also provided much of the input to the successful JPA Main Gate submission to the MOD's Investment Approvals Board (IAB). However, JPA is about much more than an IT system; it is a whole new way of providing

administrative support to servicemen, women and veterans. As such AFPAA must undergo a radical transformation if it is to take full advantage of the opportunity for improvement that JPA offers. In preparation for this we have agreed our future organisation (the Agency Operating Model) and the way of working we wish to adopt, both amongst ourselves and with our customers (the AFPAA Way); we have put in place a joint MOD/EDS Transformation Management Team and we are taking forward detailed design through initiatives such as the JPA Model Office. Much effort is also being applied to managing the uncertainty felt by staff faced with change on the scale of JPA.

In addition to JPA we have also contracted with EDS for the provision of a new IT system and services to support the introduction of the new Armed Forces Pensions and Compensation Schemes on 1 April 2005. The latter of these is administered by our sister organisation the Veterans Agency (VA) but all of the technical and accounting support will be provided by AFPAA. This is but one of a number of areas where the synergy between AFPAA and VA outputs is being exploited to deliver a better, more 'joined-up' service to veterans whilst also potentially offering financial efficiencies. Indeed, as the year draws to a close, a Ministerially directed study is underway to see if even closer integration of the two organisations would deliver significant further benefits in the quality of service delivery.

Returning now to JPA, I reported last year on the collocation of the AFPAA pensions teams into a single Tri-Service team based in Glasgow as a risk reduction, confidence building measure in preparation for JPA. This year has seen two further initiatives delivered



Rear Admiral Trevor Spires

as part of the same confidence building process. The first of these was the creation of a single MOD Medal Office from the existing four separate offices, only one of which was within AFPAA. The new office which was fully operational within 8 months of the go-ahead being given and which was formally opened at RAF Innsworth by Ivor Caplin, Under Secretary of State for Defence, on 22 March 2005, administers all non-gallantry medals for current and ex-Service personnel.

The second initiative, also located at RAF Innsworth, has been the creation of a Joint Casualty and Compassionate Centre (JCCC) of some 32 people to replace the existing organisations within the single Services. As the year draws to a close the JCCC is going through a series of exercises designed to prove its readiness to go live in early April.

As we enter the new financial year our eyes are very firmly focused on the challenges it will bring. First and foremost amongst these

must be the successful implementation of the technology and organisational transformation to support rollout of JPA to the RAF by March 2006 without interrupting delivery of our key outputs along the way. To achieve this we will be dependent on the continuing good will and support of our staff through a period that will involve personal turmoil for many. I must finish, therefore, by paying a special tribute to their loyalty and commitment; it is they who have primarily enabled the many positive achievements identified within this report and its associated accounts.

A handwritten signature in blue ink, appearing to read 'Trevor Spires', with a horizontal line underneath.

Rear Admiral Trevor Spires  
Chief Executive

## Vision & Mission

The Deputy Chief of the Defence Staff (Personnel), (DCDS(Pers)), the Agency's Owner has the following vision:

*Working together to enable the Armed Forces to generate and sustain sufficient, capable and motivated personnel.*

AFPAA's vision is:

*Excellent Armed Forces personnel administration through outstanding customer service and exemplary partnering.*

To realise this vision AFPAA contributes to operational effectiveness through the provision of pay, pension and personnel administration services to Service Personnel.

The AFPAA mission is therefore:

*To support UK Defence Capability through the accurate payment of military personnel and provision of quality personnel administration and information services on a harmonised basis*

Flowing from the Mission Statement, the Agency aim is the cost effective provision, on a Tri-Service basis, of data and systems for the payment of serving and retired military personnel and to support the Services personnel management functional area.

## Background

- **April 1997.** AFPAA vested as a Tri-Service Defence Agency, to provide a full range of pay, pensions and personnel administration services to the Armed Forces.
- **January 1998.** The Agency's commercial Public Private Partnership (PPP) partner, EDS, assumed responsibility for the delivery of Services.
- **November 2000.** A renewed contract for the administration and payment of Armed Forces retired pay and pensions was awarded to Paymaster (1836) Ltd.
- **June 2001.** An amended agreement was signed with EDS redefining the partnering relationship to the mutual benefit of both parties.
- **October 2001.** The Army's Personnel, Pay and Pensions Administration (PPPA) organisation transferred to AFPAA, at which time AFPAA was re-launched.
- **September 2002.** The formal incorporation of the Joint Personnel Administration Strategy Study within AFPAA ensured closer liaison with the rest of the Agency as the JPA project moves forward.
- **June 2004.** Creation of Tri-Service pensions delivery in Glasgow as the first phase of Joint Personnel Administration Centre (JPAC) implementation.
- **October 2004.** Completion of negotiations and amendment of contract with EDS for JPA implementation.
- **January - March 2005.** JCCC formed as part of the second phase of JPAC implementation.
- **March 2005.** MOD Medal Office officially opened.

# Agency Structure

## AFPAA Joint Partnering Management Team (JPMT)

Responsible for joint MOD/EDS management of the Agency, its performance, risks and partnering relationships. It provides the forum for business requiring joint action or agreement through the partnering relationship.



## Non-Executive Directors

Kenneth Ludlam (Non Executive Director 1) is a member of the JPMT and the AFPAA Executive Board (AEB) and also chairs the AFPAA Audit Committee. Alison Beech (Non Executive Director 2) is a member of the JPMT, DCDS (Pers)' Owner's Advisory Board (OAB) and the AFPAA Audit Committee. The principal role of the Non Executive Directors is to offer an independent view on AFPAA strategy and performance and on the implementation of JPA drawing upon their private sector experience in corporate governance, communications and HR.



## AFPAA Executive Board

Responsible for the direction and governance of the MOD components of the Agency, it complements the role of the JPMT. AEB membership is as follows:

Chief Executive ( <i>Chairman</i> )	RAdm Trevor Spires
DCE/Agency Sec	Peter Northen
Director JPA	Air Cdre David Tonks
Director SR&P	Brig Tony Harking
Director Ops	Air Cdre Ian Harvey
Deputy Director Finance & Corporate Governance	Tony Maynard
Deputy Director JPA	Dr Paul Collins
Non Executive Director 1	Kenneth Ludlam

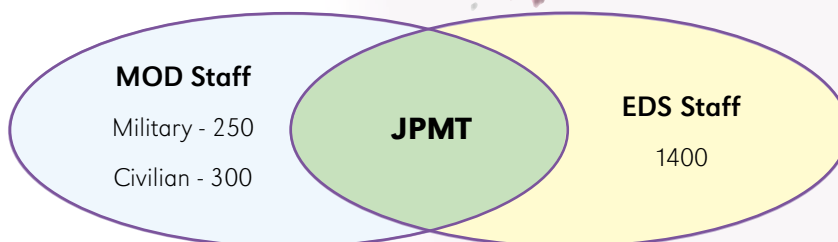
## Locations

The legacy of Agency formation means that AFPAA currently operates from 4 discrete sites. AFPAA's main site locations during 2004-05 were Centurion, Worthy Down, Innsworth and Glasgow; the Agency Central Office is also based at Innsworth. Over the next few years the Agency will consolidate its operations onto three of the existing sites as it reconfigures itself to deliver Joint Personnel Administration Services. The Agency will therefore vacate Worthy Down during 2007.



## People

As at 31 March 2005, AFPAA strength was as follows:



# Customers

AFPAA has a diverse range of customers and a wide range of outputs.

## Serving or Former Service Personnel and Dependants

These are the end Customers of AFPAA's pay, pension and administration services. The quality of these services are measured against Key Targets (KTs) 1 and 2 (further details on KT's can be found on pages 10 and 11 ). Additionally a new KT was developed in consultation with the service representatives in 2004-05 to develop and agree a future KT, which would measure those services not already, included in KT1 and 2. The delivery of these KT's has a significant impact on the morale and effectiveness of individual service personnel, their dependants and their units. The table below shows the volumes of payments and records maintained each month:

Activity	Volume <sup>1</sup>
Pay and pay related allowances. Regular and Reserve Service Personnel	275,000 (per month)
Pensions - In payment (By Paymaster (1836) Ltd)	340,000 (per month)
Total number of active, deferred and preserved pensions records maintained	830,000

## Expenditure on Pay, Pensions and Allowances for the Armed Forces

In FY2004-05 AFPAA administered £7.813 billion in pay and allowances for 230,000 serving personnel (including Full Time Reserve Service) and 45,000 (based on 2004 figures) reservists, and retired pay and pensions worth £3.040 Billion for 340,000 Service pensioners. Details of pay and allowances, and pension expenditure are as shown.

## FY2004-2005:(in £ Billions)

	Pay	Pensions	Total
Navy	1.647	0.700	2.347
Army	4.129	1.371	5.500
RAF	2.037	0.969	3.006
<b>Total</b>	<b>7.813</b>	<b>3.040</b>	<b>10.853</b>

## The Personnel Management Authorities

Timely provision of accurate data is essential to enable effective manning and career management by each of the Service Personnel Management Authorities. The importance of this is reflected in 2005-06 KT6, which has been developed over the past year with the Agency's customer organisations.

## MOD Planners and Policy Makers

MOD and individual Service policy making and planning branches and other Defence Agencies require information and advice from AFPAA. This is to support the development and implementation of new policies, to inform the MOD's resource allocation process and to support Ministers in their discharge of Parliamentary business. The value of the funds disbursed on behalf of the Department by AFPAA, through its pay and pension service delivery, means that the Agency also plays a key role in informing MOD's financial reporting processes. In addition to the direct delivery of services to the Armed Forces, AFPAA must continue to discharge its responsibilities as part of a Department of State. The introduction of JPA will allow us to improve the evidence we provide to support service personnel policy development within the Department.

<sup>1</sup> Volume rounded to nearest 5,000

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### Customer Satisfaction Survey

In line with previous years, AFPAA will be conducting a Customer Satisfaction Survey (CSS) in 2005-06 to cover performance during the 2005. This reinforces AFPAA's commitment to continuously monitor customers' views on Agency performance. The results of the 2003-04 CSS showed a general overall improvement from previous surveys. Follow up work has included the formulation of an Action Plan developed with the single service customers. Completed actions resulting from the plan have included:-

- More communication with customers is now taking place at all levels.
- A review of AFPAA behaviours supporting the values of the Agency.

# Key Target Performance

## Performance Against 2004-05 Key Targets including Historical Data

The Agency is pleased to report that it has met the KTs for the accuracy of pay, allowances and pensions. The metric used for accuracy monitors those elements of the end to end pay process that falls within AFPAA's control and, as such, does represent the accuracy of the complete, end to end process. Specifically, it assumes a correct record of service, which is used to inform the pay calculation software.

Key Target	2002-03		2003-04		KT	2004-05	
	Target	Performance	Target	Performance		Target	Performance
<b>Pay Accuracy:</b>							
Error rate of accuracy. No. of errors per 1,000 not to exceed	1.5	Failed <sup>2</sup> 1.65	0.1%	Achieved 0.03%	KT1 <sup>3</sup>	0.1%	Achieved 0.08%
<b>Timeliness:</b>							
To make payments by the due date	99.9%	Achieved 99.9%	99.9%	Achieved 99.9%	KT1	99.9%	Achieved 99.9%
<b>Pensions Accuracy:</b>							
Error rate of accuracy. No. of errors per 1,000 not to exceed	1.5	Achieved Nil	0.1%	Achieved 0.02%	KT2 <sup>3</sup>	0.1%	Achieved 0.0%
<b>Timeliness:</b>							
To make payments by the due date	99%	Achieved 99%	99%	Achieved 99%	KT2 <sup>4</sup>	99%	Achieved 99%
<b>Service Enhancement:</b>							
Currency of Personnel record and liabilities data - to be updated within dates of receipt of valid input	Quality measurements against SLAs to be developed						
All change projects (Major Change ) to be delivered within project tolerances	-	-	96%	Achieved	KT5	96%	Achieved
All other change to be delivered in accordance with the AFPAA Change Control Steering Group	-	-	95%	Achieved	KT5	96%	Achieved
The delivery of the procurement strategy for JPA by Feb 04 to enable the submission of a Main gate Business Case to the Defence IAB during FY 2004-05	-	-	MGBC to IAB 04/05	Achieved			
To develop targets for implementation in 2005-06 that will measure the delivery of pay, pensions and personnel services against SLAs	-	-	-	-	KT6	Develop and agree KT	Achieved
<b>Responsiveness:</b>							
Resolve enquires, written and through official help desks across all services within 10 working days of receipt for at least n% of cases	Key target amended for 02/03 in line with contract reconstruction - see below						
As above but i.a.w. Service Level Agreements (SLA) Customer Service Agreements(CSA) requirements:							
for Pay & allowances	93%	Achieved					
for Pensions in payment: payments	96%	Achieved					
Other pension payments	93%	Achieved					
Determine, implement and maintain a responsive and flexible Business Improvement Plan	-	-	31 Mar 04	Achieved			
Subject to Main Gate approval JPA partnering agreement signed	-	-			KT3	Sep 04	Achieved <sup>5</sup>
To transform the Agency to deliver the full potential of the JPA environment	-	-			KT4	Stage 1 Jun 04 Stage 2 Mar 05	Achieved
<b>Efficiency:</b>							
To reduce the average unit cost of AFPAA services by n% (Total unit cost of reduction of 12% for a 4 year period from 2002-03)	3.5%	Achieved 10.2%	0.5%	Achieved 3.9%	KT7	6%	Achieved 10.3%

2 Whilst relatively low in value, the numbers affected were sufficient to fail the KT

3 To keep monthly error rate of accuracy for the volume of payments within 0.1% (accurate within 2% of net pay per individual pay account)

4 Including new awards

5 Contract was signed on 26 October, delay due to linkage to the Defence Information Infrastructure outside AFPAA control

## Key Targets 2005-06

The following are the targets for 2005-06 and an indicator of possible targets beyond this. The KTs below take into account the significant progress in the development of JPA. However, the Agency aims to maintain the levels of service delivery for pay, pensions and allowances during Agency Transformation. A new KT6 has been introduced to broaden the measurement of service delivery. A medals delivery target, KT8, has also been introduced to reflect the importance of this new role for the Agency.

	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Key Target 1 - To deliver Pay</b>					
To make 99.9% of all payments by the due date.	99.9%	TBD	TBD		
To keep the monthly error rate of accuracy for the volume of payments within 0.1%	0.1%	TBD	TBD		
<b>Key Target 2 - To deliver Pension Services</b>					
To make 99% of all payments (including new awards) by the due date.	99%	TBD	TBD		
To keep the monthly error rate of accuracy for the volume of payments within 0.1%.	0.1%	TBD	TBD		
<b>Key Target 3 - To support the delivery of JPA Programme</b>					
Achieve live service to the RAF by end of Mar 06.	Mar 06				
Live service to the RN and Army are to follow by end Aug 06 and by end Dec 06 respectively.		RN Aug 06 <sup>6</sup> Army Dec 06 <sup>6</sup>			
Decommissioning of legacy systems complete			Oct 07		
<b>Key Target 4 - To Transform the Agency to deliver JPA services</b>					
Deliver 100% key critical path milestones in Transformation Plan:	100%				
Implement internal processes and organisational changes to deliver JPA services to RN and Army		TBD			
Complete organisational changes to deliver JPAC steady state as depicted in Agency Operating Model			TBD		
<b>Key Target 5 - Preparation for delivery of AFPAA services post 2009</b>					
Develop the AFPAA contribution to the project team, establish the delivery milestones and measure achievement against 2005-06 milestones	Identify milestones by 31 Jul 05	Achieve Investment Approval Review (Initial Gate) endorsement	Finalise detailed requirement for up to 3 shortlisted providers	Achieve MOD Investment Approval Review (Main Gate) endorsement	
<b>Key Target 6 - To confirm that the broad range of AFPAA's outputs are delivered to the agreed Service Levels</b>					
To achieve 90% in 2005-06 of service levels selected by the customer	90%	TBD <sup>7</sup>			
<b>Key Target 7 - To meet approved efficiency targets for the delivery of core services</b>					
To reduce the unit cost by 2% in 2005-06, which will contribute to and complete a 12% reduction over a 4 year period from 2002-03 for delivery of core pay and personnel administration.	Cumulative 12% (in year 2%)				
<b>Key Target 8 - To deliver an efficient and effective MOD medal service</b>					
To reduce the MOD Medal Office assessment backlog from 45,000 as at 1 Apr 05 to 21,000 by 31 Mar 06	31 Mar 06				

6 Illustrative dates as published in Key Targets placed in Parliament on 22 March 2005

7 The implementation of this new KT and target for 2005-06 has been developed in full consultation with the Agency's customers and performance in this first year will help determine targets for the future

# Outputs

## Service Delivery

The prime focus of the Agency during 2004-05 continued to be the delivery of high quality and timely personnel services to the Armed Forces while playing the leading role in the development of JPA. In addition, work to reshape the Agency for the JPA environment has gathered considerable pace.

The Agency has successfully provided its Customers with the following:

- Agreed levels of service for the determination and notification of pay and pensions to individuals including resolution of queries.
- Agreed levels of data and information services derived from personnel records to enable personnel management to make decisions on recruiting, personal development, career management and deployment.
- Delivery of cost effective change prioritised to ensure that the needs of the Department are met.
- A trial introduction of a Service Delivery Monitoring Programme which is a customer focused programme that measures delivery of Pay, Pensions and Personnel services against agreed Service Levels. This new initiative has not only provided the mechanism for regular customer feedback and business improvements in Agency services, but has also reinforced the relationship between MOD and EDS.

## Joint Personnel Administration (JPA) Technical Solution

JPA is one of the top 5 modernisation programmes within the Ministry of Defence. Its size and complexity make it a very challenging programme. It involves the introduction of harmonised and simplified personnel polices and processes by means of

a commercial off the shelf (Oracle Human Resources Management System) software application and a number of complementary applications. It will require not just successful delivery of the technical tools but changes to processes and administrative organisation throughout the Services and within AFPAA.

During 2004-05 JPA completed successfully its risk reduction Demonstration Phase and received MOD and Treasury approval to finalise negotiations for JPA manufacture, deployment and subsequent service delivery. Contractual arrangements with EDS were signed on 26 October 2004 at an approximate value of £250m. JPA is, however expected to deliver benefits of some £111m p.a. once fully in service. JPA manufacture is now well underway and is on target to introduce the system into service no later than:

RAF:	March 2006
RN:	June 2006 <sup>8</sup>
Army:	November 2006 <sup>8</sup>

AFPAA has also been working with the Services to help them prepare for the introduction of JPA and JPA pilot exercises are planned to commence late 2005.

<sup>8</sup> These dates are earlier than the rollout target predictions against KT3 for 2006-07 (page 11), and are consistent with latest delivery dates approved by the MOD Investment Approvals Board, and acknowledged by the JPA Programme Management Board on 13 April 2005.

## Compensation and Pensions System (CAPS)

AFPAA together with the Veterans Agency are developing a new software system, CAPS, which will support the administration of:

- The existing pensions scheme (Armed Forces Pension Scheme 1975 (AFPS75)).
- The new Armed Forces Pension Scheme 05 (AFPS05) for all new service personnel and currently serving individuals who elect to transfer from the existing to the new scheme.
- A new Reserve Forces Pension Scheme (RFPS) for all current reservists who elect to transfer and all new serving reservists.
- A new Armed Forces Compensation Scheme (AFCS) which will replace payments currently provided by the War Pension Scheme for all events occurring after April 2005.

The contract for CAPS was signed with EDS in January 2005 and work is progressing to introduce CAPS in October 2005 to support the compensation process (prior to that the process will be undertaken manually). In order for serving and reservist personnel to be given the opportunity to transfer to the new schemes a supplementary Offer To Transfer (OTT) project was initiated for which a

contract was also let with EDS in January 2005. Work is progressing to schedule and packs containing individual benefit statements will start to be distributed in July 2005. AFPAA will deliver the technical support to the Veterans Agency for the Compensation element of CAPS.

## Other Achievements

- Support for military operations through successful mobilisation, which has been achieved without disruption to normal services.
- In 2004-05 172 letters from MPs were answered (32 drafts provided to Ministers and 140 replies from CE/AFPAA) and draft answers were provided to 40 Parliamentary Questions. 64 replies were sent to members of the public who had written with questions about AFPAA services.
- During the summer of 2004 AFPAA set up a new medal production line at Innsworth in preparation for the formation, early in 2005, of a Tri-Service MOD Medal Office. In August 2004 the new medal engraving line commenced production of Tri-Service medals, producing 8,200 medals in the first five weeks. AFPAA assumed responsibility for tri service medal output on 1 October 2004 and using new

harmonised and simplified processes led to a substantial reduction in the medal backlog by the end of March 2005. The MOD Medal Office was officially opened by Under Secretary of State for Defence, Ivor Caplin MP on the 22 March 2005.



JPA Rollout Team

# Agency Transformation

There are two main strands to Agency Transformation: the development and introduction of the JPA system and business processes; and the major reshaping of the Agency organisation for the JPA environment. At the heart of this is the Joint Personnel Administration Centre, the hub of service delivery in the JPA environment

## Agency Restructuring: Joint Personnel Administration Centre (JPAC)

The introduction of JPA means that the Agency must operate in a new way. It is also taking on some new functions. AFPAA will need to transform itself from its current dispersed configuration over four sites into an organisation where any single business function will generally only be delivered from one of its core sites. At the heart of JPA service delivery will be an enquiry service which will act as the first point of contact for servicemen and women and with the wider MOD. The first two stages of this transformation process have been completed.

Stage One comprised of the consolidation in 2003-04 of Tri-Service pensions delivery in Glasgow. This involved the transfer of knowledge and expertise plus some 260,000 individual RN and RAF pension files from their existing locations. A new Joint Service ID Card has also been prepared for issue from 1 April 2005.

Stage Two involved the formation of the MOD Medal Office and the JCCC. The MOD Medal Office at Innsworth, Gloucester was opened on 22 March 2005. This merged the RM, RAF and Army medal offices with the RN medal office (for which AFPAA already had responsibility) into a new joint office. The streamlined processes and extra engraving equipment have already increased the tempo of medals delivery. The JCCC similarly replaces the previous individual Service organisations that were responsible for the vital casualty reporting role with a single, joint organisation based at Innsworth. A series of exercises in March 2005 confirmed that the new organisation was ready to operate.

In addition to these early organisational changes, an Agency Operating Model has been developed that sets out the future organisation of AFPAA and the main transitional steps. These will lead to the establishment of the JPAC delivering a wide range of joint personnel administration services, together with the full range of supporting services required to operate the Agency. In parallel with this organisational work, the Agency has launched a programme designed to embed the values and behaviours required to underpin the future success of the Agency with, in particular, an even sharper focus on customer service. This will build on the existing, successful and highly regarded partnering relationship with EDS and has begun with the top management team and senior managers completing a series of workshops exploring modern day leadership concepts, which will help develop the AFPAA behaviours for the future. The year ahead will see further training, development and coaching for everyone across the organisation.



CE receiving ID card



## Future Strategy

The Agency has already started work to prepare its strategy for the delivery of AFPAA services post 2009 when its current contracts with EDS and Paymaster expire. Running a major competition takes a long time and there are strategic decisions to be taken about the scope of future private sector partnering and the range of services AFPAA should seek to deliver. This work is the subject of a new KT for 2005-06 (KT5).

In the nearer term AFPAA is also examining with colleagues in the Veterans Agency ways of improving service delivery to veterans and their dependants, some of whom are served by both Agencies, through greater integration of services. Some short term steps towards closer working have already been agreed and the Under Secretary of State for Defence announced in March 2005 a further study involving the Agencies to determine whether merger would be beneficial to service delivery. Conclusions are expected in the summer of 2005.



Minister, DCDS (Pers) and CE at the opening of the MOD Medal Office

# AFPAA Financial Summary

## Budgetary Structure

AFPAA operates as a Basic Level Budget within DCDS(Pers)'s Higher Level Budget. The AFPAA finances shown below provide the breakdown of the Agency expenditure over the year to administer £7.813 Billion in Pay and Allowances and £3.040 Billion in pensions.

## Expenditure Breakdown for FY2004-05 (in £ Millions)

Service Pay:	12.962
Civilian Pay:	6.952
Travel:	0.840
IT:	0.397
Training:	0.133
Partnering:	71.206
Contracted Costs:	4.093
Stock Costs	2.578
Depreciation	4.410
Others:	7.346
<b>TOTAL:</b>	<b>110.917</b>

## Short Term Planning (STP) and In Year Monitoring (IYM)

The resource Budget allocation for FY 2004-05 was £122.076m. Actual outturn was £96.256m, with the underspend resulting primarily from a combination of MOD staff vacancies a reprofiling of the estimated JPA project costs, EDS core costs underspend and recategorisation of asset related costs. Improvements to the forecasting process have been identified and are in the process of being implemented in time for the new financial year.

## Departmental Resource Accounts (DRAc)

AFPAA also provides input to Centre Top Level Budget (TLB) for the completion of the TLB DRAc. AFPAA's input comprises of 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 AFPAA's DRAc submission and its Agency accounts is the inclusion in the former of debtor and creditor balances in respect of Armed Forces pay and allowances.

## Financial Administration of Managed Funds

AFPAA manages RN, Army and RAF pay and pensions delivery, and the monies disbursed on behalf of the Department are known as Managed Funds. Information from these pay systems transfers income and expense data on the Managed Funds to the MOD's core financial accounting system (DFMS).

AFPAA is currently responsible for some 160 Control Accounts (temporary accounts used to record payments and receipts), the reconciliation of which has historically proved difficult. An Action Plan designed to improve the processes and systems was implemented during 2004. Following completion of this work, a further project is being implemented to enhance AFPAA's financial management of these accounts still further.

## Financial Monitoring and Audit of the EDS Contract

Improvements have continued to be made in the budgeting, monitoring and verification of EDS costs. A formal validation process for EDS costs has been implemented in year to provide further transparency and assurance on this element of the Agency's expenditure. A report is produced quarterly to the Audit Committee detailing the work undertaken and the findings.

Refinements continue to be made to the timetable of information and requirements from EDS to support the financial aspects of

the Agreement and this is managed and monitored through the joint Finance Working group.

Work has commenced on the development of a Cost Model to support the Actual Target Prices (ATP) for Legacy and JPA Services. It is anticipated this model will be implemented early in the new financial year, further enhancing the Agency's decision-making processes.

### Armed Forces Pension Scheme (AFPS)

CE AFPAA is the AFPS Scheme Administrator and Senior Finance Officer for the AFPS TLB. AFPAA has an independent Resource Accounting and Budgeting (RAB) system for the AFPS, which produces monthly In Year Management accounts as well as the year-end AFPS Scheme Statements. The National Audit Office (NAO) formally audits the Scheme Statements and the accounts for 2003-2004 successfully received an unqualified audit opinion for the fifth consecutive year.

With the implementation of FRS17 (Retirement Benefits) from 2003-04, the value of the pension liability is now included in the Balance Sheet and amounted to £63.8bn.

From April 2005, the new AFCS will form part of the Resource Accounts for the AFPS. The combined Resource Accounts will be produced by AFPAA on behalf of the Veterans Agency from 2005-06.

The AFPS continues to participate in the National Fraud Initiative (NFI), the main aim of which is the detection and prevention of fraudulent pension claims against public sector schemes. The NFI 2002 exercise concluded with 253 cases where the pension continued in payment after the date of death. The actual overpayment of pension amounted to over £1m with over £580k recovered to date. The projected savings to the Scheme were £11.4m. 3 cases were prosecuted for fraud and a further 18 cases are being

investigated by MOD Police. The NFI 2004 is now underway and will be concluded by end December 2005.

In addition to the AFPS, CE AFPAA is also the Scheme Administrator for the Non-Regular Permanent Staff Pension Scheme and the Army Career Officers Pension Scheme. These schemes are included in the AFPS accounts.

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# Foreword to the Financial Statements

The accounts which follow cover the period 01 April 2004 to 31 March 2005 and have been prepared in accordance with a direction dated 16 February 2005 given by the Treasury and in accordance with section 7(2) of the Government Resources and Accounts Act 2000.

## History

The Armed Forces Personnel Administration Agency is vested as a Tri-Service Defence Agency, to provide a full range of pay, pensions and personnel administration services to the Armed Forces. The Agency's commercial partner, Electronic Data Systems (EDS), assumed responsibility for the delivery of Information Systems (IS) from 01 January 1998. The Agency was made up of Royal Navy systems, (Naval Personnel, Naval Pay and Pensions Accounts), Army systems (Directorate of 'A' Information Systems at Worthy Down) and RAF systems (the Directorate of Administrative Information Systems for pay and pensions). The Agency ran as a Tri-Service organisation for 9 months whilst a suitable Private Finance Initiative (PFI) deal was negotiated. EDS was selected as the supplier of the service until 2009.

Following commercial difficulties the Agreement was reviewed during 2000 and the early part of 2001, resulting in significant adjustments, effective from 01 April 2001. The amended agreement is considered to provide value for money but the rationalised risk-sharing arrangements have seen the nature of the Agreement evolve from strict 'off-Balance Sheet' PFI to 'on-Balance Sheet' Public Private Partnership (PPP).

The Agreement was further strengthened by the introduction of stricter process controls in the authorisation of, and payment for, system changes; for enhancements and additions (Major and Minor Change). These costs are separated from the core service, which is paid monthly against an annual set budget. The Agreement also addressed the transfer to EDS from 01 October 2001 of the RAF retained services and part of the Army Personnel Centre (APC) operations at Glasgow (Pay, Pensions and Personnel Administration (PPPA)) with some staff passing to AFPAA but with most personnel transferring to EDS.

In September 2002 the formal incorporation of the Joint Personnel Administration Strategy Study (JPASS) within AFPAA facilitated a closer alignment of the development of Joint Personnel Administration (JPA). The JPA programme will modernise the way the Armed Forces carry out personnel and pay administration. JPA will involve new, modern administrative processes based on harmonised policy and regulations and is underpinned by a new commercial off-the-shelf software package.

The owner of this Vote funded Agency at 31 March 2005 was Deputy Chief of the Defence Staff (Personnel) and the Agency remains an integral part of the Ministry of Defence. Deputy Chief of the Defence Staff (Personnel) acts on behalf of Under Secretary of State for Defence in providing Agency strategic direction and reports to Vice Chief of the Defence Staff and 2nd Permanent Under Secretary on budgetary matters.

## Agency Aims and Objectives

In accordance with the Mission Statement, the Agency aim is the cost effective provision, on a Tri-Service basis, of data and systems for the payment of military personnel and to support the Service personnel management functional area within the MOD. The Agency's objectives, set out in its Framework Document, include providing agreed levels of service for the determination and notification of individual entitlements of pay and pensions. They also include the provision of personnel management functions with agreed levels of data and information based on personnel Records of Service and manpower liabilities.

## Review of Principal Activities and future developments

These are fully described in the foregoing Annual Report.

Following MOD Investment Approvals Board endorsement and HM Treasury approval of the Main Gate Business

Case for JPA, the Agency successfully concluded commercial negotiations with EDS to amend the Partnering Agreement in October 2004. This project is one of the top five projects within the Defence Change Programme and is partly funded through the Defence Modernisation Fund.

The project build phase commenced immediately and is due for completion when the Army system goes live on 30 November 2006, although some residual work around legacy systems will be completed by 31 March 2007. The Agency has identified the personnel and cultural changes, which will be required to transform itself to harness the benefits of the new harmonised system, and has drawn up the plans needed to implement the changes. The impact of this phase can be seen in the large increase in Intangible Assets and IT Equipment.

During the year, the Departmental Estate was revalued by the Valuation Office Agency. This has resulted in a material increase in the value of the Agency's Land and Buildings Assets.

In addition, the Agency has taken on responsibility from 1 October 2004 for the provision of medals from the former Single Service organisations, and the MOD Medal Office was officially opened by the Veterans Minister and Under Secretary of State for Defence on 22 March 2005. A direct consequence of this transfer of responsibilities was the movement of existing stocks from the Army Medals Office to Innsworth and the capitalisation of the stocks on AFPAA's balance sheet as this is a material sum. Further transfers of responsibility will take place in the new financial year with the opening of the Joint Compassionate and Casualty Cell at Innsworth in April 2005, but these are not expected to have any Balance Sheet impact.

### **Financial Performance**

The gross operating costs for the year ended 31 March 2005 were £110,963k (2003-04 restated £98,274k) and net operating costs were £110,917k (2003-04 restated £98,228k). Total net assets at 31 March 2005 amounted to £25,197k (2003-04 restated £4,307k).

### **Post Balance Sheet Events**

There were no significant post balance sheet events as disclosed at Note 16.

### **Research and Development**

The Agency now incorporates the JPA activity that is intended to provide a new service delivery for personnel administration that is common across the Services to meet the Armed Forces Overarching Personnel Strategy (AFOPS). JPASS (now JPA) was formed after the report 'A Way Forward for the business process and IT systems in the Personnel Functional Area' was published in July 2000. JPA will define the harmonised pay and personnel processes and AFPAA is responsible for the design, build, configuration, testing, acceptance and delivery of the required information and supporting services. The project build phase commenced in October 2004 and is expected to be completed by November 2006 when the Army system goes live. AFPAA also continues to support the current systems that maintain ongoing services.

### **Pension Costs**

Details of the Pension policy are covered within note 1 and staff pension liabilities are covered within note 2.

### **Employment Policy**

AFPAA wholeheartedly supports the principle of equal opportunities in employment and opposes all forms of unlawful or unfair discrimination on the grounds of colour, race, ethnic or national origin, gender, age, religious beliefs, marital status, sexual orientation or disability. It is in AFPAA's best interests and those who work in it, to ensure that all human resources, talents and skills are considered when employment opportunities arise.

Every measure possible is taken to ensure that individuals, whether they are existing members of the workforce or

applicants for posts from outside AFPAA, are treated fairly and that decisions made on recruitment, selection, training, promotion and career management are based solely on objective and job-related criteria. Just over 10% of AFPAA civilian staff, men and women, are employed in part time or job share posts.

### Communications and Employee Involvement

AFPAA believes that communications and involvement are essential to the successful running of the Agency. Communication with employees is achieved by regular cascade briefings on key issues throughout the Agency. The Chief Executive and the EDS Account Director carry out comprehensive site briefings on a regular basis, which include the opportunity for staff questions and feedback. The Joint Personnel Management Team also carry out regular site briefings which include the opportunity for staff questions and feedback.

Additionally a news magazine is distributed quarterly and there is a corporate intranet site which staff on all sites can access. The intranet site contains up to date information on all important issues relating to AFPAA and is supplemented by well maintained and comprehensive notice boards at each site.

### Management of the Agency

The AFPAA Executive Board meets regularly to determine strategy, set objectives and review performance towards strategic goals. During the financial year 04/05 the Executive Board consisted of:

<b>Rear Admiral T A Spires</b>	Chief Executive
<b>Mr P D Northen</b>	Agency Secretary/Deputy Chief Executive
<b>Air Commodore I Harvey BSc RAF</b>	Director Operations
<b>Air Commodore J D Tonks BSc RAF</b>	Director Joint Personnel Administration
<b>Brigadier A D Harking OBE</b>	Director Strategy, Requirements & Programmes
<b>Mr A L Maynard</b>	Deputy Director Finance & Corp Governance
<b>Dr P H Collins</b>	Deputy Director Joint Personnel Administration (appointed 1 April 2004)
<b>Mr K J Ludlam</b>	Non Executive Director

The Chief Executive has been designated by the Departmental Accounting Officer as the person responsible for signing the accounts of the Agency. Rear Admiral Spires was appointed Chief Executive on 1 August 2003. All military and civilian members of the Board, including the Chief Executive, were appointed and may have their appointments terminated in accordance with the standard, official Ministry of Defence military procedures or the Civil Service Management Code. Non Executive Board Members are appointed in accordance with guidance issued centrally by the Ministry of Defence.

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 Agency Secretary/Deputy Chief Executive's remuneration was determined by the Senior Civil Service Salaries Review Body. The salaries of the Deputy Director of Finance and Corporate Governance and Deputy Director Joint Personnel Administration were 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.

Details of remuneration and pension entitlements of Board members are shown in note 2(3) to the accounts.

## The Owner's Advisory Board

The Agency Owner chairs the Owner's Advisory Board and it comprises senior officials of the Ministry of Defence whose prime responsibility is to support the Owner in his responsibilities on behalf of the Secretary of State for Defence. The Board monitors the Agency's progress and performance against pre-determined aims, objectives and targets and represents the interests of the Agency's customers. There is one Non Executive Director on the board whose remuneration is met by the Agency.

During the financial year 04/05 the Board consisted of:

<b>Lieutenant General A M D Palmer CBE</b>	Deputy Chief of the Defence Staff (Personnel)
<b>Air Vice Marshall J A Collier CBE BSc RAF</b>	Chief of Staff Air Member Personnel
<b>Rear Admiral R G Melly</b>	Chief of Staff to 2nd Sea Lord/Commander-in-Chief Naval Home Command
<b>Major General T Tyler</b>	Deputy Adjutant General/Director General Service Conditions (Army)
<b>Mr J A Miller CB</b>	Director General Service Personnel (Policy)
<b>Ms A Beech</b>	Non Executive Director AFPAA

## Creditor payment policy

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.

Payments to suppliers are predominantly made by the Defence Bills Agency (DBA) on AFPAA's behalf. Overall DBA performance reported in their accounts for 2004/05 was that 99.98% of all certified bills submitted for payment were paid within 11 days.

## 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 £36,000 is in respect of statutory audit work only. No other services were provided by the auditors.



Trevor A Spires  
Chief Executive  
Armed Forces Personnel Administration Agency  
20 June 2005



# Statement of Agency's and Chief Executive's Responsibilities

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Under Section 7(2) of the Resource Accounts Act 2000, Treasury has directed the Armed Forces Personnel Administration Agency to prepare a statement of accounts for each financial year, in the form and on the basis set out in the Resource Accounting 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, and of its income, expenditure 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 Armed Forces Personnel Administration Agency as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he 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 "Government Accounting".

# Statement on the System of Internal Control

## Scope of responsibility

1. As Chief Executive, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of the Armed Forces Personnel Administration Agency's (AFPAA) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.
2. I am accountable directly to the Ministry of Defence Principal Accounting Officer for the propriety and regularity of AFPAA's expenditure, and for prudent and economical administration in compliance with Departmental rules. As Chief Executive, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained by AFPAA.

## 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 AFPAA for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with current Treasury guidance.

## Capacity to handle risk

4. AFPAA is an executive agency of the Ministry of Defence. AFPAA services are principally delivered through a commercial partnering agreement with Electronic Data Systems (Defence) Ltd (EDS). The arrangement for joint working with EDS is managed via the Agency's joint management board, the Joint Partnering Management Team (JPMT), which is chaired by the Chief Executive. The JPMT review all 'Business Level' risks at each monthly meeting. Controls in place, and controls to be put in place, are identified and recorded in individual risk register reports, including appropriate target dates. Mitigation actions are reviewed at each meeting. A separate register of business level risks relating to Ministry of Defence only risks is considered at a separate management board attended only by MOD senior staff.
5. Risk owners and risk managers are identified as part of the risk management process within the Agency. AFPAA employs a full-time Agency Risk Co-ordinator. Members of AFPAA's project management teams are trained in appropriate risk management skills. Information and guidance is available to other managers involved in the risk management process, as appropriate. AFPAA is currently delivering one of the Ministry of Defence's top 5 modernisation projects, Joint Personnel Administration (JPA), which will introduce new harmonised pay and personnel processes across the three services. The JPA project engaged external consultants to assist in the management of the project; and new skills are being transferred to the Project Management Office as the project progresses.
6. The following processes and activities took place in the current year:
  - The JPA project Main Gate Business Case was approved in July 2004 and was placed on contract in October 2004.
  - The Agency's two non-executive directors were fully involved in the management of the Agency's business providing independent advice to AFPAA's Owners Advisory Board, the JPMT and the AFPAA Executive Board.
  - AFPAA's Audit Committee, chaired by a non-executive director, undertook a full programme of business. Its membership was reviewed and reduced to three members (2 Non Executive Directors and Deputy Chief

Executive/Agency Secretary). The committee undertook a self-assessment of its effectiveness with input from the National Audit Office and the Defence Internal Audit organisation.

- AFPAA's own Agency Assurance Team's compliance and assurance activities are linked directly to business risks. The annual programme is considered by the Audit Committee along with the forward Defence Internal Audit programme. Progress is monitored through the Audit Committee.
  - All JPMT steering groups and working groups now have risk registers in place and are following revised risk management guidance issued in February 2005.
  - An Agency Transformation Management Team was created in January 2005 to provide strategic direction and formulate an agency-wide transformation plan to support JPA implementation.
  - A Critical Success Factor/Risk workshop with senior directors and non-executive directors was undertaken in November 2004.
  - A risk management benchmarking exercise was undertaken with the Ministry of Defence's Veterans Agency and civilian Pay and Personnel Agency.
  - The Agency Chief Executive and EDS Account Director fully reviewed the AFPAA Partnering Principles document and an updated version was signed in October 2004.
  - An audit of completed major change projects was conducted during the year. The lessons learnt from this exercise have resulted in improvements in the way in which future projects are managed.
  - Work on developing a robust cost model for monitoring and validating EDS costs continued. An output based cost model will be in place for 2004/05 costs.
7. Planned improvements in risk handling capacity over the coming year include:
- The JPMT will carry out a further strategic review of all risks and the overall agency risk management process.
  - Further risk management benchmarking with other pay and personnel administration agencies will take place.

### The risk and control framework

8. The AFPAA contract with EDS sets out the agreed approach to Risk and the structure for the ownership and management of risk. The risk element of the 2001 contract Amendment Agreement has been reviewed as part of the recent JPA contract amendment. The Joint Risk Policy Statement outlines the approach to management of risk within the Agency and is signed by both CE AFPAA and EDS Account Director.

9. Risk Process and Procedures support both the Amendment Agreement and the Risk Policy and include the structure for management and escalation of risks. The procedures outline the requirement to consider risks to achievement of business and personal objectives.

10. AFPAA Agency 'Business Level' risks are linked to Agency objectives through the Balanced Scorecard and Critical Success Factors. They are reviewed monthly by the JPMT. Risks to service delivery performance are managed by the JPMT's Service Delivery Steering Group and early identification of potential risks flows from EDS Service Delivery Reports, as well as customer feedback.

11. The risks identified to delivery of legacy pay systems, major change projects and introduction of the Joint Personnel Administration are managed within the various project teams. Individual project risk registers are reviewed frequently by the appropriate JPMT steering group. The Human Resources Steering Group and Business Support Steering Group manage the risks identified in delivery of support functions.

12. AFPAA Audit Committee is now fully established. The Defence Internal Audit organisation and the National Audit Office observe on the Audit Committee and provide advice and guidance where appropriate. An Agency Assurance Team is in place to provide internal assurance through an agreed programme of work based on a balanced review of internal controls.

13. Planned improvements in the risk and control framework include:

- The Agency will play an important part in the management of changes to the scope of JPA in the steady state through its membership of the external Joint Requirements Steering Group which will authorise and prioritise change to ensure that it reflects harmonised and simplified policy.
- Regular checkpoints of progress and Armed Service readiness reviews will take place as JPA roll-out approaches implementation dates.
- Assurance work will be conducted into JPA Management Controls, and will be facilitated by the Agency Assurance Team and Defence Internal Audit.
- The development of a more comprehensive Agency Transformation plan to ensure AFPAA agency staff and military personnel administration staff with the appropriate skill sets and competences are matched to the new Joint Personnel Administration supporting roles.
- The Defence Internal Audit organisation will undertake reviews prior to JPA roll-out, covering formation of the new Joint Personnel Administration Centre (JPAC).
- Improvements to Medal Office stock control and stock holding processes.

### Business continuity

14. A Business Continuity Management strategy has been promulgated to all staff during 2004/2005. A further review of the strategy will take place in 2005/06. All IT plans are reviewed at least three times a year and are tested at least annually. None of the current IT Business Continuity Plans have been fully live tested due to the potential impact on day to day business and the meeting of key targets but desk-top exercises are conducted regularly. If there are systems failures, for example the major loss of power at RAF Innsworth in February, the opportunity is taken to evaluate elements of the plans such as the automatic switch to standby power, graceful shutdown of servers and the use of hot-desking to continue service provision to key users. The revised technical architecture to be introduced prior to JPA implementation will be more resilient and allow more rigorous testing to be carried out. All current Business Continuity Plan practitioners have completed the relevant training and a workshop has been held as part of the continuous improvement of the process.

15. The following improvements are planned for the forthcoming year to improve Business Continuity Management and further embed Business Continuity Plan principles within AFPAA:

- Plans will be continue to be produced for all areas of business not currently covered (non I.T.)
- Plans for the new JPAC, Joint Casualty and Compassionate Cell (JCCC) and MOD Medal Office will be developed.
- Staff new to the Agency, whose role includes Business Continuity Planning, will receive appropriate training.
- On-line training will allow more people to gain an awareness of their Business Continuity Management responsibilities.
- Tests will take place following an upgrade to the Agency's office software.
- Upgraded infrastructure will be installed at Centurion and Innsworth to support improved wide area connectivity for JPA and other systems.

## Review of effectiveness

16. As Chief Executive, I have personal 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 Ministry of Defence, Defence Internal Audit organisation, AFPAA's own internal Assurance Team, and the executive managers within AFPAA, who have responsibility for the development and maintenance of the internal control framework, and comments made by the National Audit Office, our external auditors, in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the AFPAA Executive Board, the AFPAA Audit Committee and Joint Partnering Management Team who are responsible for managing business risk. A plan to address weaknesses and ensure continuous improvement of the system is in place.

## Significant internal control problems

17. One area where I see current controls as inadequate is:

- **AFPAA's Managed Funds Control Accounts.** Notwithstanding a number of initiatives, our ability to reconcile a number of the 160 Control Accounts managed by the Agency has not improved over the last year. This was partially due to the new Oracle 11i Accounting Operations system which did not go live until September 2004 leaving us with a 6 month backlog of data to process. A project manager has been put in place to monitor a clearly defined package of work aimed at reducing substantially the number of unreconciled accounts. A more stringent reporting regime will also be put in place. Additional resources have been put in place and the Agency's JPMT reviews progress monthly through the Balanced Scorecard; the AFPAA Audit Committee also reviews progress on a quarterly basis.



Trevor A Spires  
Chief Executive  
Armed Forces Personnel Administration Agency  
20 June 2005

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

I certify that I have audited the financial statements on pages 30 to 48 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 33 to 35.

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

As described on page 23 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 24 to 27 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

## **Basis of opinion**

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Armed Forces Personnel Administration Agency at 31 March 2005 and of the net operating costs, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and
- 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.

I have no observations to make on these financial statements.

A handwritten signature in blue ink that reads "John Bacon". The signature is written in a cursive style with a light blue background behind the text.

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

27 June 2005

# The Accounts

## Operating Cost Statement

For the year ending 31 March 2005

		2004/05	2003/04
	Note	£'000	Restated £'000
<b>OPERATING COSTS</b>			
Staff Costs	2	19,914	17,580
Accommodation costs	3	4,653	2,715
Administration costs	4	86,396	77,979
<b>GROSS OPERATING COSTS</b>		<u>110,963</u>	<u>98,274</u>
Less: Commutation Fees		(46)	(46)
<b>OPERATING INCOME</b>		-	-
<b>NET OPERATING COSTS</b>		<u>110,917</u>	<u>98,228</u>

All of the Armed Forces Personnel Administration Agency activities are continuing.

## Statement of Recognised Gains and Losses

For the year ending 31 March 2005

		2004/05	2003/04
	Note	£'000	£'000
Unrealised net (gain)/loss:			
On revaluation of fixed assets and stocks	11	7,043	615
Prior year adjustment (03/04)		-	(17,410)
Recognised (Gains)/Losses relating to the year		7,043	(16,795)
Prior year restatement arising from Merger	6	3,509	
Recognised (Gains)/Losses		<u>10,552</u>	<u>(16,795)</u>

The movement in Government Funds is set out at Note 12 on page 44.

The notes on pages 33 to 48 form an integral part of these financial statements.



# The Accounts

## Balance Sheet

As at 31 March 2005

	Note	31 March 2005		31 March 2004	
		£'000	£'000	£'000	£'000
				Restated	Restated
<b>FIXED ASSETS</b>					
Intangible assets	5	11,104		985	
Tangible assets	5	<u>29,658</u>		<u>19,685</u>	
			40,762		20,670
<b>CURRENT ASSETS</b>					
Stocks	6	2,494		3,509	
Short term debtors and prepayments	7	<u>7,341</u>		<u>5,432</u>	
		9,835		8,941	
<b>CURRENT LIABILITIES</b>					
Creditors due within one year	8	<u>(18,331)</u>		<u>(14,255)</u>	
<b>NET CURRENT ASSETS</b>			<u>(8,496)</u>		<u>(5,314)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			32,266		15,356
Creditors due in more than 1 year	8		(6,870)		(10,816)
Provisions for liabilities and charges	9		(199)		(233)
<b>NET ASSETS</b>			<u>25,197</u>		<u>4,307</u>
<b>TAXPAYERS' EQUITY</b>					
General Fund	10		17,067		1,649
Revaluation Reserve	11		8,130		2,658
			<u>25,197</u>		<u>4,307</u>

The notes on pages 33 to 48 form an integral part of these financial statements.



Trevor A Spires  
 Chief Executive  
 Armed Forces Personnel Administration Agency  
 20 June 2005

# The Accounts

## Cash Flow Statement

For the year ending 31 March 2005

	Note	2004/05 £'000	2003/04 £'000 Restated
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	18	98,789	86,424
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire intangible fixed assets		11,300	1,163
Payments to acquire tangible fixed assets		6,616	3,200
Repayment of financing		4,792	4,302
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		<u>121,497</u>	<u>95,089</u>
<b>FINANCING</b>			
Payments on Defence Resource Accounts		121,497	95,089
Receipts on Defence Resource Accounts		-	-
<b>VOTED EXPENDITURE APPROPRIATED IN YEAR</b>		<u>121,497</u>	<u>95,089</u>
<b>INCREASE/(DECREASE) IN CASH</b>		<u>0</u>	<u>0</u>

The notes on pages 33 to 48 form an integral part of these financial statements.

# Notes to the Financial Statements

## Note 1: Accounting Policies

### A. Basis of accounting

The financial statements for the Armed Forces Personnel Administration Agency have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The financial statements have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets to reflect their value to the business by reference to their current costs.

### B. Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) as the Ministry of Defence accounts for VAT centrally. The Agency's accounts do, however, include non-recoverable VAT attributable to its activities.

### C. Notional charges

1) 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. Where AFPAA is the principal, but not exclusive user of a building, the full cost of capital and depreciation charges are offset by notional income from the other occupants.

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

3) AFPAA 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.

### D. Fixed assets and depreciation

#### (1) Intangible Assets

Software licences are capitalised as Intangible Assets where the Agency is the beneficial user, the useful life exceeds 1 year and the costs of acquisition and installation exceeds the Agency's capitalisation threshold.

#### (2) Land and buildings

Where the Agency is the beneficial user of the Departmental Estate, such estate is treated as an asset of the Agency although legal ownership rests with the Secretary of State for Defence.

Professional valuations of land and buildings are carried out every 5 years, the last full valuation having been carried out in 2002.

Approximately 50% of the Departmental Estate was inspected and revalued as at 1 April 2005 by the Valuation Office Agency (VOA) in the first year of a rolling revaluation programme. The valuation basis was value to the business, in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation manual.

The rolling programme provides that the remaining 50% of the Departmental Estate will be inspected and revalued in 2006 and 2007; in the interim it has been revalued as at 1 April 2005 on a desktop basis by the VOA.

#### (3) Plant equipment

Plant equipment is capitalised where the Agency is the beneficial user, the useful life exceeds 1 year and the cost of acquisition and installation exceeds the Agency's capitalisation threshold. Plant equipment assets are revalued annually using indices in accordance with MOD policy.

# Notes to the Financial Statements

## (4) IT equipment

IT equipment is capitalised where the Agency is the beneficial user, the useful life exceeds 1 year and the cost of acquisition and installation exceeds the Agency's capitalisation threshold. IT equipment assets are revalued annually using indices in accordance with MOD policy.

Under the Agreement with EDS, although EDS 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 EDS owned assets and, where appropriate, the associated liability to EDS have been capitalised.

## (5) Depreciation and Amortisation

Freehold land and Assets Under Construction (AUC) are not depreciated. Depreciation and amortisation on all other fixed 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
Buildings	25 years
Plant equipment	15 years
Office equipment	5 years
IT equipment	3-5 years
IT assets (EDS owned)	3-5 years

## (6) Disposal of assets

The Agency does not receive any cash benefit for assets disposed of, any cash receipts being accounted for centrally by the Ministry of Defence.

## (7) Capitalisation Threshold

Assets are capitalised by the Agency where the useful life exceeds one year and the cost of acquisition and installation is greater than £10,000 inclusive of VAT.

## E. Cash, Taxation and Social Security Liabilities

The Agency does not pay or receive money on its own account. 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 Cash Flow Statement.

As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance Contributions due to Agency employees, the Department is liable for the payment of any liabilities which may be due to the Inland Revenue or Department of Social Security at the balance sheet date, and these are not disclosed in the Agency's balance sheet.

## F. Debtors

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.

The Agreement with EDS contains tight guidelines for the imposition of failure charges where performance levels fall below set criteria. Such charges will be raised as debtors and recovered from EDS under the timescales set

# Notes to the Financial Statements

down in the Agreement. AFPAA 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.

The amended Agreement allows for a reconciliation between the Annual Target Price and actual costs incurred by EDS. Where actual costs are below the Annual Target Price, the Agreement provides for a sharing of these efficiency savings. Such amounts are included in debtors.

## G. Stocks

Stocks 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 50% of the purchase price of the medals, excluding bullion costs, for surplus stocks.

## H. Pension Costs

Staff are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) and the Armed Forces Pension Scheme (AFPS). Contributions are paid to AFPS and the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. These contributions were charged to the Agency as a cash cost for the period of these 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. A full actuarial valuation was carried out as at 31 March 2001.

The PCSPS are unfunded multi-employer defined benefits schemes 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 2003.

## I. Accruals

The Agency's accruals policy is to accrue for work in progress at the year end and this is reflected in the accounts.

## J. Provisions for liabilities and Charges

Provisions are included in the accounts for future liabilities due in respect of AFPAA staff who leave under the Compulsory Early Retirement Scheme. 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.

## K. Revaluation Reserve

Adjustments arising on revaluation of fixed assets are transferred to a Revaluation Reserve or the Operating Cost Statement as appropriate.

## L. Merger Accounting

The MOD Medal Office was officially opened by the Veterans Minister and Under Secretary of State for Defence on 22 March 2005. In line with HM Treasury guidance, the transfer of responsibilities on 1 October 2004 to form the MOD Medal Office is being treated as a merger. Accordingly, the Agency's financial statements include operating costs for the full year and the balance sheet includes appropriate current and fixed assets. Prior year comparatives have also been restated where appropriate to comply with merger accounting requirements.

# Notes to the Financial Statements

## Note 2: Staff Costs and Numbers

Rear Admiral Spires received an annual remuneration of £88K, excluding pension contributions. He is a member of the Armed Forces Pension Scheme.

In line with Departmental policy, contract staff numbers and costs are included in this heading.

1. The average number of employees during the year was as follows:

	2004/05	2003/04
Military	No.225	No.213
Civil Service	256	166
Contract Staff	23	13
	<u>504</u>	<u>392</u>

Previous year comparative staff numbers do not include 62 Medal Office staff transferred to AFPAA in 04/05 as part of the integration of the Medals Office.

2. Staff costs can be analysed as follows:

	2004/05	2003/04
	£'000	restated £'000
Salaries and wages	14,694	13,107
Contract staff costs	725	442
Social Security costs (ERNIC)	1,244	1,107
Pension costs	3,251	2,924
	<u>19,914</u>	<u>17,580</u>

Previous year comparative staff costs includes Medal Office staff costs

# Notes to the Financial Statements

3. The salary and pension entitlements of the Executive Board of Armed Forces Personnel Administration Agency are as follows:

	Salary Including Performance Pay £'000	Real increase in Pension and related lump sum £'000	Total Accrued Pension at 31/3/05 and related lump sum £'000	CETV at 31/3/04 £'000	CETV at 31/3/05 £'000	Real increase in CETV after adjustment for inflation and change in market investment factors £'000	Employer contribution to partnership pension account incl risk benefit cover £'000
Rear Admiral TA Spires Chief Executive	85-90	0-2.5 plus 5.0-7.5 lump sum	40-45 plus 125-130 lump sum	778	823	47	0
Mr PD Northen Agency Sec/Deputy Chief Executive **	60-65	0-2.5	20-25	192	223	12	0
Air Commodore I Harvey Dir Ops	75-80	2.5-5.0 plus 7.5-10.0 lump sum	30-35 plus 100-105 lump sum	717	787	64	0
Air Commodore JD Tonks Dir JPA	80-85	0-2.5 plus 2.5-5.0 lump sum	35-40 plus 115-120 lump sum	761	779	20	
Brigadier AD Harking Dir SR&P	75-80	2.5-5.0 plus 7.5-10.0 lump sum	30-35 plus 90-95 lump sum	652	729	65	0
Mr AL Maynard Deputy Dir Finance & Corp Gov #	45-50	0-2.5 plus 0-2.5 lump sum	15-20 plus 50-55 lump sum	238	254	0	0
Dr P H Collins Deputy Dir JPA #	55-60	0-2.5 plus 2.5-5.0 lump sum	20-25 plus 65-70 lump sum	377	409	14	0
Mr K J Ludlam Non Executive Dir	10-15	0	0	0	0	0	0
Ms A Beech Non Executive Dir	5-10	0	0	0	0	0	0

\*\* opted to join PCSPS Premium scheme

# opted to remain in PCSPS Classic scheme

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

# Notes to the Financial Statements

4. '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.

5. 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 but AFPAA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2001 for AFPS and 31 March 2003 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 non-contributory defined benefit scheme that provides benefits at a normal retirement age of 55. Benefits in the scheme accrue unevenly throughout service and in addition a lump sum equivalent to three years' pension is payable on retirement.

b) Principal Civil Service Pension Scheme (PCSPS)

From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder 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 1 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.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

The table shown at 3. above shows 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.

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a



# Notes to the Financial Statements

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 CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

6. For 2004-05, employers' contributions of £3,251k were payable (2003-04 restated £2,924k) at rates in the range 15 to 33.8 percent of pensionable pay, based on salary bands. Employer contributions for PCSPS were reviewed in 2004-05 and employer contributions for the AFPS were reviewed during 2003-04. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

## Note 3: Accommodation Costs

	2004/05 £'000	2003/04 £'000
HQ costs	504	345
Army Personnel Centre costs	1,632	493
Works maintenance	1,273	722
Building depreciation	687	661
Building impairment reversal	(73)	-
Less recovery from minor occupier	(47)	(54)
Utilities	179	102
Rates	(4)	11
Rent	502	435
	<u>4,653</u>	<u>2,715</u>

Accommodation costs comprise cash costs, communication costs and capitation rate based costs

# Notes to the Financial Statements

## Note 4: Administration Costs

	2004/05 £'000	2003/04 £'000 Restated
EDS Contractual costs	71,206	67,197
Paymaster	2,616	2,367
Net Write offs (see note 17)	655	144
IT equipment, maintenance and software	397	245
Consultancy	1,477	800
Travel and subsistence	840	812
Supplies and services consumed	764	1,104
Pension costs	49	58
Training	133	200
Interest on long term creditor balances	648	608
Office supplies	72	166
Audit fee	36	35
Miscellaneous	131	41
Advertising	-	30
Telecommunications	462	275
Currency charges	200	(55)
Cost of capital charges	406	52
Less contribution from minor occupier	(31)	(36)
IT & Communications equipment depreciation	2,654	2,094
IT & Communications equipment impairment	925	319
Plant equipment depreciation	14	7
Intangible asset amortisation	1,055	178
Intangible asset impairment	126	-
Stock Provisions	1,023	-
Stock Consumption	1,555	1,338
Notional income from Veterans Agency (see note 5)	(1,017)	-
	<u>86,396</u>	<u>77,979</u>

Previous year Administration Costs include depreciation charges for Medal Office Plant Equipment

# Notes to the Financial Statements

## Note 5: Fixed Assets

	Intangible	Land and Buildings	Plant equipment Restated	IT & Comms equipment	AUC	Total Restated
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>						
At 1 April 04	1,163	16,143	178	8,576	174	26,234
Additions	11,300	-	-	6,616	448	18,364
Revaluations	-	7,985	3	-	-	7,988
Impairments	(126)	69	-	(925)	-	(982)
Write (off)/on	-	-	(5)	(1)	-	(6)
Disposals	-	-	-	(1,538)	-	(1,538)
Reclassification	-	-	174	-	(174)	-
<b>At 31 March 05</b>	<b>12,337</b>	<b>24,197</b>	<b>350</b>	<b>12,728</b>	<b>448</b>	<b>50,060</b>
<b>Depreciation and Amortisation</b>						
At 1 April 04	178	1,323	8	4,055	0	5,564
Amount in year	1,055	687	14	2,654	-	4,410
Revaluations	-	864	1	-	-	865
Impairments	-	(4)	-	-	-	(4)
Write (off)/on	-	(1)	2	-	-	1
Disposals	-	-	-	(1,538)	-	(1,538)
Reclassifications	-	-	-	-	-	-
<b>At 31 March 05</b>	<b>1,233</b>	<b>2,869</b>	<b>25</b>	<b>5,171</b>	<b>-</b>	<b>9,298</b>
<b>Net Book Value</b>						
At 1 April 04	985	14,820	170	4,521	174	20,670
<b>At 31 March 05</b>	<b>11,104</b>	<b>21,328</b>	<b>325</b>	<b>7,557</b>	<b>448</b>	<b>40,762</b>

Included within IT assets are £2,033k of assets legally owned by EDS for exclusive beneficial use by AFPAA. Included within Intangible assets are £444k of assets legally owned by EDS for beneficial use by AFPAA and Veterans Agency. Included within AUC are £198k of assets legally owned by EDS for beneficial use by AFPAA and Veterans Agency. These assets have been accounted for in accordance with FRS 5 (Substance of transactions). A notional income amount of £1,017k has been included in Administration Costs (note 4) in respect of Veterans Agency's share of the depreciation charges and cost of capital charges in respect of assets used in the Compensation and Pensions System (CAPS) project.

Medal Office Plant Equipment is included in balances at 1 April 2004

# Notes to the Financial Statements

## Note 6: Stocks

	2004/05 £'000	2003/04 £'000 Restated
Medals stocks owned by AFPAA	2,494	3,509
	<u>2,494</u>	<u>3,509</u>

Previous year comparative balance relates to Medal Office stocks

## Note 7: Debtors and Prepayments

	2004/05 £'000	2003/04 £'000
Trade debtors: EDS	7,162	5,370
Other	-	37
Prepayments	179	25
	<u>7,341</u>	<u>5,432</u>

Included within Prepayments is £62k which will be utilised in 2006-07. There are no balances with Central Government Departments, NHS Trusts or Local Authorities.

## Note 8: Creditors

<b>Amounts falling due within one year</b>		2004/05 £'000	2003/04 £'000
Trade creditors: EDS	1,097	4,515	
Trade creditors: Other	<u>204</u>	<u>223</u>	
		1,301	4,738
Accruals: EDS	16,579	8,931	
Accruals: Other	<u>451</u>	<u>586</u>	
		17,030	9,517
		<u>18,331</u>	<u>14,255</u>
<b>Amounts falling due after one year</b>			
Trade creditors: EDS		6,870	10,816
		<u>25,201</u>	<u>25,071</u>

There are no balances with Central Government Departments, NHS Trusts or Local Authorities.

# Notes to the Financial Statements

## Note 9: Provisions for Liabilities and Charges

Early Retirement Provision	2004/05 £'000	2003/04 £'000
Opening Balance at 1 April 2004	233	249
Utilised in year	(52)	(103)
Transferred from Operating costs	18	87
<b>Balance at 31 March 2005</b>	<b>199</b>	<b>233</b>

Payments of £30k are expected to be made in 2005-06 with the remainder of the payments expected to be made by 2009-10.

## Note 10: General Fund

	Note	2004/05 £'000	2003/04 £'000 Restated
Net Voted Expenditure		121,497	95,089
Notional costs	19	3,267	2,029
Realised element of the revaluation reserve	11	1,571	118
Less:			
Net expenditure for the year in respect of the Agency operations	18	(110,917)	(98,228)
Net increase (decrease) in General Fund		15,418	(992)
General Fund at 1 April		1,649	2641
<b>General Fund at 31 March</b>		<b>17,067</b>	<b>1,649</b>

# Notes to the Financial Statements

## Note 11: Revaluation Reserve

	Note	2004/05 £'000	2003/04 £'000 Restated
Revaluation reserve at 1 April		2,658	1,959
Depreciation on revalued element of fixed assets	5	(865)	(27)
Revaluation in year on fixed assets	5	7,988	642
Revaluation in year on stocks		(80)	202
Realised element transferred to General Fund	10	(1,571)	(118)
<b>Revaluation reserve at 31 March</b>		<b>8,130</b>	<b>2,658</b>

## Note 12: Reconciliation of Movement in Government Funds

	Note	2004/05 £'000	2003/04 £'000 Restated
At 1 April		4,307	1,134
Revaluation Reserve movement in year	11	5,472	699
General Fund movement in year	10	15,418	2,474
Total movement in year		20,890	3,173
<b>At 31 March</b>		<b>25,197</b>	<b>4,307</b>

# Notes to the Financial Statements

## Note 13: Related Party Transactions

AFPAA 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 AFPAA and EDS, 5 members of the EDS Management team sit on the Joint Partnering Management Team (JPMT) alongside the AFPAA Executive Board. These senior managers oversee the partnering agreement, contributing and reviewing on a regular basis major activities of the Agency.

During the period 1 April 2004 to 31 March 2005, AFPAA has had various material transactions with the Ministry of Defence, EDS and with other entities for which the Ministry of Defence is regarded as the parent Department.

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

## Note 14: Financial Commitments and Contingent Liabilities

There are no capital commitments for which a provision was required in these financial statements. However, at 31 March 2005, the Agency was committed, under the amended Agreement with EDS, to make payments totalling £290m up to the end of the contract in 2009.

At contract termination, due to take place on 31 December 2009, AFPAA has an option to buy back the IT equipment that is being utilised by EDS at Fair Market Value.

## Note 15: Derivatives and Other Financial Instruments

FRS 13, Derivatives and Other Financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the largely non-trading nature of its activities and the way in which government Agencies are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their book values. In line with FRS 13, short term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures (except for those relating to currency risk).

### Interest rate risk

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

### Currency risk

The Agency does not hold assets or liabilities denominated in a foreign currency, and income and expenditure denominated in a foreign currency is negligible. The Agency does, however, bear the foreign exchange costs of payments made in local currencies to Service personnel serving overseas. The Agency is not exposed to significant currency risk.

# Notes to the Financial Statements

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

## **Liquidity risk**

The Agency is not exposed to significant liquidity risk, as 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.

## **Note 16: Post Balance Sheet Events**

There are no significant post balance sheet events.

## **Note 17: Losses Statement**

Under the Service Provision Agreement between AFPAA and EDS, a Failure Charge can be deducted from the monies payable to EDS. Failures are defined as being where performance against a specified and agreed Service Level has not been achieved. Under the charging mechanism in place, a maximum charge that could be invoked is calculated. Discretion exists for a lesser sum to be charged in instances where the maximum charge is deemed inappropriate (e.g. when the reason for a service delivery failure cannot be apportioned solely to EDS). Additionally, the charge can be waived in total, for example when a Service Delivery Failure is adjudged to be as a consequence of circumstances outside EDS' control. During the Financial Year 2004/2005 the total sum waived under the Service Provision Agreement was £660k.



# Notes to the Financial Statements

## Note 18: Reconciliation of Net Operating Cost to Net Cash Flows

	2004/05 £'000	2003/04 £'000 Restated
<b>Net Expenditure from operating activities</b>	<b>110,917</b>	<b>98,228</b>
<b>Adjustments for non cash transactions</b>		
Increase in Provisions from Operating Cost Statement	(18)	(87)
Depreciation, amortisation and amounts written off fixed assets	(5,395)	(3,257)
Cost of capital	(406)	(52)
Notional costs	(3,878)	(1,978)
Stock Provisions	(1,023)	-
Notional Income from Veterans Agency	1,017	-
<b>Movements in net current assets:</b>		
Increase/(Decrease) in Stocks	88	(130)
Increase/(Decrease) in debtors	1,909	(5,906)
Increase/(Decrease) in creditors	(4,474)	(497)
Payments made against Provisions for Liabilities and Charges	52	103
<b>Net Cash Outflow from operating activities</b>	<b><u>98,789</u></b>	<b><u>86,424</u></b>

# Notes to the Financial Statements

## Note 19: Non Cash and Notional Cost Items

The notional cost elements, included under the headings of Accommodation Costs (note 3), and Administration Costs (note 4), are as follows:

	2004/05 £'000	2003/04 £'000
<b>NON CASH COSTS:</b>		
IT depreciation	2,654	2,094
IT Impairment	925	319
Buildings Depreciation	687	661
Buildings Impairment reversal	(73)	-
Plant & Machinery Depreciation	14	5
Intangibles Amortisation	1,055	178
Intangibles Impairment	126	-
Write Off of Fixed Assets	7	-
	<u>5,395</u>	<u>3,257</u>
<b>NOTIONAL COSTS:</b>		
HQ Costs	504	345
Army Personnel Centre Costs	1,632	492
Works maintenance	905	(5)
Utilities	147	170
Rates	(4)	11
Posting - Military and civilian costs	186	173
HQ charges	268	699
Permanent transfer of staff	236	152
Notional depreciation income	(47)	(54)
Postage	36	11
Notional Cost of Capital income	(31)	(36)
Audit fee	36	35
Compulsory Early Retirement Payments in Year	10	(16)
Cost of Capital charge	406	52
Notional Income from Veterans Agency	(1,017)	-
	<u>3,267</u>	<u>2,029</u>



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