



**People, Pay  
and Pensions  
Agency**

*'Putting People First'*

# **Annual Report and Accounts 2008/2009**





# Annual Report and Accounts



**People, Pay  
and Pensions  
Agency**

Presented in Parliament in pursuance to the

Government Resources and Accounts Act 2000

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## Statement by the Chief Executive



On 1 April 2009, the agency's Chief Executive, David Ball [photo : left] , was seconded to develop an MOD Shared Service Strategy. Pending his return I have been appointed as Acting Chief Executive and Accounting Officer for the agency.

I am delighted to present this Annual Report detailing our achievements during the financial year 2008-09.

In April 2008 we reached our full operating capability, providing a full range of shared services to civilian staff in the Ministry of Defence for all their people related tasks from joining to leaving.

We have achieved the targets set by the Department and we are one of the first organisations to have been awarded the new Customer Service Excellence standard launched earlier in 2008. Our achievements have also been recognised at the e-Government National Awards.

But that is just the start. Others' experience suggests that it takes a number of years from putting shared services in place to taking them to maturity. Many rules and processes are not yet simple enough to support the kind of confident self-service we aim to promote. Many transactions are not yet fully automated. And our services are sometimes separate, not yet providing a fully integrated experience.

At the heart of our vision for the Agency's future is the idea that we are here to make it possible for our customers to do their people related tasks themselves, simply and well. So our success will be judged by theirs: whether managers and staff make better staff-related decisions, and therefore make the best contribution to Defence.

Over the last year, we have delivered the first stage of a four year programme to take us to a deeper level of effectiveness and efficiency. Achieving that plan whilst delivering the current service has been a remarkable challenge, not least managing very high level of demand, a number of maintenance issues with our supporting systems, and the migration to the Department's Defence Information Infrastructure.

There are wider reviews too that may affect us significantly: by the Cabinet Office into civil service pensions delivery, and by the Ministry of Defence into its future strategy for shared services. But whatever the impact of wider developments, we will need to take what we currently do to the next level.

We could not have achieved so much without the dedication and commitment of staff at all levels. The service they have provided is commended and their achievements give me every confidence that we can deliver the challenges ahead.

A handwritten signature in black ink that reads "John Quinn". The signature is written in a cursive, slightly stylized font.

John Quinn  
Acting Chief Executive  
6th July 2009

## Management

The plans and strategic direction of the People, Pay and Pensions Agency are managed by a board consisting of the Chief Executive and his directors. The primary role of the board is the identification and setting of the PPPA's key business and performance targets through the Corporate Planning process, assessment of the risks to the achievement of those targets and the regular monitoring of performance against them.

The appointment of the Agency Chief Executive is governed by the processes set out in the Civil Service Management Code. No member of the Management Board holds any directorships or has any other significant interests which may conflict with their management responsibilities. Shelagh Owen, Director of Customer Service, retired from the Agency September 30, 2008.



John Quinn  
**Deputy Chief Executive**

Delivering services in accordance with the Service Level Agreement; including a People Services Centre providing a first point of contact for all customers; specialist business and support offices; and management of customer issues and relations.



Tony Maynard  
**Director Corporate Development**

Providing corporate planning, financial quality, personnel and risk support to the Board; developing the Agency in wider HR environment and markets.



Caroline Rumming  
**Director Customer Service**

Supporting the continuous improvement and integration of the Agency's services. Providing a knowledge base to support our documented processes. The leadership and management of the PPPA customer facing operation to deliver the client agreed service portfolio; Reporting against the client agreed service levels and management of the customer relationship, including direct liaison with MOD policy leads, customers and repayment customers to ensure issues are properly resolved; responding to customer complaints and issues.



Dave Wealthall  
**Director Systems and Projects**

Ensuring that the Agency makes best use of systems and infrastructure to support the business. Providing effective management information and ensuring there is effective management of all change. Ensuring effective management and delivery of the Agency's four-year Maturity Programme.



Margaret Savage  
**Non-Executive Director**

Independent advice and assurance, chair of PPPA Audit Committee.

## Corporate Objectives

### PPPA Key targets 2008/09:

The PPPA key objectives are designed to be challenging and to encapsulate the aim of the Agency to continually improve the managements and its services to customers. The individual targets were built around the balanced scorecard and covered:

Objective	Target	Performance 2008/09	2008/09 Overall Assessment
Results – delivering services	<p><b>Key Target 1: Achieve target unit costs of 12 PPPA services.</b></p> <ul style="list-style-type: none"> <li>• salary payment - £8.50;</li> <li>• expenses payment - £1.40</li> <li>• pension award - £80.00</li> <li>• internal posting - £350.00</li> <li>• external recruitment - £775.00</li> <li>• manpower substitution - £120.00</li> <li>• successful Band B candidate - £11,500.00</li> <li>• successful Band D candidate - £3,500.00</li> <li>• subject access request - £200.00</li> <li>• performance, recognition and honours - £5.00</li> <li>• career consultancy - £15.00</li> <li>• working patterns and leavers service - £13.50</li> </ul> <p>Definition of Achievement: Achieve agreed unit cost targets for salary payments; expenses payments; pension awards; internal posting; external recruitment; manpower substitution; promotion assessments; subject access request; performance, recognition and honours service and career consultancy and development service.</p>	<p>£8.31</p> <p>£1.31</p> <p>£80.21</p> <p>£348.76</p> <p>£1,171.56</p> <p>£82.90</p> <p>£11,498</p> <p>£2,296</p> <p>Not Measured</p> <p>£4.28</p> <p>£11.26</p> <p>£11.06</p>	<p><i>Achieved with the exception of the unit cost target for external recruitment. The failure to achieve this unit cost target was caused by the number of applicants for each post advertised significantly exceeding the numbers anticipated in the SLA. The number of applicants for a post is the major driver of the cost of the service. This trend is continuing.</i></p>
	<p><b>Key Target 2: Deliver our agreed Service Level Agreement standards for timeliness:</b></p> <ul style="list-style-type: none"> <li>• salary payments – 99.9%</li> <li>• pension awards – 99.4%</li> <li>• recruitment – 85%</li> <li>• health &amp; conduct (casework) – 90%</li> <li>• managing post information – 90%</li> </ul> <p><b>and accuracy.</b></p> <ul style="list-style-type: none"> <li>• salary payments – 98%</li> <li>• pensions – 97%</li> <li>• HR transactions – 95%</li> <li>• HR advice – 95%.</li> </ul> <p>Definition of Achievement: Achieve Key Performance Indicators for timeliness and accuracy, set out in the Agency's Service Level Agreement. The indicators cover salary payments, expense payments, pensions, internal and external recruitment, and HR transactions and advice.</p>	<p>99.82%</p> <p>99.0%</p> <p>88.5%</p> <p>94%</p> <p>88%</p> <p>98.8%</p> <p>95.6%</p> <p>98.8%</p> <p>96.0%</p>	<p><i>Not achieved. There has been a variable degree of performance across the various services. The failure to meet the Key Target was due to:</i></p> <ul style="list-style-type: none"> <li>• a failure to pay on time a small number of staff serving overseas;</li> <li>• the transfer of trained pensions staff to an Early Release project and their replacement by temporary, untrained staff. This resulted in shortfalls against both the pensions accuracy and timeliness targets</li> <li>• higher than forecast volumes of position management changes placed significant strain on the transaction team.</li> </ul>
	<p><b>Key Target 3: Deliver the agreed Service Level Agreement standards for</b></p> <p><b>Responsiveness</b></p> <ul style="list-style-type: none"> <li>• Percentage of Calls (PCA) within 20 seconds</li> <li>• Apr – Jun 60%</li> <li>• Jul – Sept 70%</li> <li>• from Oct 80%</li> <li>• Calls abandoned after 20 seconds &lt; 10%</li> <li>• Resolution of customer contacts within 10 days – 95%</li> </ul> <p><b>Availability</b></p> <ul style="list-style-type: none"> <li>• People Service Centre available in normal hours – 98.5%</li> <li>• HRMS available in normal hours – 98.5%</li> <li>• Management Information Discoverer Reporting – 95%</li> <li>• External Recruitment available in normal hours – 95%</li> <li>• Policy, Rules and Guidance in all media – 95%</li> </ul> <p>Definition of Achievement: Achieve Key Performance Indicators for access to the agency's services. The detailed indicators cover availability and speed of responses of both its call centres and its major online electronic service.</p>	<p>48%</p> <p>49%</p> <p>48%</p> <p>12%</p> <p>93.1%</p> <p>96.9%</p> <p>97.3%</p> <p>99.5%</p> <p>99%</p> <p>99%</p>	<p><i>Not Achieved.</i></p> <p><i>The People Service Centre did not achieve the targets set for answering calls within 20 seconds. The main contributory factor was inadequate manpower resource. The PSC operated throughout the year below planned levels despite several recruitment campaigns.</i></p> <p><i>The availability of HRMS was adversely affected by a number of IS hardware failures. Work has been undertaken to improve hardware resilience in this area.</i></p>



Objective	Target	Performance 2008/09	2008/09 Overall Assessment
<b>Reputation – highly regarded</b>	<p><b>Key Target 4: Demonstrate higher customer satisfaction:</b></p> <ul style="list-style-type: none"> <li>• Improve satisfaction index for HR – 64%</li> <li>• Improve satisfaction index for pay and pensions – 80%</li> <li>• Sampled users satisfied or better – 85%</li> </ul> <p>Definition of Achievement: Improve customer satisfaction targets set in the Agency's Service Level Agreement: 80% satisfaction index for pay, pensions and expenses services; 64% satisfaction index for HR services; 85% of sampled users satisfied or better.</p>	<p>67.2% 78.3% 94.0%</p>	<p><i>This target was exceeded in respect of the agency's support to HR activities and the overall satisfaction of users with the services. However, although satisfaction increased slightly in respect of Pay, Pensions and Expenses services, the target to achieve a satisfaction index of 80% proved too stretching. PPPA performance, compared to other similar businesses providing services to internal customers, is at the 86th percentile – equating to PPPA being in the top 15% of companies.</i></p>
	<p><b>Key Target 5: Achieve first phase of HR Service maturity.</b> In conjunction with customers, a small number of specific projects will be agreed for reviewing and improving HR services and procedures which have a high business priority.</p> <p>Definition of Achievement: Achieve first phase of HR service development programme by March 2009. In conjunction with customers, a small number of specific projects will be agreed for reviewing and improving HR services and procedures which have a high business priority.</p>	<p>Achieved</p>	<p><i>Achieved.</i></p> <p><i>Excellent progress was made with the stretch target exceeded, improvements included:</i></p> <ul style="list-style-type: none"> <li>• <i>The 'quick wins' from the Internal Recruitment Deep Dive were delivered.</i></li> <li>• <i>The launch and roll-out of iFind knowledge management service to the People Service Centre.</i></li> <li>• <i>The upgrade of the power supply at Cheadle Hulme.</i></li> <li>• <i>The implementation of new HRMS access controls permissions.</i></li> <li>• <i>The delivery of the new Occupational Health Service.</i></li> <li>• <i>The set up and operation of the Civil Service West Midlands recruitment pilot.</i></li> <li>• <i>The launch of the Internet Access Pilot providing access to HRMS self service.</i></li> <li>• <i>The delivery of improved MI for business customers.</i></li> </ul>
	<p><b>Key Target 6: Maintain and extend external accreditations</b></p> <ul style="list-style-type: none"> <li>• Confirm Customer Service Excellence accreditation</li> <li>• Maintain certification through annual assessment for ISO9001 and ISO14001</li> <li>• Achievement of ISO15489 standard</li> </ul> <p>Definition of Achievement: Maintain and extend Customer Service Excellence and other external accreditations by March 2009.</p>	<p>Achieved Achieved  Not Assessed</p>	<p><i>Achieved. We maintained our external accreditations for ISO9001 (Quality), ISO14001 (Environment) and the Customer Excellence Standard.</i></p> <p><i>At the current time there are no external assessment organisations to conduct an assessment against ISO15489 - the standard for Information and Documentation: Records Management.</i></p>

## Purpose

We provide a comprehensive and integrated personnel service for Ministry of Defence civilian staff and their line managers, which is also available in whole or part to other customers on repayment. Our role is to enable managers in MOD to manage their staff and staff to get their entitlements and manage their terms of employment through a range of services.

We work with other parts of the Department, primarily the Corporate Services area of which we form a part.

### Our Part in Defence

Our services contribute towards the Defence effort by

- Improving the experience of working in Defence
- Freeing staff and their managers to focus on their core business, less on administration
- Providing the services, guidance and information to help managers and staff improve their skills and performance
- Keeping administration costs to the minimum so as much Defence resource as possible is available for the front line
- Promoting the support to military operations by civilian staff

## Principal Activities

We deliver a full set of HR services:

### People Service Centre (PSC)

is the first point of contact for our customers. Our staff here try and help to resolve customer issues, complete transactions and advise where authoritative guidance can be found.

### Recruitment

provides a single focus for internal and external recruitment which includes: checking requisitions (advertisements); guiding managers through the various processes; producing sift and posting notices; and conducting pre-employment checks.

### Development and Promotion

provides a single focus for the services that support staff development. The team's activities range from answering queries about the use of the development tools and systems, to providing face-to-face career consultancy, and managing assessment centres for promotion to certain management grades.

### Working Patterns, Leavers and Pensions

provides advice on working patterns, leave, relocation and the steps that need to be taken when staff leave the MOD. The team administer civil service pensions and provides information on the pensions choices staff have to make.

### Health, Welfare and Conduct

provides face-to-face Occupational Welfare help, advice and support and ensures staff have access to professional Occupational Health support. The team manage all kinds of personal cases – health, performance, behaviour, discipline, harassment, work-related injuries or accidents, and grievances.

### Information and Records

provides information to individuals, management and customers about staff and their employment.

### Pay, Performance and Recognition

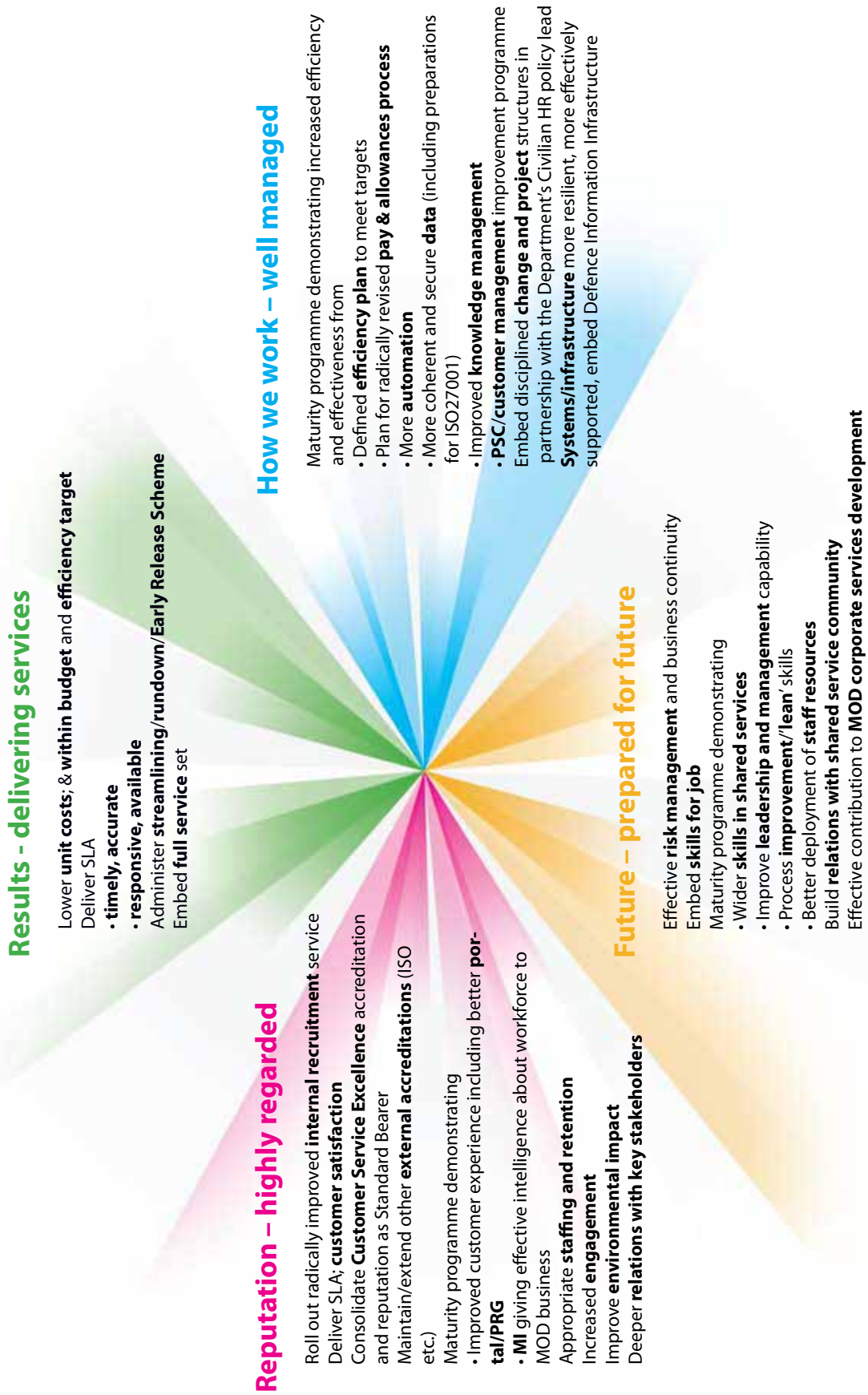
ensures that all MOD civilians receive their salary on time and provides a single focus for the services that help managers conduct performance assessment and how staff can be recognised and rewarded in a range of ways.

### Support services

a range of enabling services that support the direction and continuous improvement of the PPPA through projects, processes, change and monitoring standards of performance.

## Balanced Scorecard

The strategic management of the Agency is facilitated through the use of a Balanced Scorecard. The Agency's Balanced Scorecard enables the Management Board and Executive Committee to monitor throughout the year how well the PPPA is performing in respect of the range of related strategic objectives. The Balanced Scorecard for 2008/2009 is illustrated below.



## Business Performance

We have struggled to sustain service performance throughout the year in some areas. Reasons have varied, for example the People Service Centre has operated with a number of vacancies throughout the year despite repeated recruitment campaigns. This staffing churn had an adverse affect on time to answer performance. In addition, several service lines experienced higher than forecast volumes with external recruitment and position management services being particularly hard hit.

The year also saw the drive for service and process improvements continue. Major change initiatives have been introduced through the launch of a four year 'Maturity Programme'. This aims to deliver the Agency vision of being the organisation that enables managers and staff to carry out their employment related tasks themselves, simply and well, by 2012. This work is being taken forward through six workstreams within which there are a number of individual projects.

- Data and Management Information
- HR Process Improvement
- Organisation Design
- People and Skills
- Customer management and Experience
- Automation

## Successes

Particular successes during 2008/2009 have included maintaining the Customer Service Excellence Standard awarded by the Cabinet Office, the Agency's contribution to the Department's corporate Investors in People accreditation, achieving an 'A' rating following an independent audit of our Safety Health Environment and Fire processes, receipt of the Payroll Giving Award, the continued maintenance of ISO9001 and ISO14001 and the award of the Matrix standard to our Career Consultancy team and our internal team of business trainers.

A particular achievement was the e-Government Shared Service Award at the e-Government National Awards where the Agency received a highly commended second place. For the PPPA to come second when we are only at the beginning of our journey is a phenomenal success and shows what we are capable of and what we can achieve. The Automation workstream in our Maturity Programme has developed new methods to improve the self service experience for customers such as access to HR systems through the World Wide Web and the launch of electronic pay statements.



Tony Maynard, Ruth Lambert, Alan Dinsdale, Trish Sipek, Dave Wealthall and Pauline Reed were on hand to pick up the prestigious award

## Delivering Results – delivering services

### Financial review.

During the year the agency consumed net resources of £58.8M (2007/08: £54.6M). This has been charged to the agency's General Fund. The resources were consumed in meeting the agency's obligations and commitments to the Department and to other Government Departments.

### People Service Centre (PSC).

Despite several recruitment campaigns the PSC suffered a manpower shortage throughout the year which had an adverse affect on their ability to meet their SLA targets.

Also, two service lines have shown dramatic increases in demand (password resets and recruitment) and there has also been high volume increases in levels of correspondence which have all impacted on the ability to meet agreed service levels.

The launch of a new training programme has helped to improve the knowledge of customer agents and has contributed to higher standards in accuracy of advice and in customer satisfaction.

### Recruitment, Development and Promotion.

**Internal Recruitment:** A high level of service has been provided with performance consistently above the targets set out in the Service Level Agreement. In October 2008 the Internal Recruitment 'operational review' project launched a number of improvements which has resulted in an increase in customer satisfaction. Further process improvements are planned for delivery in July and October 2009. In September 2008 the Civil Service West Midlands pilot recruitment service was launched successfully.

**Manpower Substitution:** We continue to provide good level of service for the provision of Admin and Clerical temporary staff. The fill rate is now 95% and work is ongoing to improve response rates. We successfully launched a service for Skill Zone and Security staff on the 2nd March 2009. The Agency did encounter significant problems with payments made through Purchase to Payment (P2P) and a backlog of over £1m is now being worked through.

**External Recruitment:** The number of transactions has consistently exceeded the agreed volumes in the Service Level Agreement which has impacted on the achievement of targets. There has been a steady increase in the level of demand for external recruitment throughout the year with the number of posts being advertised rising and a significantly higher than anticipated number of applications being received.

The External Recruitment Team underwent a LEAN event in July 2008 and some of the outputs have been implemented to improve performance and customer experience. An Operational Review has also been undertaken, and this will form the next steps for an improvement programme.

**Career Consultancy:** The 2008 Senior Civil Service Assessment Centre met every project milestone and exceeded the SLA target.

The 2008 Band B and Band D Assessment Centres were both successfully concluded.

The Career Consultancy Service has delivered in excess of 85 workshops and 20 briefings over the past 6 months exposing the service to over 1500 people. The team have also gained "matrix standard" an externally assessed accreditation.

### Pay, Performance and Recognition.

This area performed well throughout the year, meeting all performance targets with one exception. Salary payments in January 2009 for 1000 staff serving overseas were not paid on time causing the Key Target to be missed.

### Health, Welfare and Conduct.

Case work volumes continue to progress in line with expectations. The ability to deliver this service was affected by IT connectivity problems for a number of staff in forward deployed roles. This has meant that access to a number of our applications has been difficult.

**Working Patterns, Leavers and Pensions.** The MOD Early Release Scheme (ERS) Project was a success with all offer/rejection letters issued to the 3,500 applicants on time. The team successfully met all the requirements of the ERS project timetable.

However, in order to build up the ERS team a number of the more experienced staff were transferred from the core pensions service and were replaced by untrained, temporary staff. This had an adverse impact on the timeliness and accuracy targets of the core business.

### System Exploitation.

The significant amount of work in all areas in preparation for migration to DII(F) proved successful. All 140+ PPPA applications underwent analysis to determine their compliance with DII infrastructure rules; some required minor re-packaging, others significant end-to-end testing and a few were re-engineered to meet future needs.

A suite of revised e-forms was launched using modern and supportable technology. Through an internet access project the e-forms are available to a population of users previously identified as disenfranchised, due to their lack of MOD infrastructure connectivity.

Work has taken place to develop and deliver solutions to meet the data handling recommendations of the Hannigan and Burton reports. A '3rd party' customer agreement has been developed, and new handling protocols (including potential encryption) are being established, to ensure that our data is protected and secured. In addition, the Executive Committee has agreed to a number of improvements to physical security and this work is being taken forward as part of the overall data protection project.

### Business Knowledge and Training.

A new search engine/ knowledge management system known as iFind was launched in July 2008. This has resulted in PPPA staff having access to a more effective search engine/knowledge management system. This is still maturing but already illustrating the benefits of having a single source of information that ensures customers are receiving consistent advice and guidance.

## How We Work – well managed

### Learning and Development.

The 2008/09 Learning and Development Strategy identified a number of areas for improvement and work is now underway, as part of the Maturity Programme, to identify our future skills requirements, the skills we hold and a programme to bridge the gap between the two. We have already identified customer service and leadership as areas for improvement.

A Band D/C2 Development Programme was launched on 1 May 2008. All participants have mentors and most are involved with Maturity Programme Projects. They have individual training and development programmes and a dedicated budget to deliver their requirements. Work is underway on developing talent management schemes for Pay Band E and C's in the Agency and these will be launched during 2009.

### Accommodation.

A number of projects, aimed at improving our IS resilience, were undertaken at our Cheadle Hulme site. These included a secure underground electrical supply and a new uninterrupted power supply. Work is also progressing to upgrade the Power Distribution Unit (PDU) and replace the Air Conditioning in the main Computer Hall.

### Health, Safety and the Environment.

The Centre Environmental Safety Officer (CESO) carried out a number of SHEF compliance audits throughout the PPPA. Overall, the Agency was awarded an 'A' rating. Many of the processes and procedures introduced in the PPPA have been cited by the auditors to be used as positive examples for other areas of the Central Top Level Budget.

### Business Continuity

A new PPPA Master Business Continuity Plan has been introduced and the new template has been adopted for all local level and site business continuity plans. A formal testing programme for 2009/10 has been established and an awareness programme through presentations, team briefs and display stands took place during Business Continuity Week.

### Risk Management

We have introduced a consistent approach to risk management across all business areas and projects with an overarching strategic risk register which is reviewed quarterly by the Management Board and monthly by the Executive Committee. This is supported by business level risk registers owned, reviewed and updated locally. The risk registers from each business area are also now subject to review by the Risk and Continuity Board.

## Reputation – highly regarded

### Communications and Employee Engagement.

The work of our Junior Management Board has continued to demonstrate our commitment to enabling staff at all levels to contribute towards the delivery and future direction of the Agency. Staff also had the opportunity to attend a series of coaching workshops which were facilitated by the Deputy Chief Executive and a number of senior managers.

The Agency participated in the wider MOD Your Say employee engagement survey with a creditable response rate of 72%. The Agency also participated in the MOD's initial pilot with participants from the People Service Centre and Working Patterns, Leavers & Pensions business areas.

We have also established a group of 'communication champions' to support our Maturity Programme who work closely with the individual workstream leaders to ensure there is a high level of awareness and understanding of the programme amongst all staff.

## The Future – prepared for the future

Our Maturity Programme launched in April 2008. Establishing the programme included:

- Producing a high level 4 year plan and detailed programme for year 1.
- Engaging with the Trade Unions on the programme intentions.
- Obtaining staff and manger buy-in.

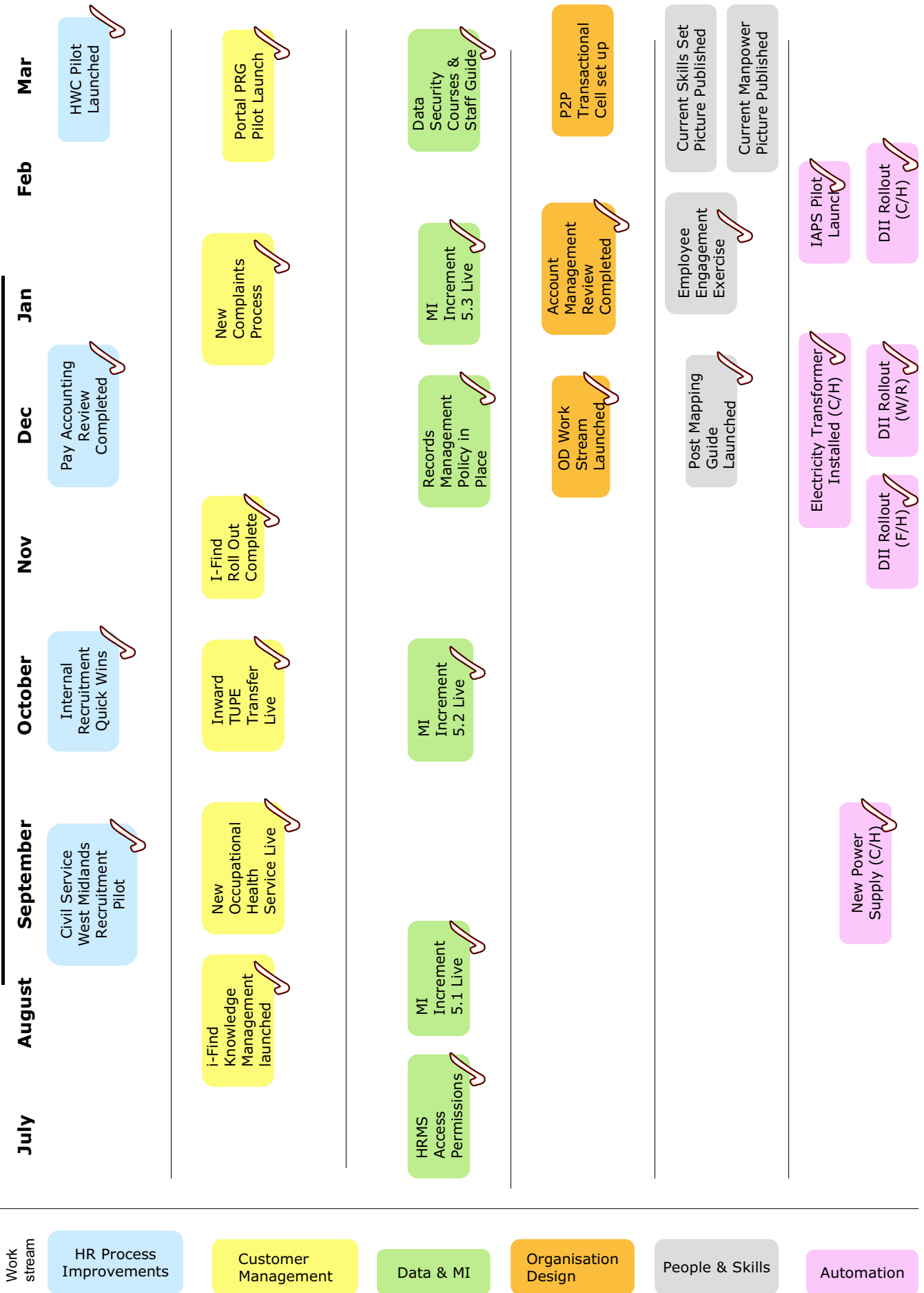
The significant milestones are illustrated in the diagram on page 15 which have to date delivered:

- Improved customer experience of our internal recruitment and occupational health services, and our complaints process.
- Improved our internal processes for pay accounting.
- Improved the access to information for our staff through deployment of a knowledge management system.
- Improved our physical infrastructure and connected our staff and services to the DII.
- Took part in the pilot looking at access to our services from the Internet.
- Improved the quality and control of our data.
- Increased the skill sets of our staff.
- Established and launched the key projects for year two of the programme.
- Exceeded our year 1 efficiency stretch target for reducing staff numbers of 42 by 6.

The success has been achieved through the hard work and enthusiasm of the project teams, staff from across the Agency, and representatives from our policy and business customers.

The successful achievements during the first year have established the stepping stones for the journey towards our vision.

# MAJOR MILESTONES – JULY 2008 TO MARCH 2009



## Reporting of Personal Data Related Incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

**TABLE 1 : SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2008/09**

Date of incident ( Month )	Nature of Incident	Nature of data involved	Number of people potentially affected	Notification Steps
	No incidents to report for the whole year	N/A	N/A	N/A
<b>Further action on information risk :</b> The Agency will continue to monitor and assess its information risks, in order to identify and address any weaknesses and ensure continuous improvement of its systems.				

**TABLE 2 : SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2008/09**

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in the figures.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	N/A
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	2
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	N/A
IV	Unauthorised disclosure	N/A
V	Other	N/A

**Statement on Information risk :**

Further details can be seen within the Statement on Internal Control , D. Information and Data Security , page 22.



## Our policy on payment to Suppliers

The Department's invoices, with the exception of some payments to suppliers by units locally, are paid through the Financial Management Shared Service Centre (FMSSC). In the period 1 April 2008 to 31 March 2009, the FMSSC paid 99.84% of all correctly submitted invoices within eleven calendar days, ensuring that the Department is in compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998. Additionally, following the announcement by the Prime Minister in October 2008 of the intention for Government Departments to pay Small and Medium Enterprise suppliers within 10 days, the FMSSC has been monitoring performance during the final quarter of the year. The target is 90% for all UK invoices and this was achieved in March with a performance of 90.7%

In addition the Agency uses the MOD's Purchase to Payments system (P2P) for some payments to contractors. This is discussed further in the Statement on Internal Control on page 21.

## Auditors

The accounts of the Agency are audited by the Comptroller and Auditor General under Section 7 (3) of the Government Resources and Accounts Act 2000. The notional cost of the statutory audit is £31,000. In preparing for the audit of the 2008/09 Accounts of the People, Pay and Pensions Agency I have ensured:

- that there is no relevant audit information of which the auditors are unaware,
- that I have taken all necessary steps to make them aware of relevant audit information,
- that I have taken all the necessary steps to establish that the auditors are aware of the information.

## Remuneration Report

The salary and pension entitlements of Agency senior managers during the period of these accounts were :

\*\* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfers Values) (Amendment) Regulations 2008.

\* In post for six months of the fiscal 2007/08

[this information is subject to audit]

	Salary, including performance pay 2008/09 £k	Real Increase in pension and related lump sum at age 60 £k	Total Accrued pension at age 60 at 31/03/09 and lump sum £k	** CETV at 31/03/2008 nearest £k	CETV at 31/03/2009 nearest £k	Real increase CETV after adjustment for and changes in market investment factors (nearest £k)	Employer contribution to partnership pension account including risk benefit cover to nearest £100	Salary, including performance pay 2007/08 £k
<b>David Ball</b> Chief Executive	105 - 110	0.0 - 2.5 plus 0.0 - 2.5	30 - 35 plus 90 - 95	482	532	7	Nil	100 - 105
<b>John Quinn</b> Deputy Chief Executive	135 - 140	0.0 - 2.5 plus N/A (Premium)	5 - 10 plus N/A (Premium)	57	86	20	Nil	140 - 145
<b>Tony Maynard</b> Director of Corporate Development	60 - 65	0.0 - 2.5 plus 0.0 - 2.5	20 - 25 plus 70 - 75	384	421	3	Nil	60 - 65
<b>David Wealhall</b> Director of System Exploitation	70 - 75	0.0 - 2.5 plus 0.0 - 2.5	35 - 40 plus 105 - 110	772	803	5	Nil	35 - 40 *
<b>Shelagh Owen</b> (Retired Sept 30, 2008) Director of Customer Service	25 - 30	0.0 - 2.5 plus 5.0 - 7.5	20 - 25 plus 60 - 65	406	473	46	Nil	20 - 25 *
<b>Caroline Rumming</b> Director of Service Integration	50 - 55	0.0 - 2.5 plus 0.0 - 2.5	20 - 25 plus 60 - 65	347	393	14	Nil	25 - 30 *

The Agency also employed a non-executive Director, Margaret Savage, on a consultancy basis to help develop the Agency's corporate governance processes. Ms Savage's remuneration for the period was £14,050 (2007/08 £17,850).

In the above table, 'Salary', in bands of £5,000, includes gross salary; performance pay or bonuses (paid in-year but based on performance in an assessment period ended prior to the start of the financial year); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that is subject to UK taxation. It also includes the monetary value of any benefits in kind received. Benefits in kind covers any benefits provided by the employer and treated by the HMRC as a taxable emolument. None of the above received any benefits in kind during either year.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings 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. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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 from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). 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). The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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)

#### Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

#### Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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.



John Quinn  
Acting Chief Executive  
6th July 2009

## Statement of the Accounting Officer's & Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the People, Pay and Pensions Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to comply with the Government Financial Reporting Manual (FRM) prepared by HM Treasury and in particular to:

- Observe the Accounts Direction issued by Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

It has been agreed with HM Treasury that, although Chief Executives of Defence Agencies are not appointed Agency Accounting Officers, analogous arrangements will apply. These responsibilities, including responsibility for the propriety and regularity of the public finances for which the Chief Executive is answerable and for keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in 'Managing Public Money'.

# Statement on Internal Control

## **1. Scope of responsibility**

The People, Pay and Pensions Agency was launched on 1<sup>st</sup> April 2006. It delivers a full range of HR services to the Ministry of Defence civilian staff and their managers.

2008/09 has seen the Agency reach Full Operating Capability (FOC) and embark on the delivery of a 4 year Maturity Programme. The Programme aligns with the Department's Civilian Workforce Strategy. It aims to make the services we provide more efficient and more effective in enabling civilian staff to self-serve and managers to undertake their people-management tasks. The Programme consists of a series of work streams, each led by a member of the Agency's Management Board.

As Chief Executive, I have responsibility for maintaining a sound system of internal control that supports the achievement of Agency policies, aims and objectives whilst safeguarding the public funds and departmental assets for which I am personally responsible. I am required to report regularly to the Agency's owner on the performance of the Agency against the objectives set for it, and the action being taken to mitigate risks to their achievement.

I have delegated to each budget holder a set of objectives and responsibilities. Each is required to provide me with regular reports on achievement against those objectives and responsibilities, including an assessment of the risks to their achievement and the action being taken to mitigate or manage those risks. The budget holders meet on a monthly basis as the Executive Committee and formally report to me as chair of the Management Board. The budget holders have the authority to delegate objectives and responsibilities to managers within their areas provided the manner of the delegations accord with relevant guidance and Agency policies.

The Management Board meets on a monthly basis to ensure alignment with the strategic direction set, and to steer execution of the approved business plan. The Board monitors the Agency's performance against its key performance indicators and business performance targets, all of which have been agreed with the Owner through the Department's corporate planning process. The membership of this Board during 2008/09 is shown in the Management Review section of this Report and Accounts. The external member chairs the Agency's Audit Committee and attends the Management Board, the Owner's Advisory Board, the Risk and Business Continuity Board and the Environmental Management Review, as well as observing meetings of the other subsidiary Boards on an occasional basis.

The Agency's Owner's Board meets at least twice a year to review the Agency's management of its most strategic risks; the achievement of current objectives and the nature of evolving plans for the future direction of the Agency.

## **2. The purpose of the system of Internal Control**

The system of internal control accords with Treasury guidance. It is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable, and not absolute, assurance of effectiveness.

The risk management process is led by the Management Board. I personally conduct a series of bi-annual reviews across the Agency, where I closely monitor the efficiencies, issues and risks within each business area. Strategic risks are shared and discussed with the Owner's Advisory Board and Director Civilian Personnel; and the Agency's input is sought to the identification of potential strategic risks to the successful operation of the Department's Corporate Services Higher Level Budget and Central Top Level Budget (CTLB). The Management Board oversees the identification, assessment and management of risks affecting the achievement of objectives and targets, and assigns responsibility for the management of risks to an appropriate officer of the Agency, taking into account their ability to influence the outcome, and the level of knowledge and expertise they possess. The Management Board and its Executive Committee are assisted in this by a number of subsidiary Boards that drive actual performance and monitor risk at a more detailed level. These include the Maturity Programme, Service Level Agreement (SLA) Performance, Finance, People, Information Systems, Communications and Risk and Business Continuity Boards.

This system of Internal Control draws upon a variety of resources for input, insight and information in keeping with the CTLB Assurance Matrix. These include Business Continuity and Risk Management activities, In-year Financial Management, Professional, Service Quality and Performance Reviews, Employee and Customer Feedback; External Benchmarking and extensive Audits conducted with National Audit Office (NAO), Defence Internal Audit (DIA), Internal Agency and External auditor teams.

## **3. Review of Effectiveness**

The PPPA Audit Committee, under the chairmanship of the external Board member, oversees the Agency's internal control systems and the processes of risk identification, assessment and management. Its other members are the Deputy Chief Executive and the Director of Corporate Development with other Directors, Senior Managers and members of the Owner's team being invited to attend as appropriate. Representatives of the NAO and DIA also attend each meeting.

A key role of the external Board member is to perform an independent annual risk assessment by conducting a review of the various strategic and corporate risks faced by the Agency and report, at least quarterly, to me and the Management Board on the assurance activities. The external Board member also challenges the assumptions and circumstances underlying risks and the effectiveness of the

plans to mitigate them, ensuring there are close links between these risks and the Agency's internal and external audit programmes.

The PPPA Audit Committee receives regular reports by the Agency's Internal Audit team on the programme of risk based audits undertaken by the team and the external auditors engaged by the Agency. In addition, it reviews reports by the NAO and DIA that consider aspects of the Agency's operations, either directly or as part of a wider review of MOD processes, and provide an independent opinion on the adequacy and effectiveness of the Agency's control processes.

As Accounting Officer, I have responsibility for reviewing the overall effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the operation, development and maintenance of the internal control framework. My review is also informed by the comments made by the external auditors in their management letter and other reports. I also take the advice of the Agency's Management Board and Audit Committee.

2008/09 presented a range of challenges to the Agency's risk management, including high volumes of customer demand for services and enquiries; migration to the Defence Information Infrastructure (DII); bedding in of the new Civilian Pay system; issues with the server infrastructure; development of a number of new systems; new standards for information and data security; and external initiatives including the Cabinet Office Pensions Delivery review.

Particular attention has been paid to the following aspects of the Agency's operations during 2008/09:

## **A. Health of Financial Systems**

### In -Year Management

Staff shortages and significant in-year organisational change affected the delegation of annual budgets. My Letters of Delegation were issued and scheduled meetings between budget staff and budget holders held later than normal. The team is now fully staffed and this, along with revised working methods, has significantly improved the oversight of delegations and the quality of the supporting data.

### Fixed Assets

The timing of some asset transfers to the MOD Single Balance Sheet Owners (SBSO), and the subsequent application of Modified Historic Cost Accounting (MHCA) indexation, led to temporary valuation discrepancies between the SBSOs' Fixed Asset Registers and the Agency's Report and Accounts. NAO have undertaken work to confirm that the Agency's Fixed Asset Register is fairly stated.

### Payments to Contractors through P2P

The Agency uses MOD's automated Purchase to Payment system (P2P) as the payment channel for a number of service contracts. The application of these processes to manpower substitution contracts, through which managers across MOD engage agency and interim professional staff, has given rise to a number of technical issues, resulting in delayed payments and reversion to manual payments in some instances. The Agency is working closely with the contractors, and the MOD managers of the P2P system, to resolve the issues.

### Control Account Management

Migration to the new payroll system (CHIPS) has required complex changes in process in control account management, and some accounts have yet to be fully reconciled under the new processes. The causes of the discrepancies have been identified and pay office, finance and system staff are working to complete the necessary reconciliation. In the course of this work we have identified a number of additional improvements to the accounting processes, to be introduced from April 2009. The MOD CRUISE Cash Account process, however, continues to be a concern to the Agency because of the high level of specialist training needed to manage the predominantly manual nature of the process.

## **B. Business Continuity and Risk Management**

### Business Continuity

During September 2008 the Agency suffered severe problems with availability of IS services. The root cause of the problem proved to be a failure of firmware which affected the resilience functions of the servers, effectively disabling these features and causing our business applications to fail. IBM and PPPA IS staff worked together successfully to recover the business applications using the Disaster Recovery facility. A full review was undertaken, which will minimise the risk of recurrence.

The Agency complies with the Department's CTLB strategy and policy for business continuity planning. It has a Business Continuity

Management strategy and associated policy documents which are approved at Management Board level. The Agency's Business Continuity Master Plan identifies business critical outputs across the Agency, and the resources needed to deliver these in the event of disruption to normal service operations. The plan includes recovery processes, a communications strategy and a suite of subsidiary plans for each business area and site. The Risk and Continuity Board meets on a monthly basis to monitor progress and confirm the effectiveness of Business Continuity processes within the Agency. This includes a testing programme and feedback analysis.

### Risk Management

The Agency has a risk management process in place which complies with the Department's Corporate Governance and Risk Management policies. A new version of the Agency's risk register was issued in September 2008. This deploys a common template to capture relevant information across the Agency. The Risk and Continuity Board reviews all of the Agency's risk registers to provide an independent check on their content and currency.

### **C. Safety, Health, Environment and Fire (SHEF)**

During 2008, Independent ISO140001 auditors conducted a series of surveillance visits at Agency sites to review our Environmental Management System. They concluded that the Agency has a sound system demonstrating continuous improvement throughout. In addition, the Central Top Level Budget Environmental Safety Officer carried out a number of SHEF compliance audits throughout the Agency, awarding the Agency an 'A' rating, and citing many of the processes and procedures introduced in the Agency as best practice for use elsewhere.

### **D. Information and Data Security**

New governance procedures have been introduced to reflect emerging central Government and Departmental guidance on information management. I have assumed responsibility as the Information Risk Owner, and the Deputy Chief Executive as Information Asset Owner. A Management Information Security Forum (MISF) has been established. The MISF is chaired by a Board member and is responsible for the review and approval of security policy, objectives and plans, monitoring security, reviewing information risks and investigating data loss incidents. The Agency has continued to review the way personal data is handled, processed and dispatched. New data handling protocols have been introduced. These include a strengthened overview of all types of personal data sent to third parties and the introduction of specific assurances about the third party's security standards.

A programme of work, with external consultancy support, is underway to measure the Agency against the Information and Data Security Standard, BS EN ISO 27001. In preparation for this, we have achieved a high level of awareness amongst all staff of their responsibilities to secure and protect personal data whilst carrying out their tasks, dealing with customers and managing stakeholders. Mandatory training is in place, and all employees and visitors are required to sign a Confidentiality Agreement

### **E. Annual Audit Activity**

#### Defence Internal Audit

The Agency's Audit Committee contributes to DIA's consideration of its forward programme of audit and monitors implementation of all audit observations and recommendations. During 2008/09, DIA found that the Agency had put considerable effort into the development of an effective data quality process, and good progress had been made developing solutions to data quality issues. DIA also reviewed the Agency's responsibilities for handling, managing and advising on civilian harassment complaints and helped to identify improvements in case-management processes supporting staff and managers involved in harassment and bullying complaints by civilian staff. DIA provided substantial assurance to PUS, as MoD Accounting Officer, that management control of the Civilian Pensions Administration System was adequate and effective, and enabled the Agency to meet the requirements of the Cabinet Office delegation instrument for MoD, its Repayment Customers, and the six Schedule 1 bodies. As part of a wider audit of Business Appointments, DIA found that the guidelines developed by the Agency on implementation of controls were robust and ensured consistency of application of MOD's policies. Finally, DIA undertook two audits of our Maturity Programme. First, they provided a substantial assurance that risks to the achievement of the first stage of the Internal Recruitment Project was soundly based and well managed. The report also identified areas of risk which are being managed during the next stage. Secondly, DIA found that the PPPA Maturity Programme had a competent programme management structure in place, in line with the requirements of Office of Government Commerce (OGC) guidance. All the key elements needed to maximise the success of the programme, in terms of the identification of a clear and consistent vision of programme outcomes, the focus on risks and benefits, and the level of co-ordination and control needed to manage the interdependencies of the current projects were in place

## National Audit Office

The NAO raised a number of observations following their audit of the Agency's 2007/08 accounts. The issues raised included accounting for fixed assets and the reconciliation of control accounts, addressed above. Findings relating to the assessment of accrued income and the completeness of communicated charges have been resolved for the 2008/09 accounts. An observation relating to exception reporting from the CHIPS payroll system has also been addressed.

The NAO also conducted a review of value for money in external recruitment across a number of Government Departments, including MOD. In drawing attention to a number of areas to be considered for possible improvement, the report detailed three key actions which central government can take to improve the efficiency and effectiveness of their recruitment processes; these were to:

- Make better use of recruitment demand data;
- Improve resource utilisation, and
- Incorporate more standardisation.

The Management Letter also observed that NAO were awaiting a response to a separate report they had prepared regarding the agency's compliance with HM Treasury's "Managing Public Money" with regard to the assessment of prices charged to the Agency's repayment customers. This response has been provided and is the subject of further discussion with both NAO and MOD's financial policy advisors.

## Internal Audit and Assurance

The Internal Assurance programme uses the Agency's own assurance team to review the adequacy and effectiveness of a range of controls across the Agency. The programme has included a review of electronic claims for short term detached duty, travel and subsistence. Findings confirmed a high level of compliance with Departmental rules. A review of Pensions Awards for repayment customers found clear evidence that all stages of the processes had been updated on the Pensions case management system (Pencaster) and were subject to continuing review by the Senior Pensions Manager and the SLA Performance Board. It also provided evidence to support the pensions Quarterly Stewardship Reports. The Internal Audit team also provided an assurance that the processes being introduced across the People Service Centre as part of its improvement programme were consistent. A compliance review of Information Systems Governance (Security) was undertaken in July during a pre-planned shut-down involving systems and staff at both Cheadle Hulme and Warminster Road, Bath, and provided a substantial assurance of process effectiveness with particular regard to power-down procedures.

## Other Specialist Assurance

In April 2008 an audit of scanning systems and processes confirmed that the Agency complied with BSI BIP 0008-2004, the code of practice for legal admissibility and evidential weight of information stored electronically. The Agency's certifications under ISO BS EN 9001:2000 Quality Management and ISO BS EN 14001:2000 Environmental Systems were also confirmed following review visits by independent assessors in May and November 2008. During June 2008, KPMG conducted a follow-up review of monitoring compliance with External Recruitment requirements.

## 4. Conclusion

The operation of the internal control framework during 2008/09 has afforded me considerable assurance that the management of the Agency at all levels has been of a consistently high standard. This is apparent in the rigour with which controls are reviewed, the diligence with which process improvements are sought and the manner in which Agency staff responded to and resolved risks to the continuity of business service delivery and customer satisfaction.

My review has concluded that the system of internal control within the Agency is operating effectively, therefore, and that plans are in place to address any weaknesses that have been identified, to ensure the containment of risk and continuous improvement that underpins our continuing success in delivering quality, value for money, HR services and professional support to the Department, its civilian employees and their managers.



John Quinn  
Acting Chief Executive  
6th July 2009

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

I certify that I have audited the financial statements of the People Pay and Pensions Agency for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the Business Performance section included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinions**

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

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



## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2009, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises the Business Performance section included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

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

## Report

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**  
**National Audit Office**  
**151 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SS**  
**8th July 2009**

## Operating Cost Statement For the year ended 31 March 2009

	Note	2008/2009 £'000	2007/2008 £'000
<b>Operating Costs</b>			
Staff costs	2	32,665	31,751
Supplies & services consumed	3	1,521	1,360
Accommodation costs	4	2,237	1,881
Other administration costs	5	24,141	21,285
<b>Gross Operating Costs</b>		<b>60,564</b>	56,277
<b>Operating Income</b>			
Less income from repayment customers	7	(1,773)	(1,657)
<b>Net Operating Cost</b>		<b>58,791</b>	54,620

All activities of the People, Pay and Pensions Agency are continuing.

The notes on pages 29 to 38 form part of these accounts.

## Statement of Recognised Gains and Losses For the year ended 31 March 2009

	Note	2008/2009 £'000	2007/2008 £'000
Revaluation	11	0	0
<b>RECOGNISED GAINS &amp; LOSSES</b>		<b>0</b>	0

The notes on pages 29 to 38 form part of these accounts.

## Balance Sheet as at 31 March 2009

	Note	March 2009 £'000	March 2008 £'000
<b>FIXED ASSETS</b>			
Computers and office equipment		14,152	16,887
Assets under construction		0	231
	8	14,152	17,118
<b>CURRENT ASSETS</b>			
Debtors	9	996	902
<b>CURRENT LIABILITIES</b>			
Creditors: amounts falling within one year	10	(4,285)	(3,715)
<b>NET CURRENT LIABILITIES</b>		<b>(3,289)</b>	<b>(2,813)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,863</b>	<b>14,305</b>
<b>Financed by:</b>			
General Fund	12	10,863	14,305
Revaluation Reserve	11	0	0
<b>TOTAL GOVERNMENT FUNDS</b>		<b>10,863</b>	<b>14,305</b>

The notes on pages 29 to 38 form part of these accounts.  
The accounts were authorised for use on 8th July 2009



John Quinn  
Acting Chief Executive  
6th July 2009

## Cash Flow Statement For the year ended 31 March 2009

	2008/2009 £'000	2007/2008 £'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(50,775)</b>	<b>(48,273)</b>
<b>CAPITAL EXPENDITURE</b>		
Payments to acquire tangible fixed assets	(1,117)	(8,302)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>	<b>(51,892)</b>	<b>(56,575)</b>
<b>FINANCING:</b>		
Payments on Defence Resource Account	53,665	58,232
Receipts on Defence Resource Account	(1,773)	(1,657)
<b>NET FINANCING FROM THE DEFENCE RESOURCE ACCOUNT</b>	<b>51,892</b>	<b>56,575</b>
<b>INCREASE/(DECREASE) IN CASH</b>	<b>Nil</b>	<b>Nil</b>

# Notes to the Accounts

## NOTE 1: ACCOUNTING POLICIES

### **A Statement of Accounting Policies**

The financial statements have been prepared in accordance with the 2008/09 FReM issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

These accounts have been prepared under the Modified Historical Cost Accounting convention to account for the revaluation of fixed assets.

### **B Value Added Tax**

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected is accounted for centrally by the Ministry of Defence. The Agency's Accounts do, however, include non-recoverable VAT attributable to its operating expenses..

### **C Income**

Income comprises the invoiced value of transactions of services to private companies, other Governments, other Government Departments and agencies of the Ministry of Defence with the status of Trading Funds. The charging basis is determined centrally by the Ministry of Defence to meet the full cost to the Department of providing pay and pension services to external customers. The costs of providing these services represent the full cost to the People, Pay and Pensions Agency. No value is attributed in the accounts to services provided to the Ministry of Defence or its supply funded agencies. The funding of the Agency by the Ministry of Defence is shown in cash terms in the Cash Flow Statement.

### **D Notional Charges**

(a) A notional charge for interest on capital is included in operating costs. This is calculated as 3.5% of the average value of net total assets.

(b) Notional amounts are included in the operating costs for charges in respect of services provided 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.

### **E Pension Costs**

Staff are covered by the provisions of the Principal Civil Service Pension Scheme. Contributions are paid to 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 accounts.

### **F Fixed Assets and Depreciation**

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from the People, Pay and Pensions Agency to other parts of the Department. Where the agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the agency's balance sheet in accordance with FRS 5 and SSAP 21. In all other cases the costs of the use of these assets are communicated to the People, Pay and Pensions Agency by the asset owners and charged to the operating cost statement.

The Agency's assets are revalued by indexation using indices published as amendments to the MOD's 'Resource Accounting Policy Manual' and supplied by the DASA. Revaluation gains or losses are treated in accordance with Financial Reporting Standard No.15 on fixed assets.

Assets are capitalised where the cost of acquisition and installation exceeds the Agency's capitalisation threshold of £5,000 and where the useful life exceeds two years.

Depreciation on 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:

<b>Asset Category</b>	<b>Life</b>
Payroll ( CHIPS ) Software	10 years
Hardware	5 years

The useful economic life of assets is reviewed regularly and where a valuation has provided a more accurate assessment this has been used. Assets Under Construction are not depreciated.

In common with all MOD Executive Agencies, tangible assets are transferred to other parts of the MOD on a nil gain / nil loss basis. Under this accounting treatment, net asset transfers are made through the General Fund with no effect on the Operating Cost Statement.

### ***G Cash Balances and Liabilities***

Apart from minor transactions through local imprest accounts which are cleared to nil balances at the balance sheet date, the Agency does not pay or receive money on its own account. The majority of cash payments are made, and receipts collected, by the Ministry of Defence's central accounting organisations on behalf of the Agency.

All transactions, both locally and centrally processed, are brought to account by the Ministry of Defence in the Defence Resource Account 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 Her Majesty's Revenue and Customs or Department of Work and Pensions at the balance sheet date and these are not disclosed in the Agency's balance sheet.

### ***H Implementation of new accounting standards***

For the year ending 31 March 2009, the Agency has implemented the following accounting standards as required by the FrEM :

- FRS 23 The effects of changes in foreign exchange rates
- FRS 25 Financial instruments; disclosure and presentation
- FRS 26 Financial instruments; recognition and measurement
- FRS 29 Financial instruments; disclosures

Implementation of these accounting standards have not had a material impact on the financial statements. Further details in respect of financial instruments are given in Note 21

## NOTE 2: STAFF COSTS AND NUMBERS

(1) The average number of full time equivalent employees during the period was:

	2008/2009	2007/2008
	No	No
Non-industrial	1,092	1,095
Industrial	3	3
Locally employed overseas	6	4
Locally employed temps	36	22
	<b>1,137</b>	1,124

The Agency employs 1,186 members of staff (1,101 full time equivalent) and monitors staff sick absence as part of its health and safety processes. The Management Board receives data annually and discusses potential risks arising from any patterns that are identified. During 2008/09, there were 16,091 (average 13.57 days /employee) days lost to sick absence. We are unable to quantify which were for long term absences associated with hospitalisation and recuperation periods.

(2) Staff Cost can be analysed as follows:

	2008/2009	2007/2008
	£'000	£'000
Salaries and wages	25,707	25,287
Social Security costs (ERNIC)	1,696	1,765
Pension costs	4,431	4,307
Locally employed temps	831	392
	<b>32,665</b>	31,751

The PCSPS is an unfunded multi-employer defined benefit scheme but PPPA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Employees who joined after October 2002 could opt for a partnership or stakeholder pension account with an employer contribution. The Agency has no employee who has opted for this facility.

For 2008/2009, employers' contributions of £4,430,118.85 were payable to the PCSPS (2007/08: £4,306,795.10) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Salary costs also include taxable payments attributable to a special bonus scheme whereby staff are paid a bonus in recognition of a well-performed one-off task. There is no limit on the number of awards which can be made within a financial year, although the total value of these bonus payments should not represent more than 0.4% of the overall payroll.

### NOTE 3: SUPPLIES AND SERVICES CONSUMED

Supplies and services consumed comprise capitation rate based charges as follows:

	<b>2008/2009</b>	2007/2008
	<b>£'000</b>	£'000
HQ Charges	<b>1,521</b>	1,360

### NOTE 4: ACCOMMODATION COSTS

Accommodation costs comprise cash costs and capitation rate based charges as follows:

	<b>2008/2009</b>	2007/2008
	<b>£'000</b>	£'000
Works maintenance	<b>328</b>	283
Utilities (gas, water, fuel, electricity)	<b>682</b>	448
Rates	<b>136</b>	158
Accommodation costs from SBSO : Defence Estates	<b>1,091</b>	992
	<b>2,237</b>	1,881

### NOTE 5: OTHER ADMINISTRATION COSTS

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

	<b>2008/2009</b>	2007/2008
	<b>£'000</b>	£'000
Training	<b>661</b>	840
Travel and movement	<b>1,712</b>	1,644
Catering	<b>7</b>	6
Medical	<b>6</b>	6
Administration	<b>3,652</b>	3,371
Equipment support	<b>0</b>	30
Telecoms	<b>963</b>	831
IS	<b>12,327</b>	10,843
Depreciation	<b>2,426</b>	2,708
Write down of Computer Equipment on valuation	<b>1,152</b>	561
Non-recurring Dii(f) loss on disposal	<b>320</b>	0
Dii(f) Comm Costs	<b>444</b>	0
Cost of Capital charge	<b>440</b>	415
Audit fee	<b>31</b>	30
	<b>24,141</b>	21,285

There were no fees payable to the auditors for non-audit services in either year.



## NOTE 6: NON-CASH & NOTIONAL ITEMS

The non-cash and notional costs element included under the headings Supplies and Services Consumed, Accommodation Costs and Other Administration Costs are as follows:

	2008/2009	2007/2008
	£'000	£'000
Notional Costs:		
Accommodation costs	1,206	1,152
Dii (f) Comm Cost	444	0
HQ Charges	1,521	1,360
Audit Fee	31	30
<b>Total departmental costs</b>	<b>3,202</b>	<b>2,542</b>
Cost of Capital Charge	440	415
<b>Total notional items</b>	<b>3,642</b>	<b>2,957</b>
Other non-cash costs:		
Write down computer equipment	1,152	561
Loss on disposal	320	0
Depreciation	2,426	2,708
<b>Total non-cash costs</b>	<b>3,898</b>	<b>3,269</b>

Accommodation charges represent the assessed cost of rent and rates for the agency's Warminster Road, Cheadle Hulme and Foxhill sites and the assessed costs of utilities and works maintenance for the Foxhill site.

## NOTE 7: INCOME FROM REPAYMENT CUSTOMERS

	2008/2009	2007/2008
	£'000	£'000
Ministry of Defence Trading Funds	699	727
Other Government Departments	549	534
Others	525	396
	<b>1,773</b>	<b>1,657</b>
Analysis of operating income is as follows:	<b>£'000</b>	<b>£'000</b>
Repayment income	1,773	1,657
Full cost	1,773	1,657
Deficit	<b>NIL</b>	<b>NIL</b>

The full cost makes no allowance for irreducible spare capacity. Prices charged to customers are set at a level to allow for downstream savings that accrue over the agreed repayment period. Charges are reviewed when agreements or contracts with individual customers become due for renewal or reappraisal. This information is provided for fees and charges purposes and not SSAP25 purposes.

## NOTE 8: FIXED ASSETS

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

	Computers & office equipment £'000	Assets Under Construction £'000	Total Assets £'000
<b>Cost or Valuation</b>			
At 1 April 2008	20,987	231	21,218
Additions	881	51	932
Disposals	(1,621)	0	(1,621)
Reclassification	267	(267)	0
Revaluation	(1,380)	(15)	(1,395)
<b>At 31 March 2009</b>	<b>19,134</b>	<b>0</b>	<b>19,134</b>
<b>Depreciation</b>			
At 1 April 2008	4,100	0	4,100
Charge for the year	2,426	0	2,426
Disposals	(1,301)	0	(1,301)
Reclassification	0	0	0
Revaluation Adjustment	(243)	0	(243)
<b>At 31 March 2009</b>	<b>4,982</b>	<b>0</b>	<b>4,982</b>
<b>NET BOOK VALUE</b>			
<b>At 31 March 2009</b>	<b>14,152</b>	<b>0</b>	<b>14,152</b>
At 1 April 2008	16,887	231	17,118

The 2008/9 revaluations represent the adjustments from the application of the MOD indexation factors.

## NOTE 9: DEBTORS

	2008/2009	2007/2008
	£'000	£'000
<b>9a Analysis by type</b>		
Amounts falling due within one year		
Trade Debtors	361	615
Prepayments	635	287
Total Debtors as at 31 March	996	902
<b>9b Intra-Government Balance</b>		
Amounts falling due within one year		
Balances with Central Government Departments	89	308
Balances with Non-Government Departments	123	46
Balances with MoD Trading Funds	149	261
Total Trade Debtors	361	615
Prepayments	635	287
Total Debtors as at 31 March	996	902

## NOTE 10: CREDITORS

	2008/2009	2007/2008
	£'000	£'000
Trade Creditors	2,272	1,208
Other creditors and accruals for operating expenses	2,013	2,507
Total Creditors as at 31 March	4,285	3,715

The agency has no long term creditors. No amounts are due to the MOD or other Government departments.

## NOTE 11: REVALUATION RESERVE

	2008/2009	2007/2008
	£'000	£'000
Revaluation Reserve at 1 April	0	0
Arising on revaluation in year	0	0
Backlog depreciation	0	0
Transferred to General Fund in respect of realised element of Revaluation Reserve	0	0
Revaluation Reserve at 31 March	0	0

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

## NOTE 12: GENERAL FUND

Reconciliation of Net Operating Cost to changes in general fund.

	<b>2008/2009</b>	2007/2008
	<b>£'000</b>	£'000
Net financing from the Defence Resource Account Transferred to General Fund in respect of element of Revaluation Reserve	<b>51,892</b>	56,575
Notional charges	<b>3,642</b>	2,957
Net Operating Cost	<b>(58,791)</b>	(54,620)
Change in FA creditors	<b>(185)</b>	0
Net increase / (decrease) in General Fund	<b>(3,442)</b>	4,912
General Fund at 1 April	<b>14,305</b>	9,393
General Fund at 31 March	<b>10,863</b>	14,305

## NOTE 13: RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	Note	<b>2008/2009</b>	2007/2008
		<b>£'000</b>	£'000
Government funds at 1 April		<b>14,305</b>	9,393
Movement on General Fund	12	<b>(3,442)</b>	4,912
Movement on Revaluation Reserve	11	<b>0</b>	0
Government funds at 31 March		<b>10,863</b>	14,305

## NOTE 14: RECONCILIATION OF NOC TO NET CASH FLOW

Reconciliation of Net Operating Cost to Net cash flow from operating activities.

		<b>2008/2009</b>	2007/2008
		<b>£'000</b>	£'000
Net operating cost	Note 12	<b>58,791</b>	54,620
Adjustments for non-cash transactions:			
Depreciation	8	<b>(2,426)</b>	(2,708)
Write-down of computer equipment	8	<b>(1,152)</b>	(543)
Loss on disposal of computer equipment	8	<b>(320)</b>	(18)
Departmental costs	6	<b>(3,202)</b>	(2,542)
Cost of Capital Charge	6	<b>(440)</b>	(415)
Movements in Net current assets:			
Increase/(Decrease) in debtors & prepayments		<b>94</b>	245
(Increase)/Decrease in creditors		<b>(755)</b>	4,912
Change in Fixed Assets creditors		<b>185</b>	(5,278)
Net cash outflow from operating activities	Cash Flow	<b>50,775</b>	48,273

## **NOTE 15: RELATED PARTY TRANSACTIONS**

The People Pay & Pensions Agency is an Executive Agency of the Ministry of Defence.

The Ministry of Defence is regarded as a related party. During the period 1 April 2008 to 31 March 2009 and prior years, the People Pay & Pensions Agency has had various material transactions with the Ministry of Defence and with other entities for which the Ministry of Defence is regarded as the parent department. These entities were The Meteorological Office, The Hydrographic Office, the Defence Science and Technology Laboratory and the Defence Support Group.

During the period of these accounts the People Pay & Pensions Agency also had transactions with a number of other government departments or their agencies. Most of these transactions were with the Department for International Development, DEFRA and the Government Car & Despatch Agency.

During this and the previous year none of the senior and other key management staff, or other related parties, has undertaken any material transactions with the People Pay & Pensions Agency

## **NOTE 16: POST BALANCE SHEET EVENTS**

As from 1 April 2009, David Ball, Chief Executive, is undertaking a six month study project. During that period John Quinn will act as Chief Executive and David Wealthall will act as Deputy Chief Executive of the Agency.

## **NOTE 17: CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

The People, Pay and Pensions Agency has no contingent liabilities to report as at 31 March 2009

## **NOTE 18: OTHER LOSSES AND NOTES AND SPECIAL PAYMENTS**

During 2008/09 the agency made a payment of £200,000 to the Meteorological Office in recognition of errors made by the Agency that led to the underestimation of payment entitlements to Meteorological Office staff. At no time did any of the staff concerned receive more than their entitlement. The process faults that gave rise to these errors have been rectified. The Agency had no losses and notes and special payments to report in the two previous years.

## **NOTE 19: OPERATING LEASES**

The People, Pay and Pensions Agency has no operating leases to report as at 31 March 2009

## **NOTE 20: FINANCE LEASES**

The People, Pay and Pensions Agency has no finance leases to report in this or the previous year.

## **NOTE 21: FINANCIAL INSTRUMENTS**

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 a private company.

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.

There are no embedded derivatives that require separation from its host contract and measurement at fair market value through profit or loss, as required by FRS 26. It has been the Agency's policy throughout the year that no trading in financial instruments shall be undertaken.

### **Categories of financial instruments**

Trade debtors have been classified as loans and debtors. Trade and other creditors including accruals are classified as other liabilities. The fair value of these financial assets and liabilities approximates carrying value due to the short-term nature of these financial instruments.

### **Credit risk**

The Agency's exposure to credit risk is low. Only 35% of debtors are non-UK government or Trading Funds. There are no overdue dates on outstanding debts. The Agency does not have a bad debt provision. The maximum exposure to credit risk is 361k of which 238k is with Government departments or Trading Funds and hence the risk is zero.

### **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 is therefore not exposed to significant currency risk.

The Ministry of Defence, through whose Resource Account the Agency is financed, enters into forward purchase contracts 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 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.



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