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

# The Oil and Pipelines Agency Account 2011-12

LONDON: The Stationery Office
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# Contents

# Chairman's statement

The Agency manages the Government Pipeline and Storage System (GPSS), on behalf of its Departmental Stakeholder, the Ministry of Defence. The Agency continued to maintain the GPSS to a reasonable standard, and in accordance with UK legislation in respect of operational safety, occupational health and care for the environment. In addition to fulfilling its defence obligations, the agency provided commercial access to the GPSS for supply of jet fuel to most major airports in England. During the year the Agency also took on management responsibility for the MoD's 6 Oil Fuel Depots ('OFDs') in the UK.

I was appointed as Chairman of the Agency on 1 April 2012 in place of Francis Dobbyn who was Chairman of the Agency for eight years. I would like to take this opportunity to thank Francis for his excellent contribution to the Agency during this time.

This was the first complete accounting year for the new leadership team headed by Charles Price as Chief Executive Officer and Accounting Officer. He has spearheaded a notable shift in the management of Health, Safety and the Environment and compliance with Control of Major Accident Hazards (COMAH) regulations across both GPSS and OFDs. In addition we appointed a new single Operations and Maintenance Contractor on 1 April 2012, Costain Group plc.

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

I pay tribute to the Agency's staff for their hard work, commitment, skill and expertise, without which the Agency could not function. They have ensured that the GPSS and OFDs continue to meet the requirements of its stakeholder and customers whilst remaining self-funding.

*G Ellis* 3 July 2012
Chairman

# Report of the Agency

## Introduction

The Oil and Pipelines Agency is a public corporation, formed at the end of 1985 by virtue of The Oil and Pipelines Act 1985. Its duties, powers and general functions are prescribed by this Act. Its task is to provide for the safe, efficient, economic and effective management of the Government Pipeline and Storage System (GPSS). This task includes the maximum development of private sector usage of the GPSS, provided this does not impinge upon its primary purpose of supplying the required fuel for defence purposes. The Agency is the Ministry of Defence's professional expert on bulk fuels storage and transportation by pipeline. During the year the Agency has also taken on responsibility for managing the Oil Fuel Depots (the 'OFDs'). The GPSS and OFDs, strategic defence assets, are the responsibility of the Secretary of State for Defence and the Ministry of Defence (MoD) sponsors the Agency as its Managing Agent through the Defence Equipment and Support Commercial Directorate.

## The GPSS

The GPSS consists of some 2,500 kilometres of underground cross-country pipelines of differing diameters, together with storage depots, salt cavities, associated pumping stations, receipt and delivery facilities and other ancillary equipment. An outline map of the GPSS is included on page 6. Most of the storage depots are connected to the pipeline ringmain, which in turn is supplied by the majority of the major refining centres and port areas in England. Other self-standing pipelines and depots are situated elsewhere in England and Scotland. The GPSS receives, stores, transports and delivers light oil petroleum products for military and civil users. GPSS assets are owned by the MoD and are accounted for in the MoD's Department Resource Account.

## The OFDs

There are six Oil Fuel Depots in the UK owned by the MoD but managed and operated by the Oil & Pipelines Agency (OPA) since July 2011. The OFD's receive, store and issue middle distillate fuels to support Naval Command. Commercial storage is utilised at several sites where spare capacity is available. OFD assets are owned by the MoD and are accounted for in the MoD's Department Resource Account.

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

## Agency business activities

The GPSS continued to play a significant role in supplying major civil airports during the year. Throughputs for the year remained at a reduced level as a result of the general reduction in aviation activity. The full military fuel movement requirement has also been delivered. Major maintenance works on pipelines and storage facilities have been completed on time and to budget.

During the year the Agency has taken on management responsibility for the OFDs in the UK under the terms of the Service Level Agreement with the Ministry of Defence through the Defence Equipment and Support Commercial Directorate.

## GPSS technical and contractual activities

The Agency continued its programme of inspection and repair of bulk fuel storage tanks, terminal pipework and cross-country pipelines to ensure the operational integrity of these assets into the future. The Agency has also initiated a major review of the GPSS operation and maintenance contract strategy resulting in a move to a single contract agreement with Costain Group Plc from 2 April 2012. it is anticipated that this will result in reduced Operational and Maintenance expenditure in future years.

The appointment of a new Asset Management Director, Simon Cook and a new Process Safety Engineer, Lisa England will enable the Agency to continue to improve safety, quality and operational efficiency. As part of its commitment to ensure that there is in place a cost-effective regime to provide the necessary assurance that oil pipeline and terminal operations are safe, the Agency continues to work with regulatory authorities and other interested parties.

The on-line inspection of pipelines increased this year and tank inspections and repair continued at a high level with work on a total of some 16 tanks inspected and repaired in the year.

The Agency benefits from working with a number of industry bodies, including the United Kingdom Onshore Pipeline Operators' Association, Conservation of Clean Air and Water in Europe (CONCAWE), the Tank Storage Association and the Pipeline Industries Guild where industry initiatives and good practices are developed and shared. The Agency, with other members of the Linewatch group, works to promote the awareness of organisations involved in excavating of the risks of working without taking the necessary precautions in the vicinity of buried apparatus. The support that the Linewatch participants have given to a one-call system has ensured that an increasingly wide range of such organisations are now routinely taking the necessary precautions.

## GPSS technical and contractual activities

The transfer of the OFDs to the OPA started in July 2011 and will continue throughout 2012. The transition process will see the depots undertake significant change as staff, equipment, procedural systems and regulatory authorities transfer from military to civilian standards.

The transition process is being project managed by the MoD with 8 separate workstreams largely headed by OPA staff. These include:

- HR
- Commercial
- Finance
- HSE
- Infrastructure
- IT & Communications
- Secretariat & Media Relations

## Policy

The Agency has adopted the existing MoD contracts with several commercial service providers for maintaining the assets including statutory inspections, testing etc. but will look to review these provisions as they become due for renewal to ensure best value for the state.

## Crude oil supply and trading

There has been no activity in crude oil supply or crude oil trading since 1989 and none is anticipated in the future.

## Members and principal officers

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

| | | |
|---|---|---|
| Members: | G Ellis | Chairman – Non-executive (appointed 1 April 2012) |
| | F Dobbyn | Chairman – Non-executive (resigned 31 March 2012) |
| | CJS Price | Chief Executive and Accounting Officer |
| | L Mosco | Non-executive |
| | D Noble | Non-executive |
| | P Short | Non-executive (appointed 16 April 2012) |
| | E Davies | Non-executive (resigned 28 March 2012) |
| | AR Nicholls | Resigned 17 August 2010 |
| Principal Officers: | CJS Price | Chief Executive and Accounting Officer |
| | AR Nicholls | Chief Executive and |
| Secretary to the Agency: | ME Edwards | Appointed 1 January 2012 |
| | J R Merrett | Resigned 31 December 2011 |

A new Chairman, Graham Ellis, was appointed with effect from 1 April 2012. Graham Ellis comes to the role having been Chair of the OPA Health, Safety, Environment and Quality Committee and a member of the OPA Audit Committee. He has also worked as a Non Executive Main Board Director for the Defence Equipment and Support, MOD and has been Chairman of the Buckinghamshire Healthcare NHS Trust.

This wealth of experience and his extensive knowledge of the oil industry through his earlier career at Mobil then at ExxonMobil will be vital in his role as Chairman.

## Register of interests

The Agency maintains a Register of Interests and requires all Members and staff to sign annually a Conflict of Interest Declaration. There were no conflicts reported during the past year. The Register is available for inspection.

## Agency employees

The Agency is an equal opportunity employer, fully committed to equal opportunity policies and aware of its statutory duty to support the employment of disabled persons where possible. The Agency's policy is that there should be no discrimination on any grounds whatsoever other than performance in the job. Employees are key to the ongoing performance of the Agency; access to opportunities within the Agency is based upon competence, knowledge and ability to do the work. An 'open door' policy is encouraged and employees meet regularly in various ways to encourage discussion and the dissemination of information across the Agency.

## Agency administration

The total level of personnel, excluding non executive members, required by the Agency as at 31 March 2012, was fifty. On 1 July 2011 the transfer of OFD staff from the MoD to the Agency commenced. This is expected to be completed during the financial year 2012-13.

## Retirement benefits pension schemes

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

## Accounts

These financial statements have been prepared in accordance with The Oil and Pipelines Agency Accounts Direction 2004 and the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

## Principal activities

The principal activity of the Agency is to manage the GPSS and OFDs on behalf of the Secretary of State in accordance with the requirements and obligations of the agreement in place between them. The results of the GPSS and OFDs are not included with those of the Agency. These transactions are captured within the MoD's Annual Report and Resource account.

## Agency result

The financial objective of the Agency to contain its normal operating and administrative expenses, before non-cash pension fund adjustments, within its allocated budget and to recover actual costs as a management fee from the Secretary of State for Defence, was achieved during the year. As a result of recruiting additional staff with the expertise necessary to meet current and future business requirements of the Agency including the additional complexity of the OFDs, the Agency's staff costs increased. The management fee has increased accordingly. After adjustment for non-cash pension fund adjustments the Agency's net result for the year was a net income in excess of expenditure and after taxation of £104,000 (2011: net income in excess of expenditure and after taxation £43,000).

## Financial position

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

## Payment of trade and other payables

It is the policy of the Agency to negotiate terms with its suppliers and to ensure that they know the terms on which payment will take place when business is agreed. It is the Agency's policy to abide by the Better Payment Practice Code. The number of days outstanding between receipt of invoices and date of payment calculated by reference to the amount owed to trade creditors at the period end as a proportion of the amounts invoiced by suppliers during the period, was fifty three days (2011: sixteen days). This includes purchase invoices outstanding at the year end received on behalf of the MOD (see note 11). When these invoices are excluded the number of days of billings from suppliers outstanding at the end of the financial year was five days.

## Personal data related incidents

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

## Auditors

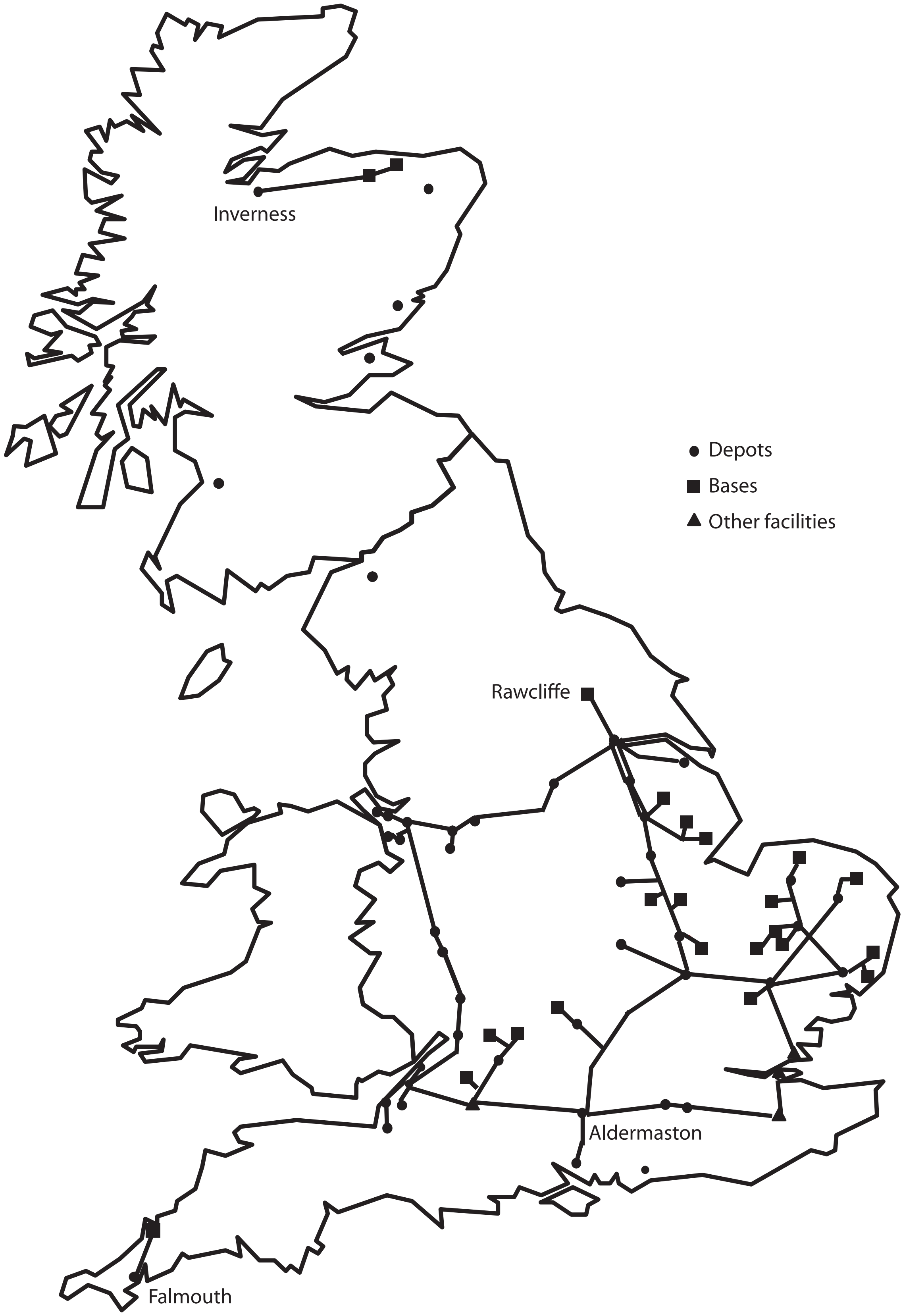
Further to the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003, which came into force on 23 May 2003, the Comptroller and Auditor General was appointed as the independent auditor to the Agency. The cost of the audit carried out by the National Audit Office (NAO) was £11,500 (2011: £11,000). No further payments were made to the NAO for non-audit work. The Certificate and Report of the Comptroller and Auditor General is attached on pages 37 and 38.

## Statement on disclosure to auditors

So far as I am aware there is no relevant information of which the Agency's auditors are unaware, and I have taken all appropriate steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

*CJS Price* 3 July 2012
Chief Executive and Accounting Officer

# General outline of the GPSS and OFDS



# Remuneration report

## The Remuneration Committee

The members of the Remuneration committee are the Chairman, the Chief Executive and one non-executive Member of the Agency. The committee is responsible for reviewing the level of remuneration of employees of the Agency. It is not responsible for the remuneration of the non-executive directors. The Secretary of State determines the remuneration of the non-executive members on their appointment. The Chief Executive is not involved in setting his own remuneration.

## Remuneration Policy

The Agency sets its remuneration policy for all employees, including the Chief Executive, by comparison with competitive market rates including by periodic review with external commercial entities in similar industries. The MoD is represented by its appointed Member.

## Remuneration Details (section subject to audit)

Non-executive Members are appointed by the Secretary of State for a fixed term with no provision for compensation for early termination as follows:

| | | **Appointed** | **Appointed to** | **2012 Salary band £000** | 2011 Salary band £000 |
|---|---|---|---|---|---|
| F Dobbyn | Chairman | 8 July 2005 | 31 March 2012 | **15 – 20** | 15 – 20 |
| L Mosco | Member | 18 November 2008 | see below | **–** | – |
| D Noble | Member | 18 November 2008 | see below | **–** | – |
| E Davies | Member | 1 April 2010 | 28 March 2012 | **–** | – |

Mr L Mosco, Director Commercial DE&S, Mr D Noble, Director Finance DE&S and Ms Davies, Head of Business Strategy & Governance, as employees of the MOD, were remunerated outside the Agency. The Agency has not made any pension contributions in respect of non-executive Members, who are not members of the pension schemes, nor did they receive any benefits in kind except for the reimbursement of actual expenses.

The remuneration during the year of Mr CJS Price, Chief Executive and executive Member from 1 April 2011 to 31 March 2012 was £122,000. This included a bonus relating to the previous year of £2,000 and no taxable benefits were paid. Mr CJS Price is a member of the Oil and Pipelines Agency's defined contribution pension scheme, and, during the year employer contributions of £14.4000 were made on his behalf. Mr Price's contract can be terminated at any time giving three months notice and includes a provision for a performance related bonus of between 0 per cent and 10 per cent of basic salary.

The remuneration of the highest paid director for the year was £122,000, being a ratio of 3.3 of the median remuneration paid for the year which was £37,958.

## Retirement Benefits Pension Schemes

The Agency operates a funded pension scheme providing benefits based on final pensionable pay, which is closed to new entrants, and a defined contribution scheme. The Defined Benefits scheme was closed to new entrants from 1 January 2010 and all new employees of the Agency are offered membership of the Defined Contribution pension scheme.

## Defined Contributions Scheme

The Agency manages a Defined Contribution scheme under which defined employer and employee contributions are paid into externally managed funds on behalf of Agency employees who have opted to become members.

## Defined Benefits Plan

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

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

The assets of the scheme are held separately from those of the Agency and are invested in separate trustee administered funds. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. An actuarial valuation of the Plan was carried out as at 5 April 2011 and indicated that the value of the assets was at 100% of the value placed upon the liabilities. A review of the options available, prompted by the valuation, resulted in the Agency and the Trustee deciding to maintain the existing defined benefits scheme and to increase the level of contributions of the Agency and employees from 20 per cent and 5 per cent to 32.8 per cent and eight per cent respectively.

Pension costs are accounted for under International Accounting Standard 19 (notes 2 (e) and 13 to the accounts), which required an independent qualified actuary, Mr J McCoy FIA of Capita Hartshead, to carry out an actuarial assessment of the pension scheme and, at the year end, the actuary has valued the pension scheme surplus before taxation at £96,000 (2010: £448,000). Separate financial statements for the Plan are produced each year.

*CJS Price* 3 July 2012
Chief Executive and Accounting Officer

# Governance Statement

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

## Best Practice

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

The Agency board seeks to drive improvements in the performance and efficiency of the Agency by providing leadership on strategic and operational issues. As such, the board seeks to comply fully with the Corporate Governance Code to assist it in achieving this objective. A formal appointment procedure exists to ensure the board contains an appropriate balance of skills to deliver its objectives.

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

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

## Responsibilities of the Agency and Agency Committees

Responsibility for assuring that high standards of corporate governance are observed at all times rests with Agency Members who are responsible for ensuring the maintenance of a control framework in which they can obtain assurance that risk is properly assessed and managed, appropriate internal controls are in place and complied with and business performance is properly monitored. Agency Members, who are appointed by the Secretary of State, set out the strategic framework within which the Agency operates and matters reserved to them include:

- establishing committees of the Agency, reviewing their activities and, where appropriate, ratifying their decisions.
- reviewing and approving the Agency's Annual Report and Accounts and the GPSS report and Financial Statements following review by the Audit committee.
- receiving and considering reports from the Audit committee on the control framework and risk management.

The Agency, which meets quarterly, has one executive Member and four non-executive Members, including the non-executive Chairman. The management of the Agency is delegated by the Agency to the Chief Executive, who is appointed the Accounting Officer for the Agency by the Minister of State.

## The Chairman

The Secretary of State appoints the Chairman of the Agency, who is responsible for the leadership of the Agency and ensuring that the Agency discharges the responsibilities set out above.

## The Audit Committee

The Audit committee of the Agency comprised three appointed members during the year, Dr E Libbey, Ms M Black and Mr G Ellis who were not Members of the Agency during the year. Mr G Ellis stood down as a Member of the Committee upon his appointment as Chairman of the Agency on 1 April 2012. The agency is in the process of identifying a replacement member. The responsibility of the Audit committee, as set out in terms of reference approved by the Agency, is to provide advice to the Agency on:

- strategy for corporate governance, risk management and internal controls;
- statement of internal controls;
- accounting policies, financial statements, including the annual report and accounts, as well as matters arising from external audit;
- status of control framework with actions arising from the control framework questionnaire and any related issues; and
- follow-up to external auditor's management letter and other external reviews including but not limited to quinquennial reviews of the Agency.

The Chief Executive does not sit on the Agency's Audit committee which is chaired by Dr Libbey. However, he does attend meetings.

During the year the Audit Committee held 4 meetings and received comprehensive reports from management and the internal and external auditors. In particular it reviewed the Agency's risk register, and more recently the risk register for the OFDs and monitored the effectiveness of the procedures for identifying and mitigating risks and internal control over financial reporting. It also discussed with management, the external auditors and internal auditors issues that arose on accounting policies. The Audit Committee also requests reports on such matters it deems appropriate.

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

Throughout the year, DIA conducted a thorough audit of The Agency, focusing on four key areas: Management of contractors, Management of income, Project safety and Congruence of objectives. Amongst DIA's key findings were that the audit committee and risk management system are operating effectively and continuing to improve under the new leadership of the Agency. Overall, the DIA provided limited assurance on the adequacy and effectiveness of the Agency's arrangements for risk management, internal control and corporate governance. This was due to weaknesses found in project safety procedures, such as over reliance on contractors, and management of income, such as insufficient attention given to underlying management accounting. Regarding weakness in controls over management of income, DIA noted that these weaknesses were due to previous management strategies and were being effectively addressed by the new management team in place.

Since receiving DIA's report on Project safety, the Agency has undertaken extensive work to remedy weaknesses identified, making safety a headline topic in all weekly communications meetings. Amongst the key responsibilities of The Health Safety Environment and Quality ("HSEQ") Committee are to ensure the OPA and any third party O&M contractors comply with relevant legislation, and to develop safety leadership amongst OPA and O&M contractor staff.

## The risk and control framework

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

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

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

The Agency's Internal Control Framework comprises:

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

## Risk assessment

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

This is done by:

- Regular reviews of the material risks using the Agency Risk Register and considered in the Agency's business plan (Monthly by the Management team, Quarterly by the HSEQ Committee, Audit Committee and Board)
- Ensuring that the approach to risk is filtered down to all employees within the Agency
- Maintaining t.hrough the board and its committees clear oversight of the system of internal control and risk management established and maintained by the Accounting Officer.

The following are newly identified risks/mitigation actions since 1 April 2011:

## Product Quality, standards and procedures

- The task of the OPA is to provide for the safe, efficient, economic and effective management of the Government Pipeline and Storage System (GPSS). This task includes the maximum development of private sector usage of the GPSS. Any operational shortcomings could compromise these tasks, resulting in reputational damage and the loss of income. The OPA identified a need to become more pro-active in managing the various sites under its control and subsequently instituted cultural and structural changes to ensure asset and reputational integrity going forward.

## Integration of OFDs

- During the year the agency took over management responsibility from the MoD of the six OFDs based in the UK. Initially the OPA became accountable for the OFDs without actually having the authority to control and effectively govern these assets. This exposed the OPA to risk of reputational damage and legal proceedings resulting from incidents outside the Agency's control. An internal project team was established, including the appointment of a new manager with the appropriate skill and experience profile, to work alongside the MoD Transition Team to ensure that the OPA secured sufficient authority to effectively govern the relevant assets.

## Project and O&M safety

- The OPA is subject to Control Of Major Accident Hazards (COMAH), Safety, Health, Environment and Fire (SHEF) and Construction, Design and Management (CDM) regulations due to the nature of its activities. Any failure in safety procedures and systems could potentially result in environmental damage, serious injury or even loss of life due to the risks associated with these activities. The Agency therefore takes process and O&M safety very seriously, and has increased activity in this area due to the additional responsibility of managing the OFDs. Amongst the key responsibilities of The Health Safety Environment and Quality ("HSEQ") Committee are to ensure the OPA and any third party O&M contractors comply with the above legislation, and to develop safety leadership amongst OPA and O&M contractor staff.

## Transition to a Single O&M Contractor

- During the year the OPA made the decision to use a single contractor instead of two to manage operations and maintenance. The agency faced the risk of losing control over its business due to the logistical challenges caused by the transfer of knowledge and existing projects from the two existing contractors. This could potentially manifest in operational delays, missed targets and competing demands, ultimately resulting in failure to meet customer demands or effectively manage a major incident. To mitigate these risks, the Agency appointed an Asset Management Director, whose responsibilities include liaison with the O&M contractor, developing and delivering the transition plan and communication strategy.

## Special payments

During the year the Agency made an ex-gratia payment of £2,500 which falls within the category of special payments as defined in Managing Public Money. This payment was made as part of a re-organisation to meet current and future business needs of the Agency. Whilst this payment represented the most equitable solution, management was not aware that the Agency required formal advance approval from HM Treasury for this special payment. Management subsequently sought retrospective approval from HM Treasury in accordance with *Managing Public Money*. HM Treasury has declined to provide retrospective approval. As a result of this, the Agency has taken steps to ensure that all staff making policy decisions that come within the scope of Managing Public Money are briefed on its obligations and requirements. The agency is also seeking to update and clarify its delegated authorities under its Framework agreement with the Defence Equipment and Support Commercial Directorate, so that it is consistent with *Managing Public Money*. The framework agreement was at the final draft stage at the date of authorising these accounts.

## The Health Safety Environment and Quality (HSEQ) Committee

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

The HSEQ Committee comprised of five members and was chaired by Mr G Ellis until his appointment as Chairman of the Agency on 1 April 2012. Ms Rosalind Roberts has now been appointed as Chairperson. Mr Richard Sims is appointed as the Agency's liaison with Mod. The remaining three members are Agency employees:

- Charles Price – Chief Executive and Accounting Officer.
- Nancy Harmer – Assurance Manager.
- Simon Cook – Asset Management Director.

The HSEQ Committee meets quarterly and the key improvements made during the year were as follows:-

- Appointment of Asset Management Director to develop the asset management strategy and lead the Agency in improving asset integrity across the GPSS and OFDs.
- Introduction of Process Safety Leadership through competence development of the Board, regular site tours by Senior Management and the further development of process safety performance indicators.
- Appointment of a Process Safety Engineer to lead the hazard identification and risk analysis for the COMAH Sites.
- Selection of a New O&M Contractor.
- Development of clear standards for pipeline integrity inspections.

## Remuneration Committee

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

## Attendance at Board and Board committee meetings

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

| | **Board** | **Audit Comitteee** | **HSEQ Committee*** | **Remuneration Committee** |
|---|---|---|---|---|
| **Charles Price** | 4/4 | | 3/3 | 1/1 |
| **Francis Dobbyn** | 4/4 | | | 1/1 |
| **Les Mosco** | 3/4 | | | 1/1 |
| **David Noble** | 4/4 | | | |
| **Emma Davies** | 3/4 | | | |
| **Dr Edward Libbey** | | 4/4 | | |
| **Graham Ellis** | | 4/4 | 3/3 | |
| **Moira Black** | | 4/4 | | |
| **Simon Cook** | | | 2/2** | |
| **Nancy Harmer** | | | 3/3 | |
| **Richard Sims** | | | 3/3 | |

* The HSEQ Committee does meet quarterly however, one meeting fell shortly prior to the year being reported above.
** Appointed partway during the year

## Board Performance

The Board has conducted an assessment of its own effectiveness for the year to 31 March 2012 through an anonymous questionnaire and one:one meetings between the Members and the Chairman. The key findings from the evaluation have been the need to improve on the quality and style of the board papers, setting of the agendas and the time given to each agenda item at the meeting.

## Review of Effectiveness of Risk Management and Internal Control

I am responsible for reviewing the effectiveness of the system of internal control with the support and advice of the Agency's Audit Committee. This review is informed by the work of external auditors and departmental managers within the Agency supported by the work of the Agency's Audit Committee itself. Any anomalies or unexpected outputs are investigated and discussed with Members where appropriate.

I have now completed my first full accounting year as Chief Executive Officer and Accounting Officer. Having undertaken a personal review of internal controls I have put in place a new Executive Management team, consisting of Jeremy Hyde, Business Services Director, Simon Cook, Asset Management Director and Michael Genge, Commercial Director, which has strengthened and reinforced the internal controls in place. The risk management system continues to be robustly reviewed at monthly management meetings and then further reviewed by the Audit Committee and the Agency.

The sponsorship Agreement between the Agency and the Defence Equipment & Support (DE&S) sets out the objectives, boundaries and expectations of both parties. In addition a Service Level Agreement with DE&S for managing the OFDs has been developed.

*CJS Price* 3 July 2012
Chief Executive and Accounting Officer

# Statement of the Chief Executive and Accounting Officer's responsibilities

Under Schedule 3 paragraph 9 of The Oil and Pipelines Act 1985, the Agency is required to prepare a statement of accounts for each financial year, in the form and on the basis determined by the Secretary of State for Defence with the consent of the Treasury. The accounts are prepared to show a true and fair view of the state on the Agency's finances at the year end and of the comprehensive net expenditure and cash flows of the Agency for the financial year. In preparing these accounts, Agency Members are required to:

- observe the accounts direction issued by the Secretary of State, including relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Agency will continue in operation.

The Chief Executive, as Accounting Officer for the Agency, is also responsible for:

- the propriety and regularity of the public finances for which he is answerable;
- the keeping of proper accounts;
- prudent and economical administration;
- the avoidance of waste and extravagance and the effective and efficient use of all available resources;
- the maintenance of public service values within the Agency, and for the transparency and openness of its proceedings; and
- the taking of appropriate action if Agency Members consider taking a course that would not comply with these requirements.

The responsibilities of the Accounting Officer are set out in the Non-Departmental Public Bodies' Accounting Officer's Memorandum, issued by the Treasury and published in *Managing Public Money*.

# Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

| | Notes | **2012** **£000** | 2011 £000 |
|---|---|---|---|
| Expenditure | | | |
| Staff costs | 5 | **(2,947)** | (2,252) |
| Depreciation | 8 & 9 | **(64)** | (57) |
| Other expenditures | 6 | **(1,266)** | (867) |
| | | **(4,277)** | (3,176) |
| Income from activities | 2 (b) | **4,275** | 3,095 |
| Net expenditure | | **(2)** | (81) |
| Interest receivable from bank accounts | | **71** | 97 |
| Other finance income | 13 | **70** | 52 |
| Net income (expenditure) after interest and other finance income | | **139** | 68 |
| Tax on taxable net income (expenditure) after interest and | 7 | **(35)** | (25) |
| Net income (expenditure) after taxation | | **104** | 43 |

## Other Comprehensive Expenditure

| | Notes | **2012** **£000** | 2011 £000 |
|---|---|---|---|
| Net (loss) gain on revaluation of property plant and equipment | | **4** | (8) |
| Actuarial gain / (loss) recognised in the pension scheme | 13 | **(409)** | 396 |
| Deferred tax arising on loss recognised in the pension scheme | | **87** | (83) |
| Total comprehensive income (expenditure) for the year | | **(214)** | 348 |

*The accompanying notes on pages 22 to 35 form part of these accounts.*

# Statement of Financial Position at 31 March 2012

| | Notes | **2012 £000** | 2011 £000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 8 | **86** | 89 |
| Intangibles | 9 | **15** | 28 |
| Total non-current assets | | **101** | 117 |
| Current assets | | | |
| Trade and other receivables | 10 | **1,326** | 145 |
| Cash at bank and in hand | 18 | **5,280** | 5,543 |
| Deferred tax asset | | **58** | 64 |
| Total current assets | | **6,664** | 5,752 |
| Total assets | | **6,765** | 5,869 |
| Current liabilities | | | |
| Corporation tax due | | **(12)** | (2) |
| Trade and other payables | 11 | **(1,253)** | (430) |
| Total current liabilities | | **(1,265)** | (432) |
| Total assets less current liabilities | | **5,500** | 5,437 |
| Pension assets | 13 | **77** | 354 |
| Assets less liabilities | | **5,577** | 5,791 |
| Reserves | | | |
| Contributed capital | 1 (a) | **2,380** | 2,380 |
| General fund reserve | 14 | **3,193** | 3,411 |
| Revaluation reserve | 15 | **4** | – |
| | | **5,577** | 5,791 |

*Graham Ellis* (Chairman) 3 July 2012

*CJS Price* (Chief Executive and Accounting Officer)

*The accompanying notes on pages 22 to 35 form part of these accounts.*

# Statement of Cash Flows for the year ended 31 March 2012

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Cash flows from operating activities | | |
| Net income/(expense) after interest before other finance income and taxation | **69** | 16 |
| Depreciation charges (note 8/9) | **64** | 57 |
| (Profit) / loss on disposal of fixed assets | **(9)** | 22 |
| Revaluation of property, plant and equipment | **1** | (4) |
| Defined benefit pension fund charge (note 13) | **141** | 236 |
| Defined benefit pension contributions paid (note 13) | **(128)** | (209) |
| Taxation (paid) refunded | **(7)** | - |
| (Increase)/decrease in trade and other receivables | **(1,181)** | (17) |
| Increase/(decrease) in trade and other payables | **823** | 93 |
| Net cash inflow (outflow) from operating activities | **(227)** | 194 |
| Cash flow from investing activities | | |
| Purchase of non-current assets (note 17) | **(36)** | (115) |
| Increase (decrease) in cash and equivalents | **(263)** | 79 |
| Cash and equivalents at the beginning of the year | **5,543** | 5,464 |
| Cash and equivalents at the end of the year (note 18) | **5,280** | 5,543 |

The accompanying notes on pages 22 to 35 form part of these accounts.

# Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

| | Contributed Capital £000 | General Fund £000 | Revaluation Reserve £000 | Total Reserves £000 |
|---|---|---|---|---|
| Balance at 1 April 2010 | 2,380 | 3,055 | 8 | 5,443 |
| Changes in taxpayers' equity for the year ended 31 March 2011 | | | | |
| Net gain/(loss) on revaluation of property, plant and equipment | – | – | (8) | (8) |
| Net income /(expenditure) | – | 43 | – | 43 |
| Actuarial gain/(loss) recognised in the defined benefit pension fund | – | 396 | – | 396 |
| Deferred tax arising on gain recognised in the defined benefit pension fund | – | (83) | – | (83) |
| Balance at 31 March 2011 | 2,380 | 3,411 | – | 5,791 |
| Changes in taxpayers' equity for the year ended 31 March 2012 | | | | |
| Net gain/(loss) on revaluation of property, plant and equipment | – | – | 4 | 4 |
| Net income /(expenditure) | – | 104 | – | 104 |
| Actuarial gain/(loss) recognised in the defined benefit pension fund | – | (409) | – | (409) |
| Deferred tax arising on loss recognised in the defined benefit pension fund | – | 87 | – | 87 |
| Balance at 31 March 2012 | 2,380 | 3,193 | 4 | 5,577 |

# Notes to the accounts for the year ended 31 March 2012

## 1 The agency

a The Agency was created by The Oil and Pipelines Act 1985 and came into existence on 1 December 1985. The Agency's initial capital was established at £2,380,000.

b The duty of the Agency is to manage the GPSS and OFDs under the terms of agency agreements between the Agency and the Secretary of State for Defence.

c The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to The Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence. This Accounts Direction is reproduced on page 36.

## 2 Statement of accounting policies

These financial statements have been prepared in accordance with the 2011-12 Government Financial

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

*a* *Basis of preparation*

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

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

*b* *Operating Income*

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

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| GPSS | **3,815** | 3,095 |
| OFDs | **460** | – |
| | **4,275** | 3,095 |

*c* *Property, plant and equipment*

IAS 16 requires measurement of property, plant and equipment at fair value. Expenditure on property, plant and equipment of £1,000 or more is capitalised and is carried at original cost adjusted, annually, using appropriate price indices published by the Office for National Statistics.

*d* *Depreciation*

Property, plant and equipment at cost or valuation, less estimated residual values, are depreciated on a straight line basis over their estimated useful economic lives, as follows:

| | |
|---|---|
| Estimated useful economic life – Years | |
| Leasehold Improvements | Over the lesser of ten years and the life of the lease. |
| Other Office Furniture | 10 |
| Computers | 3 |
| Other electronic equipment | 4 |
| Motor Vehicles | 4 |

*e* *Pension costs*

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

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

*f* *Taxation*

The charge for taxation is based on the taxable profit for the year and takes into account deferred taxation. Following IAS 12 (Income Taxes), deferred tax has been recognised as a liability or an asset if transactions have occurred at the year end date that may give rise to an obligation to pay more, or a right to pay less, taxation in future. Deferred tax assets or liabilities are not discounted.

*g* *Leases*

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

*h* *Staff costs*

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

*i* *Financial instruments*

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

*j* *Operating segments*

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

## 3 Information required by paragraph 2 of the oil and pipelines agency accounts direction 2004

### Statutory Borrowing Limit

The Secretary of State for Defence has given the Agency consent, under Paragraph 1(4) of Schedule 3 to The Oil and Pipelines Act 1985, to borrow, temporarily, from sources other than himself, up to the current limit of £20 million, which is specified in that Schedule. This limit may be raised to such greater amount, not exceeding £80 million, as the Secretary of State for Defence may specify by Order, made with the approval of the House of Commons. At no time during the year did the Agency borrow any amount.

## 4 Emoluments of members and chief executive

The aggregate emoluments of non-executive Members are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Aggregate emoluments of non-executive Members | **17** | 17 |

The Agency has not made any pension contributions in respect of non-executive Members, who are not members of the pension schemes, nor did they receive any benefits in kind except for the reimbursement of actual expenses. Other emolument details are shown in the remuneration report.

The remuneration, excluding pension contributions, during the year of the Chief Executive and executive Member was £122k including £2k bonus (2011: £98k including £12k bonus). No taxable benefits were derived during the year (2011: £2k from medical care and the use of a car). Other pension benefits are described in the remuneration report.

## 5 Staff costs

The average number of permanent employees, including Members and Committee Members, during the year was 53 (2011: 45) and the number of employees at 31 March 2012 was 57 (2011: 52). The average of whole-time equivalent non-permanent persons employed during the year was 4 (2011: 3). In respect of these employees:

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Wages and salaries – to permanently employed staff | **2,122** | 1,604 |
| – to other contract and temporary staff | **344** | 193 |
| Social security costs incurred by the Agency | **229** | 168 |
| Defined benefit pension costs (note 13) | **141** | 236 |
| Defined contribution pension costs | **111** | 51 |
| | **2,947** | 2,252 |

Included in wages and salaries are £25,100 of redundancy and ex-gratia payments paid to four members of staff who left the business during the year as part of a re-organisation to meet current and future business needs of the OPA organisation.

## 6 Other expenditures

| | 2012 | 2011 |
|---|---|---|
| | **£000** | £000 |
| Office operating lease – buildings (note 12) | **200** | 204 |
| Other occupancy costs | **141** | 130 |
| Staff related costs | **103** | 118 |
| Travel, subsistence and hospitality | **181** | 94 |
| Recruitment and training | **194** | 45 |
| Professional fees | **125** | 113 |
| Provision for compensation (note 11) | **115** | – |
| Auditors' Remuneration: Audit (NAO) | **12** | 11 |
| Office supplies and equipment | **120** | 69 |
| Other administration costs | **83** | 65 |
| Non-cash items | | |
| Revaluation of property, plant and equipment | **1** | (4) |
| Loss on disposal of property, plant and equipment | **(9)** | 22 |
| | **1,266** | 867 |

## 7 Tax on net operating income on ordinary activities

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

| | 2012 | 2011 |
|---|---|---|
| Current Tax | **£000** | £000 |
| UK corporation tax on taxable profits (losses) for the year | **12** | 2 |
| Adjustment in respect of prior period | **5** | – |
| Total current tax | **17** | 2 |
| Deferred tax | **18** | 23 |
| Total tax on net income (expenditure) | **35** | 25 |

## 8 Tangible assets – property, plant and equipment

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

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

Note

IAS 16 requires measurement of property, plant and equipment at fair value. Management considers that original cost adjusted annually using appropriate price indices, published by the Office for National Statistics, to be the best available estimation of fair value.

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

The movement in property, plant and equipment and accumulated depreciation during the year ended 31 March 2011 is shown below:

| | Leasehold Improvements | Office Furniture | Computers and Office Equipment | Motor Vehicles | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation: | | | | | |
| At 1 April 2010 | 126 | 51 | 267 | 38 | 482 |
| Revaluations | (1) | – | (16) | (2) | (19) |
| Additions | – | – | 56 | 33 | 89 |
| Disposals | (76) | – | – | (20) | (96) |
| At 31 March 2011 | 49 | 51 | 307 | 49 | 456 |
| Depreciation: | | | | | |
| At 1 April 2010 | 71 | 48 | 253 | 35 | 407 |
| Revaluations | (1) | – | (15) | (1) | (17) |
| Charge for year | 13 | 1 | 17 | 16 | 47 |
| Disposals | (51) | – | – | (19) | (70) |
| At 31 March 2011 | 32 | 49 | 255 | 31 | 367 |
| Net Book Value: | | | | | |
| **At 31 March 2011** | **17** | **2** | **52** | **18** | **89** |
| At March 2010 | 55 | 3 | 14 | 3 | 75 |

## 9 Intangible assets – computer software

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

| | At 1 April 2011 | Revaluations | Additions | Charge for year | At 31 March 2012 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation | 39 | – | – | – | 39 |
| Amortisation | 11 | – | – | 13 | 24 |
| Net Book Value | 28 | – | – | (13) | 15 |

## 10 Trade and other receivables

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | **£000** | £000 | £000 |
| Trade and other receivables falling due within one year comprise: | | | |
| Trade and other receivables | **1,164** | 12 | 4 |
| Accrued Income | **3** | 3 | 16 |
| Prepayments | **126** | 97 | 75 |
| Trade and other receivables falling due after more than one year comprise: | | | |
| Other receivables | **33** | 33 | 33 |
| | **1,326** | 145 | 128 |

Included in Trade and other receivables is £249,170 due from the MOD relating to purchase invoices received on behalf of the OFDs (2011; Nil).

Also included in Trade and other receivables is £302,369 due from the MOD relating to purchase invoices received regarding the Operational Efficiency Program (OEP) (2011; Nil).

## 11 Trade and other payables

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| | **£000** | £000 | £000 |
| Trade and other payables falling due within one year comprise: | | | |
| Trade and other payables | **293** | 52 | 27 |
| Accruals and deferred income | **525** | 235 | 185 |
| Provisions | **115** | – | – |
| Other taxation and social security | **320** | **143** | **125** |
| | **1,253** | 430 | 337 |

Included in Trade and other payables is £165,030 relating to purchase invoices received on behalf of the MOD relating to the OFDs.

Also included in Trade and other payables is £102,100 relating to purchase invoices received on behalf of the MOD regarding the Operational Efficiency Program (OEP) (2011; Nil).

Included in Accruals and deferred income are costs incurred on behalf of the MOD regarding the OEP of £58,750 (2011; Nil)

A provision of £115,038 has been made in recognition of compensation due to former employees over the next twelve months. The amount and timing of these liabilities was uncertain at the year end as they were subject to an employment tribunal hearing scheduled to commence on 23 April. The tribunal was settled before authorisation of the accounts and the provision was adjusted to reflect the facts of this matter in accordance with IAS 10 Events after the reporting period.

## 12 Commitments

a Capital Commitments
At the end of the year there were no capital commitments authorised (2011: Nil).

b Office Leasehold
The Agency occupies office premises under a lease that will expire in July 2014 and contains an annual commitment to pay rent of £143,000 (2011: £143,000) and a variable service charge. Rental amounts payable under the lease are due within one year and between one and five years and are £143,000 and £179,000 respectively.

c Motor leases
The Agency operates nine motor vehicles under leases that will expire between 2013 and 2015. Lease amounts payable under these leases are due within one year and between one and five years and are £41,000 and £48,000 respectively.

## 13 Retirement benefits pension schemes

The Agency operates a funded pension scheme providing benefits based on final pensionable pay, which is closed to new entrants, and a defined contribution scheme.

The Oil and Pipelines Agency Retirement Benefits Plan is the Agency's defined benefits scheme and is managed by The OPA Pension Trustees Limited. At 31 March 2012, Mr C Price and Mr F Dobbyn were trustees. The assets of the scheme are held separately from those of the Agency and are invested in a separate trustee administered fund. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. An actuarial valuation of the Plan was carried out as at 5 April 2011 and indicated that the value of the assets was at 100 per cent of the value placed upon the liabilities. A review of the options available, prompted by the valuation, resulted in the Agency and the Trustee deciding to maintain the existing defined benefits scheme and to maintain the level of contributions of the Agency and employees at 32.8 per cent and 8 per cent respectively.

The Agency adopts the accounting requirements set out in IAS 19 Employee Benefits (previously FRS 17 Retirement Benefits).

### Actuarial assumptions

A qualified independent actuary carried out an actuarial assessment as at

31 March 2012 and the major assumptions used were:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Inflation rate | **3.4%** | 3.7% | 3.9% |
| Rate of increase in salaries | **4.4%** | 4.7% | 4.9% |
| Rate of increase in pensions in payment | **3.4%** | 3.7% | 3.9% |
| Discount rate for liabilities | **4.6%** | 5.5% | 5.5% |
| Mortality birth table and cohort | **PXNA00 Long cohort** | PXNA00 Long cohort | PXNA00 Long cohort |

## 13 Retirement benefits pension schemes (continued)

### Charge to the statement of comprehensive net expenditure

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

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Current service cost (charged to net expenditure note 6) | **(141)** | (236) |
| Expected return on scheme assets | **447** | 436 |
| Interest on schemes liabilities | **(377)** | (384) |
| Amount credited (debited) to net expenditure before taxation as other finance income | **70** | 52 |
| Amount (charged) to net expenditure before taxation | **(71)** | (184) |

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

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Actuarial return less expected return on assets | **381** | 46 |
| Experienced gains on liabilities | **70** | 93 |
| Changes in assumptions underlying liabilities | **(860)** | 257 |
| Actuarial gain/(loss) | **(409)** | 396 |

### Statement of Financial Position Pension asset

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

| | **2012** | **2012** | 2011 | 2011 |
|---|---|---|---|---|
| | | **£000** | | £000 |
| Equities | **7.5%** | **2,437** | 8.5% | 2,979 |
| Government Debt | **3.5%** | **5,246** | 4.5% | 3,806 |
| Corporate Bonds | **4.6%** | **138** | 5.5% | 255 |
| Cash | **3.0%** | **224** | 4.0% | 251 |
| Total fair value of assets | | **8,045** | | 7,291 |
| Present value of liabilities | | **7,949** | | 6,843 |
| Surplus in the scheme | | **96** | | 448 |
| Related deferred tax (liability) asset | | **(19)** | | (94) |
| Net pension asset | | **77** | | 354 |

## 13 Retirement benefits pension schemes (continued)

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

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Opening fair value of assets at 1 April | **7,291** | 6,916 |
| Expected return on assets | **447** | 436 |
| Employer contributions | **128** | 209 |
| Contributions by Members | **26** | 42 |
| Actuarial gains over those expected | **381** | 46 |
| Benefits (paid) | **(228)** | (358) |
| Total fair value of assets before taxation at 31 March | **8,045** | 7,291 |

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

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Opening fair value of liabilities at 1 April | **6,843** | 6,889 |
| Current service cost | **141** | 236 |
| Interest cost | **377** | 384 |
| Contributions by Members | **26** | 42 |
| Actuarial (gains) | | |
| Change in assumptions | **860** | (257) |
| Liability experience (gains) | **(70)** | (93) |
| Benefits (paid) | **(228)** | (358) |
| Present value of defined liabilities before taxation at 31 March | **7,949** | 6,843 |

## 13 Retirement benefits pension schemes (continued)

### Plan History

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **£000** | £000 | £000 | £000 | £000 |
| Fair value of assets before taxation | **8,045** | 7,291 | 6,916 | 5,129 | 5,786 |
| Present value of defined liabilities before taxation | **7,949** | 6,843 | 6,889 | 6,711 | 5,325 |
| Surplus (deficit) before taxation | **96** | 448 | 27 | (1,582) | 461 |

### History of experience gains and losses

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Actuarial return less expected return on assets: | | | | | |
| Amount (£000) | **381** | 46 | 1,075 | (1,238) | (314) |
| Percentage of scheme assets (%) | **4.7** | 0.6 | 15.5 | (24.1) | (5.4) |
| Experienced gains on liabilities: | | | | | |
| Amount (£000) | **70** | 93 | 167 | 116 | 1 |
| Percentage of the present value of the scheme liabilities (%) | **0.9** | 1.4 | 2.4 | 1.7 | 0.0 |
| Changes in assumptions: (£000) | **(860)** | 257 | 264 | (912) | (422) |
| Actuarial gains (losses) | | | | | |
| Amount (£000) | **(409)** | 396 | 1,506 | (2,034) | (735) |
| Percentage of the present value of the scheme liabilities (%) | **(5.1)** | 5.8 | 21.9 | (30.3) | (13.8) |

### Defined Contributions Scheme

During 2009-10 a defined contribution scheme was opened and defined employer and employee contributions were paid into externally managed funds. During the year employer contributions amounted to £111,000 (2011: £51,000).

## 14 General fund reserve

| | **Operating Cost Accounting** | **Pension Reserve** | **Total** |
|---|---|---|---|
| | £000 | £000 | £000 |
| At 31 March 2010 | 3,034 | 21 | 3,055 |
| Changes to the general fund reserve for the previous year | 23 | 333 | 356 |
| At 31 March 2011 | 3,057 | 354 | 3,411 |
| Changes to the general fund reserve for the year | 59 | (277) | (218) |
| At 31 March 2012 | 3,116 | 77 | 3,193 |

## 15 Revaluation reserve

| | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|
| At 1 April | – | 8 | 5 |
| Revaluation of property, plant and equipment for the year | **11** | (32) | 17 |
| Revaluation of depreciation for the year | **(7)** | 24 | (14) |
| At 31 March | **4** | – | 8 |

## 16 Contingent liabilities

Under the terms of the agency agreements for the management of the GPSS and OFDs, the Secretary of State for Defence indemnifies the Agency against any liabilities to third parties arising from the performance of its duties under the agreement.

At 31 March 2012 there were no other contingent liabilities recorded (2011: Nil).

## 17 Gross cash flows

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Returns on investments and servicing of finance | | |
| Interest received | **71** | 97 |
| Capital expenditure | | |
| (Payments) to acquire tangible property, plant and equipment | **(46)** | (89) |
| (Payments) to acquire intangible computer software | – | (30) |
| Receipts from disposals of tangible property, plant and equipment | **10** | 4 |
| | **(36)** | (115) |

## 18 Analysis of changes in net funds

| | At 1 April 2011 £000 | Cash Flows £000 | At 31 March 2012 £000 |
|---|---|---|---|
| Cash at bank and in hand | 5,543 | (263) | **5,280** |

## 19 Special payments

During the year the agency made an ex-gratia payment of £2,500 which falls within the category of special payments as defined in Managing Public Money. During the year, four members of staff left the business as part of a re-organisation to meet current and future business needs of the Agency. The recipient of this payment worked in a specialist department effected by the re-organisation and no future alternative role was available. Due to length of service, this employee was not entitled to a statutory redundancy payment. The Agency decided that an additional payment should be offered to this employee to ensure fair treatment and engender goodwill between the parties, thereby assisting in the transition of the business during the remainder of their service. It was the opinion of management that this represented the best commercial solution for the business, and also reduced the likelihood of any subsequent employment tribunal claim. In selecting this equitable solution, common in the private sector, management was not aware that the Agency required formal advance approval from HM Treasury for this special payment. When management became aware that approval was required, retrospective approval was immediately sought from HM Treasury, in accordance with *Managing Public Money*.

Having interpreted the payment as part retention and part severance, HM Treasury has declined to provide retrospective approval for it on the basis that a payment can only be made for retention purposes in extraordinary circumstances and cannot be agreed when there is only a possibility of an Employment Tribunal. As a result of this, the Agency has taken steps to ensure that all staff making policy decisions that come within the scope of Managing Public Money are briefed on its obligations and requirements. The Agency is also seeking to update and clarify its delegated authorities under its Framework agreement with the Defence Equipment and Support Commercial Directorate, so that it is consistent with Managing Public Money.

## 20 Related party transactions

The Agency is sponsored by the Ministry of Defence (MoD), through the Defence Equipment and Support Commercial Directorate, as its Managing Agent to manage the GPSS and OFDs, strategic defence assets, and in the MoD is regarded as a related party. The Agency receives a fee for the services it provides. Mr L Mosco, Director Commercial DE&S, Mr D Noble, Director Finance DE&S and Ms Davies, Head of Business Strategy & Governance, are employees of the MoD.

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

## 21 Financial instruments

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

As the duty of the Agency is to manage the GPSS and OFDs and to charge a fee that materially covers its operating costs, including actual pension contributions but not non-cash pension asset charges or credits, it is not exposed to significant financial risk. The only financial instruments relate to debtors, creditors and cash balances and therefore liquidity and cash flow risk is very low. All assets and liabilities are denominated in sterling and therefore the Agency is not exposed to currency risk. The Agency has no embedded derivatives.

### Interest Rate Risk Management

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

### Liquidity and cash flow risk

The Agency has borrowing powers (note 3), however has not borrowed during the year. The cash funds are deposited with its bankers which are available on 10 days notice and hence the Agency is not exposed to any significant liquidity risk or cash flow risk.

### Credit Risk

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

## 22 Events after the reporting date

In accordance with IAS 10, Events after the reporting date, The Agency has adjusted a provision for compensation costs to reflect events prior to authorisation of the accounts that effect conditions at the reporting date (see note 11).

In May 2012, The Secretary of State for Energy and Climate Change announced the publication of a draft Energy Bill. This includes provisions to enable the sale of the Government Pipeline and Storage System, which the Agency manages on behalf of the MoD. As a decision to sell has not been made and is not expected until at least 2014, this announcement has no impact on the going concern status of the Agency.

The accounts were authorised for issue by the Accounting Officer on 3 July 2012 being the date of despatch by the Agency to the Comptroller and Auditor General. There were no other adjusting events or material non adjusting events that had an impact on these financial statements.

# The Oil and Pipelines Agency accounts direction 2004

# Accounts direction given by the Secretary of State for Defence, with the approval of the Treasury, in accordance with Schedule 3, Paragraph 9(3), to the Oil and Pipelines Act 1985 (the act)

1 The annual accounts shall give a true and fair view of The Oil and Pipeline Agency's profit or loss and cash flows for the financial year and the state of affairs as at the year-end. Subject to this requirement the Agency shall prepare accounts for the financial year ended 31 March 2004 and subsequent financial years in accordance with:

a the Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance, issued by the Treasury, in force for the financial year for which the accounts are prepared;

b other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;

c any other specific disclosures required by the Secretary of State;

Except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

2 The notes to the accounts shall contain a statement of the position during the year and at the year-end in relation to the borrowing limit contained in the Secretary of State's consent given on 1 December 1985 pursuant to Paragraph 1(1)(b) of Schedule 3 to the Act.

3 This accounts direction supersedes The Oil and Pipelines Agency (Accounts) Notice 1992.

Signed by authority of the Secretary of State for Defence

*Air Commodore AC Spinks*
Dated: 3 March 2004

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

I certify that I have audited the financial statements of The Oil and Pipelines Agency for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Agency, Chief Executive and Auditor

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

## Scope of the Audit of the Financial Statements

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

### Opinion on regularity

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

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of The Oil and Pipeline's Agency's affairs as at 31 March 2012 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Oil and Pipelines Act 1985 and directions issued thereunder, by the Secretary of State.

### Opinion on other matters

In my opinion:

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

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

*Amyas C E Morse*
Comptroller and Auditor General

10 July 2012

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