



# ANNUAL REPORT AND ACCOUNTS 2005/2006

HC 1222



MINISTRY OF DEFENCE

**Veterans Agency**  
An Executive Agency of the Ministry of Defence

# ANNUAL REPORT AND ACCOUNTS **2005/2006**

Presented to Parliament in pursuant to section 7 of the  
Government Resources and Accounts Act 2000



INVESTOR IN PEOPLE



Awarded for Excellence



MINISTRY OF DEFENCE

Ordered by the House of Commons  
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**VeteransAgency**  
An Executive Agency of the Ministry of Defence

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# GLOSSARY

<b>AFCS</b>	Armed Forces Compensation Scheme	<b>IAT</b>	Internal Assurance Team
<b>AFPAA</b>	Armed Forces Personnel Administration Agency	<b>IiP</b>	Investors in People
<b>AMT</b>	Agency Management Team	<b>IPPH</b>	Ilford Park Polish Home
<b>BCP</b>	Business Continuity Plan	<b>KPT</b>	Key Performance Target
<b>BP</b>	Business Plan	<b>MA</b>	Medical Adviser
<b>CAC</b>	Central Advisory Committee on War Pensions	<b>MoD</b>	Ministry of Defence
<b>CAPS</b>	Compensation and Pensions System	<b>NAO</b>	National Audit Office
<b>CE</b>	Chief Executive	<b>PAT</b>	Pensions Appeal Tribunal
<b>CETV</b>	Cash Equivalent Transfer Values	<b>PCSPS</b>	Principal Civil Service Pension Schemes
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy	<b>PMP</b>	Payment Modernisation Programme
<b>CTLB</b>	Centre Top Level Budget	<b>PMS</b>	Performance Management System
<b>DCDS (Pers)</b>	Deputy Chief of Defence Staff (Personnel)	<b>PPA</b>	Pay & Personnel Agency
<b>DCA</b>	Department for Constitutional Affairs	<b>PUS</b>	Permanent Under Secretary of State
<b>DIA</b>	Defence Internal Audit	<b>SBS</b>	Special Bonus Scheme
<b>DWP</b>	Department for Work and Pensions	<b>SBSO</b>	Single Balance Sheet Owners
<b>FA</b>	Functional Area	<b>SGIP</b>	Survivor's Guaranteed Income Payment
<b>FEPOW</b>	Far Eastern Prisoners of War	<b>SIC</b>	System of Internal Control
<b>FReM</b>	Government Financial Reporting Manual	<b>VA</b>	Veterans Agency
<b>GIP</b>	Guaranteed Income Payment	<b>VAAC</b>	Veterans Agency Audit Committee
<b>HLB</b>	Higher Level Budget	<b>VAMB</b>	Veterans Agency Management Board
		<b>WPC</b>	War Pensions Committee
		<b>WPWS</b>	War Pensioners Welfare Service
		<b>WWII</b>	World War 2



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Throughout this publication, reference is made to "widows". Please be aware that these references apply equally to widowers and surviving civil partners.

# CHIEF EXECUTIVE'S FOREWORD



This is the sixth occasion on which I have been privileged to present the Veterans Agency Annual Report and Accounts and, as I retire at the end of June 2006, it will be the last. I am proud that once again, as in all of the previous five Reports, I can sign off an

account of improved quality of service to veterans and their families.

All of the standards in our 2005/06 Service Charter were achieved and in many instances exceeded. We reduced the average clearance time for claims to war pension by a further 8.8% to 52 working days, a far cry from the position in 2001 when we were striving to get below 100 working days. Over the last year we have also continued to improve performance on claims from war widows, with average clearance now down to 21 working days. These improvements were achieved against the backdrop of successfully introducing the new Armed Forces Compensation Scheme and making a very significant contribution to the success of the first ever Veterans Awareness Week and the events held to commemorate the 60th anniversary of the end of World War Two.

In November 2005 I was very proud to receive, on behalf of the Agency, the North West Business Excellence Award for the Public Sector. The roll call of winners at this awards event included many internationally-known brand leaders and I think it was a fitting tribute to the achievements of the Agency's staff that Veterans Agency should stand proud amongst them. Presenting the awards that night was Sir Tom Farmer, the founder of Kwik Fit, and in his address he marked up as a crucial ingredient of business success the need to treat your workforce well. Wise words; and I hope that I have contributed to a management style at Veterans Agency which recognised that absolutely nothing worthwhile can be achieved if you do not

take your people with you. In our latest staff survey 92% of respondents said they were satisfied (or very satisfied!) to be working in the Agency. This leads you to believe that you must be doing something right.

Alongside our excellent staff, the other major component in our success has been the support and co-operation of our colleagues in the ex-Service Charities and the War Pensions Committees. We rely on them to work with us in welfare casework and promotion of veterans' issues and their role as 'critical friends' is invaluable. We do not always get everything right and the existence of strong and capable organisations to advocate on customers' behalf is an essential ingredient to our overall service strategy. We listen when advice and criticism comes our way and this is all the easier because it is invariably delivered in a positive and supportive vein.

There remain a host of challenges ahead for the Agency; and the next year will see a continuing focus on improving service and efficiency by strengthening links with the Armed Forces Personnel Administration Agency. I am sure that there is the capacity and will to continue to improve the quality and breadth of our support to the veterans' community and that our core values remain the sound foundation for a successful future.

A handwritten signature in black ink, which appears to read "Alan Burnham". The signature is fluid and cursive, with a large, stylized initial "A".

**ALAN BURNHAM**  
Chief Executive  
Veterans Agency  
28<sup>th</sup> June 2006



# **MANAGEMENT COMMENTARY: 2005/06**

## **Part 1: Operating Review**

# INTRODUCTION

This Annual Report and Accounts details the Veterans Agency's (VA's) performance between 1 April 2005 and 31 March 2006. The Accounts have been prepared in accordance with the direction given by HM Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000. In particular these Annual Report and Accounts:

- record our performance against the Key Performance Target (KPT) agreed with our Owner, the Deputy Chief of Defence Staff (Personnel) - DCDS(Pers);
- detail the activities we carried out during 2005/06 to achieve those targets and our strategic objectives; and
- present our Annual Accounts for the financial year 2005/06.

# ORGANISATION

## History

The VA is an Executive Agency of the Ministry of Defence (MoD). It was previously an Executive Agency of the Department of Social Security (now the Department for Work and Pensions (DWP)) and was transferred to the MoD in June 2001. Prior to April 2002, the VA was known as the War Pensions Agency.

In September 2003 the MoD decided that, in addition to administering the War Pensions Scheme (WPS), the VA would deliver and manage the new Armed Forces Compensation Scheme (AFCS) that came into force on 6 April 2005. During 2005/06 the VA organised its business into the following principal groups.

## Central Operations

These are based at Norcross near Blackpool and are responsible for the assessment, award, payment and maintenance of war disablement pensions, war widows' pensions and related allowances and other payments; administration of the ex-gratia payments scheme to former prisoners of the Japanese in World War 2 (WWII); the assessment, award and maintenance of AFCS claims; processing and presentation of appeals to independent Pensions Appeal Tribunals (PATs); providing support services

and functions such as finance and personnel; and co-ordinating the delivery of other services to veterans, e.g. managing the veterans Helpline and website, and developing and implementing the VA's communication strategy for veterans.

## War Pensioners Welfare Service (WPWS)

This is located throughout the UK and the Republic of Ireland. The WPWS gives advice, information and practical assistance to war disablement pensioners, war widows, their dependants and carers, and other veterans and ex-Service beneficiaries to AFCS to enable them to access appropriate services at key life events and other periods of acute welfare need. The WPWS works in close partnership with ex-Service charities, local community service providers and the War Pensions Committees (WPCs) in delivering welfare support.

The WPWS uses a caseworker approach to its work. Each of its clients has a readily accessible, identified welfare manager and team responsible for co-ordinating action on that client's behalf and providing a gateway to other services provided by other parts of Government and by voluntary organisations.

## Iford Park Polish Home (IPPH)

This purpose-built home near Newton Abbot, Devon provides residential and nursing care to people who qualify for admission under the 1947 Polish Resettlement Act. The IPPH is managed and administered by the VA. The home's staff provide high-quality residential and nursing care which exceed the National Minimum Standards for Care Homes in a number of areas. The Home's experienced management team helps ensure a relaxed, caring and stimulating environment with the emphasis on Polish culture. The IPPH fully complies with the provisions of the Care Standards Act 2000.

Demand for places at IPPH has been buoyant over recent years resulting in an occupancy rate of 98%. This equates to approximately 99 residents at the home at any given time. However, as the number of those eligible for admission under the 1947 Polish Resettlement Act declines, it is inevitable that the demand for places will fall below current capacity. Our primary concern has been to continue to deliver the highest possible quality of service to residents. A major aim for the future will be to ensure that the home continues to be cost-effective as the number of people eligible for admission reduces.

## Customers

The Agency's customer base consists of all those who have served in the United Kingdom Armed Forces and their widows, widowers and dependants. With the introduction of the new AFCS in April 2005, the VA's customer base was expanded to include members of the Armed Forces who are injured but remain in Service.

## Accountability

The VA's Owner, DCDS(Pers) is responsible to Ministers for the strategic direction of the VA and acts on behalf of the Secretary of State for Defence in approving the Agency's Corporate Plan. The Minister for Veterans sets the Strategy for Veterans and DCDS(Pers) sets the Service personnel context and environment (articulated through the Armed Forces Overarching Personnel Strategy and the Service Personnel Policy Development and Delivery Plan) in which VA has to operate and develop. The services VA provides to its customers particularly complement and support Personnel Strategy Guideline (PSG) 26 (End of Service and Pensions Policy), PSG 27 (Veterans Policy) and PSG 28 (Bereaved Families Policy).

Responsibility for our effective and efficient management rests with our Chief Executive (CE). The CE is answerable to DCDS(Pers) and to the Minister for Veterans for the standard of the Agency's achievement against any KPTs articulated in its Corporate Plan.

## Management of the Agency

The day-to-day management of the VA is carried out by the Agency's Management Board, which during 2005/06 comprised:

Alan Burnham	CE
Dr Paul Kitchen	Medical Director
Tony Burke	Director of Operations and Welfare (from 1 April 2005 until 3 June 2005)
Gerry Mulrooney	Acting Director of Operations and Welfare (from 6 June 2005 until 26 January 2006) Director of Operations and Welfare (from 27 January 2006)
Wendy Stewart	Director of Corporate Services
Alex Jablonowski	Non-Executive Director
Helga Drummond	Non-Executive Director

The executive members of the Management Board were appointed (and may be terminated) in accordance with the Civil Service Management Code. The Senior Civil Service Salaries Review Body determines Mr Burnham's remuneration as CE. The remuneration of the other executive members of the Management Board is determined as part of the MoD pay review process. The performance of the CE and executive members of the Management Board is reviewed as part of the Departments regular performance assessment and development reporting process. The contractual arrangements for employing Non-Executive directors accord with Treasury guidance. No awards have been made to past senior managers in respect of early termination. The salary and pension entitlements of the Agency Board of Directors were as follows:

## Remuneration Report - (subject to audit)

The salary and pension entitlements of the Agency Board of Directors were as follows:

Name and Title	Annual (or service as indicated) Salary including performance pay £'000	Benefits in kind (a) (rounded to nearest £100)	Real increase in pension and related lump sum at age 60 £'000	Total accrued pension at age 60 at 31 March and related lump sum £'000	Cash Equivalent Transfer Values (CETV) at 31 March	Real increase in CETV after adjustment for and changes in market investment factors (nearest £'000)	Employer contribution to partnership pension account including risk benefit cover (rounded to the nearest £100)
<b>Alan Burnham</b> Chief Executive 2005/06	60-65	3,800	0-2.5 plus 0-2.5 Lump Sum	25-30 plus 80-85 Lump Sum	498	(15)	Nil
2004/05	60-65	3,600	0-2.5 plus 0-2.5 Lump Sum	30-35 plus 90-95 Lump Sum	543	(2)	Nil
<b>Tony Burke</b> Director of Operations & Welfare wef 6 <sup>th</sup> June 2005 2005/06	50-55 (annual equivalent)	(500)	0-2.5 plus 0-2.5 Lump Sum	20-25 plus 65-70 Lump Sum	382	5	Nil
2004/05	50-55	3,100	0-2.5 plus 2.5-5 Lump Sum	20-25 plus 65-70 Lump Sum	377	16	Nil
<b>Gerry Mulrooney</b> Director of Operations & Welfare wef 6 <sup>th</sup> June 2005 2005/06	50-55 (annual equivalent)	1,400	0-2.5 plus 5-7.5 Lump Sum	15-20 plus 50-55 Lump Sum	282	34	Nil
2004/05	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Dr Paul Kitchen</b> Medical Director 2005/06	70-75	Nil	0-2.5 plus 2.5-5 Lump Sum	25-30 plus 85-90 Lump Sum	510	20	Nil
2004/05	70-75	Nil	0-2.5 plus 2.5-5 Lump Sum	25-30 plus 80-85 Lump Sum	412	19	Nil
<b>Wendy Stewart</b> Director of Corporate Services Director 2005/06	50-55	Nil	0-2.5 pension	25-30 pension	360	43	Nil
2004/05	50-55	Nil	0-2.5 pension	20-25 pension	315	3	Nil
<b>Alex Jablonowski</b> Non Executive Director 2005/06	5-10	-	-	-	-	-	-
2004/05	0-5	-	-	-	-	-	-
<b>Helga Drummond</b> Non Executive Director 2005/06	5-10	-	-	-	-	-	-
2004/05	0-5	-	-	-	-	-	-

Signed:



Alan Burnham, Chief Executive

Helga Drummond and Alex Jablonowski, who are both included in the above analysis, are not employees of the VA and did not receive any remuneration in respect of pension contributions. There were no fees payable to third parties.

For all board members, the term "salary" includes gross salaries, fees, performance bonuses payable, overtime, reserved rights to London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Column 6 of the table above shows the members' Cash Equivalent Transfer Values (CETV) accrued at the beginning and the end of the reporting period. Column 7 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employees (including the value of any benefits transferred in from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. A CETV is the actuarially assessed, capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' 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 from their former scheme. The pension figures shown relate to the benefits that the individuals have 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 CETV figures include the value of any pension scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

## Staff

The average number of whole-time equivalent civilian staff employed by the Agency in 2005/06 was 836, most of whom were based at Norcross near Blackpool.

The VA pursues comprehensive equal opportunities policies that exceed the minimum legislative requirements in relation to both staff and customers. The VA promotes improvements in service delivery to customers with disabilities and takes positive steps to encourage the recruitment of disabled people. The VA continues to use the Disability Symbol and remains committed to the responsibilities associated with it. In particular, positive steps are taken to improve the working environment and practices for staff with disabilities.



# OUR PURPOSE

During 2005/06 our overall strategy, targets and plans were set within the context of our Vision, Mission and Values. These were published in our 2005/10 Corporate Plan and are reproduced below.

## VISION

Service excellence for veterans and serving personnel.

## MISSION

To deliver modern, high-quality, customer-focused services to war disablement pensioners, war widows, their dependants and carers, and other veterans and in-Service beneficiaries of AFCS; and to deliver them consistently, efficiently and effectively in recognition of the many extraordinary and unique personal sacrifices made in defence of the nation.

## VALUES

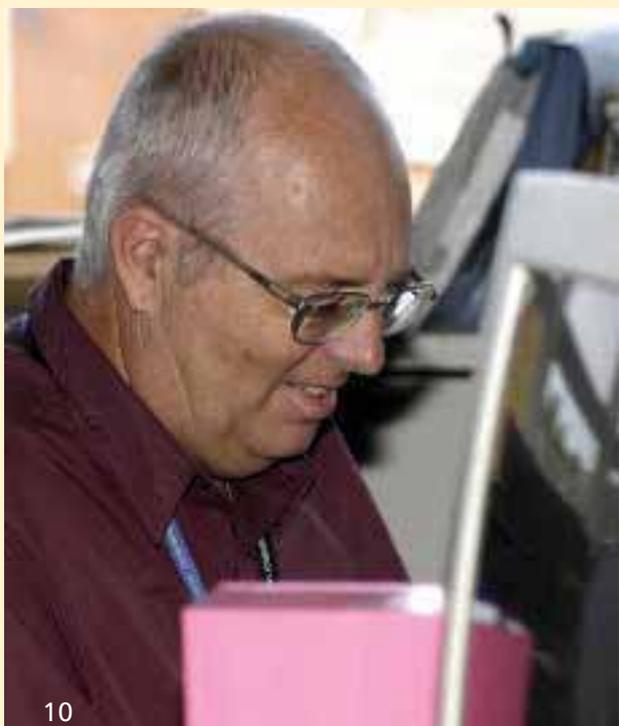
Our four Values are the themes around which we constructed our strategic direction. These are the principal beliefs and ideals that have been adopted throughout the VA and which all Agency staff hold in relation to how we deliver our service.

**PUTTING SERVICE FIRST:** acknowledges that meeting the needs of those we serve must be at the heart of everything we do.

**VALUING OUR PEOPLE:** recognises that excellence can only be achieved if we have a motivated, skilled and effective workforce.

**WORKING IN PARTNERSHIP:** recognises that positive and effective partnerships with co-providers and suppliers are crucial to the successful delivery of high-quality, customer-focused services.

**EFFICIENCY:** acknowledges that services should always be delivered by the most efficient and effective methods of working.





# **MANAGEMENT COMMENTARY: 2005/06**

## **Part 2: Performance Review**

# PERFORMANCE REVIEW

During 2005/06 we continued to make a positive contribution to the MoD's on-going programme of improved support to Service personnel and their families throughout their lives. We also supported the Government's priority to deliver excellent public services. Our 2005/06 KPTs were designed to improve our performance and also to help reassure our customers, stakeholders, partners and staff that we had meaningful measures of our success in place.

We published our 2005/06 KPTs in our 2005/10 Corporate Plan. Annex A details how we have performed against these. We published our 2005/06 Service standards in our 2005/06 Service Charter. Annex B details how the VA has performed against all of these standards.

Detailed below are the numbers of WPS pensions in payment and the numbers of WPS claims and appeals received over the period 2000/01 - 2005/06..

Type of pension in payment	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
War Disablement	230,164	222,246	212,595	201,970	192,150	182,730
War Widows	51,673	49,878	47,575	45,035	42,580	40,110
Others	618	600	560	520	505	920
Supplementary Allowances	*250,954	*239,469	*227,510	*214,790	*202,735	*191,080
Gratuity Awards made (1-19%)	3,945	4,390	3,430	3,350	3,500	3,530
NIL % Awards made	3,169	2,955	2,505	2,080	1,720	1,630

Type of claim received	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
First claims	11,015	9,818	9,055	8,560	7,835	7,970
Second claims, i.e. further conditions, deterioration and other reviews	15,615	14,636	14,075	13,510	11,280	10,680
Supplementary Allowances and Reviews	8,454	7,808	7,385	7,245	6,850	6,350
Treatment Allowances (Medical Expenses)	4,228	4,029	4,320	4,245	3,815	4,940
Treatment Reviews and Maintenance (Medical Reviews)	6,838	6,636	6,565	6,330	6,180	4,800
War Widows	3,079	2,967	2,615	2,595	2,235	2,160
War Widow Supp Allowances	3,266	3,216	3,090	3,185	3,220	3,330
Appeals	3,749	**5,219	4,150	3,800	3,355	3,130

\* Includes all War Disablement and War Widows Allowances.

\*\* Includes appeals to Supplementary Allowances etc under new appeal rights from 9<sup>th</sup> April 2001.

From 2002/03 all figures are rounded to the nearest 5.

Detailed below are the numbers of AFCS lump sum awards and Guaranteed Income Payments (GIPs) / Survivor's Guaranteed Income Payments (SGIPs) in payment and the numbers of AFCS claims and appeals received during 2005/06.

<b>Lump sum awards</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Injury/illness	-	-	-	-	-	102
Medical discharge	-	-	-	-	-	13
Bereavement Grant	-	-	-	-	-	1
<b>GIP/SGIP awards</b>						
	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
GIP	-	-	-	-	-	*0
SGIP	-	-	-	-	-	6
<b>Type of case considered **</b>						
	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Injury/illness	-	-	-	-	-	1247
Medical discharge	-	-	-	-	-	1577
Death in Service	-	-	-	-	-	81
<b>Appeals</b>						
Appeals	-	-	-	-	-	3

Notes

\* During 2005/06 no GIPs were put into payment. GIPs result from a high tariff-level award and would be paid only following discharge from the Services.

\*\* During 2005/06, the majority of cases fell to be considered under both the AFCS and the WPS. This was because Service spanned the AFCS start date of 6<sup>th</sup> April 2005. Cases are initially considered under the AFCS to ensure that entitlement under that scheme is fully explored first. Consequently the number of successful AFCS awards in 2005/06 does not bear any direct comparison to the number of cases considered during that year - because in many cases the injury or illness was caused before 6<sup>th</sup> April 2005 and was therefore compensated under the WPS.



# STRATEGIC OBJECTIVES

To achieve our Mission and position ourselves to be able to realise our Vision we also agreed the following strategic objectives with our Owner.

## Objective 1: Service

**To assess customers' needs and expectations regularly and deliver services which meet or exceed those standards published in the VA's 2005/06 Service Charter and detailed in its Corporate Plan.**

Below are some of the activities, initiatives and standards we implemented and achieved during 2005/06 in support of this strategic objective:

- all of the standards we aspired to in our 2005/06 Service Charter were achieved, and in many instances exceeded (see Annex B);
- we carried out regular, targeted research into our different customers' needs on many diverse aspects of the service we provide;
- we actively sought customer perception of distinct areas of our business. Contact with customers and their representatives was extensive and provided regular feedback on the quality of our services;
- we received feedback via the many organisations that represent the ex-Service community. At a national level, we consulted via the Central Advisory Committee on War Pensions (CAC), which brings together senior ex-Service figures under the Chairmanship of the Minister for Veterans;
- we used our Mobile Advice Units in order to promote our services and make them more accessible. This enabled face-to-face contact with many customers who would otherwise be limited to telephone or letter;
- the WPWS and our public relations team held a number of publicity and advice events, successfully reaching significant numbers of potential customers;



- in order to increase our staff's awareness of the concerns and problems encountered by our customers, we ran a programme of 'Lunchtime Presentations' where speakers from other parts of the MoD or ex-Service organisations provided an insight into aspects of Service life or disabled living;
- some staff took part in Service Familiarisation Visits and spent time with various Army Units. VA staff also went on secondment to the coalition forces in Iraq. Other initiatives to enhance VA staff awareness of their customers included participation in the annual 'Ski Bob' event in Austria for amputees run by The British Limbless Ex-Service Men's Association;
- in the last quarter of the year we planned and implemented the first regional publicity campaign to raise awareness of the free Veterans Helpline service. The campaign, which was launched by the Minister for Veterans, was piloted in the Tyneside area in March 2006 and it resulted in an increase of approximately 33% in calls to the VA;
- in June 2005 the Agency was again the overall winner of a prestigious Chartered Institute of Public Finance and Accountancy (CIPFA)/ PricewaterhouseCoopers public reporting and accountability award in its category of national organisations with a turnover of £50m or less;
- in November 2005 the VA won the North West Business Excellence 2005 Award for public sector organisations with over 250 employees. The annual award is presented by Excellence North West whose jury gave the Agency top place based on evidence gathered by a team of assessors that visited its Norcross headquarters in June 2005. The assessors' report noted "the organisation was seen to be always striving to improve the services it delivers"; and
- these activities and initiatives, and many others like them, helped the Agency undergo a successful Charter Mark Surveillance Review in November 2005. The experienced assessor was extremely complementary about the Agency's achievements and stated we were the best organisation he had ever assessed against the Charter Mark Standards. The VA has now been accredited with Charter Mark continuously since 1998.



## Objective 2: Personnel

**To assess staff's needs and expectations regularly and create and maintain a working environment which enables the VA to recruit, motivate and retain a skilled, committed and effective workforce.**

Below are some of the activities, initiatives and standards we implemented and achieved during 2005/06 in support of this strategic objective:

- annual Agency-wide staff surveys have been conducted since 1998; and staff satisfaction levels have increased over that period. Key areas for improvement identified from these surveys are fed into the VA's planning process. At the same time, performance against targets and customer satisfaction levels has also improved;
- we operated a range of 'family friendly' policies during 2005/06 to help staff balance their work and home lives. These included flexible hours, part-time/term-time working patterns and assistance with childcare costs on holiday play-schemes;
- learning and development was an integral part of the organisation and included induction/job training, external and further education schemes, an on-site open learning centre, job shadowing and protected time for the professional development of Medical Advisers (MAs);
- medical revalidation is the regular demonstration by doctors that they are up-to-date and fit to practise in their particular speciality. During 2005/06 we continued to support the professional development of our MAs to ensure they are well placed to fulfil all future requirements of the General Medical Council; and
- we have improved our staff communications with regular e-mail business bulletins, a monthly magazine and an enlarged intranet. Various displays and events focusing on specific topics of interest were also held throughout the year.

## Objectives 3, 4 and 5: Working in Partnership

**To develop more 'joined-up' services by continuing to co-ordinate the efforts within, across and outside departmental boundaries of all those involved in the delivery of the VA's services, particularly with Armed Forces Personnel Administration Agency (AFPAA), the DWP, the Department for Constitutional Affairs (DCA) and the ex-Service and other voluntary organisations.**

**To work with AFPAA to identify opportunities for working more closely together and delivering services in the future that make optimal use of the shared skills and resources available across the two Agencies.**

**To evaluate and improve the key processes, procedures and systems needed to support the administration of the new AFCS by working closely and effectively with AFPAA, Defence Medical Services and other key departmental and external stakeholders.**

Below are some of the activities, initiatives and standards we implemented and achieved during 2005/06 in support of these three strategic objectives:

- we continued to work in partnership with other parts of the MoD such as AFPAA and with the DCA when processing claims and appeals. The result is that in 2005/06 we were able to achieve an end-to-end average clearance time for appeals under the War Pensions Scheme of 217 working days against a KPT of 225 working days (see Annex A);
- VA staff worked with other parts of the MoD such as AFPAA, Service Personnel Policy and Defence Medical Services to (a) develop the AFCS's new policies, (b) assess and enhance the new Scheme's medical evidence- and Service evidence-gathering procedures and (c) further develop the supporting, rules-assisted software and other IT infrastructure required to administer the new Scheme;

- we worked in partnership with colleagues in AFPAA to design, develop and implement a single point of contact for dependants of death-in-Service cases. This new facility made use of the national Veterans Helpline (0800 169 2277) and it was introduced in June 2005;
- we have learned important lessons from our work with colleagues in AFPAA over problems with the effective transfer of information between our organisations (Projects Scribe, Haven and Collins) and from our review of the past administration of the Far Eastern Prisoners of War (FEPOW) scheme, and are now actively managing changes to systems and processes to ensure that past problems do not recur;
- our partnerships with WPCs continued to provide us with another mechanism to keep in touch with our customers at a local level. In addition to the WPC Chairmen's Conferences that we hold twice a year, we met regularly with WPCs to discuss all aspects of war pension legislation and the services that we offer. We managed regional focus groups that asked panels of customers what good service meant to them and how we measured up;
- we were heavily involved in supporting many of the events planned to celebrate the 60<sup>th</sup> anniversary of the end of WWII. We administered ticketing arrangements, produced promotional material and launched a national web-based calendar of events. These achievements demonstrate our capacity to provide a flexible service in support of event organisers, and we will not stint in our efforts to contribute to a successful and memorable commemorative Programme in 2006;
- we launched a successful regular newsletter entitled *Veterans WORLD* which grew from an initial readership of 2000 to a readership of over 9000 by the end of March 2006;
- our public relations team completed a busy conference programme targeting professional advisers in a number of key sectors to raise awareness of veterans, their issues and concerns and knowledge of the national Veterans Helpline;
- the Agency worked closely with colleagues in MoD and the ex-Service community to deliver key messages about the Veterans Initiative to as wide an audience as possible, particularly in the run up to and during the first ever Veterans Awareness Week (1 July 2005 to 11 July 2005 inclusive);
- we managed partnership arrangements with ex-Service organisations to regularly review the standards of our welfare service and refine its delivery;
- the WPWS continued to enhance its partnerships with ex-Service organisations to deliver joint events on Veterans Awareness, whilst advisory sessions were held at events such as the Royal British Legion Conference. Local self-support groups are held with Combat Stress and regular case reviews are held between ex-Service representatives and welfare managers;
- we directed and produced a new DVD to raise awareness of veterans issues, using three case studies of ex-Servicemen who had been supported by the VA and a range of voluntary organisations. The DVD was presented by Simon Weston (veteran of the Falklands conflict) and was distributed nationwide;
- staff in the WPWS continued to work with tri-Service groups, and customer service improvements have been secured in the areas of resettlement, medical discharge and death in Service. These improvements have been achieved by forging closer links and working relationships with the appropriate Service areas; and
- we worked closely with AFPAA colleagues during 2005/06 to identify any opportunities for improved and closer working arrangements aimed at enhancing customer service and efficiency. The continued development of this agenda will be a top priority for the immediate future.

## Objective 6: Efficiency

To manage administration costs in the light of workload changes and revise working practices to maintain optimum levels of productivity and performance, and ensure that value for money is achieved.

Below are some of the activities, initiatives and standards we implemented and achieved during 2005/06 in support of this strategic objective:

- we regularly reviewed and controlled our financial information through budgeting and expenditure reviews; and our integrated approach to financial, personnel and work programme planning helped ensure our objectives and targets were achieved in the most cost-effective manner;
- we used internal Financial Advisers to help closely monitor and control administrative expenditure across the Agency, with responsibility and accountability for managing work and outputs within agreed financial allocations devolved and delegated to Agency managers, wherever sensible;
- the Agency's Gateway Committee considered, analysed and challenged new initiatives and issues that may have had an impact on the Agency's existing Work Programme. This process helped to ensure that proposed changes to working practices provided optimum business delivery, fully supported MoD/ VA strategies, priorities and Values; and were affordable and manageable;
- our annual assessment against the European Foundation for Quality Management (EFQM) Model was conducted at Agency level, whilst the WPWS and IPPH conducted additional, separate self-assessments. As part of our continuous improvement ethos, a number of benchmarking exercises took place to seek out best practice in both the public and private sectors; and
- we continued to promote secure and efficient methods of payment for pensions via our on-going involvement with the programme of Payment Modernisation. Since this was initiated in October 2002, the percentage of our customers who receive their benefit by direct payment has increased from 58% to 98.2%.

## Objective 7: Technology

To harness new technologies, as appropriate, to improve customer service, enhance customer access and deliver greater operational efficiency.

Below are some of the activities, initiatives and standards we implemented and achieved during 2005/06 in support of this strategic objective:

- improving our information systems and information technology is key to the future delivery of the VA's services. During 2005/06 we continued to work closely with colleagues in the MoD to develop the new IT systems needed to deliver the new AFCS; to explore a long-term strategic approach to modernising our processes and systems which is consistent with the MoD's IT strategic direction; and to manage the link to the National Health Service's intranet that provides enhanced electronic access to patient records;
- we continued to enhance the veterans website ([www.veteransagency.mod.uk](http://www.veteransagency.mod.uk)) ensuring that all content was relevant, accurate and accessible. The site attracted increasing use, and during 2005/06 over 278,000 unique users accessed the site compared to approximately 205,000 during 2004/05. The section on Service Records was again consistently the most used facility; Medals and Links to Veterans Organisations also showed high usage;
- we continued to ensure that our services were more accessible to our customers, many of whom are elderly: our Internet site now meets all 10 National Audit Office criteria for accessibility for older people, a minicom system was available to assist our deaf customers and the range of our communication media available in Braille, Welsh and on audiotape was extended; and
- we communicated with customers in a variety of ways to meet their individual needs during 2005/06. Our telephone Veterans Helpline remained a Freephone and continued to provide a one-stop MoD access point for individual veterans and their families. During 2005/06 the Veterans Helpline answered almost 314,000 calls. We have a range of information and advice leaflets which all use plain English; and information on our business and its services is still available on the Agency's internet site.

## Objective 8: Corporate Governance

To continue to develop and maintain the systems and controls needed to deliver the highest standards of corporate governance in accordance with best practice and statutory requirements.

Below are some of the activities, initiatives and standards we implemented and achieved during 2005/06 in support of this strategic objective:

- MoD Defence Internal Audit (DIA) conducted an agreed programme of audits during 2005/06. One of these audits considered the Agency's financial management control over WPS benefit expenditure, and specifically the Agency's ability to explain fluctuations in that expenditure. DIA made recommendations to strengthen control in this area. These recommendations were accepted by the Agency and are now being put into practice;
- the VA's Assurance Team undertook a supporting and complementary programme of lower-level Compliance Reviews during the year. This activity confirmed that, in many areas, the Agency's systems and controls were robust and adequate; but, perhaps more importantly, the Assurance Team identified - and made recommendations to address - areas for improvement which are now being actively managed;
- the VA's Audit Committee monitored and controlled a range of corporate governance activities across the Agency during 2005/06; and progress against agreed recommendations for improvement made by DIA, National Audit Office (NAO) and the Agency's Assurance Team was systematically reviewed and managed;
- Business Plans (BPs) for 2005/06 were reviewed and agreed with each VA Functional Area (FA) manager. These individual BPs detailed the specific Key Performance Indicators (KPIs) that supported each of the Agency's 2005/06 KPTs or other business objectives. Progress was closely monitored monthly by the VA Business Planning Team and reported to the Agency Management Team (AMT) and VA Programme Board, as appropriate;
- the VA's new risk management methodology provided more structure to the management of low-level risk. Using their new BPs, VA managers recorded actions, updated existing controls and reviewed the status of any identified risks on a regular basis. A DIA audit of the new Risk Management Framework suggested some areas where the Agency's management of high-level risk might be improved. These are scheduled to be addressed during 2006/07;
- we completed a programme of security risk assessments which helped strengthen VA processes and counter the risk of internal fraud; and allegations of fraud or abuse of benefits continued to be investigated and during 2005/06 over-paid benefits totalling more than £1.659 million were successfully recovered. The information gained from our investigations is used to help identify areas for improvement in current procedures and develop appropriate preventative controls.

# LOOKING AHEAD



Tim Taylor

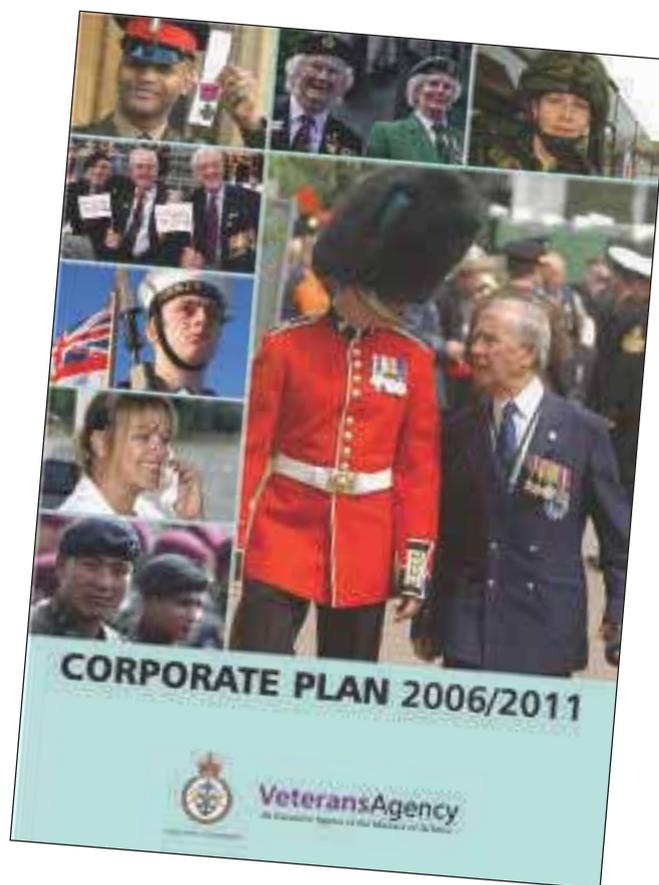
In the few weeks since I took over from Alan Burnham as Chief Executive of the Veterans Agency it has become clear that I have inherited an organisation which is in good shape and delivers a high quality of service to its customers. The last five years have seen a succession of major changes for the Agency and its staff. It will be

clear to the reader that 2006/07, and the years that follow, will also be a time of change and challenge. But this is an Agency which is used to change, and not afraid of it. I am confident that, once again, we will respond positively to the challenge without diluting the deep commitment to meeting the needs of those we serve which lies at the heart of VA's values and culture.

VA has achieved notable success in recent years in reducing the time taken to process claims, and in sustaining high levels of financial and medical accuracy. Timeliness and accuracy will remain important priorities, but we will also explore what scope there is to measure and improve the less tangible aspects of the quality of service. We will publish our 2006/07 KPTs in our 2006/11 Corporate Plan and we will publish our 2006/07 Service standards in our 2006/07 Service Charter.

It will also be important to maintain momentum on raising awareness of the services we provide among the veterans' community, and of veterans themselves, their achievements and contribution, within society at large. There may be wider scope for improving processes by taking advantage of new technology and learning from best practice elsewhere; and for making the most of our partnerships with other organisations involved in helping veterans. Veterans Day will play a pivotal role in this process, and VA will be seeking to publicise its services both locally and nationally.

A major challenge for the coming year will be to begin preparatory work for the establishment of a new Agency which will bring together both the Veterans Agency and the AFPAA. There are a number of areas where the services provided by the two agencies overlap, and there are significant



potential benefits for our customers from being able to access the whole range of services currently provided by the two agencies from a single point of contact. Bringing together the two agencies will also facilitate the development of integrated business processes and IT, leading in due course to further improvements in services for both serving and retired members of the Armed Forces.

Finally, in an environment of change, it is time also to take stock of the skills and experience we have within the Veterans Agency, and of those we are likely to need into the future, so that we can plan our future training and development to meet those requirements. The Agency's people are its most important asset, and meeting their needs will be crucial to our continuing ability to meet the needs of the veterans.



# **MANAGEMENT COMMENTARY: 2005/06**

## **Part 3: Financial Review**

## Budgetary Structure

VA operates a resource budget - VA Management Group - within the Higher Level Budget of its Owner, DCDS(Pers). The CE, as Agency Accounting Officer, is directly accountable to the Permanent Under Secretary for the propriety and regularity of the VA's administrative expenditure and the adequacy of any associated financial systems. The CE is directly accountable to the Owner for the efficient and economical conduct of VA business.

## Funding

The VA is an On-vote Agency of the MoD. As such, funding is provided by the MoD from its Request for Resources 1 in the Annual Supply Estimate.

## Programme Expenditure

The Agency is also responsible both for the payment of war pensions and war widows pensions which for the year ended 31 March 2006 totalled £1.069 billion (2004/05 was £1.110 billion), ex-gratia payments to FEPOW which totalled £3.7 million (2004/05 was £1.6 million) and AFCS which totalled £574k (2004/05 : n/a). These amounts are provisional and final audited benefit/ compensation expenditure for the year will be disclosed in the Departmental Resource Account that is scheduled for publication later in the year.

## Financial Performance

Net operating costs for the year of £37.839 million have been charged to the General Fund. Net operating costs for the year excluding notional and non-cash costs were £32.420million and capital expenditure for the year was £89k. This expenditure was within an initial resource control total of £34.663 million.

## Going Concern

The Balance Sheet at 31 March 2006 shows negative Taxpayers Equity of £748k. This reflects the inclusion of liabilities falling due in future years that are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament to meet the Net Cash requirements of the MoD of which the Veterans Agency is part. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund by the MoD other than is required for the service of the specified year or retained in excess of that need.

In common with other government departments, the future financing of the Veterans Agency liabilities is accordingly to be met by future grants of supply to the MoD and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming and it has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

## Policy and achievements on the payment of suppliers

It is MoD policy to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to settle all bills within 30 days of receipt or earlier. The Defence Bills Agency (DBA), on our behalf, predominantly makes the payments to suppliers. Overall performance as reported in their accounts for 2005/06, was that 99.9 per cent of all certified bills submitted to them for payment were paid within 11 days.

## Pension Arrangements

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 2 of the Annual Accounts. The defined benefit schemes are un-funded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

## Auditors

The accounts of the Agency are audited by the Comptroller and Auditor General under section 7(3)(b) of the Government Resources and Accounts Act 2000. The fee of £45k (see Note 3a of the Annual Accounts) is in respect of statutory audit work.

As far as the Agency Accounting Officer is aware, there is no relevant information that the Agency's auditors have not been made aware of. Moreover, the Agency Accounting Officer has taken all appropriate steps to make sure he is aware of any relevant audit information, and establish that the Agency's auditors have been made aware of that information.



# **MANAGEMENT COMMENTARY: 2005/06**

## **Part 4: Annual Accounts 2005/2006**

# STATEMENT OF THE AGENCY'S AND ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Veterans 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 CE is answerable and for keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in 'Government Accounting'.

# STATEMENT OF INTERNAL CONTROL

## 1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Veterans Agency policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Permanent Under Secretary of State (PUS), as the Department's Principal Accounting Officer, is responsible for the overall organisation, management and staffing of the Department and for ensuring that there is a high standard of financial management, including financial systems, in the Department as a whole. The PUS is also responsible for those estimates from which the Veterans Agency draws its funds. I am accountable directly to PUS for the propriety and regularity of the Veterans Agency expenditure and for prudent and economical administration in compliance with Departmental rules.

As Chief Executive, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated by the Veterans Agency.

## 2. The purpose of The System of Internal Control

The System of Internal Control (SIC) is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The SIC is based on an on-going process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The SIC has been in place for the Veterans Agency (Administration) for the year ended 31<sup>st</sup> March 2006 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

## 3. Capacity to handle risk

Risk management and internal control are embedded in the day-to-day operations of the Veterans Agency business and management systems. Executive managers ensure that all staff understand the importance of robust management of risk. The Agency has adopted an assumption-based methodology to identify its risks. This process is the principal method for identifying low-level risks from the "bottom-up". The AMT also identifies high-level and longer-term risks from the "top-down".

## 4. The risk and control framework

Active management of risk is fundamental to the effective achievement of the Agency's Vision, Mission, Strategic Objectives, Key Performance Targets and other key deliverables. The VA framework for the identification and control of risk includes:

- **an Agency Audit Committee** (chaired by a Non-Executive Director): this Veterans Agency Audit Committee (VAAC) reports directly to the Veterans Agency Management Board (VAMB) and provides them with objective advice and support in the areas of risk, control, governance processes and associated assurances;
- **administrative procedures**: a published Risk Management Strategy and Risk Management Framework detail all the processes by which the Agency identifies, evaluates and controls risk;
- **management information**: the Agency's Functional Area (FA) Business Plans and Business Management System provide a Balanced Scorecard approach to the consideration of risks and offer a starting point for the identification, consideration, evaluation, control and reporting of risk;
- **regular monitoring of progress**: the Agency Business Risk Register, High-Level Risk Register and High-Level Risk Summary have scheduled reviews by the AMT, Agency Programme Board, VAAC, VAMB and Owner's Advisory Board; and
- **a system of internal and external assurance, compliance and audit**: this is managed by the Internal Assurance Team (IAT) supported by the NAO and DIA and overseen and monitored by the VAAC.

The IAT reviews the systems of internal control that underpin the working practices of the Agency to ensure that those systems are operating effectively; and to ensure that any MoD guidance, regulations and instructions are being complied with by Agency staff.

## 5. Business Continuity

Agency and FA Business Continuity Plans (BCP) are in place and provide robust arrangements for implementation should the need arise. The BCPs are reviewed every 6 months and tested periodically. From 2006/07 the Agency BCPs will be tested every 12 months.

## 6. Review of effectiveness

As Chief Executive of the Veterans Agency, I have responsibility for reviewing the effectiveness of the system of internal control. This review is informed by (a) the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework; and (b) comments made by external auditors in their Management Letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system by the VAMB and the VAAC.

A plan to address any weaknesses and ensure continuous improvement of the system is in place. The following measures are in place to maintain/review the effectiveness of the system of internal control:

- The Agency Directors meet regularly in order to review the strategic direction of the Agency. The AMT, comprising the senior managers of the Agency, meets periodically to consider the plans and strategic direction of the Agency;
- The VAAC gives me advice on the adequacy of internal and external audit arrangements and on the implications of assurances provided in respect of risk and control in the organisation;
- The VAAC and AMT monitor progress made on audit recommendations (made by the IAT, DIA and the NAO). These bodies also monitor progress with current initiatives and compliance with extant external requirements;
- Regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects;
- The DIA audit work programme is informed by an analysis of the risk to which the Agency is exposed, and annual audit plans are based on this. The analysis of risk and audit plans are approved by me and endorsed by the VAAC; and
- The internal IAT work programme is fed by mandated Cente Top Level Budget (CTLB) and Higher Level Budget (HLB) compliance reviews and aims to complement those audits completed by DIA and NAO. All accepted recommendations are monitored by the VAAC.

## 7. Significant internal control problems

My review of the effectiveness of internal controls has not highlighted any areas of significant weakness, although there is an emerging issue concerning the way information has been shared between VA and AFPAA. Some weakness has been identified in existing arrangements with potential impact on certain pension cases administered by AFPAA. This matter is presently being taken forward jointly by VA and AFPAA.

Signed:



Alan BURNHAM  
Chief Executive  
28<sup>th</sup> June 2006

# VETERANS AGENCY: 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 Veterans Agency for the year ended 31<sup>st</sup> March 2006 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 Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Agency and Chief Executive are responsible for preparing the Annual 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 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 25 to 26 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover 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 opinion

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<sup>st</sup> March 2006 and of the net operating costs, recognised gains and losses and cashflows 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
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

**John Bourn**  
**Comptroller and Auditor General**  
18<sup>th</sup> July 2006

**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London SW1W 9SP**

## OPERATING COST STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2006

	Note	2005/06 £'000	2004/05 £'000
<b>Administration Costs</b>			
Staff costs	2	(22,030)	(19,184)
Other administration costs	3	(16,796)	(15,746)
<b>Gross Administration Costs</b>		<b>(38,826)</b>	<b>(34,930)</b>
Operating income	4	987	1,856
<b>Net Operating Costs</b>		<b>(37,839)</b>	<b>(33,074)</b>

The Net Operating Costs arise wholly from continuing operations. No material acquisitions or disposals have been made by the Agency within the year.

## STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2006

	Note	2005/06 £'000	2004/05 £'000
Net gain on revaluation of tangible fixed assets	12	3	92

The notes on pages 32 to 46 form part of the accounts.

# BALANCE SHEET

## AS AT 31<sup>ST</sup> MARCH 2006

	Note	31 <sup>st</sup> March 2006		31 <sup>st</sup> March 2005
		£'000	£'000	£'000
<b>Fixed assets</b>				
Tangible assets	5		422	510
<b>Current assets</b>				
Debtors - amounts due within one year	7	146		216
Cash at bank and in hand	8	67		0
		213		216
<b>Creditors - amounts falling due within one year</b>	9	(1,383)		(2,283)
<b>Net current assets</b>			(1,170)	(2,067)
<b>Total assets less current liabilities</b>			(748)	(1,557)
<b>Provision for liabilities and charges</b>	10		0	0
			<b>(748)</b>	<b>(1,557)</b>
<b>Taxpayers' Equity</b>				
General fund	11		(755)	(1,761)
Revaluation reserve	12		7	204
			<b>(748)</b>	<b>(1,557)</b>

The notes on pages 32 to 46 form part of the accounts.

Signed:



Alan Burnham  
Chief Executive  
28<sup>th</sup> June 2006

# CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2006

	Note	2005/06 £'000	2004/05 £'000
<b>Net cash (outflow) from operating activities</b>	13a	(33,223)	(29,037)
<b>Capital expenditure and financial investment</b>	13b	(9)	(101)
<b>Financing from the Consolidated Fund</b>	13c	33,323	29,089
<b>Increase/(Decrease) in cash in the period</b>	13d	<b>91</b>	<b>(49)</b>

The notes on pages 32 to 46 form part of the accounts.

# NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2006

## 1.1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2005/2006 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.

## 1.2 Post Balance Sheet Events

On 1<sup>st</sup> April 2006, as part of a broader Departmental initiative the responsibility for accounting for fixed assets transferred to centrally controlled Single Balance Sheet Owners (SBSO). Those assets affected by this change will not therefore be reported in the Agency's balance sheet. Instead, they will be treated as operating leases under SSAP21 and the costs arising from their use will be communicated to the Veterans Agency by the asset owners, representing a charge to the operating cost statement. Alternatively, where the Veterans Agency retains the risks and rewards of ownership of a fixed asset then this will continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. There is no effect on the 2005/06 accounts as a result of this change and consequently no adjustments have been made to these financial statements.

The Under Secretary of State has announced the bringing together (merger) of VA and AFPAA. Work is now underway to provide joined up services from a unified Agency from April 2007. The future change in status does not affect the going concern principle and there is no effect on the 2005/06 accounts as a result of this change. Consequently, no adjustments have been made to these financial statements.

## 1.3 Accounting convention

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

## 1.4 Tangible fixed assets

Tangible fixed assets are stated at the lower of historic cost and current replacement cost, calculated using Office of National Statistics indices. Expenditure on tangible fixed assets is capitalised where the useful life exceeds one year and the cost of acquisition and installation exceeds £5,000. Additionally, grouped items of lower value are capitalised where the omission of the assets would cause the balance sheet to be materially understated. On initial recognition they are measured at cost including any cost such as installation directly attributable to bringing them into working condition. Internally developed software is not capitalised on the grounds of immateriality.

All tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations in accordance with FRS 15 every five years and in the intervening years by the use of published indices appropriate to the type of land or building. Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

Increases arising on revaluation, including adjustments to previous depreciation provisions (backlog depreciation), are taken to a revaluation reserve, whilst permanent diminutions in value are charged to the statement of recognised gains and losses until the carrying amount reaches its depreciated historical cost and thereafter to the operating cost statement.

## 1.5 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to nil on a straight-line basis over their estimated useful lives.

Asset lives are normally in the following ranges:

Computers	5 years
Plant & Machinery	10 years
Motor vehicles	4 to 10 years

## 1.6 Stocks

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

## 1.7 Operating Income

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

## 1.8 Net operating costs

Costs are charged to the Operating Cost Statement in the period in which they are incurred and matched to any related recoveries. A proportion of VAT can be reclaimed by direct recovery or by formulae agreed with HM Revenue & Excise. Transactions are shown net of VAT where it can be directly recovered from HM Revenue & Excise otherwise they are shown gross. MoD now collect and account for VAT centrally and hence there is no VAT debtor in the Agency's Accounts. Income from services provided to third parties is included in Operating Income.

## 1.9 Capital charge

A charge, reflecting the cost of capital utilised by the Agency, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5 per cent in real terms (2004/2005 rate was also 3.5 per cent) on all assets less liabilities, except for:

- a. intra-departmental balances; and
- b. cash balances with the Office of the Paymaster General (OPG), where the charge is nil.

## 1.10 Foreign exchange

Transactions, which are denominated in a foreign currency, are translated into sterling using the Department's General Accounting Rate (GAR) ruling appropriate to the month in which each transaction occurred. Monetary assets and liabilities are translated at the spot rate applicable at the balance sheet date. Exchange rate differences are dealt with in the operating cost statement.

## 1.11 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 2. The defined benefit schemes are unfunded and are non-contributory except in respect of dependents benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

## 1.12 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Agency, (i.e. a finance lease) the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease. The Agency currently has no finance leases.

## 1.13 Provisions

The Agency provides for legal or constructive obligations, which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 3.5 per cent).

## 1.14 Value Added Tax (VAT)

Most of the activities of the Agency are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

## 2. Staff numbers and related costs

Staff costs consist of:

	Total £'000	2005/2006		2004/2005
		Permanent Staff £'000	Ministers and Special Advisors £'000	£'000
Wages and salaries	17,757	17,757	0	15,997
Social Security costs	1,239	1,239	0	1,123
Other pension costs	3,034	3,034	0	2,064
<b>Total</b>	<b>22,030</b>	<b>22,030</b>	<b>0</b>	<b>19,184</b>

The total staff costs include a notional cost of £0.566 million which was incorrectly charged to the MoD Personnel Directorate.

The PCSPS of which all of the Agency's employees are members, comprises a number of unfunded multi-employer defined benefit schemes. The Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31<sup>st</sup> March 2003 and 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)).

For 2005/2006, normal employer contributions of £3.034 million were payable to the PCSPS (2004/2005 £2.064 million) at rates in the range 16.2 and 24.6 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme.

Employees, who joined after 1<sup>st</sup> October 2002, can opt to open a partnership account, a stakeholder pension with an employer contribution. Employer's contributions amounted to £Nil.

Salary costs include taxable payments representing reward for good performance. The Performance Management System (PMS) facilitates the awarding of annual bonuses to individuals in recognition of good performance and is the principal method of reward. The number of annual bonuses arising from the PMS is limited to a maximum of 50 per cent of staff (none were paid in 2004/05). In addition, there is a Special Bonus Scheme (SBS) to recognise one-off achievements. Currently, there is no limit set for the number of SBS awards within a financial year but the total value of the bonus payments should not exceed 0.4 per cent of payroll costs.

Wages and salaries increased from £15.997million in 2004/2005 to £17.757million in 2005/2006. The pay award accounted for only part of the increase with the remainder arising both in relation to staff costs originally charged to the MoD Personnel Directorate and subsequently charged as a notional cost to the Agency and from 2005/06 being the first year of the performance bonus scheme.

Other pension costs increased from £2.064million in 2004/2005 to £3.034million in 2005/2006 principally because of the increase in superannuation contributions.

## Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

	2005/2006 Number			2004/2005 Number
	Total	Ministers and Special Advisors	Permanent Staff	
Central Operations	649	0	649	662
War Pensioners' Welfare Service	130	0	130	140
Ilford Park Polish Home	57	0	57	42
<b>Total</b>	<b>836</b>	<b>0</b>	<b>836</b>	<b>844</b>

## Pension Schemes

Pension benefits are provided through the PCSPS, which is a defined benefit scheme and consequently prepares its own scheme statements. From 1<sup>st</sup> October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (Classic, Premium and Classic Plus). New entrants after 1<sup>st</sup> October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

### Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice-pensionable pay and also provides a service enhancement on commuting the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widows pensions.

### Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/80ths of the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

### Classic Plus Scheme

This is essentially a variation of Premium, but with benefits in respect of service before 1st October 2002 calculated broadly as per Classic.

Pensions payable under Classic, Premium, and Classic Plus are increased in line with the Retail Prices Index.

### Partnership Pension Account

This is a stakeholder-type arrangement, available to employees where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument.

### 3. Other administration costs

	Note	2005/2006 £'000	2004/2005 £'000
<b>Notional costs</b>			
Interest on Capital		(50)	(37)
Auditors' remuneration and expenses	3a	45	45
Intra-Departmental costs	3b	3,554	2,022
Inter-Departmental services	3c	1,207	1,249
	11	4,756	3,279
<b>Non-cash items</b>			
Depreciation	5e	190	284
Surplus on disposal of fixed assets	5b	(2)	(20)
Asset write on	5a	(46)	0
Impairment of fixed assets		(95)	90
Asset write-off		50	32
<b>Total notional and non-cash items</b>		<b>4,853</b>	<b>3,665</b>
Property management, accommodation & utilities		4,330	4,034
Staff training, safety and welfare		268	299
Medical Adjudication		2,645	2,658
IT and telecommunications		1,715	1,661
Legal and professional fees		838	753
Travel & subsistence		689	739
Rental under operating leases	- plant and machinery	58	64
	- other	9	16
Bank charges		78	53
Desktop stationery		170	164
Postal Services		359	233
Admin claims - special payments		326	88
Overseas agents fees		172	157
Order book encashment fees		32	1,012
Hospitality		1	0
Subscriptions to professional bodies		24	22
Publicity		100	52
Other		129	76
<b>Other operating costs</b>		<b>11,943</b>	<b>12,081</b>
<b>Total other administration costs</b>		<b>16,796</b>	<b>15,746</b>

- The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There are no fees included in respect of non-audit work.
- Intra-Departmental cost of £3.554 million comprises the cost communicated from AFPAA (£2.534million) to cover VA's shared usage of the Compensation and Pensions System (CAPS) and the charge for corporate services provided by Headquarters (£1.020 million). For 2004/2005 CAPS was reported as a part-year cost of £1.017million, which increased to a full year cost in 2005/2006.
- Inter-Departmental charges of £1.207 million which relate to the notional Post Office Card Account charges made by DWP.

## 4. Operating income

	2005/2006			2004/2005		
	Income included in Operating Cost Statement £'000	Payable to Consolidated Fund		Income included in Operating Cost Statement £'000	Payable to Consolidated Fund	
		Fund	Total		Fund	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Operating income analysed by classification and activity, is as follows:						
Fees and charges to external customers	884	0	884	739	0	739
Fees and charges to other departments	85	0	85	1,103	0	1,103
Miscellaneous	18	0	18	14	0	14
	<b>987</b>	<b>0</b>	<b>987</b>	<b>1,856</b>	<b>0</b>	<b>1,856</b>

An analysis of income from services provided to external and public sector customers is as follows:

	2005/2006			2004/2005		
	Income	Full Cost	Surplus/ (deficit)	Income	Full Cost (a)	Surplus/ (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Ilford Park Polish Home</b>	<b>884</b>	<b>(2,810)</b>	<b>(1,926)</b>	<b>739</b>	<b>(2,398)</b>	<b>(1,659)</b>
<b>Charges to DWP</b>	<b>71</b>	<b>(71)</b>	<b>0</b>	<b>1,103</b>	<b>(1,103)</b>	<b>0</b>
<b>Charges to DVLA</b>	<b>14</b>	<b>(14)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- The above information is provided for fees and charges purposes and not for SSAP 25 (Segmental Reporting) purposes.
- The financial objective of Ilford Park Polish Home is to deliver optimum occupancy rate, a 98 per cent occupancy rate has been achieved against this objective.
- VA's work on the Payment Modernisation Programme (PMP) was funded by HM Treasury via DWP given that they were key stakeholders in the scheme. Work on PMP concluded in 2004/2005 and this is the principal cause for the reduction in charges to DWP from £1.103million in 2004/2005 to £71k in 2005/2006.

## 5. Tangible fixed assets

	Note	Computers £'000	Plant & Machinery £'000	Transport £'000	Assets Under Construction £'000	Total £'000
<b>Cost or valuation</b>						
At 1 <sup>st</sup> April 2005		628	2	283	58	<b>971</b>
Additions	5a	81	0	8	0	<b>89</b>
Disposals	5b	(318)	(4)	(55)	0	<b>(377)</b>
Reclassification	5c	0	0	58	(58)	<b>0</b>
Revaluation	5d	(57)	2	44	0	<b>(11)</b>
<b>At 31<sup>st</sup> March 2006</b>		<b>334</b>	<b>0</b>	<b>338</b>	<b>0</b>	<b>672</b>
<b>Depreciation</b>						
At 1 <sup>st</sup> April 2005		346	2	113	0	<b>461</b>
Charged in year	5e	102	2	86	0	<b>190</b>
Disposals		(256)	(4)	(35)	0	<b>(295)</b>
Revaluation		(108)	0	2	0	<b>(106)</b>
<b>At 31<sup>st</sup> March 2006</b>		<b>84</b>	<b>0</b>	<b>166</b>	<b>0</b>	<b>250</b>
<b>Net book value at 31<sup>st</sup> March 2006</b>		<b>250</b>	<b>0</b>	<b>172</b>	<b>0</b>	<b>422</b>
<b>Net book value at 1<sup>st</sup> April 2005</b>		<b>282</b>	<b>0</b>	<b>170</b>	<b>58</b>	<b>510</b>

- Total additions in the year were £89k (2004/2005: £397k). These consisted of purchases of £31k, accrued assets of £11k and asset write-ons of £47k. The write-ons have been credited to the Operating Cost Statement in accordance with revised departmental practice.
- The surplus on the sale of fixed assets charged to the Operating Cost Statement in the year is £2k (2004/2005: £20k) which relates to the disposal of vehicles valued at £20k with a sale value of £22k. The disposal of IT relates to the write-off of equipment valued at £62k of which £54k relates to assets with a net book value of £500 or less following the Simplify and Improve Initiative.
- War Pensions Welfare Service Mobile Unit was under construction at the start of the financial year and was subsequently reclassified as transport upon completion.
- These figures relate to the application of the retail price indices and revaluation adjustments to ensure individual assets reflect their current open market replacement costs.
- Total depreciation charged to the Operating Cost Statement was £190k (2004/2005: £284k).

## 6. Movements in working capital other than cash

The movements in working capital used in the cash flow statement comprise:

	Note	2005/2006 £'000	2004/2005 £'000
Decrease/ (Increase) in debtors	7	70	218
Increase/ (Decrease) in creditors falling due within one year	9	(876)	819
Adjustment:			
Movement in working capital not related to net operating costs		0	0
Movement in working capital related to the acquisition/disposal of tangible fixed assets		3	(130)
<b>Net Increase/ (Decrease) in working capital other than cash</b>		<b>(803)</b>	<b>907</b>

## 7. Debtors

	31 <sup>st</sup> March 2006 £'000	31 <sup>st</sup> March 2005 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	70	136
Prepayments and accrued income	76	80
Provision for bad debt	0	0
	<b>146</b>	<b>216</b>

## 8. Cash at bank and in hand

	31 <sup>st</sup> March 2006 £'000	31 <sup>st</sup> March 2005 £'000
Balance at 1 April	0	25
Net Changes in cash balances	67	(25)
<b>Balance at 31 March</b>	<b>67</b>	<b>0</b>
The following balances are held at:		
Commercial Banks	67	0
Cash in hand	0	0
<b>Commercial banks and cash in hand</b>	<b>67</b>	<b>0</b>

## 9. Creditors - amounts falling due within one year

	31 <sup>st</sup> March 2006 £'000	31 <sup>st</sup> March 2005 £'000
Bank overdraft	0	24
Trade creditors - non-capital	450	779
Trade creditors - capital	11	130
Accruals and deferred income	922	1,350
	<b>1,383</b>	<b>2,283</b>

## 10. Provision for liabilities and charges

Early departure and pension commitments	2005/06 £'000	2004/05 £'000
Balance at 1 <sup>st</sup> April	0	553
Utilised in year	0	0
Uplift	0	0
Unwinding of the discount	0	0
Transferred to Centre	0	(553)
<b>Balance at 31<sup>st</sup> March</b>	<b>0</b>	<b>0</b>

From 2004/2005, the Department has provided the administration of pension payments to former Agency employees as a central service. The balance of the provision was transferred during 2004/2005.

## 11. Reconciliation of net operating cost to changes in general fund

	Note	2005/2006 £'000	2004/2005 £'000
<b>Net Operating Cost for the year</b>		(37,839)	(33,074)
Financing inflow		33,323	29,089
Notional costs	3	4,756	3,279
Non-cash staff costs	2	566	0
Transfer from revaluation reserve		200	2
<b>Net increase (decrease) in general fund</b>		<b>1006</b>	<b>(704)</b>
General fund at 1 <sup>st</sup> April		(1,761)	(1,057)
<b>General fund at 31<sup>st</sup> March</b>		<b>(755)</b>	<b>(1,761)</b>

## 12. Reserves

Revaluation Reserve	2005/2006 £'000	2004/2005 £'000
<b>Balance at 1<sup>st</sup> April</b>	204	114
Arising on revaluation during the year	3	92
Transferred to the General Fund	(200)	(2)
<b>Balance at 31<sup>st</sup> March</b>	<b>7</b>	<b>204</b>

The revaluation reserve reflects the cumulative balance of indexation and revaluation adjustments above historic cost. Reductions in value below historic cost are charged to the Operating Cost Statement.

## 13. Cash Flow

Notes to the Cash Flow Statement	Note	2005/2006 £'000	2004/2005 £'000
<b>(a) Reconciliation of net operating cost to operating cash flow</b>			
<b>Net Operating Cost</b>		(37,839)	(33,074)
Adjust for non-cash costs	2	566	0
Adjust for non-cash expenditure	3	4,853	3,665
Adjust for movements in working capital other than cash	6	(803)	907
Adjust for movement in provision	10	0	(535)
<b>Net cash (outflow) from operating activities</b>		<b>(33,223)</b>	<b>(29,037)</b>
<b>(b) Analysis of capital expenditure and financial investment</b>			
Purchases of fixed assets		(31)	(145)
Proceeds from the sale of fixed assets		22	44
<b>Net cash outflow from investing activities</b>		<b>(9)</b>	<b>(101)</b>
<b>(c) Analysis of financing</b>			
From Consolidated Fund		<b>33,323</b>	29,089
<b>Financing inflow</b>	11	33,323	29,089
(Increase)/decrease in cash		(91)	49
<b>Total cash requirement</b>		<b>33,232</b>	<b>29,138</b>
<b>(d) Analysis of the movement in bank balances</b>			
Movement in cash balance		67	(25)
Movement in overdraft balance		24	(24)
<b>Overall movement in bank balances</b>		<b>91</b>	<b>(49)</b>

## 14. Capital commitments

At 31<sup>st</sup> March 2006, capital commitments amounted to £Nil (2004/2005: £Nil).

## 15. Commitments under operating leases

	31 <sup>st</sup> March 2006		31 <sup>st</sup> March 2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
At 31 <sup>st</sup> March the Agency was committed to make the following payments during the next year in respect of operating leases expiring:				
Within one year	0	1	0	4
Between two and five years	0	6	0	25
After five years	0	0	0	0
	<b>0</b>	<b>7</b>	<b>0</b>	<b>29</b>

## 16. Contingent liabilities

Contingent Liabilities for the financial year 2005/2006 are £Nil (2004/2005: £Nil).

## 17. Related party transactions

The VA is an Executive Agency of the Ministry of Defence.

The Department was regarded as a related party. During the year, the Agency has had various material transactions with the Department or with other entities for which the MoD is regarded as the parent Department. These are DBA, Pay & Personnel Agency (PPA) and AFPAA.

In addition, the Agency had a significant number of material transactions with other Government Departments and other central Government bodies. Most of these transactions have been with the DWP, the Post Office ® Ltd. and the Foreign and Commonwealth Office.

None of the Board members or senior executives have undertaken any material transactions with the VA during the year.

## 18. Financial Instruments

### *Derivatives and other financial instruments*

FRS 13 requires disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of the Agency's activities and the way in which Government departments are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Agency has very limited powers to borrow or invest surplus funds and 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.

As permitted by FRS 13, debtors and creditors, which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### *Fair Values*

The fair values of all the Agency's financial assets and liabilities approximate to their book value.

### *Currency Risk*

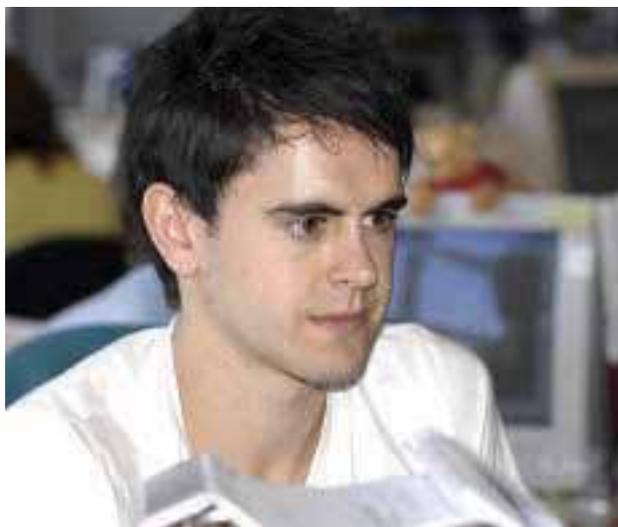
The Agency does not have significant assets, liabilities, income or expenditure denominated in foreign currencies. The Agency is not therefore exposed to significant currency risk.

### *Liquidity risk*

Resources voted annually by Parliament finance the Agency's net revenue resource requirements and capital expenditure. The Agency is not therefore exposed to significant liquidity risk.

## 18. Intra-government balances

	Debtors: amounts falling due within one year £'000	Debtors: amounts falling due after more than one year £'000	Creditors: amounts falling due within one year £'000	Creditors: amounts falling due after more than one year £'000
Balances with other central government bodies	29	0	909	0
Balances with bodies external to government	117	0	474	0
<b>At 31<sup>st</sup> March 2006</b>	<b>146</b>	<b>0</b>	<b>1,383</b>	<b>0</b>
Balances with other central government bodies	118	0	1,439	0
Balances with bodies external to government	98	0	820	0
<b>At 31<sup>st</sup> March 2005</b>	<b>216</b>	<b>0</b>	<b>2,259</b>	<b>0</b>



# **MANAGEMENT COMMENTARY: 2005/06**

## **Part 5: Annexes**

# ANNEX A

## VA KEY PERFORMANCE TARGETS: 2000/01 - 2005/06

Key Performance Targets	2000/01 Target (Achievement)	2001/02 Target (Achievement)	2002/03 Target (Achievement)	2003/04 Target (Achievement)	2004/05 Target (Achievement)	2005/06 Target (Achievement)
<b>Service</b>						
KT 1: To issue decisions on claims to war pension within an average of:	100 working days <b>(92 days)</b>	90 working days <b>(73 days)</b>	82 working days <b>(63 days)</b>	63 working days <b>(61 days)</b>	63 working days <b>(57 days)</b>	59 working days <b>(52 days)</b>
KT 2: To issue decisions on war widows' claims within an average of:	36 working days <b>(32 days)</b>	36 working days <b>(25 days)</b>	34 working days <b>(24 days)</b>	23 working days <b>(25 days)</b>	25 working days <b>(22 days)</b>	23 working days <b>(21 days)</b>
KT 3: To achieve a WPS claims quality/accuracy rate of at least:	90% - quality <b>(92.17%)</b>	94% - accuracy <b>(96.17%)</b>	95% - accuracy <b>(98%)</b>	97% - accuracy <b>(97.67%)</b>	97% - accuracy <b>(99.50%)</b>	97% - accuracy <b>(99.69%)</b>
KT 4: To achieve a AFCS claims accuracy rate of at least:	N/A	N/A	N/A	N/A	N/A	97% <b>(100%)</b>
KT 5: To achieve a medical adjudication accuracy rate of at least:	N/A	N/A	N/A	N/A	95% <b>(99.15%)</b>	97% <b>(99%)</b>
<b>Working in Partnership</b>						
KT 6: To work with the DCA's Court Service to reduce the average time it takes an appeal to pass through the war pensions appeals process by [x]% from 2000/01 baseline levels of 565 working days	N/A	10%: 508 working days <b>(42%: 329 working days)</b>	45%: 310 working days <b>(53%: 267 working days)</b>	56%: 250 working days <b>(61%: 219 working days)</b>	58%: 240 working days <b>(61%: 220 working days)</b>	60%: 225 working days <b>(62%: 217 working days)</b>
<b>Efficiency</b>						
KT 7: To use the Agency output costing methodology developed in 2002/03 to help identify and generate such administrative efficiencies and other savings as will enable the Agency to operate within a running cost baseline figure that is 3% less than its RDEL for that year.	N/A	N/A	N/A	<b>Achieved</b>	<b>Achieved</b>	<b>Achieved</b>

# ANNEX B

## VA PUBLISHED SERVICE CHARTER STANDARDS: 2005/06

Service Standard	Performance
Decisions on claims to war pensions should be issued within an average of 59 working days	52
Decisions on war widows claims should be issued within an average of 23 working days	21
A WPS claims accuracy rate of at least 97% should be achieved	99.7%
An AFCS claims accuracy rate of at least 97% should be achieved	100%
A medical adjudication accuracy rate of at least 97% should be achieved	99%
Appeals to war pension should be cleared within an average of 115 working days at Stage 1 of the process	107
Appeals to war pension should be cleared within an average of 100 working days at Stage 2 of the process by March	102
Appeals to war pension should be cleared within an average of 10 working days at Stage 3 of the process	8
Calls to the VA Helpline should be answered within an average of 20 seconds	Achieved
All recently-bereaved war widows should be visited within 15 working days of a request being received	Achieved
All written enquiries and complaints should be acknowledged within 5 working days of receipt	Achieved
All Chief Executive correspondence should be responded to within 15 working days of receipt	Achieved
All other written enquiries and complaints should be responded to within 10 working days of receipt	Achieved
All visitors should be attended to within 10 minutes of their appointment/arrival, whichever is the later	Achieved

Stage 1: VA referral of appeal and all associated documentation to the PAT;

Stage 2: DCA action to clear appeal by the PAT;

Stage 3: VA action on return of the appeal documentation from the PAT.

# ANNEX C

## VA RISK STRATEGY

**RISK MANAGEMENT** is defined as:

All activities involved in identifying, assessing and addressing risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress.

- Wherever possible, risk management activities should be integrated with other processes and management activities, particularly with Planning (strategic, business, programme, project and operational) and Performance Management.
- Risk Management should also be embedded into the organisational culture.

**RISK** is defined as:

An unstable or sensitive assumption which may cause a failure to meet an objective (or target, milestone, aim, plan) or have a significant or critical impact on delivery.

### **Risk Management Principles for the Veterans Agency**

- Senior Managers will foster a culture to support well-judged decisions about risks and opportunities, enabling innovation to be handled with confidence.
- The management of risk will be integrated into existing and new processes.
- Clear roles and definitions will be agreed relating to the accountability, management, escalation and communication of key risks.
- Risks will be managed at the lowest level at which the manager has the authority, responsibility and resources to take action.
- All managers will encourage openness and honesty in the reporting and escalation of risks.
- There will be a consistent approach to the identification and assessment of risks and opportunities.
- The effectiveness of risk management will be subject to challenge through regular systematic assessment.
- The Agency will strive to continually improve its management of risk.

These principles are embedded in the VA Risk Management Framework.

# QUESTIONNAIRE

## - Your comments are welcome

As part of VA's continuing process to improve the service we provide to our customers, we value your opinion on our products and services. We would be interested to receive your comments on the 2005/2006 Annual Report and Accounts.

Please use the tick box questionnaire below and the additional sheet to let us know your comments, and return to Veterans Agency, Room 6421, Norcross, Blackpool, Lancs FY5 3WP.

### Q1 WHAT WERE YOUR OVERALL IMPRESSIONS OF THE REPORT?

- |                          |                    |                          |              |
|--------------------------|--------------------|--------------------------|--------------|
| <input type="checkbox"/> | Interesting        | <input type="checkbox"/> | Useful       |
| <input type="checkbox"/> | Easy to understand | <input type="checkbox"/> | Unstructured |

Comments: \_\_\_\_\_  
\_\_\_\_\_

### Q2 WERE THERE ANY PARTS OF THE REPORT YOU PARTICULARLY DISLIKED?

- |                          |             |                          |        |
|--------------------------|-------------|--------------------------|--------|
| <input type="checkbox"/> | Wording     | <input type="checkbox"/> | Layout |
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Comments: \_\_\_\_\_  
\_\_\_\_\_

### Q3 WHAT IS YOUR INTEREST IN VA?

- |                          |                         |                          |                      |
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### YOUR DETAILS:

Name: \_\_\_\_\_

Organisation: \_\_\_\_\_

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### THANK YOU

You may use the space overleaf for additional notes.



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