The Oil and Pipelines Agency Account 2019-20

HC 639

£10.00

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

Ordered by the House of Commons to be printed on 22 July 2020

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The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent. In 2019, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.1 billion.

ISBN: 978-1-5286-1398-9

Printed on paper containing 75% recycled fibre content minimum

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

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Chief Executive's statement

I am delighted to present our Annual Report & Accounts for 2019-20 which has been another exciting year for the Agency. The Agency's Executive Team and Staff have worked diligently to deliver on our customer and shareholder commitments, whilst at the same time driving forward our compliance related project activities at all seven of our sites.

Over the year we have fully met the Royal Navy fuel demand requirements and safely stored product for our commercial customers. This has been achieved whilst continuing to support the construction of major projects at our two southern depots. At the time of writing the Covid-19 pandemic has not reduced our ability to provide fuel receipt, storage or delivery services to our customers, and our existing business continuity plans are proving to be robust and adaptable. The pandemic has, however, significantly delayed the work programme upgrading our non-compliant assets.

We still operate assets which require detailed maintenance inspections and further upgrade works. The age and condition of some of the Oil Fuel Depot assets continues to represent the primary risk to our operations. Our team is fully engaged with the Competent Authority (the Environment Agency, Scottish Environmental Protection Agency and the Health and Safety Executive) to ensure compliance with the Control of Major Accident Hazards (COMAH) regulations.

The Competent Authority set out 10 strategic priorities to reach COMAH compliance. The OPA continues to make significant progress against all these priorities and is now meeting the standard for 7 of these, including an 'exemplary' score in one area, with a robust plan for the remaining 3 to be achieved. The major investment programme required for primary containment and safety instrumented systems is fully funded and is being delivered on plan. Defence budgetary pressure is unlikely to ease in the foreseeable future and our focus remains on delivering the works programme at best possible value for money.

The Agency's primary asset is its people and keeping them safe is of fundamental importance. The Leadership Team has maintained a constant focus on Health and Safety and is continually pushing forward on our corporate safety culture. Ongoing investment in people's competency as well as supporting a significant apprenticeship programme will pay dividends for the business in the future.

I, along with my Senior Leadership Team and Board Members, regularly engage our site teams and we continue to see excellent teamwork and a real dedication to provide a first class customer service. I thank them all for keeping each other safe and for their unwavering commitment throughout the year and particularly whilst we deal with the impact of the pandemic crisis.

Adrian Jackson 20 July 2020
Chief Executive

Performance Report

Who we are

Our aim is to deliver the best oil storage and supply solutions for Navy Command now and in the future

The Oil and Pipelines Agency (OPA) is a Public Corporation, formed at the end of 1985 by virtue of The Oil and Pipelines Act 1985. Its duties, powers and general functions are prescribed by this Act.

Following the sale of the Government Pipeline and Storage System (GPSS) on 30 April 2015, the OPA's focus has been on the operation and maintenance of the Naval Oil Fuel Depots (OFDs) and the MOD's two active cavern storage sites.

The OFDs are strategic defence assets and are the responsibility of the Secretary of State for Defence. The fixed assets, together with any associated liabilities, are owned by the MOD and are accounted for in the MOD's Department Resource Account. The MOD exercises its sponsorship responsibilities for the Agency through the Directorate Sponsorship & Organisational Policy (DSOP).

The OFDs

The six OFDs receive, store and issue middle distillate fuels for Navy Command. Commercial customers utilise storage at two sites where spare capacity is available.

The two OFDs located in Southern England, at Gosport and Thanckes, support the adjacent HM Naval Bases namely Portsmouth and Devonport. There are four OFDs located in Scotland. The site at Garelochhead supports Clyde Naval Base, whilst OFDs at Loch Striven, Loch Ewe and Campbeltown provide strategic bulk storage and regional support to Royal Fleet Auxiliary tankers, and RN and visiting allied warships. All sites are supplied by sea.

The site at Gosport is currently undergoing a re-development and this forms our first major capital works programme (see below).

The active cavern storage sites

The Agency also has stewardship of two active salt cavern storage sites, which are former GPSS assets. These are located in the northwest of the United Kingdom near the village of Plumley in Cheshire. The sites consist of solution mined caverns used for the storage of hydrocarbons. The caverns were used as part of the UK's strategic reserve from the 1950s to the early 1980s and still contain crude oil and fuels. The caverns are top tier COMAH sites by virtue of their size, number and stock holding.

What we do

Our primary customer objective is to meet the supply demands of Navy Command. Second to this, is to optimise the value of the commercial contracts that utilise spare capacity, thereby contributing to the operation and management costs of the assets and reducing the cost to the Ministry of Defence and hence the cost to the taxpayer. Compliant and reliable assets are essential for the growth of this aspect of the business.

The Agency's statutory obligation to bring the OFD assets and operations in line with both the Control of Major Accident Hazard (COMAH) regulations and the Industry recommendations for Process Safety Leadership remains unchanged.

The focus of the Leadership Team has been on delivering the substantial future investment programme to renew and refurbish the OFD sites to meet the needs of Navy Command and conform to the requirements of the regulators both now and in the future. The MOD is fully committed to fund the capital investment required in the OFDs to ensure achievement of the goal of full compliance by March 2022.

Overview

Main activities in year

Provide an excellent service to our primary customer, Navy Command

An excellent working relationship has developed between the Agency and Navy Command. Navy Command have confirmed that all key deliverables in regard to marine fuel receipt, storage, and delivery, and jetty services, as outlined in the Service Level Agreement for 2019/20, have been met within budget.

Utilise spare capacity for commercial use

Offering surplus storage capacity beyond Navy requirements to the market has reduced the annual running costs charged to MOD while retaining tanks which could be returned to Navy service if requirements change. Commercial contracts utilising irreducible capacity generate approximately £3m per annum. Further commercial opportunities at all sites are actively pursued.

Capital works programme

The substantial capital works programme needed to bring the portfolio of assets to regulatory compliance has been a major focus throughout the year, not least through the continuation of the Gosport Tank Farm re-development. The operational lives of the tanks at Gosport expire by the end of 2021 and their progressive replacement is essential for the site to remain in service and meet the needs of Navy Command. The Agency is working actively with Navy Command and Defence Infrastructure Organisation (DIO) to build the required new storage through joint teams that are now well established. Construction of the tank farm commenced in March 2018 with 11 end of life tanks being removed. 6 new tanks are being built and the first 2 tanks were commissioned in October 2019. Works are still progressing well despite COVID-19 as the projects were deemed critical national infrastructure, and the project is currently due to complete in August 2021, with appropriate mitigations in place if this is delayed.

The environmental remediation project for part of the Gosport site was completed with known contamination removed in an environmentally sound manner and a steel membrane installed on the waterfront to protect Forton Creek in the future.

The jetty at Thanckes is to be replaced by 2021. The project to build the new jetty in parallel with the old jetty has made significant progress with the piling almost complete. The project also involves replacing the site fire main, with installation progressing well. The tank farm at Thanckes will also be re-developed by 2025/26 through a rolling programme due to the obsolete construction methodology of the existing tanks. They are to be replaced with tanks meeting current engineering standards.

The completion of the works at Gosport and Thanckes are time critical and fundamental to the Agency being able to meet its customers' demands.

Tank inspection programme

A major focus of the Agency's compliance activity is the tank inspection programme. All tanks are being inspected to the Engineering Equipment and Materials Users Association (EEMUA) standards and where necessary remedial work undertaken to bring the assets back into operation. The target completion date for this programme is 2021- 22.

As of April 2020, there were 24 tanks in maintenance and 17 non-compliant tanks in use with their inspection overdue. For comparison, in April 2015 we had 63 non-compliant tanks in service, a figure reduced by 46 with the works to date over the 5 year period. We plan to remove 9 non-compliant tanks from service in 2020-2021 with a further 3 tanks brought into service to augment our capacity at Campbeltown and Garelochhead. In addition to the inspection and upgrade work carried out to date, there will be a requirement to re-inspect a further 6 tanks during 2020-2021 as part of the rolling forward programme. Remotely operated shutoff valves (ROSOV) are to be fitted to 17 tanks during the same period in order to meet COMAH standards.

There have been considerable delays towards the end of this financial year with the outbreak of COVID-19 causing an almost immediate stop to all on-site works. The majority of these works were located in Scotland where the government guidance to halt in regard construction was mandated. The full extent of the impact will not be known until current government restrictions are lifted but we expect it to be significant. We are actively engaged with our stakeholders to ensure the programme is finished as quickly as practicable.

Performance Summary

How have we performed?

The Board assesses OPA's performance against its objectives by regularly reviewing the Key Performance Indicators, and the performance plans associated with each of the Agency's main objectives. The KPIs used for measuring the Agency's performance against its objectives have been agreed with the Agency Board and its primary customer Navy Command. They are set out in the associated Service Level Agreement ('SLA') with key metrics summarised below.

Operations

499 million litres of fuel issued (307 million in 2018/19)

Depots available for fuelling **98%** of the time

0 litres of off-specification fuel issued

Customers

The obligations of the **SLA** with **Navy Command** were met during the year. The SLA includes, but is not limited to, the provisions of the following services:

- COMAH safety duty holder covering emergency response, health safety, environmental, engineering compliance, planned preventative maintenance and security responsibilities at all OFDs on behalf of Navy Command.
- Issue, receipt, storage and processing of fuel and related fuel products
- Fuel quality and testing to ensure the appropriate level of fuel quality
- Berthing and jetty services are provided as needed

Health, Safety & Environmental Protection

***Loss of Containment**
Five incidents of less than 200 litres versus a target of less than 10.
One incident of greater than 200 litres.

All incidents were identified and dealt with effectively.

***NO** enforcement notices issued during the year against a target of zero (Zero issued in 2018-19)
Meeting target

26 planned health and safety audits completed.
(Target 24)
There were 12 overdue actions, arising from the audits, at the year end.

Zero
Employee Health and Safety reportable injuries in year Target Zero.

***Tanks -** 40 compliant tanks in service. Reduced the number of non-complaint tanks in service to 17.
70% of tanks in service now compliant.

Performance, People & Finance

***2.45%** of hours have been lost through absence. This is below our target of 2.9%.	**Agreed services** delivered within **agreed budget**	**Zero** personal data related incidents. Target Zero
***Aim for a continued reduction** in legal actions issued by the Competent Authority 4 2018/19 vs 5 in 2019/20	***Major Accident Hazard Planned Preventative Maintenance** 99% of these have been completed on time versus a target of 100%	Awarded **FULL ASSURANCE** for Financial Controls from DIA Audit
£99k net income after taxation		**£19.7 million** in MOD fees charged for the year (£20 million in 2018-19)

* These statistics form part of the Key Performance Indicators that are reported to, and regularly reviewed by, the Board and other key stakeholders.

Commercial contracts

The Agency continues to provide commercial storage where possible as part of its strategy to utilise spare capacity. The Agency was praised for good fuel husbandry and was deemed to have met its obligations under the contracts by its main commercial customer.

Tank programme

At the end of the financial year, OPA had 40 compliant tanks in service (2019: 39) and has also reduced the number of non-compliant tanks in service to 17 (2019: 20). As mentioned earlier in this report, the tank integrity program has experienced delays as a result of the COVID-19 pandemic and it is likely to be difficult to achieve full compliance of all tanks in service by March 22, a rebased plan is being worked up to ensure as quick a compliance program as possible.

Capital Works Programme

During FY2019/20 the OPA Gosport site has seen the continuation of a major capital works programme at Gosport. The new site is designed to meet the current engineering codes and safety standards and will continue to meet the future operating needs of the Navy and Queen Elizabeth Class Aircraft Carriers based out of Portsmouth for many years to come. In October 2019 the first 2 new tanks were commissioned on time.

The Gosport tank farm project was able to continue during the COVID-19 pandemic following a full review of working arrangements to ensure safe practices, including social distancing, could be maintained. All "desk" personnel work from home with meeting rooms being used as mess rooms to allow for social distancing. Whenever new teams are needed extra areas are made available by the main contractor, usually by bringing in more welfare facilities. OPA are part of an Integrated Project Team (IPT) supporting DIO on this project. This collaborative approach is new for DIO and is working well using the strengths from both Agencies. OPA continues to work closely with the team on site to safely deliver the capital project on-time, on-budget and to specification.

OPA are also progressing a similar project at the Thanckes site, where the tanks are a similar age (circa 1920s). The expertise and experiences gained from the Gosport project will be utilised by OPA to underpin successful delivery at Thanckes. The OPA is currently developing, with Navy Command, the Outline Business Case (OBC) for this phased construction project.

People

The Agency continues to implement its recruitment and retention strategy as well as its competency management strategy to underpin the OPA's Corporate Business Plan 2017-2026. The principal challenges facing the organisation going forward are an ageing workforce and the requirement for enhanced technical skills as new control rooms, permitting the remote operation of pipes and tanks, are installed at all of our operational sites over the next two years.

Over the last three years we have recruited a number of apprentices and multi-skilled some of our current Operators through recognised apprenticeship programmes to produce an effective succession planning process and fill some of the skill shortages. We have recruited local people within the locations of the Depots. Some of these apprentices are coming to the end of their apprenticeship and are being offered full-time positions across the Depots with the following advantages:

- Loyalty and longevity from Apprenticeship.
- Mould apprentices to OPA Core values.
- Tailored apprenticeship program to suit the OPA requirements and needs and making them more flexible for the needs of the business.
- Investment in the OPA for the future.
- Cost- effective way to develop young people within the OPA that shows succession planning.

Performance Analysis

Sustainability and Environmental Impact

The Agency works hard to consider its environmental impact. This includes recycling most of its waste, where possible. Efficiencies with IT enable much more digital working thus reducing printing and the use of paper and the use of video conferences lessens the environmental impact of travel.

We avoid any unnecessary travel and we encourage our staff to work from home where possible and where appropriate.

We are mindful of our power usage and make efficiencies where appropriate including the installation of energy efficient lighting when assets require replacement.

The Agency takes its environmental responsibilities seriously. It has a number of policies in place to ensure that all staff are aware of the environment and that appropriate risk assessments are conducted prior to work being undertaken. Environmental risk assessments are carried out at each site in accordance with its COMAH requirements.

Finance

Our financial plan has three main objectives:

- To ensure OPA's Business Plan is deliverable.
- To increase value for money through tight control of our costs and utilisation of spare capacity.
- To invest in our facilities to support efficient working and provide a sustainable, compliant infrastructure that meets regulatory compliance and future needs.

The financial objective of the Agency is to contain its normal operating and administrative expenses, before non-cash pension fund adjustments, within its allocated budget and to recover actual costs as a management fee from the Secretary of State for Defence. There is currently a 3 year fixed fee SLA in place with the Secretary of State which is due to end in March 2022. This reflects the OPA's and NC's joint commitment to completing the journey to compliance.

After adjustment for non-cash pension fund adjustments the Agency's result for the year was:

	2020	**2019**
Net income (expense) after taxation	£99,000	£ 31,000

The Agency receives income from Navy Command, Defence Infrastructure Organisation (DIO) and commercial customers in respect of services provided to each. This income covers the Agency's actual costs.

Cost budgets are set at the beginning of each year for activities on the sites. The FY2019/20 budgets are detailed below with actual expenditure for the year as a comparison. The impact of COVID-19 at the end of the financial year resulted in an under spend as works were suspended:

	Budget	**Actual**
Operations & Maintenance	£ 17.6m	£ 17.5m
Investment in New Assets	£ 4.8m	£ 3.5m
Works on behalf of DIO*	£ 2.4m	£ 1.7m

*The Agency undertook two significant pieces of work on behalf of DIO: namely maintenance of the GPSS residual sites and support of the Gosport Tank farm project.

The Agency is in a position of strong liquidity with £3 million in a long-term savings account. These cash reserves are maintained to meet costs that could arise in the event of the Agency being wound up and/or sold, including potential commitments to ensure sufficient funds are available to meet pension liabilities.

Long term expenditure trends

Long term expenditure trends are detailed in the table below based off the annual budget cycle submissions to our main customers – Navy Command and Defence Infrastructure Organisation (DIO).

	19/20	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	**26/27**	**27/28**	**28/29**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£’000**
Expenditure										
Staff costs	**(7,747)**	(8,685)	(8,016)	(6,488)	(6,510)	(6,672)	(6,839)	(7,010)	(7,185)	(7,365)
Maintenance expenditure	**(10,877)**	(13,696)	(10,334)	(9,697)	(8,824)	(7,855)	(7,400)	(5,698)	(5,514)	(5,825)
Other expenditure	**(4,043)**	(3,557)	(3,678)	(3,528)	(3,461)	(3,530)	(3,573)	(3,769)	(3,845)	(3,922)
Total expenditure	**(22,667)**	(25,938)	(22,028)	(19,713)	(18,795)	(18,057)	(17,812)	(16,477)	(16,544)	(17,112)

This expenditure table excludes the capital costs on the Gosport Tank Farm and Thanckes Jetty projects currently paid via the DIO whom is the contracting authority for these capital works. The OPA is the technical authority on the Tank Farm project and incurs staff costs associated with the design and delivery of these projects. These staff costs are recharged to the DIO which is why there is fluctuation in staff costs year by year. The staff associated with running the OFDs in steady state remains similar over the 10 year look ahead. Post compliance the staff costs will reduce to reflect the end of the period of significant investment in the OFDs.

The Agency continues to grow as we support additional activities for the MOD and increase our commercial offering. Maintenance expenditure is forecast to grow next years as we gain compliance against the COMAH standards by 2022. Significant investment is required at our Garelochhead site to ensure continuity of supply for the Royal Navy. Following the completion of the compliance journey total expenditure reduces reflecting the additional investment that has been made in the assets over the previous six years.

Retirement Benefits Pension Schemes

Information on the Agency’s pension schemes can be found in the Remuneration and Staff Report, Accounting Policies note 2 g) and note 11 to the accounts.

Payment of trade and other payables

It is the policy of the Agency to negotiate terms with its suppliers and to ensure that they know the terms on which payment will take place when business is agreed. It is the Agency’s policy to abide by the Better Payment Practice Code to pay within 30 days of invoice date - in FY19/20: 94% of invoices were paid within this target (FY18/19: 94%). In FY19/20: 99.6% were paid within 60 days following any dispute resolution (FY18/19: 99.5%).

	2019/20	**2018/19**
%age of invoices (inc. disputed) paid within 30 days	93.93%	94.38%
%age of invoices (inc. disputed) paid within 60 days	99.62%	99.53%

Going concern

The MOD Equipment program continues to invest in diesel powered ships so the primary services the OPA provides will not change in the near future. The OPA, as part of the Annual MOD budget cycle, has secured funding for the management and maintenance of the OFD and DIO assets under its control for a period of 2 years, and has submitted proposals for the continued service for a period of 10 years. The Board has assessed the impact of COVID-19 and how it may affect future government funding, and does not consider it to have affected the going concern status of the agency as the OPA provides a support service critical to the delivery of key defence and national security outputs.

As a result the financial statements have been prepared on a going concern basis.

A Jackson 20 July 2020
Chief Executive and Accounting Officer

Accountability Report

Corporate governance report

The purpose of the corporate governance report is to explain the composition and organisation of the entity's governance structure and process and how it supports the achievement of the entity's objectives

Directors' Report

Members and Principal Officers as at 31 March 2020

Graham Ellis (Non-Executive Chairman)
Adrian Jackson Chief Executive and Accounting Officer)
Rachel Pearson (Non-Executive and MOD Sponsor)
Matt Harrison (Non- Executive)
Trevor Woolley (Non- Executive and Chair of Audit)

Secretary to the Agency

Mrs Marie Edwards (Company Secretary)

The MOD exercises its sponsorship responsibilities of the Agency through MOD Head Office Commercial Services. The sponsor is Mrs Rachel Pearson, Head of Commercial.

A formal appointment procedure exists to ensure the Board contains an appropriate balance of skills to deliver its objectives.

Register of Interests

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

Personal data related incidents

The Agency had no reportable personal data related incidents.

Auditors

Further to the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003, which came into force on 23 May 2003, the Comptroller and Auditor General was appointed as the independent auditor to the Agency. The cost of the audit carried out by the National Audit Office (NAO) was £42,000. No further payments were made to the NAO for non-audit work. The Certificate and Report of the Comptroller and Auditor General is attached on pages 27, 28 and 29.

Statement of the Chief Executive and Accounting Officer's Responsibilities

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

In preparing these accounts, the Agency is required to:

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

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

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

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

I also confirm that the annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Statement of Disclosure to Auditors

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

Governance Statement

The Framework Document between MOD and the Agency sets out the roles, responsibilities and accountability of both parties. This was modified as a result of the GPSS sale in 2016 and has since been updated in 2017 to reflect the Agency's areas of responsibility. As a Public Corporation the Agency has substantial day to day operating independence and is seen as a separate institutional unit from its parent department, the MOD.

This statement provides an opportunity to outline the Accounting Officer's responsibilities in managing and controlling the Agency's resources during the course of the year. I have responsibility for ensuring delivery of the Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. Such assets include the Oil Fuel Depots and storage caverns which are the property of the Ministry of Defence. The Agency exercises financial and technical control over the operation and maintenance of these funds and assets, within the constraints set by the Ministry of Defence, in its capacity as Managing Agent for the Secretary of State. The Agency's Finance Director assists me in this.

Accounting Officer's responsibilities

Adrian Jackson (Accounting Officer)

Responsible for: safeguarding public funds and departmental assets in accordance with Managing Public Money.

The assets: Oil Fuel Depots, Storage Caverns and those non-sale GPSS assets which are the property of the Ministry of Defence.

The Agency: exercises financial and technical control over the operation and maintenance of these funds and assets and

Best Practice

The Agency, as a public corporation, is governed according to The Oil and Pipelines Act 1985, Cabinet Office and HM Treasury Guidelines, its Framework Document and, where appropriate, best practice in corporate governance as represented by the HM Treasury's Corporate Governance Code.

The Agency Board seeks to drive improvements in the performance and efficiency of the Agency by providing leadership on strategic and operational issues. As such, the Board seeks to comply where it is deemed relevant and practical with the 2018 Code (Governance in Central Government Departments: Code of Good Practice), which is focused on the role of boards. The Board, per the OPA framework, is made up of the Chief Executive and up to four non-executive members. The Agency is aware that the current composition of the board represents a departure from the Corporate governance in central government departments: code of good practice. When the composition of the Board was agreed following the sale of the GPSS, there were two significant activities required by MOD – support of the OFDs and support of the Cavern sites. It was therefore agreed that two representatives of MOD would sit on the Board, one as Sponsor and one as Customer. The Finance Director is not a member of the Board and therefore has no vote but does attend all meetings.

Role of the Board

The Code states that every Board should agree and document its role and responsibilities. This information is detailed in our Framework Document and Board Terms of Reference. The Framework Document is reviewed and updated regularly.

The Chairman

The Minister for Defence Procurement, acting on behalf of Secretary of State for Defence, appoints the Chairman of the Agency, who is responsible for the leadership of the Agency and ensuring that the Agency discharges the responsibilities set out above.

Board effectiveness

The main activity of the Board is to challenge but also support the senior management of the OPA to ensure the Agency is run in an efficient and safe manner while also ensuring that the highest levels of honesty and integrity are maintained. The 2019 MOD governance review of the Agency proposed the composition of the Board should change as it was no longer deemed appropriate that a member of Navy Command, as the Agency's major customer, was a member of the Board. The process has commenced to find a replacement for this position, however due to the emergence of COVID-19 this matter has been delayed. The Board's planned review of its effectiveness was deferred pending this replacement but the Board will review its effectiveness again later in the year.

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

Responsibilities of the Agency and Agency Committees

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

- Establishing committees of the Agency, reviewing their activities and, where appropriate, ratifying their decisions.
- Reviewing and approving the Agency's Annual Report and Accounts and the OPA Financial Statements following review by the Audit Committee.
- Receiving and considering reports from the Audit Committee on the control framework and risk management.

The management of the Agency is delegated to the Chief Executive, who is appointed the Accounting Officer for the Agency by the MOD Permanent Secretary.

The Audit Committee

The Audit committee of the Agency comprises two members, Trevor Woolley, and Mark Eames. Trevor Woolley, who is the Chair of the Audit Committee, is also a Member of the Agency. Mark Eames attends the Board meetings in his capacity as Associate Member. The responsibility of the Audit Committee, is set out in its terms of reference approved by the Agency and this guides the advice the Committee provides to the Agency.

The Chief Executive and Finance Director are not members of the Agency's Audit Committee. However, they do attend meetings, as do Defence Internal Audit (DIA) and the National Audit Office.

During the year the Audit Committee	
Held three meetings	Received comprehensive reports from management and the internal and external auditors including monitoring of the closure of audit actions.
It reviewed its effectiveness at its July 2019 meeting	Discussed with management, the external auditors and internal auditors judgements that arose on accounting policies.
Received reports on such matters it deemed appropriate such as risk assurance for capital projects and cyber security.	Reviewed the Agency's risk register and monitored the effectiveness of the procedures for risk management and internal controls over financial reporting.
Fraud	
The Audit Committee receives updates on any instances, or suspected instances, of fraud.	Any suspected fraud is thoroughly investigated and appropriate action taken
The Agency has a policy of zero tolerance in respect of irregularity, including fraud, theft and corruption.	All Members, Associate Members and Employees are required to adhere to this policy and to demonstrate high standards of personal honesty and integrity
The Fraud policy is underpinned by a number of other governance policies as well as the fraud risk register	The fraud risk register is a standing item on the Audit Committee's agenda.
There were no instances of fraud reported in year	
Whistleblowing	
The Agency has a Whistleblowing policy underpinned by a strong reporting culture.	The Audit Committee receives updates on any instances, of whistleblowing
There were no instances of whistleblowing reported in year	

DIA Audits

DIA conducted audits of the Agency and their findings were as follows:

- HR Recruitment and Retention Procedures – **(Substantial Assurance)**
- Financial Controls – **(Full Assurance)**
- OPA Capital Works Projects Minor New Works Project and Process Improvement Plan – **(Substantial Assurance)**
- Performance Measurement – Key Performance Indicators – **(Substantial Assurance)**

The audit program covers many different areas of the business on a risk and rotational basis to provide sound independent assurance from DIA. As a result of their audit programme, DIA were able to provide the Agency with an annual audit opinion of Substantial Assurance.

The Health, Safety, Environment and Quality Committee

The role of the Committee is to consider information received and provide the Board with assurance (and supporting evidence) that an effective HSEQ management system is operated throughout the Agency. The Committee also provides the Board with assurance that a strong safety leadership culture is in place within the Agency.

As at 31 March 2020, the HSEQ Committee comprised five members: Steve Pearce, Adrian Jackson (Chief Executive and Accounting Officer), Ian Lindsay, (Maintenance Manager), Paul Grange (Operations Director) and Lisa England (Compliance and Risk Director). The Committee is chaired by non-executive Steve Pearce, who attends all Agency board meetings in his capacity as an Associate Member.

After a review of risk associated with major capital projects, a Projects HSEQ sub committee was formed chaired by Steve Pearce and attended by Anthony Small (Capital Projects Director) and selected members of his staff. The committee reported to the Board after its four meetings during the year.

The committees continue to work to an agenda that embraces performance, compliance, plans, monitoring and a review of the risk register. Committee meetings engage the local Depot Manager and provide an opportunity to review activities and challenges with site staff.

During the year the HSEQ Committee:	
Held four meetings of the main committee (and an Annual Review) and four meetings of the HSEQ Projects sub committee	All meetings (except for the Annual review) were held on site and involved a site tour.
Focused on securing and sustaining compliance with COMAH requirements.	Ensured that the close out of the actions from the Regulator have been progressed well during the year.
Maintained sound relations with the Regulator.	Focused on the Continuous Improvement Plan that reflected the priorities agreed with COMAH Competent Authority.
Reviewed Performance for Health, Safety, and Environment and Quality activities throughout the year.	Used a range of data sources to monitor and review HSEQ performance. Health, Safety and Environmental performance has been maintained at a good level throughout the year
Monitored the Tank inspection program, and other key improvement programs during the year to secure compliance with legal requirements.	Reviewed and monitored action from external audits of the management of change and quality management systems

Remuneration Nomination Committee

The Remuneration Nomination Committee has been constituted and empowered as described in the Remuneration and Staff Report below.

Attendance at Board and Board committee meetings

Attendance during the year for all Board and Board committee meetings is given in the table below.

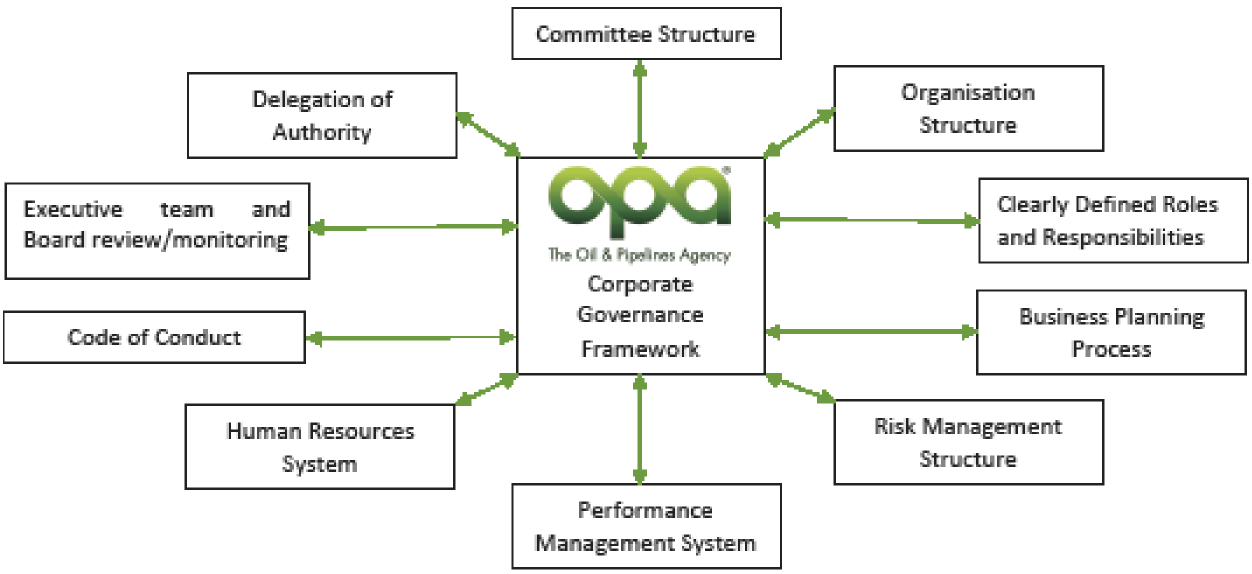
	Board	Audit Committee	HSEQ Committee	HSEQ Projects Committee	Remuneration Nomination Committee
Graham Ellis	8/8				3/3
Trevor Woolley	8/8	3/3			3/3
Adrian Jackson	8/8		5/5		
Rachel Pearson	6/8				3/3
Matt Harrison	0/8				0/3
Mark Eames		3/3			
Stephen Pearce			5/5	3/3	
Anthony Small				3/3	
Paul Grange			3/5		
Lisa England			5/5	3/3	
Ian Lindsay			5/5		

Matt Harrison, as the Navy Command Board Member, did not attend board meetings but sent a suitably qualified and empowered proxy to all meetings to represent his views. During the year this proxy was Commodore Matt Clark the Navy Command Senior Responsible Officer (SRO) for the OFDs.

The risk and control framework

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

The Agency's corporate governance framework is a combination of various controls and processes which are in place, together with effective information and communication systems to ensure good governance at all times. The Internal Control System and Assurance System enable the Accounting Officer to ensure that the Agency is operating effectively and that objectives are being achieved.



Risk Management

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

This is achieved by:-

- Regular reviews of the material risks using the Agency Risk Register and considered in the Agency's business plan (monthly by the management team usually quarterly by the HSEQ Committee, Audit Committee and Board)
- Ensuring that the approach to risk is filtered down to all employees within the Agency
- Maintaining, through the Board and its committees, clear oversight of the system of internal control and risk management established and maintained by the Accounting Officer.

The following risks are identified as the main risks that the OPA have managed since 1 April 2019:

COVID-19

As part of our Crisis Management and Business Continuity Planning OPA had developed a Pandemic scenario plan which was triggered when the full extent of the COVID-19 Pandemic was realised. The Pandemic Plan has the following strands:

Comply with COMAH obligations

- The continued testing of equipment we are dependent on for primary containment of fuel and personal safety across the site.

Site security

- The sites are to be protected against the requirements of JSP 440 and it is essential the security provision is maintained to fulfil these obligations.

Navy Command operations

- The armed forces are a key service during any National Emergency and the provision of fuel is an essential service to the Royal Navy. Operations teams were split to ensure services could be maintained.

Capital and essential contractor works

- The MoD has defined the Capital works at Gosport and Thanckes as key infrastructure projects and works have not been suspended. OPA has also identified key compliance works that should be supported where possible.

People

- The OPA supported all staff where possible to work from home, with little disruption to the business. Only 'business critical' travel has been authorised with Executive level approval for any travel. All employees in 'Vulnerable Groups' have been identified and where appropriate self-isolating.
- Mental Wellbeing has been identified as one of our biggest challenge for our people after COVID-19. We continue to offer ideas and help to support the mental well-being of our people and signpost them to obtain help when needed.

We continue to reiterate Government Guidance, and ensure our measures are in line with this guidance, to all our personnel.

Regulatory Compliance and Ongoing Management of OFDs

The Agency's commitment to "The journey to compliance" is well-documented and continues to be the priority for FY21/22. Currently the Agency's highest risk remains the improvement and maintenance of primary and secondary containment. The ongoing intensive work continues to focus on our primary containment (i.e. mechanical tank integrity) and the over-fill protection / re-instrumentation project. The program has been delayed by COVID-19 restrictions, and will have to be rebased once the restart date for construction, particularly at the Scottish sites, is clear. As a result, the Competent Authority have been informed that the March 2022 compliance date may slip due to COVID-19.

The Agency continues to deliver improvements in People, Plant and Processes against the Competent Authority's [CA's] ten key strategic priorities under COMAH. The CA robustly conducts interventions and OPA had an intensive program of reviews during the period Oct 19-Mar 20 during which time the OPA received an 'exemplar' score of 10 for Emergency Preparedness and SEPA commented that they now use OPA as a benchmark. Both Argyll & Bute Local Authority and the Emergency services (who participate in the external exercises) have both stated how OPA have run the best emergency exercises of other organisations in the area, both practical and Table-top Exercise.

Throughout all 8 CA interventions we received no score below 30 (Broadly Acceptable). During the period the Agency has not received any 'Enforcement Actions' from CA interventions and the number of legal actions received continues to be comparatively low. The improvement in the strategic priority scores is the result of the maturing of systems (including revised Control of Works procedures, Standardisation of Project processes, design and construction standards) put in place to support the overall Safety Management System and which now provide clearer demonstration of compliance.

Cyber Security

The Agency has continued with the significant work commenced in 2016 to ensure its IT systems are safe and secure. The Agency IT systems received full accreditation by Defence Assurance and Information Security (DAIS) in line with HMG and MOD policy, in 2017. The Agency received full re-accreditation in March 2020.

The Agency ran a trial phishing campaign in July 19 as part of our continuous improvement in Cyber Security with encouraging results. We have also focussed on our Microsoft Secure Score with a result four times the industry average.

There were no significant IT breaches during the year, partly due to the fact that all OPA IT infrastructure has modern virus protection software which is constantly updated as the cyber threat evolves.

Staff Competence

OPA's assets are our people. We implemented a Competency Management System (CMS) compliant with COMAH regulations, initially focusing on safety critical roles, which met the HSE guidance and codes of practice by 2017. The CMS is continuing to be developed to cover all roles and responsibilities within the OPA from the Board down.

During 2019 all site roles within the CMS were populated including the Depot Managers and we expanded the CMS to cover all roles within the Capital Projects and Asset Integrity Teams. As part of the CMS audit process, Cogent skills completed an independent audit of the CMS during October and the outcomes of the report have been captured in the CMS Plan for 2020. The CMS has also been expanded to assist the sites with contractor competence.

We invest in the training and development of our people at every level to meet not only current operational requirements but also changing business needs and to improve on safety performance. We have continued to develop and deliver a number of training and development programmes across all the business from the board level down to our apprentices. Two examples are listed below:

1. BPCS (Basic Process Control System) is currently being developed to support the Depots with the new process control systems. This programme will cover all depot functions and the planned implementation at Loch Striven is the last quarter of 2020.

2. We developed a framework for training on Process Safety Leadership during 2018. This covered all levels of the business from front-line operators to board level. We delivered some of this framework during 2019 and will continue this process during 2020.

During 2019 we continued with our people investment and continued with our apprentice programme. We recruited our first Operational apprentices during September and two additional mechanical apprentices, making in total ten OPA apprentices.

These apprentices are spread across all the OPA Depots and cover a range of different disciplines. Four mechanical apprentices successfully completing their apprenticeships during last year as planned.

Review of Effectiveness of Risk Management and Internal Control

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

The risk management system continues to be robustly reviewed using the improved process developed during the latter part of the year and then further reviewed by the Board and its Committees.

DIA have conducted a number of audits during the year, in support of the Management and Board's own assessment of risk. They have given the Agency a rating of Substantial Assurance illustrating that the Agency is continuing to maintain a sound state following the sale of the GPSS.

I am pleased with the progress made to date under the direction of my senior leadership team. I am satisfied that the OPA has sound system of internal control in place, which we will continue to monitor as the business develops.

Remuneration and Staff Report

The Remuneration and Nomination Committee

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

Remuneration Policy

The Agency sets its remuneration policy for all employees, including the Chief Executive, and is guided by Treasury policy, market competitiveness and inflation indices. Comparison of competitive market data including periodic review with external commercial entities in similar industries is regularly considered. Staff are subject to levels of remuneration and terms and conditions of service (including Pensions) as set by the Agency, having due regard to equal pay, job grading, retention and motivation of staff.

Remuneration details (Audited)

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

		Appointed	Appointed to	**2019/20 Salary band £'000**	2018/19 Salary band £'000	**2019/20 Pension £'000**	2018/19 Pension £'000	**2019/20 Bonus £'000**	2018/19 Bonus £'000	**2019/20 Total £'000**	2018/19 Total £'000
G Ellis	Chairman	1 April 2012	31 May 2021	**25 – 30**	25 - 30	**–**	–	**0**	0	**25-30**	25-30
M Harrison	Member	1 January 2018	**	**–**	–	**–**	–	**–**	–	**–**	–
R Pearson	Member	16 April 2016	**	**–**	–	**–**	–	**–**	–	**–**	–
T Woolley	Member	16 July 2012	15 August 2020	**10 - 15**	10 - 15	**–**	–	**0**	0	**10-15**	10-15
A Jackson	Chief Exec	1 May 2015	*	**115 - 120**	110 - 115	**15-16**	14-15	**5 - 10**	5 - 10	**135-140**	135-140

* Notice period of 6 months

** appointed for the tenure of their MOD appointment.

Mrs R Pearson and Mr M Harrison as employees of MOD, were remunerated outside the Agency. The Agency has not made any pension contributions in respect of non-executive Members, who are not members of the pension schemes, nor did they receive any benefits in kind except for the reimbursement of actual expenses.

Mr Jackson is a member of the Oil and Pipelines Agency Group Pension Plan, the defined contribution pension scheme, as a result Pension CETV's are not disclosed. The OPA Defined contribution scheme is open to all employees and offers a double contribution match up to 12% of salary (6% Employee contribution = a 12% Employer contribution). The Agency meets all of its obligations under auto-enrolment.

Relationship between the highest paid Director and the workforce median (Audited)

	2019-20	2018-19
Remuneration of highest paid Director	**£120k-125k**	£120k-125k
Median total remuneration	**£31,205**	£30,590
Ratio	**3.9**	4.0
Remuneration range for entire workforce	**£11,000 to £120k-125k**	£11,000 to £120k-£125k

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in the OPA in the financial year 2019-20 was £120k-125k (2018-19, £120k-125k). This was 3.9 times (2018-19, 4 times) the median remuneration of the workforce, which was £31,205 (2018-19, £30,590).

In 2019-20, No (2018-19, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £11,000 to £120k-£125k (2018-19 £11,000 to £120k-£125k). The lower remuneration figure for 2019/20 reflects the salaries payable following the introduction of apprenticeships. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Total remuneration paid by the Agency for the Executive members was £162,525 (2018-2019: £158,240). The Finance Director, Operations Director, HR Director, Risk and Compliance Director, Asset Integrity Director and Capital Projects Director make up the Executive Team but are not voting members of the Board and are not disclosed above.

Cash equivalent transfer disclosures are not relevant to the OPA as no Board members are participants of the Defined Benefit Pension schemes.

Personnel

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

The Agency has an anti-bribery and corruption policy in place and all staff are required to abide by this policy. Any potential conflicts of interest are reported to HR.

The Agency employees are Public Sector Workers; there were no senior civil service staff employed by the Agency during the financial year.

The total number of personnel employed by the Agency as at 31 March 2020, excluding non-executive members, was 150 (2018-2019: 142). Staff costs were £7,747k (2018-19: £6,996k) during the year including performance pay accrued, taxes and other social security costs.

At 31 March 2020 there was 1 short term contract staff engaged by the Agency (2018-2019: 0).

Staff costs analysis (Audited)

	2020	2019
	£000	£000
Wages and salaries – to permanently employed staff	**5,828**	5,135
– to other contract and temporary staff	**151**	100
Social security costs incurred by the Agency	**606**	551
Defined benefit pension costs (note 11)	**563**	692
Defined contribution pension costs	**599**	518
Redundancy costs	**–**	–
	7,747	6,996

The increase in wages and defined contribution pension costs was due to the additional staff required by the OPA to support the MOD Capital projects and to manage the additional investment in the sites.

Social security costs include all tax and national insurance payable to HMRC. The Agency complies with all tax legislation.

Workforce by gender (Audited)

Numbers as at 31 March 2020	**Male**	Male 2019	**Female**	Female 2019
Agency Members	4	4	1	1
Senior Managers	5	5	2	2
Employees	118	110	25	25

Reporting of high paid off-payroll appointments

The Agency had no engagements of senior or highly paid individuals remunerated by any means other than payroll at the reporting date or during the year ending 31 March 2020.

Sickness absence

During the financial year there were a total of 896 days (2017: 820, 2018: 500, 2019: 530) lost due to sickness. This represented a loss percentage of 2.5% (2017-18: 1.7%, 2018-2019: 1.6%).

Compensation for loss of office (Audited)

There were no compensation for loss of office payments made throughout the year. (2018-19: £0k)

Expenditure on consultancy and contingent labour

During the year the Agency spent £16k on consultancy involving work on our BIM capability (2018-19: £3k). The Agency spent £0k on contingent labour (2018-19: £0k).

Retirement Benefits Pension Schemes

The Agency operates two funded defined benefits pension schemes, the Oil and Pipelines Agency Retirement Benefits Plan and the Federated Pension Plan, providing benefits based on final pensionable pay. The Agency also operates a defined contribution scheme. Both of the defined benefits schemes are closed to new entrants and all new employees of the Agency are offered membership of the defined contribution pension scheme.

The Agency pension costs are detailed in Note 11 to the accounts.

Trade Union facility time

The Agency have a recognised Trade Union Agreement, which provides for 2 Union representatives for each of the 2 unions. No employees are shop stewards so the Agency meets with the national officers.

	2019-20	2018-19
Relevant union officials	**0**	0
Percentage of time spent on facility time	**0%**	0%
Percentage of pay bill spent on facility time	**0%**	0%
Paid trade union activities	**£0**	£0

Parliamentary Accountability and Audit Report

Parliamentary Accountability Disclosures [Audited]

The Oil and Pipelines Agency is mainly financed through a fee charged to the Ministry of Defence in line with a service level agreement. This service level agreement enables the OPA to invoice MOD for the cost of the operations and maintenance of the OFDs. During the financial year, the Agency charged fees to the MOD of £19.7 million.

The OPA operates under the guidance of Managing Public Money, material expenditure is compliant with relevant legislation and delegated authority.

There are no remote contingent liabilities, gifts, fees, charges or losses and special payments requiring further disclosure that have not been reported elsewhere in these financial statements.

A Jackson
Chief Executive and Accounting Officer

20 July 2020

The Certificate and Report of The Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I have audited the financial statements of the Oil and Pipelines Agency for the year ended 31 March 2020 under the Oil and Pipelines Act 1985. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Oil and Pipeline Agency's affairs as at 31 March 2020 and of net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Oil and Pipelines Act 1985 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Oil and Pipelines Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Oil and Pipelines Agency's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Oil and Pipelines Agency have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Oil and Agency's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Board and Accounting Officer for the financial statements

As explained more fully in the Statement of the Chief Executive and Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with the Oil and Pipelines Act 1985.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Oil and Pipelines Agency's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Conclude on the appropriateness of the Oil and Pipelines Agency's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Oil and Pipelines Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may the Oil and Pipelines Agency to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Oil and Pipelines Act 1985;
- in the light of the knowledge and understanding of the Oil and Pipelines Agency and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

20 July 2020

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

Statement of Comprehensive Net Expenditure for the year ended 31 March 2020

	Notes	**2020** £000	2019 £000
Expenditure			
Staff costs	5	**(7,747)**	(6,996)
Maintenance expenditure	7	**(10,877)**	(12,279)
Other expenditure	6	**(4,043)**	(3,674)
Total Expenditure		**(22,667)**	(22,949)
Income from activities	4	**22,740**	22,962
Net income/(expenditure)		**73**	13
Interest receivable from bank accounts		**27**	19
Other finance income (cost)	11	**(1)**	(1)
Net income/(expenditure) after interest and other finance income		**99**	31
Tax on taxable net income/(expenditure) after interest and other finance income		0	0
Net income/(expenditure) after taxation		**99**	31

Other comprehensive expenditure

	Notes	2020	2019
Actuarial gain/(loss) recognised in pension schemes	11	**985**	769
Change in asset ceiling		**(984)**	(698)
Change in deferred tax arising on (gain)/loss in the pension scheme		**0**	(28)
Onerous obligation		**67**	(286)
Total comprehensive income/(expenditure) for the year		**167**	(212)

The accompanying notes on page 34 to 48 form part of these accounts.

Statement of Financial Position at 31 March 2020

	Notes	**2020** £000	2019 £000
Current assets			
Trade and other receivables	8	**4,273**	6,354
Cash at bank and in hand	14	**6,089**	3,869
Total current assets		**10,362**	10,223
Total assets		**10,362**	10,223
Current liabilities			
Trade and other payables	9	**(5,639)**	(5,600)
Total current liabilities		**(5,639)**	(5,600)
Total assets less current liabilities		**4,723**	4,623
Non-current assets/(liabilities)			
DB Pension schemes	11	**(219)**	(286)
Assets less liabilities		**4,504**	4,337
Reserves			
Contributed capital	1 (a)	**2,380**	2,380
General fund reserve	12	**2,124**	1,957
Total Reserves		**4,504**	4,337

The accompanying notes on page 34 to 48 form part of these accounts.

A Jackson 20 July 2020
Chief Executive and Accounting Officer

Statement of Cash Flows for the year ended 31 March 2020

	2020	2019
	£000	£000
Cash flows from operating activities		
Net income after interest before other finance income and taxation	**100**	32
Defined benefit pension fund current service cost (note 11)	**563**	692
Defined benefit pension contributions paid (note 11)	**(563)**	(759)
(Increase)/decrease in trade and other receivables	**2,081**	(525)
Increase/(decrease) in trade and other payables	**39**	665
Net cash inflow (outflow) from operating activities	**2,220**	105
Cash flow from investing activities		
Sale of current assets	**0**	0
Purchase of non-current assets	**0**	0
Increase (decrease) in cash and equivalents	**2,220**	105
Cash and equivalents at the beginning of the year	**3,869**	3,764
Cash and equivalents at the end of the year (note 14)	**6,089**	3,869

The accompanying notes on page 34 to 48 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year ended 31 March 2020

	Contributed Capital £000	General Fund £000	Total Reserves £000
Balance at 31 March 2018	2,380	2,169	4,549
Changes in taxpayers' equity for the year ended 31 March 2019			
Net income/(expenditure)	–	31	31
Total remeasurements recognised in defined benefit pension funds		(215)	(215)
Deferred tax arising on (gain)/loss recognised in the defined benefit pension fund	–	(28)	(28)
Balance at 31 March 2019	2,380	1,957	4,337
Changes in taxpayers' equity for the year ended 31 March 2020			
Net gain/(loss) on revaluation of property, plant and equipment	–	–	–
Net income/(expenditure)	–	99	99
IAS 16 transfer between reserves	–	–	–
Total remeasurements recognised in defined benefit pension funds	–	68	68
Deferred tax arising on (gain)/loss recognised in the defined benefit pension fund	–	–	–
Balance at 31 March 2020	2,380	2,124	4,504

The accompanying notes on page 34 to 48 form part of these accounts.

Notes to the Accounts year ended 31 March 2020

1 The Agency

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

b The duty of the Agency is to manage residual GPSS sites and OFDs under the terms of the Framework Document between the Agency and the Secretary of State for Defence.

c The accounts have been prepared in accordance with Paragraph 9 of Schedule 3 to The Oil and Pipelines Act 1985 and with the most recent related Accounts Direction as to the form of the accounts given by the Secretary of State for Defence. This Accounts Direction is reproduced on page 49.

2 Statement of accounting policies

These financial statements have been prepared in accordance with the 2019-20 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where a FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of The Oil and Pipelines Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by The Oil and Pipelines Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts. IFRS16 – Leases will impact the OPA financial statements from next year with the recognition of all leases as an asset. The Oil and Pipelines Agency is continuing to assess the full impact of adopting the following amendments on future financial statements. The full effect is yet to be determined but is considered to be immaterial.

Amendments to:	EU effective date: accounting periods on or after
IFRS 9, IAS 39 and IFRS 7, Interest rate on benchmark reform.	01 January 2022
IFRS 17, Insurance Contracts.	01 January 2022
IAS1, Presentation of financial statements on classification of liabilities.	01 January 2022

There are no other new IFRS, amendments and interpretations that are applicable after the reporting period that are expected to impact the OPA financial statements.

a Basis of preparation

Since the Agency manages the cavern sites and OFDs only as an agent of the Secretary of State for Defence, the assets of the cavern sites and OFDs are excluded from the Agency's Statement of financial position. The Agency is responsible for the management and maintenance of the OFDs and cavern sites. Note 7 provides a breakdown of OPA Expenditure which includes 'Expenditure on new assets' which are capitalised on the MOD accounts but correctly recorded within OPA accounts as operating costs.

b Significant Judgments and Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. Where appropriate, the relevant notes to the accounts provide further detail on estimation techniques.

Accounting Boundary: The OPA acts as the technical authority for capital projects on behalf of the DIO. Careful consideration is applied to the delineation of these costs. The DIO are the contracting authority and, as such, any assets purchased as part of these projects are not recognised within OPA's Statement of Financial Position as they are recognised within the MOD's. However, the staff costs associated with these projects are an operational cost to OPA and as such are recognised within the OPA's Statement of Comprehensive Net Expenditure.

Pension: How management have applied the Agency's accounting policies regarding the pension liabilities is detailed in (g). Independent and qualified actuaries assess the specific factors that influence the pension fund position. Other significant judgements include the estimation of accruals. The OPA uses a qualified Quantity Surveyor to assist in these estimations so that expenditure is recognised in the correct period.

c Going Concern

These accounts have been prepared on a going concern basis. The Chief Executive as Accounting Officer has taken the view that as the primary service of the OPA will remain unchanged for the long term, storing fuel for the Navy, the OPA will continue in its current form as Managing Agent of the OFDs and GPSS residual sites. The OPA is responsible for the safe running of these facilities.

We have assessed the impact of COVID-19 and how it may affect future government funding, the Board does not consider the impact to affect the going concern of the agency as the OPA provides a support service critical to the delivery of key defence and national security outputs.

As a result it is appropriate that the financial statements have been prepared on a going concern basis.

d Income

Operating income relates directly to the operating activities of the Agency, primarily the safe storage of fuel for the Navy. Income is recognised in line with the IFRS 15 five step model. The Agency has identified the service level agreement or contracts with our customers, identified the performance obligations, determined the price and recognised revenue when we have fulfilled the performance obligation.

The Agency also has long-term contracts with commercial operators. These contracts are firm price contracts when the transfer of control passes to the customer at a point in time. Each point in time reflects the transfer of a performance obligation to the customer (a contract milestone), and each performance obligation has an attributed contract price. The recognition of operating income reflects the price of an achieved performance obligation that is accepted by the customer.

Operating income is accrued as contract assets where there is a timing difference between income recognition and invoicing.

e Expenditure

Expenditure is recognised on an accruals basis. The Agency is responsible for the management and maintenance of the OFDs and cavern sites. Note 7 provides a breakdown of OPA Expenditure which includes 'Expenditure on new assets' which are capitalised on the MOD accounts but correctly recorded within OPA accounts as operating costs. Therefore expenditure which is capital in nature, but for which Agency does not retain the risks and rewards in the future, is expensed in year.

f Property, plant and equipment

Since the Agency manages and maintains the residual cavern sites and OFDs only as an agent of the Secretary of State for Defence the assets of the cavern sites and OFDs are excluded from the Agency's Statement of Financial Position but shown in the Statement of Comprehensive Net Expenditure. These costs (as shown in Note 7 as 'Expenditure on new assets') are charged as a separate fee to the MOD and capitalised in the MOD accounts. Currently, the Agency, itself, has no non-current assets.

g Pension costs

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

Pension costs incurred in respect of the defined benefit pension funds are accounted for in accordance with IAS 19. The Agency recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Agency has a legal or constructive obligation to make good the deficit in the scheme. Conversely, the Agency recognises an asset in respect of any surplus. The net defined benefit asset is recognized at the lower of (a) the surplus in the defined benefit plan; and (b) the asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Scheme managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. Details of this can be found in Note 11.

The service costs of providing retirement benefits to employees, together with the cost of any benefits relating to past service, are charged to the statement of comprehensive expenditure. A credit equivalent to the net interest income is included in the statement of comprehensive expenditure. The return on plan assets during the year is recognised in the general reserves account in the year together with any differences arising from changes in assumptions.

h Taxation

Corporation tax

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

Value Added Tax

VAT is charged at the prevailing rate and where related input VAT costs are recoverable. Input VAT is also recovered on certain contracted-out services. Irrecoverable VAT is charged to the relevant expenditure category. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

i Leases

At their inception, leases are classified as operating or finance leases, based on the extent to which the risks and rewards of ownership lie with the company. Where the Agency is the lessor (when all risk and reward has been transferred to the lessee), it follows the accounting principles set out in IAS 17- Leases.

The Agency does not have any finance lease. Its operating lease rentals are charged to the statement of comprehensive net expenditure as incurred.

j Staff costs

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

k Financial instruments

Financial instruments are considered in accordance with IFRS 9. The Oil and Pipelines Agency does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables (notes 8 and 9). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the Agency will be unable to collect an amount due in accordance with agreed terms.

l Operating segments

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

m Impending application of newly issued Accounting Standards not yet effective

IAS 17 Leases will be superseded by IFRS 16 Leases and has been adopted by the FReM. It was planned to be effective for annual reporting periods beginning on or after 1 April 2020, however, HM Treasury has agreed with the Financial Reporting Advisory Board to defer implementation of IFRS 16 Leases until 1 April 2021. This is because of the circumstances caused by COVID-19. IFRS 17 requires all assets which it leases, such as property, vehicles or equipment, to be recognised in the Statement of Financial Position as if they were owned therefore removing the distinction between an operating or a finance lease. Management have carried out an assessment of the new standard and do not anticipate any material adjustments to the financial statements.

IFRS 4 Insurance Contracts will be superseded by IFRS 17 Insurance Contracts which was issued in May 2017 with an effective date for annual reporting periods beginning on or after 1 January 2023. IFRS 17 Insurance Contracts require that insurance liabilities be measured at present value of future insurance cash flows, resulting in more uniform measurements and presentation for all insurance contracts. Management have carried out an assessment of the new standard and has concluded that there are no material assets or liabilities recognised as insurance contracts and therefore this standard will have no impact.

IAS 1 Presentation of Financial Statements has a proposed amendment to the classification of liabilities with an effective date for annual reporting periods beginning on or after 1 January 2022. The amendment helps a company to determine whether debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendment aims to clarify, not change, existing requirements. Management have carried out an assessment and concluded that this amendment will not have an impact on the financial statements.

The International Accounting Standards Board (IASB) has proposed amendments to IFRS Standards to assist companies in providing useful information to investors about the effects of interest rate benchmark reform on financial statements. Many interbank offer rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in the next few years. One of the biggest issues is the replacement effect on hedge accounting given the extensive use of interest rate benchmarks in global financial markets. This would create amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures and is effective for annual reporting periods beginning on or after 1 January 2020. As the OPA does not hold any complex financial instruments, management consider there to be no effect on the financial statements.

3 Information required by paragraph 2 of The Oil and Pipelines Agency Accounts Direction 2004

Statutory Borrowing Limit

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

4 Operating income

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

	2020	2019
	£000	£000
Agency Fees (DIO)	**1,576**	2,079
Agency Fees (NC)	**18,098**	17,920
Commercial receipts	**3,044**	2,907
Post sale recharges	**22**	56
	22,740	22,962

Agency fees are calculated through apportionment of costs incurred in delivery of operation and maintenance of the cavern sites and OFD activities. The above fees represent the respective costs of managing each group of crown assets on behalf of the different top level budgets in MOD. Income is disaggregated by type of customer.

The post-sale recharges relate to costs incurred by the OPA on behalf of CLH-PS. They mainly related to rental costs on a leasehold property. All costs incurred were recharged and paid by CLH-PS.

5 Staff costs

The average number of permanent employees, including Members and Committee Members, during the year was 142 (2019: 139) and the number of employees at 31 March 2020 was 155 (2018: 147). The average of whole-time equivalent non-permanent persons employed during the year was 3 (2019: 1). Staffing costs were as follows:

	2020	2019
	£000	£000
Wages and salaries – to permanently employed staff	**5,828**	5,135
– to other contract and temporary staff	**151**	100
Social security costs incurred by the Agency	**606**	551
Defined benefit pension costs (note 11)	**563**	692
Defined contribution pension costs	**599**	518
Redundancy costs	**–**	–
	7,747	**6,996**

6 Other Expenditure

	2020	2019
	£000	£000
Office operating lease – buildings	185	143
Other occupancy costs	1,401	1,317
Staff related costs*	325	302
Travel, subsistence and hospitality	582	587
Recruitment and training	443	377
Professional fees	226	105
Auditors' Remuneration: Audit (NAO)	42	36
Office supplies and equipment	471	450
Other administration costs	368	357
	4,043	3,674

*Staff related costs include: Permanent Health and Life Assurance premiums undertaken by the Agency for the benefit of its employees; Personal Protective Equipment and untaken holiday at year end.

7 Maintenance Expenditure

	2020	2019
	£000	£000
Other costs	**416**	732
Tank inspection Programme	**2,459**	3,579
Jetty maintenance	**1,058**	792
Infrastructure improvements	**2,648**	3,167
HSEQ investment	**335**	393
Security	**488**	584
Expenditure on new assets	**3,473**	3,032
	10,877	12,279

COVID-19 delays at the year end saw a reduction in the expenditure on the tank inspection program as well as a reduced in year budget on this expenditure line (spend was focussed on jetty maintenance).

Other costs include pipeline inspections, planned preventative maintenance on the assets, utilities and short-term hire of plant for engineering projects.

8 Trade and other receivables

	2020	2019
	£000	£000
Trade and other receivables falling due within one year comprise:		
Trade and other receivables	**1,711**	4,856
Accrued Income	**2,279**	1,184
Prepayments	**283**	314
	4,273	6,354

Included in accrued income is £2,279,000 due from the MOD relating to Agency Fees in respect of managing the DIO and OFDs (2019: £929,000). Trade and other receivables include £1.45 million relating to Agency fees in respect of managing the DIO and OFDs due from the MOD (2019: £4,611,000).

9 Trade and other payables

	2020	2019
	£000	£000
Trade and other payables falling due within one year comprise:		
Trade and other payables	**1,454**	1,342
Accruals and deferred income	**3,688**	3,587
Provisions	**–**	–
Other taxation and social security	**497**	671
	5,639	5,600

10 Commitments

a Capital commitments

At the end of the year there were no capital commitments authorised (2019: Nil).

b Operating leases

	2020	2019	2018
	£000	£000	£000
Buildings			
Not later than one year	**168**	164	139
Later than one year and not later than five years	**85**	253	556
Later than five years	**–**	–	625
	253	417	1,320
Other			
Not later than one year	**38**	32	47
Later than one year and not later than five years	**38**	9	34
Later than five years	**–**	–	–
	76	41	81

On the 1 October 17 a Memorandum of Terms was signed with the Ministry of Justice for office space at Clive House for a period of 10 years. This has been included as a building leasehold commitment and includes estimated total costs of the occupancy. The Memorandum includes a break clause in October 2021, the accounts have been issued reflecting that this break clause will be exercised and no obligation will remain past this point.

11 Retirement benefits pension schemes

The Agency operates two funded pension schemes providing benefits based on final pensionable pay, which are closed to new entrants.

The Oil and Pipelines Agency Retirement Benefits Plan is a defined benefits scheme managed by The OPA Pension Trustees Limited. The assets of the scheme are held separately from those of the Agency and are invested in a separate trustee administered funds. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The Oil and Pipelines Agency Retirement Benefits Plan has no active members.

The Federated Pension Plan is a GAD certified defined benefits multi-employer scheme managed by PAN Trustees Limited, a professional trustee that runs the scheme on behalf of the various organisations who participate in it. This scheme is used to provide the OFD staff, who transferred into OPA on 1 July 2012, benefits complying with the Fair Deal that are broadly equivalent to those enjoyed by members of the Principal Civil Service Pension Scheme.

The Agency sponsors the plan which is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This together with documents issued by the Pensions Regulator, and Guidance notes adopted by the Financial Reporting Council, set out the framework for funding.

The Agency may leave the plan but must continue to adhere to Fair Deal and would be required to move the assets and liabilities to an equivalent pension scheme.

The Agency and PAN Trustees Limited agreed that the Agency will make employer contributions of 44.3% and employee contributions ranging between 2.1% and 4.7% according to the employee's job level.

Additional employer contributions are paid into both schemes to reduce the schemes deficit as advised by the scheme's actuaries. The Agency adopts the accounting requirements set out in IAS 19 Employee Benefits. As required under IAS 19 the Agency has used the "projected unit credit" method of valuation and uses a roll forward methodology from the last formal scheme funding assessments.

The last formal Scheme Funding Assessment of the OPA Retirement Benefits Scheme was carried out as at 5 April 2017 and a recovery plan agreed with the schemes trustees. The disclosures below include an onerous liability to recognise the future deficit reduction contributions the Agency will be paying under the recovery plan as an additional liability on the Balance Sheet. The onerous liability represents the present value of the remaining contributions at the discount rate shown below. A formal scheme funding assessment was carried out as at 5 April 2020 with results expected before the end of the financial year 2020-21.

In the previous financial year the IAS 19 disclosure below included £80,000 as a past service cost in respect of GMP equalisation for the OPA RB scheme. The effect of GMP has been calculated as trivial for the FPP scheme and has thus not been included.

11.1 Statement of Financial Position Pension asset

The plan assets and liabilities in the schemes were:

	2020	2019
	£000	£000
OPA Retirement Benefits Plan		
Equities	**1,200**	1,313
Government Debt	**11,072**	11,129
Corporate Bonds	**0**	0
Cash	**150**	28
Total fair value of assets	**12,422**	12,470
Present value of liabilities	**(9,313)**	(10,343)
Surplus/(deficit) in the scheme	**3,109**	2,127
Asset ceiling	**(3,109)**	(2,127)
Onerous liability	**(219)**	(286)
Surplus/(deficit)	**(219)**	(286)

	2020	2019
	£000	£000
Federated Pension Plan		
Equities	**4,302**	3,996
Government Debt	**2,119**	1,968
Corporate Bonds	**0**	0
Cash	**37**	8
Total fair value of assets	**6,458**	5,972
Present value of liabilities	**(6,112)**	(5,687)
Surplus/(deficit) in the scheme	**346**	285
Asset ceiling	**(346)**	(285)
Related deferred tax (liability)/asset	**0**	0
Surplus/(deficit)	**0**	0

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

	FPP	**OPA RBP**	**2020**	FPP	OPA RBP	2019
	£000	**£000**	**£000**	£000	£000	£000
Opening fair value of assets at 1 April	5,972	12,470	**18,442**	5,187	11,970	17,157
Interest income	145	297	**442**	143	308	451
Employer contributions	487	76	**563**	683	76	759
Contributions by Members	37	–	**37**	38	–	38
Return on plan assets (excluding amounts included in net interest income)	(61)	(155)	**(216)**	130	383	513
Benefits (paid)	(122)	(266)	**(388)**	(209)	(267)	(476)
Total fair value of plan assets before tax at 31 March	6,458	12,422	**18,880**	5,972	12,470	18,442

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

	FPP	**OPA RBP**	**2020**	FPP	OPA RBP	2019
	£000	**£000**	**£000**	£000	£000	£000
Opening fair value of liabilities at 1 April	5,687	10,343	**16,030**	5,324	10,300	15,624
Current service cost	563	–	**563**	612	80	692
Interest cost	139	245	**384**	144	264	408
Contributions by Members	37	–	**37**	38	–	38
Remeasurements						
Change in assumptions	(184)	(913)	**(1,097)**	370	163	533
Liability experience (gains)	(8)	(96)	**(104)**	(592)	(197)	(789)
Benefits (paid)	(122)	(266)	**(388)**	(209)	(267)	(476)
Present value of obligation before tax at 31 March	6,112	9,313	**15,425**	5,687	10,343	16,030

11.2 Charge to the statement of comprehensive net expenditure

Defined benefit costs recognised in Expenditure:

	FPP	**OPA RBP**	**2020**	FPP	OPA RBP	2019
	£000	**£000**	**£000**	£000	£000	£000
Net interest (cost)/Income	6	(7)	**(1)**	(1)	–	(1)
Current service cost (staff costs note 5)	(563)	–	**(563)**	(612)	(80)	(692)
Credited/(charged) to net expenditure	(557)	(7)	**(564)**	(613)	(80)	(693)

Total re-measurements recognised in Other Comprehensive Expenditure:

Return on plan assets (excluding amounts included in net interest costs)	(61)	(155)	**(216)**	130	383	513
Experienced gains on liabilities	8	96	**104**	592	197	789
Changes in assumption underlying liabilities	184	913	**1,097**	(370)	(163)	(533)
Change in Asset ceiling	(61)	(923)	**(984)**	(285)	(413)	(698)
Change in Onerous Liability	0	67	**67**	0	(286)	(286)
Total remeasurements	70	(2)	**68**	67	(282)	(215)

11.3 Actuarial assumptions

OPA Retirement Benefits Fund (OPA RBP)

A qualified independent actuary carried out an actuarial assessment as at 31 March 2020 and the major assumptions used were:

	2020	2019	2018
	%	%	%
Inflation rate	2.7	3.4	3.3
Rate of increase in salaries	N/A	N/A	N/A
Rate of increase in pensions in payment	2.7	3.4	3.3
Discount rate for liabilities	2.3	2.4	2.6
Mortality birth table and cohort	S2PA L CMI model	S2PA L CMI model	S2PA L CMI model

No assumption is made for increases to salaries as there are no active members in the plan.

Federated Pension Plan (FPP)

A qualified independent actuary carried out an actuarial assessment as at 31 March 2020 and the major assumptions used were:

	2020	2019	2018
	%	%	%
Inflation rate (RPI)	2.70	3.35	3.25
Inflation rate (CPI)	2.25	2.35	2.25
Rate of increase in salaries	4.25	4.35	4.25
Rate of revaluation of deferred pension (CPI)	2.25	2.35	2.25
Rate of increase in pensions in payment (CPI)	2.25	2.35	2.25
Discount rate for liabilities	2.35	2.35	2.60
Mortality birth table and cohort	S2PxA	S2PxA	S2PxA
Allowance for commutation of pension for cash at retirement	50% to 3n/80ths x salary	50% to 3n/80ths x salary	50% to 3n/80ths x salary

11.4 Sensitivity Analysis

OPA Retirement Benefits Plan

Assumption	Change in assumption	Change in liability
Discount rate	Decrease by 0.5%	Increase by 8.4%
Rate of inflation	Increase by 0.5%	Increase by 8.2%

Federated Pension Plan SENSITIVITY

Assumption	Change in assumption	Change in liability
Discount rate	Decrease of 0.5% p.a.	Increase by 10.6%
Rate of inflation	Increase of 0.5% p.a.	Increase by 10.4%
Rate of salary growth	Increase of 0.5% p.a.	Increase by 2.6%
Rate of mortality	Increase life expectancy by 1 year	Increase by 2.6%

11.5 Plan history

	2020	2019	2018
	£000	£000	£000
OPA Retirement Benefits Plan			
Fair value of assets before taxation	**12,422**	12,470	11,970
Present value of defined liabilities before taxation	**9,313**	10,343	10,300
Surplus/(deficit) before taxation	**3,109**	2,127	1,670
History of experience gains and losses			
Return on plan assets (excluding amounts included in net interest cost):	**(155)**	383	(180)
Percentage of scheme assets (%)	**(1.2)**	3.1	(1.5)
Experienced gains on liabilities:	**96**	197	(2)
Percentage of the present value of the scheme liabilities (%)	**1.0**	1.9	(0.0)
Changes in assumptions: (£000)	**913**	(163)	1,619
Total remeasurements	**854**	417	1,437
Percentage of present value of the scheme liabilities (%)	**9.2**	4.0	14.0
Federated Pension Plan			
Fair value of assets before taxation	**6,458**	5,972	5,187
Present value of defined liabilities before taxation	**6,112**	5,687	5,324
Surplus/(deficit) before taxation	**346**	285	(137)
History of experience gains and losses			
Return on plan assets (excluding amounts included in net interest cost):	**(61)**	130	(120)
Percentage of scheme assets (%)	**(0.9)**	2.2	(2.3)
Experienced gains on liabilities:	**8**	592	(27)
Percentage of the present value of the scheme liabilities (%)	**0.1**	10.4	(0.5)
Changes in assumptions: (£000)	**184**	(370)	289
Total remeasurements	**131**	352	142
Percentage of present value of the scheme liabilities (%)	**2.1**	6.2	2.7

11.6 Reconciliation of asset ceiling

	FPP	OPA RBP	2020
	£000	£000	£000
Asset ceiling at year start	285	2,127	2,412
Interest on asset ceiling	–	59	59
Change in asset ceiling over the year	61	923	984
Asset ceiling at year end	**346**	**3,109**	**3,455**

11.7 Expected Contributions

The best estimate of contributions to be paid by the Agency to the Federated Pension Plan for the year commencing 1 April 2020 is £472,000.

A full actuarial valuation was carried out as at 5 April 2018 in accordance with the scheme funding requirements of the Pensions Act 2004. This actuarial valuation showed a surplus of £642,000.

The Agency and Trustees of both pension schemes are in regular contact and additional funding is discussed between the trustees and the Agency on a needs basis.

The Federated Pension Plan is a multi-employer scheme, the Agency has agreed to adhere to a deed that extends the benefits of the plan to the Agency. Any amendment that materially affects the costs or liabilities of the Agency must be given prior approval by the Agency.

The Agency anticipates that no employee contributions will be paid to The Oil and Pipelines Agency Retirement Benefits Plan for the year commencing 1 April 2020 as there are no active members.

11.8 Asset liability matching

The Agency meets regularly with the Trustees of the pension schemes to ensure that the investment strategy of the pension scheme is able to meet future liabilities. Insurance policies have been purchased to provide funding to match liabilities for a number of pensioners. A further market test was undertaken in the financial year to investigate the costs of further insurance policies to match assets to liabilities. No additional insurance policies were purchased.

The liabilities of the OPA Retirement benefit scheme are considered long term with deferred members ranging in age from 36–60. As a result the investment strategy is also long term to ensure future liabilities are matched by appropriate asset types.

11.9 Defined Contributions Scheme

During 2009/10 a defined contribution scheme was opened. Defined employer and employee contributions are paid into externally managed funds.

During the year employer contributions amounted to £599,000 (2019:£518,000).

12 General Fund Reserve

	Operating Cost £000	Pension Reserve £000	Total £000
At 31 March 2018	3,123	(954)	**2,169**
Changes to the general fund reserve for the year	31	(243)	**(212)**
At 31 March 2019	3,154	(1,197)	**1,957**
Changes to the general fund reserve for the year	99	68	**167**
At 31 March 2020	3,253	(1,129)	**2,124**

13 Contingent liabilities

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

At 31 March 2020 there were no contingent liabilities recorded (2019: Nil).

14 Cash at bank and in hand

	2019-20 £000	2018-19 £000
Balance 1 April	**3,869**	3,764
Net change in cash at bank and in hand	**2,220**	105
Balance 31 March	**6,089**	3,869
The following balances at 31 March were held at:		
Commercial banks - 95 day notice	**2,009**	–
Commercial banks - 10 day notice	**1,215**	3,638
Commercial banks - instant access	**2,865**	231
Net cash at bank and in hand	**6,089**	3,869

15 Related party transactions

The Agency is sponsored by the Ministry of Defence (MOD), through the Head Office Commercial Directorate, as its Managing Agent to manage the cavern sites and OFDs, strategic defence assets, and in the MOD is regarded as a related party. The fees the Agency receives for the services it provides to the MOD are detailed in Note 2b).

During the year, The Agency was charged £19,000 by the MOD for services provided by Defence Internal Audit (2019: £20,000).

During the year, two Members of the Agency were employees of the MOD; Mr Matthew Harrison and Mrs Rachel Pearson.

The current Chairman and Chief Executive, were both Trustees of OPA Pensions Trustees Ltd. The transactions between OPA and OPA Pension Trustees Ltd are as per Note 11. Neither are members of the scheme.

During the year none of the board members, members of staff or other related parties have undertaken any material transactions with the Agency other than those disclosed in the remuneration and staff report or referenced in this note.

16 Financial Instruments

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. The Agency holds no financial instruments other than those detailed below.

As the duty of the Agency is to manage the cavern sites and OFDs and to charge a fee that materially covers its operating costs, including actual pension contributions but not non-cash pension asset charges or credits, it is not exposed to significant financial risk.

The only financial instruments relate to debtors, creditors and cash balances and therefore liquidity and cash flow risk is very low. All assets and liabilities are denominated in sterling and therefore the Agency is not exposed to currency risk. The Agency has no embedded derivatives.

Interest Rate Risk Management

The Agency has, at the balance sheet date, 20% of its cash deposited available on 10 days' notice and 33% deposited on 95 days' notice. Both attract interest at a floating rate related to bank base rate. The Agency has no other deposits subject to market interest rate fluctuations, and is therefore subject to only limited interest rate risk.

Liquidity and Cash Flow Risk

The Agency has borrowing powers (note 3). These have not been exercised during the year. 47% of the cash funds which are deposited with its bankers are available immediately. Therefore, the Agency is not exposed to any significant liquidity risk or cash flow risk.

Credit Risk

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

17 Events after the reporting date.

The OPA continues in its current form concentrating on managing the Oil Fuel Depots on behalf of the Secretary of State for Defence.

These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

The Oil and Pipelines Agency accounts direction 2004

Accounts direction given by the secretary of state for defence, with the approval of the treasury, in accordance with schedule 3, paragraph 9(3), to the oil and pipelines act 1985 (the act)

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

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

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

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

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

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

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

Signed by authority of the Secretary of State for Defence

Air Commodore AC Spinks 3 March 2004

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DP Ref: 005278

ISBN 978-1-5286-1398-9