

British Forces Post Office Annual Report and Accounts 2006-2007



125th Anniversary

of THE FORMATION of
THE ARMY POSTAL CORPS

British Forces Post Office Annual Report and Accounts 2006-2007



INVESTOR IN PEOPLE

Presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000
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Foreword

The British Forces Post Office has focussed its efforts this year on maintaining and where appropriate, improving the efficient distribution of mail to servicemen and women deployed on operations. We have placed a high priority on evolving our plans to ensure continuity of output during the scheduled relocation to Northolt. We have further developed the support provided to the Foreign and Commonwealth Office and we have also continued to enhance the service BFPO delivers to MoD establishments, entitled dependants and civilians living both in and outside the United Kingdom.

Support to operations is our top priority and we have again provided an outstanding service. With an increase in deployed personnel in Afghanistan, and little reduction in the commitments in Iraq, it has been a busy and demanding year. e-bluey technology has progressed and we are now offering fax-bluey and photo-bluey; this electronic hybrid mail system continues to gain in popularity. The Government enhancement to the Operational Welfare Package of a free Christmas packet service remains very popular. Now well established and understood, more and more people are using it and the sorting office at Mill Hill, always operating at a high tempo, was once again exceptionally busy over the Christmas period dealing with the extra mail. The Defence Courier Service (DCS) provides an essential service, with the secure carriage of classified material remaining fundamental to the success of operations. Volumes of DCS material delivered to operations have increased by 55% compared to the previous year.



The impending move to RAF Northolt has clearly featured highly in our priorities this year. The new building is progressing well; it remains on budget and we hope to gain access in the early summer to begin trials on the new machinery. Greater automation and new working practices will allow us to maximise the potential of the new building and to further improve the service we provide to the Defence community. The key to a successful move though will be ensuring that our most vital asset, our people, are well managed and informed in order that they are ultimately motivated to relocate with us. The BFPO workforce has been extremely loyal over the years and I consider their continued dedication and professionalism to be critical to the success of our forthcoming operation at Northolt.

Our financial position this year has continued to be very challenging. Large fluctuations in mail volumes, considerable staff turnover and a number of efficiency saving measures have all created significant demands on the financial staff working in the BFPO. We have, however, remained within the Agency budget for 2006/07, this being achieved through accurate forecasting and sound financial management.

After a period of almost 15 years as an Agency, that has consistently delivered a successful end to end mail system, the MoD directed that BFPO should relinquish its Agency status on 1 April 2007. This is therefore the last Annual Report and Accounts that BFPO will produce. The change in status is part of the broader reorganisation of the Defence Logistics Organisation (DLO) which has seen DLO and the Defence Procurement Agency merge to become Defence Equipment and Support (DE&S). BFPO now reports to DE&S and I see little, if any change to its primary roles and tasks. Performance against Key Targets will continue to be reported after loss of Agency status in accordance with DE&S performance management requirements. The year 2007 will, however, see the greatest change in how BFPO has operated over the last 35 years and the move to Northolt along with the changes that arise from that will take BFPO firmly into the 21st century.

The future of the organisation is secure and I am confident that we will be operating from new, state of the art, premises by the end of the year. There is a lot to look forward to and the work that has taken place during this reporting period has set the framework within which the BFPO will prosper into the future.



Brigadier MG Hickson OBE
Chief Executive

4 July 2007

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Director's Report

The Management Board Members:

Brigadier MG Hickson OBE	Chief Executive
Colonel SJ Fleet MBE	Deputy Chief Executive and Colonel Postal and Courier Services
Colonel D Cook OBE	Colonel Postal and Courier Operations
Mr T Browne	Head of Resources and Secretariat
Brigadier (Retired) MA Browne CBE	Non Executive Director
Mr G Macrae	Non Executive Director
Major B Beaumont	Secretary
Major CM Violet	Secretary



Military members of the Board were appointed by normal Army posting procedures. Civilian members were appointed by MoD Civil Service standard procedures. Remuneration is decided at national level by MoD, based on the Armed Forces Pay Review Body 35th Report 2006, and on negotiation between MoD and Civil Service trades unions. The salary and pension entitlements of Board members are disclosed in the Remuneration Report to the Accounts. The first-named Non-Executive Director is a direct appointment by the Management Board, and the second-named is an *ex officio* appointment by Royal Mail Group plc (RMG).

BFPO Mission and History

BFPO is to provide an effective and efficient Postal and Courier Service, in order to sustain the fighting power of UK Armed Forces worldwide.

The Agency was established in July 1992 as the Defence Postal and Courier Services Agency (DPCSA) and was the first Defence Agency to be formed within the Ministry of Defence (MoD) Quartermaster General's (QMG's) area. In common with other Government Agencies, the DPCSA was formed to provide a sharper business focus, whilst maintaining a consistent quality of service and value for money. In practice, the Defence Postal and Courier Services (Def PCS) had been commercially orientated for some years before this, as a result of its close business links with the RMG. Formation of the Agency provided measures of financial performance and in recent years there has been tangible evidence of progress. In addition, Business Excellence methodology has helped guide BFPO towards continuous improvement across all of the business areas.

On 1 July 1999, the Agency was relaunched as the British Forces Post Office (BFPO) by the then Minister for the Armed Forces, following a successful Quinquennial Review by the Cabinet Office. The Agency forms part of the Defence Logistics Organisation (DLO) and its Owner is the Director General Logistics (Supply Chain), who is a member of the DLO Management Board.

Historically, a military postal service can be traced back to the reign of King Edward IV (1461-1483), when there is evidence of a fully established Royal Post between the King and his armies, but a similar service probably existed before then. The Royal Post was formalised by King Henry VIII in 1516 when Sir Brian Tuke was appointed Master of Posts.

On 22 July 1882, Her Majesty Queen Victoria signed a Royal Warrant authorising the formation of the Army Postal Corps. Within four days, a detachment of 100 men of the newly formed Corps raised from the Post Office Rifles (Volunteers) left the UK to provide a postal service for the Egyptian Campaign. Some 20 years later, the Army Postal Corps was absorbed into the Corps of Royal Engineers, which until April 1993 provided the worldwide Postal and Courier Services. On 5 April 1993, the Defence

Postal and Courier Services, along with other Army logistic services, amalgamated into the Royal Logistic Corps as part of a major Army reorganisation.

Today's Postal and Courier Service provides mail and Post Office counter services to Forces personnel, their dependants and authorised civilians whilst serving outside Great Britain, and a secure service for protectively marked material for the MoD, other Government Departments and Defence related organisations in the United Kingdom (UK) and overseas. A service for official mail is also provided through a network of Defence Mail Centres (DMCs) and MoD locations within the UK, and via a comprehensive network overseas.

The Agency benefits from a dedicated and diverse workforce that reflects its tri-Service nature. Approximately two thirds of our personnel are civilians and, in addition to Army specialists, there is a small number of Royal Navy staff.



Postal and Courier Operations

There are three main outputs of BFPO operations:

- The **Defence Courier Service** for the movement of protectively marked material (PMM).
- The **Defence Postal Service** for the movement of private letters, packets, and parcels worldwide including Hybrid mail systems.
- The **Defence Mail Service** for the movement of Official Mails within the UK and worldwide.

The Defence Courier Service

The role of the Defence Courier Service (DCS) is to provide a secure, discreet and efficient means of carrying Tri-service, Defence Industry and Other Government Departments' PMM during peace and conflict. Defence Couriers are unique within the MoD in that they have Diplomatic Status bestowed upon them by the Foreign and Commonwealth Office.



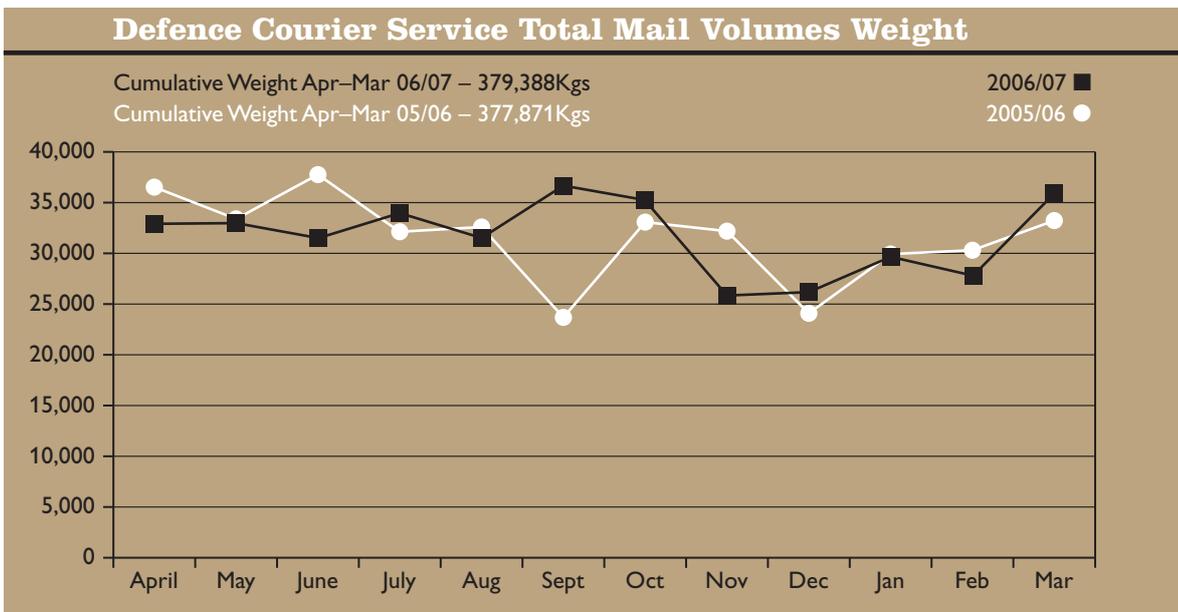
HQ DCS as the focus for all DCS activity is located at Mill Hill in London, though it will move with the rest of BFPO to a bespoke new building at Northolt. There is also a satellite DCS terminal at RAF Brize Norton.

The DCS has continued to serve as the centre of excellence in educating and assisting the wider MoD, other Government Departments and other users in best practice for handling protectively marked material. A 'Customer User Guide' was produced by DCS to assist its users in the correct despatch of PMM. This is to be used as a guide only; the authoritative sources remain the Joint Service Publication (JSP) 440, 'The Defence Manual of Security' and JSP 367 'Defence Postal & Courier Services User Guide'.

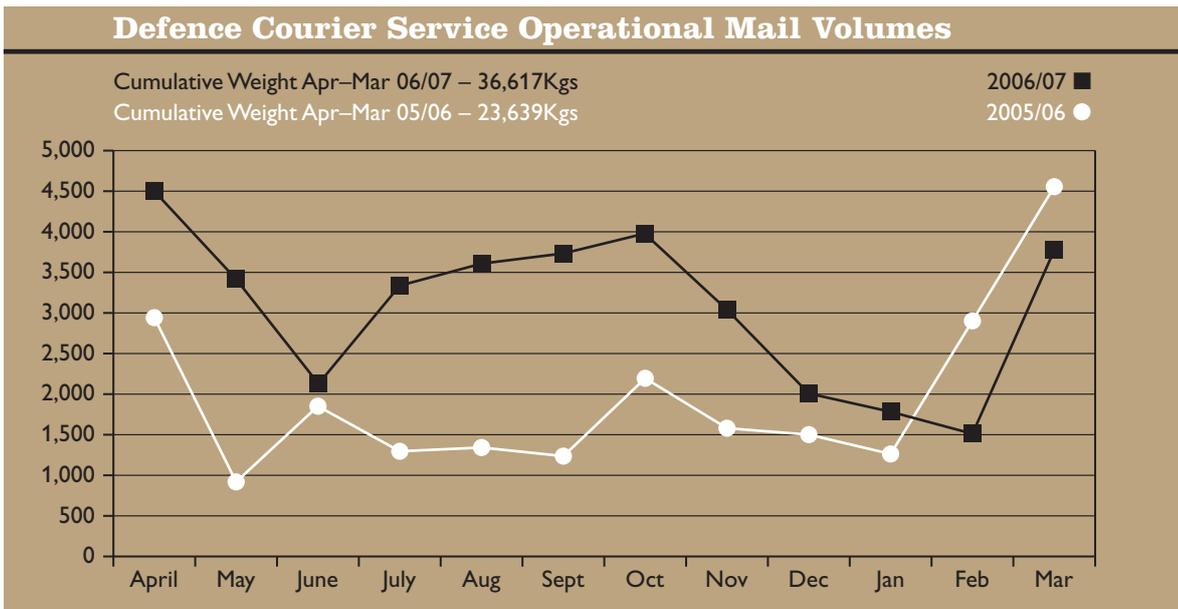
Operation TELIC and Operation HERRICK, in Iraq and Afghanistan respectively, remain the main focus of DCS operations, now with a weekly schedule to both locations from RAF Brize Norton. Non-scheduled urgent items are often despatched at very short notice using Defence Couriers who are 'on call' or 'stood by'. DCS continue to operate a large number of non-scheduled journeys in order to effect delivery of classified mails to Royal Navy ships worldwide. There is also a weekly scheduled network of road deliveries and collections across the country.



The total amount of material (by weight) moved by DCS this year has increased marginally compared to the financial year 2005/06 as shown in the graph below:



The amount of classified mail moved to Operational areas has increased by 55% (by weight) compared to the same period last year. The graph below illustrates a month by month comparison:



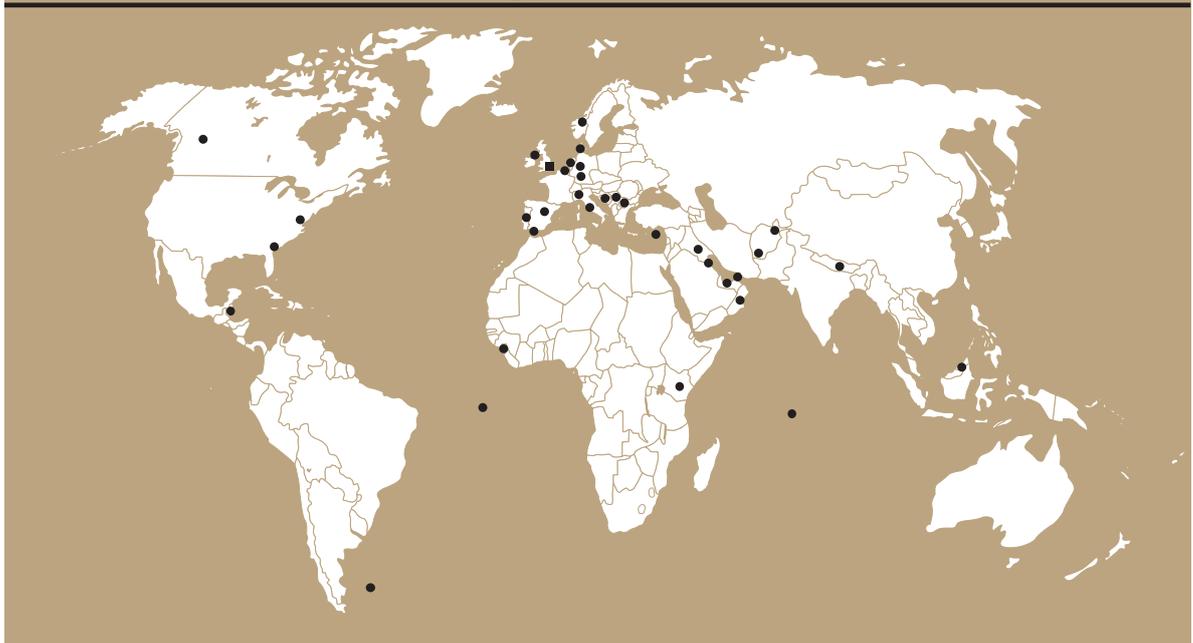
The Defence Postal Service

The receipt, sortation and despatch of private and official letters, Hybrid mail, packets and parcels to all MoD entitled personnel, including for the first time overseas members of the Foreign and Commonwealth Office, remains the principle output of the Defence Postal Service from BFPO London. This year has seen the largest number of Service personnel deployed in recent years and the demand for a regular, reliable and efficient postal service has been especially important for all personnel and their relatives.

BFPO London despatches mail to 24 countries spanning three continents for all three Services, their dependants and other authorised personnel seven days a week. Postal and Courier operators have continued to support all major operations¹.



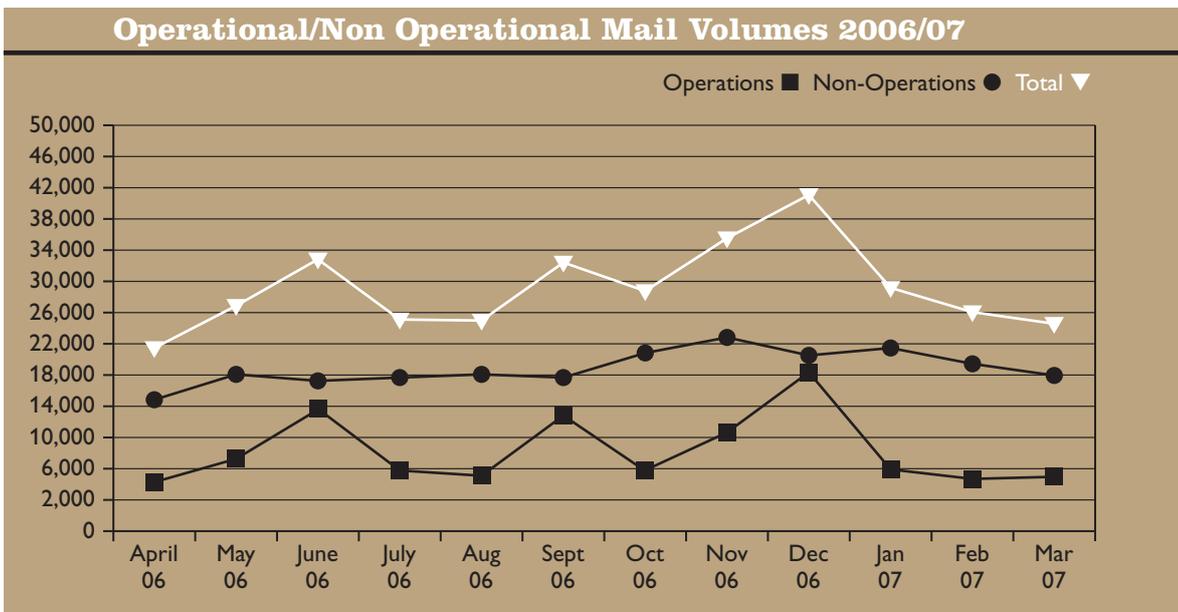
Worldwide Locations Supported by BFPO



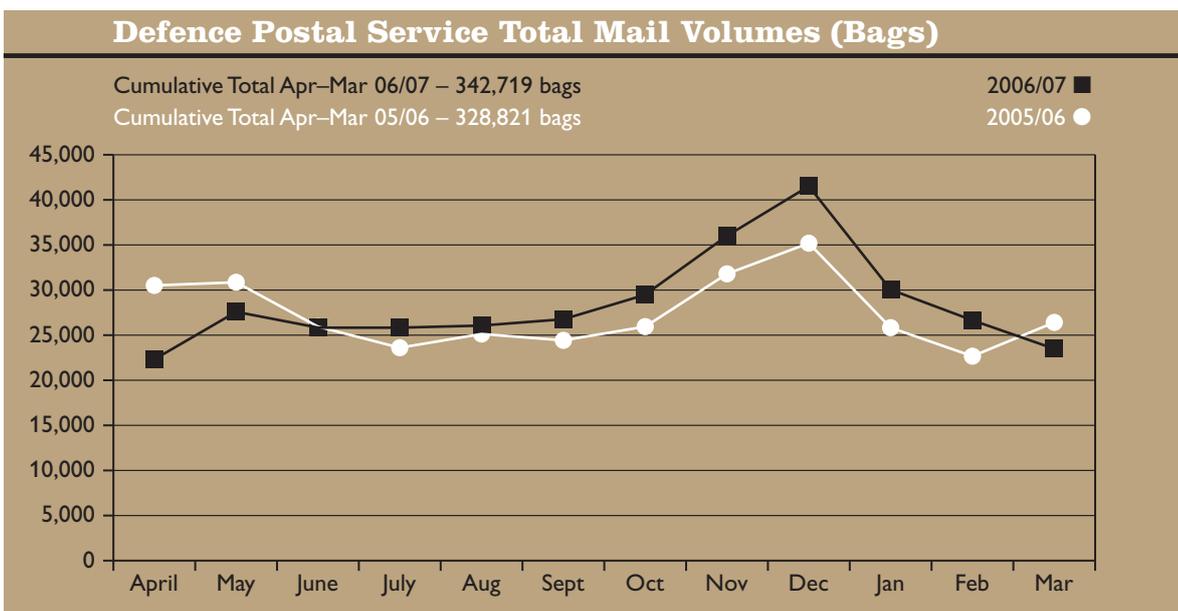
Afghanistan	Cyprus	Italy	Oman
Ascension Is	Denmark	Kenya	Portugal
Bahrain	Diego Garcia	Kosovo	Qatar
Belgium	Falkland Is	Kuwait	Sierra Leone
Belize	Germany	Macedonia	Spain
Bosnia	Gibraltar	Nepal	USA
Brunei	Holland	N Ireland	UK
Canada	Iraq	Norway	

¹ For the purpose of this report, operational statistics refers to support provided to and mails despatched by BFPO to Ops TELIC (Iraq), HERRICK (Afghanistan) and OCULUS (Balkans).

Mail despatches to both national and worldwide locations varies from month-to-month. It is seasonally based with November and December being the busiest months.



The graph above shows the seasonal increase of mail to operational and static BFPO locations worldwide. A total of over 342,000 bags were despatched during the year, representing a 4% increase compared to the 328,000 despatched in the previous year as illustrated in the graph below:





Due to the increase in operational tempo experienced during the year, several new Forces Post Offices (FPOs) were opened over the 12-month period. The main increases being seen in Afghanistan in support of Op HERRICK. Over 38,000 bags of mail were despatched to Afghanistan in the 12-month period up to 31 March 2007 compared to 8,623 during the previous year.



For the third year running, a free letter and packet service (mail up to 2kg) was provided for the family and relatives of all personnel deployed on operations overseas in the run-up to Christmas. This enhancement to the Operational Welfare Package was provided from 10 November until 8 December. Approximately 55,000 free parcels were processed and despatched by BFPO London prior to Christmas; with over 77,000 bags being despatched to operations, HM Ships and other BFPO locations worldwide during November and December.

This 443% surge in mail volumes was commensurate with the increase in the number of personnel deployed and required additional FPOs to be opened within the operational area.



Commercial Receipts

Commercial Receipts, dealing in the main with the bulk delivery of commercial and internet purchased goods, now have approximately 1,000 contracts, which generated revenue of over £800,000 during the year.

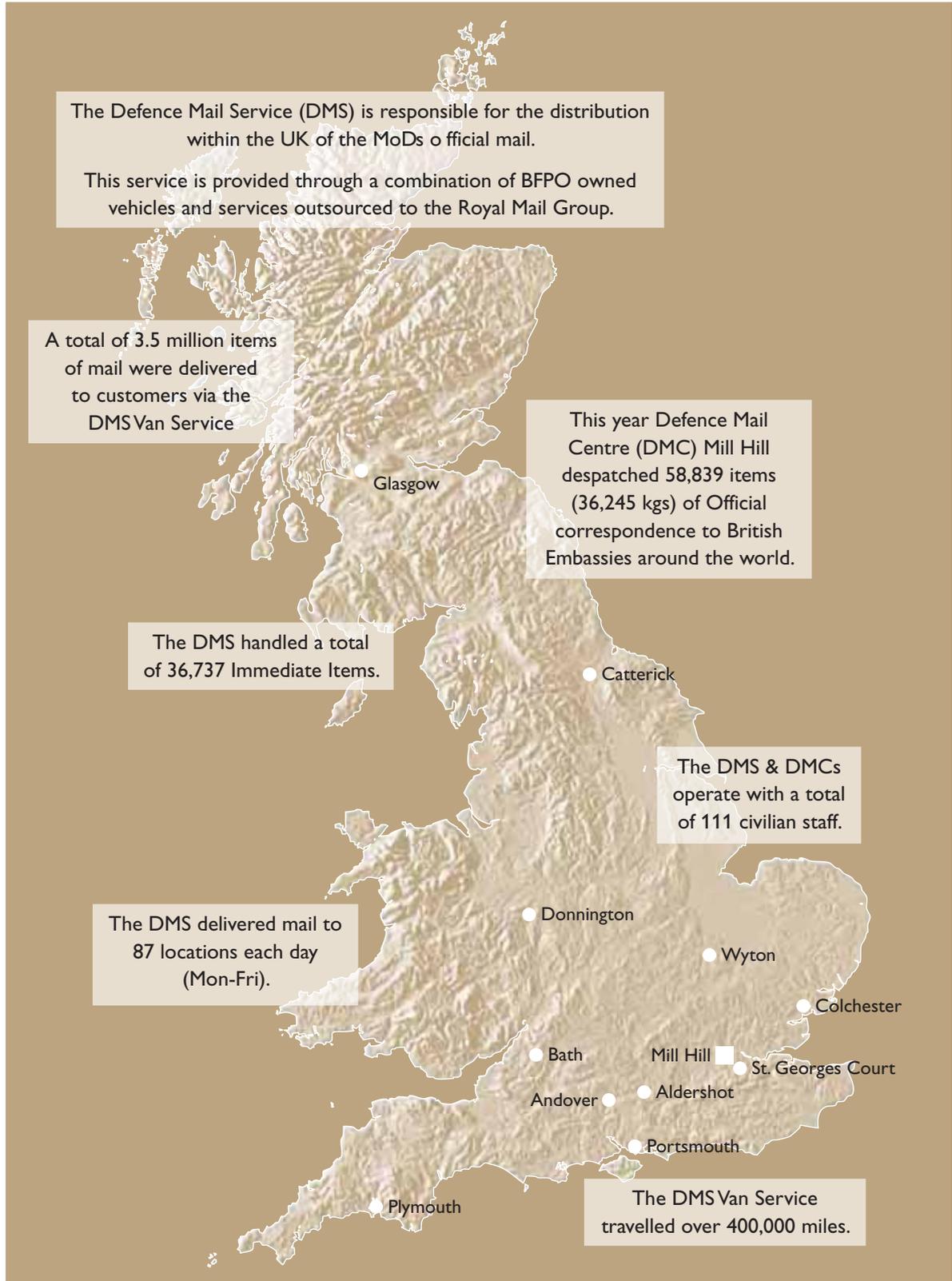


Foreign and Commonwealth Office Outward Bag Office

This year saw further co-operation between BFPO London and the Foreign and Commonwealth Office (F&CO). The F&CO Outward Bag Room, which processes F&CO private mail, transferred to BFPO London in February 2006 and is now integrated into the BFPO operation. This initiative has resulted in greater efficiency as well as allowing BFPO to better exploit its expertise, technology and best practice which has benefited both the F&CO and Government. The relationship between BFPO and the F&CO has proved successful with considerable synergy being identified between the two organisations who serve many of the same 250 locations delivering over 4,000 bags of mail a month to 7,000 staff. Further improvements, harmonisation and processes are planned, specifically the use of the BFPO Indicator Number system by F&CO locations worldwide is scheduled to be introduced on 01 August 2007.



Defence Mail Service



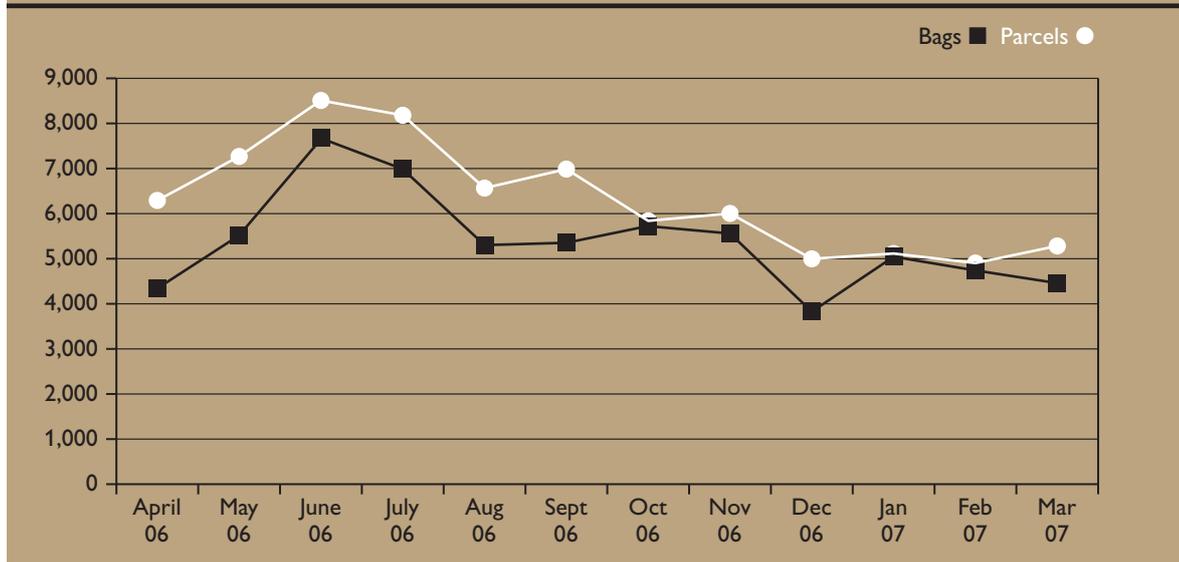
Single Manning and Outsourcing Initiative

A fundamental review of the Defence Mail Service has been conducted this year, leading to the outsourcing of BFPO Road Service Schedules to ParcelForce and a reduction of driver and messenger appointments. The review recognised the reduction in volume of mail as a continuing trend, leading to lower utilisation of the DMS vehicle fleet. It also acknowledged the impact of deregulation and competitiveness in driving down the costs of alternative RMG and commercial contracts.

Following consultation with both the Trade Unions and staff involved, BFPO was able to transfer the delivery and collection of specific mails to ParcelForce from 01 April 2007 and by implication remove 36 BFPO (driver and messenger) appointments and 11 vehicles from its fleet, thus realising financial savings.

Specific in-year driver and manpower shortages caused a detrimental impact to the quality of service delivered to customers necessitating the outsourcing of the distribution function to ParcelForce prior to 01 April 2007. Reliance on a commercial distributor resulted in new ways of working which impacted on the in-year performance indicators (PIs). As a consequence, BFPO has had to re-evaluate its PIs with its customers. The fact that the Key Targets (KTs) were framed to reflect the old way of working has resulted in under performance against KT3 and 4, in-year. Further detail is contained within page 26.

DMS Mail Volumes 01 April 2006–31 March 2007



Technical Support Services

Technical Support Services is the focus for Information Technology and Information Management within BFPO, and for the provision and administrative support of our three critical systems around the world:

- *e-bluey*.
- Counter Applications Package (CAP).
- Postal and Courier Electronic Records (PACER).

e-bluey **The Hybrid Letter**

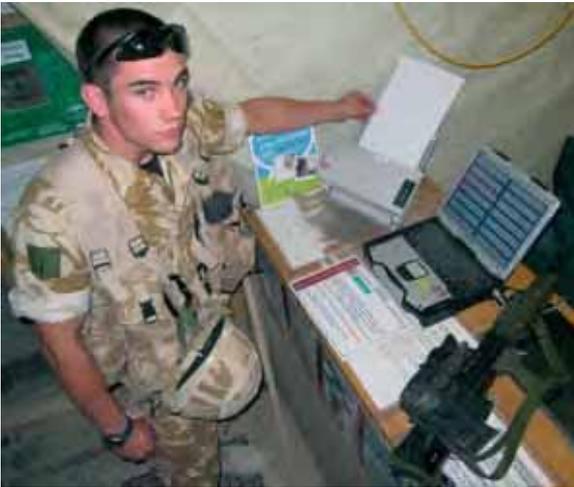


e-bluey is a cross border, one-to-one hybrid mail system that is available in the vast majority of locations where British Armed Forces are deployed: on Operations in Iraq, Afghanistan, West Africa, the Balkans and the Falkland Islands; on Exercises in locations such as Canada and Kenya; and working in isolated locations such as Brunei and Diego Garcia. The service allows relatives and friends of service personnel to maintain a personal and private contact with them whilst they are serving on Operations or long Exercises. Not only has the system helped to improve the morale of men and women serving their country but also continues to make a significant contribution in reducing the costs of moving personal mail in the Defence environment.



e-bluey combines the speed of the Internet with privacy, through the specially tailored application software and use of the integrated print-to-mail printer folder/sealer. This prints folds and seals all *e-blueys* without anyone other than the sender being able to see the contents – until the addressee opens it. This service has reduced the time it takes to get an item delivered to overseas locations, from days to hours; personnel serving in the Middle East routinely receive *e-blueys* within 12 hours of them being transmitted, as opposed to several days for a conventional letter. The *e-bluey* system continues to provide an essential communications service for the British Armed Forces, their families and friends.

e-bluey continues to expand in reach and capabilities with the *e-bluey* web site attracting 1.86 million visitors throughout the reporting period. To ensure those on operational tours and their family and friends continue to receive the best possible service, further improvements have been introduced to the family of *e-bluey* products. In 2004 fax-*bluey* was introduced, this allows Service personnel, who do not have direct access to *e-bluey* to handwrite a *bluey*, which is then scanned into the system and delivered as would a normal *e-bluey*.

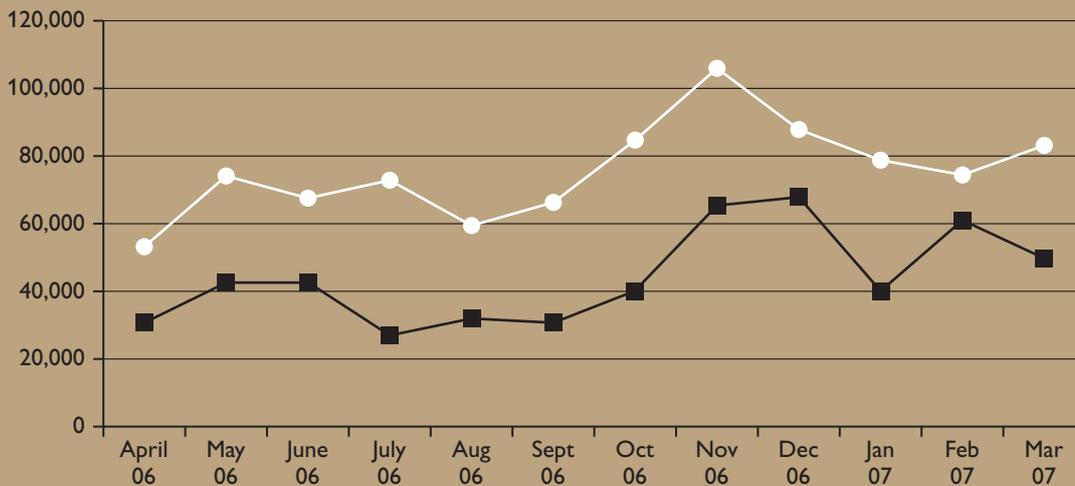


In 2006 *photo-bluey* was introduced, which allows family and friends to attach a black and white digital photograph to their e-bluey letters. A trial, looking at the provision of a colour digital photograph was initiated in March 2007. This year also saw the launch of *fax2email*; this new service now allows serving personnel on operations to send a scanned letter directly to an e-mail address anywhere in the world. Fax2email provides a much quicker delivery service, negating the need for the conventional last mile delivery system thus reducing delivery costs.

Forces Free Airletters (Blueys and e-blueys) April 06–31 March 2007

Total Blueys – 526,867 01 April 2006–31 March 2007
Total e-blueys – 905,079 01 April 2006–31 March 2007

Bluey ■
e-bluey ●



Looking to the Future

Throughout 2007 the communication system currently deployed in Afghanistan and Iraq will be replaced with an improved capability to provide an enhanced high-speed internet access, necessary for the new *photo-bluey* and *fax2email* service. These cost-effective communication services give the e-bluey system, the ability to stand-alone and operate anywhere in the world.

We also have implemented an electronic newspaper service, E-newspapers, which provides up to the minute news in an A4 format. Currently there are three versions, Britain Today, The Daily Mail and TEAMtalk Football Supplement.



BFPO Counter Application Package

BFPO has embarked upon a programme to automate counter services in all Forces Post Offices Worldwide. It is intended that counter services should mirror those provided in UK post offices. Indeed, our partner providing these services is Post Office Limited who have already automated all crown and sub post offices with a system called 'Horizon'. To keep pace with technology and to enable BFPO to continue to conduct the current services, a Counter Application Package (CAP) project team has been set up to deliver an automated service by mid 2008. The user and systems requirements have been produced and we enter the tender stage later in 2007. An automated counter solution will be produced that enables permanent FPOs and the more mobile FPOs on operations to receive the same on-line counter services.

PACER

PACER is a despatching, track and trace system that uses barcode technology to identify Postal and Courier activity worldwide. The system consists of a workstation with attached barcode scanners, weighing scales and a number of printers, which produce the despatch supporting paperwork and weigh bills. These are linked to a central server.

The past year has been a challenge for the PACER team, with their focus being split between several objectives:

The deployment of PACER hardware to 47 sites worldwide along with user training is all but complete. Of the 47 sites utilising the application, over 50% communicate via the main server, utilising the Restricted LAN Interconnect, but completing the connectivity to all sites remains a challenge. This is mainly because of the lack of available infrastructure at some sites and the high costs associated with providing a delivery point. Of those locations where infrastructure is available, testing and integration is required in order that PACER is accepted onto the network. This has delayed the connection of many sites and work is proceeding to seek an alternative method of connection.

The second focus of attention has been the preparation for the move to Northolt. With this comes the requirement for PACER to interact with the DII/F network and achieving this has proved to be a significant challenge. PACER will also need to go through a process of change and acceptance testing to be hosted within DII/F and work has started to ensure that this happens in the slightly longer term.



Additional BFPO Capabilities

89 Postal and Courier & Support Unit RLC

For the past 33 years, the primary role of 89 Postal and Courier Unit and its predecessors has been to provide support to the UK elements of NATO Headquarters. However, 2006 saw a significant change in the role of the Unit with the relocation of the Unit Headquarters from SHAPE to Mill Hill and the assumption of new responsibilities.

With effect from 22 July 2006 the Unit became 89 Postal Courier and Support Unit RLC. This brought the DCS and BFPO Support Unit under the Unit control, as well as adding the technical responsibility for the oversight of a number of FPOs which provide support to Permanent Joint Operating Bases throughout the world.

The reorganisation has exploited the synergies which exist between the NATO role of the Unit and the DCS, has provided a single technical focus for all FPOs outside of LAND Command, and has placed responsibility for the delivery of administrative and logistic support to BFPO under one umbrella.

BFPO Policy and Strategy

BFPO Policy and Strategy comprises BFPO Enquiries, the Philatelic Bureau and also provides the technical expertise and support for the Forces Post Office network worldwide. It is the key technical interface with the Post Office Counters' area of the RMG.

BFPO Counters Services

The Accounts Department has continued to administer the static, exercise and operational Forces Post Offices counters network worldwide, determining and publishing policy, supplying stock, accounting for sales and banking transactions and reimbursing main suppliers, such as the Post Office.

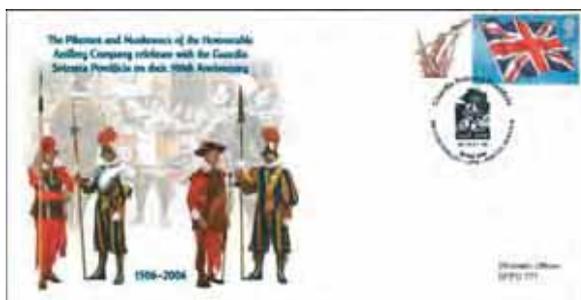
A wide ranging publicity programme to implement Royal Mail's national Pricing in Proportion charging scheme was launched in August 2006. All 5000 MoD post-rooms, 11 Defence Mail Centres and 100 BFPO counters around the world successfully adopted the scheme and 98% of DMC customers confirmed via customer survey that they were satisfied with its introduction.

Philatelic Bureau

The Philatelic Bureau has continued to keep the BFPO in the public eye throughout the year. The Philatelic Caravan has attended numerous National Army events including the Aldershot Army Show and the RLC Corps Open Day.

The Philatelic Bureau launched a very successful cover (shown above) in May in association with the Honourable Artillery Company (HAC) and the Swiss Pontifical Guard to celebrate the 500th Anniversary of their formation.

Other covers produced included the commemoration of the Queen's 80th Birthday and The Unveiling of the Foundation Stone for The Royal Hospital Chelsea Infirmary on 8 June 2006.



Our People

The BFPO Agency currently employs 311 civilian personnel (both full and part-time). The majority (250) are based at Inglis Barracks, and Frith Lane, Mill Hill. A further 61 are employed in the Defence Mail Centres at Aldershot, Andover, Bath, Catterick, Colchester, Donnington, Glasgow, Plymouth, Portsmouth, London (St George's Court) and Wyton.

Learning and Development

The Agency is committed to ensuring that all personnel both, civilian and military, are actively given the opportunity to undertake any training required. The Agency recognises the importance of supporting and investing in its people in order to ensure it retains the ability to achieve its aims and objectives. Staff at all levels are afforded the opportunity to become fully equipped with the skills, knowledge and experience necessary to enable them to contribute to the achievement of the BFPO Strategic Business Plan as well as their own continuous development.

There is currently a wide and varied selection of training opportunities available to BFPO staff through the in-house training organisation DbLearning and external training providers, whilst always ensuring value for money and return of investment. Furthermore, BFPO has formal and informal systems in place to support workforce learning and each individual has a Personal Training Plan.

Human Resources Management System (HRMS)

The Human Resources Management System is the e-enabler for the MoD's HR Transformation programme, which aims to remove bureaucracy and empower individuals and their Line Managers to manage their own careers and personal administration. All staff are able to input and view their personal details and managers are able to see job related employee information on staff within their direct reporting chain. Also managers and staff are able to book places on training courses, report sick absence and apply for jobs on-line. Further functionality has become available this year, enabling managers to advertise vacancies directly onto HRMS thus accelerating the recruitment process.



Equality & Diversity

We employ a workforce which both reflects the diversity and background of the local community and the employment available locally. We provide a working environment free from any form of harassment, intimidation, bullying, victimisation or unjustifiable discrimination. We treat individuals openly and fairly with dignity and respect and value their contributions. Equality and diversity are crucial to operational effectiveness against which our achievements are measured.



Sustainable Development

Integrating sustainable development into BFPO management activities and business processes is a priority. Responsibility for the management of utilities within BFPO is vested in the Commanding Officer 89 Postal and Courier & Support Unit RLC. The Commanding Officer's Policy Statement is published, displayed and observed throughout BFPO and applies to all military personnel, civilian employees, MoD contractors and visitors.

The Policy details the background, targets and implementation requirements to be followed to ensure compliance with the current DE&S Policy to reduce utility consumption. BFPO strives to reduce usage by improving efficiency and minimising waste and losses in order to achieve best value for money. All reasonable practicable steps are taken to comply with the BFPO Policy. Compliance is a function of command and is exercised through the normal chain of command.

BFPO Relocation to RAF Northolt



On Thursday 3 August 2006, Maj Gen Malcolm Wood CBE, DG Joint Supply Chain, conducted a "Turf Cutting Ceremony" at the new BFPO site at RAF Northolt. He is pictured (from left to right) with Mr Geoff Turner of Bovis Lend Lease, Brigadier Mike Hickson, Chief Executive BFPO, Mrs Christine Davey, the longest serving member of the BFPO workforce and Wg Cdr David Houghton (RAF Northolt). This marked the start of construction of the new BFPO facility by contractors Bovis Lend Lease. Since then considerable work has been undertaken and the photograph opposite shows the progress to date. The sorting machinery and the internal building work are approaching completion. BFPO civilian and military staff have visited the site on several occasions and it is already clear that the facility will offer a major step forward both in technology and working environment, considerably improving overall BFPO effectiveness. The facility is scheduled for hand over to BFPO at the beginning of October 2007.

The Building

The new Northolt facility offers many advantages over BFPO's existing location:

Automation. The Northolt site has been equipped with the latest commercial off the shelf, automated parcel and letter sorting machinery. Along with equipment transferred from Mill Hill, this will enhance BFPO's ability to receive, sort and distribute mail and increase its output capacity whilst at the same time reducing its requirement for manpower.

Reduced Transit Times. The Northolt site is physically closer to BFPO's principal distribution hubs with the Royal Mail at Greenford and its primary airports, Heathrow, Gatwick and RAF Brize Norton – thus affording greater potential for faster and more efficient Postal and Courier Services.

Single Site. It will enable the two dispersed sites in Mill Hill, and its associated buildings dating from the 1900s to the 1960s, to be brought together under one modern structure, thus reducing administrative, command and control overheads, and utilities and maintenance costs.



The Staff

Relocation, increased automation and associated new ways of working have resulted in a need to make considerable changes to civilian and military structures across the organisation. The outcome of this work has been subject to extensive direct Staff involvement and formal Trade Union consultation.

Key to the continuity of the BFPO operation during relocation is the need to retain as many of the BFPO's current civilian staff, as possible. However, for many of these staff, commuting from their current location to Northolt presents a significant commuting challenge. Despite this, early indications are that the majority of our existing staff has elected to make the move to Northolt; either remaining in their current posts or applying for new posts within the BFPO Northolt structure.

A further important element of the relocation is BFPO's relationship with RAF Northolt. The BFPO has worked hard with RAF Northolt Station staff to ensure that both organisations activities are properly integrated to achieve increased efficiency and overall operational effectiveness.

11 June 2007, signalled the start of the relocation for many within the BFPO; with the first 'soldier' moved from Mill Hill to Northolt, when the 'Letter from Home' statue was physically relocated from Inglis Barracks, Mill Hill to the entrance of the BFPO facility in Northolt.

Information

Staff can visit the Relocation Website on the MoD Intranet – <http://www.bfpo.dii.r.mil.uk/relocation.htm>. This shows a pictorial history of the facility from the initial building phases and will continue until the building is handed over in October 2007.

The first "soldier" moving from Mill Hill to Northolt – 11 June 2007



Policy

Statutory Background

The financial statements contained within this annual report have been prepared in accordance with an Accounts Direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000 on 19 December 2006.

Creditor Payment Policy and Payment Performance

The Defence Bills Agency is the MoD's central payments authority and has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance during the year against this target was 99.95%. No interest payments arose.

Employment Policies

The Agency's policy is to employ and promote staff on the basis of individual merit in a non-discriminatory manner and in accordance with the Civil Service Commissioners' recruitment code. Our policies are based on the principles of fair and open competition laid down by the Civil Service Commissioners and follow MoD Equality and Diversity policy. Wherever possible, we accommodate flexible working patterns. Exceptionally, staff are offered short-term appointments of up to 50 weeks. To assess the effectiveness of our procedures, which are subject to internal review and external validation, we monitor the number of disabled staff and staff from ethnic minorities.

Employee Involvement

Employee involvement in all aspects of the Agency is actively encouraged and Board members and I meet regularly with staff, both military and civilian. The Agency newsletter "Post Notes" is available to all staff, either in hard copy or electronically over the computer network and all employees attend an Agency Awareness induction day.

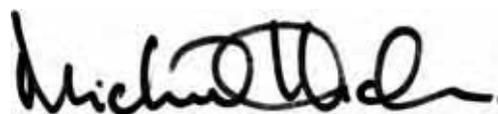
Employee Pensions

Details of employee pension arrangements and the Agency's accounting policy in respect thereof are disclosed in Note 2 (c) and Note 1 G to the Accounts respectively.

Auditors

The Accounts are audited by the Comptroller and Auditor General in accordance with section 7(3)(b) of the Government Resources and Accounts Act 2000. The cost of audit was £30k (2005-06, £25k). The external auditors provided no other services. So far as I, as Chief Executive of the Agency, am aware:

- a. There is no relevant audit information of which the Agency auditors are unaware; and
- b. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information.



Brigadier MG Hickson OBE

Chief Executive
4 July 2007

Management Commentary

Results and Financial Review of Activities

The financial statements disclose that the net operating cost of the Agency in the financial year ended 31 March 2007 was £33,879k (2005/06 £30,235k). The gross operating cost was £38,087k (2005/06 £35,269k), offset by revenue of £4,208k (2005/06 £5,034k).

Key Targets and How We Performed

Key Target 1

To provide a guaranteed 100% secure Defence Courier Service for the carriage of Protectively Marked Material (PMM).

- 100% of packages to reach the required destination – 100% achieved.

Key Target 2

To provide a secure Defence Courier Service for the carriage of PMM operating within timescales for scheduled and special items at not less than 98.7% of that agreed with customers.

- 98.7% or more of deliveries by Defence Courier Service to be within agreed timescales – 99.57% achieved.

Key Target 3

To provide a resilient and dependable service for the controlled and specialised handling of Defence Official Mails by operating at least 96% of the agreed scheduled service negotiated with customers.

- PI 3.1 – 96% of all Defence Official Mails within UK to be delivered within agreed timescales – 76.18% achieved.
- PI 3.2 – 98% or more of mail bags to be sorted and loaded to correct call points – 95.89% achieved.

- PI 3.3 – 95% of RSS to be operated and completed – 54.34% achieved.

Overall performance achieved – 75.47%

The quality of service provided in executing the delivery of Official Mail from BFPO London to Defence Mail Centres and Call Points (Key Target 3) is reported as being below target (achieved 75.47% compared to a target of 96%). This failure was due to manpower (driver) shortages. In line with the Single Manning and Outsourcing Initiative, the majority of the delivery function was passed to ParcelForce. Key Target 3 was not amended in year, which also impacted on KT 4.

Key Target 4

To meet 96% of the requirements negotiated and agreed with customers for the transit times for delivery and collection at Defence Mail Centres.

- PI 4.1 – 96% of mail delivered to DMC by DMS/PF/RM to be sorted and ready for delivery within one hour and ten minutes – 90.67% achieved.
- PI 4.2 – 96% of mail delivered to DMC by DMS/PF/RM to be delivered to local customers the same day – 96.91% achieved.
- PI 4.3 – 98% of mail delivered/collected into DMCs from local customers before 1500 hours to be sorted within one hour and ten minutes of receipt – 98.3% achieved.

Overall achieved 95.29%

The quality of service provided to the Official Mail Service by the Defence Mail Service and Defence Mail Centres (Key Target 4) is reported as being just below target (achieved 95.46% compared to target of 96%). This marginal failure was due to shortfalls of available manpower.

Key Target 5

To meet 95% of the agreed customer requirement for the movement of private and official mails from BFPO London to authorised overseas destinations within agreed timescales.

- PI 5.1 – 95.5% or more of deliveries of private and official mail to static locations world-wide (less BFG) within agreed timescales – 98.59% achieved.
- PI 5.2 – 98% or more of deliveries of private and official mail to BFG within agreed timescales – 100% achieved.
- PI 5.3 – 93.5% or more of deliveries of private and official mail to operational locations within agreed timescales – 99.71% achieved.
- PI 5.4 – 95.5% or more of deliveries of private and official mail to HM Ships within agreed timescales – 96.48% achieved.

Overall achieved 98.69%.

Key Target 6

Total year-on-year Direct Resource Departmental Expenditure Limit (Direct RDEL) cost growth to be no more than Defence inflation less 1%.

Achieved - Direct RDEL costs in 2006/07 were 2.59% lower than in 2005/06, compared to a targeted cost growth of 1.5%. This was due to lower staff costs.

Remuneration Report

Performance and Reward

The basic salary and annual increases of the civilian members of the British Forces Post Office Management Board are on an incremental basis; this could include a performance related non-pensionable bonus payment. The Permanent Secretaries Remuneration Committee and the MoD's Main Pay Committee set the conditions of the bonus payment scheme. The Agency does not operate a remuneration committee.

The basic salary and annual increases of the military members of the British Forces Post Office Management Board is calculated on an annual incremental basis based on years of service in the rank and is not related to performance.

Whilst Non-Executive remuneration is not directly linked to performance, in part to avoid any suggestion that an employee/employer relationship exists, Non-Executive Directors' (NED) performance should nevertheless be reviewed annually. The aim of any review is to consider the impact of the NED on the performance of the board, recognise the contribution of the NED and identify ways this could be improved, and, provide feedback to the NED.

Senior Managers' Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Further information on the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended until they reach the normal retiring age of 60 with the option of extending their working life to 65. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Army Personnel Centre in Glasgow appoints the Senior Military members of the British Forces Post Office Management Board. Once selected for the appointment, they will usually hold the post for a period of 3 years. The normal retirement age of Regular Officers is 55.

Non-Executive Directors are not employees and therefore do not have a contractual relationship with the Department but rather are appointees who receive a Letter of Appointment setting out amongst others, their role, period of appointment, standards and any remuneration.

	2006-07	2005-06
	£	£
Mr G Macrae, Royal Mail Group plc	3,126	3,582
Brigadier (Retired) MA Browne CBE	2,716	5,215

Management Board Salaries, Allowances & Pension Benefits

This table has been subject to audit.

The following sections provide details of the remuneration and pension interests of the Management Board members.

	Salary including performance pay 2006-07 £000	Salary including performance pay 2005-06 £000	Real increase/decrease in pension & related lump sum at 60 £000	Total accrued pension at age 60 as at 31/03/07 & related lump sum £000	CETV as at 31/03/06 Nearest £000	CETV as at 31/03/07 Nearest £000	Real increase in CETV as funded by employer Nearest £000
Brig PJT Maggs CBE Chief Executive until 30 April 2006	5 – 10	80 – 85	(0) – (2.5) plus (0) – (2.5) lump sum	35 – 40 plus 115 – 120 lump sum	863	864	0
Brig MG Hickson OBE Chief Executive from 7 June 2006	65 – 70	N/A	2.5 – 5.0 plus 10 – 12.5 lump sum	25 – 30 plus 85 – 90 lump sum	220	270	37
Col DJ Kent Deputy Chief Executive until 13 July 2006	40 – 45	70 – 75	(0) – (2.5) plus (0) – (2.5) lump sum	30 – 35 plus 100 – 105 lump sum	754	765	0
Col S Fleet MBE Col PCS Ops until 31 July 2006 and then Deputy Chief Executive from 1 August 2006	70 – 75	20 – 25	0 – 2.5 plus 2.5 – 5 lump sum	30 – 35 plus 95 – 100 lump sum	711	748	27
Col D Cook OBE Col PCS Ops from 29 September 2006	35 – 40	N/A	0 – 2.5 plus 5 – 7.5 lump sum	25 – 30 plus 85 – 90 lump sum	670	727	51
Mr T Browne Head of Resources & Secretariat	55 – 60	20 – 25	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 10 – 15 lump sum	85 ¹	107	17

1 The factors used to calculate the CETV for members of the PCSPS were revised for 2006/07 following advice from the Cabinet Office. The figures for 31 March 2006 have been recalculated using the new factors and this has led to changes to the figures published last year.

Salary

'Salary', in bands of £5,000, includes gross salary; performance pay or bonuses (paid in-year but based on performance in an assessment period ended prior to the start of the financial year); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Members of the Agency's Management Board, with the exception of the Non-Executive Directors, are paid employees of the Agency and members of either the AFPS or the PCSPS.

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but, where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Armed Forces Pension Scheme (AFPS)

From 6 April 2005, a new Armed Forces Pension Scheme (known as AFPS 05) was introduced for all new members of the Armed Forces; those in service before this date have been given the opportunity to transfer, from AFPS-75, to the new scheme. Both schemes are defined benefit, salary-related, contracted out, occupational pension schemes. Members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Armed Forces at or beyond either the Early Departure Point or the Immediate Pension Point. If a scheme member leaves before these points, they will be entitled to a preserved pension and related lump sum. Further details about Armed Forces Pensions can be found at the website www.mod.uk/DefenceInternet/AboutDefence/Issues/Pensions/.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total service, not just their current appointment. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The Real Increase in the Value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the member (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Brigadier MG Hickson OBE

Chief Executive

4 July 2007

**British Forces
Post Office**

**Annual Report
and Accounts
2006-2007**

Accounts for
the year ended
31 March 2007

British Forces Post Office Accounts for the year ended 31 March 2007

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

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

In preparing the accounts the Agency is required to:

- observe the Accounts Direction dated 19 December 2006 issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether the Financial Reporting Manual and applicable accounting standards have been followed
- disclose and explain any material departures in the financial statements and
- prepare the financial statements on the "going concern" basis, unless it is inappropriate to presume that the BFPO will continue in operation.

The Permanent Under-Secretary of State for Defence, as the MoD Accounting Officer, has formally tasked the Chief Executive with responsibilities analogous to those of an Accounting Officer for the Agency. The Chief Executive's relevant responsibilities in this role, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in "Government Accounting".

BFPO Statement on Internal Control

Scope of Responsibility

As Chief Executive of the British Forces Post Office, I have responsibilities analogous to an Accounting Officer. These include responsibility for maintaining a sound system of internal control that supports the achievement of British Forces Post Office Agency policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am accountable to Parliament for the accounting and smooth running of the Agency and answer to the Director General Logistics (Supply Chain) for the strategic direction of the Agency.

A Management Board member, with delegated responsibilities, manages each of the Agency's three Divisions: Resources & Secretariat; Policy, Strategy & Support; and Operations. Each provides regular reports on performance to me and sits on the Agency Management Board.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of BFPO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised to manage them efficiently, effectively and economically. The full system of internal control has been in place since the Agency was formed and remains in place to provide approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to Handle Risk

The BFPO Management Board is fully committed to the risk management culture and have sought help from both the Non-Executive Directors and the Audit Committee in order to develop the necessary methodology.

The Risk and Control Framework

The BFPO Strategic Risk Register

The BFPO Strategic Risk Register is concerned with critical risks that affect the Agency's outputs and is reviewed monthly by the BFPO Management Board. It is also a standing agenda item for the BFPO Audit Committee quarterly meetings. The Risk Register is a dynamic document, with risk owners and managers having to demonstrate action for the risks that they have stewardship over. In addition, the Agency holds an annual strategic Risk Day and this year the day has specifically focussed on risks associated with the imminent move to Northolt.

Business Continuity Planning

Business Continuity Planning (BCP) is an important part of our risk management strategy. During the past year, a number of exercises have been conducted in order to test our resilience and familiarise staff with the concept, which have produced positive feedback and new ideas have emerged which have given increased confidence in our ability to cope with a critical failure or major incident. A number of core facilities e.g. estate management and IT are provided by other MoD departments, which we are now engaging with to provide a higher level of BC support. Focus is increasingly on the move to Northolt, with detailed relocation and military augmentation plans delivered and now being monitored through and beyond the move. The retention of staff, especially in key posts, has necessitated the wide use of retention allowance incentives. BC plans are in the process of being established for Northolt, including new

working practises and procedures as a result of the single site build and the new technology being installed within the site.

Fraud and Theft

The MoD has a “zero tolerance” policy to fraud and theft which I fully subscribe to. The Chief of Defence Logistics issues an annual Fraud and Theft policy statement which is made available to all BFPO staff through our internal website, notice boards and e-mail. The Fraud and Theft Guidance page on our Website also includes information on reporting crime, the MoD policy on gifts, rewards and hospitality and has links to similar sites.

We have in-house Fraud Awareness presentations as part of the new entrant course and as periodic reminders for existing members of staff. During the course of the past year the Ministry of Defence Police Fraud Squad has visited BFPO twice on “Fraud Health Checks” and I am pleased that our efforts have resulted in positive feedback.

Audit of Suspense Account

BFPO Field Post Offices (FPO) provide postal (including counter) services to Land, Maritime, Air assets and MoD approved organisations worldwide including in operational areas. Users of these services are Service personnel, their families and entitled civilians. This results in an annual cash turnover of £20-25m.

FPOs usually function in the currency of the country in which they operate although accounts are reconciled in Sterling. FPOs use an exchange rate known as the Post Office Accounting Rate (POAR), which can change weekly, whilst paymasters use the General Accounting Rate (GAR). Transactions between these rates have to be reconciled.

During the course of the previous financial year, Defence Internal Audit (DIA) conducted an audit into the accounting and processes relating to reconciliation. The review included:

- BFPO internal process of recording postal service and banking service transactions.

- The process of submitting the transactions into the MoD accounting process and notification of transactions to BFPO HQ.
- Processes in place to manage outstanding balances and unreconciled accounts.

The DIA gave a substantial assurance that the systems in place were basically sound, but made a number of recommendations. These recommendations were accepted in full and were subsequently incorporated. The Suspense Account has operated with these revised procedures throughout this reporting period. All control measures have been met without any issues arising, thus previous weaknesses are considered to have been removed.

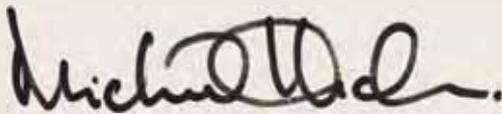
Review of Effectiveness

As Chief Executive, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within BFPO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The following processes are in place, and assist me, in my review of effectiveness:

- The Management Board consisting of myself; the Deputy Chief Executive; Head of Resources & Secretariat; and Colonel Operations meet monthly.
- The Strategic Management Board, consisting of the members of the Management Board supported by our two Non-Executive Directors, meets bi-monthly.

- The Audit Committee, chaired by Brigadier (Retired) Mike Browne CBE, one of our Non-Executive Directors, meets quarterly. Representatives from DIA, the National Audit Office (NAO) and the Defence Logistics Organisation (DLO) are also invited to attend.
- The Agency is subject to a rigorous audit regime with external audits conducted by the DIA, NAO and the DLO Assurance Team. Annual Technical Inspections, which measure the effectiveness of all military units, provide additional assurance and have been conducted within the financial year.
- My Audit Committee approves an internal annual audit plan based on our perceptions of risk. Our own Audit & Corporate Governance Officer conducts the audits. This resource is flexible and can be quickly directed to particular concerns if, and when, the need arises.
- Regular Safety Health Environment and Fire internal inspections and annual staff training. Quarterly meetings are held with representatives from all departments.
- The Agency has Investor In People accreditation, Key Membership of the British Quality Foundation and a number of departments are ISO9002 accredited.



Brigadier MG Hickson OBE

Chief Executive

4 July 2007

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

I certify that I have audited the financial statements of the British Forces Post Office Agency for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual

Report, which comprises of the Director's Report and the Management Commentary, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinion

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

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the Director's Report and the Management Commentary, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General
6 July 2007

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

Operating Cost Statement

For the year ended 31 March 2007

	Notes	2006-07 £000	2005-06 £000
Operating Costs			
Staff Costs	2	13,847	14,482
Other Operating Costs	3	24,240	20,787
Gross Operating Costs		38,087	35,269
Operating Income	4	(4,208)	(5,034)
Net Operating Cost	14	33,879	30,235

All activities arise from continuing operations.

Statement of Recognised Gains and Losses

For the year ended 31 March 2007

	2006-07 £000	2005-06 £000
(Downward)/Upward revaluation of Tangible Fixed Assets	(96)	523

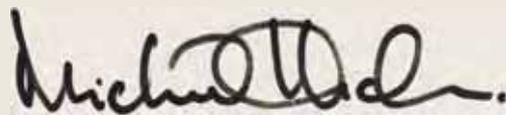
The notes on pages 42 to 56 form an integral part of these accounts.

Balance Sheet

As at 31 March 2007

	Notes	31 March 2007		31 March 2006	
		£000	£000	£000	£000
Fixed Assets					
Tangible Fixed Assets	8		482		49,063
Current Assets					
Debtors (Due within One Year)	9	3,749		2,236	
Cash at bank and in hand		2		1	
		3,751		2,237	
Creditors (Due within One Year)	10	(2,555)		(2,094)	
Net Current Assets / (Liabilities)			1,196		143
Total Assets less Liabilities			1,678		49,206
Provision for Liabilities and Charges			(2,217)		0
Taxpayers' Equity			(539)		49,206
General Fund	11		(554)		30,595
Revaluation Reserve	12		15		18,611
Government Funds	13		(539)		49,206

The notes on pages 42 to 56 form an integral part of these accounts.



Brigadier MG Hickson OBE

Chief Executive

4 July 2007

Cash Flow Statement

For the year ended 31 March 2007

	Notes	2006-07 £000	2005-06 £000
Net Cash Outflow from Operating Activities	5	(19,704)	(17,701)
Agency Funded Capital Expenditure	6	(23)	(75)
Financing from the Defence Resource Account	7	19,760	17,776
Cash Movement in Year		33	0

The notes on pages 42 to 56 form an integral part of these accounts.

Notes to the Accounts for the year ended 31 March 2007

Note 1 – Accounting Policies

A. Basis of Accounting

The British Forces Post Office ceased to be an Agency with effect from 1 April 2007. The BFPO's functions will continue within Defence Equipment and Support, and the accounts have therefore been prepared on a going concern basis.

The accounts for BFPO have been prepared in accordance with the Accounts Direction issued by HM Treasury pursuant to section 7(2) of the Government Resources and Accounts Act 2000, which requires the Agency to comply with the accounting principles and disclosure requirements of the Financial Reporting Manual (FRM). The accounts follow the accruals concept of accounting and the historical cost convention, modified to include revaluations of fixed assets to reflect their current value to the business.

The Agency does not have its own account at the Paymaster General's Office (PGO), but is funded through, and pays money into, the account maintained at the PGO by the MoD. Since unrepresented cheques are cleared shortly after the year-end by MoD's central banking system, these are not BFPO liabilities. Consequently, an adjustment has been made to this year's Cash at Bank balance to reflect this accounting policy.

B. Value Added Tax

The BFPO is not separately registered for Value Added Tax (VAT) as the Ministry of Defence (MoD) accounts for VAT centrally. Input VAT on certain contracted out services is recovered centrally through the MoD registration under specific Treasury Direction. The funding of the Agency by the MoD is reported inclusive of VAT in the Defence Resource Accounts.

C. Income

Income comprises the invoiced value of transactions (net of VAT) with the Private Sector, the wider Public Sector and Government Departments other than the MoD. No value is attributed in the accounts to services provided to the MoD. The funding of the Agency by the MoD is shown in the Cash Flow Statement.

D. Notional Charges

(a) Notional Interest Payable

A notional charge for interest on working capital is included in the Operating Cost Statement. This is calculated as 3.5% on the simple average value of total assets less liabilities at the start and end of the year.

(b) Audit Fee

The British Forces Post Office is not charged an audit fee by the National Audit Office. The audit fee represents the notional charge to the Operating Cost Statement based on the cost of services provided.

(c) Intra-Departmental Charges

Notional amounts are included in the Operating Cost Statement for charges in respect of services provided by other areas of the MoD. The amounts so charged are calculated to reflect the full cost of providing these services to the Agency, and the main services for which the charge is made are as follows:

MoD Police	Military Ground Training
MoD Guard Service	Royal Air Force Air Transport
MoD Headquarters Overheads	Accommodation (Remote Sites)

E. Fixed Assets and Depreciation

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from BFPO to other parts of the Department. Where BFPO retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's Balance Sheet in accordance with FRS5

and SSAP21. In all other cases the costs of the use of these assets are communicated to BFPO by the asset owners and are charged to the Operating Cost Statement.

Where BFPO retains the risks and rewards of ownership:

(a) Land and Buildings-Non Dwellings

Where the Agency is the principal beneficial user of assets of the Departmental Estate, they are treated as a fixed asset of the Agency, although legal ownership is vested in the Secretary of State for Defence. All the Agency's land and buildings are freehold. Land and buildings are revalued periodically using professional valuations. In the years between these professional valuations, land and buildings are revalued using indices provided by the Corporate Financial Controller.

Surpluses arising on revaluation are taken to the Revaluation Reserve.

(b) Plant and Machinery, Transport Equipment and Information Technology

These assets are capitalised where the useful life exceeds one year and the cost of acquisition and installation is greater than £10,000 (inclusive of VAT). The value of capitalised plant and equipment is reviewed annually and adjusted using the indices provided by the Corporate Financial Controller.

(c) Single Use Fighting Equipment

Fighting Equipment held by BFPO is valued centrally by MoD, and all capital amounts and depreciation included are those communicated by the Corporate Financial Controller. All non-administrative vehicles and small arms are included, together with such other equipment as exceed a capitalisation threshold of £10,000.

(d) Depreciation

Freehold land is not depreciated. Depreciation on buildings, plant and equipment is calculated to write off the cost or valuation, less residual value, of assets over their estimated useful economic lives, which are periodically reviewed for obsolescence. Depreciation on fighting equipment is communicated from the Equipment Support (Land) Fixed Asset Register. The useful economic lives ascribed to the main categories of asset are in line with MoD assumptions, except where more specific or authoritative data is available. The assumed lives are as follows:

Asset Category	Estimated Useful Life
Buildings	10 – 30 years
Single Use Fighting Equipment	30 – 40 years
Plant and Machinery and Transport Equipment	5 – 15 years
Information Technology	5 years

(e) Impairment Loss Arising from Fall in Market Value

Any impairment losses arising from the fall in market value of Fixed Assets are written off to the Revaluation Reserve, down to the depreciated historic cost of the items concerned. Thereafter, the cost is charged to the Operating Cost Statement.

F. Leases

Rents received under operating leases are credited to the Operating Cost Statement over the term of the lease, after adjusting for any rent-free periods. There are no rentals payable nor assets held under operating leases, finance leases or hire purchase agreements.

G. Pensions

Past and present employees are covered by the provisions of either the Armed Forces Pension Scheme (AFPS) or the Principal Civil Service Pension Scheme (PCSPS); both are defined benefit schemes and are unfunded and non-contributory.

BFPO recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the AFPS and PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on both the AFPS and the PCSPS.

Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of the cost of the underlying facility where the expenditure provides access to current and future economic benefits. In such cases the capitalised provision will be depreciated as a charge to the Operating Cost Statement over the remaining estimated useful economic life of the underlying asset. All long-term provisions are discounted to current prices by the use of HM Treasury's Test Discount Rate which was 2.2% for the financial year 2006-2007. The discount is unwound over the remaining life of the provision and shown as an interest charge in the Operating Cost Statement.

H. Foreign Exchange Gains and Losses

Transactions are translated into Sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used. Monetary assets and liabilities denominated in foreign currency at the Balance Sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the Operating Cost Statement.

I. Provisions for Liabilities and other charges

Provisions for liabilities and other charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date.

Note 2 – Staff Numbers and Costs

(a) Average Number of Employees during the Year

	2006-07	2005-06
Service (Officers)	23	19
Service (Other Ranks/Ratings)	141	154
Civilian (Non-Industrial)	303	312
Civilian (Industrial)	16	22
	483	507

(b) Staff Costs during the Year

	2006-07			2005-06		
	Service £000	Civilian £000	Total £000	Service £000	Civilian £000	Total £000
Wages, Salaries and Allowances	5,046	6,028	11,074	5,372	6,118	11,490
Social Security (ERNIC)	390	415	805	419	430	849
Pension Costs	1,163	805	1,968	1,303	840	2,143
Total	6,599	7,248	13,847	7,094	7,388	14,482

Civilian wages and salaries include costs of £934,135 (2005: £396,055) for 71 short-term contract/agency/temporary staff.

(c) Pension and Salary Arrangements

Pensions

The provisions of the Armed Forces Pension Scheme (AFPS) cover Service staff. The AFPS is an unfunded multi-employer defined benefit scheme, which normally provides benefits based upon length of service and final salary. BFPO is unable to identify its share of the underlying assets and liabilities of that scheme. The Ministry of Defence makes an employer contribution to the cost of pension cover provided for their staff, by the payment of charges calculated on an accruing basis. Contributions were paid to the Paymaster General at rates determined by the Government Actuary.

The Principal Civil Service Pension Scheme (PCSPS) covers Civilian staff. The PCSPS is an unfunded multi-employer defined benefit scheme but BFPO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried at

31 March 2003 for the PCSPS and at 31 March 2005 for the AFPS. Details can be found in the separate resource accounts of these schemes, which are published and laid before the House of Commons. The PCSPS Accounts are also available on www.civilservice-pensions.gov.uk.

For 2006-07, employer's contributions of £1,163k were payable to the AFPS at the applicable rate of 34% for officers and 21% for other ranks, and of £805k to the PCSPS at one of four rates in the range of 16% to 22%, based on salary bands.

The Schemes' Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

From 1 October 2002, civil servants could opt to open a partnership pension account, a stakeholder pension with an employer contribution.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Salary costs include taxable payments attributable to a special bonus scheme whereby civilian staff are paid a bonus in recognition of a well-performed one-off task. Currently, there is no limit on the number of awards that can be made within a financial year, although the total value of these bonus payments should not exceed 0.2% of the overall civilian payroll. An additional bonus scheme in respect of team awards was introduced in 2001-02, also with a ceiling of 0.2% of the overall civilian payroll.

The salary costs noted above do not include the fees to the Non-Executive Directors. These costs are included under Other Operating Costs within the Operating Cost Statement, and shown in the Remuneration Report.

Benefits in kind

There are no benefits in kind provided by the Agency which are treated by the Inland Revenue as a taxable emolument.

Note 3 – Other Operating Costs

	2006-07		2005-06	
	£000	£000	£000	£000
(a) Supplies and Services Consumed				
Postal-Related Expenditure	4,245		4,417	
RAF Air Transport	2,290		2,156	
Depreciation (Plant & Machinery)	135		150	
Telecommunications	221		126	
External Vehicle Support services	996		540	
Messing	194		204	
		8,081		7,593
(b) Accommodation				
Works Maintenance	786		1,272	
Shared Accommodation Costs	1,197		1,435	
Depreciation (Buildings)	691		661	
Utilities	183		377	
Rates	15		126	
		2,872		3,871
(c) Defence Equipment and Rations				
Depreciation (Fighting Equipment)	5		5	
Food and Clothing Consumed	850		688	
Equipment Fuels and Support Costs	268		402	
Other Materials Consumed	475		303	
Stocks Consumed	0		24	
Transportation and Movements	1,005		1,117	
		2,603		2,539
(d) Other Administrative Expenses				
Military Ground Training	1,726		1,814	
Security Services	1,995		1,946	
MoD HQ/TLB Overheads	983		1,000	
Professional Fees	333		5	
Military Staff Permanent Transfer Costs	141		124	
Military Education Allowance	198		163	
IT Support Costs	819		627	
Depreciation (IT & Comms Equipment)	176		12	
Medical Costs	102		95	
Auditors' Remuneration for Audit Work	30		25	
Army Public Relations and Recruitment	92		86	
Civilian Public Relations and Recruitment	31		25	
External Education and Training	46		55	

Note 3 – Other Operating Costs (continued)

		2006-07	2005-06
	£000	£000	£000
Net Foreign Exchange Gain	(59)		(284)
Hospitality	4		1
Permanent Diminution in Value – IT & Comms Eqpt	62		(8)
Permanent Diminution in Value – Buildings	0		(4)
Impairment (inc Reversal) – Plant Machinery & Vehicles	91		0
Fixed Assets Write Off	(37)		30
Bad Debts written off	0		231
Movement in Provision for Bad and Doubtful Debts	32		(900)
Provision – Relocation	2,217		0
		8,982	5,043
(e) Interest Charges on Capital			
Land and Buildings	1,664		1,699
IT & Comms Equipment	11		(8)
Plant and Machinery	24		24
Fighting Equipment	3		2
Net Current Liabilities	0		24
		1,702	1,741
		24,240	20,787

Note 4 – Operating Income

	2006-07	2005-06
	£000	£000
Income from Other Government Departments	2,187	1,347
Income from Commercial Services	2,021	3,687
	4,208	5,034

Note 5 – Reconciliation of Net Operating Cost to Operating Cash Flows

	2006-07	2005-06
	£000	£000
Net Operating Cost (Note 14)	33,879	30,235
Adjustment for Non-Cash Transactions (Note 14)	(2,331)	54
Adjustment for Notional Costs (Note 14)	(12,896)	(12,043)
Adjustment for Movements in Working Capital (Note 15)	1,052	(545)
Net Cash Outflow from Operating Activities	19,704	17,701

Note 6 – Analysis of Capital Expenditure and Financial Investment

	2006-07	2005-06
	£000	£000
Agency Funded Capital Expenditure	23	75

Note 7 – Analysis of Financing

	2006-07	2005-06
	£000	£000
Payments on Defence Resource Account	23,968	22,810
Receipts into Defence Resource Account	(4,208)	(5,034)
	19,760	17,776

Note 8 – Tangible Fixed Assets

	Land and Buildings Non Dwellings £000	Single Use Fighting Equipment £000	Plant and Machinery £000	Transport Equipment £000	Information Technology £000	Total £000
<i>Cost or valuation</i>						
As at 1 April 2006	51,992	84	1,639	16	0	53,731
Additions			23			23
Transfers out ¹	(51,992)	(84)	(882)	(16)	0	(52,974)
Revaluations			(78)			(78)
Disposals						
As at 31 March 2007	0	0	702	0	0	702
<i>Depreciation</i>						
As at 1 April 2006	(3,757)	(8)	(894)	(9)	0	(4,668)
Transfers out ¹	3,720	8	724	9	0	4,461
Charged in Year			(68)			(68)
Backlog			18			18
Write-off	37					37
As at 31 March 2007	0	0	(220)	0	0	(220)
<i>Net Book Value</i>						
As at 31 March 2006	48,235	76	745	7	0	49,063
As at 31 March 2007	0	0	482	0	0	482

- On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from BFPO to other parts of the Department (see Note 1E).
- A Quinquennial Review (QQR) was conducted on Plant & Machinery in 2006/07 through the Defence Logistics Organisation.
- The Valuation Office Agency and ATIS REAL Weatheralls undertook a valuation of the land and building assets as at 31 March 2006. This was undertaken on the basis of the value to the business model and was in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

1 Assets transferred to the Defence Estates Agency and the Defence Logistics Organisation

Note 9 – Debtors

	2006-07	2005-06
	£000	£000
Amounts Falling Due Within One Year		
Trade Debtors	853	652
Less: Provision for Bad and Doubtful Debts	(61)	(29)
Net Trade Debtors	792	623
Other Debtors	1,490	1,009
Prepayments and Accrued Income	1,467	604
	3,749	2,236

The major cause of the movement in Debtors was accrued income. BFPO receives income annually from the Royal Mail Group under a Forces Mail Settlement agreement. For the calendar year ended 31 December 2006, the annual income was received after 31 March 2007, and therefore has been accrued, whereas the corresponding annual income for 2005 had been received before 31 March 2006.

Note 10 – Creditors

	2006-07	2005-06
	£000	£000
Amounts Falling Due Within One Year		
Trade Creditors	774	230
Accruals	1,634	1,717
Value Added Tax and Other Creditors	147	147
	2,555	2,094

The accruals balance includes a £300k estimate for the free parcel service for December 2004. This was pro-rated based on the previous year's invoices for the same service. To date the Agency is still waiting for the invoice for this period.

Note 11 – General Fund

	2006-07	2005-06
	£000	£000
General Fund at 1 April	30,595	17,720
<i>Add:</i>		
Net Financing from the Defence Resource Account (Note 7)	19,760	17,776
Transfer of Fixed Assets (Note 8)	(29,926)	0
Notional Costs (Note 14)	12,896	12,043
Realised Revaluation (Transferred from Revaluation Reserve)	0	13,291
Net Operating Cost	(33,879)	(30,235)
General Fund at 31 March	(554)	30,595

Note 12 – Revaluation Reserve

	2006-07	2005-06
	£000	£000
Revaluation Reserve at 1 April	18,611	31,580
Transfer out of Fixed Assets (Note 8)	(18,588)	0
<i>Add:</i> Net Upward/(Downward) Revaluation	(26)	422
<i>Less:</i> Realised Revaluation transferred to General Fund	0	(13,291)
Backlog Depreciation (Note 8)	18	(100)
	18	(13,391)
Revaluation Reserve at 31 March	15	18,611

Note 13 – Reconciliation of Movements in Government Funds

	2006-07	2005-06
	£000	£000
Government Funds at 1 April	49,206	49,300
Revaluation Reserve Movement in Year	(18,596)	(12,969)
General Reserve Movement in Year	(31,149)	12,875
Government Funds at 31 March	(539)	49,206

Note 14 – Cash and Non-Cash Items

The Agency receives cash funding from the MoD for some activities (cash items) and benefits from additional support and services from MoD organisations for which it makes no payment (notional costs). Together, the net cash and non-cash items make up the total net operating costs for the Agency, as follows:

	2006-07	2005-06
£000	£000	£000
Net Cash Costs	18,652	18,246
Notional Costs	12,896	12,043
Non-Cash Costs:		
Depreciation Charge	68	828
Bad Debt Provision Movement	32	(900)
Provision against Relocation	2,217	0
Permanent Diminution in Value of Fixed Assets	(37)	18
Reversal of Permanent Diminution in Value in prior years	51	0
	2,331	(54)
Net Operating Cost	33,879	30,235

The breakdown of notional costs is:

	2006-07	2005-06
	£000	£000
RAF Air Transport	2,290	2,156
Military Ground Training	1,726	1,814
Security Services	1,995	1,946
MoD HQ/TLB Overheads	983	1,000
Interest Charges on Capital	1,702	1,741
Accommodation (Remote Sites)	1,197	1,435
Communicated Accommodation Costs	750	800
Military Staff Permanent Transfer Costs	141	124
Military Education Allowance	198	163
External Vehicle Support Services	457	457
Medical Costs	100	92
Audit Fee	30	25
Army Public Relations and Recruitment	92	86
Messing	194	204
Communicated Fixed Assets Impairment Costs	102	0
Communicated Depreciation Costs	939	0
	12,896	12,043

Note 15 – Movements in Working Capital

	2006-07	2005-06
	£000	£000
(Increase)\Decrease in Debtors	(1,513)	544
Increase\Decrease) in Creditors	461	1
	(1,052)	545

The cause of the movement in Debtors is referred to in Note 9. The movement in the provision for bad and doubtful debts is reflected in note 14.

Note 16 – Related-Party Transactions

BFPO is an Executive Agency of the MoD. The MoD (the Department) is regarded as a related party. During the year, BFPO had various material transactions with the Department, including a significant number of notional charges, which are explained in Note 1 to the accounts, and with other entities for which the Department is regarded as the parent Department.

In addition, BFPO has had a significant number of material transactions with other Government Departments and other Central Government bodies. Most of these transactions have been with the Foreign & Commonwealth Office.

Royal Mail Group plc (RMG) is deemed to be a related party, as is the Non-Executive Director Mr G Macrae, who is a senior full-time employee of the Royal Mail Group. BFPO transacts materially with RMG companies, including ParcelForce, Royal Mail and Post Office Ltd. These transactions are conducted within the standard terms of business. BFPO received £691k for 2006 calendar years respectively and a further £173k was accrued at 31 March 2007. BFPO paid RMG companies £1,440k and owed a further £582k at 31 March 2007. The majority of both income and expenditure relates to the Strategic Alliance, a contracted settlement between BFPO and RMG based on the numbers of items and weights of mail conveyed.

Note 17 – Provision for Liabilities and Other Charges

	Relocation Costs £000	Total £000
Balance at 1 April 2006	0	0
New provision created	2,217	2,217
Provision at 31 March 2007	2,217	2,217

A provision was created this year, in accordance with FRS12, relating to the withdrawal from our current site in Mill Hill and move to Northolt. This relocation will result in a number of redundant posts, and the civilian staff affected will be placed in the department's Redeployment Pool. In the event that these staff are not redeployable within the MoD or other Government Departments, then payments under Early Retirement and Severance schemes are anticipated to take place over a period of 9 years ranging from late-2007 to 2016.

Note 18 – Post Balance Sheet Events

- (a) On 28 March 2007, Adam Ingram, the Minister of State for the Armed Forces announced to the House of Commons, that from the 1 April 2007 the British Forces Post Office Agency would cease being an Agency. Consequently, these are the last set of accounts to be prepared on the Agency basis. The activities of the Agency will continue within the Ministry of Defence and therefore it remains appropriate for these accounts to be prepared on a going concern basis.
- (b) BFPO's relocation to Northolt is subject to a 20 working day delay notice imposed by the building contractor. This has resulted in the proposed removal date being put back to the end of September 2007.
- (c) The 2006/07 BFPO Financial Statements were authorised to be issued by the Accounting Officer on 4 July 2007.

Note 19 – Financial Instruments

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

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

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

Interest rate risk

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

Currency risk

BFPO does not hold assets or liabilities denominated in a foreign currency, and income and expenditure denominated in a foreign currency is negligible. The Agency is therefore not exposed to significant currency risk.

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

Liquidity risk

BFPO is not exposed to significant liquidity risk, as liquidity requirements are met by financing from the Ministry of Defence Resource Account, and it has no borrowing facilities. The Department's resource requirements are voted annually by Parliament.

Note 20 – Intra Government Balances

	Debtors <1 year £000	Creditors <1 year £000
Balances with other Central Govt Bodies	1,144	105
Balances with other Public Corporations and Trading Funds	0	0
Others	2,605	2,450
At 31 March 2007	3,749	2,555
Balances with other Central Govt Bodies	660	103
Balances with other Public Corporations and Trading Funds	42	0
Others	1,534	1,991
At 31 March 2006	2,236	2,094

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