



**People, Pay
and Pensions
Agency**

'Putting People First'

Annual Report and Accounts 2006/2007



Annual Report and Accounts



**People, Pay
and Pensions
Agency**

Presented in Parliament in pursuance to the

Government Resources and Accounts Act 2000

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Chief Executive's Statement

On 7th April 2006 the then Under Secretary of State for Defence, Don Touhig, came to Bath to formally launch the People, Pay and Pensions Agency. The day was both a celebration of what had been achieved so far; the transition from the old Pay & Personnel Agency to the new PPPA and the roll-out of the initial operating capability of the agency, and a statement of the aims of the agency in its development up to, and beyond, the achievement of full operating capability in 2008. This set of accounts and performance achievements for the year 2006/07 is the report on how we have matched up to the expectations we had on that day in April 2006.

We set ourselves a number of challenging targets for where we wanted to be by the end of the agency's first year and, for the most part, we have achieved them. Along the way there have been setbacks, from which we have learnt, but, most importantly, we have systems and processes in place, and the staff trained to use them, to be able to provide the services we have undertaken.

This, however, is only the start and there is clearly much more to do to grow the agency into a mature operation which consistently meets stretching performance and cost requirements and makes the wider difference to customers that we intend. Some of the main things we are doing to work towards that maturity have been set out in our Corporate Plan and include, for example, rolling out the remaining new services to complete our portfolio, greater integration of our processes to become less a collection of services and more of a single-stop shop, further development of our IS systems to support those processes and building closer relationships with our customers to both improve our delivery of the services they want and for them to gain greater confidence in the use of them.

The way we do business is still very new both for us and the customers we serve. The journey towards our aim, to be comparable to the very best providers of people services, will take a number of years, but the commitment and professionalism of the agency's staff in its first year has been remarkable and gives me every confidence that we will achieve that aim and, with it, deliver the results our customers want.



David Ball
Chief Executive
26th June 2007

Management Report for Financial Year 1 April 2006 to 31 March 2007

1. The Agency

Our Purpose

We provide a comprehensive and integrated personnel service for Ministry of Defence civilian staff and their line managers, which is also available in whole or part to other customers on repayment.

Our Part in Defence

We are part of the Ministry of Defence working with other parts of the Department, primarily the Corporate Services area of which we form a part.

Our services help the Defence effort by

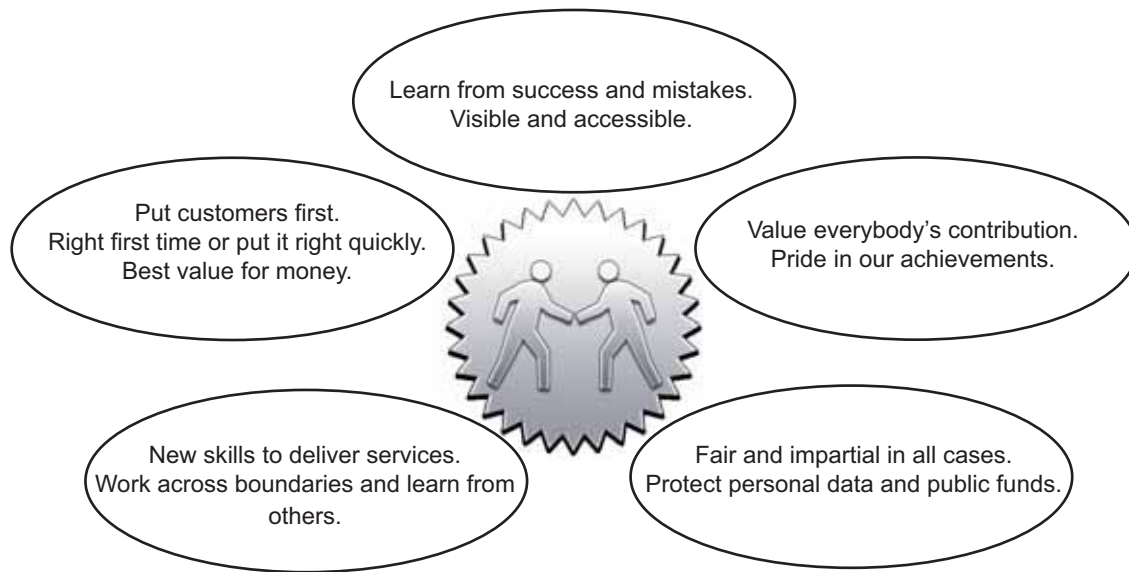
- Improving the experience of working in Defence
- Freeing staff and their managers to focus more on their core business, less on administration
- Providing the tools to help managers and staff improve their skills and performance
- Keeping administration costs to the minimum so as much Defence resource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



PPPA launch day April 2006
(from left to right Chief Executive PPPA David Ball,
Under Secretary of State for Defence Don Touhig MP,
Permanent Under Secretary Bill Jeffrey, Personnel
Director Richard Hatfield)

Our values and ideals

Success depends on how we behave and what matters to us. Our overarching value is to put people first.



How we manage ourselves

The plans and strategic direction of the People, Pay & Pensions Agency are managed by a board consisting of the Chief Executive and his directors. The primary role of the Board is the identification and setting of agency key and business performance targets through the Corporate Planning process, assessment of the risks to the achievement of those targets and the regular monitoring of performance against them. The composition of this Board reflects the importance, both to the Agency and the Department, of the successful implementation of the Human Resources services modernisation programme, part of the MOD's wider People Programme. During 2006/07 the members of this Board were



David Ball
Chief Executive
Also Director General Human Resources Service Delivery:
 responsible for the management of the Agency and accountable to the Owner (the MOD Personnel Director).



John Quinn
Deputy Chief Executive and Director of Operations:
 responsible for the running of all the transactional and HR operations as well as internal business support services like training, quality assurance and audit.



Douglas Looman
Director of HR Service Delivery Modernisation:
 responsible for programme management of HR service delivery modernization.



Tony Maynard
 commenced 2 May 2006
Director of Corporate Development:
 responsible for a range of corporate activities including finance, strategic HR, corporate planning, new business, corporate communications, risk and business continuity, meeting external standards, health and safety and the Bath accommodation project.



Derek Bunting
Director of Infrastructure and Systems:
 responsible for the provision and development of all Information Systems and services in support of the Agency's business activities.



Margaret Savage
Non-Executive Director:
 responsible for providing independent advice on the Agency's programmes and the role and objectives of the Agency, and for chairing the Audit Committee.

The appointment of the agency Chief Executive is governed by the processes set out in the Civil Service Management Code.

Tim Taylor, Deputy Chief Executive and Director of Business Operation ceased to be a director of the previous Pay & Personnel Agency as from 31st March 2006.

No member of the Management Board holds any directorships or has any other significant interests which may conflict with their management responsibilities.

This Management Board is supported by a number of subsidiary boards that each deal with areas of specific interest to the agency. Examples of these boards are the Finance Board, which meets to consider the financial position of the agency, to take reports from the Audit Committee and to decide on the financial policy of the agency, and the People Board which deals with all aspects of agency operation that impact on the people it employs. These boards are attended by some or all of the directors and are supported by senior agency managers specialising in the subject.

The agency's Owner, the Personnel Director for the Ministry of Defence, is supported by an Advisory Board comprising senior officials of the MOD, whose prime responsibility is to support the Owner in his responsibilities on behalf of the Secretary of State for Defence. This Board meets on, on average, three times a year to review the agency's targets, plans and performance, advise on resources, and represent the interests of the agency's customers.

The Management Board includes a non-executive member from the private sector. The Agency Chief Executive, supported by his directors and other senior Agency managers, also attends.

A fuller description of the policy for the management of the agency and the risks attending its operations is set out in the Statement on Internal Control that accompanies this report and accounts.



PPPA Staff Conference 2007

John Quinn, Tony Maynard, David Ball, Douglas Looman and Derek Bunting hosting a questions and answers session at the PPPA Staff Conference 2007

Our recruitment and employment policy

Recruitment into the agency is governed by the Civil Service Order in Council 1995, and is in accordance with the Civil Service Commissioners' Recruitment Code.

In accordance with the Order and the Code, every person appointed to a post in the agency is selected on merit on the basis of fair and open competition, regardless of race, gender or, subject to the requirements of the job, disability. Facilities and special equipment are provided for disabled staff and appropriate training arranged.

Staff joining the agency from elsewhere in the Ministry of Defence or civil service are appointed through internal competition or managed postings following the rules and policies of the Ministry of Defence.

Our policy on staff involvement

Involvement of all staff is central to the management philosophy of the agency. The agency is fully accredited as an Investor in People organisation. Staff are kept informed through regular staff meetings, in-house magazine, the corporate intranet and an annual staff conference. They are encouraged to contribute ideas for improvement through the MOD's GEMS staff suggestion scheme. Formal and informal discussions take place with trades unions, mainly through the regular meetings of the Functional and Official Whitley Committees.

Our policy on payment of creditors

Apart from a very small number of low value payments, all invoices due for payment by the agency are cleared by the MOD central bill-paying authority, the Defence Bills Agency (DBA). Following implementation of the Late Payment of Commercial Debt (Interest) Act 1998, the DBA has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.9% in 2006/07. No interest payments arose.

Post Balance Sheet Events

Full Details are provided in Note 15 to the Accounts.

Auditors

The accounts of the agency are audited by the Comptroller and Auditor General under Section 7 (3) of the Government Resources and Accounts Act 2000. The notional cost of the statutory audit is £30,000. In preparing for the audit of the 2006/07 Accounts of the People, Pay and Pensions Agency I have ensured:

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

Management Commentary on Agency Performance 1 April 2006 to 31 March 2007

2. Remuneration Report

The salary and pension entitlements of Agency senior managers during the period of these accounts were [this information is subject to audit]

	Salary, including performance pay 2006/07 £k	Real Increase in pension and related lump sum at age 60 £k	Total Accrued pension at age 60 at 31/03/07 and lump sum £k	CETV at 31/03/2006 nearest £k	CETV at 31/03/2007 nearest £k	Real increase CETV after adjustment for and changes in market investment factors (nearest £k)	Employer contribution to partnership pension account including risk benefit cover to nearest £100	Salary, including performance pay 2005/06 £k
Mr David Ball Chief Executive	95 - 100	0.0 - 2.5 plus 2.5 - 3.0	25.0 - 30.0 plus 75.0 - 80.0	404	425	15	Nil	90 - 95
Mr John Quinn Deputy Chief Executive	115 - 120	0.0 - 2.5 plus N/A (Premium)	0.0 - 2.5 plus N/A (Premium)	9	31	19	Nil	35 - 40
Mr Tony Maynard (Started May 2, 2006) Director of Corporate Development	55-60	0.0 - 2.5 plus 0.0 - 2.5	20.0 - 22.5 plus 60.0 - 65.0	333	347	8	Nil	N/A
Mr Derek Bunting Director of Information Services	55- 60	0.0 - 2.5 plus 5.0 - 7.5	27.5 - 30.0 plus 80.0 - 85.0	465	529	45	Nil	50 - 55
Mr Douglas Looman Director of HR Service Delivery Modernisation	60 - 65	0.0 - 2.5 plus 0.0 - 2.5	22.5 - 25.0 plus 65.0 - 70.0	362	376	6	Nil	60 - 65

In the above table, salary is the amount paid in year and is not annualised.

The agency also employed (from 1 April 2006) a non-executive director, Margaret Savage, on a consultancy basis to help develop the agency's corporate governance processes. Mrs Savage's remuneration for the period was £12,600 (2005/06 previous NED, Kevin Gamble, £14,400, contract expired 31 March 2006).

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

Pension benefits for Management Board members are provided through the CSP 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 as per 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. 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 CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

The table shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The increase in CETV is effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and frame work prescribed by the Institute and Faculty of Actuaries.

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.

3. Financial Review

During the year the agency consumed net resources of £48.5M (2005/06: £36.66M). This has been charged to the agency's General Fund. The resources were consumed in meeting the agency's obligations and commitments to the Department and to other Government Departments, which included:

- meeting its Service Level Agreement commitments to Director General Civilian Personnel as the agency's principle customer;
- fulfilling its obligations to Cabinet Office as an Accredited Pensions Awarding Centre for the Principle Civil Service Pension Scheme and as a payroll provider;
- developing new processes and business structures to meet the requirements of the MOD's People Programme;
- continuing the development and implementation of the new payroll systems;
- implementing the new IS systems required to improve the agency's capacity to sustain electronic business processes across the Department and ensure resilience against systems failure.

During the period a total of £6.04M was expended on new fixed assets, predominantly on the latest stages of the construction of the new payroll systems.

The accounts of the agency represent the resources employed in delivering the payroll, pensions and personnel services required under the Service Level Agreement with MOD and in the development of new payroll and HR service delivery processes. The accounts do not include the payroll costs of the MOD's civilian workforce, nor do they include the assets and liabilities accruing to the MOD that are a result of the operation of the payroll and pensions processes other than those employed in the delivery of the service. Details of the pension arrangements for the agency's own employees are shown in the Remuneration Report and in note 2 of the attached accounts.

4. Operating Review

The agency's Corporate Plan for 2006/07 addressed the targets and challenges to be faced under four headings; delivering results, reputation, how we work and the future. This review will use these headings along with the subdivisions within them to demonstrate the agency's operating performance during the year.

Delivering Results

Value for Money

The key unit cost targets for the delivery of the services taken over from the Pay & Personnel Agency were all met by the end of the year. The pay and claims targets, a percentage reduction in real cost compared to 2003/04, were substantially exceeded.

The pensions target however was only just achieved due to the additional resources needed in the short term to introduce new tax legislation.

Promised Service Levels for Established Services

For the pay and claims services timeliness and accuracy targets have generally been met although the closure of Pay Reporting Points, particularly where skill zone and non-standard groups are employed and IS skills and access are limited, has led to an increase in paper claims. This has had an effect on timeliness targets.

The introduction of the new tax legislation, together with other factors, affected the timeliness of pension awards at the start of the year and, although performance recovered strongly, the target for the year was missed.

Promised Service Levels for New Services

In the first part of the year there were a number of problems which caused us to miss our targets for the speed of processing internal competitions for posts, but by the end of the year, following a programme of improvements, we were achieving the levels set in our service agreement.

The Career Consultancy service was launched across the MOD in April 2007 following a successful pilot. The Band B and Band D Assessment and Development Centres were also managed successfully for the first time under PPPA management.

Despite having to amend the process twice during the year to incorporate Tax Simplification and Age Discrimination Legislation, the leavers service successfully handled a total of nearly 3900 retirees and resignations. There is evidence, however, that the service is not yet fully integrated with pay, claims, pensions and other aspects of PPPA services and a project is underway to identify and recommend improvements.

The leavers and working patterns services continued to develop through the year, managing all retirements and resignations; supporting managers and individuals on all aspects of working patterns including application of Working Time regulations; and helping to improve the management of extended special unpaid breaks including a comprehensive Keep In Touch programme for those away from the workplace. We also now administer the Business Appointment approval process on behalf of the MOD, exceeding the target for completion of cases.

Services to promote health and welfare were extended over the year, following integration of the Occupational Welfare Service into the agency from April 2006. The Maternity Leave team faced some backlogs from November following new maternity leave rules. New procedures for alerting managers after 14 days of sickness were developed, successfully addressing some initial technical issues.

Services in Preparation

The pilot phase of the external recruitment process was launched to its revised target date of February 2007, and completed the year on track to launch the full service from May 2007, once a number of issues over documentation and the external website raised by the pilot have been addressed.

The first stage of the service to enable managers to engage temporary agency staff from a common contract was launched in November 2006.

A number of new or enhanced learning and development and promotion services have been in preparation. These include development of a new Senior Civil Service Assessment Centre, due to go live in 2008, and the increased e-enablement of many of the learning and development services.

The new payroll system continued to be developed by the Future Pay project team and our contractual partners. By December 2006 some 4000 accounts had been transferred from the current processes, including Senior Civil Service,

NHS, Fire Service and Teaching grades. These accounts, although small in proportion to the total number of MOD civilian employees, represent some of the most complex terms and conditions of employment and have proved a good test of the new processes. The migration of all pay accounts to the new system was due to have been completed by April 2007, but changes in the timetable for implementation of the 2006/07 pay awards mean that this is now due to be completed by July 2007. Teaching grades, although small in proportion to the total number of MOD civilian employees, represent some of the most complex terms and conditions of employment and have proved a good test of the new processes.

Extensive preparation was made during the year to enable the launch in April 2007 of a new case advisory service for supporting managers in a range of personal cases, including those arising from extended sickness absence, discipline and performance issues.

A revised and improved set of management information reports for MOD business areas was developed over the year.

Responsiveness and Availability

The People Service Centre, the agency's main point of contact with the individual customer, has received excellent customer satisfaction results from various surveys that have been carried out. Targets for responding to correspondence have been exceeded, but following a strong first half of the year, the volume of calls being received and staffing factors meant that targets for the average time for telephone pick-up were not achieved.

The agency's on-line systems suffered significant availability problems in the early part of the year, due in part to an inadequate infrastructure platform for the core PeopleSoft (HRMS) system. Since this was re-platformed onto new PPPA servers, availability has increased to planned levels.

Reputation

Customer Satisfaction

There has been positive feedback from customers regarding the standard of advice and support being provided by the agency as well as for the improved speed and reliability of the PeopleSoft (HRMS) system. There are, however, some misgivings about the intentional downtime for HRMS and the agency's e-forms while replatforming and enhancement is taking place, affecting some employees' ability to claim their entitlements on-line instead of through traditional forms. The agency is working to ensure such disruption is kept to a minimum and that, when it is unavoidable, clear messages go out to all customers.

The agency has established a customer satisfaction cell alongside the People Service Centre that will measure all aspects of particular services to identify areas for improvement or where there is a need for increased training and awareness of line managers across MOD.

The Agency held customer satisfaction surveys which measured separately satisfaction with established pay and pensions services. These scored highly, achieving the key target, and showing a level of satisfaction comparable to the upper quartile for comparable organisations. The results for new services were much lower, reflecting the newness of the services, the problems with telephone pick-up times and system availability, but helping to identify areas on which to focus as new services are taken to maturity.

Staff Involvement and Satisfaction

The Agency held its first Staff Conference attended by some 210 staff with 99% reporting themselves satisfied with the event. A series of roadshows for managers, led by the Deputy Chief Executive, took place identifying the successes achieved by the Agency and the lessons that can be learned. A number of cross agency groups, including staff from a range of business areas were established. The groups focused on delivering real improvements including a review of accommodation. The results from the staff survey were below the aspirational targets set and subsequently improvements have been identified in areas of communication, leadership and training and development. The Agency ran a number of recruitment campaigns to recruit replacement staff at Band E level, primarily for the People Service Centre, and the Pensions and Pay business areas. The Agency achieved its target of reducing absence to 9 days per person per year. Long Term sick absence is well managed; the focus will now be on active management of short-term absence.

Charter Mark

The agency has reviewed the evidence presented by the Pay & Personnel Agency in its successful submission for certification with a view to extending it to cover the whole of the new agency in the June 2007 assessment. With this in mind the agency is also investigating the implications of the revised standard due to be launched during 2007.

Environment

All three PPPA sites, Warminster Road, Cheadle Hulme and J Block Foxhill, have been externally assessed and confirmed

and accredited as meeting the standards of environmental management set out in ISO 14001.

How We Work

Investors In People and Staff Development

Full Investors in People status was achieved by the new agency in November 2006. There has also been considerable progress in addressing the core business skills required by our staff. Many of them have had to learn new processes and to use new systems either for new services; to reflect changes (like pensions rule changes) or systems (like the new pay system). There has also been improved induction training for new employees, transition training for all those moving from the previous Pay & Personnel Agency, and specific training packages for the People Service Centre.

ISO 9001 and Agency Processes

The existing ISO9001 accreditation for our established services has been maintained. It is intended that each new service will be assessed for inclusion in the certificate 6 months after its formal acceptance by the customer. The process for this acceptance is currently being designed. The agency also introduced a new Change Management process during the latter part of the year that affords greater coherence with the processes operated by the principal customer.

System Changes

In addition to the replatforming and pay system projects there has been a continuing high volume of system change, amounting to over 2000 individual changes. These have included upgrading the Agency's computer terminals to meet higher security standards, implementing a range of pay awards, e-enabling performance management and promotion assessment centre processes, and new management information report services for our customers. We have also made significant improvements to our procedures for defining system change requirements and managing releases of new capability, and for supporting our range of systems.

Working Environment

The Bath Accommodation Project gained its Initial Gate approval from the Investment Approvals Board. This project is intended to see all PPPA's Bath operations collocated at Foxhill alongside others parts of the MOD Centre TLB.

Effective Controls

A comprehensive process of risk assessment and management is in place with quarterly reviews of business level risk registers. We are also building a positive and effective relationship with the National Audit Office and the MOD's internal auditors, Directorate Internal Audit.

Business Continuity and Resilience

The agency has a comprehensive Business Continuity Plan in place, supported by a series of subsidiary plans in individual business and support areas. These plans are being extended as new services are introduced. A Risk and Business Continuity Board is to be set up during 2007/08.

Much attention has been given to the resilience of agency systems with new and improved disaster recovery systems being implemented. Problems with electricity supply at Cheadle Hulme have been addressed by the installation of a more powerful Uninterrupted Power Supply for the Main Computer Room and an agreement with the electricity supplier to provide a new, protected supply to replace the current, vulnerable overland arrangements.

The Future

Benchmarking

The agency participated in its second round of the Saratoga benchmarking exercise. Some of the comparisons with predominantly private sector organisations were encouraging, but overall the exercise demonstrated the effect the complexity of MOD HR arrangements has on our ability to compare with the best in the field. The agency is investigating further benchmarking opportunities within the public sector, and has built an extensive network of contact with other shared service suppliers in both public and private sectors.

Strategic direction

The agency has contributed to consideration across the department of strategic issues affecting its business, including the wider direction for shared services across government.

New Business Team

A small New Business team was set up in September 2006. The new business strategy was also agreed by the Management Board in September 2006 and the team have developed a number of key documents including marketing material, a training plan, a repayment policy and a database with details of potential new business.

5. Performance Review

Review of Performance Against Key Targets 2006/2007

We achieved all but one of our Key Targets for 2006/07 during our first full year of operation. We have continued to deliver already established services previously delivered by the Pay and Personnel Agency (PPA) such as salary and expenses payments and pensions awards while introducing new shared HR services.

Value for Money

Key Target 1

Reduce unit costs in real terms for Service Level Agreement tasks compared to 2003/04:

Salary payments	12%
Expenses payments	40%
Pension awards	20%

We continued with the consistent record set by the PPA in reducing in real terms the unit costs targets for the key business outputs of salary payments (25.1%), expenses payments (64.4%) and pension awards (20.0%). This demonstrates that we have successfully managed to reduce the real cost of our main outputs and increased efficiency while providing a wider range of services to our customers. We have achieved this partly by using our overheads more efficiently as we provide a broader range of services.

Promised Service Levels

Key Target 2

Achieve 99.2% average timeliness and 97.5% average accuracy for established services (salary payments, expenses payments and pension awards).

We delivered already established services such as salary and expenses payments and pensions awards while introducing new shared HR services. Average accuracy was 98.5% with average timeliness at 98.4%. We did not meet our average timeliness target due to a number of factors which affected the performance of our pensions business area. This included the effects of new tax simplification legislation, which contributed to a reduction in pension award timeliness in April and May 2006, in common with other pension administrations across Government. Despite a rapid recovery of service, the overall Agency timeliness Key Target could not be achieved.

Key Target 3

Complete creation of the People, Pay and Pensions Agency

The People, Pay and Pensions Agency was launched in April 2006, building on the previous PPA. During this first year in addition to delivery of already established services we introduced new shared HR services including internal recruitment, welfare, early retirement, redundancy, the MOD outplacement scheme and the Band B and Band D Assessment Centres. Additional HR services will continue to be launched during 2007/08 with a target in service date of June 2007 with Full Capability to be achieved in 2008.

Responsive and Available

Key Target 4

Achieve average 90% responsiveness targets against key service standards

We achieved an average of 91.2% in a year when the number of calls to our People Service Centre continued to increase significantly particularly at a time when new HR services were being launched. Our performance was measured against specific targets for providing the first significant response to enquiries and the closure of issues and enquiries to the satisfaction of the customer: pay related enquiries, other enquiries and the closure of issues.

Excellent Customer Experience

Key Target 5

Demonstrate improved customer satisfaction in survey

We measured our customers' satisfaction with pay and pensions services using the PPA's 2004 customer survey as a baseline. Our satisfaction index was independently analysed and reported at 77.9% which places us in the top quartile of similar businesses providing services to internal customers.

Key Target 6

Extend Charter Mark to whole Agency in 2007

The Agency wants to be recognised as a full customer service organisation. We already hold Charter Mark status for the services previously provided by the PPA and will extend this to the remainder of the PPPA. Charter Mark is the Government award for excellence in public service, overseen by the Cabinet Office, which concentrates on the services the customer actually receives, and is the principal measure by which the Agency will measure its success in this area. Charter Mark is expected to change during this year and the Agency has agreed to be assessed against the new standard as part of the initial pilot community when the new standard is launched (expected during Autumn 2007).

Cutting Edge Systems

Key Target 7

Implement programme for future pay system – first payment April 2006

The new pay system for the Ministry of Defence was launched in April 2006, with approximately 7,000 accounts on the system at 31 March 2007. The Future Pay project is a key strand of the Department's overall civilian HR service modernisation programme within the People Programme.

Delivering Results

<i>Corporate Objective</i>	<i>Our Achievements</i>
<p>Unit Costs</p> <ul style="list-style-type: none"> • Reduce unit costs in real terms compared to 2003/04 (Key Target 1) <ul style="list-style-type: none"> • Salary Payments 12% • Pension awards 20% • Expenses payments 40% 	<p>We achieved 25.1%, exceeding our target. Performance reflects our continuing action to reduce system costs and staff numbers.</p> <p>Achieved 20%. Reflects higher throughput although with same level of staff resource.</p> <p>We achieved 64.4%, exceeding our target. Due to higher and sustained use of on-line services.</p>
<p>Timeliness of established services</p> <ul style="list-style-type: none"> • Deliver timely services (Key Target 2) <ul style="list-style-type: none"> • Salary Payments on time 99.9% • Pension awards on time 99.4% • Expenses (paper based) 99% in 8 days • Average timeliness 99.2% 	<p>We achieved 99.96%</p> <p>We achieved 96.07% reflecting the effects of the new tax simplification legislation in common with other pension administrations across Government. Performance was particularly affected during April and May but was rapidly recovered for the remainder of the year.</p> <p>We achieved 99.06%.</p> <p>We achieved 98.36% reflecting the factors above.</p>
<p>Accuracy of established services</p> <ul style="list-style-type: none"> • Deliver accurate payments (Key Target 2) <ul style="list-style-type: none"> • Salary payments 97% • Pension awards 97% • Expenses payments 99.9% • Average accuracy 97.5% 	<p>We achieved 98.47%</p> <p>We achieved 97.08%</p> <p>We achieved 99.96%</p> <p>We achieved 98.50%</p>
<p>Timeliness of new services</p> <ul style="list-style-type: none"> • Deliver timely internal recruitment <ul style="list-style-type: none"> • Job offers within 40 days of requisition 95% • Job offers within 25 days for redeployment pool 95% 	<p>We achieved 71%. Some initial technical difficulties affected customer access to services which have been addressed in-year with improvements made. The lessons learned have helped inform the pilot for our external recruitment service.</p> <p>We achieved 30.43%.</p>
<p>All accuracy</p> <ul style="list-style-type: none"> • Deliver accuracy <ul style="list-style-type: none"> • Accuracy of transactions from targeted sampling 97% • Accuracy of advice from targeted sampling 97% 	<p>Process for measurement not established.</p> <p>We achieved 97%.</p>

Delivering Results...continued

<i>Corporate Objective</i>	<i>Our Achievements</i>
<p>New Services</p> <ul style="list-style-type: none"> • Complete PPPA, as defined in Main Gate case – Initial Capability Apr 06 (Key Target 3) • Deliver agreed new services <ul style="list-style-type: none"> • Training and development plans, skills profiles • Welfare service • On-line performance appraisal • External recruitment 	<p>Achieved. Agency launched on 3 April 2006</p> <p>Achieved. Service launched</p> <p>Achieved. 60 plus Welfare Officers transferred to PPPA on 3 April 2006. Launch delayed to take account of experience of internal recruitment service Pilot launched February 2007 to RAF TLBs with a view to go-live across the Department in June 2007.</p>
<p>Pick up time</p> <ul style="list-style-type: none"> • Answer calls promptly <ul style="list-style-type: none"> • Average speed to answer 30 seconds • Calls abandoned <10% after 30 seconds 	<p>Achieved 67 sec. During the first 5 months of its formal operation the People Service Centre (PSC) achieved an Average Speed to Answer (ASA) of 27 seconds. Increasing load and higher than planned turnover led to the PSC not sustaining the planned speed of answer. Following recruitment and other measures, performance is improving and is expected to return to the required level by September 2007.</p> <p>Achieved 7.7%</p>
<p>Responsive to enquiries</p> <ul style="list-style-type: none"> • Provide 1st significant response to enquiries <ul style="list-style-type: none"> • Pay related in 10 days 90% • Others in 2 days 90% • Close issues and enquiries to user satisfaction <ul style="list-style-type: none"> • 90% within 10 days of agreed target • Average overall responsiveness 90% (Key Target 4) 	<p>We achieved 96.4% We achieved 86.6%.</p> <p>We achieved 90.7%</p> <p>We achieved 91.2%</p>
<p>Service availability</p> <ul style="list-style-type: none"> • Ensure services are available to customers <ul style="list-style-type: none"> • Scheduled availability within advertised hours 99.5% • Availability (within PPPA control) during scheduled hours 99.5% • Actual availability to customers 95% 	<p>We achieved 99.3%</p> <p>We achieved 99.4%</p> <p>We achieved 98.5%. Before we re-platformed some of our support systems there were some issues of availability. Resilience has subsequently been improved.</p>
<p>Delivery of change</p> <ul style="list-style-type: none"> • Changes agreed through People Programme Change Control Board to agreed timetable 90% 	<p>We achieved 100%. There was a high volume of change, and continuous adjustment to service packages. Once defined and agreed, system changes were implemented on time.</p>

Reputation

Corporate Objective	Our Achievements
<p>Customer Satisfaction</p> <ul style="list-style-type: none"> Demonstrate improved customer satisfaction <ul style="list-style-type: none"> Improved satisfaction index in survey 75% (Key Target 5) Sampled users reporting themselves satisfied or better 80% Calls back to hasten or express user dissatisfaction < 5% 	<p>We achieved 77.9% for our pay and pensions services.</p> <p>We achieved 91.9%. Data is compiled from a random selection of staff who have used our services.</p> <p>We achieved 1.75%</p>
<p>Extend Charter Mark to whole PPPA (Key Target 6)</p>	<p>Assessment was planned for June 2007. However, a review of Charter Mark by the Cabinet Office will see the launch of a new standard in Autumn 2007 of which we will be a part</p>
<p>Staff Satisfaction</p> <ul style="list-style-type: none"> Improve key result in satisfaction survey <ul style="list-style-type: none"> Overall satisfaction working in PPPA 80% Satisfied with communications and involvement 75% Satisfied with training and development 80% Satisfied with fair and respectful treatment 85% 	<p>We achieved 71%</p> <p>We achieved 58%</p> <p>We achieved 72%</p> <p>We achieved 78%</p> <p>The results of the staff satisfaction survey were lower in some respects than we had set ourselves as a target. This primarily reflected the amount of change that staff had to cope with as the new organisation formed up. Areas for improvement have been identified in 2007/08.</p>
<p>Retention, Involvement and Motivation</p> <ul style="list-style-type: none"> Demonstrate retention and involvement <ul style="list-style-type: none"> Turnover in key legacy posts <8% Average working days lost to sickness absence 9 Proportion of staff with relevant/business professional qualifications 28% Method for staff initiation of change July 2006 	<p>We achieved 8.5%. For IS legacy staff losses for 06/07 slightly exceeded the in-year target. However, over the 3 year period of the scheme turnover stands at a total of 13.6% well below the overall 20% target.</p> <p>We achieved 8.9 days.</p> <p>We achieved 28%</p> <p>Delayed. The Agency will utilise the Departmental GEMS scheme with a specific focus on PPPA improvements, from April 2007</p>
<p>Environment</p> <ul style="list-style-type: none"> Achieve ISO 14001 accreditation <ul style="list-style-type: none"> Warminster Road Cheadle Hulme & Foxhill Targets for paper and electricity consumption 	<p>Achieved.</p> <p>Achieved. Our external assessors confirmed the status of our three sites as meeting the required standards of ISO14001, the externally recognised certificate for Environmental Management.</p> <p>Achieved. Targets agreed and included in our 2007/08 Corporate Plan.</p>
<p>Communities</p> <ul style="list-style-type: none"> Agree plan for local work with schools and voluntary opportunities 	<p>Achieved. Plan established and will be taken forward in 2007/08.</p>

How We Work

<i>Corporate Objective</i>	<i>Our Achievements</i>
<p>Staff Development</p> <ul style="list-style-type: none"> • Demonstrate reduction in key skills gaps <ul style="list-style-type: none"> • Evaluation against Training plan • Complete effective PPPA corporate induction 	<p>Achieved. We have developed a methodology for the top level evaluation of learning and development, which showed significant success in addressing key skills needed to support new businesses.</p> <p>Achieved. Revised induction process launched September 2006; initial evaluation reported positive feedback.</p>
<p>liP / Staff management</p> <ul style="list-style-type: none"> • Complete actions from 2005 liP assessment <ul style="list-style-type: none"> • Confirm liP accreditation for whole PPPA • Agree proposals for cross-Agency working 	<p>Achieved. Actions completed.</p> <p>Achieved. In November 2006 we successfully achieved full Investors in People status.</p> <p>Achieved. Three Cross Agency Focus Groups formed since the process was agreed in July 2006.</p>
<p>Working environment</p> <ul style="list-style-type: none"> • Agree accommodation improvement plans 	<p>Partially achieved. Proposed improvements identified through a Cross Agency Focus Group.</p>
<p>ISO / processes</p> <ul style="list-style-type: none"> • Extend ISO9001 accreditation to whole PPPA 	<p>Delayed. We have continued to maintain ISO9001 certification for established services. The extension of the certificate to our new business areas will take place during the external assessment scheduled for May 2007 which will scope in Internal Recruitment.</p> <p>Accreditation to whole PPPA currently forecast for 2008.</p>
<p>Business Systems</p> <ul style="list-style-type: none"> • Implement Future Pay System (Key Target 7) <ul style="list-style-type: none"> • First Payment April 2006 	<p>Achieved. 1st 250 accounts paid on new Oracle pay system in April 2006. Almost 7000 accounts on new system by March 2007, with the remaining 70,000 accounts due to transfer by July 2007.</p>
<p>Support Systems</p> <ul style="list-style-type: none"> • Re-platform PPPA systems on new servers <ul style="list-style-type: none"> • Review EDRM and Knowledge base and agree plan and targets 	<p>Achieved. Migration of PeopleSoft (CHRIS Phase 2) completed successfully with significant performance and resilience improvement achieved.</p> <p>Review taking place. Project Plan developed with go-live target date for Knowledge Base of December 2007, with the aim of being fully operational in March 2008</p>
<p>Risk-based assurance</p> <ul style="list-style-type: none"> • Achieve substantial assurance in DIA/SHEF/other external audits 	<p>Achieved. Effective risk management process in place with business level risk registers regularly reviewed. Positive and effective relationship with National Audit Office and Defence Internal Audit.</p>
<p>Project / change control</p> <ul style="list-style-type: none"> • Manage change effectively <ul style="list-style-type: none"> • New change regime Oct 06 • Integrated plan for change March 07 	<p>Delayed. Introduction of new change regime endorsed in December 2006 to meet the requirements of the organisation and enable effective and efficient management of the large number of internal and external change requests.</p>

How We Work...continued

Corporate Objective	Our Achievements
<p>Budgets / delegations / approvals</p> <ul style="list-style-type: none"> • Demonstrate financial controls <ul style="list-style-type: none"> • Cost centre and delegation framework • Excess over allocation nil • Accuracy of mid-year forecast +/-2% 	<p>In place for 1 April 2007. Agency ended year with an underspend of allocation due to slippage of Future Pay Project. 4% at mid year due to uncertainty over potential slippage of Future Pay.</p>
<p>Business Continuity</p> <ul style="list-style-type: none"> • Demonstrate effectiveness of continuity plans after user acceptance – within 6 months 	<p>Achieved. A PPPA Business Continuity Plan (BCP) is in place supported by a series of subsidiary plans. BCP's are developed for the new services as they are launched. A new Risk and Business Continuity Board is to be established.</p>
<p>Resilient Systems</p> <ul style="list-style-type: none"> • Minimise loss of data received <0.1% • Agree support strategy for PPPA systems 	<p>Achieved. No significant data issues. Continuous programme of risk assessment and new disaster recovery systems have been implemented and a new Walk in Computer Room (WICR) installed at our Cheadle Hulme site. In addition a new, more powerful Uninterrupted Power Supply has been installed for the Main Computer Room and an agreement for a protected power supply in place with our electricity supplier. Delayed. Scoping study for integrated support to PPPA systems taking place in 2007/08.</p>

The Future

<i>Corporate Objective</i>	<i>Our Achievements</i>
<p>Shared Service agenda</p> <ul style="list-style-type: none"> • Agree plan for relationship with internal and external shared service providers 	<p>Achieved. We were a founding member of the European Public Sector Forum, led by Shared Xpertise and have worked with the Departments through the Cabinet Office shared services forum.</p>
<p>Benchmarking</p> <ul style="list-style-type: none"> • Complete Saratoga benchmarking exercise against other shared service providers • Develop plan to achieve upper quartile performance 	<p>We participated in the Saratoga Benchmarking exercise for our legacy services and have submitted data for some of our new services including Internal Recruitment. Awaiting further analysis from the second Saratoga Benchmarking exercise to inform future plans.</p>
<p>New Business</p> <ul style="list-style-type: none"> • Develop a marketing / partnership strategy 	<p>Achieved. Marketing strategy agreed which focuses on gaining business from Central Government agencies and departments. Supporting marketing material developed which was used at the Transforming Government event held in February 2007.</p>
<p>Skills for 2010</p> <ul style="list-style-type: none"> • Identify future business skills needed for a changing environment 	<p>Partially achieved. 2006/07 training plan addressed immediate skills gaps. Further analysis of longer terms business skills requirement being progressed in 2007/08.</p>



David Ball
Chief Executive
26th June 2007

A Year in Pictures

April 2006

PPPA Launch Day, attended by local MPs and dignitaries, the then Under Secretary of State, Don Touhig, 2nd Permanent Under Secretary, Ian Andrews and more than three quarters of the Agency's staff.

Right: Don Touhig, former US of S unveils the PPPA commemorative plaque.



July 2006

Newly appointed Under Secretary of State, Derek Twigg, visited staff at Cheadle Hulme.



September 2006

The Agency held its first teambuilding and sporting event, a Cheadle Hulme versus Bath cricket match, won by Cheadle Hulme. The event was followed by well supported Netball and Football matches in November 2007.

Right: David Ball, PPPA Chief Executive, presents the Eddie Taylor Trophy to Cheadle Hulme's team captain.





October 2006

A total of 70,000 Personnel Files were collected from Civilian Personnel Management Authorities and placed in a centralised secure storage facility at TNT Swadlincote.

Left: PPPA representatives tour the secure storage facility.



October 2006

The agency turned pink and raised over £1100 for Breast Cancer Research, which contributed to a grand total of over £3500 raised by the agency for charity in 2006/07.



February 2007

The PPPA held its first annual staff conference, where 210 people from the Agency took the chance to have their say.

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

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

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

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

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

Statement on Internal Control

1. Scope of responsibility

As Chief Executive of the People, Pay and Pensions Agency I have responsibility for maintaining a sound system of internal control that supports the achievement of Agency policies, aims and objectives, set by the Agency's owner, 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 required to report regularly to the Agency's owner on the performance of the Agency against the objectives set for it and the action being taken to mitigate risks to their achievement.

The People, Pay and Pensions Agency was launched on 1st April 2006. It is structured to deliver services and support to the MOD Civilian workforce and is a key enabler for the MOD's People Programme. This has been a year of transition and transformation for the Agency. Services and support are delivered through four business areas. Each area is led by a Budget Holder who is also a member of the Agency's management board. I have delegated to each Budget Holder a set of objectives and responsibilities. Each is required to provide me with regular reports on achievement against those objectives and responsibilities, including their assessment of the risks to their achievement and the action being taken to mitigate or manage those risks. The Budget Holders have the authority to similarly delegate objectives and responsibilities to managers within their areas provided the manner of the delegations accord with relevant guidance and Agency policies.

2. 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 within the Agency has been in place throughout the year ended 31 March 2007. It accords with Treasury guidance and is based on an ongoing process designed to identify and prioritise risks to the achievement of Agency policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact, should they be realised. It then addresses how to manage them efficiently, effectively and economically.

3. Capacity to handle risk

The risk management process is led by the Management Board. The Board oversees the identification, assessment and management of risks affecting the achievement of objectives and targets, and assigns responsibility for the management of risks to an appropriate officer of the Agency, taking into account their ability to influence the outcome, and the level of knowledge and expertise they possess. Training and general support is given, as necessary. Strategic risks are shared and discussed with the Owners Advisory Board and Director General Civilian Personnel; and the Agency's input is sought to the identification of potential strategic risks to the successful operation of the Department's Central Top Level Budget, of which the Agency is a part.

The Agency has recognised the importance of sustaining awareness amongst its people, many of whom are new to the organisation, and delivering training to those who need it. We have designed internal training courses that provide guidance on the management of day to day business and project risks, common across the Agency. In addition, the Agency has provided external training courses in a number of specialised areas, such as finance, fraud, IS, Health and Safety business continuity planning and risk based auditing. The Agency has also undertaken a number of projects and initiatives to benchmark its operational and management processes against other organisations, in both the public and private sector, to identify aspects of best practice in order to accelerate process improvement across the Agency.

Under this process a thorough review of the Agency's Operational, Financial and People Risks has taken place during the year. Risk registers are in place and their contents are captured and included on a central database. The registers are monitored by the People, Finance and Operations Boards on a regular basis.

4. The risk and control framework

Comprehensive matrices of assurance activities underpin the Internal Control process of the Agency. This includes Risk Management; various forms of Audit activity; Benchmarking; the achievement of external quality or performance standards and professional assurance reviews. The outcome and feedback from these are fed into the Management Board and the Owners Advisory Board to aid and inform decision making. They also contribute to the assessment of the effectiveness of the internal control system.

The Management Board meets monthly to consider the strategic direction and execution of the business plan of the Agency. The Board sets the Agency's key performance indicators and business performance targets through the Corporate Planning process. It assesses the risks to the achievement of those targets and regularly monitors performance against them. The membership of this board during 2006/07 is shown in the Management Review section of this Report and Accounts. The external member, who was newly appointed in 2006 to coincide with the launch of the new Agency, attends Management Board meetings, chairs the Agency's Audit Committee and also attends a number of meetings of the subsidiary Boards.

The Management Board is assisted in this process by three subsidiary Boards that drive performance and monitor risk at a more detailed level. These focus specifically on business operations, people and financial management.

The Agency's Owners' Board meets three times a year to receive my report on the Agency's performance in managing its most strategic risks and in achieving its objectives.

5. Review of effectiveness

The Audit Committee, under the chairmanship of the external Board member, oversees the Agency's internal control systems and the processes of risk identification, assessment and management. A key role of the committee is the review of the various strategic and corporate risks faced by the Agency. The Committee challenge the assumptions and circumstances underlying them and the effectiveness of the plans to mitigate them. It also works to establish closer links between these risks and the Agency's internal audit programme, receiving regular reports by the Agency's audit and assurance team on the programme of risk based audits undertaken by the team. These reports include the Risk and Internal Audit Manager's independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement. It also reviews reports by the National Audit Office and the MOD's Directorate of Internal Audit that consider aspects of the Agency's operations, either directly or as part of a wider review of MOD processes, and provide an independent opinion on the adequacy and effectiveness of the Agency's control processes. The Audit Committee Chair submits a quarterly report on assurance activities to me and the Management Board.

The committee comprises the Deputy Chief Executive and the Director of Corporate Development with other Directors, Senior Managers and members of the Owner's team being invited to attend as appropriate. Representatives of the National Audit Office and MOD's Directorate of Internal Audit also attend regularly. There was a smooth transfer of accountability following the appointment of the new Independent Director and continuity was further assured by the continuing participation of the previous Independent Director during the year.

The operation of the internal control framework during 2006/07 has afforded me considerable assurance that the management of the Agency at all levels has been of a consistently high standard. This has been apparent in the continuous review of controls and processes and in the manner in which Agency staff responded to and resolved risks to the continuity of business service delivery.

A. Health of Financial Systems (HoFS)

- Financial Systems & Processes – The early part of the year saw some problems with connectivity due to settings on both the Agency and Defence Financial Management System (DFMS) firewalls. These problems have been rectified on the upgrade of the DFMS systems, which included firewall and server changes. These took place on time, with no disruption other than that planned. Internal systems and processes continue to work well.
- Fraud and Theft – The Agency's systems are robust in dealing with potential fraud or theft within the organisation but can only highlight the potential for fraud outside the Agency's boundaries. The Agency regularly identifies anomalies and communicates with line managers/budget managers to verify the transactions.
- Delegations, Risks and Losses – All processes are working well.

B. Business Continuity

The Agency complies with the Central Top Level Budget strategy for business continuity planning. The Agency has a single, overarching Business Continuity Plan covering all aspects of its operations. This plan is constantly reviewed to ensure that its constituent plans are relevant and cohesive and that lessons learned from events are incorporated. We experienced several events during 2006/07 that tried and tested these practically, enabling us to adapt and/or validate their applicability and viability. These included:

- During the year the Agency suffered a failure of the overland electricity supply to the Cheadle Hulme site as a result of its vulnerability to the action of weather or wildlife. This power failure, coupled with subsequent problems with the stand-by generator, caused damage to key IS equipment which resulted in the loss of some IS services over a 3 day period. The problems with the stand-by generator have been successfully addressed and following discussions with the power supplier, a less vulnerable underground supply is to be installed as a matter of urgency;
- Flooding of the Mail Distribution Centre at Cheadle Hulme resulted in the temporary move of the operation to other buildings on site. The event has led to a revision to the continuity plans as the intended alternative accommodation was found to be unsuitable. Deficiencies in the rain water drainage system of the Computer Hall were also identified and discussions are being held urgently with

- Defence Estates to resolve the problem.
- In order to further strengthen the Agency's approach to the management of business continuity, a new Business Continuity and Risk Board will be established during 2007/08

C. Other Specialist Assurance

- The Agency's certification under ISO BS EN 9001/2000 Quality Standard for the services taken over from the Pay and Personnel Agency was confirmed following review visits by independent assessors in May and November 2006. The new services being launched in the lead in to Full Operating Capability will be submitted to review for certification as they are introduced;
- The Agency was successful in attaining the ISO BS EN 14001 Environmental Standard following an assessment by independent consultants;
- The Agency is currently undertaking work preparatory to attaining the ISO BS EN 27001 Data Security Standard.

D. Safety, Health, Environment and Fire (SHEF) and Security

The Agency Health & Safety teams have conducted cross-Agency internal SHEF and Environmental audits. The Agency also underwent two Head of Establishment audits, where Full Assurance was afforded to:

- Site Risk Assessments
- Emergency and Disaster Plans
- First Aid Assessments
- Fire Safety management Plans
- Control of Contractors and Visiting Workers
- Workplace Inspections
- Environmental Management and the
- Establishment Health & Safety Committee
- As a result of a SHEF audit during 2005/06 a small number of observations were raised regarding the effectiveness of Agency procedures. These were corrected during 2006/07 and a follow-up audit identified the procedures now in place as representative of best practice;
- The reported theft of copper cable from a contractor's compound on the Cheadle Hulme site has led to an immediate review of the security guarding contract. A proposal has been prepared for the installation of Closed Circuit TV equipment.

E. Audit Activity by Defence Internal Audit (DIA) and National Audit Office (NAO)

- The Agency's proper operation of the Cabinet Office Instrument of Delegation for pensions administration was confirmed following an audit by MOD DIA in November 2006;
- Following audit work on Phases 1 and 2 of the introduction of the Agency's new payroll system, DIA gave full assurance that the User Acceptance and Testing procedures were operating correctly;
- A pan-MOD audit of the governance of advances of civilian pay and expenses by DIA resulted in substantial assurance that the processes and procedures were operating correctly, although a number of recommendations were made that may lead to future changes in policy in this area;
- A pan MOD audit of Business Continuity Processes identified PPPA as one of the areas for "best practice";
- DIA, however, could only offer limited assurance that effective management controls of overtime working and payment were in place across the Central Top Level Budget, of which the Agency is a part;
- NAO are undertaking work across all Accredited Pensions Awarding Centres at the request of Cabinet Office to assess the accuracy of pension calculation and awards (the NAO were very happy with their findings and a report will be produced at the beginning of March – hopefully in time to be included in the statement).

F. Internal Assurance

The Internal Audit programme consists of an integrated approach in reviewing the adequacy and effectiveness of the controls within the Agency's processes. Highlights of the programme include:

- a review of the controls within the Information Technology Infrastructure Library (ITIL) processes which identified that a review of all the Information Systems forms was required;
- a review of the controls within the Pensions Awarding processes;
- an audit of Travel and Subsistence claiming across the Agency. Similar to audits carried out in previous years, the audits of self-certified claims for Travel & Subsistence confirmed a very high level of compliance with Departmental rules. Where the audit raised issues relating to individuals

- appropriate action has been taken;
The internal assurance team are also undertaking audits of management control of overtime working (in response to the DIA CTLB audit and to an observation in the NAO Management Letter for 2005/06) and of the Agency's flexible working processes. Both of these audits will report before the end of the financial year.

G. Agency Performance

Overall, the Agency has performed well in its first year of operation, with most Key Performance Targets being met. However, in one important area, the timeliness of awards of pensions, the Agency fell short of its own standard early in the year. Despite a number of remedial actions and a great deal of hard work on the part of the pensions teams and their supporting staff it has not been possible to recover the lost ground. The Agency's financial exposure was not affected.

A number of important lessons have been learned as a result and these will be incorporated into the Agency's processes.

6. Conclusion

As Accounting Officer, 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 the Agency who have responsibility for the development and maintenance of the internal control framework. My review is also informed by the comments made by the external auditors in their management letter and other reports. In conducting my review of the effectiveness of the system of internal control I have also taken the advice of the Agency's Management Board and Audit Committee. My review has concluded that the system of internal control within the Agency is operating effectively and that plans are in place to address any weaknesses that have been identified and to ensure continuous improvement of the system.



David Ball
Chief Executive
26th June 2007

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

I certify that I have audited the financial statements of People, Pay and Pensions 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, including the Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements.

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit 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

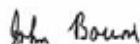
In my opinion:

- 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 and Accounts 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.

I have no observations to make on these financial statements.



Sir John Bourn
Comptroller and Auditor General
2nd July 2007
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9S

Operating Cost Statement For the year ended 31 March 2007

	Note	2006/2007	2005/2006
		£'000	£'000
Operating Costs			
Staff costs	2	27,354	20,337
Supplies & services consumed	3	1,216	1,002
Accommodation costs	4	2,240	3,244
Other administration costs	5	19,688	13,809
Gross Operating Costs		50,498	38,392
Operating Income			
Less income from repayment customers	7	(1,979)	(1,732)
Net Operating Cost		48,519	36,660

All activities of the People, Pay & Pensions Agency are continuing

The notes on pages 35 to 45 form part of these accounts.

Statement of Recognised Gains and Losses For the year ended 31 March 2007

	Note	2006/2007	2005/2006
		£'000	£'000
Revaluation	11	0	1,261
RECOGNISED GAINS & LOSSES		0	1,261

The notes on pages 35 to 45 form part of these accounts.

Balance Sheet as at 31 March 2007

	Note	March 2007 £'000	March 2006 £'000
FIXED ASSETS			
Land and buildings		0	17,787
Computers and office equipment		2,688	3,680
Plant and machinery		0	32
Assets under construction		14,675	8,853
	8	17,363	30,352
CURRENT ASSETS			
Debtors	9	657	486
CURRENT LIABILITIES			
Creditors: amounts falling within one year	10	(8,627)	(6,653)
NET CURRENT LIABILITIES		(7,970)	(6,167)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,393	24,185
Financed by:			
General Fund	12	9,393	7,554
Revaluation Reserve	11	0	16,631
TOTAL GOVERNMENT FUNDS		9,393	24,185

The notes on pages 35 to 45 form part of these accounts

The accounts were authorised for use on 2nd July 2007.

The authorised for issue date represents the date of despatch by the Accounting Officer for laying before the House of Commons.



David Ball
Chief Executive
26th June 2007

Cash Flow Statement For the year ended 31 March 2007

	2006/2007 £'000	2005/2006 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	42,862	29,931
CAPITAL EXPENDITURE		
Payments to acquire tangible fixed assets	6,037	10,628
NET CASH OUTFLOW BEFORE FINANCING	48,899	40,559
FINANCING:		
Payments on Defence Resource Account	50,878	42,291
Receipts on Defence Resource Account	(1,979)	(1,732)
NET FINANCING FROM THE DEFENCE RESOURCE ACCOUNT	48,899	40,559
INCREASE/(DECREASE) IN CASH	Nil	Nil

Notes to the Accounts

NOTE 1: ACCOUNTING POLICIES

A Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006/2007 FReM issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

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

B Value Added Tax

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

C Income

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

D Notional Charges

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

(b) Notional amounts are included in the operating costs for charges in respect of services provided from other areas of the Ministry of Defence. The amounts charged are calculated to reflect the full cost of providing these services to the Agency.

E Pension Costs

Staff are covered by the provisions of the Principal Civil Service Pension Scheme. Contributions are paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. These contributions were charged to the Agency as a cash cost for the period of these accounts.

F Fixed Assets and Depreciation

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

Where the agency retains the risks and rewards of ownership the assets are subject to a valuation by a professionally qualified valuer at least once in every five-year period. In the years between professional valuations the Agency's assets are revalued by indexation using indices published as amendments to the MOD's 'Resource Accounting Policy Manual' and supplied by the ONS. Revaluation gains or losses are treated in accordance with Financial Reporting Standard No.15 on fixed assets.

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

Depreciation on assets is calculated to write-off the cost or valuation of assets by equal instalments over their estimated useful lives which are normally assumed to be as follows:

Asset Category	Life
Buildings	50 years
Plant and equipment	5 - 15 years
Mainframe computers	7 - 10 years
Microcomputers and PCs	5 years

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

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

G Cash Balances and Liabilities

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

All transactions, both locally and centrally processed, are brought to account by the Ministry of Defence in the Defence Resource Account and are recorded by the Agency when charged to this account. All such transactions are disclosed in aggregate in the Cash Flow Statement.

As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance contributions, due to Agency employees, the Department is liable for the payment of any liabilities which may be due to the Inland Revenue or Department of Work and Pensions at the balance sheet date and these are not disclosed in the Agency's balance sheet.

NOTE 2: STAFF COSTS AND NUMBERS

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

	2006/2007	2005/2006
	No	No
Non-industrial	1,006	808
Industrial	3	3
Locally employed overseas	4	4
Locally employed temps	19	6
	1,032	821

(2) Staff Cost can be analysed as follows:

	2006/2007	2005/2006
	£'000	£'000
Salaries and wages	21,747	16,400
Social Security costs (ERNIC)	1,512	1,126
Other Pension costs	3,809	2,720
Locally employed temps	286	91
	27,354	20,337

The PCSPS is an unfunded multi-employer defined benefit scheme but PPPA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

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

For 2006/2007, employers' contributions of £3,809,165.62 were payable to the PCSPS (2005/06: £2,719,745) at one of four rates in the range 16.1 to 24.6 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

NOTE 3: SUPPLIES AND SERVICES CONSUMED

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

	2006/2007	2005/2006
	£'000	£'000
HQ Charges	1,216	1,002

NOTE 4: ACCOMMODATION COSTS

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

	2006/2007	2005/2006
	£'000	£'000
Cost of Capital charges	0	609
Works maintenance	609	1,699
Depreciation	0	428
Utilities (gas, water, fuel, electricity)	615	427
Rates	181	81
Accommodation costs from SBSO : Defence Estates	835	0
	2,240	3,244

NOTE 5: OTHER ADMINISTRATION COSTS

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

	2006/2007	Restated 2005/2006
	£'000	£'000
Training	630	448
Travel and movement	1,115	744
Catering	18	7
Medical	19	13
Administration	2,822	1,524
Equipment support	27	244
Telecoms	233	1,501
IS	13,315	7,197
Depreciation	791	676
Write down of Computer Equipment on valuation	413	1,107
Loss on Disposal	0	292
Cost of Capital charge	275	29
Audit fee	30	27
	19,688	13,809

The above analysis is in line with revised RAC listings for this year. Prior year comparatives have been re-computed. There were no fees payable to the auditors for non-audit services in either year.

NOTE 6: NON-CASH & NOTIONAL ITEMS

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

	2006/2007 £'000	2005/2006 £'000
Notional Costs:		
Accommodation costs	1,129	0
HQ Charges	1,216	1,002
Audit Fee	30	27
Total departmental costs	2,375	1,029
Cost of Capital Charge	275	638
Total notional items	2,650	1,667
Other non-cash costs:		
Write down computer equipment	413	1,107
Depreciation	791	1,103
Total non-cash costs	1,204	2,210

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

NOTE 7: INCOME FROM REPAYMENT CUSTOMERS

	2006/2007 £'000	2005/2006 £'000
Ministry of Defence Trading Funds	937	692
Other Government Departments, their Agencies and Other Governments	1,042	1,040
	1,979	1,732

Analysis of operating income is as follows:

	2006/2007 £'000	2005/2006 £'000
Repayment income	1,979	1,732
Full cost	1,979	1,741
Deficit	-	(9)

The full cost makes no allowance for irreducible spare capacity. Prices charged to customers are set at a level to allow for downstream savings that accrue over the agreed repayment period. Charges are reviewed when agreements or contracts with individual customers become due for renewal or reappraisal. This information is provided for fees and charges purposes and not SAP25 purposes.

NOTE 8: FIXED ASSETS

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

	Land & Buildings £'000	Computers & office equipment £'000	Plant & Machinery £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2006	19,347	5,027	55	8,853	33,282
Additions	0	108	0	5,929	6,037
Disposals	0	(385)	0	0	(385)
Transfers	(19,347)	(64)	(55)	0	(19,466)
Revaluation	0	(306)	0	(107)	(413)
At 31 March 2007	0	4,380	0	14,675	19,055
Depreciation					
At 1 April 2006	1,560	1,347	23	0	2,930
Charge for the year	0	875	0	0	875
Disposals	0	(385)	0	0	(385)
Transfers	(1,560)	(61)	(23)	0	(1,644)
Revaluation Adjustment	0	(84)	0	0	(84)
At 31 March 2007	0	1,692	0	0	1,692
NET BOOK VALUE					
At 31 March 2007	0	2,688	0	14,675	17,363
At 1 April 2006	17,787	3,680	32	8,853	30,352

On 1 April 2006 the Land and Buildings assets of the agency were transferred to Defence Estates. Also on 1 April 2006 the agency's Plant and Machinery assets were transferred to the Defence Logistics Organisation.

As it was determined that the agency retained the risks and rewards of its Computers and Office Equipment assets the agency continues to account for these. These assets were revalued with effect from 1 April 2002 by the Valuation Office Agency. The 2006/7 revaluations represent the adjustments from the application of the MOD indexation factors.

NOTE 9: DEBTORS

	2006/2007	2005/2006
9a Analysis by type	£'000	£'000
Amounts falling due within one year		
Trade Debtors	419	366
Prepayments	238	120
	657	486

9b Intra-Government Balance

Amounts falling due within one year		
Balances with Central Government Departments	181	87
Balances with MoD Trading Funds	238	147
Total Intra-Government Balance	419	234
Prepayments	238	252
Total Debtors as at 31 March	657	486

NOTE 10: CREDITORS

	2006/2007	2005/2006
	£'000	£'000
Trade Creditors	1,821	311
Other creditors and accruals for operating expenses	6,806	6,342
	8,627	6,653

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

NOTE 11: REVALUATION RESERVE

	2006/2007	2005/2006
	£'000	£'000
Revaluation Reserve at 1 April	16,631	15,370
Arising on revaluation in year	0	1,377
Backlog depreciation	0	(116)
Transferred to General Fund in respect of realised element of Revaluation Reserve	(16,631)	0
Revaluation Reserve at 31 March	0	16,631

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

NOTE 12: GENERAL FUND

Reconciliation of Net Operating Cost to changes in general fund.

	2006/2007 £'000	2005/2006 £'000
Net financing from the Defence Resource Account Transferred to General Fund in respect of element of Revaluation Reserve	48,899	40,559
Notional charges	(1,191)	1,667
Net Operating Cost	(48,519)	(36,660)
Net increase / (decrease) in General Fund	1,839	5,566
General Fund at 1 April	7,554	1,988
General Fund at 31 March	9,393	7,554

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

	2006/2007 £'000	2005/2006 £'000
Net operating cost	48,519	36,660
Adjustments for non-cash transactions:		
Depreciation	(791)	(1,103)
Write-down of computer equipment	(413)	(1,107)
Loss on disposal of computer equipment		(292)
Departmental costs	(2,375)	(1,029)
Interest charge on capital	(275)	(638)
Movements in Net current assets:		
Increase/(Decrease) in debtors & prepayments	171	15
(Increase)/Decrease in creditors	(1,974)	(2,575)
Net cash outflow from operating activities	42,862	29,931

NOTE 13: RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	note	2006/2007 £'000	2005/2006 £'000
Government funds at 1 April		24,185	17,358
Movement on General Fund	12	1,839	5,566
Movement on Revaluation Reserve	11	(16,631)	1,261
Government funds at 31 March		9,393	24,185

NOTE 14: RELATED PARTY TRANSACTIONS

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

The Ministry of Defence is regarded as a related party. During the period 1 April 2006 to 31 March 2007 (and 1 April 2005 to 31 March 2006) the People Pay & Pensions Agency has had various material transactions with the Ministry of Defence and with other entities for which the Ministry of Defence is regarded as the parent department. These entities were the former Defence Evaluation and Research Agency, the Meteorological Office, the Hydrographic Office and the Defence Aviation Repair Agency.

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

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

NOTE 15: POST BALANCE SHEET EVENTS

There have been no events since the end of the financial year which affect the understanding of the accounts.

NOTE 16: CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The People, Pay and Pensions Agency has no contingent liabilities to report as at 31 March 2007
Capital Commitments for which no provision has been made in these statements were as follows:-

	31 March 2007 £000's	31 march 2006 £ 000's
Contracted but not provided for	1,461	6,361

NOTE 17: OTHER LOSSES AND NOTES AND SPECIAL PAYMENTS

The People, Pay and Pensions Agency has no losses and notes and special payments to report in this or the previous year.

NOTE 18: OPERATING LEASES

Commitments under operating leases

	31 March 2007 £000's	31 march 2006 £ 000's
IS & Communications		
The lease will expire within the next fiscal year	220	426

This is for the Nova hardware which will become redundant following the full implementation of Future Pay.

NOTE 19: FINANCE LEASES

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

NOTE 20: 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, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

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.

Interest rate risk

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

Currency risk

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

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

Liquidity risk

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

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