NHS Pension Scheme

(Incorporating the NHS Compensation for Premature Retirement Scheme)

Accounts

2012-13

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1. REPORT OF THE MANAGERS

This report provides a summary of the arrangements to ensure the NHS Pension Scheme affairs are managed in an efficient way and gives a broad outline of the major benefits offered by the Scheme.

2. BACKGROUND TO THE SCHEME

2.1 Statutory basis for the Scheme

The NHS Pensions Scheme is an unfunded occupational scheme backed by the Exchequer, which is open to all NHS employees and employees of other approved organisations. The Scheme provides pensions, based on final salary, for employees of participating employers, and a career average arrangement for GPs and General Dental Practitioners. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits.

Scheme provisions are governed by the following sets of Regulations:

- The NHS Pensions Scheme Regulations 1995 and 2008, as amended
- The NHS (Compensation for premature retirement) Regulations 2002 Consolidated
- The Pensions (Increase) Act 1971
- NHS AVC Regulations
- NHS Gratuitous Expectations Regulations

On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. Most members of the Pension Scheme prior to 1 April 2008 are in the 1995 Section. New joiners on, or after, 1 April 2008 are members of the 2008 section. The changes introduced new rules for NHS employees joining from 1 April 2008 and modified the rules for those already in the pension scheme prior to this date. (Further details of these changes can be found on the NHS Pensions website http://www.nhsbsa.nhs.uk/pensions).

2.2 Eligibility to join the Scheme

The employers of NHS Pension Scheme members are classified as Employing Authorities or Direction Bodies. Employing Authorities are defined in the Regulations and their staff have automatic entry to the Scheme. Non-NHS employers can apply for Direction Body status in order that their staff may join the Scheme provided they meet specified criteria.

As at 31 March 2013 there were 438 participating ‘main’ NHS employing authorities (NHS Trusts, Primary Care Trusts, Local Health Boards and Authorities, Special Health Authorities and Arms’ Length Bodies), 8,119 participating GP Practice employers and 459 Direction Body employers.

2.3 Main features of the Scheme

The NHS Pension Scheme provides defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained.

The Scheme is currently operating with a surplus of cash outflow (negative Net Cash Requirement), due to income exceeding the payments made, and this surplus is returned to HM Treasury during the following financial year. If payments are forecast to exceed income within a financial year, or the scheme requires funds to maintain a level of cash flow to make payments, the balance of the funding required is requested from Parliament through the annual Supply Estimates process, and is classed as Annually Managed Expenditure (AME).

2.4 Annual Pensions

The Scheme is a “final salary” scheme. Members in the 1995 Section receive a pension worth 1/80th of the best of the last three year’s pensionable pay for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.4% of total pensionable earnings over the relevant pensionable service.

Members in the 2008 Section receive a pension worth 1/60th of the average of the best three consecutive years pensionable pay in the last ten; for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.87% of total pensionable earnings over the relevant pensionable service.

2.5 Lump Sum Allowance

A lump sum is payable on retirement. Members in the 1995 Section receive a lump sum which is normally three times the annual pension payment. Members in the 2008 Section receive a lump sum which may be a maximum of 25% of the value of their pension fund at retirement, this will impact on the level of pension due dependant on the percentage chosen, and is based on a conversion rate of £1 of pension to £12 of lump sum.

2.6 Pensions Indexation

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12 the Consumer Price Index (CPI) has been used and replaced the Retail Prices Index (RPI).

2.7 Ill-Health Retirement

Early payment of a pension, with enhancement in certain circumstances, is available to members of the Scheme who are permanently incapable of fulfilling their duties or regular employment effectively through illness or infirmity.

2.8 Death Benefits

For members who die in service a lump sum is payable of twice annual pensionable pay, or average uprated earnings for practitioners. For members who die after retirement an amount is payable which is the lesser of 5 times annual pension less pension already paid, or twice reckonable pay less any retirement lump sum taken. Other death benefits are also payable for members who have a deferred pension.

2.9 Added Years and Additional Pension purchase

Members could purchase additional service (added years) in the NHS Scheme by paying an agreed percentage of salary over an agreed length of time, but this option ceased to be available on 31 March 2008. It was replaced on 1 April 2008 by the option to purchase extra annual pension amounts, by way of a lump sum value of instalments.

2.10 Transfer between funds

Scheme members have the option to transfer their pension between the NHS Pension Scheme and another scheme when they move into or out of NHS employment.

2.11 Preserved benefits

Where a scheme member ceases NHS employment with more than two years service they can preserve their accrued NHS pension for payment when they reach retirement age.

2.12 Compensation for early retirement

Where a member of the Scheme is made redundant they may be entitled to early receipt of their pension plus enhancement, at the employer's cost.

3. MANAGEMENT OF THE SCHEME

3.1 Organisations responsible for managing the Scheme

Since 1 April 2006, the NHS Business Services Authority (NHSBSA) has been the body responsible for the administration of the NHS Pension Scheme for England and Wales.

The administration of the Scheme includes calculation of benefits, collection of contributions from employers, maintenance of member records and payment of benefits.

The costs of administering the Scheme are met by the NHSBSA, which is in turn funded by the Department of Health. The annual accounts of the NHSBSA can be found at http://www.nhsbsa.nhs.uk/annual_report.aspx

In support of the Authority, NHS employers are required to comply with Scheme Regulations and explain the Scheme to their employees. In addition they submit pension data to the NHSBSA, and a significant of employers calculate pensions benefit estimates for their employees.

3.2 Corporate governance of the Scheme, including management team

Details of the management team responsible for the administration of the Scheme, including the governance arrangement, can be found in the Governance Statement on pages 20 to 29.

3.3 Arrangements governing determination of contribution rates and benefits

The last published actuarial valuation undertaken for the NHS Pension Scheme was as at 31 March 2004 (published in December 2007), with the next formal quadrennial actuarial valuation being due as at 31 March 2008 (the primary purpose of the formal actuarial valuations is to set employer and employee contribution rates). However, formal actuarial valuations for unfunded public service pension schemes were suspended by HM Treasury whilst reforms to public service pension provisions were discussed. The Scheme Regulations were changed to allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The Public Service Pensions Act 2013 provides a framework to enact these changes for the NHS Pension Scheme, and also sets out a requirement for future actuarial valuations of the reformed pension scheme due to be introduced on 1 April 2015.

The next full actuarial valuation to be used for funding purposes will be as at 31 March 2012 and is currently being prepared by the Scheme Actuary.

The benefit structures of the Scheme are determined by the Secretary of State for Health.

Following the Budget announcement on 23 March 2011, the Department of Health (DH) and Government Actuaries Department (GAD) confirmed a review of the factors used to calculate various case types would be undertaken. New factors have since been implemented in respect of redundancy, trivial commutations, actuarially reduced early retirement and transfers, and will be for factors used for the purchase of Additional Pensions from 1 April 2013. The changes to the factors were also linked to HM Treasury's review of the discount rate which determines the basis for the calculation of Cash Equivalent Transfer Values (CETVs) payable from Public Service Schemes.

4. KEY DEVELOPMENTS IN YEAR

4.1 Changes in contributions

Employee contribution rates changed from 1 April 2012 to the rates detailed below

Pensionable Pay band	*Contribution percentage rate*
Up to £15,000.99	5%
£15,001.00 to £21,175.99	5%
£21,176.00 to £26,557.99	6.5%
£26,558.00 to £48,982.99	8%
£48,983.00 to £69,931.99	8.9%
£69,932.00 to £110,273.99	9.9%
£110,274.00 to any higher amount	10.9%

4.2 Changes in benefits

There were no changes to the benefit structure during 2012-13.

4.3 Holistic Data Strategy

The aim of the Holistic Data Strategy (HDS) Project is to continually improve overall data quality with particular emphasis given to error prevention, correction and thinking differently in the way the Scheme manages its member data and engages with employers. With this in mind there has been 2 phases of the HDS so far. Phase 1 focussed on the correction of historical data issues as reported in the Report of the Managers in the 2011-12 accounts, whereas phase 2 has focussed more on prevention and by thinking differently in how improvements can be made either in the quality of data or the customer/employer experience and engagement.

The main aspects of phase 2 are shown below;

4.3.1 Visibility of all data issues

Employers can now view all their data issues. This provided:

- Improved customer experience
- Full transparency of all data issues
- Ownership of the data issue by the employer although support and assistance is still provided by NHS BSA
- Employers not repeating the submission of the same data resulting in a reduction of overall errors and improved efficiency
- Improved communications with employers who will achieve a greater understanding of why it is important for them to provide correct data
- Employers no longer have the perception that the data which has not processed to the member record has been ‘lost in the system’.

4.3.2 Inaccurate or missing mandatory or conditional data items

A range of system enhancement around the management of data items such as part time hours and contract information, employer pay and disallowed days has provided the following benefits:

- Around £1million has been avoided in NHS BSA running costs, this being the additional resource that would have been required to support manual correction of the data issues had the system enhancements not been implemented
- Improved member information
- Improved member data used within the valuation of the scheme
- More accurate member estimate of accrued benefits
- Resolution of historical issues and permanent solution for the future
- Improved ‘straight through’ processing with far less manual intervention required

4.4 Membership statistics (movement in year)

Details of the current membership of the Scheme at 31 March 2013 are set out below:

4.4.1 Active Members

Active members at 1 April 2012	**1,257,269**
Adjustment (see note 1)	46,445
Restated active members at 1 April 2012	**1,303,714**
New entrants	107,797
Deferred members who rejoin in the year	51,004
Re-employed pensioners	78
Retirements	(29,820)
Leavers with deferred pension rights	(89,753)
Members who opt-out with deferred pension rights	(18,792)
Deaths	(798)
Active members at 31 March 2013	**1,323,430**

4.4.2 Deferred members

Deferred members at 1 April 2012	**595,953**
Adjustment (see note 1)	(58,837)
Restated deferred members at 1 April 2012	**537,116**
Members leaving active membership with deferred pension rights	108,545
Pension credit members	479
Members taking up deferred pension rights	(7,932)
Members who rejoin the scheme	(51,004)
Movement to unclaimed refund (see note 2)	(16,979)
Members taking a refund of contributions during year	(16,992)
Transfers out	(2,878)
Death of member	(229)
Deferred members at 31 March 2013	**550,126**

4.4.3 Pensioners in payment (including Compensation payments)

Pensions in payment at 1 April 2012	**701,280**
Adjustment (see note 1)	4,056
Restated pensions in payment at 1 April 2012	**705,336**
Members retiring from active	29,820
Members retiring from deferred	7,932
New widows and dependants	5,304
Cessations	(16,254)
Other cessations (see note 3)	(373)
Child dependants leaving full time education	(342)
Pensions in payment at 31 March 2013	**731,423**

Note 1. Member records are updated retrospectively after the year end after the membership statistics are prepared for the scheme accounts. This is due to the volume of data required to be uploaded onto the pension administration systems from employers, and the resolution of any subsequent data errors. An adjustment will be required each year to show a revised opening position to reconcile to the movements and closing position for the year.

Note 2. Where a period of membership is insufficient to qualify for pension entitlement and the only benefit due in respect of that membership is a refund of employee contributions paid into the scheme, it is classified as an unclaimed refund and does not appear in the membership statistics.

Note 3. This figure includes cessations due to remarriage or co-habitation and due to commutation of pensions on grounds of trivial value.

4.5 Financial position at 31 March 2013

As at 31 March 2013 the pension liabilities of the Scheme were valued at £284.2 billion. This is an increase of £37.2 billion from the liabilities at 31 March 2012 of £247.0 billion. This is due to an actuarial gain of £23.0 billion (£18.9 billion relating to the impact of the change in discount rate and £4.1 billion to changes in assumption and experience) and current year net additions to the liability of £14.2 billion. The movement is detailed in note 20.2 to the accounts. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer.

4.6 Results for the year

The 2012-13 net resource outturn was £13.10 billion which was within the voted estimate of £13.27 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure contained within the accounts.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of -£1.115 billion against the voted estimate of -£0.668 billion.

5. KEY ACTIVITIES DURING 2012-13

5.1 Auto enrolment

The Pensions Act 2008 introduced automatic enrolment of eligible workers into a qualifying workplace pension scheme. The NHSPS is such a scheme and the legislation took effect for certain of our employers from 1 March 2013.

The legislation places significant administrative and compliance demands on employers; the key elements being:

- Employers will have a duty to automatically enrol eligible workers, between the ages of 22 and State Pension Age, subject to certain pay criteria, into a qualifying workplace pension scheme.
- The Department of Health has confirmed that the NHSPS is the default scheme for NHS employees.
- Where this is not possible, employees must be enrolled into an alternative qualifying pension scheme.
- Auto enrolment for affected employees must take place at least once every three years whilst their employment continues.

The intention of automatic enrolment is to encourage workers to save toward their retirement and means that, instead of choosing whether or not to join the pension scheme offered by their employer, eligible workers will have to actively decide to cease membership of the scheme, if they feel it is not suitable for them.

The requirement to auto-enrol employees into the Scheme is in addition to the usual contractual enrolment into the Scheme when an individual commences NHS employment or changes their NHS job.

A date has been allocated to each employer from which the auto enrolment duties will first apply to them. This is known as the staging date. The staging date allocated to employers was based on the size of their PAYE scheme on 1 April 2012. For the largest NHS organisations, their staging date will be from March 2013. The staging dates for medium and smaller or new organisations will follow in later phases up to 2017.

The Pension Act 2008 allows eligible workers who have been auto-enrolled to opt out of a pension scheme, if they wish, by completing an 'opt out' form. The legislation limits the time frame in which an individual can:-

- Opt out of a scheme and be treated as never having been a member of that scheme and
- Receive a refund of any pension contributions deducted.

Similarly those members who join when they start work in NHS employment for the first time or in a new job can continue to opt out of the NHSPS if they wish.

5.2 National Fraud Initiative

On a biennial basis, the NHS Pension Scheme takes part in the National Fraud Initiative, which commenced in 1998 and is co-ordinated by the Audit Commission. This initiative allows the Scheme to submit approved data to the Audit Commission who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The table below provides an update of the position for the exercises conducted since 1998 (For the purposes of this report NFI1998, NFI2000, NFI2002 and NFI2004 have been consolidated), and lists the outstanding amounts, which are still being actively pursued.

			Prior Years		2011-12		2012-13		
NFI Exercise	Total Identified £000	Total Cases	Recovered £000	Written-off £000	Recovered £000	Written-off £000	Recovered £000	Written-off £000	Outstanding at 31/03/2013 £000
NFI 1998 - 2004	3,830	1,226	2,528	1,114	41	17	11	19	100
NFI 2006	1,570	521	1,212	222	60	8	8	12	48
NFI 2008	1,980	550	1,121	69	254	221	53	52	210
NFI 2010	2,355	583	15	-	813	24	902	95	506
Total	**9,735**	**2,880**	**4,876**	**1,405**	**1,168**	**270**	**974**	**178**	**864**

5.3 Events after the reporting period (see note 25)

There were no events to disclose after the end of the reporting period.

6. KEY ACTIVITIES FOR 2013-14 AND BEYOND

6.1 Changes to scheme contribution rates

The Government has given a commitment to review the long-term affordability and sustainability of public service pensions following a recent review by the Independent Public Service Pensions Commission chaired by Lord Hutton.

The Government accepted Lord Hutton's conclusion that reform was needed and has taken his recommendations as a basis for consultation with public sector workers and trade unions on long term reform of pension arrangements. These changes are expected in 2015 and further information on the scope and shape of the proposed scheme is currently being determined.

Ahead of this longer-term reform, the Commission made clear that there is a rationale for increasing pension scheme member contributions to ensure a fairer distribution of pension scheme costs between taxpayers and members. The changes to contributions have now been included in the Pension Scheme Regulations.

Employee contribution rates will change from 1 April 2013 to the rates detailed below for Officer and Practice Staff members, who are employed by the same employer at the end of the last scheme year and the beginning of the current scheme year.

Scheme Year 2013-2014

Pensionable Pay band	*Contribution percentage rate*
Up to £15,278.99	5.0%
£15,279.00 to £21,175.99	5.3%
£21,176.00 to £26,557.99	6.8%
£26,558.00 to £48,982.99	9.0%
£48,983.00 to £69,931.99	11.3%
£69,932.00 to £110,273.99	12.3%
£110,274.00 and over	13.3%

Rates for new Officer and Practice Staff members who join in the year or change their employment arrangements, and for Practitioner members can be found at http://www.nhsbsa.nhs.uk/Pensions/2657.aspx

6.2 NHS Reforms

As a result of the Health and Social Care Act 2012, there has been large scale changes to the structure of the NHS bodies/employer organisations and the relationships between them. Namely the abolition of Primary Care Trusts (PCTs) and Strategic Health Authorities (SHAs). Thereafter, £60 to £80 billion of 'commissioning' or healthcare funds has been transferred from the abolished PCTs to just over two hundred Clinical Commissioning Groups (CCGs), partly run by GP Consortia in England.

The NHS Reforms have had a direct impact on the administration services provided by the NHSBSA for NHS Pensions as follows;

- Management of the closure of the employer organisations to be abolished and set up of new organisations, touching over 400 individual organisations
- Transfer of staff and GP member pension records and scheme contributions, involving over 80,000 member pension records and £60 million in scheme contributions per month
- Continued changes as all NHS Trusts will become Foundation Trusts
- Management of NHS PS members who may move to Local Authorities as they take the lead for improving public health and well being

6.3 Extending the access to the scheme

It is intended that the Government will allow for private sector companies who hold NHS Standard Contracts access to the NHS Pension Scheme during 2013-14. These private sector companies will be allowed to offer the NHS Pension Scheme only to those staff engaged in NHS work and there may be a limit on the total pensionable earnings pay bill (ie a pay ceiling similar to that which already exists in Dental Practices).

It is thought that there may be currently up to 40 companies from the private sector who may qualify but the exact figure is not yet known. Treasury have made clear that these providers must be policed very tightly and DH has indicated that they expect the NHSBSA to fulfil this role. In addition, numerous administrative/clerical duties will arise as a result of this new work.

The impact on the NHSBSA will be considerable. Consequently, in order to establish the administrative process, determine just what the “compliance” requirements are and discuss where (and by whom) in the organisation this work will be undertaken, a series of workshops are being convened with the DH and the NHSBSA has set up its own internal working group.

6.4 Holistic Data Strategy (HDS) project

The Holistic Data Strategy (HDS) will continue into 2013-14 with Phase 3. As well as continuing to focus on correction and prevention, the NHSBSA will be looking at customer/employer education and feedback from stakeholders resulting from the first 2 phases.

It is important to us to ensure stakeholders ‘get it right first time’ and have available the tools to do this. Developments that are being considered are a more robust approach to managing contact and queries utilising a messaging functionality the Pensions On Line (POL) service where employers would receive all queries in one place rather than from various sources. Other considerations are involved with improving management information reporting tools to enable better monitoring of employers and the quality of their data.

6.5 Annual Benefit Statements

We have continued with the development of our business capabilities to allow the production of Annual Benefit Statements for members of the NHS Pensions Scheme. This development will form part of the strategic delivery of total Rewards Statements that is due to go live from July 2013.

6.6 Pension Scheme Reforms 2015 – impact on Scheme liability

The Scheme liability disclosed in the Report of the Actuary and the Combined Statement of Financial Position take no account of the reforms impacting pensions due to be introduced from 1 April 2015. Although the new scheme being introduced in 2015 provides different benefits to the current scheme, with the new scheme being expected to result in lower cost in the longer term, many of the current Scheme liabilities are unaffected by the reforms. Current pensioners and former members are unaffected as are many of the longer serving active members who, if within 10 years of their current normal pension age, will remain in the existing scheme arrangements until they retire and are termed ‘protected members’. Such active members typically have long service and account for some 60% of the liability of the active membership. Overall this means that around 80% of the total past service liability is expected to be unaffected by the scheme reforms (note 20.1.3 provides the liability per member category).

Under the provisions of IAS19 the Current Service Cost reflects the cost of benefits expected to accrue in the year. Benefits will continue to be provided to all members under the existing scheme’s provisions until 2015. From 1 April 2015 the cost of benefit provision will reflect the proportions of members remaining in the current scheme arrangements (under the provisions of protection) and those joining the new scheme. Thus the savings envisaged under scheme reforms will emerge over a period of time from 2015.

Some changes in member behaviours might be expected over time as members with existing scheme benefits also earn benefits in the new scheme. Given the new scheme has a later normal pension age, members may be expected to retire later than those currently reaching retirement. It will be many years before substantive experience of such changes is evidenced but it is anticipated some changes in assumptions will be recommended by GAD at some stage to take account of these expectations. Timing of any changes is likely to follow the analysis of the 2012 funding valuation which is currently being prepared, and may result in some changes being proposed for the 2013-14 scheme accounts.

7. INFORMATION FOR MEMBERS

7.1 Pension Increase

The Pensions increase rate was 5.2% (2011/12 – 3.1%) with effect from 9 April 2012 (11 April 2011) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

7.2 Supplementary Information available to members

Information regarding the provisions of the Scheme can be found on the website of the NHSBSA as well as copies of Pension Accounts and Actuarial Valuation Reports. The website address is as follows: http://www.nhsbsa.nhs.uk/pensions

7.3 Information about FSAVCs and Stakeholder Pensions

The Pensions Scheme has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life. These contributions are not contained within the cash flows of the Scheme, but paid directly to the approved provider (please see note 14).

Nick Scholte
Chief Executive, NHS Business Services Authority
4 July 2013

Management structure and advisors

Accounting Officer:
Nick Scholte
NHS Business Services Authority
Stella House, Goldcrest Way
Newcastle upon Tyne NE15 8NY

Scheme Administrator:
NHS Business Services Authority Pensions
Hesketh House
200-220 Broadway
Fleetwood FY7 8LG

Actuary:
Government Actuary's Department
Finlaison House
15-17 Furnival Street
London EC4A 1AB

In-house AVC Providers:
Equitable Life Assurance Society
Walton Street
Aylesbury
Buckinghamshire HP21 7QW

Standard Life Assurance Company
Standard Life House
30 Lothian House
Edinburgh EH1 2DH

Prudential PLC
250 Euston Road
London NW1 2PQ

Auditors:
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Legal advisers:
DH Legal Services
5th Floor The Adelphi
Area 159 5th Floor
1-11 John Adam Street
London WC2N 6HT

Bankers:
Paymaster (1836) Ltd
Sutherland House
Russell Way
Crawley
West Sussex RH10 1UH

NatWest (England & Wales)
Government Banking Service
PO Box 64388
National Westminster Bank PLC
London Corporate Service Centre
3rd Floor
2 ½ Devonshire Square
London EC2P 2GR

Government Banking Service
c/o Citi
CitiGroup Centre
Canada Square
Canary Wharf
London E14 5LB

Further information

Any enquiries about the NHSPS should be addressed to:
Scheme Administrator
NHS Business Services Authority Pensions,
Hesketh House, 200-220 Broadway,
Fleetwood FY7 8LG

Report of the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2013

Introduction

- This statement has been prepared by the Government Actuary's Department at the request of the NHS Business Services Authority ('NHSBSA'). It summarises the pensions disclosures required for the 2012-13 Resource Accounts of the NHSPS ('the scheme').

- The NHSPS is (for most members) a final salary defined benefit scheme, the rules of which are set out in the National Health Service Pension Scheme Regulations 1995 (SI 1995/300), the National Health Service Pension Scheme Regulations 2008 (SI 2008/653) and subsequent amendments to both. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

- The statement is based on an assessment of the liabilities as at 31 March 2012, with an approximate updating to 31 March 2013 to reflect known changes.

Membership data

- Tables A to C summarise the principal membership data as at 31 March 2012 and 31 March 2013 used to prepare this statement.

Table A – Active members

31 March 2012 membership data			2012-13
Number (thousands)	Total salaries (pa) (£ billion)	Total accrued pensions (£ billion)	Total salaries implied by receipts (£ billion)
1,307	38.88	7.10	39.38

Table B – Deferred members

31 March 2012 membership data	
Number (thousands)	Total deferred pension (pa) (£ billion)
519	1.34

Table C – Pensions in payment

31 March 2012 membership data		2012-13 accounts
Number (thousands)	Total pension (pa) (£ billion)	Total pension (pa) (£ billion)
704	5.40	5.88

Methodology

- The present value of the liabilities has been determined using the Projected Unit Credit Method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2012-13 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2013 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2011-12 Resource Accounts.

- This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

- The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2013, the assumed rate of return in excess of pension increases was decreased from 2.80% to 2.35% a year, and the assumed rate of return in excess of earnings was decreased from 0.60% a year to 0.15% a year. In addition, with effect from 31 March 2013, the assumed rate of future pension increases is 1.70% a year and the assumed nominal rate of salary growth is 3.95% a year (changed from 2.00% and 4.25% respectively as at 31 March 2012).

Table D – Principal financial assumptions

Assumption	31 March 2013	31 March 2012
Rate of return (discount rate)	4.10%	4.85%
Rate of return in excess of:		
Pension increases	2.35%	2.80%
Earnings increases (long term)*	0.15%	0.60%
Expected return on assets:	n/a	n/a

* short term adjustments have been made to this assumption for the period 2012 - 2015 inclusive

- The pension increase assumption as at 31 March 2013 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

- The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

- The standard mortality tables known as S1NXA are used but with the mortality rates applicable for one year of age younger than members' actual age (for members retiring in normal health). Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom. These assumptions are the same as adopted for the 2011-12 Annual Accounts.

- The reforms to the scheme due to be implemented in April 2015 and the increased member contributions being phased in from April 2012 may affect the behaviour of members, eg members subject to a later normal pension age for accrual after 2015 might be expected to retire later. Given the uncertainty surrounding these changes and their potential impact on member behaviour, the NHSBSA has decided to make no allowance for them for the purposes of the 2012-13 Resource Accounts.

- The contribution rate used to determine the accruing cost in 2012-13 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2011-12 Resource Accounts.

Liabilities

- Table E summarises the assessed value as at 31 March 2013 of benefits accrued under the scheme prior to 31 March 2013 based on the data, methodology and assumptions described in paragraphs 4 to 12. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ Billion

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
Value of liabilities	284.2	247.0	257.7	287.6	199.5

Accruing costs

- The cost of benefits accruing in the year ended 31 March 2013 (the Current Service Cost) is based on a standard contribution rate of 25.1%. Members contributed between 5.0% and 10.9% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 7.9%. The corresponding figures for 2011-12 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	2012-13	2011-12
Standard contribution rate	25.1%	25.6%
Members' estimated average contribution rate	7.9%	6.6%
Employers' estimated share of standard contribution rate	17.2%	19.0%

- For the avoidance of doubt, the actual rate of contributions payable by employers, currently 14.0% of pensionable pay, is not the same as the employers' share of the standard contribution rate as above (17.2% for 2012-13). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and scheme Resource Accounts is the discount rate (note 1). The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

- The pensionable payroll for the financial year 2012-13 was £39.38 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2012-13 (at 25.1% of pay) is assessed to be £9.9 billion.

Sensitivity analysis

- The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2013 of changes to the main actuarial assumptions.

- The principal financial assumptions are the real rates of return in excess of pension increases and earnings growth. (The assumed nominal rate of return is less important although it does affect the past service liability in respect of Guaranteed Minimum Pensions (GMPs).) A key demographic assumption is pensioner mortality.

- Table G shows the indicative effects on the total liability as at 31 March 2013 of changes to these assumptions.

Table G - Sensitivity to main assumptions

Change in assumption *		Approximate effect on total liability	
Rate of return			
(i) nominal:	-½% a year	+ ½%	+ £1 billion
(ii) in excess of earnings:	-½% a year	+ 2%	+ £6 billion
(iii) in excess of pensions:	-½% a year	+ 7%	+ £20 billion
Pensioner mortality			
(iv) each pensioner subject to longevity of an individual 1 further year younger than assumed:		+ 2%	+ £6 billion

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

- In variant (ii) of Table G, the assumed rate of return in excess of pension increases remains unchanged, and in variant (iii), the assumed rate of return in excess of earnings remains unchanged.

Sue Vivian

Government Actuary's Department

May 2013

Note 1 – The discount rate used for scheme funding is set by HM Treasury and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The actual rate used to set the 14% employer contribution rate was 3.5% pa (net of pension increases) whereas the 2012-13 accounting figure of 17.2% assumes 2.8%. A higher discount rate results in a lower assessed cost of benefit accrual. The discount rate used for scheme funding was reviewed in 2011 and reduced from 3.5% to 3% but this new rate has yet to affect the current rate of contributions payable.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

The combined financial statements must give a true and fair view of the state of affairs of the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme at the year end and of the net resource outturn and cash flows for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them. In addition, the financial statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM 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, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

The Department of Health has appointed Nick Scholte, Chief Executive of the NHS Business Services Authority as Accounting Officer for the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in Managing Public Money published by HM Treasury.

ANNUAL GOVERNANCE STATEMENT

Introduction

The Accounting Officer for the NHS Business Services Authority (NHSBSA) is required to provide, on an annual basis, assurances about the stewardship of the NHS Pension Scheme.

These assurances are provided in this Annual Governance Statement, in line with HM Treasury Guidance.

The Accounting Officer for the NHSBSA is Nick Scholte, Chief Executive.

Scope of Responsibilities

The NHSBSA Board is responsible, amongst other things, for the administration of the NHS Pension Scheme and ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively, in accordance with Managing Public Money. In discharging this responsibility the Board is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions. This includes ensuring that a sound system of internal control is maintained throughout the year, and up to the date of approval of the annual report and accounts, and that arrangements are in place for the management of risk.

The administration of the pensioner payroll and records management has been partially contracted out to Equinity Paymaster (EP), responsibility for the case administration remains in-house. However, as Accounting Officer for the NHSBSA, the Chief Executive has overall responsibility for ensuring that the contracted administrator is managing the risks effectively and for reviewing the effectiveness of the administrator's systems of internal control.

The Purpose of the Governance Framework

The governance framework in place for the NHS Pension Scheme mirrors that which is in place for the NHSBSA, as the body responsible for the administration of the scheme. The governance structure has been strengthened over a period of time to deliver an integrated governance framework. This framework comprises the systems and processes by which the NHSBSA leads, directs and controls its functions and accounts to, and engages with, the Department of Health and the wider NHS community. The NHSBSA takes its corporate social responsibilities seriously, striving to be a good corporate citizen by always 'doing the right thing'. To achieve this, the corporate governance framework is underpinned by the culture, values and behaviours adopted across the Authority.

A significant element of the framework is the system of internal control, which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives; and
- evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework and system of internal control have been in place in the NHSBSA for the year ended 31 March 2013 and up to the date of the approval of the annual report and accounts.

NHSBSA Governance Framework

The overarching Corporate Governance Framework has been approved and adopted by the Board and is subject to annual review. The framework incorporates the following elements:

- Statutory Instruments and Directions which describe and govern the NHSBSA's core operations, processes and structure;
- Code of Conduct and Accountability for NHS Boards, instilling a culture of accountability, probity and openness underpinning the work of the NHS;
- Matters determined by the Board which ensure that the Authority has appropriate decision making processes in place, including:
  - Ways of Working (including Standing Orders);
  - Standing Financial Instructions; and
  - Scheme of Delegation.
- Other management information which supports effective governance and operation, i.e. corporate policies and procedures.

The Corporate Secretary is responsible for ensuring that all decisions made are legal and comply with the NHSBSA's Corporate Governance Framework and the Corporate Governance Code.

The administration of the Scheme is currently delivered through a combination of NHSBSA employees and a contracted out third party provider, EP. The arrangement for joint working with EP is governed by commercial agreements and managed by regular meetings to review performance and escalate issues and concerns.

NHSBSA Board and Ways of Working

The Board is responsible for the strategic direction and integrated governance across the Authority, and the stewardship of its finances, including the NHS Pension Scheme. In fulfilling these responsibilities the Board reserves certain decision making powers, including decisions on strategy and budgets, but other key duties have been delegated to the Authority's two standing committees:

- Audit and Risk Management Committee; and
- Remuneration and Terms of Service Committee.

All powers of the Authority that have not been retained as reserved for the Board or otherwise delegated to a standing committee are exercised on behalf of the Board by the Chief Executive, unless otherwise specified in the NHSBSA's Standing Financial Instructions or Scheme of Delegation. The Chair is primarily responsible for leading the Board and ensuring its effectiveness with the Chief Executive responsible for day-to-day management. The document which describes how the Authority operates is called the Ways of Working which incorporates the Standing Orders. This document is supported by the Standing Financial Instructions and Scheme of Delegation which details which decisions the Board has reserved for itself and those which it has delegated and to whom.

Board

Membership of the Board is currently made up of a Non-executive Chair, five other Non-executive Directors, Chief Executive and four Executive Directors.

The table below shows the number of meetings attended by Board members during the 2012-13 financial year and also highlights their declared business interests.

Board Members

Board Composition	Meetings Attended	Register of Interests
Non-executive Chair: Paul Rich	8 out of 8	• Non-executive Director of South East Water
Non-executive Directors: Mike Harling	7 out of 8	• Shareholder in Deutsche Post • Partner is also declared as being a shareholder in Deutsche Post • Receives a pension from the Steria Pension Plan (part of Groupe Steria SCA) • Board Member, Guinness South (housing association)
David Hulf	8 out of 8	• Non-executive Director and Chair of Audit Committee at National Savings and Investments
Anne Galbraith	8 out of 8	• Member of Puffin Appeal (charity raising funds for cystic fibrosis) • Chair of Valuation Tribunal Service • Health Consultant (Self-employed) – Chaired Mental Health Inquiries • Chair of Council for University of Durham (until July 2012)
Jeremy Strachan	7 out of 8	• Trustee of Drugscope (National Charitable Trust)
David Teale	8 out of 8	• Chair of Solutions SK (company wholly owned by Stockport MBC) • Chair of Individual Solutions SK • Member and Chair of Audit Committee for Parkway Green Housing Trust (charitable trust) Chief Executive of North of England Excellence
Chief Executive: Nick Scholte	8 out of 8	• Nothing declared
Executive Directors: Roberta Barker Director of People and Organisational Development	8 out of 8	• Trustee of Richmondshire Leisure Trust
Michael Brodie Director of Finance	8 out of 8	• Member of Durham University Audit Committee • President of the Executive Committee of the Chartered Institute of Public Finance and Accountancy (CIPFA) in the North East • Finance and Commercial Director of Public Health England
Alistair McDonald Chief Operating Officer	7 out of 8	• Nothing declared
Steven Pink Commercial Director (since 10 April 2012)	8 out of 8	• Nothing declared

Standing Committees

The two Standing Committees: Audit and Risk Management Committee; and Remuneration and Terms of Service Committees have been established to help facilitate the effective discharge of the NHSBSA Board's responsibilities.

Further details on the NHSBSA's Board and Standing Committees can be found in the main Annual Governance Statement published in the NHSBSA Annual Report and Accounts 2012-13 (www.nhsbsa.nhs.uk/about.aspx).

Annual Committee Effectiveness Reviews

On an annual basis these Committees are required to consider how well they have performed during the year against the remit set out in the individual terms of reference.

The annual review of effectiveness for both identified that the Committees had operated effectively, were in compliance with the Corporate Governance Code and had provided an appropriate balance of review and supportive challenge during the year.

NHSBSA Board Review of Effectiveness

The NHSBSA Board is required to consider whether it has been effective in leading the Authority on an annual basis. The Board has undertaken an evaluation for 2012-13 and has determined that it is operating effectively and is compliant with the Corporate Governance Code. This is supported by the following evidence:

- the Authority has stayed within its financial allocations, and within the Estimate for the NHS Pension Scheme;
- the Authority has consistently delivered against its agreed key performance indicators including those relating to the administration of the NHS Pension Scheme;
- the Authority has strengthened its assurance process with the full rollout of the assurance map which is now embedded into day-to-day operations;
- the Authority has implemented a more robust performance reporting mechanism adopting a dashboard style balanced scorecard approach;
- the Authority has enhanced its risk management procedures which have seen the implementation of dashboard reporting giving an overview of the risk profile of the whole organisation yet focusing attention on relevant areas; and
- a significant reduction in the number of outstanding internal audit recommendations.

NHS Pension Scheme Sponsorship Arrangements

The NHSBSA manages a complex range of business activities on behalf of the Department of Health. Accountability arrangements with the Department comprise an overall Senior Departmental Sponsor, with individual sponsors providing policy direction for each core service stream. Service sponsorship for the NHS Pension Scheme comes from the Department of Health's Workforce Department. Regular accountability meetings take place with the service sponsor to discuss performance issues. These meetings provide the opportunity for escalating issues, when necessary.

NHSBSA Management

As described earlier, other than those matters reserved for the Board, responsibility for the day-to-day management of the Authority is delegated to the Chief Executive, who is the Accounting Officer. The Chief Executive is supported by a Leadership Team of Executive Directors with responsibility for specific areas of the business. The operation of the NHS Pension Scheme is managed within Service Delivery which reports to the Chief Operating Officer.

Further details of the Leadership Team responsibilities can be found in the main Annual Governance Statement published in the NHSBSA Annual Report and Accounts 2012-13 (www.nhsbsa.nhs.uk/about.aspx).

Key Governance Systems

The Authority has identified the following areas which support the overarching governance arrangements:

- risk management;
- assurance; and
- managing information.

The Audit and Risk Management Committee regularly review these areas to ensure that they remain robust and effective. If required, the Authority's Internal Audit providers would be commissioned to undertake a more comprehensive review.

Risk Management

Risk appetite can be defined as "an organisation's unique attitude towards risk taking, which in turn dictates the amount of risk that it considers acceptable". The Authority's aim is to ensure that its overall level of risk is balanced, sustainable and appropriate. The Authority's risk appetite dictates that all risks classified as extreme, within the control of the NHSBSA, are mitigated until the residual risk rating falls to high, moderate or low. All other risks are mitigated to an acceptable level.

During 2012-13 an annual review of the Risk Management Framework was undertaken, resulting in minor changes. These changes did not impact on the Authority's risk policy, appetite or tolerance. The framework includes guidance on the classification, management and escalation process for identifying not only risks facing the Authority but also issues which are currently impacting on business. The Audit and Risk Management Committee has approved and adopted the framework, on behalf of the Board. The framework has been fully embedded into day to day operations.

Each business area is responsible for maintaining individual risk and issue registers which are monitored on monthly by respective Senior Management Teams. On a quarterly basis these registers are submitted centrally for consolidation and review by the Risk Management Group and Leadership Team.

The Corporate Risk Register contains the key risks facing the Authority at a strategic level. It is owned by the Leadership Team and reviewed quarterly in conjunction with the Risk and Issue Dashboard. The introduction of the new monitoring and reporting mechanism demonstrates the robust escalation process in place across the Authority in relation to risk and issue management, with any risks classified as extreme or issues classified as catastrophic or major being considered by the Leadership Team for escalation onto the Corporate Register.

Following the quarterly reviews by the Risk Management Group and Leadership Team, the Audit and Risk Management Committee receives an update on the work undertaken in the area of risk and issue management. The Committee also receives a copy of the Corporate Risk Register. This process enables the Committee to provide assurances to the Board that risks and issues are being appropriately identified and managed across the business.

There are a number of significant risks facing the operation of the NHS Pension Scheme which, should action not be taken to mitigate these risk, could have a major impact on the Scheme Accounts. The table below identifies the principal risks to the NHS Pension Scheme:

Principal Risk	Key Factors	Current Controls/ Mitigations	Further Actions/ Mitigations
Changes to the Contribution	2012-13 saw the first year of changes to the existing tiered rates of employee contributions	• Project Board is in place to manage the implementation of year 2 and any future	• Assurances received by recognised key payroll service

Principal Risk	Key Factors	Current Controls/ Mitigations	Further Actions/ Mitigations
Rates		changes • Extensive communication with employers and members about the changes	providers about the successful implementation of the changes in their systems
NHS Reforms	As a result of the NHS Reform Bill there is a risk of an unprecedented increase in the number of NHS employees made redundant/changing circumstances which may impact on the ability to process awards/estimates according to agreed SLAs, and the cash flows of the scheme	• Project Board is in place with Service Delivery presence • Risk Board in place and business readiness plans being developed • A business case has been agreed by Leadership Team • A redundancy calculator has been implemented	• Further development of business readiness and capacity planning based on assumed activity • Reconciliation of member data and cash flows between the existing and new employer structures
Pension Reforms relating to the Hutton Review	As a result of a lack of clear requirements, delay with contract re-let and potential tight timelines there is a risk that an optimal solution for Hutton cannot be delivered in the required timeframe which may result in additional costs and a sub-optimal solution for customers.	• Project initiated on an interim Hutton solution; • Programme Board established; and • Programme Director appointed.	• Review programme governance arrangements in conjunction with DH.

By working closely with all stakeholders, including the DH, employing authorities and third party service providers the NHSBSA is confident that these risks are being managed appropriately.

Assurance Arrangements

In recent years the NHSBSA has introduced significant enhancements to its assurance framework. An overarching assurance map has been developed using the industry best practice three lines of defence model to identify the sources of assurance in place over each of the key functions and services delivered by the Authority. The three lines of defence represent:

- 1st line: management control and reporting;
- 2nd line: functional oversight and governance systems; and
- 3rd line: independent review and regulatory oversight.

This model provides the basis upon which the leadership of the NHSBSA can determine the focus of assurance effort, assess the outcome of existing assurance activity and determine its assurance appetite. The assurance map is fully integrated with the risk management process with areas of concern being reflected in the relevant business area risk register and escalated to the Corporate Risk Register, where required.

A schedule of six-monthly reviews of the overarching assurance map, by the Leadership Team and Audit and Risk Management Committee, has been implemented to ensure that the Authority is accurately represented and that areas of concern are being addressed.

The Audit and Risk Management Committee has introduced a programme of deep dive exercises to assure itself on behalf of the Board regarding the robustness of the assurance maps and supporting evidence for each business area. During the year a deep dive exercise was undertaken to review the assurance map covering the pension scheme administration. The Committee was able to gain a high degree of confidence over the assurances in place.

A further deep dive exercise, focusing on NHS Pensions, was undertaken in February at the NHSBSA's Senior Departmental Sponsor Accountability Review meeting. This demonstrated at a high level the various sources of assurance in place over the functions and services delivered by NHS Pensions.

Managing Information

During 2012-13 the NHSBSA has continued to improve its approach to handling information efficiently and securely. Each year, the NHSBSA undertakes a detailed self-assessment using the NHS-wide Information Governance Toolkit. Using this toolkit, the NHSBSA's rating for 2012-13 was a satisfactory rating with a compliance level of 85%.

The NHSBSA did not have any security incidents classified as serious untoward incidents by the Department of Health. However, using the Department of Health categorisation framework, there was one incident classified as minor to report during the year as per the table below.

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured NHS premises	-
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured NHS premises	-
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-
IV	Unauthorised disclosure	1
V	Other	-
	Total Number of incidents	1

In the course of the NHSBSA's business, information is held and used about members of the public and NHS colleagues. Some of this information is of a personal and sensitive nature and as a consequence stringent controls are in place to ensure the security of this information.

Issues relating to information governance within the NHSBSA, including the NHS Pension Scheme, are coordinated by the Information Governance and Security Group which is chaired by the Director of Finance who holds the position of both Caldicott Guardian and Senior Information Risk Owner (SIRO). The remit of the Caldicott Guardian is to ensure that any person identifiable information is held and used properly. The remit of the SIRO is to take ownership of the NHSBSA's information risk policy, act as advocate for information risk to the Board and provide written advice to the accounting officer on the content of the Annual Governance Statement with regard to information risk.

Handling Complaints

The NHSBSA takes complaints seriously and believes in the value of learning from the complaints which are made about its staff and services to make improvements for customers.

During 2012-13, further improvements were made to the complaints handling processes. The NHSBSA handled an increased number of issues which may have led to formal complaints through the customer contact centre and helped customers to have their concerns dealt with quickly and effectively. This approach has dramatically reduced the number of formal complaints received during the year compared to the previous year.

The total number of complaints received during 2012-13 was 333 of which 148 (44%) were found to be justified. This compares with a total of 321 of which 126 (39%) were found to be justified in 2011-12.

Sources of Assurance

Audit and Risk Management Committee

One of the key sources of assurance provision for the Authority's Board is from the Audit and Risk Management Committee. It provides an independent and objective review of the adequacy and effectiveness of the Authority's approach to risk management and the overall assurance framework. The Committee has responsibility for reviewing:

- all risk and control related disclosure statements including the annual Head of Internal Audit opinion and External Audit opinion;
- the underlying assurance process that governs the management of principal risks and the achievement of corporate objectives;
- the appropriateness of policies and procedures for ensuring compliance with law, guidance and codes of conduct, and their effectiveness; and
- policies and procedures related to the detection and prevention of bribery, fraud and corruption.

The Committee meets these responsibilities by receiving regular reports on a range of audit and assurance topics and in particular the receipt and review of:

- quarterly risk management updates setting out and assessing the major risks facing the Authority, aligned with key areas of focus set out in the Business Plan. These reports detail the movements in risks between reporting periods and identify emerging risks and actions which have been taken or are planned to mitigate them;
- an annual risk management report outlining how the Authority's risk management arrangements have continued to operate effectively during the year and how thy have been reviewed and strengthened;
- a six-monthly review of the overarching NHSBSA Assurance Map;
- individual business area assurance maps as part of a programme of deep dive exercises to consider the control environment in operation throughout the Authority;
- regular progress reports on the work undertaken by Internal Audit against the agreed workplan;
- quarterly updates on progress made across the Authority implementing internal audit recommendations;
- quarterly updates on progress made across the Authority implementing external audit recommendations;
- an annual local counter fraud specialist report detailing the work undertaken during the year mapped against the agreed workplan; and
- the Whistleblowing Policy which encourages staff to raise any serious concerns regarding the practice of the Authority, including acts of fraud and bribery. The Committee receives six-monthly updates on whistleblowing activity across the business;

Other Sources of Assurance

Supporting the role of the Board and the Audit and Risk Management Committee, the NHSBSA's governance and control environment also includes the following elements:

- maintenance and monthly review of the risk and issue registers for each business area;
- a Risk Management Group, chaired by the Director of Finance, with representation from all business areas. The Group has an agreed Terms of Reference and is responsible for reviewing the Risk and Issue Dashboard providing a forum for debate and challenge ensuring a consistent and harmonised approach. The Group meets prior to the Leadership Team review of risk to ensure that the latest position is reported;

- quarterly reviews of the Corporate Risk Register and the Risk and Issue Dashboard by the Leadership Team, as a precursor to the Audit and Risk Management Committee review;
- an enhanced performance management framework is reviewed by the Leadership Team on a monthly basis and by the Board at each meeting. The framework provides a balanced scorecard approach covering the key areas of performance;
- all information risks are reviewed by the Information Governance and Security Group (IGSG) on a regular basis. The Group is also responsible for ensuring that the Authority complies with information governance and security best practice and performs a self assessment against a nationally developed toolkit;
- controls are in place to ensure that all the Authority's obligations under equality, diversity and human rights legislation are adhered to. An Equality and Diversity Committee has been established, chaired by an Executive Director;
- as an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations;
- annual Contribution Assurance Statements received from core NHS employers such as Primary Care Trusts, Hospital Trusts and Foundation Trusts verifying that they have complied with the Scheme Regulations and have deducted and remitted contributions correctly;
- assurance documents received from EP including an Annual Assurance Certificate which confirms that the pensions administration services have been provided correctly and in accordance with the scheme rules; and
- an annual report on business control procedures from EP. This report demonstrates the robust control environment that EP has in place and that the underlying control procedures for the pension administration services are effective.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the risk based internal audit work. For 2012-13 the Head of Internal Audit Opinion concluded that based on the work completed to date there is a generally sound system of internal control, designed to meet the Authority's objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and/or inconsistent application of controls put the achievement of particular objectives at risk. These weaknesses have been raised in relevant Internal Audit reports and recommendations agreed with the appropriate Senior Management Teams. Progress against these recommendations is monitored on a regular basis by Senior Management Teams, Leadership Team and Audit and Risk Management Committee.

The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the Authority achieving its principal objectives have been reviewed. My review is informed by:

- the work of the Audit and Risk Management Committee which informs the Board about the outcome of its activities through submission of its minutes and its annual report to the Board;
- the findings of both the National Audit Office and the internal audit reviews. The Audit and Risk Management Committee oversees progress towards the implementation of all such recommendations; and
- the work of the Local Counter Fraud Specialist (LCFS) to prevent, deter, investigate and report of fraud activity. The Audit and Risk Management Committee receive the annual

workplan and annual report of the LCFS and provide updates to the Board as appropriate.

A plan to address weaknesses and ensure continuous improvement of the assurance system is in place and the Audit and Risk Management Committee will continue to monitor improvements in the overall corporate assurance framework.

Significant Governance Issues

Guaranteed Minimum Pension

Towards the end of 2007-08, administrative checks identified that Public Sector Pension Schemes did not always have the correct Guaranteed Minimum Pension increases for those pensioners reaching state retirement age between 1978 and 1997.

Over 60,000 pensioners were identified as requiring adjustment to their ongoing pension and their pensions adjusted in April and May 2009 to the correct rate. A Written Ministerial Statement (WMS) was laid before Parliament on 16 December 2008 and announced that these overpayments would not be recoverable from pension scheme members. The resultant net impact was thought to be £32.3 million in overpaid benefits, as reported in the Report of the Managers in the 2008-09 Pension Accounts.

Due to ongoing concerns in 2010 about the scheme holding the correct GMP information the decision was made in conjunction with the Dept of Health to suspend the processing of GMP information. The information is now being processed and is due to be completed during 2013. There is a further estimated £1.5 million to £2 million net in overpaid benefits where no recovery will be sought.

The Scheme continues to work in conjunction with HMRC and Equinity Paymaster to put measures in place to stop a reoccurrence of this issue.

Conclusion

My review confirms that the NHSBSA has a generally sound system of governance that support the achievement of its policies, aims and objectives of the NHS Pension Scheme and that the control issue identified is being addressed.

Nick Scholte
Chief Executive
NHS Business Services Authority
4 July 2013

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the NHS Pension Scheme and the NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Resource Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2013 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse **Date 11 July 2013**
Comptroller and Auditor General

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

Statement of Parliamentary Supply
Summary of Resource Outturn 2012-13

£000								2012-13	2011-12
				Estimate			Outturn		Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving/ (excess)	Total
Departmental Expenditure Limit									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
Annually Managed Expenditure									
- Resource	3	13,273,842	-	13,273,842	13,103,319		13,103,319	170,523	16,388,595
- Capital		-	-	-	-	-	-	-	-
Total Budget	3	13,273,842	-	13,273,842	13,103,319		13,103,319	170,523	16,388,595
Non-Budget									
- Resource									
Total		**13,273,842**	-	**13,273,842**	**13,103,319**		**13,103,319**	**170,523**	**16,388,595**

Total Resource		13,273,842	-	13,273,842	13,103,319	-	13,103,319	170,523	16,388,595
Total Capital		-	-	-	-	-	-	-	-
Total		**13,273,842**	**-**	**13,273,842**	**13,103,319**	**-**	**13,103,319**	**170,523**	**16,388,595**

Net Cash Requirement 2012-13

£000		2012-13		2012-13	2011-12
	Note	Estimate	Outturn	Outturn compared with Estimate (savings)/ excess	Outturn
	5	**(668,370)**	**(1,115,177)**	**(446,807)**	**(929,196)**

Administration Costs 2012-13

2012-13 Estimate	2012-13 Outturn	2011-12 Outturn
-	-	-

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

Explanations of variances between Estimate and outturn are given in Note 3 and in the Management commentary.

The notes on pages 39 to 56 form part of these accounts

Combined Statement of Comprehensive Net Expenditure
for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Income			
Contributions receivable	7	(8,819,364)	(8,289,016)
Transfers in	8	(82,183)	(95,454)
Other pension income	9	(265,553)	(146,192)
		(9,167,100)	**(8,530,662)**
Expenditure			
Pension Cost	10	9,900,000	10,000,000
Enhancements	11	288,236	323,803
Transfers in	12	82,183	95,454
Interest on Scheme liabilities	13	12,000,000	14,500,000
		22,270,419	**24,919,257**
Net Expenditure		**13,103,319**	**16,388,595**
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year:			
Revaluation cost of estimated discount future cash flows in respect of early retirement charges	17	39,250	32,557
Actuarial loss/(gain)	20.5	22,968,055	(28,146,406)
Total Comprehensive Net Expendtiture/(Income) for the year ended 31 March 2013		**36,110,624**	**(11,725,254)**

The notes on pages 39 to 56 form part of these accounts.

Combined Statement of Financial Position
as at 31 March 2013

	Note	2012-13 £000	2011-12 (Re-stated) £000
Current assets:			
Receivables	15.1	668,590	602,501
Cash and cash equivalents	16	1,115,177	778,787
Prepayments – Prepaid pension benefits	18	170,153	190,558
Total current assets		1,953,920	1,571,846
Current liabilities:			
Payables (within 12 months)	19.1	(1,438,937)	(1,070,312)
Net assets, excluding pension liability		**514,983**	**501,534**
Estimated discounted future cashflows in respect of premature retirement recharges	17	661,952	701,202
Pension liability	20.2	(284,200,000)	(247,000,000)
Net liabilities, including pension liability		**(283,023,065)**	**(245,797,264)**
Taxpayers' equity:			
General fund		(283,023,065)	(245,797,264)
		(283,023,065)	**(245,797,264)**

Nick Scholte
Chief Executive
NHS Business Services Authority
4 July 2013

The notes on pages 39 to 56 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2013

	Note	2012-13	2011-12
		£000	£000
Balance at 1 April		**(245,797,264)**	**(256,593,322)**
Net Parliamentary Funding – draw down		-	-
Net Parliamentary Funding - deemed		-	-
Consolidated Fund Standing Services		-	-
Supply payable/(receivable) adjustment		-	-
Excess Vote – Prior Year		-	-
Excess Vote – Appropriations-in-Aid		-	-
Revaluation cost of estimated discounted future cash flows in repsect of early retirement recharges	17	(39,250)	(32,557)
Current year supply	5	(1,115,177)	(929,196)
Comprehensive Net Expenditure for the Year	4.1	**(13,103,319)**	**(16,388,595)**
Actuarial (loss)/gain – NHS Pension Scheme	20.5	(22,968,055)	28,146,406
Net change in Taxpayers' Equity		**(37,225,801)**	**10,796,058**
Balance at 31 March		**(283,023,065)**	**(245,797,264)**

The notes on pages 39 to 56 form part of these accounts.

Combined Statement of Cash Flows
for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 (Re-stated) £000
Cash flows from operating activities			
Net (expenditure)/income for the year	4.1	(13,103,319)	(16,388,595)
Adjustments for non-cash transactions:			
Increase in receivables		(66,089)	44,968
Increase in payables		32,235	16,975
Increase/(Decrease) in pension provision	20.2	21,900,000	24,500,000
Increase in pension provision – enhancements and transfers in	20.2	370,419	419,257
Pre-paid pension benefits	18	20,405	(190,558)
Use of provisions – pension liability	20.3	(7,764,757)	(7,249,857)
Use of provisions – refunds and transfers	20.4	(273,717)	(222,994)
Net cash inflows from operating activities		**1,115,177**	**929,196**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		-	-
From the Consolidated Fund (Supply) – prior year		-	-
From the Consolidated Fund (non-Supply)		-	-
Net Parliamentary financing		-	-
Adjustments for payments and receipts not related to Supply		-	-
Net financing		-	-
Net Increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**1,115,177**	**929,196**
Receipts due to the Consolidated Fund which are outside the Scope of the Scheme's activities		-	-
Payments of amounts to the Consilidated Fund		(778,787)	(842,799)
Net (Decrease) / Increase in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund		**336,390**	**86,398**
Cash and cash equivalents at the beginning of the period		**778,787**	**692,390**
Cash and cash equivalents at the end of the period		**1,115,177**	**778,787**

The notes on pages 39 to 56 form part of these accounts.

Notes to the Financial Statements

1. Basis of preparation of the Scheme financial statements

The financial statements of the combined NHS Pension Scheme and NHS Pension for Premature Retirement Scheme have been prepared in accordance with the relevant provisions of the of the 2011-12 *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 Employee benefits and IAS 26 Accounting and Reporting by Retirement Benefits Plans are of particular relevance to these statements.

In addition to the primary statements prepared under International Financial Reporting Standards, the FReM also requires the Scheme to prepare an additional statement – a Statement of Parliamentary Supply. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 NHS Pension Scheme

The NHS Pension Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the NHSBSA on behalf of the Secretary of State for Health on behalf of members of the National Health Service who satisfy membership criteria.

Contributions to the Scheme by employers and employees were set at rates determined by the Scheme's Actuary and approved by the Secretary of State for Health for 2012-13. The income received where contributions are the main element currently exceed payments made by the Scheme, the balance of surplus cash being returned to HM Treasury. If payments exceed income, the balance of the funding would need to be provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the NHSBSA and reported in their financial statements.

The financial statements of the Scheme show the combined financial position of the NHS Pension Scheme and NHS Compensation for Premature Retirement Schemes at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the report of the Actuary, and the Scheme financial statements should be read in conjunction with that Report.

1.2 NHS Pension for Premature Retirement Scheme

The NHS Pension Scheme acts as a principal for employers in the payment of compensation benefits arising under the NHS Compensation for Premature Retirement Scheme. Employers now only have the option of discharging their liability by way of payment of a capital sum, previously employers could pay for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. This arrangement ceased for employers from 1 October 2011 but the costs for historic cases are still being met by employers. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding estimated Discounted Future Cash flow within Combined Statement of Financial Position).

2. Statement of accounting policies

The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent that they are 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 Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Accounting policies for the NHS Pension Scheme

2.2.1 Contributions receivable

- Employers' normal pension contributions are accounted for on an accruals basis.
- Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.
- Employees' pension contributions which include amounts in respect of added years are accounted for on an accruals basis.
- Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. Employees' contributions paid in respect of the purchase of additional pension entitlement are accounted for on a cash basis. The associated increase in the scheme liability is recognised as expenditure. Where Scheme members make additional voluntary contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 14 to the financial statements. Please refer to Note 14 for further information on Scheme AVC providers.

2.2.2 Transfers in and out

Transfers are normally accounted for on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

Amounts receivable in respect of inward transfers are accounted for under income, but also expenditure as they increase the pension scheme liability to the same extent. The increase is reflected in the Combined Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

2.2.3 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a real discount rate of 2.8% (2011-12

2.9%) and 4.85% including inflation (2011-12 5.6%). These assumptions are used to calculate the in year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability

2.2.4 Past service cost

Past service costs are increases/decreases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change, or improvement to retirement benefits and is recognised in the Combined Statement of Comprehensive Net Expenditure.

2.2.5 Interest on Scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a gross discount rate 4.85% (2011-12 5.6%).

2.2.6 Scheme Liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and as at 31 March 2012 was discounted at a real discount rate of 2.8% (i.e. 4.85% including inflation). The discount rate changed on 31 March 2013 to 2.35% and the Scheme was discounted at that rate. Further details of the financial assumptions used are set out at Note 20.1.2 to these accounts and in the Report of the Actuary on pages 15 to 18. For the purposes of IAS26 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. A full member data extract as at 31 March 2012 was provided to the GAD to facilitate a full actuarial valuation that has been used in the preparation of pension accounts for 2012-13.

2.2.7 Pension benefits payable

Pension benefits payable due to age, ill health retirements, and voluntary early retirement are accounted for as a decrease in the scheme liability on an accrual basis. Where benefits fall on a weekend or bank holiday benefits will be paid on the last working day before the benefits are due, and are classed as a prepayment (note18 refers).

2.2.8 Refund of contributions paid to and on account of members leaving the Scheme

Where a member of the pension scheme is entitled only to a refund of contributions, the payments are accounted for as a decrease in the scheme liability on a cash basis.

2.2.9 Lump sums payable on death in service

Where a member dies in service a lump sum death in service payment may be due, the payments are accounted for as a decrease in the scheme liability on a cash basis.

2.2.10 Actuarial gains / losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Combined Statement of Financial Position date are recognised in the Combined Statement of Comprehensive Net Expenditure for the year.

2.2.11 Additional Voluntary Contributions

Additional Voluntary Contributions ('AVCs') are deducted from employees' salaries and are paid over directly by the employing authorities to the approved AVC providers.

2.2.12 Other Income

Other income, including overpayments recovered other than by deduction from future benefits and miscellaneous income are accounted for on an accruals basis. To the extent that this income also represents an increase in the Scheme liability, it is also reflected in expenditure.

2.2.13 Administration expenses

The administrative expenses (staff and office facilities etc.) associated with the operation of the Scheme are borne by the NHSBSA and are reported in the Department of Health's Statement of Comprehensive Net Expenditure.

2.3 Accounting policies for the NHS Compensation for Premature Retirement Scheme

Compensation payments or the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, benefits are paid initially by the NHS Pension Scheme throughout the month and recovered from employers on a quarterly basis (this method is referred to as "quarterly recharging"). This arrangement ceased for employers from 1 October 2011 but the costs for historic cases are still being met by employers. Employers are able to discharge their liability for these historic cases by a lump sum payment, and are then accounted for as Other Income (see note 9).

The Secretary of State now only allows employers to make a lump sum cash payment to the NHS Pension Scheme in order to discharge their liabilities to the Scheme and to fund compensation payments payable to their former employees in the forthcoming years (this is referred to as "pre-funding").

Except where stated otherwise below, the accounting policies outlined at Note 2 above apply.

2.3.1 Accounting for pre-funded income in respect of rechargeable early retirement pension enhancements

Where the employer chooses to pay by one-off lump sum, this amount is recognised as income at the point the employee's pension becomes payable. Any amounts receivable in respect of an employer's decision to allow an employee's early departure, where the employer has discharged their liability by way of a capitalised payment, are accounted for as Other Income (see note 9).

2.3.2 Accounting for pre-funded liabilities in respect of early retirement pension enhancements

In cases where a member's pension entitlement is enhanced to compensate for early retirement, the costs of such enhancements are recognised in the pension scheme liability at the point of the member's retirement.

2.3.3 Accounting for quarterly recharge income in respect of early retirement pension enhancements

Where the employer chose to pay quarterly, income is recognised as invoices are raised. Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as "Other Income" (see note 9) to the pension scheme. The employer may also choose to settle their future liability by way of a capital sum.

In recognition of the fact that significant future cash flows will arise from these arrangements, the estimated future cash flows which may accrue to the Scheme after the Statement of Financial Position date, discounted to current values, are disclosed on the Statement of Financial Position. This asset is revalued on an annual basis and any net increases or decreases will be accounted through the General Fund, and disclosed within the Combined Statement of Changes in Taxpayer's Equity.

2.3.4 Accounting for quarterly recharge liabilities in respect of early retirement pension enhancements

In cases where a member's pension entitlement is enhanced to compensate for early retirement, the costs of such enhancements are recognised in the pension scheme liability at the point of the member's retirement.

2.4 Changes to International Financial Reporting Standards

Amendments to IAS1, 12, 16, 19, 27, 28, 32 & 34, IFRS9, 10, 11, 12 & 13, a new IFRIC Interpretation, IFRIC20, and a new IPSAS, IPSAS32, have been issued but are not yet effective and have not been adopted early by the Scheme. Those that are expected to be applicable to the Scheme are listed below with their effective date, none are anticipated to have a future material impact on the Scheme's financial statements:

- IAS 1 Presentation of Financial Statements (Other Comprehensive Income) (OCI) – effective 1 July 2012 – requires items of OCI to be grouped on the basis of whether they might at some point be reclassified from OCI to Profit or where they will not.
- IFRS 9 Financial Instruments - effective 1 January 2015 - revised guidance on classification and measurement and calculation and recording of impairments.
- IFRS 13 Fair Value Measurement - effective 1 January 2013 - consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS.

2.5 Changes to the Financial Reporting Manual

No changes to the Financial Reporting Manual have impacted on the Scheme financial statements.

3. NET OUTTURN

3.1 Analysis of net resource outturn by section

	2012-13										2011-12
	Outturn							Estimate			Outturn
	Administration			Programme			Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net					
Spending in Departmental Expenditure Limit											
Voted:	-	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-	-
Annually Managed Expenditure											
Voted:											
A Pensions	-	-	-	22,270,419	(9,167,100)	13,103,319	13,103,319	13,273,842	170,523	170,523	16,388,595
Non Voted	-	-	-	-	-	-	-	-	-	-	-
Non-budget	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**22,270,419**	**(9,167,100)**	**13,103,319**	**13,103,319**	**13,273,842**	**170,523**	**170,523**	**16,388,595**

Explanation of the variance between Resource Estimate and outturn:

The outturn is less than the Estimate due primarily to income being higher than forecast by £156 million. The main cause of this was additional income being received relating to settlement of re-chargeable premature retirements as detailed in note 9. This was also a contributing factor to the Net Cash Requirement generating a higher than forecast surplus (Note 5).

3.2 Analysis of net capital outturn by section

	2012-13					2011-12
	Outturn			Estimate		Outturn
	Gross	Income	Net	Net	Net total compared with Estimate	Net
Spending in Departmental Expenditure Limit						
Voted:	-	-	-	-	-	-
Non-voted:	-	-	-	-	-	-
Annually Managed Expenditure						
Voted:	-	-	-	-	-	-
Non-voted	-	-	-	-	-	-
Total	-	-	-	-	-	-

4. Reconciliation of net resource outturn to net expenditure and against Administration Budget

4.1 Reconciliation of net resource outturn to net expenditure

		2012-13 Outturn	2011-12 Outturn
		£000	£000
Total resource outturn in Statement of Parliamentary Supply	Budget	13,103,319	16,388,595
	Non-Budget	-	-
Net Resource Outturn		**13,103,319**	**16,388,595**
Add:	Non-Supply Expenditure	-	-
	Prior Period Adjustments	-	-
		-	**-**
Less:	Income Payable to the Consolidated Fund	-	-
	Prior Period Adjustments	-	-
		-	**-**
Net Expenditure in Consolidated Statement of Comprehensive Net Expenditure		**13,103,319**	**16,388,595**

4.2 Outturn against final Administration Budget

	2012-13 Outturn	2011-12 Outturn
	£000	£000
Voted in Estimates	-	-
Non-voted	-	-
Net Resource Outturn	**-**	**-**

5. Reconciliation of Net Resource Outturn to Net Cash Requirement

	2012-13 Estimate	2012-13 Outturn	2012-13 Net total outturn compared with Estimate: saving/(excess)
	£000	£000	£000
Resource Outturn	13,273,842	13,103,319	170,523
Capital Outturn		-	-
Non-operating income		-	-
Accruals adjustments			
Non-cash items	(22,284,313)	(22,270,419)	(13,894)
Changes in payables and receivables	81,466	13,449	68,017
Changes in payables falling due after more than one year	-	-	-
Use of provision	8,260,635	8,038,474	222,161
Excess cash receipts surrenderable to the Consolidated Fund	-	-	-
Net cash requirement	**(668,370)**	**(1,115,177)**	**446,807**

Explanation of variance between Net Cash Requirement Estimate and outturn:
The outturn was more than the Estimate due primarily to income being higher than forecast, as per the note in 3.1 above, and pension payments being less than forecast by £222 million, where the most significant variance was on lump sums which were £196 million less than forecast.

6. Income payable to the Consolidated Fund

6.1 Analysis of income payable to the Consolidated Fund

The following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics).

	Forecast 2012-13		Outturn 2011-12	
	Income	***Receipts***	**Income**	***Receipts***
	£000	£000	£000	£000
Operating income outside the ambit of the Estimate	-	-	-	-
Non-operating income (outside the ambit of the Estimate)	-	-	-	-
Excess cash receipts surrenderable to the Consolidated Fund – non supply	-	-	-	-
Excess cash receipts surrenderable to the Consolidated Fund – current year supply	-	*1,115,177*	-	*778,787*
Total income payable to the Consolidated Fund	**-**	***1,115,177***	**-**	***778,787***

6.2 Analysis of cash paid to the Consolidated Fund

	2012-13	**2011-12**
	£000	£000
Payments of amounts due to the:		
Consolidated Fund – Realisation of prior year net debtors and creditors	-	150,409
Consolidated Fund – Surplus cash relating to current year Supply	-	-
Excess cash surrendered to the: Consolidated Fund relating to the prior year	778,787	692,390
	778,787	**842,799**

COMBINED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

7. Contributions receivable

	2012-13	**2011-12**
	£000	£000
Employers	(5,513,851)	(5,495,177)
Employees:		
Normal	(3,098,342)	(2,567,425)
Purchase of added years	(190,128)	(209,315)
Purchase of additional pensions	(17,043)	(17,099)
	(8,819,364)	**(8,289,016)**

£9,462 million contributions are expected to be payable to the Scheme in 2013-14.

8. Transfers in

	2012-13	2011-12
	£000	£000
Individual transfers in from other schemes	(81,412)	(84,830)
Group transfers in from other schemes	(771)	(10,624)
	(82,183)	**(95,454)**

9. Other pension income

	2012-13	2011-12
	£000	£000
Pre funded premature retirement contributions	(81,065)	(97,389)
Rechargeable premature retirement contributions	(46,337)	(48,803)
Capitalised rechargeable premature retirement contributions	(138,151)	-
	(265,553)	**(146,192)**

10. Pension cost

	2012-13	2011-12
	£000	£000
Past service cost	-	-
Current service cost	9,900,000	10,000,000
	9,900,000	**10,000,000**

11. Enhancements (see notes 7 and 9)

	2012-13	2011-12
	£000	£000
Employees: Purchase of added years	190,128	209,315
Employees: Purchase of additonal pension	17,043	17,099
Employers: Pre-funded premature retirement contributions	81,065	97,389
	288,236	**323,803**

12. Transfers in – additional liability (see note 8)

	2012-13	2011-12
	£000	£000
Individual transfers in from other Schemes	81,412	84,830
Group transfers in from other schemes	771	10,624
	82,183	**95,454**

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Combined Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

13. Interest on Scheme liabilities

	2012-13	2011-12
	£000	£000
Interest charge for the year	**12,000,000**	**14,500,000**

14. Additional Voluntary Contributions

The NHS Pension Scheme provides for employees to make additional voluntary contributions (AVCs) to increase their pension entitlement or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment direct to the approved provider, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contributions Schemes. The NHS employers are responsible for payments made to the Scheme's approved provider. Members participating in this arrangement receive an annual statement from the approved provider made up to 5 April each year confirming the amounts held in their account and the movements in the year. Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments were as follows:

	2012-13	2011-12
The Equitable Life Assurance Society (ELAS)	£000	£000
Movements in the year were as follows:		
Balance at 1 April	109,973	114,742
New investments	1,328	1,569
Sale of investments to provide pension benefits	(11,162)	(7,803)
Changes in market value of investments	10,579	1,465
Balance at 31 March	**110,718**	**109,973**
Contributions received to provide life cover	29	35
Benefits paid on death	157	193

	2012-13	2011-12
Standard Life Assurance Company	£000	£000
Movements in the year were as follows:		
Balance at 1 April	115,831	118,966
New investments	3,588	4,079
Sale of investments to provide pension benefits	(9,010)	(9,574)
Changes in market value of investments	13,091	2,360
Balance at 31 March	**123,500**	**115,831**
Contributions received to provide life cover	-	-
Benefits paid on death	-	-

	2012-13	2011-12
Prudential Plc	£000	£000
Movements in the year were as follows:		
Balance at 1 April	*49,341	49,755
New investments	2,735	2,982
Sale of investments to provide pension benefits and switches to new funds	(4,019)	(5,219)
Changes in market value of investments	*4,425	1,823
Balance at 31 March	**52,482**	**49,341**
Contributions received to provide life cover	*-	9
Benefits paid on death	35	1,729

* Figures provided by Prudential for 2012-13 are only provisional, and the opening balance provided was £432k lower than last year's closing balance. The opening balance has been stated to match last year's closing balance, and £432k has been deducted from 'changes in market value of investments' to arrive at the closing balance provided. No figure was given for life cover contributions. Final figures will be included as comparatives in the 2013-14 accounts.

STATEMENT OF FINANCIAL POSITION

15. Receivables – contributions due in respect of pensions

Employers are responsible for the payment to the Pension Scheme of both Employer and Employee contributions. Contributions relating to one month should be paid over by the Employer by the 19th of the following month. Employers are also responsible to pay contributions relating to premature retirements where the employer is responsible for any enhancement to the member pension. Where a member has been overpaid their pension benefits, the outstanding debtor is now disclosed within receivables. In previous years, this debt was netted off against the pension creditor figure disclosed in note 19.1. The figures for 2011-12 have been re-stated to amend this. The total amount of debt written off during the year is shown within the note on losses (note 23).

15.1 Analysis by type

	2012-13	2011-12 (Re-stated)
	£000	£000
Amounts falling due within one year:		
Pension contributions due from employers	382,237	384,553
Employees' normal contributions	207,999	179,281
Purchase of added years	14,965	12,621
Purchase of additional pensions	1,279	1,800
Invoiced pre-funded premature retirement contributions	41,906	3,895
Invoiced re-chargeable premature retirement contributions	9,469	10,954
Overpaid pension benefits	10,735	9,397
Total due within one year	**668,590**	**602,501**
Amounts falling due after more than one year	-	-
Total receivables	**668,590**	**602,501**

15.2 Analysis by organisation

The figures for 2011-12 have been restated due to a reclassification of £18,027,000 from balances with other central government bodies to balances with bodies external to government due to incorrect classification in 2011-12. Overpaid pension benefit debtors are included within balances with bodies external to government.

	Amounts falling due within one year	
	2012-13	2011-12 (Re-stated)
	£000	£000
Balances with other central government bodies	85,936	65,409
Balances with local authorities	257	330
Balances with NHS Bodies	484,509	472,303
Balances with public corporations and trading funds	106	97
Balances with public sector organisations	**570,808**	**538,139**
Balances with bodies external to government	97,782	64,362
Total receivables	**668,590**	**602,501**

16. Cash and cash equivalents

	2012-13	2011-12
	£000	£000
Balance at 1 April	778,787	692,390
Net change in cash balances	336,390	86,397
Balance at 31 March	**1,115,177**	**778,787**
The following balances at 31 March were held at:		
Government Banking Service	1,107,819	773,393
Commercial banks and cash in hand	7,358	5,394
Balance at 31 March	**1,115,177**	**778,787**

17. Estimated discounted future cash flows in respect of early retirement recharges

Where the employer choose to pay the costs for premature retirements on a quarterly recharge basis, income is recognised as the invoices are raised. Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, is classified as “Other Income” to the pension scheme.

In recognition of the value of the future cashflows arising from these arrangements, the estimated future cashflows which accrue to the Scheme, discounted to current values, are disclosed in the Combined Statement of Financial Position.

	2012-13	2011-12
	£000	£000
Balance at 1 April	701,202	733,759
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(39,250)	(32,557)
Balance at 31 March	**661,952**	**701,202**

18. Prepayments – prepaid pension benefits

To ensure members receive their benefits on their due date, and where the due date falls on a weekend or bank holiday, the payment is made on the nearest preceding working day. The prepaid benefits relate to amounts paid at the end of March where the due date was the 1 April.

	2012-13	2011-12
	£000	£000
Prepaid pension benefits	170,153	190,558
Total	**170,153**	**190,558**

19. Payables – in respect of pensions

19.1 Analysis by type

The 'Pensions' balance for 2011-12 has been re-stated to match the 2012-13 balance which no longer nets off debtors relating to overpaid pension benefits. These debtors are now disclosed within the receivables note 15.1. This restatement also affects 'balances with bodies external to government' in note 19.2.

	2012-13	2011-12 (Re-stated)
	£000	£000
Amounts falling due within one year:		
Pensions	(247,331)	(228,989)
HMRC	(73,245)	(62,199)
Voluntary deductions	(196)	(219)
Amounts due to employers:		
Initial Widows Claims	(11)	(56)
Employee and employer contributions	(2,377)	(30)
Prefunded premature retirements	(598)	(3)
Rechargeable premature retirements	(2)	(29)
	(323,760)	(291,525)
Amounts due to be paid to the Consolidated Fund:		
Received relating to Supply	(1,115,177)	(778,787)
	(1,438,937)	**(1,070,312)**
Amounts falling due after more than one year	-	-
Total payables	**(1,438,937)**	**(1,070,312)**

19.2 Analysis by organisation

	Amounts falling due within one year	
	2012-13	2011-12 (Re-stated)
	£000	£000
Balances with other central government bodies	(1,189,021)	(841,015)
Balances with local authorities	-	(56)
Balances with NHS Bodies	(12)	(4)
Balances with public corporations and trading funds	-	-
Balances with public sector organisations	**(1,189,033)**	**(841,075)**
Balances with bodies external to government	(249,904)	(229,237)
Total payables	**(1,438,937)**	**(1,070,312)**

20. Provisions for pension liabilities

20.1 Assumptions underpinning the provision for pension liability

The NHS Pension Scheme is an unfunded defined benefit Scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilites as at 31 March 2013. The Report of the Actuary's on pages 15 to 18 sets out the scope, methodology and results of the work the actuary has carried out.

The Scheme managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Scheme managers should make available to the actuary in order to meet the expected requirements of the Scheme auditor. This information includes, but is not limited to, details of:

- Scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;
- income and expenditure, including details of expected bulk transfers into or out of the Scheme; and,
- following consultation with the Actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The membership data used was based on the position as at 31 March 2012, and the results rolled forward to 31 March 2013 to estimate the position in 2012-13.

20.1.2 The major assumptions used by the Actuary were:

At 31 March	2013	2012	2011	2010	2009
Rate of increase in salaries	3.95%	4.25%	4.90%	4.29%	4.29%
Rate of increase in pensions in payment and deferred pensions	2.2%	5.2%	3.1%	0.0%	5.0%
Inflation assumption	1.70%	2.00%	2.65%	2.75%	2.75%
Nominal discount rate	4.10%	4.85%	5.60%	4.60%	6.04%
Discount rate net of price inflation	2.35%	2.80%	2.90%	1.80%	3.20%
Life expectancy in years (Note 1)					
Current pensioners					
Males (age 60)	29.1	29.0	29.1	29.1	28.6
Males (age 65)	24.3	24.1	24.2	23.9	23.5
Females (age 60)	31.7	31.6	31.6	32.3	31.8
Females (age 65)	26.7	26.6	26.6	27.1	26.7
Future pensioners (Note 2)					
Males (age 60)	30.9	30.8	30.7	30.6	30.2
Males (age 65)	26.5	26.4	26.2	26.0	25.6
Females (age 60)	33.4	33.3	33.1	33.8	33.3
Females (age 65)	28.9	28.8	28.5	29.1	28.6

Note 1 – Stated life expectancy assumptions are for members retiring on grounds other than ill health. Assumed life expectancy of ill-health pensioners is lower.

Note 2 – The life expectancy for future pensioners for both retirement ages shows the life expectancy for active members currently aged 45.

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the Scheme liabilities. However, the Scheme managers acknowledge that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The Scheme managers do not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the Scheme managers, the actuary has used key assumptions that are the most appropriate for the Scheme in the light of current knowledge.

No assumption has been made for the impact of the Pensions Reforms due in 2015, please refer to note 6.6 within the Report of the Managers.

20.1.3 Analysis of the provision for pension liability

At 31 March	2013	2012	2011	2010	2009
Active members (past service)	156.9	143.5	156.4	177.1	116.1
Deferred Pensions	26.8	20.4	24.7	28.8	20.3
Pensions in payment	100.5	83.1	76.6	81.7	63.1
Total liability	**284.2**	**247.0**	**257.7**	**287.6**	**199.5**

20.1.4 Pension Scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

20.1.5 The value of the liability included on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, then the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 20.5. The notes also disclose 'experience' gains or losses for the year showing the amounts charged or credited for the year because events have not coincided with assumptions made for the last valuation.

20.2 Analysis of movements in the Scheme liability

	Note	2012-13 £000	2011-12 £000
Scheme liability as at 1 April		**(247,000,000)**	**(257,700,000)**
Current Service Cost	10	(9,900,000)	(10,000,000)
Interest on pension Scheme liability	13	(12,000,000)	(14,500,000)
		(21,900,000)	(24,500,000)
Enhancements	11	(288,236)	(323,803)
Pension transfers in	12	(82,183)	(95,454)
		(370,419)	(419,257)
Benefits payable	20.3	7,764,757	7,249,857
Pension payments to and on account of leavers	20.4	273,717	222,994
		8,038,474	7,472,851
Actuarial (loss)/gain	20.5	(22,968,055)	28,146,406
Scheme liability as at 31 March		**(284,200,000)**	**(247,000,000)**

Within the closing liability it is estimated by the GAD that there is aproximately £2 billion that relates to employer funded enhanced premature retirement costs.

During the year ended 31 March 2013, contributions represented an average of 21.9% of pensionable pay (excluding purchase of added years and addional pension contributions) .

20.3 Analysis of benefits paid

	2012-13 £000	2011-12 £000
Pensions to retired employees and dependants (net of recoveries of overpayments)	5,882,719	5,292,528
Commutations and lump sum benefits on retirement	1,882,038	1,957,329
Per Combined Statement of cash flows	**7,764,757**	**7,249,857**

20.4 Analysis of payments to and on account of leavers

	2012-13 £000	2011-12 £000
Death in service	57,776	56,845
Individual transfers to other schemes	188,492	138,004
Group transfers to other schemes	2,252	2,220
Payment to State Scheme	7,091	6,566
Refunds to members leaving service	18,106	19,359
Per Combined Statement of Cashflows	**273,717**	**222,994**

20.5 Analysis of actuarial (loss)/gain

	2012-13	2011-12
	£000	£000
Experience (loss)/gain arising on Scheme liabilities	(4,068,055)	17,546,406
Changes in assumptions underlying the present value of Scheme liabilities	(18,900,000)	10,600,000
Per Combined Statement of Comprehensive Net Expenditure	**(22,968,055)**	**28,146,406**

Scheme liabilities are calculated by reference to assumptions, which are set with regard to the actual experience of the Scheme, taking account of known future changes. Actual scheme experience will usually be different; for example, rates of staff turnover, mortality and salary progression are unlikely to be exactly as assumed. The actuarial gain/loss shows the financial impact of actual experience being different to that assumed.

20.6 History of experience (losses)/gains

	2012-13	2011-12	2010-11	2009-10	2008-09
Experience (losses)/gains on the scheme liabilities:					
Amount (£000) (see note below)	(4,068,055)	17,546,406	(3,416,310)	(2,159,855)	(850,445)
Percentage of the present value of the scheme liabilities	1.43%	7.10%	1.33%	0.75%	0.40%
Total amount recognised in Statement of Other Comprehensive Net Expenditure					
Amount (£000)	(22,968,055)	28,146,406	17,483,690	(73,459,855)	28,549,555
Percentage of the present value of the scheme liabilities	8.08%	11.40%	6.78%	25.54%	13.47%

21. Financial Instruments

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector Scheme of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Scheme’s expected purchase and usage requirements and the scheme is therefore exposed to little credit, liquidity or market risk.

22. Contingent liabilities disclosed under IAS 37

The Scheme only has the contingent liability as disclosed below.

Additional Voluntary Contributions

The NHS Pension Scheme guarantees to meet the pension payments in the event of a default by one or more of the NHS Pension Scheme’s approved Additional Voluntary Contributions (AVC) providers. Therefore there is a maximum contingent liability of the full balance of the AVC investments as at 31 March 2013, which are disclosed at note 14. The scheme does not however guarantee pension payments from the other free-standing AVC providers.

23. Losses

During the year, losses arose in 6,129 cases (2011-12; 5,688 cases). The total loss was £877,046 (2011-12; £1,498,024). The losses all relate to the write-off of pension overpayments.

24. Related-party transactions

The National Health Service Pension Scheme and National Health Service Compensation for Preamture Retirement Scheme fall within the ambit of the NHS Business Services Authority, which is regarded as a related party. During the year, the Schemes have had material transactions with NHS employers (including the NHS Business Services Authority which administers the Schemes on behalf of the Department of Health), and other government departments, whose employees are members of the Schemes. None of the managers of the Schemes, key managerial staff or other related parties have undertaken any material transactions with the Schemes during the year.

25. Events after the reporting Period

There were no events after the end of the reporting period.

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

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