# NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme Accounts 2010-2011

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# NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme Accounts 2010-2011

**(For the year ended 31 March 2011)**

*Accounts presented to the House of Commons pursuant to Section **6(4)** of the Government Resources and Accounts Act 2000*

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Any enquiries regarding this publication should be sent to: Scheme Administrator, NHS Business Services Authority, Pensions, Hesketh House, 200-220 Broadway, Fleetwood, FY7 8LG

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## REPORT OF THE MANAGERS

The NHS Pension Scheme provides pensions in varying circumstances for employees of participating employers. This report provides a summary of the arrangements to ensure the Scheme affairs are managed in an efficient way and gives a broad outline of the major benefits offered by the Scheme.

## NHS BUSINESS SERVICES AUTHORITY

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

## HOW THE SCHEME WORKS

The NHS Pension 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, in varying circumstances for employees of participating employers. 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

Following the consultation on the NHS Pensions Review in 2006 the Authority worked alongside NHS Employers and Trade Unions leading to the final agreement on changes to the NHS Pension Scheme which were announced on 21 September 2007. 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 will be in the 1995 Section. New joiners on, or after, 1 April 2008 will be 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).

During the financial year 2010-11, the Authority undertook the day-to-day administration of the Scheme, including calculation of benefits, maintenance of member records and payment of benefits.

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 NHS Business Services Authority (NHSBSA), and a significant number of employers calculate pensions benefit estimates for their employees.

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 2011 there were 435 participating NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,275 participating GP Practice employers and 415 Direction Bodies.

## NHS PENSION SCHEME BENEFITS

### Contributions

Employers and employees pay contributions based on a percentage of pensionable pay. Every four years the Government Actuary conducts a full actuarial review that is used for Scheme funding purposes (a Funding Valuation), and recommends employer contribution rates in his Valuation report. The Valuation report undertaken as at 31 March 2004 was used to determine the contribution rates payable during 2010-11.

Following this review, and after consideration of changes to the NHS Pension Scheme taking effect from 1 April 2008, his Valuation report recommended that employer contributions could continue at the existing rate of 14% of pensionable pay from 1 April 2008. For employee contributions a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings was introduced from 1 April 2008. The Funding Valuation report undertaken as at 31 March 2008 has not yet been published.

### Benefits

In 2010-11 the NHS Pension Scheme provided 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:

### 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.

**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) will be used to replace the Retail Prices Index (RPI).

**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 fund at retirement.

**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.

**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.

**Additional Voluntary Contributions (AVCs)**

Members can contribute to money purchase AVC's run by the Scheme's approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers. These contributions are not contained within the cash flows of the Scheme, but paid directly to the approved provider.

**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 or instalments.

**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.

**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.

**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.

**A REVIEW OF THE YEAR**

**Part-time staff access to the NHS Pension Scheme**

The Scheme has made further progress in clearing cases affected as a consequence of the Preston and Others v Wolverhampton Healthcare NHS Trust employment tribunal case (the Preston case) and the subsequent test cases, appeals and cross-appeals.

In total, 12,034 Employment Tribunal claims have been taken out against the Scheme, The vast majority of the claims have now been processed and judgments have been issued in all but 8 claims.

During the year the Scheme has been named as a respondent in a further 15 claims, while 23 claims have been processed to completion.

Whilst the numbers of claims received are relatively small there is no cut off date for employees to take out an employment tribunal claims and until all employees who worked part time during the period 08 April 1976 to 31 March 1991, have retired NHS Pensions will be named in all new NHS part time pensions employment tribunal claims.

Where it is found that an NHS employee has been denied access to the Scheme, the employee will be permitted to recover the lost service on receipt of an appropriate contribution from the member.

**Interest on late payment of pension scheme benefits**

From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, this regulation was not initially implemented in full and interest was only paid on request by the member.

All cases identified have now been processed and an interest payment made, apart from cases where the member retired between 1 April 2000 and 31 December 2002. Applications have been invited via inclusion in the 2011 Pensioners Newsletter despatched to every pensioner member, who think that their benefits were not paid on time between the above dates. As at 15 June 2011 we have received 27 valid applications from these pensioner members and made payments amounting to £5,972.

**Guaranteed Minimum Pension (GMP)**

During 2010/11 the retrospective exercise on Guaranteed Minimum Pension (GMP) was concluded. However, the improved system functionality within HMRC that was envisaged following the NAO's Report on the issues (previously reported in the Scheme accounts in 2008-09) did not materialise and, as a result, the risk of overpayments due to the duplication of Pensions Increase (PI) remains an issue, but is not perceived to be a material weakness within the systems used to process pension payments.

**Change in the NHS Pension Scheme discount rate**

The discount rate used by the Actuary to calculate the Scheme liability is based on the AA corporate bond rate. The discount rate has been changed with effect from 31 March 2011 from a real rate of 1.80% to a real rate of 2.90% (the gross discount rate, which combines the real discount rate with the inflation assumption, changed from 4.60% to 5.60% per annum). As a result the Scheme liability as at 31 March 2011 decreased by £18.7 billion (Note 20.5 to the Scheme accounts that follow this report refers).

The rates used to assess the movement of the Scheme liability in 2010-11 are the rates determined to come into effect overnight on 31 March 2011. Details of the rates used since 2007 can be found in note 20.1.3 of the Scheme accounts.

**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.

| | Total Identified £000 | Total Cases | Prior Years | | 2009-10 | | 2010-11 | | Amount Outstanding at 31.03.2011 £000 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Recovered £000 | Written off £000 | Recovered £000 | Written off £000 | Recovered £000 | Written off £000 | |
| **NFI 98-04** | 3,795 | 1,218 | 2,440 | 1,043 | 42 | 39 | 47 | 31 | 153 |
| **NFI 2006** | 1,535 | 513 | 983 | 91 | 134 | 97 | 95 | 34 | 101 |
| **NFI 2008** | 1,776 | 485 | - | - | 422 | 5 | 700 | 64 | 585 |
| **NFI 2010** | 412 | 123 | - | - | - | - | 15 | - | 397 |
| **Total** | 7,518 | 2,339 | 3,423 | 1,134 | 598 | 141 | 857 | 129 | 1,236 |

**Pension Increase**

The Pensions increase rate was 0.0% (2009 5.0%) with effect from 12 April 2010 (6 April 2009).

**In-house money purchase AVC provision**

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.

**Scheme Funding and Liabilities**

As at 31 March 2011 the liabilities of the Scheme were valued at £257.7 billion (31 March 2010 £287.6 billion). As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer, which also funds the year on year difference between the Scheme's contribution income and the actuarially assessed growth in scheme liability, interest charges and other in-year increases in liability. In 2010-11 the net surplus was £14.2 billion (2009-10 net deficiency £12.5 billion) and is detailed in the Combined Statement of Comprehensive Net Expenditure of the following scheme accounts. The main reason for this is the impact of the change from using RPI to CPI on the value of past service.

**Adoption of the Consumer Price Index (CPI) for the indexation of Public Service pensions**

In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to the public service pensions through the statutory link to the indexation of the Second State Pension.

The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits has been recognised as a negative past service cost in accordance with IAS 19. This accounting treatment has been adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

The question of whether, as regards the main public service pension schemes, there is a legitimate expectation that RPI will be used for inflation indexing is currently before the courts in judicial review proceedings. The Government case is that no legitimate expectation exists and that, in any event, even if there was a legitimate expectation this was overridden by the clear public interest in making very substantial savings at a time when the Government had adjudged that deficit reduction was a fundamental objective for the country. If the Government's case is proven, there would be no change to the accounting treatment adopted in these accounts.

**Accounting Officer's disclosure to the Auditors**

As far as the Accounting Officer is aware, there is no relevant audit information of which the NHS Pension Scheme auditors are unaware and the Accounting Officer has taken all steps he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

**Completeness of Membership data**

We have previously reported in the Statement on Internal Control (SIC) an issue with the completeness of member data provided to the Government Actuary's Department to enable them to assess the scheme liability for inclusion in the accounts.

As a result of work undertaken during the year, including a re-assessment of the level of completeness and an analysis of the impact on the scheme liability, we no longer consider this to be a SIC issue.

## FUTURE DEVELOPMENTS

**NHS Pension Scheme Review – NHS Pensions Choice**

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 will be in the 1995 Section, new joiners on, or after, 1 April 2008 will be members of the 2008 section. Review Partners (NHS Employers, NHS Trade Unions and the Department of Health) agreed that all contributing members of the 1995 Section on or after 1 October 2009 should be offered a choice to move to the 2008 Section or remain in the 1995 Section.

During 2010-11 we continued the rollout of Choice Statement Packs to all eligible scheme members as per an agreed rollout schedule. We delivered 663,000 packs during the year leaving 515,000 to be delivered during 2011-12.

## ADMINISTRATION EXPENSES

In 2010-11 the costs of administering the NHS Pension Scheme were met by NHS Business Services Authority (NHSBSA), which was 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.

For further information on the Scheme please contact the Scheme Administrator.

## MEMBERSHIP STATISTICS

Details of the current membership of the Scheme at 31 March 2011 are set out below:

### Active Members

| | |
|---|---|
| Active members at 1 April 2010 | 1,368,215 |
| New entrants in the year (including deferred members who rejoined, and transfers in) | 65,409 |
| Retirements in year | (34,330) |
| Members leaving the Scheme with deferred pension rights | (38,222) |
| Transfers out | (3,109) |
| Members leaving the Scheme and taking a refund of contributions | (32,573) |
| Deaths | (4,911) |
| Active members at 31 March 2011 | 1,320,479 |

### Deferred members

| | |
|---|---|
| Deferred members at 1 April 2010 | 524,726 |
| Members leaving who have deferred pension rights, and members rejoining the Scheme | 43,286 |
| Members taking up deferred pension rights | (7,680) |
| Deferred members at 31 March 2011 | 560,332 |

### Pensioners in payment (including Compensation payments)

| | Members | Dependants | Total |
|---|---|---|---|
| Pensioners in payment at 1 April 2010 | | | 638,610 |
| Members retiring | 42,010 | | 42,010 |
| New Dependants | | 5,100 | 5,100 |
| Cessations in year | (12,926) | (3,704) | (16,630) |
| Pensioners in payment at 31 March 2011 | | | 669,090 |

**Nick Scholte**
**Chief Executive, NHS Business Services Authority**
**7 July 2011**

## MANAGEMENT STRUCTURE AND ADVISERS

**Accounting Officer:**
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**Scheme Administrator:**
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## NHS PENSION SCHEME
## REPORT OF THE ACTUARY FOR THE ACCOUNTING YEAR ENDED 31 MARCH 2011 FOR THE PURPOSES OF IAS19 (RESOURCE ACCOUNTING)

The report of the Actuary sets out the liabilities and accruing costs of the NHS Pension Scheme for the purposes of Resource Accounting.

### Introduction

1. 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 2010-11 Resource Accounts of the NHSPS ('the scheme').

2. 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).

3. The statement is based on an assessment of the liabilities as at 31 March 2008, with an approximate updating to 31 March 2011 to reflect known changes.

### Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2008 and 31 March 2011 used to prepare this statement.

**Table A – Active members**

| 31 March 2008 | | | 2007-08 | 2010-11 |
|---|---|---|---|---|
| Number (thousands) | Total salaries in membership data (pa) (£ billion) | Total accrued pensions (£ billion) | Total salaries implied by contribution receipts (£ billion) | Total salaries implied by contribution receipts (£ billion) |
| 1,259 | 34.40 | 6.28 | 33.45 | 39.70 |

**Table B – Deferred members**

| 31 March 2008 | | 31 March 2011 |
|---|---|---|
| Number (thousands) | Total deferred pension (pa) (£ million) | Number (thousands) |
| 478 | 1,055 | 560 |

**Table C – Pensions in payment**

| 31 March 2008 | | 31 March 2011 |
|---|---|---|
| Number (thousands) | Total pension (pa) (£ billion) | Total pension (pa) (£ billion) |
| 584 | 3.76 | 4.93 |

**Methodology**

5. 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 2010-11 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2011 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2009-10 Resource Accounts.

6. 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**

7. The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2011, the assumed rate of return in excess of pension increases was increased from 1.8% a year to 2.9% a year, and the assumed rate of return in excess of earnings was increased from 0.3% a year to 0.7% a year. In addition, with effect from 31 March 2011, the assumed rate of future pension increases is 2.65% a year and the assumed nominal rate of salary growth is 4.9% a year (changed from 2.75% and 4.29% respectively as at 31 March 2010).

**Table D – Principal financial assumptions**

| Assumption | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Rate of return (discount rate) | 5.6% | 4.6% |
| Rate of return in excess of: | | |
| Earnings increases | 0.7% | 0.3% |
| Pension increases | 2.9% | 1.8% |
| Expected return on assets: | n/a | n/a |

8. The pension increase assumption as at 31 March 2011 is based on the Consumer Price Index (CPI) expectation of inflation rather than the Retail Prices Index (RPI). This is a consequence of the Government's announcement that CPI is to be used for the indexation of public service pensions from April 2011.

**Demographic assumptions**

9. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership and are the assumptions expected to be adopted for the 2008 funding valuation of the NHSPS.

10. 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 2008-based principal population projections for the United Kingdom.

11. The contribution rate used to determine the accruing cost in 2010-11 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2009-10 Resource Accounts.

**Liabilities**

12. Table E summarises the assessed value as at 31 March 2011 of benefits accrued under the scheme prior to 31 March 2011 based on the data, methodology and assumptions described in paragraphs 3 to 11. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**
**£ Billion**

| | 31 March 2011 | 31 March 2010 | 31 March 2009 | 31 March 2008 | 31 March 2007 |
|---|---|---|---|---|---|
| **Value of liabilities** | 257.7 | 287.6 | 199.5 | 212.5 | 218.0 |

**Accruing costs**

13. The cost of benefits accruing in the year ended 31 March 2011 (the Current Service Cost) is based on a standard contribution rate of 32.0% up to 22 June 2010 and 28.3% thereafter. Members contributed between 5.0% and 8.5% 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 6.6%. The corresponding figures for 2009-10 are also included in the table.

**Table F – Contribution rate**

| | Percentage of pensionable pay | |
|---|---|---|
| | 2010-11 | 2009-10 |
| Standard contribution rate | 29.1% | 21.9% |
| Members' estimated average contribution rate | 6.6% | 6.5% |
| Employers' estimated share of standard contribution rate | 22.5% | 15.4% |

14. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 14.0%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 1.8% p.a. for the 2010-11 Current Service Cost up to 22 June 2010 and 2.5% thereafter (3.2% p.a. for 2009-10) compared with 3.5% p.a. for the existing scheme funding rate. (Note that the discount rate for scheme funding purposes has recently been reviewed and reduced to 3% but this does not affect the current rate of contributions.) A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate 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 discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

15. The pensionable payroll for the financial year 2010-11 was £39.7 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2010-11 (at 32.0% of pay up to 22 June 2010 and 28.3% of pay thereafter) is assessed to be £11.6 billion.

**Government Actuary's Department**
**June 2011**

## 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.

With the exception of certain transactions (which are accounted for on a cash basis) the accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme, and of its combined financial statements and transactions during the year and the disposition, at the end of the financial year, of the combined net liabilities. Note 2, "Accounting Policies", to the financial statements describes those transactions, which are accounted for, on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the combined net liabilities at the year end.

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.

## STATEMENT ON INTERNAL CONTROL

### Scope of responsibility

The NHSBSA Board is accountable for internal control. As Accounting Officer, and Chief Executive of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible, in accordance with the responsibilities set out in HM Treasury's Managing Public Money and as assigned to me in the Accounting Officer Memorandum.

The NHSBSA manages a 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 streams. A clear ongoing accountability framework is in place, which includes formal quarterly reviews with all sponsors, where amongst strategic, policy and operational issues, the NHSBSA's corporate risk register and latest financial position are reviewed. Additionally, regular scheduled meetings are held with individual service sponsors.

Whilst the NHSBSA is responsible for administering the overall Scheme, the Scheme regulations set out the obligations of each employer. This includes ensuring that deductions from salary, employers' contributions and payments into the Scheme are in accordance with Scheme rules, and that member pension scheme records are accurately updated in accordance with the timescales set out. The Accounting Officer of each Employing Authority is required to include a positive statement to this effect in their Statement on Internal Control.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

The system of internal control has been in place in the NHS Business Services Authority for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts.

### Capacity to handle risk

The NHSBSA is committed to ensuring that risk management is an integral part of the leadership and management of the organisation. The Board has overall responsibility for approving the Authority's Risk Management Strategy and assurance relating to the implementation and monitoring of this strategy is provided by the Audit and Risk Management Committee. As Accounting Officer, I have overall responsibility for establishing the organisation's internal controls and I have delegated certain risk management responsibilities to other Directors and their senior managers.

We have established a team with responsibility for coordinating the risk management activities within each business stream and supporting all staff with the effective identification and management of risks.

The Authority aims to empower all staff to assume responsibility for contributing to effective risk management. This is achieved by robust governance systems and processes which enable the identification, assessment, analysis and management of risk at appropriate levels for all operational and project related risks. During 2010/11 we have further developed our capability and capacity to manage risk. We have refreshed our Risk Management Policy, setting out our risk appetite and risk tolerance and providing greater clarity around assessing and responding to risks. A new Risk Management Process Guide and supporting training, tools and techniques are in the process of development. Additionally, we have improved the way we report and review our corporate risk register, ensuring that its format is aligned with our Business Plan.

**The risk and control framework**

In working towards its five year Strategy, the NHSBSA Board approves an annual Business Plan which sets out the key service delivery priorities, objectives and developments which it aims to deliver against during the year. The Plan also identifies the key risks to delivery.

Responsibility for approving the Authority's policy and procedures for the management of risk is a Board responsibility and as Accounting Officer, responsibility for ensuring the NHSBSA has a programme of risk management in place has been delegated to me.

The Audit and Risk Management Committee provide the Authority's Board with an independent and objective review of the adequacy and effectiveness of the Authority's overall assurance framework and in particular the organisation's risk management approach. The Committee has responsibility for reviewing:

- all risk and control related disclosure statements including the annual Head of Internal Audit statement 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 fraud and corruption.

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

- quarterly risk management reports setting out and assessing the major risk facing the organisation, stratified into the key areas of focus set out in our Business Plan. Such reports set out the key movements in risks between reporting periods and identify emerging risks and the mitigating actions which have been taken or are planned to mitigate them;
- a half yearly corporate assurance schedule which sets out the key elements of the Authority's overarching assurance framework and identifies the extent to which robust arrangements are in place and operating effectively in each area;
- an annual risk management report outlining how the Authority's risk management arrangements have continued to operate effectively during the year and how they have been reviewed and strengthened; and
- an annual local counter fraud specialist report, supported by regular reports identifying the Authority's fraud risks by way of fraud risk matrices.

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

- regular quarterly reviews of the Corporate Risk Register by the Leadership Team, as a precursor to the Audit and Risk Management Committee Review;
- the maintenance and quarterly review of Risk Registers for each service area covering their operational and project risks;
- a Risk Management Group led by the Director of Finance with representation from all of the NHSBSA's services, which reviews risk issues and provides a platform for shared learning and a harmonised approach;
- annual letters of management representation from each Managing Director providing confirmation that an appropriate control environment has been in place throughout the financial year for their area, thus informing this Statement on Internal Control;
- regular reviews of all information risks by an Information Governance and Security Group (IGSG) which monitors the Authority's compliance with information governance and security best practice and self assesses against a nationally developed toolkit;
- a performance management framework which highlights performance against key performance indicators for each service stream;
- control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with;
- 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 regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to 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; and

- regular reviews of the Sustainable Development Action Plan and Carbon Reduction Strategy to ensure that the Authority's sustainability targets are being met.

Towards the end of 2010/11 the NHSBSA undertook an assurance mapping process utilising the widely recognised three lines of defence model to identify the assurance in place over each of its core business processes and also its governance responsibilities and legislative requirements. This model highlights where assurance can be taken from management control and reporting, functional oversight and governance systems, and independent review and regulatory oversight. It provides a basis on which the leadership of the NHSBSA can determine the focus of its assurance effort; assesses the outcome of assurance activity and determine its assurance appetite. This integrated approach to assurance will be further developed during 2011/12.

As set out above, the Authority has strong governance arrangements to manage and minimise the risks it faces. However, like any organisation the NHSBSA faces some major risks. In particular, the Authority faces key risks regarding external factors which impact upon the organisation. As an organisation we have identified a risk that, due to the complexity of our activities, we may be unable to respond to changes in policy where these are required at short notice. This is particularly pertinent at a time of major change both in the wider NHS and the potential implications of the draft Health and Social Care Bill and also other changes in the environment. We are looking to mitigate, manage and control this risk through our client relationship management process, regular engagement with stakeholders and organisational and service redesign.

**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 2010/11 the Head of Internal Audit Opinion concluded that based on the work completed to date **significant assurance** can be given that there is a generally sound system of internal control, designed to meet the Authority's objectives, and that controls are generally being applied consistently. Some control issues were brought to the attention of management. The significant areas are outlined later in this Statement.

Executive Directors and Managing Directors within the organisation who have responsibility for the development and maintenance of the system of internal control within their service area provide me with assurance via annual letters of management representation which confirm that internal controls have remained in place during the year; financial information for their service is to the best of their knowledge correct and there is no material information of which they are aware that I have not also been made aware of.

The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also 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 our internal audit reviews. The Audit and Risk Management Committee oversees progress towards the implementation of all such recommendations; and
- the work of our Local Counter Fraud Specialist to prevent, deter, investigate and report on fraud activity.

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 Internal Control Issues**

During the year the Authority has continued to address those internal control issues identified in the previous year. Progress has been as follows:

**Completeness of Membership data**

I have previously reported an issue with the completeness of member data provided to the Government Actuary's Department to enable them to assess the scheme liability for inclusion in the accounts. Ideally the Actuary's valuation would be based on 100% of the member data. However this is not possible for various reasons linked to the completeness of records, and therefore an extract is used and the results extrapolated to reflect the total population. The level of completeness reported in 2009/10 was 87%.

As a result of work undertaken during the year, including a re-assessment of the level of completeness and an analysis of the impact on the scheme liability, I no longer consider this to be a significant control issue.

The key reasons for this assertion are:

- further analysis of the data which made up the whole population upon which the valuation was based showed a completeness of membership data of 90%;
- an analysis of movements in the valuation liability between years has not identified any material impact as a result of changes in the level of excluded data, suggesting that the data included for valuation purposes is representative of the whole population;
- that the impact of membership data completeness on the scheme liability is not a material factor compared to other factors/assumptions making up the valuation such as; longevity; discount rate; CPI/RPI; and
- as a result of the major data governance work which the NHSBSA has undertaken, current levels of updatedness of membership data as at 31 March 2008 now exceed 96%.

In order to continually improve the quality of member data provided by employers and the records held by the Authority, the Data Governance Project continues apace. The impact of this is evidenced by the increase in how up to date active member records are.

In addition to this a new ‘Valuation Process’ has been developed in close liaison with GAD to enable the NHSBSA to:

- provide all member data to GAD for active, pensioner and deferred members to allow the maximum number of records to be used;
- inclusion of both the 1995 and 2008 sections;
- a quality assurance, management reporting and review process to validate all data and tables provided to GAD; and
- A financial reconciliation of member records to cash receipts to further support the validity of the member data.

**Erroneous implementation of Regulation T8 within the Pensions regulations**

We have previously reported an issue with the erroneous implementation of Regulation T8. We no longer consider this to be a significant control issue as we have taken measures to ensure the Regulation is followed for new cases. All cases identified have now been processed and an interest payment made, apart from cases where the member retired between 1 April 2000 and 31 December 2002. Applications have been invited via inclusion in the 2011 Pensioners Newsletter despatched to every pensioner member, who think that their benefits were not paid on time between the above dates, and we have paid all historic amounts due.

**Conclusion**

My review confirms that the NHSBSA and the NHS Pension Scheme have a generally sound system of internal control that supports the achievement of its policies, aims and objectives and that those control issues have been and are being addressed.

**Nick Scholte**
**Chief Executive**
**NHS Business Services Authority**
**7 July 2011**

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

I certify that I have audited the financial statements of NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Combined Statement of changes in Taxpayers Equity, the Cash Flow Statement and the 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 NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme, and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Managers 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.

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

### Opinion on Regularity

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

**Opinion on the 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 2011, and the net cash requirement, net resource outturn, and combined net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

**Opinion on other matters**

In my opinion, the information given in the Report of the Managers for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters for 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;
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157 - 197 Buckingham Palace Road
Victoria
London SWIW 9SP
8 July 2011

## Statement of Parliamentary Supply
## Summary of Resource Outturn 2010-11

| | | Estimate | | | | | | 2010-11 £000 Outturn | 2009-10 £000 Outturn |
|---|---|---|---|---|---|---|---|---|---|
| Request for Resources | Note | Gross Expenditure | A in A* | Net Total | Gross Expenditure | A in A* | Net Total | Net Total outturn compared with Estimate: Saving/ (excess) | Net Total |
| Pensions and associated payments | | 26,623,323 | (8,735,619) | 17,887,704 | (5,485,782) | (8,696,657) | (14,182,439) | (32,070,143) | 327,722 |
| **Total resources** | 4 | **26,623,323** | **(8,735,619)** | **17,887,704** | **(5,485,782)** | **(8,696,657)** | **(14,182,439)** | **(32,070,143)** | **327,722** |

* A in A – Appropriations in Aid

### Summary of net cash requirement 2010-11

| | | | | 2010-11 £000 | 2010-11 £000 |
|---|---|---|---|---|---|
| | Note | Estimate | Outturn | Net Total outturn compared with Estimate: Saving/(excess) | Outturn |
| **Net cash requirement** | 5 | **1** | **0** | **1** | **0** |

### Summary of income payable to the Consolidated Fund

Expenditure for which resources are sought within the estimate is resource based and relates to increases to the Pension Scheme liability. Details of cash based expenditure can be found in notes 20.3 and 20.4, and are accounted for as a release of Scheme liability. Surplus cash is surrendered to the Consolidated Fund as cash income exceeds the cash benefits the Scheme currently pays out.

| | | 2010-11 Forecast £000 | | 2010-11 Outturn £000 | |
|---|---|---|---|---|---|
| | Note | Income | Receipts | Income | Receipts |
| **Excess cash receipts surrendered to the Consolidated Fund collected in 2010-11** | | - | 1,800,000 | 1,766,130 | 1,742,480 |
| **Total** | 6a | **-** | **1,800,000** | **1,766,130** | **1,742,480** |

**Explanation of the variation between estimate and outturn.**

The Outturn is less than the Estimate due, in the main, to the adoption of the Consumer Price Index for the indexation of Public Service Pensions which has reduced the Scheme's liabilities through a negative past service cost of £29.9 billion. This was not provided for within the Estimate as the accounting treatment had not been determined. Consequently this also reduced both the interest charge and current service cost outturn when compared to the estimate.

## Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

| | Note | 2010-11 £000 | 2009-10 £000 |
|---|---|---|---|
| **Income** | | | |
| Contributions receivable | 8 | (8,398,336) | (8,066,021) |
| Transfers in | 9 | (167,409) | (172,795) |
| Other pension income | 10 | (130,912) | (167,243) |
| | | **(8,696,657)** | **(8,406,059)** |
| **Expenditure** | | | |
| Pension Cost | 11 | (18,300,000) | 8,300,000 |
| Enhancements | 12 | 346,809 | 357,436 |
| Transfers in | 13 | 167,409 | 172,795 |
| Interest on Scheme liabilities | 14 | 12,300,000 | 12,100,000 |
| | | **(5,485,782)** | **20,930,231** |
| **Net expenditure** | | **(14,182,439)** | **12,524,172** |
| **Other Comprehensive Net Expenditure** | | | |
| Revaluation cost of estimated discounted future cash flows in respect of early retirement charges | 17 | 18,797 | 87,775 |
| Actuarial (gain) / loss | 20.5 | (17,482,869) | 73,459,855 |
| **Total Comprehensive (Income) Expenditure for the year ended 31 March 2011** | | **(31,646,511)** | **86,071,802** |

The notes on pages 31 to 50 form part of these accounts.

## Combined Statement of Financial Position as at 31 March 2011

| | Note | 31 March 2011 £000 | 31 March 2010 £000 |
|---|---|---|---|
| **Current Assets:** | | | |
| Receivables | 16a | 647,469 | 591,325 |
| Cash and cash equivalents | 18 | 692,390 | 781,703 |
| | | 1,339,859 | 1,373,028 |
| Payables (within 12 months) | 19a | (1,339,859) | (1,373,028) |
| **Net current assets, excluding pension liability** | | - | - |
| **Estimated discounted future cash flows in respect of early retirement recharges** | 17 | 733,759 | 752,556 |
| | | **733,759** | **752,556** |
| **Provisions for liabilities and charges:** | | | |
| Pension Scheme Liability | 20.2 | (257,700,000) | (287,600,000) |
| **Net liabilities, including pension liabilities** | | **(256,966,241)** | **(286,847,444)** |
| **Taxpayers' equity:** | | | |
| General fund | | (256,966,241) | (286,847,444) |
| | | **(256,966,241)** | **(286,847,444)** |

**Nick Scholte**
**Chief Executive, NHS Business Services Authority**
**7 July 2011**

The notes on pages 31 to 50 form part of these accounts.

## Combined Statement of Changes in Taxpayers' Equity
## For the year ended 31 March 2011

| | Note | General Fund | |
|---|---|---|---|
| | | 2010-11 | 2009-10 |
| | | £000 | £000 |
| **Balance at 1 April** | | **(286,847,444)** | **(198,659,669)** |
| Net Parliamentary Funding – drawn down | | - | - |
| Extra receipts payable to the Consolidated Fund | | - | - |
| Combined Net Expenditure for the Year | | 14,182,439 | (12,524,172) |
| CFERS repayable to the Consolidated Fund | 19a | (1,065,308) | (1,130,973) |
| Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges | 17 | (18,797) | (87,775) |
| Payment to the Consolidated Fund | 6b | (700,000) | (985,000) |
| Actuarial gain / (loss) | 20.5 | 17,482,869 | (73,459,855) |
| Net change in Taxpayers' Equity | | 29,881,203 | (88,187,775) |
| **Balance at 31 March** | | **(256,966,241)** | **(286,847,444)** |

## Combined Statement of Cash Flows for the year ended 31 March 2011

| | Note | 2010-11 £000 | 2009-10 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Combined Income/(expenditure) for the year | | 14,182,439 | (12,524,172) |
| Non supply – amounts paid to the Consolidated Fund | 6b | 821 | 271 |
| Adjustments for non-cash transactions: | | | |
| (Increase) in receivables | 16a | (56,143) | (64,367) |
| Increase/ (Decrease) in payables | 19a | 32,495 | (920) |
| Increase/(Decrease) in pension provision | 20.2 | (6,000,000) | 20,400,000 |
| Increase in pension provision – enhancements and transfers in | 20.2 | 514,218 | 530,231 |
| Use of provisions – benefits paid | 20.3 | (6,723,975) | (6,068,499) |
| Use of provisions – refunds and transfers | 20.4 | (207,374) | (221,587) |
| **Net cash flows from operating activities** | | **1,742,481** | **2,050,957** |
| **Net increase in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund** | | **1,742,481** | **2,050,957** |
| Payments of amounts to the Consolidated Fund | 6b | (1,831,794) | (1,964,081) |
| **Net (decrease)/increase in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund** | 18 | **(89,313)** | **86,876** |
| **Cash and cash equivalents at the beginning of the period** | 18 | 781,703 | 694,827 |
| **Cash and cash equivalents at the end of the period** | 18 | 692,390 | 781,703 |

The notes on pages 31 to 50 form part of these accounts.

## Notes to the Scheme Financial Statements

## Accounting Policies

### 1. Basis of preparation of the Scheme financial statements

1.1 The combined scheme financial statements have been prepared in accordance with the relevant provisions of the 2010-11 Financial Reporting Manual (FReM) issued by HM Treasury, which reflect the requirements of IAS 19 Employee Benefits and the relevant parts of IAS 26 Accounting and Reporting by Retirement Benefit Plans. These accounts show the unfunded pension liability and movements in that liability during the year. These accounts also have regard to the recommendations of the Statement of Recommended Practice entitled Financial Reports of Pension Schemes to the extent that these are appropriate.

Following a high level review of accounting standards that have been issued but are not yet effective and have not been adopted, we do not anticipate any future material impact on the scheme accounts.

1.2 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.

1.3 The combined scheme financial statements summarise the transactions of the National Health Service Pension Scheme and the National Health Service (Compensation for premature retirement) Scheme. The Statement of Financial Position shows the deficit on the scheme; the Combined Statement of Comprehensive Net Expenditure shows, amongst other things, the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme statement should be read in conjunction with that Report.

1.4 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 have the option of discharging their liability by way of payment of a capital sum, or by paying for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding debtor within the Combined Statement of Financial Position).

1.5 The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the combined financial statements.

## 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 Contributions receivable

a. Employers' normal pension contributions are accounted for on an accruals basis.

b. 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.

c. Employees' pension contributions which include amounts in respect of added years (dealt with in (d) below) are accounted for on an accruals basis.

d. Employees' contributions paid in respect of the purchase of added years or additional pension entitlement are accounted for on an accruals 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 15 to the financial statements. Please refer to Note 15 for further information on Scheme AVC providers.

### 2.3 Transfers in and out

Transfers in 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 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.

## 2.4 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 Statement of Comprehensive Net Expenditure. The cost is based on a real discount rate of 1.8% for the 2010-11 current service cost up to 22 June 2010 and 2.5% thereafter (2009-10: 3.2%) based upon a gross discount rate of 4.6% per annum for 2010-11 (2009-10: 6.04%). 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 as detailed in note 2.7.

## 2.5 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 Statement of Comprehensive Net Expenditure.

## 2.6 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 of 4.6% (2009-10: 6.04%).

## 2.7 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 is discounted at 2.9% (2009-10: 1.8%) real (i.e. 5.60% including inflation 2009-10: 4.60%).

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 Combined Statement of Financial Position date and updates it to reflect current conditions. The most recent review took place in 2010-11 based on data as at 31 March 2008.

## 2.8 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

## 2.9 Refund of contributions paid to and on account of members leaving the Scheme.

Where a member of the 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.

### 2.10 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.

### 2.11 Actuarial gains / losses

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

### 2.12 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.

### 2.13 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.

### 2.14 Administration expenses

The budget for all the administration expenses related to the Scheme is included in the Revenue Resource Limit of the NHS Business Services Authority. This includes all staff costs, overheads and general administration costs.

## 3. Accounting policies for the NHS Compensation for Premature Retirement Scheme

3.1 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").

3.1.1 The Secretary of State may alternatively allow employers to make a cash payment, as either a lump sum or in five annual instalments, 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").

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

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

3.2 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. Where the employer chooses to pay by instalments, income is recognised when the instalment becomes due each year. Due to the value of annual instalments, they are no longer disclosed within the debtors note.

3.2.1 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 special pension scheme contributions (see note 2.2b). All amounts received are appropriated-in-aid of Scheme expenditure.

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

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

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

3.3 Where the employer chooses to pay quarterly, income is recognised as invoices are raised.

3.3.1 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" to the Scheme and are appropriated-in-aid.

3.3.2 In recognition of the fact that significant future cashflows will arise from these arrangements, the estimated future cashflows 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.

3.3.3 The above asset will be revalued on an annual basis and any net increases or decreases will be debited / credited to the General Fund, and disclosed within the Statement of Other Comprehensive Net Income.

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

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

3.4 None of the above accounting policies represents a departure from the Financial Reporting Manual (FReM).

## 4. Reconciliation of Estimates, accounts and budgets

### 4a Reconciliation of net resource outturn to combined net expenditure

| | 2010-11 £000 | | | 2009-10 £000 |
|---|---|---|---|---|
| | **Outturn** | **Supply Estimate** | **Outturn compared with Estimate** | **Outturn** |
| Net Resource Outturn | (14,182,439) | 17,887,704 | (32,070,143) | 12,524,172 |
| **Net Outgoings** | (14,182,439) | 17,887,704 | (32,070,143) | 12,524,172 |

## 5. Reconciliation of net resource outturn to net cash requirement

| | Supply Estimate £000 | Outturn £000 | Net total outturn compared with estimate: saving/(excess) £000 |
|---|---|---|---|
| Net Resource Outturn | 17,887,704 | (14,182,439) | 32,070,143 |
| Accruals adjustments | | | |
| Non-cash items | (26,623,323) | 5,485,782 | (32,109,105) |
| Change in Consolidated Fund Creditor | 13,612 | (65,664) | 79,276 |
| Use of pension provision | 6,922,008 | 6,931,348 | (9,340) |
| Excess cash receipts surrendered to the Consolidated Fund | 1,800,000 | 1,830,973 | (30,973) |
| **Net cash requirement** | **1** | **0** | **1** |

## 6. Analysis of income payable to the Consolidated Fund

### 6a. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics).

| | Note | Forecast 2010-11 £000 Income | Forecast 2010-11 £000 Receipts | Outturn 2010-11 £000 Income | Outturn 2010-11 £000 Receipts |
|---|---|---|---|---|---|
| Excess cash receipts to be surrendered to the Consolidated Fund collected in 2010-11 | | - | *1,800,000* | 1,766,130 | *1,742,480* |
| **Total income payable to the Consolidated Fund** | | - | *1,800,000* | 1,766,130 | *1,742,480* |

### 6b. Analysis of cash paid to the Consolidated Fund

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Payments of amounts due to the: | | |
| Consolidated Fund – Realisation of prior year net debtors and creditors | 349,270 | 283,983 |
| Consolidated Fund – Surplus cash relating to current year Supply | 700,000 | 985,000 |
| Excess cash surrendered to the: | | |
| Consolidated Fund relating to the prior year | 781,703 | 694,827 |
| | **1,830,973** | **1,963,810** |
| Excess cash surrendered to the: | | |
| Consolidated Fund excess receipts not classified to be appropriated in aid relating to prior years, paid to the Consolidated Fund | 821 | 271 |
| | **1,831,794** | **1,964,081** |

## 7. Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Operating income | (8,696,657) | (8,406,059) |
| Gross income | (8,696,657) | (8,406,059) |
| | | |
| Income authorised to be appropriated-in-aid | 8,696,657 | 8,406,059 |
| Excess income not appropriated in aid | - | - |

## Statement of Comprehensive Net Expenditure

### 8. Contributions receivable

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Employers | (5,553,234) | (5,330,140) |
| Employees | | |
| Normal | (2,578,265) | (2,489,008) |
| Purchase of Added Years | (266,837) | (246,873) |
| | **(8,398,336)** | **(8,066,021)** |

### 9. Transfers in (see also note 13)

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Individual transfers in from other schemes | (134,014) | (168,098) |
| Group transfers in from other schemes | (33,395) | (4,697) |
| | **(167,409)** | **(172,795)** |

### 10. Other pension income

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Pre funded premature retirement contributions | (79,972) | (110,563) |
| Re-chargeable premature retirement contributions | (50,940) | (56,680) |
| | **(130,912)** | **(167,243)** |

### 11. Pension Cost

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Current service cost | 11,600,000 | 8,300,000 |
| Past service cost | (29,900,000) | - |
| | **(18,300,000)** | **8,300,000** |

In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to the public service pensions through the statutory link to the indexation of the Second State Pension.

The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits has been recognised as a negative past service cost in accordance with IAS 19. This accounting treatment has been adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

See also note 25.

## 12. Enhancements (see also notes 8 and 10)

| | 2010-11 | 2009-10 |
|---|---|---|
| | £000 | £000 |
| Employees : | | |
| Purchase of added years and additional pension | 266,837 | 246,873 |
| Employers : | | |
| Pre-funded premature retirement contributions | 79,972 | 110,563 |
| | **346,809** | **357,436** |

## 13. Transfers in – additional liability (see also note 9)

| | 2010-11 | 2009-10 |
|---|---|---|
| | £000 | £000 |
| Individual transfers in from other schemes | 134,014 | 168,098 |
| Group transfers in from other schemes | 33,395 | 4,697 |
| | **167,409** | **172,795** |

## 14. Interest on Scheme liabilities

| | 2010-11 | 2009-10 |
|---|---|---|
| | £000 | £000 |
| Interest charge for the year | **12,300,000** | **12,100,000** |

## 15. 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:

| | 2010-11 | 2009-10 |
|---|---|---|
| | £000 | £000 |
| **The Equitable Life Assurance Society (ELAS)** | | |
| Movements in the year were as follows: | | |
| Balance at 1 April | 115,015 | 105,469 |
| New investments | 1,902 | 1,828 |
| Sale of investments to provide pension benefits | (7,722) | (6,717) |
| Changes in market value of investments | 5,547 | 14,435 |
| Balance at 31 March | **114,742** | **115,015** |
| | | (*Re-stated) |
| Contributions received to provide life cover | 44 | 49 |
| Benefits and refunds of contributions paid on death | 258 | 152 |

| | 2010-11 | 2009-10 |
|---|---|---|
| | £000 | £000 |
| **Standard Life Assurance Company** | | |
| Movements in the year were as follows: | | |
| Balance at 1 April | 112,492 | 87,278 |
| New investments | 4,922 | 4,766 |
| Sale of investments to provide pension benefits | (6,654) | (4,772) |
| Changes in market value of investments | 8,206 | 25,220 |
| Balance at 31 March | **118,966** | **112,492** |
| | | (*Re-stated) |
| Contributions received to provide life cover | 1 | 1 |
| Benefits and refunds of contributions paid on death | 2 | 95 |

| | 2010-11 | 2009-10 |
|---|---|---|
| | £000 | £000 |
| **Prudential Plc** | | |
| Movements in the year were as follows: | | |
| Balance at 1 April | 46,638 | 35,284 |
| New investments | 4,149 | 4,333 |
| Sale of investments to provide pension benefits and switches to new funds | (3,997) | (3,485) |
| Changes in market value of investments | 2,968 | 10,506 |
| Balance at 31 March | **49,758** | **46,638** |
| | | (*Re-stated) |
| Contributions received to provide life cover | 7 | 7 |
| Benefits and refunds of contributions paid on death | 53 | 82 |

*2009-10 figures have been restated to include refunds of contributions on death in addition to benefits relating to death previously disclosed.

## Statement of financial position

### 16 Receivables – Contributions due in respect of pensions

Employers are responsible for the payment to the Pension Scheme of both Employer and Employee contributions. Contributions should be paid over by the Employer by the 19th of the month, for contributions relating to the previous month.

Employers are also responsible for the payment of special contributions, either as a lump sum or in five annual instalments, to the NHS Pension Scheme where employees receive enhanced pension benefits upon retirement. Where lump sums or annual instalments have been invoiced but not yet paid, these are disclosed below. Where such amounts due have yet to be invoiced, these are disclosed separately in the table below.

Employees may also pay for the costs of enhanced early retirement benefits by quarterly recharge. Such contributions to the scheme are classified as other income. Where such charges have been invoiced but remain unpaid as at the year end, these are disclosed below.

### 16a. Analysis by Type

| **Amounts falling due within one year:** | **2010-11** | **2009-10** |
|---|---|---|
| | £000 | £000 |
| Pension contributions due from employers | 412,651 | 380,954 |
| | | |
| Employees' normal contributions | 186,497 | 178,309 |
| Added Years / APS | 24,804 | 17,049 |
| Invoiced pre-funded premature retirement contributions | 11,829 | 1,759 |
| Invoiced re-chargeable premature retirement contributions | 11,688 | 13,254 |
| Total due within one year | **647,469** | **591,325** |

Included within these figures is £372,919,000 (2009-10: £349,270,000) that will be due to the Consolidated Fund once the debts are collected.

## 16b. Analysis by Organisation

| | Amounts falling due within one year 2010-11 £000 | Amounts falling due within one year 2009-10 £000 | Amounts falling due after more than one year 2010-11 £000 | Amounts falling due after more than one year 2009-10 £000 |
|---|---|---|---|---|
| Balances with other central government bodies | 169,567 | 113,092 | - | - |
| Balances with local authorities | 184 | 78 | - | - |
| Balances with NHS Trusts | 441,143 | 379,752 | - | - |
| Balances with public corporations and trading funds | 4 | 3,951 | - | - |
| Balances with bodies external to government | 36,571 | 94,452 | - | - |
| **Total receivables** | **647,469** | **591,325** | - | - |

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

Where the employer chooses to pay quarterly recharges, 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, is classified as “Other Income” to the pension scheme and is appropriated-in-aid.

In recognition of the fact that significant future cashflows will arise from these arrangements, the estimated future cashflows which may accrue to the Scheme after the Statement of Financial Position date, discounted to current values, are disclosed in the Statement of Financial Position.

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Balance at 1 April | 752,556 | 840,331 |
| Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements | (18,797) | (87,775) |
| **Balance at 31 March** | **733,759** | **752,556** |

## 18. Cash and cash equivalents

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Balance at 1 April | 781,703 | 694,827 |
| Net change in cash balances | (89,313) | 86,876 |
| **Balance at 31 March** | **692,390** | **781,703** |
| The following balances at 31 March were held at: | | |
| Government Banking Services | 686,251 | 776,782 |
| Commercial banks and cash in hand | 6,139 | 4,921 |
| **Balance at 31 March** | **692,390** | **781,703** |

## 19. Payables – in respect of pensions

### 19a. Analysis by type

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Pensions | (219,615) | (194,042) |
| HMRC | (54,148) | (47,741) |
| Voluntary deductions | (230) | (249) |
| Amounts due to Employers: Initial Widows Claims | (540) | (12) |
| Employee and employer contributions | (1) | (1) |
| Prefunded premature retirements | (6) | (9) |
| Rechargeable premature retirements | (10) | (1) |
| | (274,550) | (242,055) |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund: | | |
| Received | (692,390) | (781,703) |
| Receivable | (372,919) | (349,270) |
| | (1,065,309) | (1,130,973) |
| | **(1,339,859)** | **(1,373,028)** |

### 19b. Analysis by organisation

| | Amounts falling due within one year | | Amounts falling due after more than one year | |
|---|---|---|---|---|
| | **2010-11** | **2009-10** | **2010-11** | **2009-10** |
| | £000 | £000 | £000 | £000 |
| Balances with other central government bodies | (1,119,466) | (1,178,714) | - | - |
| Balances with local authorities | - | - | - | - |
| Balances with NHS Trusts | (3) | (2) | - | - |
| Balances with public corporations and trading funds | - | - | - | - |
| Balances with bodies external to government | (220,390) | (194,312) | - | - |
| **Total Payables** | **(1,339,859)** | **(1,373,028)** | - | - |

## 20. Provision for pension liability

### 20.1 Assumptions underpinning the provision for pension liability

20.1.1 The NHS Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2011. The Report of the Actuary on pages 11 - 15 sets out the scope, methodology and results of the work the actuary has carried out.

20.1.2 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 profiles, 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 31st March 2008, and the results rolled forward to 31st March 2011 to estimate the position in 2010-11.

20.1.3 The major assumptions used by the actuary were:

| **At 31 March** | **2011** | **2010** | **2009** | **2008** | **2007** |
|---|---|---|---|---|---|
| Rate of increase in salaries (pa) | 4.90% | 4.29% | 4.29% | 4.29% | 4.29% |
| Inflation assumption (pa) | 2.65% | 2.75% | 2.75% | 2.75% | 2.75% |
| Life expectancy in years (Note 1) | | | | | |
| Current pensioners | | | | | |
| Males (age 60) | 29.1 | 29.1 | 28.6 | 28.5 | 25.0 |
| Males (age 65) | 24.2 | 23.9 | 23.5 | 23.4 | 20.4 |
| Females (age 60) | 31.6 | 32.3 | 31.8 | 31.7 | 28.0 |
| Females (age 65) | 26.6 | 27.1 | 26.7 | 26.6 | 23.4 |
| | | | | | |
| Future pensioners | | | | | |
| Males (age 60) | 30.7 | 30.6 | 30.2 | 30.1 | 27.0 |
| Males (age 65) | 26.2 | 26.0 | 25.6 | 25.5 | 22.3 |
| Females (age 60) | 33.1 | 33.8 | 33.3 | 33.2 | 30.0 |
| Females (age 65) | 28.5 | 29.1 | 28.6 | 28.6 | 25.2 |
| Discount rate (pa) | 5.60% | 4.60% | 6.04% | 5.32% | 4.60% |
| Discount rate net of inflation (pa) | 2.90% | 1.80% | 3.20% | 2.50% | 1.80% |

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.

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 Scheme 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.

**Analysis of the provision for pension liability £billion**

| At 31 March | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Active members (past service) | 156.4 | 177.1 | 116.1 | 129.2 | 144.7 |
| Deferred Pensions | 24.7 | 28.8 | 20.3 | 22.5 | 18.6 |
| Pensions in payment | 76.6 | 81.7 | 63.1 | 60.8 | 54.7 |
| **Total liability** | **257.7** | **287.6** | **199.5** | **212.5** | **218.0** |

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 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 20.2 and 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 movement in Scheme liability

| | Note | 2010-11 £000 | 2009-10 £000 |
|---|---|---|---|
| **Scheme liability at 1 April** | | **(287,600,000)** | **(199,500,000)** |
| Current service cost | 11 | (11,600,000) | (8,300,000) |
| Past service cost | 11 | 29,900,000 | - |
| Interest on Scheme liability | 14 | (12,300,000) | (12,100,000) |
| | | **6,000,000** | **(20,400,000)** |
| Enhancements | 12 | (346,809) | (357,436) |
| Pension transfers in | 13 | (167,409) | (172,795) |
| | | **(514,218)** | **(530,231)** |
| Benefits payable | 20.3 | 6,723,975 | 6,068,499 |
| Pension payments to and on account of leavers | 20.4 | 207,374 | 221,587 |
| | | **6,931,349** | **6,290,086** |
| Actuarial gain/(loss) | 20.5 | 17,482,869 | (73,459,855) |
| **Scheme liability at 31 March** | | **(257,700,000)** | **(287,600,000)** |

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

During the year ended March 2011, contributions represented an average of 20.6% of pensionable pay.

20.2.1 Current Service Cost is defined as the present value of benefits accruing to active members over the year, with allowance for salary increases to the assumed date of retirement or exit, expressed as a level percentage of expected pensionable pay over the same period. The method can be expected to result in a stable current service cost at successive valuations as long as the profile by age, sex and salary of the active membership, as well as the benefits being valued, remain broadly unchanged at successive valuation dates. The current service cost would increase if, for example, the average age of employees rose. The current service cost used in 2010-11 for the period up to 22 June 2010 was 32%, and 28.3% of pensionable salaries thereafter (2009-10 21.9%).

### 20.3 Analysis of benefits paid

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Pensions or annuities to retired employees and dependants (net of recoveries or overpayments) | 4,912,962 | 4,624,067 |
| Commutations and lump sum benefits on retirement | 1,811,013 | 1,444,432 |
| **Per Statement of Cash Flows** | **6,723,975** | **6,068,499** |

### 20.4 Analysis of payments to and on account of leavers

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Refunds to members leaving service | 20,056 | 22,390 |
| Group transfers to other schemes | 3,321 | 762 |
| Payment to State Scheme | 10,895 | 10,296 |
| Individual transfers to other schemes | 173,102 | 188,139 |
| **Per Statement of Cash Flows** | **207,374** | **221,587** |

### 20.5 Analysis of actuarial gain/(loss)

| | 2010-11 £000 | 2009-10 £000 |
|---|---|---|
| Experience gains arising on the Scheme liabilities | (3,417,131) | (2,159,855) |
| Changes in assumptions underlying the present value of Scheme liabilities – demographic assumptions | (900,000) | 2,100,000 |
| Changes in assumptions underlying the present value of Scheme liabilities – mortality | 3,100,000 | (1,700,000) |
| Changes in assumptions underlying the present value of Scheme liabilities – change in discount rate | 18,700,000 | (71,700,000) |
| **Per Statement of Changes in Taxpayers Equity** | **17,482,869** | **(73,459,855)** |

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.

A five year history of experience gains and losses is shown below.

| | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 |
|---|---|---|---|---|---|
| **Experience (gains)/losses on the scheme liabilities:** | | | | | |
| Amount (£000) | (3,417,131) | (2,159,855) | (850,445) | 252,990 | 808,209 |
| Percentage of the present value of the scheme liabilities | 1.33% | 0.75% | 0.40% | 0.12% | 0.37% |
| **Total amount recognised in Statement of Other Comprehensive Net Expenditure** | | | | | |
| Amount (£000) | 17,482,869 | (73,459,855) | 28,549,555 | 17,822,990 | (39,791,791) |
| Percentage of the present value of the scheme liabilities | 6.78% | 25.54% | 13.47% | 8.41% | 18.25% |

## 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 2011, which is disclosed at note 15. The Scheme does not however guarantee pension payments from the other free-standing AVC providers.

## 23. Losses

During the year, losses arose in 8,177 cases as a result of overpaid pension scheme benefits (2009-10: 9,525 cases). The total loss was £656,991 (2009-10: £594,212). These figures include write-offs in respect of the cases highlighted in the review of the year, and all relate to claims abandoned.

## 24. Related Party Transactions

The National Health Service Pension Scheme and the National Health Service (Compensation for Premature 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

As outlined in note 11, the decision to uprate public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been recognised in these accounts. This decision is currently before the courts in judicial review proceedings. The Government is robustly defending the case and therefore no adjustment has been made to the accounts for this matter. The financial implications consequent on the review finding against the government have not been assessed.

## Accounts Authorisation

The National Health Service Pension Scheme and the National Health Service (Compensation for Premature Retirement) Scheme’s financial statements are laid before the Houses of Parliament by HM Treasury. The financial statements were authorised for issue on 11 July 2011 by Nick Scholte (Accounting Officer).

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