
NHS Pension Scheme

(Incorporating the NHS Compensation for Premature Retirement Scheme)

Accounts

2013-14

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

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| Contents | Page |
|---|-------------|
| Report of the Managers | 3-16 |
| Report of the Actuary | 17-21 |
| Statement of Accounting Officer's Responsibilities | 22 |
| Annual Governance Statement | 23-34 |
| Certificate and Report of the Comptroller and Auditor General | 35-36 |
| The Accounting Schedules: | |
| Statement of Parliamentary Supply | 37-40 |
| Combined Statement of Comprehensive Net Expenditure | 41 |
| Combined Statement of Financial Position | 42 |
| Combined Statement of Changes in Taxpayers' Equity | 43 |
| Combined Statement of Cash Flows | 44 |
| Notes to the Accounts | 45-59 |

1. REPORT OF THE MANAGERS

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

2. BACKGROUND TO THE SCHEME

2.1 Statutory basis for the Scheme

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

Scheme provisions are governed by the following sets of Regulations:

- The NHS Pensions Scheme Regulations 1995 and 2008, as amended;
- The NHS (Compensation for Premature Retirement) Regulations 2002 (as amended);
- The Pensions (Increase) Act 1971;
- NHS Additional Voluntary Contributions (AVC) Regulations; and
- NHS Gratuitous Expectations Regulations (as amended).

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

2.2 Eligibility to join the Scheme

The employers of NHS Pension Scheme contributing members are classified as Employing Authorities. 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 2014 there were 9,265 participating employers:

138 NHS Trusts and Local Health Boards*
147 Foundation Trusts
8,040 GP Practices
12 Arms length bodies
530 Direction Bodies
233 Clinical Commissioning Groups and Support Units
137 Local Authorities
28 New Fair Deal

*Local Health Boards are only applicable in Wales

2.3 Main features of the Scheme

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

The Scheme is currently operating with a surplus of cash outflow (negative Net Cash Requirement), due to income exceeding the payments made, and this surplus is returned to HM Treasury during the following financial year. If payments are forecast to exceed income within a financial year, or the scheme requires funds to maintain a level of cash flow to make payments, the balance of the funding required is requested from Parliament through the annual Supply Estimates process. The cash flows of the Scheme are classed as Annually Managed Expenditure (AME) for Government Accounting purposes. Further information regarding AME and all Government Accounting arrangements can be found in the HM Treasury publication *Managing Public Money*.

2.4 Annual Pensions

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

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

2.5 Lump Sum Allowance

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

2.6 Pensions Indexation

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

2.7 Ill-Health Retirement

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

2.8 Death Benefits

For members who die in service a lump sum is payable of twice annual pensionable pay, or average uprated earnings for practitioners. For members who die after retirement an amount is

payable which is the lesser of 5 times annual pension less pension already paid, or twice reckonable pay less any retirement lump sum taken. Other death benefits are also payable for members who have a deferred pension.

2.9 Added Years and Additional Pension purchase

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

2.10 Transfer between funds

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

2.11 Preserved benefits

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

2.12 Compensation for early retirement

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

3. MANAGEMENT OF THE SCHEME

3.1 Organisations responsible for managing the Scheme

The NHS Business Services Authority (NHSBSA) is the body responsible for the administration of the NHS Pension Scheme for England and Wales.

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

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

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

3.2 Corporate governance of the Scheme

The governance arrangements of the NHSBSA, who are responsible for the administration of the Scheme, can be found in the Governance Statement on pages 23 to 34.

3.3 Arrangements governing determination of contribution rates and benefits

The last published actuarial valuation undertaken for the NHS Pension Scheme was as at 31 March 2012 (published in June 2014), the previous actuarial valuation was carried out as at 31 March 2004. The primary purpose of the 2012 actuarial valuation was to set the employer contribution rate payable from April 2015, in light of the introduction of the new pension arrangements from 1 April 2015, and the initial employer cost cap which is required by the Public Service Pensions Act 2013. Both the employer contribution rate and employer cost cap will be included in Scheme Regulations.

The next actuarial valuation is expected to be carried out as at 31 March 2016. This will set the employer contribution rate payable from April 2019 and will consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the Scheme changes by more than 2% of pay. Subject to this 'employer cost cap' assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health after consultation with the relevant stakeholders.

4. KEY DEVELOPMENTS IN YEAR

4.1 Changes in contributions

Employee contribution rates changed from 1 April 2013 to the rates detailed below. These rates were used for assessing a person's contribution rate for 2013-14 in respect of Officers or Practice Staff members, who are employed by the same employer at the end of the last scheme year and the beginning of the current scheme year.

Once a member's earnings are in a specific contribution tier they must pay that rate on all of their earnings.

| <i>Pensionable Pay band</i> | <i>Contribution percentage rate</i> |
|---|-------------------------------------|
| Tier 1 Up to £15,278.99 | 5% |
| Tier 2 £15,279.00 to £21,175.99 | 5.3% |
| Tier 3 £21,176.00 to £26,557.99 | 6.8% |
| Tier 4 £26,558.00 to £48,982.99 | 9% |
| Tier 5 £48,983.00 to £69,931.99 | 11.3% |
| Tier 6 £69,932.00 to £110,273.99 | 12.3% |
| Tier 7 £110,274.00 to any higher amount | 13.3% |

4.2 Changes in benefits

With effect from 13 March 2014, The Marriage (Same Sex Couples) Act 2013 introduced survivor benefits for people in same gender marriages equal to those already paid to people in civil partnerships. The NHS Pension Scheme has implemented this change to the benefit structure.

4.3 Holistic Data Strategy (HDS) project

The HDS project started in 2011-12 with the aim of improving the quality of data held. This has benefits for employers, in that they can help in avoiding data errors, and improving the quality of data used for valuation purposes ensuring a more accurate valuation.

The project was completed on schedule and the principles of the strategy regarding 'prevention, correction and thinking differently' have embedded to simply become part of normal day to day working. This together with improved stakeholder engagement and involvement has meant data quality has improved, as demonstrated by the continual increase to the member data completeness statistic as assessed by the Government Actuary's Department (GAD) in valuing the Scheme.

4.4 Membership statistics (movement in year)

Details of the current membership of the Scheme at 31 March 2014 are set out below:

4.4.1 Active Members

| | |
|--|------------------|
| Active members at 1 April 2013 | 1,323,430 |
| Adjustment (see note 1) | (6,806) |
| Restated active members at 1 April 2013 (see note 2) | 1,316,624 |
| | |
| New entrants | 187,721 |
| Deferred members who rejoin in the year | 75,293 |
| Re-employed pensioners | 942 |
| Retirements | (31,341) |
| Leavers with deferred pension rights | (106,411) |
| Members who opt-out with deferred pension rights | (29,264) |
| Deaths | (728) |
| Active members at 31 March 2014 | 1,412,836 |

4.4.2 Deferred members

| | |
|--|----------------|
| Deferred members at 1 April 2013 | 550,126 |
| Adjustment (see note 1) | 10,987 |
| Restated deferred members at 1 April 2013 (see note 2) | 561,113 |
| | |
| Members leaving active membership with deferred pension rights | 135,675 |
| Pension credit members | 439 |
| Members taking up deferred pension rights | (9,284) |
| Members who rejoin the scheme | (75,293) |
| Movement to unclaimed refund (see note 3) | (15,759) |
| Members taking a refund of contributions during year | (25,388) |
| Transfers out | (2,752) |
| Death of member | (229) |
| Deferred members at 31 March 2014 | 568,522 |

4.4.3 Pensioners in payment (including Compensation payments)

| | |
|---|----------------|
| Pensions in payment at 1 April 2013 | 731,423 |
| Adjustment (see note 1) | 5,410 |
| Restated pensions in payment at 1 April 2013 (see note 2) | 736,833 |
| Members retiring from active | |
| Members retiring from active | 31,341 |
| Members retiring from deferred | 9,284 |
| New widows and dependants | 5,497 |
| Deaths | (16,536) |
| Cessations (see note 4) | (2,404) |
| Child dependants leaving full time education | (317) |
| Pensions in payment at 31 March 2014 | 763,698 |

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

Note 2. The membership data at 31 March 2013 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in November 2013, whereas these statistics were taken from a data extract provided in April 2014 and member data is continually updated after the year end.

Note 3. Where a period of membership is insufficient to qualify for pension entitlement and the only benefit due in respect of that membership is a refund of employee contributions paid into the scheme, it is classified as an unclaimed refund and does not appear in the membership statistics.

Note 4. This figure includes cessations due to remarriage or co-habitation and due to commutation of pensions on grounds of trivial value.

4.5 Financial position at 31 March 2014

As at 31 March 2014 the pension liabilities of the Scheme were valued at £337.2 billion. This is an increase of £53.0 billion from the liabilities at 31 March 2013 of £284.2 billion. This is due to an actuarial loss of £38.0 billion (£32.3 billion relating to the impact of the change in net discount rate from 2.35% at 31 March 2013 to 1.80% at 31 March 2014, and £5.7 billion to changes in other assumptions and scheme experience) and current year net additions to the liability of £15.0 billion. The movement is detailed in note 16.7 to the accounts. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer.

4.6 Results for the year

The 2013-14 net resource outturn was £13.93 billion which was within the voted estimate of £14.02 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure contained within the accounts.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of -£1.196 billion against the voted estimate of -£1.021 billion, this is surplus cash due to income exceeding pension benefit payments, and the £1.196 billion will be returned to HM Treasury during 2014-15.

5. KEY ACTIVITIES DURING 2013-14**5.1 Auto enrolment**

The Pensions Act 2008 introduced automatic enrolment of eligible workers into a qualifying workplace pension scheme. The NHSPS is such a scheme and the legislation took effect for our employers from 1 March 2013. A date has been allocated to each employer from which auto enrolment duties will first apply to them. This is known as the staging date. For the largest NHS

organisations, their staging dates were from March 2013. The staging dates for medium and smaller or new organisations will follow in later phases up to 2017.

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

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

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

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

Auto enrolment resulted in a significant increase in administration for the NHSBSA as there were over 170,000 auto enrolments from March 2013 to November 2013 within the larger NHS employers. Some staff in the NHS would have automatically opted back out of the Scheme within the first pay period and therefore there would have been no direct impact to the administration of the Scheme. The key impacts are shown below:

- An increase in Scheme membership at 31 March 2014 attributed to auto enrolment;
- An additional workload of 4,900 cases in respect of '5 year re-joiners'. The NHS Pension Scheme regulations make provision for members who leave the 1995 section of the scheme with deferred benefits, to transfer those benefits on a cash equivalent basis to the 2008 section of the scheme, where there has been a break in scheme membership of 5 years or more; and
- An additional work load of members requesting a Refund of Contributions, where the member did not opt back out of the scheme via their employer.

5.2. National Fraud Initiative (NFI)

On a regular basis, the NHS Pension Scheme takes part in the National Fraud Initiative (NFI), 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 frequency of mortality matches has recently been increased to monthly, though all other matches remain biennial.

In addition to participating in the NFI exercise, the Scheme has recently taken part in a 3 month pilot with the 'Tell Us Once Scheme', which allows citizens to inform central and local government of bereavement in a single engagement – usually at the point of registration of a death. It is available to 90% of the population and is a voluntary service. It is hosted by the Department for Work and Pensions (DWP) but is a cross-government resource.

The benefit of being part of the service is the provision of a better service to the bereaved at a difficult time, and a reduction in the number of days between the death of a pensioner and the Scheme being informed. The aim is to stop or reduce the number and value of overpayments

and associated activities and costs of recovery. The Pilot is currently being evaluated, with the potential for roll-out in future financial years.

The table below provides an update of the position for the NFI exercises conducted since 1998 and lists the outstanding amounts, which are still being actively pursued.

| NFI Exercise | Total Identified £000 | Total Cases | Prior Years | | 2012-13 | | 2013-14 | | Outstanding at 31/03/2014 £000 |
|-----------------|--------------------------|--------------|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|--------------------------------------|
| | | | Recovered £000 | Written-off £000 | Recovered £000 | Written-off £000 | Recovered £000 | Written-off £000 | |
| NFI 1998 - 2006 | 5,407 | 1,757 | 3,840 | 1,361 | 19 | 31 | 34 | 7 | 115 |
| NFI 2008 | 1,977 | 547 | 1,375 | 290 | 53 | 52 | 65 | 1 | 141 |
| NFI 2010 | 2,703 | 669 | 829 | 24 | 902 | 95 | 192 | 27 | 634 |
| NFI 2012 | 2,288 | 821 | - | - | - | - | 1,173 | 14 | 1,101 |
| Total | 12,375 | 3,794 | 6,044 | 1,675 | 974 | 178 | 1,464 | 49 | 1,991 |

5.3 NHS Reforms

As a result of the Health and Social Care Act 2012, there were large scale changes to the structure of the NHS bodies/employer organisations and the relationships between them. Namely the abolition of Primary Care Trusts (PCTs) and Strategic Health Authorities (SHAs) on 31 March 2013. The commissioning responsibilities has been transferred from the abolished PCTs to just over 200 Clinical Commissioning Groups (CCGs), partly run by GP Consortia in England, overseen by NHS England.

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

- Management of the closure of the employer organisations to be abolished and set up of new organisations, touching over 400 individual employing authorities;
- Transfer of staff and GP member pension records and scheme contributions, involving over 80,000 members; and
- An increase of 1,700 requests for Senior Manager disclosure information to enable employers to meet their annual reporting requirements.

5.4 New Fair Deal

'New Fair Deal for staff pensions: staff transfer from central government' was published by HM Treasury on 7 October 2013. The guidance sets out pensions issues where staff are compulsorily transferred from the public sector to Independent Providers (IP) delivering public services. Under New Fair Deal, staff transferring to an IP under the Transfer of Undertaking (Protection of Employment) Regulations 2006, can retain their public sector pension scheme membership.

NHSBSA has implemented new administrative processes and financial monitoring controls (as laid out by HM Treasury) to deal with New Fair Deal employers and their members. At the date of completion of the scheme accounts there were 64 New Fair Deal employers granted access to the NHS Pension Scheme covering 4,846 members.

NHSBSA will be required to submit annual reports to HM Treasury outlining:

- The number of NHS Pension Scheme members covered by New Fair Deal;
- The number of members still covered by New Fair Deal on the anniversary of the award of contract; and
- Details of any New Fair Deal employer organisations who have failed to meet their legislative responsibilities as NHS employers.

5.5 Total Reward Statements (TRS)

A Total Reward Statement (TRS) is an annual statement bringing together (for the first time) employment and pension benefits for all NHS employees and NHS Pension members via a unified web based portal, and satisfies the requirement for NHS Pensions to provide Annual Benefit Statements.

As well as highlighting the general employment and pension scheme membership within the NHS, the statement allows employers to showcase more local benefits specific to the particular organisation and as such forms a key element of an organisations rewards strategy.

The NHSBSA, working in conjunction with the Electronic Staff Record (ESR) and NHS Employers Organisation, are now in the final stages of delivering this landmark service. After successfully piloting the technical solution in the summer of 2013, a full roll out offering a TRS will be delivered in the autumn of 2014.

5.6 Customer satisfaction survey

The NHS Pension Scheme completed a Customer Satisfaction Survey during the year with scheme members and employers. The overall satisfaction rating for members has decreased since 2012 and remained consistent for employers, please refer to the table below. The survey was answered on a scale of 1 to 10 where 1 is not at all satisfied and 10 is completely satisfied.

| | Pension members | | Pension employers | |
|----------------------|-----------------|---------|-------------------|---------|
| | 2013-14 | 2012-13 | 2013-14 | 2012-13 |
| Total sample | 484 | 100 | 1,155 | 1,028 |
| Overall satisfaction | 7.3 | 8.2 | 7.0 | 7.2 |

Note: There was a change in methodology from telephone interviews to an online survey for pension members and a significant increase in sample size. The pension employers online methodology was consistent with 2012.

Potential causes for the decline in satisfaction for pension members could include an enhanced result from 2012 from members receiving detailed Choice Statements, and the pending delivery of Total Reward Statements. Customer contact arrangements and improvements to information requests and provision are possible areas to be considered for employers. The results of the 2014-15 survey will be provided in the 2014-15 scheme accounts.

5.7 Events after the reporting period (see note 21)

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

6. KEY ACTIVITIES FOR 2014-15 AND BEYOND

6.1 Extending the access to the scheme

The proposed Final Agreement on NHS Pensions Reforms 2015 included a review of the access terms for non-NHS organisations providing clinical services under an NHS standard contract, referred to as Independent Providers (IPs). NHS Pension Scheme regulatory amendments from 1 April 2014 now allow IPs to offer the NHS Pension Scheme to those staff engaged in NHS work.

Such employers are subject to a total pensionable earnings ceiling of 75% of the total value of the NHS contract value (a pay ceiling similar to that which already exists in Dental Practices).

Additional administrative processes and financial monitoring controls have been implemented to fulfil the policing requirements laid out in the NHS Pension Scheme regulations.

The Scheme has approved 11 private sector organisations 'Employer Status' at the date of completion of these accounts but the exact figure who may qualify is not yet known.

6.2 Changes to scheme contribution rates

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

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

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

Employee contribution rates have changed from 1 April 2014 to the rates detailed below for Officer and Practice Staff Scheme members, and is based on their 2013-14 full year whole-time equivalent (WTE) pensionable pay, unless there has been a change in their circumstances.

Once a member's earnings are in a specific contribution tier they must pay that rate on all of their earnings.

Scheme Year 2014-2015

| <i>Pensionable Pay band</i> | <i>Contribution percentage rate (comparable rate for 2013-14 tier level in brackets)</i> | |
|---|--|---------|
| Tier 1 Up to £15,431.99 | 5.0% | (5.0%) |
| Tier 2 £15,432.00 to £21,387.99 | 5.6% | (5.3%) |
| Tier 3 £21,388.00 to £26,823.99 | 7.1% | (6.8%) |
| Tier 4 £26,824.00 to £49,472.99 | 9.3% | (9.0%) |
| Tier 5 £49,473.00 to £70,630.99 | 12.5% | (11.3%) |
| Tier 6 £70,631.00 to £111,376.99 | 13.5% | (12.3%) |
| Tier 7 £111,377.00 to any higher amount | 14.5% | (13.3%) |

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

6.3 Data Sure project

NHS Pensions has commissioned the use of a data cleansing product from Equiniti Paymaster called 'Data Sure' with the intention to:

- identify and report data issues that may impact migration to the 'Compendia' pensions processing database during the 2015 Scheme Implementation project;
- provide data quality information that may be communicated to potential bidders as part of the forthcoming Pensions Administration contract re-procurement;
- provide a baseline and measure improvements to data quality, post Compendia data migration; and
- report on the quality of data based on The Pension Regulator's (TPR) recommended data standards for record keeping for occupational pension schemes.

Activity commenced towards the end of 2013-14 and will continue to progress during 2014-15, to identify all data checks required to fully understand the quality of each data field. Currently there are approximately 600 data tests that have been developed.

An output from this product will be a data report that will provide 'common' and 'conditional' scores in line with TPR guidelines, and action plans to rectify 'migration critical' areas prior to 31 March 2015.

6.4 Pension Scheme Reforms 2015

6.4.1 Impact on Scheme liability

The Scheme liability disclosed in the Report of the Actuary and the Combined Statement of Financial Position takes account of the expected impact of the scheme reforms due to be introduced from 1 April 2015. The impact of the reforms on the liability shown is limited. This is because over 65% of the current Scheme liabilities (those relating to current pensioners, former members and active members within 10 years of their current normal pension age in 2012) are unaffected by the reforms (note 16.2 provides the liability per member category). Only those active members who are more than 10 years from current normal pension age in 2012 will move to the reformed scheme in April 2015. These members tend to have shorter service than those remaining in the existing scheme and their total liabilities are less than 35% of the scheme's total current liability.

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

6.4.2 System Development

The preferred system solution to deliver the 2015 Scheme requirements involves the migration of pensions data and existing processing functionality to a new system. This will be provided by our

commercial partner Equiniti Paymaster who provide pension services for the NHS Scheme on behalf of the NHSBSA. Activity will also be ongoing to prepare for the re-procurement of the current contract to deliver pension services.

During 2014-15 work will continue to finalise the business rules to support implementation of the 2015 Scheme arrangements within the new system, in addition to transferring all existing processes to administer the 1995 and 2008 scheme arrangements.

6.4.3 NHS Pensions Board

The Public Service Pensions Act 2013 requires the establishment of a Pension Board with responsibility for assisting the Scheme Manager in securing compliance with all relevant pensions law, regulations, directions and the relevant Pensions Regulator's codes of practice. This role is one of assurance and governance of the scheme administration. The NHS Employers organisation, together with the Department of Health and Trade Unions are currently finalising the arrangements for the appointments to the Board, which will have equal numbers of member and employer representatives – currently proposed as six.

In addition, senior NHSBSA managers are working with the Department of Health to establish internal governance arrangements and the NHSBSA relationship with the Pension Board. Although not a legal requirement until April 2015, the Department of Health wish to introduce the Pension Board in shadow form from September 2014, when it will replace the current Governance Group.

6.5 Pension Service Re-procurement

The existing contract with our commercial partner Equiniti Paymaster who provide pension services for the NHS Pension Scheme on behalf of the NHSBSA expires in July 2016. A range of Cabinet Office requirements must be adhered to in relation to the approach and business case required to offer the administration of the pension services for re-tender.

Work will continue during 2014-15 detailing the specific approach for the re-tender process and the extent of what a new commercial partner will be expected to deliver.

6.6 Changes in benefits

Factors relating to the following benefits have been changed from 1 May 2014. This is due to experience analysis undertaken as part of the 2012 Scheme Valuation by the Government Actuaries Department (GAD).

- Early retirement
- Late retirement
- Trivial commutation
- Allocation
- Redundancy
- Abatement

7. INFORMATION FOR MEMBERS

7.1 Pension Increase

The Pensions increase rate was 2.2% (2012-13 - 5.2%) with effect from 8 April 2013 (9 April 2012) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

7.2 Supplementary Information available to members

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

7.3 Information about FSAVCs and Stakeholder Pensions

The Pensions Scheme has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life. These contributions are not contained within the cash flows of the Scheme, but paid directly to the approved provider (please see note 10).

7.4 Disclosure of audit information 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. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the NHS Pension Scheme auditors are aware of that information.

Nick Scholte
Chief Executive, NHS Business Services Authority
4 July 2014

Management structure and advisors

Accounting Officer:

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

Scheme Administrator:

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

Actuary:

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

In-house AVC Providers:

Equitable Life Assurance Society
Walton Street
Aylesbury
Buckinghamshire HP21 7QW

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

Prudential PLC
250 Euston Road
London NW1 2PQ

Auditors:

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

Legal advisers:

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

Bankers:

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

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

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

Further information

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

Report of the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2014

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 2013-14 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 2013, with an approximate updating to 31 March 2014 to reflect known changes.

Membership data

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

Table A – Active members

| 31 March 2013 membership data | | 2013-14 accounts | |
|-------------------------------|---------------------------------|------------------------------------|--|
| Number (thousands) | Total salaries (pa) (£ billion) | Total accrued pensions (£ billion) | Total salaries implied by receipts (£ billion) |
| 1,319 | 39.33 | 7.51 | 40.95 |

Table B – Deferred members

| 31 March 2013 membership data | |
|-------------------------------|---|
| Number (thousands) | Total deferred pension (pa) (£ billion) |
| 537 | 1.49 |

Table C – Pensions in payment

| 31 March 2013 membership data | | 2013-14 |
|-------------------------------|--------------------------------|---------------------------------|
| Number (thousands) | Total pension (pa) (£ billion) | Total pension (pa)* (£ billion) |
| 734 | 5.97 | 6.43 |

*Pension amounts as at 31 March 2014 and so exclude pension increase due in April 2014.

Methodology

5. The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2013-14 Pension Accounts. The contribution rate for accruing costs in the year ended 31 March 2014 was determined using the PUCM and the principal financial assumptions applying to the 2012-13 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.

Table D – Principal financial assumptions

| Assumption | 31 March 2014 | 31 March 2013 |
|----------------------------------|---------------|---------------|
| Rate of return (discount rate) | 4.35% | 4.10% |
| Rate of earnings increases* | 4.50% | 3.95% |
| Rate of future pension increases | 2.50% | 1.70% |
| Rate of return in excess of: | | |
| Pension increases | 1.80% | 2.35% |
| Earnings increases (long term)* | -0.15% | 0.15% |
| Expected return on assets: | n/a | n/a |

* short term adjustments have been made to this assumption for the period 2013 - 2015 inclusive (2012-2015 inclusive for the assessment as at 31 March 2013)

8. The pension increase assumption as at 31 March 2013 and 31 March 2014 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

9. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
10. The standard mortality tables known as S1NXA (for normal health pensioners and dependants) and S1XA (for ill-health pensioners) are used but with the mortality rates reduced to 80% (males) and 85% (females) of actual rates (100% for both male and female future ill-health pensioners). Mortality improvements are in accordance with those incorporated in the 2012-based principal population projections for the United Kingdom. These assumptions have been updated compared to the assumptions adopted for the 2012-13 Resource Accounts, to reflect the recent experience of the scheme, as analysed for the valuation as at 31 March 2012.
11. The reforms to the scheme due to be implemented in April 2015 may affect the behaviour of members, eg members subject to a later normal pension age for accrual after 2015 might be expected to retire later. Although no allowance for any expected

changes was made for the 2012-13 Resource Accounts, the 2013-14 accounts do anticipate expected changes in future retirement patterns for those members transferring to the new scheme in April 2015. The current service cost determined for the period 2014-15 remains based on the continued accrual in the existing scheme.

12. The contribution rate used to determine the accruing cost in 2013-14 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2012-13 Resource Accounts.

Liabilities

13. Table E summarises the assessed value as at 31 March 2014 of benefits accrued under the scheme prior to 31 March 2014, based on the data, methodology and assumptions described in paragraphs 4 to 12. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ Billion

| | 31 March 2014 | 31 March 2013 | 31 March 2012 | 31 March 2011 | 31 March 2010 |
|-----------------------------------|---------------|---------------|------------------|------------------|------------------|
| Total market value of assets | nil | nil | nil | nil | nil |
| Value of liabilities | (337.2) | (284.2) | (247.0) | (257.7) | (287.6) |
| Surplus/(Deficit) | (337.2) | (284.2) | (247.0) | (257.7) | (287.6) |
| of which recoverable by employers | n/a | n/a | n/a | n/a | n/a |

Accruing costs

14. The cost of benefits accruing in the year ended 31 March 2014 (the Current Service Cost) is based on a standard contribution rate of 28.6%. Members contributed between 5.0% and 13.3% 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 9.0%. The corresponding figures for 2012-13 are also included in the table.

Table F – Contribution rate

| | Percentage of pensionable pay | |
|--|-------------------------------|---------|
| | 2013-14 | 2012-13 |
| Standard contribution rate | 28.6% | 25.1% |
| Members' estimated average contribution rate | 9.0% | 7.9% |
| Employers' estimated share of standard contribution rate | 19.6% | 17.2% |

15. For the avoidance of doubt, the actual rate of contributions payable by employers, currently 14.0% of pensionable pay, is not the same as the employers' share of the standard contribution rate as above (19.6% for 2013-14). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Resource Accounts is the discount rate (note1). The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of accounting standard IAS19.
16. The pensionable payroll for the financial year 2013-14 was £40.95 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2013-14 (at 28.6% of pay) is assessed to be £11.7 billion.

Sensitivity analysis

17. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2014 of changes to the main actuarial assumptions.
18. Changes to IAS19 published on 16 June 2011 introduced enhanced disclosure requirements for defined benefits pension schemes, including the NHSPS. In particular, we understand these include a requirement to disclose a sensitivity analysis for each 'significant' actuarial assumption.
19. The principal financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.
20. There is significant uncertainty associated with how members will retire in the future, both for those remaining in the current scheme where recent patterns of retirement have been materially different to historic patterns, and as a result of the scheme reform, for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in the 1995 section and so I have included an indication of the approximate effect (on the total past service liability) of assuming all 1995 section members retire at their Normal Pension Age (on average this equates to members retiring approximately 2 years earlier than assumed). The pattern of retirements from the 2008 section doesn't have a significant impact on the liability as both early and late retirements are subject to actuarial adjustment.

Note 1 – The discount rate used for scheme funding is set by HM Treasury and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The actual rate used to set the 14% employer contribution rate was 3.5% pa (net of pension increases) whereas the 2013-14 accounting figure of 19.6% assumes 2.35%. A higher discount rate results in a lower assessed cost of benefit accrual. The discount rate used for scheme funding was reviewed in 2011 and reduced from 3.5% pa to 3% pa. This new rate will affect the rate of employer contributions payable from April 2015.

21. Table G shows the indicative effects on the total liability as at 31 March 2014 of changes to these assumptions (rounded to the nearest ½%).

Table G - Sensitivity to significant assumptions

| Change in assumption* | | Approximate effect on total liability | |
|------------------------------|---|---------------------------------------|---------------|
| Financial assumptions | | | |
| (i) | discount rate*: -½% a year | + 11.5% | + £39 billion |
| (ii) | (long term) earnings increase*: -½% a year | - 2% | - £7 billion |
| (iii) | pension increases*: -½% a year | - 7.5% | - £25 billion |
| Pensioner mortality | | | |
| (iv) | each pensioner subject to longevity of an individual 1 further year younger than assumed: | + 2% | + £7 billion |
| (v) | 1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier) | + 1.5% | + £5 billion |

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

Sue Vivian
Government Actuary's Department
July 2014

Statement of Accounting Officer's Responsibilities

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

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

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

- Observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

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

ANNUAL GOVERNANCE STATEMENT

Introduction

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

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

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

Scope of Responsibilities

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

The responsibility for case administration remains in-house, but a range of services are partially contracted out to Equiniti Paymaster (EP). The contract with EP can be split into a number of Service Streams outlined below:

- Estates
- Finance
- Communications Centre
- IT
- Pensioner payroll
- Medical Services
- Retained Services

However, as Accounting Officer for the NHSBSA, the Chief Executive has overall responsibility for ensuring that the contracted administrator is managing the risks effectively and for reviewing the effectiveness of the administrator's systems of internal control.

A range of assurance mechanisms are in place to support the management of the contract, including monthly service stream meetings with individual stream managers, monthly reporting against SLA's, and a monthly management group meeting (called Service Review Group) at which important/topical issues emerging from each stream are discussed. Where required this is then escalated further to senior management within the NHSBSA and EP. A robust risk register is in place across all the service streams, and where necessary these are also escalated via the Service Review Group. The NHSBSA Information Governance policies and procedures are shared with, and followed by EP. EP are also required to provide and demonstrate that business continuity plans for all services they provide to NHSBSA for the pensions service are in place.

The Purpose of the Governance Framework

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

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

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

The governance framework and system of internal control have been in place in the NHSBSA for the year ended 31 March 2014 and up to the date of the approval of the annual report and accounts.

NHSBSA Governance Framework

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

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

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

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

NHSBSA Board and Ways of Working

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

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

The roles and responsibilities of these standing committees are described more fully below.

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

Standing Orders. This document is supported by the Standing Financial Instructions and Scheme of Delegation which details which decisions the Board has reserved for itself and those which it has delegated and to whom.

Board

Membership of the Board is currently made up of a Non-executive Chair, up to five other Non-Executive Directors, Chief Executive and up to five Executive Directors. The key roles and responsibilities of the board are as follows:

- To set and oversee the strategic direction of the Authority;
- Continued appraisal of the financial and operational performance of the Authority;
- Direct operational decisions as required;
- To discharge their duties of regulation and control;
- To receive reports and updates from the Standing Committees, and
- To adopt the Annual Report and Accounts.

The board meets not less than eight times during the financial year, to discuss an agenda based on the following key areas:

- operational performance
- corporate governance, risk and regulatory issues, and
- strategy, business planning and improvements.

The Board is responsible for approving the business plan and budget in advance of the financial year and subsequent reporting is based on an exception principle ensuring that the Board focuses on key issues and utilises its time effectively.

The Board receives regular updates from its standing committees on the business covered, risks identified and actions taken. These updates are delivered by the Non-Executive Chair of the respective Committee.

At each meeting, the Board receives an integrated balanced scorecard which summarises:

- performance against the identified key performance indicators;
- the current financial position;
- people related issues;
- customer satisfaction, including complaints;
- client engagement; and
- progress against key change projects.

Board members are required to declare their interests to the Chair and Corporate Secretary in any matter relating to the Authority's business at the time that they become aware of a potential conflict. Members will normally be excluded from the discussion after declaring an interest related to that issue. The minutes of the meeting will record the member's declaration.

The table below shows the number of meetings attended by Board members during the 2013-14 financial year and also highlights their declared business interests.

| Board Composition | Meetings Attended | Register of Interests |
|--|--------------------------|---|
| Non-executive Chair: Silla Maizey (appointed 9 September 2013) | 5 out of 5 | Chair and NED Trustee of British Airways Retirement Plan Director and Company Secretary, Saffron Solutions Ltd |
| Non-executive Chair: Paul Rich (until 31 October 2013) | 3 out of 3 | Non-Executive Director, South East Water |
| Non-executive Directors: Mike Harling (until 31 December 2013) | 6 out of 7 | Shareholder in Deutsche Post Partner is also declared as being a shareholder in Deutsche Post. Receives a pension from the Steria Pension Plan (part of Groupe Steria SCA) Board Member, Guinness South (Housing Association) |
| David Hulf | 8 out of 8 | Non-executive Director and Chair of Audit Committee at National Savings and Investments |
| Anne Galbraith (until March 2014) | 8 out of 8 | Member of Puffin Appeal (charity raising funds for cystic fibrosis) Chair of Valuation Tribunal Service Health Consultant (Self-employed) – Chaired Mental Health Inquiries |
| Jeremy Strachan (until 31 December 2013) | 6 out of 7 | Trustee of Drugscope (National Charitable Trust) |
| David Teale (until 31 December 2013) | 6 out of 7 | Chair of Solutions SK (company wholly owned by Stockport MBC) Chair of Individual Solutions SK Member and Chair of Audit Committee for Parkway Green Housing Trust (charitable trust) Chief Executive of North of England Excellence |
| Chief Executive: Nick Scholte | 8 out of 8 | Nothing declared |
| Executive Directors: Roberta Barker Director of People and Organisational Development | 8 out of 8 | Trustee of Richmondshire Leisure Trust |
| Patrick McGahon Director of Finance (since 5 August 2013) | 5 out of 5 | Nothing declared |
| Alistair McDonald Chief Operating Officer | 8 out of 8 | Nothing declared |
| Steven Pink Commercial Director | 8 out of 8 | Nothing declared |
| Michael Brodie Director of Finance (until 23 June 2013) | 2 out of 2 | Member of Durham University Audit Committee Vice-Chair of the Executive Committee of CIPFA in the North East |

Standing Committees

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

Further details on the NHSBSA's Board and Standing Committees can be found in the main Annual Governance Statement published in the NHSBSA Annual Report and Accounts 2013-14 (www.nhsbsa.nhs.uk/about.aspx).

Annual Committee Effectiveness Reviews

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

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

NHSBSA Board Review of Effectiveness

The NHSBSA Board is required to consider its own effectiveness on a regular basis. Due to the changes of membership throughout 2013-14, including the appointment of a new Chair, the Board has not undertaken a formal review during the year. A review will be undertaken during 2014-15 following the introduction of new members.

During 2013-14, the Board continued to operate within its governance framework and codes of conduct. Furthermore, the Authority has:

- achieved its financial target;
- consistently delivered against its agreed key performance indicators;
- continued to strengthen its assurance process via the assurance map process;
- maintained its robust performance reporting mechanism using a dashboard style approach;
- maintained its risk management procedures using dashboard reporting giving an overview of the risk profile of the whole organisation yet focusing attention on relevant areas; and
- achieved another significant reduction in the number of outstanding internal audit recommendations.

NHSBSA Sponsorship Arrangements

The NHSBSA manages a complex range of business activities on behalf of the DH. Accountability arrangements with the Department comprise an overall Senior Departmental Sponsor, with individual sponsors providing policy direction for each core service stream. A clear ongoing accountability framework is in operation, which includes formal reviews with Senior Sponsors. This will be consolidated in 2014-15 by the introduction of a formal framework agreement between the NHSBSA and DH. Strategic, policy and operational issues are reviewed alongside the corporate risk register, assurance arrangements and the latest financial position. Additionally, regular scheduled meetings are held with the individual service sponsors.

External Auditors

The National Audit Office (NAO) is appointed by Statute as external auditors for the NHS Pension Scheme accounts. The NAO do not undertake any non-audit services on behalf of the NHSBSA.

NHSBSA Management

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

Further details of the Leadership Team responsibilities can be found in the main Annual Governance Statement published in the NHSBSA Annual Report and Accounts 2013-14 (www.nhsbsa.nhs.uk/about.aspx).

Key Governance Systems

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

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

The Audit and Risk Management Committee regularly review these areas to ensure that they remain robust and effective.

Risk Management

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

Process – The NHSBSA Risk Management Framework comprises of the:

- NHSBSA Risk Management Policy;
- NHSBSA Risk Management Methodology; and
- NHSBSA Risk and Issue Register Dashboard

These are applied consistently across the Authority, with risks and issues being escalated up the hierarchy as dictated by our policy. These tiers consist of:

- **Operational/ Corporate Teams** – Risks and issues are managed on an ongoing basis as part of business-as-usual, with registers owned and managed by the Team Head.
- **Project/ Programme** – Risks are reviewed and managed by Project Managers part of the project governance process. Significant risks and issues are escalated to the Programme Manager and Change Team and these are also reported to the Leadership Team on a monthly basis.

- **Corporate** – Each quarter the leadership team review the top-level Corporate Risk Register. This review is informed by a summary paper on risks and issues across the Authority created by the Corporate Governance Team in collaboration with the Operational/ Corporate Heads and Transformation Team Managers (Risk Group). The Leadership Team is also free to identify further risks and issues at this meeting.
- **Audit and Risk Committee** – Following the quarterly review of the Corporate Risk Register by the Leadership Team, the Committee receives an update on the work undertaken in the area of risk and issue management. The Committee also receives a copy of the Corporate Risk Register. This process enables the Committee to provide assurances to the Board that risks and issues are being appropriately identified and managed across the business.

Reviews and Improvements - During 2013-14 improvements have been made to the arrangements in place to support the operation of the Risk Management Framework, specifically:

- operational/ corporate team reviews, led by the Corporate Governance Function;
- review of existing risk registers, rationalising where possible, and extending coverage to new areas of the business; and
- restructure of Transformation Team, establishing a quality assurance function and updating the risk management escalation process, improving the way in which transformation and change risks are collated, reviewed and reported.

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

- **New Pension Scheme 2015 (the Hutton Review)**

A new Pension Scheme for the NHS is due to be introduced from April 2015. At this time, the final requirements for the new scheme are not entirely finalised and there are a number of additional compliance requirements. Together with the upcoming requirement to re-let the Pension service contract, the NHSBSA faces a risk around delivering an optimal solution within the required timeframes. This could lead to additional costs for the Authority and possible service issues for customers.

This was the top risk for the Authority for the majority of the year. The rating was reduced in early 2014 due to business case approval and the funding allocation been agreed. Work has also progressed successfully on the specification of requirements, technical approach, and the development of a solution is progressing to schedule. Also, planning for Interim Operating Model has commenced. 2014-15 will see the continuation of close project monitoring and implementation.

- **Pension Service Re-procurement**

The existing contract with our partner Equiniti Paymaster to provide Pension Services is due to expire. A range of Cabinet Office requirements in relation to the business case and the requirements of Government Digital Services (GDS) create a risk for the NHSBSA which could affect the timeline for the re-procurement of the Pension service re-procurement.

This is now the highest rated risk for the Authority. Mitigation measures include ongoing engagement with approval bodies and stakeholders, and close monitoring of the 2015 Scheme implementation project. In addition, the NHSBSA is increasing the capacity and capability of the project team.

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

Assurance Arrangements

The NHSBSA continues to use an assurance map approach, using the industry best practice three lines of defence model, to identify the sources of assurance in place over each of the key functions and services delivered by the Authority. The three lines of defence represent:

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

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

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

Following initial review of the assurance map to ensure the readiness of statutory functions for the transition to the new NHS landscape, the NHSBSA has continued to monitor this on an ongoing basis, in recognition that the changes continue to develop and become embedded. The assurance map and review process continues to show compliance.

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

Managing Information

During 2013-14 the NHSBSA has continued to improve its approach to handling information efficiently and securely. Each year, the NHSBSA undertakes a detailed self-assessment using the NHS-wide Information Governance Toolkit. Using this toolkit, the NHSBSA's rating for 2013-14 was a satisfactory rating with a compliance level of 85%.

The NHSBSA did not have any security incidents classified as serious untoward incidents by the DH. However, using the DH categorisation framework, there was one incident in relation to the Pension Scheme (classed as minor), to report during the year. This related to a number of NHS Pensions Scheme members. As it was not level 2 or above, they were not reported to the DH.

| Category | Nature of Incident | Total |
|----------|---|----------|
| I | Loss of inadequately protected electronic equipment, devices or paper documents from secured NHS premises | 0 |
| II | Loss of inadequately protected electronic equipment, devices or paper documents from outside secured NHS premises | 0 |
| III | Insecure disposal of inadequately protected electronic equipment, devices or paper documents | 0 |
| IV | Unauthorised disclosure | 1 |
| V | Other | 0 |
| | Total Number of incidents | 1 |

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

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

Data Protection and Freedom of Information

As a Special Health Authority, the NHSBSA is subject to the requirements of the Data Protection Act (DPA) 1998 and the appropriate notifications have been filed with the Information Commissioner's Office. This means that all subject access requests are responded to within the provisions of the Act, typically within 40 calendar days.

During 2013-14, we dealt with 96 DPA requests relating to the NHS Pension Scheme, all bar 2 were responded to within the required timeframe. The numbers of requests have increased by 33% when compared to last year.

The NHSBSA is also subject to the requirements of the Freedom of Information Act (FOI) 2000. This means that all requests for information are responded to within the provisions of the Act, typically within 20 working days. During 2013-14, we dealt with 32 FOI requests relating to the NHS Pension Scheme, all bar 1 were responded to within the required timeframe. The number of requests has decreased by 48% when compared to last year.

As a public sector information holder, the NHSBSA complies with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. The NHSBSA can confirm that no charges were made for access to information during 2013-14.

Handling Complaints

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

During 2013-14 further improvements were made to the complaints handling processes. The NHSBSA handled an increased number of issues which may have led to formal complaints through the customer contact centre and helped customers to have their concerns dealt with quickly and effectively. This approach has dramatically reduced the number of formal complaints received during the year compared to the previous year.

The total number of formal complaints received relating to the NHS Pension Scheme during 2013-14 was 2 of which both were found to be justified. This compares with 1 which was upheld in 2012-13.

Sources of Assurance

Audit and Risk Management Committee

One of the key sources of assurance provision for the Authority's Board is from the Audit and Risk Management Committee. The Committee meets these responsibilities by receiving regular reports on a range of audit and assurance topics. The following is a list of the key reports:

- **Quarterly risk management updates** - setting out and assessing the major risks and issues facing the Authority, aligned with key areas of focus set out in the Business Plan. These reports detail the movements in risks and issues between reporting periods and identify emerging risks and issues, and actions which have been taken or are planned to mitigate them;
- **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;
- **Assurance Map Review** – two reviews of the overarching NHSBSA Assurance Map each year;
- **Assurance Map Deep Dives** - individual business area assurance maps as part of a programme of deep dive exercises to consider the control environment in operation throughout the Authority;
- **Internal Audit Workplan Tracker** - regular progress reports on the work undertaken by Internal Audit against the agreed workplan;
- **Internal Audit Recommendations Tracker** - quarterly updates on progress made across the Authority implementing internal audit recommendations;
- **External Audit Recommendations Tracker** - quarterly updates on progress made across the Authority implementing external audit recommendations;
- **Local Counter Fraud Specialist (LCFS) / Local Security Management Specialist (LSMS) Annual Reports** - reports detailing the work undertaken during the year mapped against the agreed workplans;
- **Whistleblowing Update Report** – two updates on whistleblowing activity across the business each year, and
- **Third Party Assurance Reports** - the outcome of the third party assurance engagements undertaken by Health Group Internal Audit Services (HGIAS) to review the control environment covering prescription, dental and student bursary payments. The outcome of these engagements is shared with CCG's, Area Teams and the Welsh Audit Commission, as appropriate, to provide third party assurance for the payments made by the NHSBSA on their behalf.

Other Sources of Assurance

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

- **Risk Management Process** – see Risk Management section within the NHSBSA Annual Report and Accounts
- **Enhanced Performance Management Framework** - reviewed by the Leadership Team on a monthly basis and by the Board at each meeting. The framework provides a balanced scorecard approach covering the key areas of performance;
- **Information Governance and Security Group (IGSG)** - all information risks are reviewed by the IGSG on a regular basis. The Group is also responsible for ensuring that the Authority complies with information governance and security best practice and performs a self-assessment against a nationally developed toolkit;
- **Equality and Diversity Committee** - controls are in place to ensure that all the Authority's obligations under equality, diversity and human rights legislation are adhered to. The Equality and Diversity Committee, which is chaired by the Executive Director Equality Champion, monitors performance against the Authority's Equality Strategy and achievement of its Equality Objectives.
- **NHS Pension Scheme** - as an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations, and
- **Corporate Responsibility** - updates on performance against our Corporate Responsibility targets, i.e. environmental, Health and Safety and Community, are received quarterly to ensure that the Authority's targets are being met. The Authority is also required to deliver against the Greening Government Commitments, requiring regular performance updates provided to the DH, and subsequently central government.

Accounting Officer's 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 2013-14 the Head of Internal Audit Opinion concluded that based on the work completed to date there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and / or inconsistent application of controls, puts the achievement of particular objectives at risk. These weaknesses have been raised in relevant Internal Audit reports and recommendations agreed with the appropriate Senior Management Teams. Progress against these recommendations is monitored on a regular basis by Senior Management Teams, Leadership Team and Audit and Risk Management Committee.

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

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

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

Significant Governance Issues

There were no significant governance issues to report during 2013-14.

Conclusion

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

Nick Scholte
Chief Executive
NHS Business Services Authority
4 July 2014

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

I certify that I have audited the financial statements of the NHS Pension Scheme and the NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2014 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Date 16 July 2014

**Statement of Parliamentary Supply
Summary of Resource and Capital Outturn 2013-14**

| £000 | | | | | | | | 2013-14 | 2012-13 |
|---|--------------|-------------------|---------------|-------------------|-------------------|---------------|-------------------|--|-------------------|
| | Estimate | | | | Outturn | | | Voted outturn compared with Estimate: saving/ (excess) | Outturn |
| | Note | Voted | Non- Voted | Total | Voted | Non- Voted | Total | | |
| Departmental Expenditure Limit | | | | | | | | | |
| - Resource | | - | - | - | - | - | - | - | - |
| - Capital | | - | - | - | - | - | - | - | - |
| Annually Managed Expenditure | | | | | | | | | |
| - Resource | SoPS2 | 14,023,000 | - | 14,023,000 | 13,932,608 | | 13,932,608 | 90,392 | 13,103,319 |
| - Capital | | - | - | - | - | - | - | - | - |
| Total Budget | | 14,023,000 | - | 14,023,000 | 13,632,608 | | 13,932,608 | 90,392 | 13,103,319 |
| Non-Budget | | | | | | | | | |
| - Resource | | - | - | - | - | - | - | - | - |
| Total | | 14,023,000 | - | 14,023,000 | 13,932,608 | | 13,932,608 | 90,392 | 13,103,319 |

| | | | | | | | | | |
|----------------|--|-------------------|---|-------------------|-------------------|---|-------------------|---------------|-------------------|
| Total Resource | | 14,023,000 | - | 14,023,000 | 13,932,608 | - | 13,932,608 | 90,392 | 13,103,319 |
| Total Capital | | - | - | - | - | - | - | - | - |
| Total | | 14,023,000 | - | 14,023,000 | 13,932,608 | - | 13,932,608 | 90,392 | 13,103,319 |

Net Cash Requirement 2013-14

| £000 | Note | 2013-14 | 2013-14 | | 2012-13 |
|------|--------------|--------------------|--------------------|--|--------------------|
| | | Estimate | Outturn | Outturn compared with Estimate (savings)/ excess | Outturn |
| | SoPS4 | (1,021,017) | (1,196,013) | (174,996) | (1,115,177) |

Administration Costs 2013-14

| 2013-14 Estimate | 2013-14 Estimate | 2012-13 Outturn |
|---------------------|---------------------|--------------------|
| - | - | - |

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

Explanations of variances between Estimate and outturn are given in SoPS2 and SoPS4.

Notes to the Statement of Parliamentary Supply

SOPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with HM-Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but in certain circumstances differences may arise. There are no NHS Pension Scheme transactions that are treated differently in National Accounts and IFRS-based accounts. Therefore, there are no reconciling differences between net resource outturn and net expenditure.

SOPS2. Net outturn – analysis by section

| £000 | 2013-14 | | | | | | | | | | 2012-13 |
|-------|----------------|-----|-------|-----------|-----|--|----------|-----------|--------------------------------|--|---------|
| | Outturn | | | | | | Estimate | | | | Outturn |
| | Administration | | | Programme | | | Total | Net Total | Net total compared to Estimate | Net total compared to Estimate, adjusted for virements | Total |
| Gross | Income | Net | Gross | Income | Net | | | | | | |

Spending in Departmental Expenditure

| Limit | | | | | | | | | | | | |
|-------------------------------------|---|---|---|-------------------|--------------------|-------------------|-------------------|-------------------|---------------|---------------|-------------------|---|
| Voted: | - | - | - | - | - | - | - | - | - | - | - | - |
| Non Voted: | - | - | - | - | - | - | - | - | - | - | - | - |
| Annually Managed Expenditure | | | | | | | | | | | | |
| Voted: | | | | | | | | | | | | |
| A-Pensions | - | - | - | 23,700,314 | (9,767,706) | 13,932,608 | 13,932,608 | 14,023,000 | 90,392 | 90,392 | 13,103,319 | - |
| Non Voted | - | - | - | - | - | - | - | - | - | - | - | - |
| Non-budget | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | - | - | - | 23,700,314 | (9,767,706) | 13,932,608 | 13,932,608 | 14,023,000 | 90,392 | 90,392 | 13,103,319 | - |

Explanation of the variance between Resource Estimate and outturn:

The outturn is less than the Estimate due primarily to: 1) income being £30 million higher than forecast primarily due to contributions being higher than forecast and 2) expenditure being £60 million less than forecast primarily due to the interest charge being less than forecast.

SOPS3. Reconciliation of outturn to net expenditure

| | SoPS Note | 2013-14 Outturn £000 | 2012-13 Outturn £000 |
|---|-----------|----------------------------|----------------------------|
| Total resource outturn in Statement of Parliamentary Supply | | 13,932,608 | 13,103,319 |
| Income payable to the Consolidated Fund | | - | - |
| Combined net expenditure in Statement of Comprehensive Net Expenditure | | 13,932,608 | 13,103,319 |

SOPS4. Reconciliation of Net Resource Outturn to Net Cash Requirement

| | 2013-14 | 2013-14 | 2013-14 |
|---|--------------------|--------------------|---|
| | Estimate | Outturn | Net total outturn compared with Estimate: (saving)/excess |
| SoPS Note | £000 | £000 | £000 |
| Resource Outturn | | | |
| Capital Outturn | | | |
| | 14,023,000 | 13,932,608 | (90,392) |
| | - | - | - |
| Accruals to cash adjustment: | | | |
| Adjustments to remove non-cash items | | | |
| Non-cash items | (23,760,000) | (23,700,314) | 59,686 |
| Adjustments to reflect movements in working balances | | | |
| Changes in payables, receivables and prepaid pension benefits | 983 | (144,746) | (145,729) |
| Use of provision | 8,715,000 | 8,716,439 | 1,439 |
| Net cash requirement | (1,021,017) | (1,196,013) | (174,996) |

Explanation of variance between Net Cash Requirement Estimate and outturn:

The NCR for the NHS Pension Scheme currently refers to the amount of surplus cash the scheme generates each year as income exceeds pension benefits paid. The outturn was more than the Estimate due primarily to income being higher than forecast by £30 million, and the net asset position being lower than forecast by £143 million and pension benefit payments being higher than forecast by £2 million.

SOPS5. Analysis of income payable to the Consolidated Fund

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

| | Outturn 2013-14 | | Outturn 2012-13 | |
|--|-----------------|-------------------------|-----------------|-------------------------|
| | Income | Receipts | Income | Receipts |
| | £000 | £000 | £000 | £000 |
| Income outside the ambit of the Estimate | - | - | - | - |
| Excess cash surrenderable to the Consolidated Fund | - | <i>1,196,013</i> | - | <i>1,115,177</i> |
| Total income payable to the Consolidated Fund | - | <i>1,196,013</i> | - | <i>1,115,177</i> |

**Combined Statement of Comprehensive Net Expenditure
for the year ended 31 March 2014**

| | Note | <u>2013-14</u> £000 | <u>2012-13</u> £000 |
|---|------|---------------------------|---------------------------|
| Income | | | |
| Contributions receivable | 3 | (9,613,427) | (8,819,364) |
| Transfers in | 4 | (69,333) | (82,183) |
| Other pension income | 5 | (84,946) | (265,553) |
| | | <u>(9,767,706)</u> | <u>(9,167,100)</u> |
| Expenditure | | | |
| Service Cost | 6 | 11,700,000 | 9,900,000 |
| Enhancements | 7 | 230,981 | 288,236 |
| Transfers in | 8 | 69,333 | 82,183 |
| Pension financing cost | 9 | 11,700,000 | 12,000,000 |
| | | <u>23,700,314</u> | <u>22,270,419</u> |
| Net Expenditure | | <u>13,932,608</u> | <u>13,103,319</u> |
| Other Comprehensive Net Expenditure | | | |
| Revaluation cost of estimated discounted future cash flows in respect of early retirement charges | 13 | 39,174 | 39,250 |
| Pension re-measurements | | | |
| Actuarial loss | 16.7 | 38,016,125 | 22,968,055 |
| Other remeasurements | | - | - |
| Total Comprehensive Net Expenditure for the year ended 31 March 2014 | | <u>51,987,907</u> | <u>36,110,624</u> |

The notes on pages 45 to 59 form part of these accounts.

Combined Statement of Financial Position
as at 31 March 2014

| | | 31 March 2014 | 31 March 2013 |
|--|------|--------------------------|--------------------------|
| | Note | £000 | £000 |
| Current assets: | | | |
| Receivables | 11.1 | 744,920 | 668,590 |
| Cash and cash equivalents | 12 | 1,196,013 | 1,115,177 |
| Prepayments – prepaid pension benefits | 14 | - | 170,153 |
| Total current assets | | 1,940,933 | 1,953,920 |
| Current liabilities: | | | |
| Payables (within 12 months) | 15.1 | (1,570,696) | (1,438,937) |
| Net assets, excluding pension liability | | 370,237 | 514,983 |
| Estimated discounted future cashflows in respect of premature retirement recharges | 13 | 622,778 | 661,952 |
| Pension liability | 16.4 | (337,200,000) | (284,200,000) |
| Net liabilities, including pension liability | | (336,206,985) | (283,023,065) |
| Taxpayers' equity: | | | |
| General fund | | (336,206,985) | (283,023,065) |
| | | (336,206,985) | (283,023,065) |

Nick Scholte
Chief Executive
NHS Business Services Authority
4 July 2014

The notes on pages 45 to 59 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2014

| | Note | <u>2013-14</u> | <u>2012-13</u> |
|---|------|----------------------|----------------------|
| | | £000 | £000 |
| Balance at 1 April | | (283,023,065) | (245,797,264) |
| Net Parliamentary Funding – draw down | | - | - |
| Net Parliamentary Funding - deemed | | - | - |
| Consolidated Fund Standing Services | | - | - |
| Supply payable/(receivable) adjustment | | - | - |
| Excess Vote – prior year | | - | - |
| Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges | 13 | (39,174) | (39,250) |
| CFERs payable to the Consolidated Fund | | (1,196,013) | (1,115,177) |
| Comprehensive Net Expenditure for the Year | | (13,932,608) | (13,103,319) |
| Actuarial loss – NHS Pension Scheme | 16.7 | (38,016,125) | (22,968,055) |
| Net change in Taxpayers' Equity | | (53,183,920) | (37,225,801) |
| Balance at 31 March | | (336,206,985) | (283,023,065) |

The notes on pages 45 to 59 form part of these accounts.

Combined Statement of Cash Flows
for the year ended 31 March 2014

| | 2013-14 | 2012-13 |
|---|--------------------|------------------|
| Note | £000 | £000 |
| Cash flows from operating activities | | |
| Net (expenditure)/income for the year | SoPS2 (13,932,608) | (13,103,319) |
| Adjustments for non-cash transactions: | | |
| Increase in receivables | (76,330) | (66,089) |
| Increase in payables | 50,923 | 32,235 |
| Increase/(Decrease) in pension provision | 16.4 23,400,000 | 21,900,000 |
| Increase in pension provision – enhancements and transfers in | 16.4 300,314 | 370,419 |
| Pre-paid pension benefits | 14 170,153 | 20,405 |
| Use of provisions – pension liability | 16.5 (8,439,061) | (7,764,757) |
| Use of provisions – refunds and transfers | 16.6 (277,378) | (273,717) |
| Net cash inflows from operating activities | 1,196,013 | 1,115,177 |
| Cash flows from financing activities | | |
| From the Consolidated Fund (Supply) – current year | - | - |
| From the Consolidated Fund (Supply) – prior year | - | - |
| From the Consolidated Fund (non-Supply) | - | - |
| Net Parliamentary financing | - | - |
| Adjustments for payments and receipts not related to Supply | - | - |
| Net financing | - | - |
| Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund | 1,196,013 | 1,115,177 |
| Receipts due to the Consolidated Fund which are outside the Scope of the Scheme's activities | - | - |
| Payments of amounts to the Consolidated Fund | (1,115,177) | (778,787) |
| Net increase in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund | 80,836 | 336,390 |
| Cash and cash equivalents at the beginning of the period | 1,115,177 | 778,787 |
| Cash and cash equivalents at the end of the period | 1,196,013 | 1,115,177 |

The notes on pages 45 to 59 form part of these accounts.

Notes to the Financial Statements

1. Basis of preparation of the Scheme financial statements

The financial statements of the combined NHS Pension Scheme and NHS Pension for Premature Retirement Scheme have been prepared in accordance with the relevant provisions of the 2013-14 *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 Employee benefits and IAS 26 Accounting and Reporting by Retirement Benefits Plans are of particular relevance to these statements.

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

1.1 NHS Pension Scheme

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

Contributions to the Scheme by employers and employees were set at rates determined by the Scheme's Actuary and approved by the Secretary of State for Health for 2013-14. The income received where contributions are the main element currently exceed payments made by the Scheme, the balance of surplus cash being returned to HM Treasury. If payments exceed income, the balance of the funding would need to be provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the NHSBSA and reported in their financial statements.

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

1.2 NHS Pension for Premature Retirement Scheme

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

2. Statement of accounting policies

The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Accounting policies for the NHS Pension Scheme

2.2.1 Contributions receivable

- Employers' normal pension contributions are accounted for on an accruals basis.
- Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.
- Employees' normal pension contributions are accounted for on an accruals basis.
- Employees' contributions paid in respect of the purchase added years are accounted for on an accruals basis, and additional pension contributions are accounted for on a cash basis. The associated increase in the scheme liability is recognised as expenditure. Where Scheme members make additional voluntary contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 10 to the financial statements. Please refer to Note 10 for further information on Scheme AVC providers.

2.2.2 Transfers in and out

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

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

2.2.3 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a real discount rate of 2.35% (2012-13 2.80%) and 4.10% including inflation (2012-13 4.85%). These assumptions are used to calculate the in year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability

2.2.4 Past service cost

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

2.2.5 Interest on Scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a gross discount rate 4.10% (2012-13 4.85%).

2.2.6 Scheme Liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and as at 31 March 2013 was discounted at a real discount rate of 2.35% (i.e. 4.10% including inflation). The discount rate changed on 31 March 2014 to 1.80% and the Scheme was discounted at that rate. Further details of the financial assumptions used are set out at Note 16.1 to these accounts and in the Report of the Actuary on pages 17 to 21. For the purposes of IAS26 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. A full member data extract as at 31 March 2013 was provided to the GAD to facilitate a full actuarial valuation that has been used in the preparation of pension accounts for 2013-14.

2.2.7 Pension benefits payable

Pension benefits payable due to age, ill health retirements, and voluntary early retirement are accounted for as a decrease in the scheme liability on an accrual basis. Where benefits fall on a weekend or bank holiday benefits will be paid on the last working day before the benefits are due, and are classed as a prepayment (note14).

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

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

2.2.9 Lump sums payable on death in service

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

2.2.10 Actuarial gains / losses

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

2.2.11 Additional Voluntary Contributions

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

2.2.12 Other Income

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

2.2.13 Administration expenses

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

2.3 Accounting policies for the NHS Compensation for Premature Retirement Scheme

Compensation payments or the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, benefits are paid initially by the NHS Pension Scheme throughout the month and recovered from employers on a quarterly basis (this method is referred to as "quarterly recharging"). This arrangement ceased for employers from 1 October 2011 but the costs for historic cases are still being met by employers. Employers are able to discharge their liability for these historic cases by a lump sum payment, and are then accounted for as Other Income (see note 5).

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

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

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

Where the employer chooses to pay by one-off lump sum, this amount is recognised as income at the point the employee's pension becomes payable. Any amounts receivable in respect of an employer's decision to allow an employee's early departure, where the employer has discharged

their liability by way of a capitalised payment, are accounted for as Other Pension Income (see note 5).

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

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

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

Where the employer chose to pay quarterly, income is recognised as invoices are raised. Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as "Other Pension Income" (see note 5) to the pension scheme. The employer may also choose to settle their future liability by way of a capital sum.

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

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

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

2.4 Changes to International Financial Reporting Standards

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

2.5 Changes to the Financial Reporting Manual

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

3. Contributions receivable

| | 2013-14 | 2012-13 |
|---------------------------------|--------------------|--------------------|
| | £000 | £000 |
| Employers | (5,733,885) | (5,513,851) |
| Employees: | | |
| Normal | (3,692,210) | (3,098,342) |
| Purchase of added years | (170,398) | (190,128) |
| Purchase of additional pensions | (16,934) | (17,043) |
| | (9,613,427) | (8,819,364) |

£9,933 million contributions are expected to be payable to the Scheme in 2014-15.

4. Transfers in

| | 2013-14 | 2012-13 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Individual transfers in from other schemes | (69,254) | (81,412) |
| Group transfers in from other schemes | (79) | (771) |
| | (69,333) | (82,183) |

5. Other pension income

| | 2013-14 | 2012-13 |
|---|-----------------|------------------|
| | £000 | £000 |
| Pre funded premature retirement contributions | (43,649) | (81,065) |
| Rechargeable premature retirement contributions | (38,789) | (46,337) |
| Capitalised rechargeable premature retirement contributions | (2,508) | (138,151) |
| | (84,946) | (265,553) |

6. Service cost

| | 2013-14 | 2012-13 |
|----------------------|-------------------|------------------|
| | £000 | £000 |
| Past service cost | - | - |
| Current service cost | 11,700,000 | 9,900,000 |
| | 11,700,000 | 9,900,000 |

7. Enhancements (see notes 3 and 5)

| | 2013-14 | 2012-13 |
|--|----------------|----------------|
| | £000 | £000 |
| Employees: Purchase of added years | 170,398 | 190,128 |
| Employees: Purchase of additional pension | 16,934 | 17,043 |
| Employers: Pre-funded premature retirement contributions | 43,649 | 81,065 |
| | 230,981 | 288,236 |

8. Transfers in – additional liability (see note 4)

| | 2013-14 | 2012-13 |
|--|----------------|----------------|
| | £000 | £000 |
| Individual transfers in from other Schemes | 69,254 | 81,412 |
| Group transfers in from other schemes | 79 | 771 |
| | 69,333 | 82,183 |

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

9. Pension financing cost (see also note 16.4)

| | 2013-14 | 2012-13 |
|------------------------------|-------------------|-------------------|
| | £000 | £000 |
| Interest charge for the year | 11,700,000 | 12,000,000 |

10. 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:

| | 2013-14 | 2012-13 |
|--|----------------|----------------|
| | £000 | £000 |
| The Equitable Life Assurance Society (ELAS) | | |
| Movements in the year were as follows: | | |
| Balance at 1 April | 110,718 | 109,973 |
| New investments | 1,065 | 1,328 |
| Sale of investments to provide pension benefits | (7,449) | (11,162) |
| Changes in market value of investments | 5,817 | 10,579 |
| Balance at 31 March | 110,151 | 110,718 |
| Contributions received to provide life cover | 25 | 29 |
| Benefits paid on death | 170 | 157 |
| | 2013-14 | 2012-13 |
| | £000 | £000 |
| Standard Life Assurance Company | | |
| Movements in the year were as follows: | | |
| Balance at 1 April | 123,500 | 115,831 |
| New investments | 3,160 | 3,588 |
| Sale of investments to provide pension benefits | (10,173) | (9,010) |
| Changes in market value of investments | 9,011 | 13,091 |
| Balance at 31 March | 125,498 | 123,500 |
| Contributions received to provide life cover | - | - |
| Benefits paid on death | - | - |

| | 2013-14 | 2012-13 |
|---|---------------|---------------|
| | £000 | £000 |
| Prudential Plc | | |
| Movements in the year were as follows: | | |
| Balance at 1 April | 52,482 | 49,341 |
| Adjustment * | 171 | - |
| New investments | 2,462 | 2,735 |
| Sale of investments to provide pension benefits and switches to new funds | (5,410) | (4,019) |
| Changes in market value of investments | 3,361 | 4,425 |
| Balance at 31 March | <u>53,066</u> | <u>52,482</u> |
| Contributions received to provide life cover | - | - |
| Benefits paid on death | 32 | 35 |

*The closing balance as at 31st March 2013 has been restated due to post audit change to the closing balance previously advised by Prudential.

11. Receivables – contributions due in respect of pensions

Employers are responsible for the payment to the Pension Scheme of both Employer and Employee contributions. Contributions relating to one month should be paid over by the employer by the 19th of the following month. Employers are also responsible to pay contributions relating to premature retirements where the employer is responsible for any enhancement to the member pension. Where a member has been overpaid their pension benefits, the outstanding debtor is now disclosed within receivables. The total amount of debt written off during the year is shown within the note on losses (note 19).

11.1 Analysis by type

| | 31 March 2014 | 31 March 2013 |
|---|------------------|------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Pension contributions due from employers | 431,244 | 382,237 |
| Employees' normal contributions | 273,846 | 207,999 |
| Purchase of added years | 14,647 | 14,965 |
| Purchase of additional pensions | 1,056 | 1,279 |
| Invoiced pre-funded premature retirement contributions | 4,098 | 41,906 |
| Invoiced re-chargeable premature retirement contributions | 9,585 | 9,469 |
| Overpaid pension benefits | 10,444 | 10,735 |
| Total due within one year | <u>744,920</u> | <u>668,590</u> |
| Amounts falling due after more than one year | - | - |
| Total receivables | <u>744,920</u> | <u>668,590</u> |

11.2 Analysis by organisation

| | Amounts falling due within one year | |
|---|--|------------------|
| | 31 March 2014 | 31 March 2013 |
| | £000 | £000 |
| Balances with other central government bodies | 58,797 | 85,936 |
| Balances with local authorities | 2,987 | 257 |
| Balances with NHS Bodies | 545,416 | 484,509 |
| Balances with public corporations and trading funds | - | 106 |
| Balances with public sector organisations | 607,200 | 570,808 |
| Balances with bodies external to government | 137,720 | 97,782 |
| Total receivables | 744,920 | 668,590 |

12. Cash and cash equivalents

| | 2013-14 | 2012-13 |
|--|------------------|------------------|
| | £000 | £000 |
| Balance at 1 April | 1,115,177 | 778,787 |
| Net change in cash balances | 80,836 | 336,390 |
| Balance at 31 March | 1,196,013 | 1,115,177 |
| The following balances at 31 March were held at: | | |
| Government Banking Service | 1,193,113 | 1,107,819 |
| Commercial banks and cash in hand | 2,900 | 7,358 |
| Balance at 31 March | 1,196,013 | 1,115,177 |

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

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

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

| | 2013-14 | 2012-13 |
|---|----------------|----------------|
| | £000 | £000 |
| Balance at 1 April | 661,952 | 701,202 |
| Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements | (39,174) | (39,250) |
| Balance at 31 March | 622,778 | 661,952 |

14. Prepayments – prepaid pension benefits

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

| | 31 March 2014 | 31 March 2013 |
|--------------------------|--------------------------|--------------------------|
| | £000 | £000 |
| Prepaid pension benefits | - | 170,153 |
| Total | - | 170,153 |

15. Payables – in respect of pensions

15.1 Analysis by type

| | 31 March 2014 | 31 March 2013 |
|---|--------------------------|--------------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Pensions | (280,369) | (247,331) |
| HMRC | (88,718) | (73,245) |
| Voluntary deductions | (197) | (196) |
| Amounts due to employers: | | |
| Initial widows claims | - | (11) |
| Employee and employer contributions | (5,398) | (2,377) |
| Prefunded premature retirements | - | (598) |
| Rechargeable premature retirements | (1) | (2) |
| | <u>(374,683)</u> | <u>(323,760)</u> |
| Amounts due to be paid to the Consolidated Fund: | | |
| Received relating to Supply | (1,196,013) | (1,115,177) |
| | <u>(1,570,696)</u> | <u>(1,438,937)</u> |
| Amounts falling due after more than one year | - | - |
| Total payables | (1,570,696) | (1,438,937) |

15.2 Analysis by organisation

| | Amounts falling due within one year | |
|---|--|--------------------------|
| | 31 March 2014 | 31 March 2013 |
| | £000 | £000 |
| Balances with other central government bodies | (1,284,731) | (1,189,021) |
| Balances with local authorities | - | - |
| Balances with NHS Bodies | (45) | (12) |
| Balances with public corporations and trading funds | - | - |
| Balances with public sector organisations | (1,284,776) | (1,189,033) |
| Balances with bodies external to government | (285,920) | (249,904) |
| Total payables | (1,570,696) | (1,070,312) |

16. Provisions for pension liabilities

16.1 Assumptions underpinning the provision for pension liability

The NHS Pension Scheme is an unfunded defined benefit Scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2014. The Report of the Actuary's on pages 17 to 21 sets out the scope, methodology and results of the work the actuary has carried out.

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

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

The membership data used was based on the position as at 31 March 2013, and the results rolled forward to 31 March 2014 to estimate the position in 2013-14.

The key assumptions used by the Actuary were:

| At 31 March | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|-------|-------|-------|-------|-------|
| Rate of increase in salaries | 4.5% | 3.95% | 4.25% | 4.90% | 4.29% |
| Rate of increase in pensions in payment and deferred pensions | 2.5% | 2.2% | 5.2% | 3.1% | 0.0% |
| Inflation assumption | 2.5% | 1.70% | 2.00% | 2.65% | 2.75% |
| Nominal discount rate | 4.35% | 4.10% | 4.85% | 5.60% | 4.60% |
| Discount rate net of price inflation | 1.8% | 2.35% | 2.80% | 2.90% | 1.80% |
| | | | | | |
| Life expectancy in years (Note 1) | | | | | |
| Current pensioners | | | | | |
| Males (age 60) | 30.4 | 29.1 | 29.0 | 29.1 | 29.1 |
| Males (age 65) | 25.4 | 24.3 | 24.1 | 24.2 | 23.9 |
| Females (age 60) | 32.4 | 31.7 | 31.6 | 31.6 | 32.3 |
| Females (age 65) | 27.3 | 26.7 | 26.6 | 26.6 | 27.1 |
| | | | | | |
| Future pensioners (Note 2) | | | | | |
| Males (age 60) | 32.1 | 30.9 | 30.8 | 30.7 | 30.6 |
| Males (age 65) | 27.6 | 26.5 | 26.4 | 26.2 | 26.0 |
| Females (age 60) | 34.1 | 33.4 | 33.3 | 33.1 | 33.8 |
| Females (age 65) | 29.5 | 28.9 | 28.8 | 28.5 | 29.1 |

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

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

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

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

In accordance with IAS19 the Scheme managers are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analysis, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analysis, are included in the analysis of pension liabilities below.

16.2 Analysis of the provision for pension liability

| At 31 March | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Active members (past service) | 188.3 | 156.9 | 143.5 | 156.4 | 177.1 |
| Deferred Pensions | 33.8 | 26.8 | 20.4 | 24.7 | 28.8 |
| Pensions in payment | 115.1 | 100.5 | 83.1 | 76.6 | 81.7 |
| Total liability | 337.2 | 284.2 | 247.0 | 257.7 | 287.6 |

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.

The value of the liability included on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, then the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 16.7. 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.

16.3 Sensitivity analysis

A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is included below.

| Change in assumption | | Approximate effect on total liability | |
|------------------------------|---|---------------------------------------|---------------|
| Financial assumptions | | | |
| (i) | discount rate*: -½% a year | + 11.5% | + £39 billion |
| (ii) | (long term) earnings increase*: -½% a year | - 2% | - £7 billion |
| (iii) | pension increases*: -½% a year | - 7.5% | - £25 billion |
| Pensioner mortality | | | |
| (iv) | each pensioner subject to longevity of an individual 1 further year younger than assumed: | + 2% | + £7 billion |
| (v) | 1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier) | + 1.5% | + £5 billion |

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

16.4 Analysis of movements in the Scheme liability

| | Note | 2013-14 £000 | 2012-13 £000 |
|---|------|----------------------|----------------------|
| Scheme liability as at 1 April | | (284,200,000) | (247,000,000) |
| Service cost | 6 | (11,700,000) | (9,900,000) |
| Pension financing cost | 9 | (11,700,000) | (12,000,000) |
| | | (23,400,000) | (21,900,000) |
| Enhancements | 7 | (230,981) | (288,236) |
| Pension transfers in | 8 | (69,333) | (82,183) |
| | | (300,314) | (370,419) |
| Benefits payable | 16.5 | 8,439,061 | 7,764,757 |
| Pension payments to and on account of leavers | 16.6 | 277,378 | 273,717 |
| | | 8,716,439 | 8,038,474 |
| Actuarial (loss)/gain | 16.7 | (38,016,125) | (22,968,055) |
| Scheme liability as at 31 March | | (337,200,000) | (284,200,000) |

Within the closing 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 31 March 2014, contributions represented an average of 23.0% of pensionable pay (excluding purchase of added years and additional pension contributions).

16.5 Analysis of benefits paid

| | 2013-14 £000 | 2012-13 £000 |
|--|------------------|------------------|
| Pensions to retired employees and dependants (net of recoveries of overpayments) | 6,347,043 | 5,882,719 |
| Commutations and lump sum benefits on retirement | 2,092,018 | 1,882,038 |
| Per Combined Statement of cash flows | 8,439,061 | 7,764,757 |

16.6 Analysis of payments to and on account of leavers

| | 2013-14 | 2012-13 |
|--|----------------|----------------|
| | £000 | £000 |
| Death in service | 53,420 | 57,776 |
| Individual transfers to other schemes | 175,974 | 188,492 |
| Group transfers to other schemes | 3,292 | 2,252 |
| Payment to State Scheme | 20,870 | 7,091 |
| Refunds to members leaving service | 23,822 | 18,106 |
| Per Combined Statement of Cashflows | 277,378 | 273,717 |

16.7 Analysis of actuarial (loss)/gain

| | 2013-14 | 2012-13 |
|---|---------------------|---------------------|
| | £000 | £000 |
| Experience (loss)/gain arising on Scheme liabilities | (2,216,825) | (4,068,055) |
| Changes in assumptions underlying the present value of Scheme liabilities | (35,799,300) | (18,900,000) |
| Per Combined Statement of Comprehensive Net Expenditure | (38,016,125) | (22,968,055) |

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.

16.8 History of experience (losses)/gains

| | 2013-14 | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|--|----------------|----------------|----------------|----------------|----------------|
| Experience (losses)/gains on the scheme liabilities: | | | | | |
| Amount (£000) (see note below) | (2,216,825) | (4,068,055) | 17,546,406 | (3,416,310) | (2,159,855) |
| Percentage of the present value of the scheme liabilities | 0.66% | 1.43% | 7.10% | 1.33% | 0.75% |
| Total amount recognised in Statement of Other Comprehensive Net Expenditure | | | | | |
| Amount (£000) | (38,016,125) | (22,968,055) | 28,146,406 | 17,483,690 | (73,459,855) |
| Percentage of the present value of the scheme liabilities | 11.27% | 8.08% | 11.40% | 6.78% | 25.54% |

17. 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.

18. 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 benefits due in the event that one or more of the NHS Pension Scheme's approved Additional Voluntary Contributions (AVC) providers fail to do so, once those benefits are in payment or become payable. However any losses due for example; to insolvency or poor investment performance prior to retirement are not covered.

The likelihood of such an occurrence is considered to be remote and no estimate of the contingent liability is provided until such circumstances give rise to do so. The scheme does not however guarantee pension payments from the other free-standing AVC providers.

19. Losses

During the year, losses arose in 6,482 cases (2012-13; 6,129 cases). The total loss was £581,491 (2012-13; £877,046). The losses all relate to the write-off of pension overpayments.

20. Related-party transactions

The National Health Service Pension Scheme and 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.

21. Events after the reporting Period

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

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

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