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# *NHS Pension Scheme*

(Incorporating the NHS Compensation for Premature Retirement Scheme)

## **Annual Accounts**

### **2018-19**

*Accounts presented to the House of Commons pursuant to Section 7 of the Government Resources  
and Accounts Act 2000*

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## ACCOUNTABILITY REPORT

### Corporate Governance Report

#### Report of the Managers

This report provides a summary of the arrangements to ensure the NHS Pension Scheme affairs are managed effectively and gives a broad outline of the major benefits offered by the NHS Pension Scheme (the Scheme).

### 1. Background to the Scheme

#### 1.1 Statutory basis for the Scheme

The NHS Pensions Scheme is a statutory, unfunded, defined benefit occupational pension scheme backed by the Exchequer, which is open to all NHS employees and employees of other approved organisations. The Scheme provides pensions for officer members based on final salary for employees in the 1995 Scheme and 2008 Section; whilst in the 2015 Scheme they are calculated using a career average. A career average arrangement is in place for General Practitioners and General Dental Practitioners across all schemes/sections. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits.

The scheme accounts represent the combined position for both the 1995 and 2015 schemes.

Scheme provisions are governed by the following sets of Regulations:

- The NHS Pensions Scheme Regulations 1995, 2008 and 2015, 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).

The Schemes provide a range of defined benefits as expected from a contributory occupational pension scheme such as lump sum, annual pension and widows and dependants benefits, and details of these along with the recent changes and other benefits can be found on the NHS Pensions website <http://www.nhsbsa.nhs.uk/pensions>.

#### 1.2 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, whereas Independent Provider employers have the option to choose to enter their staff into the Scheme.

At 31<sup>st</sup> March 2019 there were 8,486 participating employers falling into the following categories:

Employer category	As at 31 March 2019	As at 31 March 2018
NHS Trusts and Local Health Boards (note1)	237	243
GP practices	6,920	7,155
Arm's length bodies	14	14
Direction bodies	563	566
Clinical Commissioning Groups and Support Units	224	228
Local Authorities (including PHT from 1 <sup>st</sup> April 2013)	154	155
New Fair Deal contracts	247	209
Independent Providers contracts (note 2)	127	104
<b>Total</b>	<b>8,486</b>	<b>8,674</b>

Note 1 – Local Health Boards are only applicable in Wales.

Note 2 – Independent Provider employers are subject to a pensionable earnings ceiling of 75% of the total value of NHS contract value.

## **2. Management of the scheme**

### **2.1 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.

In support of the NHSBSA, 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.

### **2.2 Cost of administering the Scheme**

The cost of administering the Scheme for 2018-19 was met from the Scheme and was included in the Parliamentary Supply Estimate submitted to HM Treasury. This arrangement changed from 1 April 2017, and was previously met within the running costs of the NHSBSA. Further details can be found at note 3.6 of the Report of the Manager.

The Comptroller and Auditor General is appointed by statute to audit these accounts and his certificate and report appears on page 34. The notional fee for the year is £95,000 (2017-18 £95,000) and relates to the statutory audit of the scheme's accounts. The notional fee is reflected in the accounts of the NHSBSA. The National Audit Office (NAO), as the scheme's external auditors, provided no other services during the year.

### **2.3 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 18-30.

### **2.4 Arrangements governing determination of contribution rates and benefits**

A full actuarial (funding) valuation is undertaken every four years and its purpose is to assess the liability in respect of the benefits due under the schemes (taking into account recent demographic experience), and to recommend contribution rates payable by employees and employers.

The latest actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2016. The results of this valuation set the employer contribution rate payable from 1 April 2019. The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap set following the 2012 valuation, however, on 30 January 2019 the Government announced a pause to the cost control mechanism which was to form part of the valuation. This was due to the Court of Appeal ruling in December 2018 relating to the transitional protection offered to some members in the 2015 pension reforms.

However, the part of the 2016 actuarial valuation which calculates the employer contribution rate required from April 2019 to meet the cost of Scheme benefits has been completed. The DHSC have recently laid Scheme Regulations confirming that the employer contribution rate will be 20.6% of pensionable pay from this date.

### 3. Key developments in year

#### 3.1 Changes to scheme contribution rates

There have been no changes to contribution rates during 2018-19.

#### 3.2 Changes in benefits

There have been no changes to benefit structures during 2018-19.

#### 3.3 Changes in Accounting Standards

Accounting standards issued in year:

- IFRS 9 Financial Instruments – the effect of applying the new IFRS on the financial statements of the NHSPS had no material impact.
- IFRS 15 Revenue from Contract with Customers – there are no material balances within the NHSPS financial statements affected by the changes to IFRS 15.

Accounting standards issued in year but not yet adopted by the Government Financial Reporting Manual (FRM) at the reporting date:

- IFRS 16 Leases – there are no material balances within the NHSPS financial statements affected by the changes to the IFRS 16.

#### 3.4 Membership statistics (movement in year)

Details of the current membership of the Scheme at 31 March 2019 are set out below:

##### Active Members

Active members at 1 April 2018 (note 1)	<b>1,516,404</b>
New entrants	158,896
Deferred members who re-join in the year	72,793
Re-employed pensioners	882
Retirements	(26,629)
Leavers with deferred pension rights	(125,179)
Members who opt-out with deferred pension rights	(34,764)
Deaths	(873)
<b>Active members at 31 March 2019</b>	<b>1,561,530</b>

##### Deferred members

Deferred members at 1 April 2018 (note 1)	<b>671,585</b>
Members leaving active membership with deferred pension rights	159,943
Members taking up deferred pension rights	(11,614)
Members who re-join the scheme	(72,793)
Movement to unclaimed refund (see note 2)	(29,488)
Members taking a refund of contributions during year	(27,021)
Transfers out	(2,111)
Death of member	(300)
<b>Deferred members at 31 March 2019</b>	<b>688,201</b>

##### Pensioners in payment (including Compensation payments)

Pensions in payment at 1 April 2018 (note 1)	<b>896,976</b>
Members retiring from active	26,629
Members retiring from deferred	11,614
New widows and dependants	5,322
Deaths	(18,679)
Other Cessations (see note 3)	(980)
Child dependants leaving full time education	(43)
<b>Pensions in payment at 31 March 2019</b>	<b>920,839</b>

**Note 1.** The opening balance includes an adjustment to take account of member records that were updated retrospectively after the year end and after the original data extract was taken to prepare the membership statistics for the 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.

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

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

**Note 4.** The membership data at 31 March 2018 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in November 2018, whereas these statistics were taken from a data extract provided in May 2019 and member data is continually updated after the year end.

### **3.5 Legal case – McCloud and Sargeant**

In 2015 the Government introduced reforms to public sector pensions (Hutton Report published in 2011, Public Service Pensions Act 2013 enacted the pensions reforms), meaning most public sector workers were moved into new career average pension arrangements in April 2015. Transitional protection was provided to members of the previous final salary arrangements based on their age at 1st April 2012 allowing them to continue in their existing arrangements and receive benefits from it, rather than transfer to the 2015 arrangements.

In December 2018, the Court of Appeal held that transitional protection provisions contained in reformed judicial and firefighter pension schemes, introduced as part of public service pension reforms in 2015, gave rise to direct age discrimination and were therefore unlawful. The Supreme Court issued a decision in June 2019 rejecting the Government's application for permission to appeal. The case will now be referred to an Employment Tribunal for a decision regarding the remedy which will need to be offered to those members of the two schemes who were subject of the age discrimination.

In line with other public service pension schemes the NHS Pension Scheme has considered the potential impact of the outcome on the Scheme and, as a result, felt it prudent to increase past service costs. For the NHS Pension Scheme this has been estimated at £7.2 billion and has been recognised as a past service cost in 2018-19. Further details on the valuation of the liability, key assumptions and uncertainties can be found in notes 2.2 and 17.9 to the Financial Statements.

### **3.6 Financial position at 31 March 2019**

#### **3.6.1 Resource Outturn to Supply Estimate**

The 2018-19 net resource outturn was £33.63 billion and was within the voted estimate of £36.59 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure (page 37) contained within the financial statements.

#### **3.6.2 Net cash requirement**

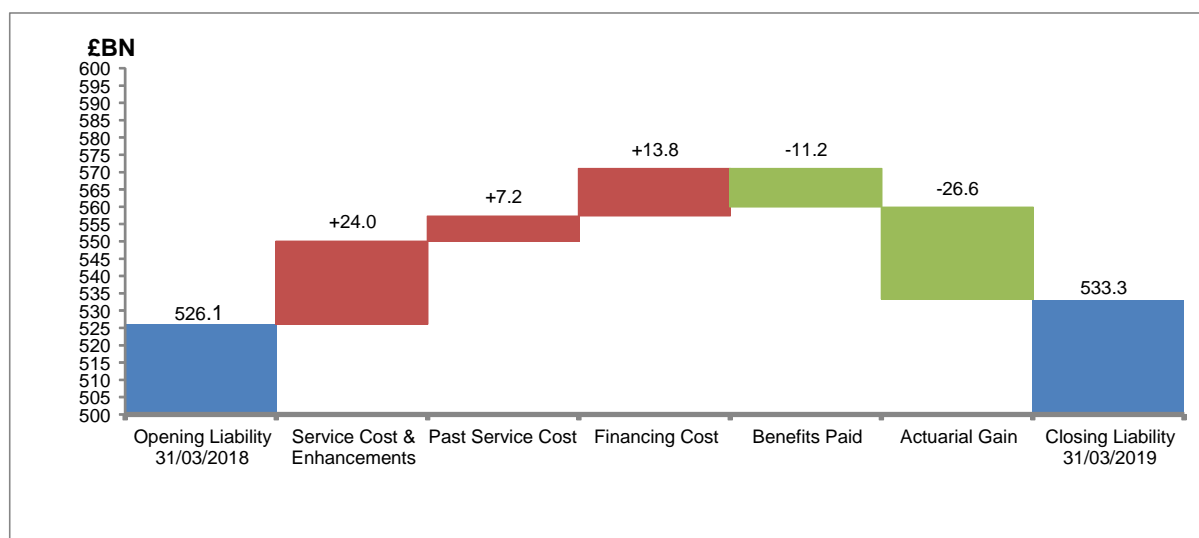
In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of minus £0.21 billion against the voted estimate of £0.18 billion, this means the Scheme has surplus cash due to income exceeding pension benefit payments, and the £0.21 billion will be returned to Treasury during 2019-20.

The Scheme is currently operating with a net cash inflow (negative Net Cash Requirement), due to receipts 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 Financial Reporting Manual which can be found at <https://www.gov.uk/government/publications/government-financial-reporting-manual-2018-to-2019>.

### 3.6.3 Financial position and key movements

As at 31 March 2019 the pension liabilities of the Scheme were valued at £533.3 billion. This is an increase of £7.2 billion from the liabilities at 31 March 2018 of £526.1 billion. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer. Details of the key movements are shown in the diagram below and also within note 17 to the accounts.



### 3.6.4 Service Cost

The service cost is the increase in the present value of the scheme liabilities arising from member's service in the current period. It is calculated annually using the accounting assumptions adopted at the start of each year.

The 2017-18 service cost of £22.6 billion was calculated using the accounts assumptions at 31 March 2017 and the 2018-19 service cost of £24.0 billion was calculated using the accounts assumptions at 31 March 2018. The change in service cost from year to year reflects the change in the accounts assumptions at each date. The assumptions at 31 March 2018 are set out in Table D of the Report of the Actuary, and the key reason for the increase in the service cost during 2018-19 is the fall in the nominal discount rate from 2.80% at 31 March 2017 to 2.55% at 31 March 2018. A fall in the discount rate increases the cost of providing the pension benefits.

### 3.6.5 Past Service Cost

Past service costs are increases 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 of, or improvement to, retirement benefits. In this instance the period is 1 April 2015 to 31 March 2019.

A one off adjustment for past service costs of £7.2 billion has been recognised in 2018-19 in relation to the legal case outlined in note 3.5.

### 3.6.6 Contingencies Fund Drawdown

A combination of factors contribute to the Scheme requiring additional funding outside of the main Parliamentary Estimate process to ensure benefits are paid on their due date each month. The primary reason for this relates to the timing of the receipt for the majority of the contributions



paid by employers being due by the 19<sup>th</sup> of the month, for the previous month's payroll. The Scheme receives on average over £900 million near to or on this payment deadline date. The Scheme also has to surrender any end of year cash surplus to Treasury, within the first quarter of the following financial year, and this cannot be utilised in subsequent cash flow requirements.

To meet the cash flow requirement to pay member benefits from the 1<sup>st</sup> to the 18<sup>th</sup> of the month, the Scheme submitted a request for £658 million to Treasury to draw money from the Contingencies Fund (under section 5.14e of the Supply and Estimates Guidance manual). The funds were drawn down on 3 April 2018 and repaid to the Contingencies Fund in full during 2018-19 with the final payment being made on the 21 March 2019.

The Scheme has requested to draw down £976 million from the Contingencies Fund in 2019-20, as the same scenario exists as described above. The full amount will be repaid in 2019-20.

### **3.7 Scheme administration levy**

Contributions made by employers and employees to the scheme meet the cost of the pension rights for members building up under the scheme but do not cover the cost of administering the scheme.

On 1 April 2017 the Department of Health and Social Care (DHSC) introduced a levy to cover the cost of the administration of the Scheme. DHSC has determined that participating employers will be required to pay 0.08% of pensionable pay for their staff who are members of the scheme. In introducing the levy, it is anticipated that the relationship between employers and the scheme should become more client focussed, leading to an administration service that is more responsive to employer needs.

During 2018-19 the cost of scheme administration was £36.2 million (see note 10 to the accounts), and £31.1 million was received from NHS employers via the levy (see note 5 to the accounts). Due to the nature of the funding arrangement, the cost of administration and the income received will not net off in any one year, and so DHSC has changed the Scheme Regulations so that the rate of the levy will be reviewed every 4 years in conjunction with the scheme Funding Valuation. This review will take into account the cumulative income/expenditure position at the end of the period, and recommend the levy percentage rate for the following period.

## **4. Key activities during 2018-19**

### **4.1 Pension Service Re-procurement Programme**

The remaining services detailed below were successfully transferred to the NHSBSA, whilst maintaining business continuity on all services. Termination of contract assistance with Equiniti concluded on 22 July 2018.

The remaining activities were;

- Completion of full Disaster Recovery Failover Testing of the two professionally managed data centres
- Migration and consolidation of member data to the new Compendia Pensioner and Payroll System
- Implementation of the new Integra Pensions Scheme Accounting System from April 2018, and consolidation of accounting systems
- Transition of Pensioner Administration (including mail, email and call correspondence) from Equiniti to NHSBSA Pensions from June 2018

- Transition of Pensioner Payroll Payments and Accounting from Equiniti to the NHSBSA Corporate Finance from July 2018
- Transition of Debt Management functions (Stage 1 Debt) from Equiniti to NHSBSA Pensions and Corporate Finance from July 2018
- In-sourcing of the Service Desk function to NHSBSA Pensions from July 2018
- On-boarding to the NHS Digital Integrated Citizen ID platform, for access to Total Reward Statements from June 2018
- The continuation of digital development for Employer and Member Services

For the reporting period the service has been in a transition phase following the transfer from Equiniti. The top priority for the Programme was the continuation of payments to pensioners, and that objective has been achieved every month since go live, and is measured by the introduction of a new critical key performance indicator. The system changes resulted in some temporary but significant increases in unit times on many items of work in Awards and Bereavements, resulting in a reduction of daily completed work volumes, and work not being processed within the agreed timescales. Contact Centre call volumes increased and were considerably above forecast due to the number of members calling and chasing up their awards.

An escalation process for financial hardship cases was put in place in July and worked well. We also worked closely with the NHS Pension Fund Charity to ensure members or pensioners making contact with them were also reviewed and escalated if appropriate.

Full recovery plans were put in place for Awards and Bereavements. Fortnightly communications were sent to employers to ensure they were up to date with current processing timescales and website notifications were reviewed fortnightly to ensure members were kept up to date. The position is now fully recovered with all issues being satisfactorily resolved.

In February 2019 a Cabinet Office Infrastructure and Projects Authority (IPA) Gateway 5 Review was undertaken which resulted in a Delivery Confidence Assessment of 'Green'. The Review Team acknowledged that all of the Programme objectives had been successfully delivered, and that all insourcing and procurement was now a part of business as usual operations. The Review Team recognised that there had been some initial teething problems in a few areas, as is not untypical in such large scale projects, but felt that now that transition is settling down the closer visibility and control of the full end-to-end Member and Pensioner Service will provide better effectiveness and improved value for money.

#### **4.2 Changes to Contracting Out Rules and Single Tier New State Pension**

The purpose of the project is to carry out a reconciliation exercise between records held at NHS Pensions to those held at HMRC. A business case was prepared outlining a number of options and once a preferred option was determined work was commissioned with our IT supplier to ensure the right tools and support were in place to carry out the matching process. The requirement was also to split down any mismatched records into distinct query types, and to aid the manual activity to resolve the issues encountered. From this process a clear understanding of the level of queries involved was achieved and we were able to provide the required resources and plan clearance.

During 2018-19 over 94,000 queries were cleared and the match rate increased from 88% to 91.5% compared to previous experience.

The deadline for submission of queries to HMRC was 31 October 2018 and all responses were due to be returned to schemes by 31 March 2019. However, due to the excessively high number of queries that HMRC received they extended this deadline to 30 June 2019. Due to the high demand they are also going to re-run a number of bulk query automations which will take place

in July 2019. The outcome of this is that the HMRC end date for reconciliation was extended by approximately 6 months and the final Scheme Reconciliation Service (SRS) data extract is not due until towards the end of 2019. Due to this extension the rectification phase of the project will be delayed and is now expected to be completed by the end of 2019-20.

There are currently 276,000 mis-matched records, which can be broken down into a number of categories. Just under 50% of these are where we cannot trace the individual or period of service that HMRC hold, or where HMRC cannot trace our member. These cases are what is being termed by HM Treasury, HMRC and other schemes as 'stalemate' as there is no data to match against. The remaining cases are mostly where the dates of service and/or the Guaranteed Minimum Pension (GMP) are outside of HM Treasury tolerances.

We continue to work through the mis-matched cases and if by the time the exercise is over they remain unmatched they will be flagged and will be revisited when the member retires using the GMP checker (a facility provided by HMRC to access information) and ongoing support provided by HMRC.

As part of the reconciliation, a number of cases identified incorrect GMP had been paid to members. All affected members should be contacted during the rectification process during 2019-20. Payments will be made to those members whose GMP was underpaid and in agreement with HMT all overpayments will be written off once calculated. This write off is estimated to be in the region of £10 million.

### 4.3 Customer satisfaction surveys

The NHS Pension Scheme completed Customer Satisfaction Surveys during the year with active and deferred pension members, and Scheme employer organisations. The surveys were answered on a scale of 1 to 10 where 1 is not at all satisfied and 10 is completely satisfied. The survey for retired pension members is due to take place in early 2019-20.

The overall satisfaction rating for both active and deferred pension members and pension employers have both reduced from 2017-18. This is mainly contributed to delays experienced in processing new awards post implementation of Compendia and the In-source of pensioner payroll administration during June and July 2018.

	Active and deferred pension members		Retired pension members		Pension employers	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Number of completed surveys	3,316	6,134	n/a	5,521	1,046	1,568
Overall satisfaction	5.2	6.4	n/a	9.0	7.0	7.4

### 4.4 Events after the reporting period

In June 2019 the Supreme Court refused the Government permission to appeal the Court of Appeal's December 2018 judgment in the McCloud and Sargeant case.

## 5. Key activities arising for 2019-20

### 5.1 Pensions Digital Transformation

The digital transformation of the pension services we offer to employers and members continues under the cross government "Digital by Default" initiative driven by Government Digital Services (GDS) within the Cabinet Office.

We are developing digital services in two broad areas: Employer Services and Member Services with the objective of delivering a much improved customer experience for all users, significant efficiency savings for employers and allowing members to control their own data by self-service techniques.

### **5.1.1 Employer Services**

The majority of employers currently have rudimentary online capability for supplying and requesting information to and from the pension scheme via the Pensions Online (POL) system. But there remain a significant number of employers who have no online channel and cannot use POL as it sits within the NHS N3 network. In addition POL is currently running on obsolete hardware with the operating system going out of support in January 2020.

We are currently engaged in a programme to replace the services offered through POL with new digital services that will be available to ALL employers not just those inside the NHS N3 network. The outcome will offer significantly improved customer experience and added functionality. This will deliver efficiencies to all employers and as all employers will have an online channel this will lead to efficiencies in pensions administration. It will also make support of the system for pensions more cost effective since it will be on a new modern platform.

The first digital service called Make Contribution Payment (MCP) is now live and enables employers to pay their monthly contributions in conjunction with the accompanying information required with the transaction. This development has also provided the infrastructure that all other POL services will be delivered on. All existing POL services should be delivered by January 2020 on the new infrastructure platform and will enable the withdrawal of POL to be replaced by the new digital set of services.

### **5.1.2 Member Services**

In the member services area we have already delivered the digital service replacing Government Gateway for members to access their Total Reward Statement (TRS), and went fully live on 12 December 2018 using the cross government Verify service. This means that all members can access their TRS from the internet with a much simpler user interface.

A new set of digital services focussing on members (called My NHS Pension) is due to enter private beta phase in mid-July 2019 with the intention of public beta rollout 3 months later, subject to successful Government Digital Services (GDS) assessment. My NHS Pension will encourage member ownership of their data and allow them to update/correct inaccurate information to improve their data quality. This will make the process smoother when they come to retire as it can be extremely difficult for pensions administration to correct old inaccurate data when a member comes to retire. My NHS Pension will deliver self-service to members giving them the ability to update personal details and perform pension modelling, taking the load away from both employer and pension administration leading to efficiencies in both areas, and a far quicker service for the member.

## **6. Information for members**

### **6.1 Pension Increase**

The Pensions increase rate was 3.0% (2017-18 1.0%) with effect from 9 April 2018 (10 April 2017) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

### **6.2 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>

### 6.3 Information about Free Standing Additional Voluntary Contributions (AVC) 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 11 to the accounts).

### 6.4 Management structure and advisors

**Accounting Officer:**

Andy McKinlay  
NHS Business Services Authority  
Stella House, Goldcrest Way  
Newcastle upon Tyne NE15 8NY

**Legal advisers:**

DHSC Legal Services  
5<sup>th</sup> Floor The Adelphi  
Area 159 5<sup>th</sup> Floor  
1-11 John Adam Street  
London WC2N 6HT

**In-house AVC Providers:**

Equitable Life Assurance Society  
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Aylesbury  
Buckinghamshire HP21 7QW

**Scheme Administrator:**

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

**Auditors:**

Comptroller and Auditor General  
National Audit Office  
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London SW1W 9SP

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Edinburgh EH1 2DH

**Actuary:**

Government Actuary's Department  
Finlaison House  
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London EC4A 1AB

**Bankers:**

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Wellesley Grove  
Croydon CR9 1WW

Prudential PLC

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### Further information

Any enquiries about the NHSPS should be addressed to:

Scheme Administrator  
NHS Business Services Authority - Pensions  
PO Box 2271  
Bolton  
BL6 9JU

### Disclosure of audit information to the auditors

As far as I am aware, there is no relevant audit information of which the NHS Pension Scheme auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the NHS Pension Scheme auditors are aware of that information.

I take personal responsibility for the Report of the Managers and Financial Statements and the judgements required for determining that they are fair, balanced and understandable. I can confirm that the Report of the Managers and Financial Statements as a whole are fair, balanced and understandable.

**Andy McKinlay**  
**Accounting Officer, NHS Business Services Authority**  
**18 July 2019**

## Report of the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2019

### Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the NHS Business Services Authority (NHSBSA). It provides a summary of GAD's assessment of the scheme liability in respect of the National Health Service Pension Scheme (NHSPS) as at 31 March 2019, and the movement in the scheme liability over the year 2018-19, prepared in accordance with the requirements of Chapter 9 of the 2018-19 version of the Financial Reporting Manual.
2. The NHS is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.
3. The assessment has been carried out by calculating the liability as at 31 March 2018 based on the data provided as at 31 March 2018 and rolling forward that liability to 31 March 2019.

### Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2018 used to prepare this statement.

**Table A – Active members**

	Number 000's	Total pensionable pay* (pa) £m
Male	333	13,452
Female	1,182	31,232
<b>Total</b>	<b>1,515</b>	<b>44,684</b>

\*Pensionable pay is actual figure

**Table B – Deferred members**

	Number 000's	Total deferred pension* (pa) £m
Male	149	709
Female	481	1,389
<b>Total</b>	<b>630</b>	<b>2,098</b>

\*Pension amounts include the pension increase granted in April 2018

**Table C – Pensions in payment**

	Number 000's	Total pension* (pa) £m
Male	226	3,594
Female	667	4,589
<b>Total</b>	<b>893</b>	<b>8,182</b>

\*Pension amounts include the pension increase granted in April 2018

### Methodology

5. The present value of the liabilities as at 31 March 2019 has been determined using Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2019. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2019 was determined using PUCM and the demographic and financial

assumptions applicable at the start of the year, that is, those adopted as at 31 March 2018 in the 2017-18 accounts.

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

### Financial assumptions

- The principal financial assumptions adopted to prepare this statement are shown in Table D.

**Table D – Principal financial assumptions**

Assumption	31 March 2019	31 March 2018
Nominal discount rate	2.90%	2.55%
Rate of pension increases	2.60%	2.45%
Rate of general pay increases	4.10%	3.95%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
Pension increases	0.29%	0.10%
Long-term pay increases	(1.15%)	(1.35)%
Expected return on assets:	n/a	n/a

- The assessment of the liabilities allows for the known pension increases up to and including April 2019.

### Demographic assumptions

- Table E summarises the demographic assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S2 tables' with the percentage adjustments to those tables derived from scheme experience.

**Table E – Post-retirement mortality assumptions**

Baseline Mortality	Standard Table	Adjustment
<b>Males</b>		
Retirements in normal health	S2NMA	83%
Current ill-health pensioners	S2IMA	83%
Future ill-health pensioners	S2IMA	100%
Dependants	S2NMA	100%
<b>Females</b>		
Retirements in normal health	S2NFA	85%
Current ill-health pensioners	S2IFA	85%
Future ill-health pensioners	S2IFA	100%
Dependants	S2NFA	100%

- These assumptions are the same as those adopted for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2018.
- Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017.

## Liabilities

12. Table F summarises the assessed value as at 31 March 2019 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 11. Please note the liabilities as at 31 March 2019 include an allowance for the additional liability potentially arising from the McCloud / Sargeant judgement. The corresponding figures for the previous year are shown for comparison.

**Table F – Statement of Financial Position**

	31 March 2019	31 March 2018
	£billion	£billion
Total market value of assets	nil	nil
Value of liabilities	533.3	526.1
Surplus/(Deficit)	(533.3)	(526.1)
of which recoverable by employers	n/a	n/a

## Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2019 (the current service cost) is assessed as 51.6% of pensionable pay.
14. For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2018-19 as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2018-19 accounts.

**Table G – Contribution rate**

	2018-19 % of pay	2017-18 % of pay
Employer contributions	14.3%	14.3%
Employee contributions (average)	9.6%	9.5%
<b>Total contributions</b>	<b>23.9%</b>	<b>23.8%</b>
<b>Current service cost (expressed as a % of pay)</b>	<b>51.6%</b>	<b>50.5%</b>

15. The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.
16. The pensionable payroll for the financial year 2018-19 was £46.6 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2018-19 (at 51.6% of pay) is assessed to be £24.0 billion.
17. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. GAD has been instructed by NHSBSA to include an allowance in the end of year liabilities shown in this report for the additional liability potentially arising from the McCloud / Sargeant judgement. The cost has been assessed as £7.2 billion and reflects as the cost of providing members with benefits



in whichever scheme (relevant pre or post 2015 scheme) is of higher value over the 4 years to 31 March 2019. This approach reflects a remedy based on allocating members to a scheme at the balance sheet date, based on the accounting assumptions in force during 2018-19. Different approaches, based on other assumptions, or different forms of remedy (such as allocation based on cost assessed at individual's exit from service) may produce significantly different costs. The ultimate cost of this judgement would depend on the form of remedy, differences between earning and price increases, and individuals' future career paths.

18. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2018-19.

### Sensitivity analysis

19. 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 2019 of changes to the most significant actuarial assumptions.

20. The most significant financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

21. Table H shows the indicative effects on the total liability as at 31 March 2019 of changes to these assumptions (rounded to the nearest 0.5 %).

**Table H - Sensitivity to significant assumptions**

Change in assumption		Approximate effect on total liability (excluding McCloud / Sargeant past service cost)	
<b>Financial assumptions</b>			
(i)	discount rate increase*: 0.5 % a year	-13.0%	-£68.4 billion
(ii)	(long term) earnings increase*: 0.5 % a year	+2.0 %	+£10.5 billion
(iii)	pension increases*: 0.5 % a year	+9.0%	+£47.3 billion
<b>Demographic assumptions</b>			
(iv)	additional 1 year increase in life expectancy at retirement:	+3.0%	+£15.8 billion
(v)	1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)	+1.0%	+£5.3 billion

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

22. In addition, the past service cost in respect of the McCloud / Sargeant judgement is expected to be highly sensitive to the gap between CPI inflation and the assumed rate of salary growth. Under the approach and remedy adopted, if the long term salary growth assumptions were 0.5% per annum lower, then the impact on the past service cost is expected to be a change of around -45% on the provision, around -£3.2 billion. A 0.5% per annum increase to the salary growth assumption would increase the estimated provision by 60%, around £4.3 billion. Alternative forms of remedy may have different levels of sensitivity to these assumptions.

**Garry Swann FIA**  
**Actuary**  
**Government Actuary's Department**  
**2 July 2019**

## 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 accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the combined schemes at the year end and of the net resource outturn and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FRoM) 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 have been followed and disclosed and explained any material departures in the financial statements;
- Prepare the financial statements on a going concern basis; and
- Take personal responsibility for the report of the manager and financial statements and the judgements required for determining that as a whole are fair, balanced and understandable.

The Principal Accounting Officer for the DHSC has appointed the Executive Director of Finance and Commercial Services of the NHSBSA as the Accounting Officer for the NHSBSA and NHS Pension Scheme, incorporating the 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 the Accounting Officer for the NHS Pension Scheme and is required to provide assurances about the stewardship of the organisation and the NHS Pension Scheme. These assurances are provided in this Governance Statement, in line with HM Treasury guidance.

The Accounting Officer for the NHSBSA and the NHS Pension Scheme is Andy McKinlay, Executive Director of Finance and Commercial Services. As part of the lead-up to the retirement of the Chief Executive and Accounting Officer, Alistair McDonald, a thorough handover process was undertaken to provide appropriate assurances on the governance of the NHSBSA over the reporting period.

### Scope of Responsibilities

The NHSBSA's Board is accountable for internal control, ensuring that its business is conducted in accordance with the law and proper standards. It also ensures that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively in accordance with HM Treasury's 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 which supports the achievement of the NHSBSA's policies, aims and objectives and arrangements are in place for the management of risk.

As Accounting Officer for the NHSBSA, the Chief Executive has overall responsibility for ensuring that contracted administrators for any outsourced activity manage risks effectively, and for reviewing the effectiveness of the administrator's systems of internal control.

### The Purpose of the Governance Framework

The NHSBSA operates an integrated governance framework and, as the body responsible for the administration of the scheme, this incorporates the NHS Pension Scheme. This framework comprises the systems and processes by which the NHSBSA leads, directs and controls its functions and accounts to, and engages with, the DHSC 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 NHSBSA.

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 achieving our policies, aims and objectives.
- 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 for the year ended 31 March 2019 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 NHSBSA has appropriate decision making processes in place, including:
  - Standing Orders
  - Standing Financial Instructions
  - Scheme of Delegation.
- Other management information which supports effective governance and operation, i.e. corporate policies and procedures.

The Director of Corporate Services and Corporate Secretary is responsible for ensuring that all decisions made are legal and comply with the NHSBSA Corporate Governance Framework. The NHSBSA complies with the HM Treasury Corporate Governance Code where it applies to us.

### **Enhanced governance and assurance controls specific to NHS Pensions**

In line with legal requirements effective from April 2015, the NHSBSA has robust governance arrangements in place to oversee the compliance of pension scheme administration.

### **Pensions Board**

The Public Service Pensions Act 2013 requires the NHS Pensions Board to assist the Scheme Manager in securing compliance with all relevant pension law, regulations and directions. This role is one of assurance and governance of the scheme administration provided by the NHSBSA. The Pensions Board has been in operation since April 2015 (in shadow form since April 2014) and holds quarterly meetings at which the NHSBSA reports pension KPIs, the results of Compliance reviews and other administrative performance such as outcomes of legal challenges, Pensions Ombudsman cases, Breaches of Law and Stakeholder engagement and communications activity.

### **Pensions Compliance Team**

The Pensions Compliance Team conducts reviews covering all major aspects of the pensions administration service. During 2018-19 they have reviewed the following areas;

- Early leavers – Protection of Pay
- Pensions on Line products
- Practitioner Estimates of Benefits
- Re-joiner and Scheme Transition processes

Following a review, the Compliance Team make various recommendations to the appropriate operational delivery area; Pensions Managers are then responsible for the implementation of any necessary changes. Some examples of recommendations are to complete the production of process guides for all administrative areas, to make improvements to the pensions website and to ensure all pro-formas and check sheets are completed by staff and electronically scanned to the members' pensions record contained in Compendia.

There have been 2 'unsatisfactory' Compliance Reports, which related to the administration of Protection of Pay and Re-joiners and Scheme Transition processes. Each review highlighted some systematic issues with the lack of adequate processes and documentation.

The NHS Pension Board (NHSPB) discussed whether to report these breaches to The Pensions Regulator (TPR) but decided that as the number of affected cases was relatively small, the breach was not material and they were satisfied with the remedial action the NHSBSA had put in place.

### **Referral to The Pensions Regulator (TPR)**

In line with the TPR Code of Practice No 14, the NHSPB submits reports to TPR where material breaches of law occur.

In August 2018, a breach of law report was submitted for the late payment of benefits as a result of issues arising from the insourcing of pensioner administration and payroll. The NHSBSA developed robust plans to recover service levels and provided these to TPR and the NHSPB.

NHSBSA recovery surpassed the expectations of the recovery plan and TPR took no further action.

During 2018-19, the NHSBSA submitted breach of law reports to TPR in respect of 5 employers who failed to pay employer and employee pension contributions by the legislated deadline.

A breach of law report was submitted on 29 May 2018 in respect of failures of the organisation commissioned to administer pension contributions, reports and returns on behalf of practitioners, to effectively administer General Medical and Dental Practitioner pensions.

On 24 September 2018 a breach of law report was submitted in respect of failure to provide Annual Benefit Statements to 100% of the NHS Pension Scheme membership. TPR are aware of the constraints facing the largest centrally administered pension scheme and will take no further action.

Regular engagement with the Pensions Regulator takes place and NHSBSA provides a monthly report of employers who owe contributions in excess of 90 days late of the due date. In addition, regular updates are provided in respect of record keeping, annual benefit statement production and compliance.

### **Financial Management**

The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The Pensions Finance Reporting, Assurance and Reconciliation Team report to the Head of Financial Strategy and Reporting who in turn reports to the NHSBSA Director of Finance and Corporate Services who is the Senior Financial Officer for the Scheme and is a key member of the NHSBSA Leadership Team and Board.

This management arrangement covers such reports as the Scheme Main Estimate and Supplementary Estimates, as well as key financial forecasts required by HM Treasury and the Office of Budgetary Responsibility. The Pensions Finance Team, with input from the Government Actuary's Department and DHSC Workforce Planning prepare the twice yearly 6 year cash flow forecasts for the Scheme. The forecasts are subject to a robust challenge process from HM Treasury and the Office of Budget Responsibility, and are refined where appropriate.

### **Fraud Error and Debt (FrED)**

As part of the NHSBSA's ongoing Fraud Error and Debt (FrED) project initiated in 2013, a Strategy and Action Plan has been developed encompassing NHS Pensions administrative and payment activity. The strategy details the approach the NHSBSA takes in increasing the effectiveness of its management of fraud error and debt. In addition, it also details key risks and issues where fraud and error occur, or may occur, and explains the known types of fraud, error and debt levels that exist in the provision of pensions administration. It also assesses the potential financial loss to the Scheme as well as the impact on areas such as KPIs and reputational damage.

The FrED Action Plan details the financial impacts of fraud and error and a measurement of savings and preventions and a number of initiatives have now being implemented, including Tell Us Once. The plan will be annually developed and updated to measure the improvements made and to provide assurance that steps are being taken to reduce the potential for fraud and error, thus reducing debt.

### **Key contractual arrangements supporting Pensions Administration**

The administration of the Scheme is currently delivered by NHSBSA employees, and is supported by a number of contracted services. The key contracts are detailed below: -

- Pensioner and member payroll and administration application development, support and maintenance delivered by Claybrook Computing Ltd.
- IT infrastructure and hosting services delivered by Atos IT Services (UK) Ltd.
- Medical services delivered by Medigold Health Consultancy Ltd.

- Work manager application development and support and maintenance delivered by Verint Systems UK Ltd.

A range of contract management and governance mechanisms are in place to ensure the service delivery of these contracts, including monthly service review meetings, monthly reporting of performance, recommendations for innovation and change, escalation and dispute resolution procedures. Requirements under General Data Protection Regulations (GDPR) and the NHSBSA Information Governance policies and procedures are included within the contractual obligations and followed by all these suppliers.

### **NHSBSA Board**

The Board is responsible for the strategic direction and integrated governance of the NHSBSA, including the stewardship of its finances. 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 NHSBSA's two standing committees:

- Audit and Risk Management Committee.
- Remuneration and Nominations Committee.

The roles and responsibilities of the Audit and Risk Management Committee are described more fully below.

### **Board Membership and Responsibilities**

Membership of the Board is currently made up of a non-executive Chair, five non-executive directors, Chief Executive and three executive directors, one of which is a finance director. The key roles and responsibilities of the Board are:

- To set and oversee the strategic direction of the NHSBSA
- Continued appraisal of the financial and operational performance of the NHSBSA
- To discharge their duties of regulation and control
- To receive reports and updates from the Standing Committees
- To approve and adopt the Annual Report and Accounts.

The Board has met eight times up to the end of March 2019 and is responsible for approving the business plan and budget in advance of the financial year. 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 and strategic goals
- The current financial position
- People related issues
- Customer satisfaction and complaints
- Client engagement
- Progress against key change projects
- Corporate risks and issues.

The data presented to the Board is produced and quality assured by the NHSBSA Information Services Team adopting the six dimensions of data quality approach.

The NHSBSA's Senior DHSC Sponsor is also invited to Board meetings to ensure members of the Board, in particular non-executive directors, are able to get an understanding of the key stakeholders' views.

Board members must declare their interests to the Chair and Corporate Secretary in any matter relating to the NHSBSA'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 Register of Board Member's Declared Interests for the financial year is available on the NHSBSA website.

### **NHSBSA Board review of effectiveness**

The NHSBSA Board is required to consider its own effectiveness on a regular basis. The NHSBSA undertakes such a review annually. The Board engaged an independent and experienced assessor to undertake the review for 2018-19. The process included an online survey and follow-up on-to-one interview with each member and regular attendee. This level of review is undertaken every three years, with online reviews being undertaken in the other years. The results of the review indicated that the NHSBSA Board was strong, with a common vision with a good range of experience and skills. Discussions were viewed as open and honest with a good level of challenge between members. Areas highlighted for consideration included ensuring a strategic focus is maintained and discussions focus on business-critical activities, and the potential for change when the new Chief Executive is appointed in 2019. The recommendations were accepted by the Board and actions taken forward.

During 2018-19, the Board continued to operate within its governance framework and codes of conduct. Furthermore, the NHSBSA has:

- Achieved its financial targets
- Delivered against the majority of its agreed key performance indicators, and ensured that any performance issues have been addressed through appropriate recovery plans (see 'Significant Risks and Issues')
- Continued to operate its assurance process through 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
- Maintained an effective, risk-based internal audit programme, ensuring internal audit recommendations are addressed appropriately.

### **Audit and Risk Management Committee**

The Committee is chaired by a non-executive director and has met six times during 2018-19. Membership of this Committee is made up of three non-executive directors including the Chair, one of whom is required to have recent and relevant financial experience. Andrew Flanagan provides this experience and also chairs the Committee. There is also a requirement for regular attendance from the Director of Finance and Commercial Services and representatives from both internal and external audit. The Chief Executive and Accounting Officer also attends the meeting, included specifically to discuss the assurance processes which support the production of the Annual Report and Accounts. Other staff are invited to attend meetings as appropriate.

Audit and Risk Management Committee	Meetings Attended
<b>Non-executive Directors:</b>	
Andrew Flanagan (Chair of Committee)	6 of 6
Debra Bailey	4 of 6
Tim Nolan	6 of 6
<b>Executive Directors:</b>	
Alistair McDonald (Chief Executive – until 30 June 2019)	5 of 6
Mark Dibble (Executive Director of Corporate Services and Corporate Secretary)	6 of 6
Andy McKinlay (Executive Director of Finance and Commercial)	4 of 6

The Committee is responsible for providing the Board with an independent and objective view of the adequacy and effectiveness of the NHSBSA’s governance and assurance arrangements, including the governance framework, risk management, controls and related assurances. Updates are provided to the Board following each meeting and subsequent Board meetings receive copies of the confirmed minutes. An annual report is submitted to the Board following the completion of the Annual Accounts process which summarises the work undertaken by the Committee during the previous year. In addition, the Committee receives an annual review of the NHSBSA Risk Management Framework. This was most recently undertaken in June 2018 and concluded that the framework was effective and fit-for-purpose.

The Audit and Risk Management Committee’s key responsibilities are:

- Monitoring financial governance and reviewing the draft financial statements of the NHSBSA and Pension Scheme
- Reviewing the effectiveness of internal controls
- Monitoring the effectiveness of risk management controls
- Monitoring the effectiveness of fraud and security management
- Seeking assurance regarding the control environment
- Reviewing the effectiveness of internal audit arrangements

These standing items are complimented by a series of risk-based presentations on ‘Areas of Focus’ providing an opportunity for members to seek more detailed assurance from senior leaders (see Assurance Arrangements).

The Committee has reviewed the Pension Accounts which includes the Annual Governance Statement as required by HM Treasury’s Managing Public Money Annex 3.1.

### **Audit and Risk Management Committee Review of Effectiveness**

The Committee reviewed its effectiveness using an online survey sent to each member and regular attendee. Overall, the results were positive and confirmed the effectiveness. Some minor areas were highlighted for consideration including ensuring the continued focus on ensuring appropriate training and updates on best practice are provided to members.

### **NHSBSA Sponsorship Arrangements**

The NHSBSA manages a complex range of business activities on behalf of the DHSC. 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 is consolidated through a formal framework agreement between the NHSBSA and DHSC. 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 Comptroller and Auditor General (C&AG) is appointed by Statute as external auditor for the NHS Pension Scheme accounts. The C&AG does not undertake any non-audit services on behalf of the NHSBSA.

## NHSBSA Management

Other than those matters reserved for the Board, responsibility for the day-to-day management of the NHSBSA is delegated to the Chief Executive. The Chief Executive is supported by a Leadership Team as shown below. The operation of the NHS Pension Scheme is managed within NHS Workforce Services. The operation of the financial reporting and accounting for the Scheme is managed within Finance and Commercial Services.



Note: Only the Chief Executive and Executive Directors are members of the Board.

## Key Governance Systems

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

- Risk management
- Assurance
- Managing information

The Audit and Risk Management Committee regularly reviews these areas to ensure that they remain robust and effective. This enables the Committee to provide assurances to the Board that

appropriate risk identification and management processes are taking place across the organisation.

### **Risk Management**

**Risk appetite** - Risk appetite can be defined as the amount of risk that an organisation is willing to seek or accept in the pursuit of its long term objectives. The NHSBSA Board reviewed and agreed the organisation's Risk Appetite Statement in February 2019, setting appetite levels for key areas. The NHSBSA's aim is to seek to terminate, treat, tolerate or transfer risks as appropriate to ensure that it meets its objectives.

**Process** – The NHSBSA Risk Management Framework comprises:

- Risk management policy
- Risk management methodology
- Risk and Issue register

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

- Services / Corporate Teams – Risks and issues are managed on an ongoing basis as part of business-as-usual, with registers owned and managed by the Head of Service.
- Project / Programme – Risks are reviewed and managed by Project Managers as part of the project governance process. Significant risks and issues are escalated to the Programme Manager and Portfolio Board.
- Corporate – Each quarter the Leadership Team review the top-level Corporate Risk Register. This review is informed by collated versions of team and project risk registers, and a paper produced by the NHSBSA Risk Management Group. The Leadership Team is also free to identify further risks and issues at this meeting.
- Audit and Risk Management Committee – The Committee receives updates on the work undertaken in the area of risk and issue management. The Committee also receives a copy of the Corporate Risk Register, and 'Areas of Focus' presentations on specific risk/issue areas. This process enables the Committee to provide assurances to the Board that the appropriate risk management processes are in place and risk mitigation is taking place

### **Significant risks and issues**

In a dynamic and complex business environment significant risks can always be encountered. The following summarises the ongoing significant risks and issues that are specific to the NHS Pension Scheme at the end of 2018-19, focusing on the most highly rated and of significance for our stakeholders.

#### **Significant risks and issues managed and closed in year**

- **General Data Protection Regulation (GDPR)**

The introduction of GDPR created risks for any organization handling relevant data, including the possibility of legal breaches and significant fines. The NHSBSA delivered its GDPR project, ensuring alignment across the organization with the requirements of the regulations. Assurance of the project and its deliverables was undertaken by our internal audit team.

- **Payment to NHS Pensioners**

Previous long standing contractual arrangements to run NHS Pensions Administration and Payroll Service ended in July 2018, and the NHS Pension Re-Procurement programme transitioned the services to new insourced and specialist supplier arrangements. Following the migration to the new administration system, continuity of payments to existing NHS pensioners was successfully maintained although a number of significant processing delays were experienced impacting the processing of new awards for scheme members. This has been addressed through the delivery of a service recovery plan.

### **Current risks / issues**

- **IT Infrastructure and Sourcing (ITIS) Programme**

The ITIS Programme, created to deliver the replacement of the organisation's outsourced IT arrangements, has continued to process throughout 2018-19. Key milestones achieved have included the award and subsequent engagement with suppliers for a) networks, b) telephony and c) managed infrastructure, as well as significant progress to bring back in-house key service and management elements. The risk of not delivering the programme by the end of December 2019 continues to be monitored by the Leadership Team, with IT IS being included as a standing agenda item at the Audit and Risk Management Committee. Key mitigations include internal programme governance and oversight by the Infrastructure and Projects Authority (IPA) .

- **Information security**

The volumes and sensitivity of data we hold means the Leadership Team and Board have purposefully continued to closely monitor the organisation's approach to information and cyber security. Ongoing benchmarking against best practice standards and ongoing scrutiny by our Audit and Risk Management Committee ensures the risk is managed as threats continue to evolve on a day-by-day basis. Improvements are also being made through our IT and digitization programmes, and the implementation of a new Information Security Management System (ISMS) aligned to the requirements of ISO27001, with external certification planned for 2019-20.

- **NHS Pension Changes**

The NHSBSA are continuing to monitor developments in relation to the recent ruling in the Court of appeal on the legality of the transitional arrangements within the Firefighter and Judicial Pension Schemes, and the potential for changes to the NHS Pension Scheme. This could result in a significant increase in Pension Service administration work and associated costs.

### **Assurance arrangements**

The NHSBSA uses an assurance map approach, using the best practice three lines of defence model, to identify the sources of assurance in place over each of the key functions and services we deliver. The three lines of defence represent:

- First line: management control and reporting
- Second line: functional oversight and governance systems
- Third line: independent review and regulatory oversight

This model provides the basis upon which the NHSBSA Leadership Team can determine the focus of assurance effort. 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.

The Audit and Risk Management Committee review, at least annually, the process in place around assurance mapping. The Leadership Team members are responsible for ensuring their maps are up to date for their areas of responsibility.

The Audit and Risk Management Committee has continued a programme of 'Areas of Focus' exercises to assure itself on behalf of the Board regarding the robustness of controls. During 2018-19 exercises were carried out in the following areas:

- IT Infrastructure and Sourcing Programme (IT IS) – (standing agenda item for 2018-19)
- General Data Protection Regulation (GDPR)
- Business Continuity
- New Business – Identification, Evaluation and On-boarding

The Committee has gained an increased awareness over the assurances in place for each of the areas reviewed.

### **Managing Information**

During 2018-19 the NHSBSA has maintained its approach to handling information efficiently and securely. Each year, the NHSBSA undertakes a detailed self-assessment using the NHS-wide Data Security and Protection Toolkit (DSPT) – previously the Information Governance Toolkit. The DSPT return is based on the national data guardian's ten data security standards which was issued to all non-executive directors in July 2017. The NHSBSA return was submitted at the end of March 2019 which confirmed we were compliant with all the mandatory requirements. Frequent compliance updates are provided to the NHSBSA Audit and Risk Management Committee and NHSBSA Board.

478 security incidents were raised during 2018-19 across NHSBSA, with 87 relating to the Pension Scheme. Upon investigation and risk assessment (based on set DSPT criteria), none of these security incidents constituted onward reporting to either NHS digital, DHSC nor the Information Commissioner's Office (ICO).

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 security within the NHSBSA are coordinated by the Business Information Security Group (BISG) which is chaired by the Executive Director of Corporate Services who holds the position of Senior Information Risk Owner (SIRO). 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) 2018 and the appropriate notifications have been filed with the ICO. This means that all Data Subject Rights Requests (DSR) are responded to within the provisions of the Act, typically within 40 calendar days prior to 25 May 2018, and within a calendar month thereafter.

During 2018-19 we dealt with 233 DSR requests relating to the NHS Pension Scheme. All bar 12 were responded to within the required timeframe.

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 2018-19, we dealt with 46 FOI requests relating to the NHS Pension Scheme. All bar 3 were responded to within the required timeframe.

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 for 2018-19 no charges were made for access to information under the Freedom of Information Act or DPA requests made under the provisions of the Data Protection legislation.

### **Whistleblowing**

The NHSBSA has appropriate, effective whistleblowing arrangements in place i.e. policy and procedure. The overall effectiveness of these arrangements is reviewed by the Audit and Risk Management Committee on an annual basis. This includes having an identified non-executive director with specific accountability for these arrangements. This role is held by Tim Nolan.

### **Handling Complaints**

At the NHSBSA we pride ourselves on the level of service that we provide to our customers and other service users. We aim to resolve all complaints fairly and promptly in accordance with our defined policy.

During 2018-19 we have maintained our approach to handling complaints, learning lessons about our services, putting things right when things have gone wrong and apologising when we have let anyone down.

The total number of formal complaints received during 2018-19 (classified as Internal Dispute Resolution (IDR) stage 1 cases), relating to the NHS Pension Scheme was 1,208, of which 626 were upheld (52%). This compares with 618 of which 165 were upheld (29%) in 2017-18. The increase was attributed primarily to delays in processing new awards for scheme members.

### **Sources of Assurance**

#### **Audit and Risk Management Committee**

One of the key sources of assurance provision for the NHSBSA's Board is from the Audit and Risk Management Committee, whose key responsibilities are described in the Audit and Risk Management Committee section. 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:

- Risk Management updates - setting out and assessing the major risks and issues that we face along with progress and impact of mitigation actions
- Annual Risk Management report - outlining how our risk management arrangements have continued to operate during the year and how they have been reviewed and strengthened
- Assurance Map review – annual review of the assurance mapping arrangements in place across the business
- Areas of Focus presentations – focusing on high-risk areas, or other topics highlighted, for example, through internal audits, assurance maps, etc
- Internal Audit progress report – regular progress reports on the work undertaken by Internal Audit against agreed plan
- External Audit reports – regular progress reports on the work undertaken by External Audit
- Internal/External Audit recommendations tracker – updates on progress made across the NHSBSA in implementing audit recommendations
- Fraud / Local Security Management annual reports - reports detailing the work undertaken during the year mapped against the agreed work plans
- Whistleblowing update report – updates on whistleblowing activity across the business each year

### **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.
- 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 NHSBSA complies with information governance and security best practice and performs a self-assessment against a nationally developed IG Toolkit.
- Wellbeing and Inclusion Committee - controls are in place to ensure that all of our obligations under equality, diversity and human rights legislation are adhered to. The Wellbeing and Inclusion Committee, which is chaired by the Chief Executive, monitors performance against our Diversity and Inclusion Strategy and achievement of our equality objectives. It also oversees the delivery of our wellbeing and community investment goals.
- Statutory Function Register – a register which details the current Statutory Instruments, Directions and other applicable agreements is maintained to ensure correct arrangements are in place, and the NHSBSA is legally compliant in discharging its duties.
- 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. In addition, access restrictions to staff pension records exist within pension administration systems with limited authorised staff able to view or amend records directly.

### **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 annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

The Head of Internal Audit's opinion was that, based on the work completed to date, there is moderate assurance given to the Accounting Officer that the NHSBSA has had adequate and effective systems of control, governance and risk management in place for the reporting year 2018-19.

The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the NHSBSA 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 NAO and the internal audit reviews. The Audit and Risk Management Committee oversees progress towards the implementation of all such recommendations

- The work of the Fraud Specialists is to prevent, deter, investigate and report fraud activity. The Audit and Risk Management Committee receives the annual work plan and annual report of the Fraud Specialists and provides updates to the Board as appropriate.

Plans to ensure continuous improvement of the assurance system are in place and the Audit and Risk Management Committee continues to monitor improvements in the overall corporate assurance framework.

### **Significant Governance Issues**

There were no significant issues raised during 2018-19.

### **Conclusion**

My review confirms that the NHSBSA has a system of governance that supports the achievement of its policies, aims and objectives, and that of the NHS Pension Scheme, and that continuous improvement is ongoing.

**Andy McKinlay**  
**Accounting Officer**  
**NHS Business Services Authority**  
**18 July 2019**

## PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

### Statement of Parliamentary Supply (subject to audit)

#### Summary of Resource and Capital Outturn 2018-19

£000								2018-19	2017-18
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		
<b>Departmental Expenditure Limit</b>									
- Resource		-	-	-	-	-	-	-	
- Capital		-	-	-	-	-	-	-	
<b>Annually Managed Expenditure</b>									
- Resource	SoPS1	36,590,000	-	36,590,000	33,630,844	-	33,630,844	2,959,156	26,504,809
- Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>36,590,000</b>	-	<b>36,590,000</b>	<b>33,630,844</b>	-	<b>33,630,844</b>	<b>2,959,156</b>	<b>26,504,809</b>

Total Resource		36,590,000	-	36,590,000	33,630,844	-	33,630,844	2,959,156	26,504,809
Total Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>36,590,000</b>	-	<b>36,590,000</b>	<b>33,630,844</b>	-	<b>33,630,844</b>	<b>2,959,156</b>	<b>26,504,809</b>

#### Net Cash Requirement 2018-19

£000	Note	2018-19	2018-19		2017-18
		Estimate	Outturn	Outturn compared with Estimate saving/ (excess)	Outturn
	SoPS2	<b>183,034</b>	<b>(210,096)</b>	<b>393,130</b>	<b>(334,014)</b>

#### Administration Costs 2018-19

2018-19 Estimate	2018-19 Outturn	2017-18 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 SoPS1 and SoPS2.



## Notes to the Statement of Parliamentary Supply

### SOPS1 Net outturn – analysis by section

£000	2018-19									2017-18	
	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	-	-	-	45,009,895	(11,379,051)	33,630,844	33,630,844	36,590,000	2,959,156	2,959,156	26,504,809
Non Voted	-	-	-	-	-	-	-	-	-	-	-
Non-budget	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	<b>45,009,895</b>	<b>(11,379,051)</b>	<b>33,630,844</b>	<b>33,630,844</b>	<b>36,590,000</b>	<b>2,959,156</b>	<b>2,959,156</b>	<b>26,504,809</b>

#### Explanation of the variance between Resource Estimate and outturn:

The outturn is less than the Estimate due to:

- The outturn is less than forecast due to the provision in relation to the McCloud/Sargeant judgement being assessed as £7.2 billion rather than £10 billion when the Supplementary Estimate was completed.

### SOPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

	2018-19	2018-19	2018-19
	Estimate	Outturn	Net total outturn compared with Estimate:
			saving/(excess)
	£000	£000	£000
<b>Resource Outturn</b>	36,590,000	33,630,844	2,959,156
<b>Capital Outturn</b>	-	-	-
<b>Accruals to cash adjustment:</b>			
Adjustments to remove non-cash items:			
Non-cash items	(47,867,000)	(44,973,678)	(2,893,322)
Adjustments to reflect movements in working balances:			
Changes in payables, receivables and prepaid pension benefits	(19,966)	(131,577)	111,611
Use of provision	11,480,000	11,264,315	215,685
<b>Net cash requirement</b>	<b>183,034</b>	<b>(210,096)</b>	<b>393,130</b>

#### Explanation of variance between Net Cash Requirement (NCR) 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 surplus was more than the Estimate due to:

- pension benefit payments being £217 million less than forecast, primarily as a result of lump sum payments being lower in the final quarter of the year compared to the levels in the first three quarters which informed the Estimate; and
- income received being higher than forecast by £62 million and accruals adjustments being £112 million higher than forecast.

### SOPS3 Analysis of income payable to the Consolidated Fund

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

	Outturn 2018-19		Outturn 2017-18	
	<u>Income</u> £000	<u>Receipts</u> £000	<u>Income</u> £000	<u>Receipts</u> £000
Income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	<i>210,096</i>	-	<i>334,014</i>
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b><i>210,096</i></b>	<b>-</b>	<b><i>334,014</i></b>

### Parliamentary Accountability Disclosures (subject to audit)

#### Losses and special payments

##### Losses Statement

	2018-19	2017-18
Total number of losses	4,961	7,822
Total value of losses (000's)	900	1,540

##### Special payments Statement

Special payments are now disclosed within the Scheme accounts as the costs are now met directly by the Scheme from 1 April 2017 rather than from the NHSBSA running costs.

	2018-19	2017-18
Total number of special payments	154	74
Total value of special payments (000's)	86	148

There were no individual losses or special payments greater than £300,000.

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

### Opinion on financial statements

I certify that I have audited the financial statements of the NHS Pension Scheme (Incorporating the NHS Compensation Scheme for Premature Retirement Scheme) for the year ended 31 March 2019 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2019 and of its net operating expenditure 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 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 2019 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.

### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), and Practice Note 15 – The Audit of Occupational Pension Schemes in the United Kingdom and Practice Note 22 – The Auditor's Consideration of FRS 17 'Retirement Benefits' – Defined Benefit Schemes. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the NHS Pension Scheme (Incorporating the NHS Compensation Scheme for Premature Retirement Scheme) in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NHS Pension Scheme (Incorporating the NHS Compensation Scheme for Premature Retirement Scheme)'s ability to continue as a going concern for a period of at least twelve months from the date of

approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

### **Responsibilities of the Accounting Officer for the financial statements**

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.

### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NHS Pension Scheme (Incorporating the NHS Compensation Scheme for Premature Retirement Scheme)'s internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Opinion on other matters**

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the NHS Pension Scheme (Incorporating the NHS Compensation Scheme for Premature Retirement Scheme) and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- 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 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 and the parts of the Accountability Report to be audited 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.

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

**Date 22 July 2019**

## FINANCIAL STATEMENTS

### Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2019

	Note	<u>2018-19</u> £000	<u>2017-18</u> £000
<b>Income</b>			
Contributions receivable	3	(11,234,897)	(10,779,459)
Transfers in	4	(60,321)	(71,622)
Other pension income	5	(83,833)	(85,619)
		<u>(11,379,051)</u>	<u>(10,936,700)</u>
<b>Expenditure</b>			
Service Cost	6	31,200,000	22,800,000
Enhancements	7	113,357	132,352
Transfers in – additional liability	8	60,321	71,622
Pension financing cost	9	13,600,000	14,400,000
Administration cost	10	36,217	37,535
		<u>45,009,895</u>	<u>37,441,509</u>
<b>Net Expenditure</b>		<u><b>33,630,844</b></u>	<u><b>26,504,809</b></u>
<b>Other Comprehensive Net Expenditure</b>			
Revaluation loss/(gain) of estimated discounted future cash flows in respect of early retirement charges	14	(41,213)	178,979
Pension re-measurements			
Actuarial gain	17.7	(26,509,363)	(10,116,676)
		<u>7,080,268</u>	<u>16,567,112</u>
<b>Total Comprehensive Net Expenditure for the year ended 31 March</b>		<u><b>7,080,268</b></u>	<u><b>16,567,112</b></u>

The notes on pages 41-54 form part of these accounts.

## Combined Statement of Financial Position

as at 31 March 2019

		<b>31 March 2019</b>	<b>31 March 2018</b>
	Note	<u>£000</u>	<u>£000</u>
Current assets:			
Receivables	12	933,166	896,557
Cash and cash equivalents	13	210,096	334,014
Prepayments	15	-	87,896
Total current assets		<u>1,143,262</u>	<u>1,318,467</u>
Current liabilities:			
Payables (within one year)	16	(729,773)	(773,401)
Net assets, excluding pension liability		<u><b>413,489</b></u>	<u><b>545,066</b></u>
Estimated discounted future cashflows in respect of premature retirement recharges	14	445,941	404,728
Pension Scheme liability	17.4	(533,300,000)	(526,100,000)
Net liabilities, including pension liability		<u><b>(532,440,570)</b></u>	<u><b>(525,150,206)</b></u>
Taxpayers' equity:			
General fund		(532,440,570)	(525,150,206)
		<u><b>(532,440,570)</b></u>	<u><b>(525,150,206)</b></u>

**Andy McKinlay**  
**Accounting Officer**  
**NHS Business Services Authority**  
**18 July 2019**

The notes on pages 41-54 form part of these accounts.

**Combined Statement of Changes in Taxpayers' Equity**  
for the year ended 31 March 2019

	Note	<u>2018-19</u> £000	<u>2017-18</u> £000
<b>Balance at 1 April</b>		<b><u>(525,150,206)</u></b>	<b><u>(508,249,080)</u></b>
Revaluation loss/(gain) of estimated discounted future cash flows in respect of early retirement recharges	14	41,213	(178,979)
Surplus cash payable to the Consolidated Fund	16	(210,096)	(334,014)
<b>Net Expenditure for the year</b>	SoCNE	<b><u>(33,630,844)</u></b>	<b><u>(26,504,809)</u></b>
Actuarial gain - NHS Pension Scheme	17.7	26,509,363	10,116,676
<b>Net change in Taxpayers' Equity</b>		<b><u>(7,290,364)</u></b>	<b><u>(16,901,126)</u></b>
<b>Balance at 31 March</b>		<b><u>(532,440,570)</u></b>	<b><u>(525,150,206)</u></b>

The notes on pages 41-54 form part of these accounts.



**Combined Statement of Cash Flows**  
for the year ended 31 March 2019

	2018-19	2017-18
Note	£000	£000
<b>Cash flows from operating activities</b>		
Net expenditure for the year	SoCNE (33,630,844)	(26,504,809)
Adjustments for non-cash transactions:		
Increase in receivables	(36,609)	(42,383)
Increase/(decrease) in payables	80,290	43,743
Decrease/(increase) in prepaid lump sum benefits	15 87,896	20,787
Increase in pension provision	17.4 44,800,000	37,200,000
Increase in pension provision – enhancements and transfers in	17.4 173,678	203,974
Use of provisions – pension liability	17.5 (11,052,554)	(10,323,909)
Use of provisions – refunds and transfers	17.6 (211,761)	(263,389)
<b>Net cash inflows from operating activities</b>	<b>210,096</b>	<b>334,014</b>
<b>Cash flows from financing activities</b>		
From the Contingencies Fund – current year	658,000	680,000
From the Consolidated Fund (non-Supply)	-	-
<b>Net Parliamentary financing</b>	<b>658,000</b>	<b>680,000</b>
Repayment to the Contingencies Fund – current year	(658,000)	(680,000)
<b>Net financing</b>	<b>-</b>	<b>-</b>
<b>Net Increase in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund</b>	<b>210,096</b>	<b>334,014</b>
Payments of amounts to the Consolidated Fund	(334,014)	(306,581)
<b>Net increase/(decrease) in cash and cash equivalents in the year after adjustments for receipts and payments to the Consolidated Fund</b>	<b>(123,918)</b>	<b>27,433</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>334,014</b>	<b>306,581</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>210,096</b>	<b>334,014</b>

The notes on pages 41-54 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 2018-19 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

In addition to the primary statements prepared under IFRSs, the FReM also requires the Scheme to prepare an additional statement – a Statement of Parliamentary Supply. This statement, 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 an unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the NHSBSA on behalf of the Secretary of State for Health and Social Care 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 and Social Care. The income received currently exceeds payments made by the Scheme, the balance of surplus cash is 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 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 Combined Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Combined 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. 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 Scheme financial statements.

Accounting standards issued in year:

- IFRS 9 Financial Instruments – the effect of applying the new IFRS on the financial statements of the NHSPS had no material impact.
- IFRS 15 Revenue from Contract with Customers – there are no material balances within the NHSPS financial statements affected by the changes to IFRS 15.

Accounting standards issued in year but not yet adopted by the Government Financial Reporting Manual (FReM) at the reporting date:

- IFRS 16 Leases – there are no material balances within the NHSPS financial statements affected by the changes to the IFRS 16.

### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

### 2.2 Critical Accounting Judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis.

#### **McCloud/Sergeant:**

The calculation of adjustment to past service costs, £7.2 billion, arising from the outcome of the Court of Appeal judgment is based on a number of key assumptions including:

- the form of remedy adopted
- how the remedy will be implemented
- which members will be affected by the remedy
- the earnings assumptions and
- the withdrawal assumption.

Further information can be seen in note 17.9.

### 2.3 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 11 to the financial statements. Please refer to Note 11 for further information on Scheme AVC providers.

## **2.4 Transfers in and out**

Transfers in are accounted for as income and also by representing the associated increase in the Scheme liability, transfers out reduce the Scheme liability. Both are accounted for on a cash basis.

## **2.5 Administration levy and costs**

The costs of administering the Scheme are met by employers via a levy of 0.08% of pensionable salary. The levy is shown as income in the Statement of Comprehensive Net Expenditure and accounted for on an accruals basis. The costs are initially borne by the NHSBSA and then recharged to the Scheme. These charges are shown under expenditure in the Statement of Comprehensive Net Expenditure and are accounted for on an accruals basis. Administration costs include all staff costs, overheads and general administration costs attributed to the Scheme.

## **2.6 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 0.10% (2017-18 0.24%) and 2.55% including inflation (2017-18 2.80%). 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.

## **2.7 Past service cost**

Past service costs are increases 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 of, or improvement to, retirement benefits. Past service costs are recognised in the SoCNE on a straight line basis over the period in which increases in benefit vests.

## **2.8 Interest on Scheme liabilities**

The interest cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a gross discount rate of 2.55% (2017-18 2.80%).

## **2.9 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 2018 was discounted at a real discount rate of 0.10% (i.e. 2.55% including inflation). The discount rate changed on 31 March 2019 to 0.29% and the Scheme was discounted at that rate.

Further details of the financial assumptions used are set out at Note 17.1 to these accounts and in the Report of the Actuary on pages 13 to 16. 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 2018 was provided to GAD to facilitate a full actuarial valuation that has been used in the preparation of pension accounts for 2018-19.

### 2.10 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.

### 2.11 Actuarial gains / losses

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

### 2.12 Accounting policies for the NHS Compensation for Premature Retirement Scheme

Compensation payments for the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative purposes, benefits are paid to the member and the employer is subsequently re-charged for the costs. Except where stated otherwise below, the accounting policies outlined at Note 2 above, apply.

Employers are invoiced on a quarterly basis in arrears for the costs incurred over the previous three month period. This arrangement ceased for employers from 1 October 2011 for new cases, but the costs for historic cases continue to be met by employers. An employer may also choose to settle their future liability by way of a capital sum. Both types of income are accounted for as Other Pension Income (see Note 5).

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 for through the General Fund, and disclosed within the Combined Statement of Changes in Taxpayer's Equity.

## 3. Contributions receivable

	<b>2018-19</b>	<b>2017-18</b>
	<u>£000</u>	<u>£000</u>
Employers	(6,660,896)	(6,392,249)
Employees:		
Normal	(4,466,038)	(4,261,445)
Purchase of added years	(88,638)	(101,991)
Purchase of additional pensions	(17,899)	(22,681)
Purchase of early retirement reduction buy out	(1,426)	(1,093)
	<b><u>(11,234,897)</u></b>	<b><u>(10,779,459)</u></b>

£14,960 million in contributions are expected to be payable to the Scheme in 2019-20.

## 4. Transfers in (see also note 8)

	<b>2018-19</b>	<b>2017-18</b>
	<u>£000</u>	<u>£000</u>
Individual transfers in from other schemes	(58,295)	(68,689)
Group transfers in from other schemes	(2,026)	(2,933)
	<b><u>(60,321)</u></b>	<b><u>(71,622)</u></b>

**5. Other pension income**

	<b>2018-19</b>	<b>2017-18</b>
	£000	£000
Pre funded premature retirement contributions	(5,394)	(6,587)
Rechargeable premature retirement contributions	(34,080)	(35,061)
Capitalised rechargeable premature retirement costs	-	(13,943)
Final pay control	(13,134)	-
Interest charged on contribution payments	(172)	(227)
Administration levy	(31,053)	(29,801)
	<b>(83,833)</b>	<b>(85,619)</b>

**6. Service cost (see also note 17.4 and 17.9)**

A one off adjustment for past service cost of £7.2 billion has been recognised in 2018-19 in relation to a legal case in respect of the transitional protection.

	<b>2018-19</b>	<b>2017-18</b>
	£000	£000
Current service cost	24,000,000	22,600,000
Past service cost	7,200,000	200,000
	<b>31,200,000</b>	<b>22,800,000</b>

**7. Enhancements (see also note 17.4)**

	<b>2018-19</b>	<b>2017-18</b>
	£000	£000
Employees: Purchase of added years	88,638	101,991
Employees: Purchase of additional pension	17,899	22,681
Employees: Early retirement reduction buy out	1,426	1,093
Employers: Pre-funded premature retirement contributions	5,394	6,587
	<b>113,357</b>	<b>132,352</b>

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

	<b>2018-19</b>	<b>2017-18</b>
	£000	£000
Individual transfers in from other schemes	58,295	68,689
Group transfers in from other schemes	2,026	2,933
	<b>60,321</b>	<b>71,622</b>

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 17.4)**

	<b>2018-19</b>	<b>2017-18</b>
	£000	£000
Net interest on defined benefit liability	<b>13,600,000</b>	<b>14,400,000</b>

**10. Scheme administration cost**

	<b>2018-19</b>	<b>2017-18</b>
	<u>£000</u>	<u>£000</u>
Scheme administration cost	<b>36,217</b>	<b>37,535</b>

**11. 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. AVC contributions are not part of the Scheme account cash flows or financial statements. Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments were as follows:

	<b>2018-19</b>	<b>2017-18</b>
	<u>£000</u>	<u>£000</u>
<b>The Equitable Life Assurance Society (ELAS)</b>		
Movements in the year were as follows:		
Balance at 1 April	94,675	100,002
New investments	415	526
Sale of investments to provide pension benefits	(5,521)	(7,761)
Changes in market value of investments	4,679	1,908
Balance at 31 March	<b>94,248</b>	<b>94,675</b>
Contributions received to provide life cover	-	-
Benefits paid on death	374	114
	<b>2018-19</b>	<b>2017-18</b>
	<u>£000</u>	<u>£000</u>
<b>Standard Life Assurance Company</b>		
Movements in the year were as follows:		
Balance at 1 April	121,827	128,109
New investments	1,800	1,890
Sale of investments to provide pension benefits	(10,095)	(10,358)
Changes in market value of investments	5,049	2,186
Balance at 31 March	<b>118,581</b>	<b>121,827</b>
Contributions received to provide life cover	-	-
Benefits paid on death	280	100

	<b>2018-19</b>	<b>2017-18</b>
	£000	£000
<b>Prudential Plc</b>		
Movements in the year were as follows:		
Balance at 1 April	60,915	62,943
New investments	4,030	2,915
Sale of investments to provide pension benefits and switches to new funds	(4,918)	(6,767)
Changes in market value of investments	2,846	1,824
Balance at 31 March	<b>62,893</b>	<b>60,915</b>
Contributions received to provide life cover	-	-
Benefits paid on death	35	177

## 12. Receivables

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 disclosed within receivables. The total amount of debt written off during the year is shown within the Parliamentary Accountability and Audit Report.

### Analysis by type

	<b>31 March</b>	<b>31 March</b>
	2019	2018
	£000	£000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	535,829	518,988
Employees' normal contributions	355,251	345,043
Purchase of added years	7,169	7,724
Purchase of additional pensions	1,809	1,927
Purchase of early retirement reduction buy out	188	90
Invoiced pre-funded premature retirement contributions	773	428
Invoiced re-chargeable premature retirement contributions	10,421	9,038
Invoiced final pay control income	9,155	69
<b>Total due from employers</b>	<b>920,595</b>	<b>883,307</b>
Overpaid pension benefits	12,328	11,771
HMRC – VAT	243	1,479
<b>Total due within one year</b>	<b>933,166</b>	<b>896,557</b>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total receivables</b>	<b>933,166</b>	<b>896,557</b>



### 13. Cash and cash equivalents

	<u>2018-19</u>	<u>2017-18</u>
	£000	£000
Balance at 1 April	334,014	<b>306,581</b>
Net change in cash balances	(123,918)	27,433
<b>Balance at 31 March</b>	<u><b>210,096</b></u>	<u><b>334,014</b></u>
The following balances at 31 March were held at:		
Government Banking Service	210,096	334,009
Commercial banks and cash in hand	-	5
<b>Balance at 31 March</b>	<u><b>210,096</b></u>	<u><b>334,014</b></u>

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

Where the employer chose 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.

	<u>2018-19</u>	<u>2017-18</u>
	£000	£000
Balance at 1 April	404,728	583,707
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	41,213	(178,979)
<b>Balance at 31 March</b>	<u><b>445,941</b></u>	<u><b>404,728</b></u>

### 15. 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 pension lump sum amounts paid at the end of March where the due date was 1 April 2018.

	<u>31 March</u>	<u>31 March</u>
	2019	2018
	£000	£000
Prepaid pension benefits	-	87,896
	<u>-</u>	<u><b>87,896</b></u>

## 16. Payables

### Analysis by type

	<b>31 March 2019</b>	<b>31 March 2018</b>
	<u>£000</u>	<u>£000</u>
<b>Amounts falling due within one year:</b>		
Pensions	(392,180)	(312,306)
HMRC	(114,928)	(112,073)
Voluntary deductions	(246)	(274)
Scheme administration costs payable to NHSBSA	(10,851)	(8,239)
Amounts due to employers:		
Employee and employer contributions	(1,446)	(6,495)
Final Pay Control	(23)	-
Prefunded premature retirements	(1)	-
Rechargeable premature retirements	(2)	-
	<u><b>(519,677)</b></u>	<u><b>(439,387)</b></u>
Amount due to be paid to the Consolidated Fund	(210,096)	(334,014)
	<u><b>(729,773)</b></u>	<u><b>(773,401)</b></u>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total payables</b>	<u><b>(729,773)</b></u>	<u><b>(773,401)</b></u>

## 17. Provisions for pension liabilities

### 17.1 Assumptions underpinning the provision for pension liability

The NHS Pension Scheme is an unfunded defined benefit Scheme. GAD carried out an assessment of the Scheme liabilities as at 31 March 2019. The Report of the Actuary on pages 13 to 16 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 2018, and the results rolled forward to 31 March 2019 to estimate the position in 2018-19.

**The key assumptions used by the Actuary were:**

At 31 March	31 March 2019	31 March 2018
Nominal discount rate	2.90%	2.55%
Rate of pension increases	2.60%	2.45%
Rate of general pay increases	4.10%	3.95%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
Pension increases	0.29%	0.10%
Long-term pay increases	(1.15%)	(1.40%)
Life expectancies		
Life expectancy at age 60 –current pensioners		
Men	29.5	29.4
Women	30.9	30.8
Life expectancy at age 60 – current age 40		
Men	31.6	31.5
Women	32.9	32.8
Life expectancy at age 65 –current pensioners		
Men	24.5	24.4
Women	25.9	25.8
Life expectancy at age 65 –current age 45		
Men	26.5	26.4
Women	27.8	27.7

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

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

The assumptions reflect the outcomes in the case of the McCloud / Sargeant ruling. These assumptions are further expanded in note 17.9.

## 17.2 Analysis of the provision for pension liability

At 31 March	2019	2018	2017	2016	2015
Active members (past service)	305.8	307.5	274.0	208.2	218.5
Deferred Pensions	65.7	61.6	52.0	40.7	39.9
Pensions in payment	161.8	157.0	183.4	133.1	132.2
<b>Total liability</b>	<b>533.3</b>	<b>526.1</b>	<b>509.4</b>	<b>382.0</b>	<b>390.6</b>

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 17.7. 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.

## 17.3 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	
<b>Financial assumptions</b>			
(i)	discount rate increase*: +0.5 % a year	-13.0%	£68.4 billion
(ii)	(long term) earnings increase*: +0.5 % a year	+2.0%	£10.5 billion
(iii)	pension increases*: +0.5 % a year	+9.0%	£47.3 billion
<b>Demographic assumptions</b>			
(iv)	additional 1 year increase in life expectancy at retirement:	+3.0%	£15.8 billion
(v)	1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)	+1.0%	£5.3 billion

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

#### 17.4 Analysis of movements in the Scheme liability

	Note	2018-19 £000	2017-18 £000
<b>Scheme liability as at 1 April</b>		<b>(526,100,000)</b>	<b>(509,400,000)</b>
Service cost	6	(24,000,000)	(22,600,000)
Past service cost	6	(7,200,000)	(200,000)
Pension financing cost	9	(13,600,000)	(14,400,000)
		(44,800,000)	(37,200,000)
Enhancements	7	(113,357)	(132,352)
Pension transfers in	8	(60,321)	(71,622)
		(173,678)	(203,974)
Benefits payable	17.5	11,052,554	10,323,909
Pension payments to and on account of leavers	17.6	211,761	263,389
		11,264,315	10,587,298
Actuarial gain/(loss)	17.7	26,509,363	10,116,676
<b>Scheme liability as at 31 March</b>		<b>(533,300,000)</b>	<b>(526,100,000)</b>

During the year ended 31 March 2019, contributions represented an average of 23.9% of pensionable pay (excluding purchase of added years and additional pension contributions), and are anticipated to remain at this level in the immediate future years.

#### 17.5 Analysis of benefits paid

	2018-19 £000	2017-18 £000
Pensions to retired employees and dependants (net of recoveries of overpayments)	8,688,409	8,082,614
Commutations and lump sum benefits on retirement	2,364,145	2,241,295
<b>Per Combined Statement of cash flows</b>	<b>11,052,554</b>	<b>10,323,909</b>

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

	2018-19 £000	2017-18 £000
Death in service	50,008	52,742
Individual transfers to other schemes	63,874	53,623
Group transfers to other schemes	752	68,441
Payment to State Scheme	55,885	44,837
Refunds to members leaving service	41,242	43,746
<b>Per Combined Statement of Cashflows</b>	<b>211,761</b>	<b>263,379</b>

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

	Note	2018-19 £000	2017-18 £000
Experience gain arising on Scheme liabilities	17.7.1	1,000,000	5,816,676
Changes in assumptions underlying the present value of Scheme liabilities	17.7.2	25,509,363	4,300,000
<b>Per Combined Statement of Comprehensive Net Expenditure</b>		<b>26,509,363</b>	<b>10,116,676</b>

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.

### 17.7.1 Experience gain

The following table sets out an analysis of the experience gain for 2018-19.

Experience gain	2018-19 £billion
Pensionable pay increase lower than expected	2.8
Membership and other experience	(1.8)
<b>Total experience gain</b>	<b>1.0</b>

### 17.7.2 Change in assumptions

The following table sets out an analysis of the impact in changes to assumptions on the scheme liability as at 31 March 2019.

Reduction in liability from change in assumptions	2018-19 £billion
Increase in nominal discount rate	40.2
Increase in assumed rate of pension increases	(11.9)
Increase in assumed rate of general pay increases	(2.8)
<b>Total changes in experience</b>	<b>25.5</b>

## 17.8 History of experience gains/(losses)

	2018-19	2017-18	2016-17	2015-16	2014-15
<b>Experience gains/losses on the scheme liabilities:</b>					
Amount (£000)	1,000,000	5,816,676	8,031,725	3,815,355	1,713,105
Percentage of the present value of the scheme liabilities	-0.19%	-1.11%	-1.58%	-1.00%	-0.44%
<b>Total amount recognised in Statement of Other Comprehensive Net Expenditure</b>					
Amount (£000)	26,509,363	10,116,676	(108,668,275)	28,415,355	(34,286,895)
Percentage of the present value of the scheme liabilities	-4.97%	-1.92%	21.33%	-7.44%	8.78%

## 17.9 McCloud / Sargeant ruling

These accounts show a past service cost of £7.2 billion in respect of the McCloud / Sargeant judgement, as outlined in note 2.2 above. This is just under 1.4% of the total scheme liability as at 31 March 2019.

The calculation of adjustment to past service costs, £7.2 billion, arising from the outcome of the Court of Appeal judgement is based on a number of key assumptions including:

- the form of remedy adopted
- how the remedy will be implemented
- which members will be affected by the remedy
- the earnings assumptions and
- the withdrawal assumption.

The other financial and demographic assumptions adopted to calculate the past service cost are the same as those used to calculate the overall scheme liability. Adopting different assumptions,

or making other adjustments to reflect behavioural changes stemming from the judgment, would be expected to change the disclosed past service cost. Similarly, allowing for variations in individual members' future service or salary progression is expected to produce higher costs. The past service cost is particularly sensitive to the difference between assumed long term general pay growth and the CPI. If the long term salary growth assumptions were 0.5% pa lower, then the past service cost disclosed here would be expected to reduce by -45% (around -£3.2 billion) and conversely a 0.5% p.a. increase would increase the estimated cost by 60% (around £4.3 billion).

#### **18. 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.

#### **19. 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.

#### **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 NHSBSA which administers the Schemes on behalf of the DHSC), 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**

In June 2019 the Supreme Court refused the Government permission to appeal the Court of Appeal's December 2018 judgment in the McCloud and Sargeant case.

**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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