Presented pursuant to GRA Act 2000 c.20. s.6

Department for International Development

Overseas Superannuation Resource Accounts 2006-07

LONDON: The Stationery Office
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(For the year ended 31 March 2007)

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Report of the Managers

Introduction

These accounts are a scheme statement for Overseas Superannuation payments made by the Department for International Development (DFID). They conform as far as possible to the provisions of the Statement of Recommended Practice for Financial Reports of Pension Schemes (revised November 2002).

Overseas Pensions Department (OPD), an executive department of DFID, is responsible for the administration and payment of pensions and related benefits to former expatriate colonial civil and public servants and their dependants, including those who served in a civil or military capacity in former British India and the Sudan public service. OPD is also responsible for the formulation of the British Government's policy on overseas pensions and UK pension increase supplements.

All payments are treated as Annually Managed Expenditure.

The Minister with responsibility for pensions is Gareth Thomas, Parliamentary Under Secretary of State for International Development. The Scheme Manager is Peter Brough, Head of OPD.

OPD produces an Annual Report of its business at the end of June each year and an Interim Report in November. These are available via DFID's website, www.dfid.gov.uk.

Management Commentary

The activities reported on in these accounts mainly derive from two policy initiatives by the British Government: a 1962 agreement to supplement the pensions to certain former colonial civil servants; and a 1970 announcement that the British Government would assume responsibility from overseas governments for the payment of pensions due to expatriate colonial civil servants who had mainly been appointed by or on behalf of the Secretary of State for the Colonies.

The element of these pensions arising from service after independence, together with certain widows' pensions, are financed from capital sums which were paid over to the British Government by the overseas governments, or by funded pension schemes which have been wound up, to cover their future liabilities. The British Government meets the cost of the pre-independence element, and the cost of those widows' and dependants' pensions that do not derive from a funded scheme.

Pensions and related benefits included in these statements are paid in sterling from over one hundred different pension schemes that have been set up under the following Acts of Parliament:

- Overseas Pensions Act 1973
- Pensions (Increase) Act 1971, as amended
- Hong Kong (Overseas Public Servants) Act 1996
- UK Police and Firemen Acts

All but one of the schemes are non-contributory: the Indian Military Widows' and Orphans' Scheme, still receives contributions from its members. There are now 56 officers with a registered interest for a potential 69 beneficiaries.

Change in member numbers

The schemes managed by OPD are all closed to new members; the number of pensioners falls each year. Table 1 below shows the number of pensioners and pensions and the total number of payments made during the last three years.

Table 1

	2006-07	2005-06	2004-05
No. of Service Pensioners	10,379	11,133	11,851
No. of Dependants	8,813	9,047	9,304
Total No. of Pensioners	19,192	20,180	21,155
Total No. of Pensions	40,807	42,946	45,135
Total No. of Payments	209,610	219,004	230,544

Table 2 shows the percentage change in pensioner numbers and payments in the last two years

Table 2

	2006-07 % Change	2005-06 % Change
No. of Service Pensioners	–6.8%	–6.1%
No. of Dependants	–2.6%	–2.8%
Total No. of Pensioners	–4.9%	–4.6%
Total No. of Pensions	–5.0%	–4.8%
Total No. of Payments	–4.3%	–5.0%

Of the current 19,192 pensioners:

- 51 per cent are male;
- 67 per cent live in the UK; the remainder in 106 other countries;
- 87 per cent are paid monthly; 13 per cent quarterly;
- 96 per cent of those living in the UK – 94 per cent of pensions by value – are paid by Bankers Automated Clearing Service;
- Of the pensions paid overseas, 72 per cent by value are paid through Transcontinental Automated Payment Service, where that option is available;
- The average age of service pensioners is 80 years;
- The average age of dependant pensioners is 81 years;
- The oldest pensioner is now 106 years of age, and there are 77 other centenarians on OPD's books.

Projections of pensioner numbers estimate that the last pensioner will die by the middle of the century.

Service Standards

A key measure of OPD performance is the service it provides to pensioners. Standards are set through a Service Level Agreement (SLA). OPD's aim is that its service should always be:

- Prompt
- Efficient
- Accurate
- Helpful and courteous
- Responsive to those with special needs

Table 3 below shows performance against service standards. These figures are obtained from data held on our computer systems.

Table 3

	SLA Target %	2006-07 achieved %	2005-06 achieved %
Accuracy of initial payment calculations	97.50	99.96	99.97
Accuracy of initial calculation of new and revised awards	95.00	97.08	96.67
Number of new awards put into payment within 2 weeks	97.50	100.00	100.00
Timeliness of payments by due date	99.00	100.00	100.00
Response to enquiries within 2 weeks of receipt	99.00	100.00	99.99
Response to complaints within 2 weeks of receipt	95.00	100.00	93.33

OPD received a total of 23 complaints during 2006-07 from pensioners or their agents, 8 of which were deemed by the Complaints Officer to have valid criticisms about OPD.

We investigate customer satisfaction with OPD's service through a questionnaire issued to every new pensioner within six months after his or her first payment. During 2006-07 OPD issued 375 questionnaires of which 222 (59 per cent) were returned. The conclusions were that:

- 95 per cent of respondents rated OPD's service as either very good (78 per cent) or good
- 80 per cent described OPD staff as helpful
- 78 per cent as efficient, and
- 60 per cent as friendly.

For the first time, a customer satisfaction survey was issued during the year to all pensioners, which resulted in 4,340 responses.

- 83.5 per cent of responses rated the overall quality of service as very good
- 83 per cent described the service as efficient
- 62 per cent as helpful
- 45 per cent as friendly

OPD keeps in contact with pensioners by means of an annual newsletter issued to all pensioners each year and issues an information booklet to every new pensioner.

Efficiency

Our main measure of efficiency is the cost of OPD administration for each unit of activity. Targets are set in the SLA. The aim is to reduce running costs in line with the continuing reduction in pensioner numbers. Savings are calculated over a three-year period and based on those OPD costs which are directly associated with the award and payment of pensions: the cost base for the target is therefore about 73 per cent of total administration costs. **Table 4** below shows performance against SLA target unit costs.

Table 4

	2006-07 Target Unit Cost	2006-07 Actual	2005-06 Actual
Per pensioner	£36.50	£36.59	£34.83
Per pension	£17.16	£17.20	£16.37
Per payment	£3.36	£3.35	£3.21

On average unit costs were therefore about 0.2 per cent above target for this year. This largely reflects diseconomies of scale: baseline staff numbers have reduced significantly in recent years, and an increasing proportion of staff are involved in activities which do not vary with changes in pensioner numbers. For this reason there is likely to be continuing pressures on the unit cost measure.

Financial Review

The main factor affecting amounts paid to pensioners are centrally-determined decisions on indexation: about 92 per cent of total amounts paid are for index-linked increases and supplements on the basic pensions. Most pensions were increased by 2.7 per cent from 10 April 2006 in line with the increases paid on other UK public service pensions under the provisions of the Pension Increase Act 1971, as amended. Pensions paid in 2006-07 were £113.0 million (2005-06: £114.6 million). The Net Cash Requirement was £113.1 million.

Under FRS 17 a resource expense is shown in the Summary of Resource Outturn and the Revenue Account for the interest cost, increasing the discounted liabilities, because future benefit payments are one year closer to settlement. The interest cost is determined by the chosen discount rate and assumptions about price inflation. For 2006-07 liabilities were discounted at a nominal rate of 5.37 per cent based on the real discount rate of 2.8 per cent. The interest cost was £65.8 million (2005-06 £68.1 million). The assumptions used in the calculation of the interest cost reflect the financial basis which was applicable at the start of the financial year. As discussed below, the financial basis used for resource accounting purposes changed with effect from 31 March 2007, but this does not affect the calculation of the interest cost for 2006-07.

On 31 March 2007, the discount rate used to measure the scheme's liabilities was reduced from 2.8 per cent real to 1.8 per cent real. This resulted in an increase in the provision of £75.7 million. In line with guidance from HM Treasury, this is included as a movement in the Statement of Recognised Gains and Losses only, and does not affect the Statement of Parliamentary Supply or the Revenue Account. In 2005-06, the effect of a change in the discount rate was included as a non-budget expense in the Statement of Parliamentary Supply. Taking account of movements in the year the liability at 31 March 2007 was valued as £1,323 million.

The pension liability means that at 31 March 2007 the balance sheet shows negative taxpayers' equity of £1,325 million. In common with other obligations of government departments, the future financing of pension liabilities will be met from grants of Supply approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming and it has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

OPD costs for managing pensions are part of DFID administrative expenditure and are included in the main DFID Departmental Resource account. In 2006-07 administration costs were £960,305 (2005-06: £949,805).

The outturn figures for pensions expense and net cash requirement were within Estimate. Variances from Estimate for resource charges were largely due to Estimates figures for 2006-07 being set before outturn information was available for 2005-06; by Parliamentary convention these figures could not be reduced by Supplementary Estimate when more accurate forecasts were available. The small variance in the Net Cash Requirement from Estimate reflects the lower than forecast payments to pensioners in the year.

Audit arrangements

The accounts are audited by the Comptroller and Auditor General. Through his staff DFID's Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information. So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware.

Post Balance Sheet Events

The Department for International Development Overseas Superannuation Resource Accounts' financial statements are laid before the Houses of Parliament by HM Treasury. FRS21 requires the Department for International Development Overseas Superannuation Resource Accounts to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Department for International Development to HM Treasury.

The authorised date for issue is 25 June 2007.

Managers and Advisers

Accounting Officer	Suma Chakrabarti Accounting Officer for the Overseas Pension Schemes Department for International Development Palace Street London SW1
Managers	Overseas Pensions Department (OPD) Department for International Development (DFID) East Kilbride G75 8EA

Advisers

Pension Scheme Actuary:	Government Actuary's Department, Finlaison House, 15-17 Furnival Street, London EC4A 1AB
Bankers:	Office of Paymaster General, Sutherland House, Russell Way, Crawley, West Sussex
Legal Advisers:	Office of the Solicitor to the Advocate General for Scotland, Victoria Quay, Edinburgh EH6 6QQ

Auditors

Auditors:	The Comptroller and Auditor General, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP

Further Information

An explanatory booklet "A Guide to Your Pension" is issued to all new pensioners. The booklet contains details of the standard of service they can expect to receive from Overseas Pensions Department and general information on the administration of their pensions, including dispute resolution procedures. A copy of the Guide and other general information is found on DFID's web site:

www.dfid.gov.uk

Any enquiries about the Overseas Superannuation Resource Account can be addressed to:

The Scheme Manager
Overseas Pensions Department
Department for International Development
East Kilbride
G75 8EA

Suma Chakrabarti

Principal Accounting Officer for the Department for International Development and Accounting Officer for the Overseas Pension Schemes 20 June 2007

Report of the Actuary

Pension Schemes administered by the Department for International Development

1 Liabilities

The capitalised value as at 31 March 2007 of expected future benefit payments under the Department for International Development (DFID) pension schemes, for benefits accrued in respect of employment (or former employment) prior to 31 March 2007, has been assessed using the methodology and assumptions set out in sections 3 and 4 below. The liabilities are estimated to be £1,323 million.

2 Accruing Costs

There are few active members in the schemes, and the schemes are closed to new entrants. The value of the liabilities quoted above includes allowance for active members' service up to retirement age. Thus, there is no additional annual accrual in respect of the actives.

3 Methodology

The value of liabilities has been obtained by discounting the expected pension payments, allowing for assumed mortality.

4 Assumptions

The principal financial assumption adopted for the pension assessment made in relation to this statement is an interest rate in excess of price increases of 1.8% a year (most pension benefits under the scheme are increased annually in line with price changes). The nominal interest rate was taken to be 4.6% where it was relevant. The mortality assumptions adopted for the assessment are based on standard UK mortality tables for pensioners.

5 Notes

(1) This report is based on an actuarial valuation carried out as at 31 March 2006, updated approximately for the subsequent financial year to reflect known changes which have occurred over the period 31 March 2006 to 31 March 2007.

(2) It is emphasised that the projection of the liabilities from the last valuation date to the current date is approximate. More accurate assessments will be available following the next formal valuation.

(3) The pension benefits taken into account in this assessment are those specified for each member by DFID, the scheme administrators. No data was provided for contingent pensions not associated with a pension currently in payment. Such liabilities have not been valued. No data was provided for contingent pensions which are associated with pensions currently in payment. An approximate allowance has been made for these liabilities.

Ken Kneller
Government Actuary's Department
London 2 May 2007

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for International Development to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

The financial statements are prepared on an accruals basis and must show a true and fair view of the financial transactions of the combined schemes during the year and the disposition, at the end of the financial year, of the combined net liabilities.

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

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

HM Treasury has appointed me, as Permanent Secretary, Principal Accounting Officer of the Department and also Accounting Officer for the Overseas Pension Schemes. 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 the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

Suma Chakrabarti
Principal Accounting Officer for the Department for International
Development and Accounting Officer for the Overseas Pension Schemes 20 June 2007

Statement on Internal Control

1 Scope of Responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the Department for International Development (DFID) whilst safeguarding the public funds for which I am personally responsible in accordance with the responsibilities assigned to me in Government Accounting. As Accounting Officer for the Overseas Pensions Scheme I have particular responsibility for the activities carried out through DFID's Overseas Pensions Department (OPD).

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in DFID and OPD for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and accords with Treasury Guidance.

3 The risk and control framework

DFID's processes for identifying evaluating and managing risk are set out in the Statement on Internal Control in DFID's Departmental Resource Account. These processes include the identification evaluation and review of risk by the Management Board. Risks associated with the work of OPD do not figure among the strategic and policy risks monitored by the Board.

The Director, Human Resources, is accountable to the Management Board for the work of OPD and for associated risks. She prepares an annual delivery plan which includes consideration of these risks.

Control of risk is partly exercised through setting of performance standards for OPD in a Service Level Agreement (SLA). The SLA defines the required performance standards and efficiencies and these are subject to regular monitoring and review.

In OPD, consistent compliance with prescribed procedures is promoted and supported through general and OPD-specific guidance manuals, training programmes, help desks, and central scrutiny and checks. OPD has in place controls to address the risk that pensions continue in payment after the death of beneficiaries. To further strengthen control, OPD is participating in the Audit Commission's National Fraud Initiative, which matches OPD's pensioner data with known deaths. OPD also has contingency plans in place to respond to threats to key information systems and where possible to maintain continuity of operations.

4 Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within DFID who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in the management letter and other reports.

The Director Human Resources provides me with an annual assurance covering identification and management of risk and an assurance on compliance with management and control systems within her Division. Her assurance statement is informed by her review of OPD systems for performance management and compliance with control systems.

The Audit Committee have advised me on the implications of the results of my review of the effectiveness of the system of internal control in DFID. Plans to address control weaknesses and ensure continuous improvement of the system are in place.

Suma Chakrabarti
Principal Accounting Officer for the Department for International
Development and Accounting Officer for the Overseas Pension Schemes 20 June 2007

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

I certify that I have audited the financial statements of the Department for International Development Overseas Superannuation for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Revenue Account and Statement of Recognised Gains and Losses, the Balance Sheet, the cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Report of the Managers and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the annual report, which consists of the Report of the Managers and the Actuaries Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the scheme's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net outgoings, recognised gains and losses and cashflows for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

25 June 2007

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

	Estimate			2006-07 £000 Outturn				2005-06 £000 Outturn
	Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total	Net Total compared with Estimate: saving/ (excess)	
Request for Resources								
Overseas Superannuation								
Pensions expense	66,158	4	66,154	65,785	–	65,785	369	68,134
Non-budget	–	–	–	–	–	–	–	76,286
Total (Note 3)	**66,158**	**4**	**66,154**	**65,785**	**–**	**65,785**	**369**	**144,420**

Summary of net cash requirement 2006-07

		2006-07 £000 Outturn		2005-06 £000 Outturn
	Estimate	Outturn	Net total compared with Estimate: saving/ (excess)	Outturn
Net Cash Requirement (Note 4)	114,596	113,119	1,477	111,724

Summary of income payable to the Consolidated Fund

In addition to appropriations-in-aid the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Forecast 2006-07		Outturn 2006-07	
	£000 Income	£000 *Receipts*	£000 Income	£000 *Receipts*
Total (Note 5)	–	–	2	*2*

Revenue Account
for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Income			
OSPS – assets received		–	10,827
Other Receipts		2	4
Total income		2	10,831
Outgoings			
Interest on scheme liabilities	10	65,785	68,125
OSPS – liabilities assumed		–	10,827
Total Outgoings		65,785	78,952
Net Outgoings for the year	3	**65,783**	**68,121**

All expenditure is classified as Grants from Annually Managed Expenditure.

Statement of Recognised Gains and Losses

		2006-07 £000	2005-06 £000
Loss due to change in discount rate	10,11	(75,655)	(76,286)
Other actuarial (losses) and gains	10,11	(13,853)	3,367
Total recognised (losses) for the year		**(89,508)**	**(72,919)**

Balance Sheet
at 31 March 2007

	Note	2006-07 £000	2005-06 £000
Current Assets			
Debtors – due within one year	7	208	102
Cash at Bank	8	1,477	1,899
Total		**1,685**	**2,001**
Creditors – amounts falling due within one year			
Operating Creditors	9	(1,880)	(1,891)
Consolidated Fund for unused Supply	9	(1,477)	(1,886)
Consolidated Fund: other	9	–	(13)
Total		(3,357)	(3,790)
Total Assets less current liabilities		**(1,672)**	**(1,789)**
Provision for liabilities and charges			
Pensions	10	(1,323,099)	(1,280,808)
Net Liabilities		**(1,324,771)**	**(1,282,597)**
Financed by:			
General Fund	11	**(1,324,771)**	**(1,282,597)**

Suma Chakrabarti,
Accounting Officer for the Overseas Pension Schemes 20 June 2007

Cash Flow Statement
for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Net cash outflow from operating activities	12(a)	(113,117)	(103,811)
Receipts due to the Consolidated Fund outside the scope of the Department's activities		–	18
Payments of amounts due to the Consolidated Fund		(15)	(7,965)
Financing	12(b)	112,710	113,100
(Decrease)/increase in cash in the period	12(c)	**(422)**	**1,342**

Notes to the Scheme Statements for the period ended 31 March 2007

1 Basis of preparation and coverage

1.1 The combined scheme statements are prepared under the Government Resources and Accounts Act 2000 and the Financial Reporting Manual (FREM) for 2006-07, which reflect the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits. These accounts show the unfunded pension liability and movements in liability during the year.

1.2 In addition to the primary statements prepared under UK GAAP, the FreM also requires the scheme to prepare an additional statement – a Statement of Parliamentary Supply. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.3 The statements are for various mostly non-contributory defined benefit pension schemes for colonial civil and military officers and their dependants managed by Overseas Pensions Department (OPD) of the Department for International Development (DFID). A fuller description of the schemes is in the Report of the Managers. A full actuarial valuation of the schemes is carried out every three years: details are recorded in the Report of the Actuary.

1.4 On 1 October 2005, DFID took over direct responsibility for payments to beneficiaries of the Overseas Service Pensions Scheme 1985 (OSPS), having previously acted as an agent of the funded OSPS scheme. Operating costs for 2005-06 in these accounts include the net settlement value of the takeover taking account of liability assumed and assets received; the cost of future payments is included in the pension provision in the closing balance sheet; cash flows include payments to OSPS pensioners from 1 October 2005.

1.5 The administration costs of OPD are part of those of the Department for International Development and are included in the DFID Departmental Resource Account, as is the cost of audit of these statements by the Comptroller and Auditor General. The Report of the Managers includes information on administration costs and efficiency.

2 Accounting Policies

2.1 The accounting policies contained in the FReM follow UK generally accepted accounting practice (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

2.2 Provision is made for liabilities to pay pensions and other benefits in the future. The schemes' liabilities are measured on an actuarial basis using the projected unit method and are discounted at 1.8 per cent real. On 31 March 2007, the discount rate was reduced from 2.8 per cent real, to 1.8 per cent real. The increase in the pension liability as a result of this change is recognised as a movement in reserves in the Statement of Recognised Gains and Losses.

2.3 The Revenue Account recognises the change in the scheme liability during the year other than from payment of pensions. The charge is calculated as 5.37 per cent (2.8 per cent real plus inflation) of the opening balance, plus 5.37 per cent of the movements in the year (assumed to accrue evenly during the year), including liabilities assumed in the year but excluding the interest charge and any actuarial gains and losses).

2.4 Pension benefits payable are accounted for as a decrease in the schemes' liabilities on an accruals basis.

2.5 Full actuarial valuations of the schemes' liabilities are prepared triennially by the Government Actuary's Department. Between the triennial valuations the Actuary reviews the most recent valuation at the balance sheet date and updates it as necessary to reflect current conditions. Actuarial gains and losses arising from valuations and reviews are recognised in the Statement of Recognised Gains and Losses for the year.

2.6 DFID acts as an agent in making certain payments to pensioners using funds provided by other governments and – until 30 September 2005 – the Overseas Service Pensions Scheme. Liability remains with the governments or Scheme and is not part of the balance sheet pension liability. Agency balances held as 31 March are not included in cash or creditors; transactions and balances are shown in Note 13.

2.7 DFID becomes the Police Authority for the purposes of the Police Pensions Scheme for police officers seconded from their home forces to police services of UK Overseas Territories. At the end of secondments, transfer values representing the cost of the police officers' accrued pension entitlements during the secondment period may be payable to seconding forces and are claimable from the overseas government. Claims and liabilities are recognised on a provisional basis in the balance sheet at the end of secondments and adjusted when final settlements are paid or received.

2.8 Cash balances held in an account at PGO for payover to HMRC for pensioners' tax liabilities are included in cash balances (Note 8).

3 Reconcilation of net resource outturn to net outgoings

			2006-07 £000	2005-06 £000
	Supply Estimate	Outturn	Outturn compared with Estimate	Outturn
Net Resource outturn	66,154	65,785	369	144,420
Resource not included in net outgoings	–	–	–	(76,286)
Income not resource A-in-A	–	(2)	2	(13)
Pensions: Net Outgoings	66,154	65,783	371	68,121

The adjustment in outturn for 2005-06 of £76,286,000 reflects the difference between the Estimates and accounting treatment of the change in the discount rate from 3.5% to 2.8% with effect from 1 April 2005. Parliamentary approval was given for the necessary resources, and was reflected as a non-budget item in the Estimates and in the Statement of Parliamentary Supply.

For accounting purposes, the effects of the change in the discount rate are reflected through reserves and not recognised in the Revenue account. The adjustment is for the difference between the bases on which the Statement of Parliamentary Supply and the Revenue account have been prepared.

4 Reconciliation of resources to cash requirement

	Note	2006-07 £000 Estimate	2006-07 £000 Outturn	2006-07 £000 Net total Outturn compared with Estimate	2005-06 £000 Outturn
Net resource outturn		66,154	65,785	369	144,420
Accruals Adjustments:					
Addition to pension provision	10	(66,158)	(65,785)	(373)	(155,238)
Other non-cash		–		–	
Use of pension provision	10	114,000	113,002	998	114,589
Changes in working capital other than cash		600	117	483	53
Excess cash surrendered to the Consolidated Fund		–	–	–	7,900
Net Cash Requirement		114,596	113,119	1,477	111,724

5 Analysis of income payable to the Consolidated Fund

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

	Forecast 2006-07 £000 Income	Forecast 2006-07 £000 *Receipts*	Outturn 2006-07 £000 Income	Outturn 2006-07 £000 *Receipts*
Operating income and receipts – excess A-in-A	–	–	–	–
Other operating income and receipts not classified as A-in-A	–	–	2	*2*
	–	–	2	*2*
Other amounts collectable on behalf of the Consolidated Fund	–	–	–	–
Excess cash receipts to be surrendered	–	–	–	–
Total income payable to the Consolidated Fund	**–**	**–**	**2**	***2***

6 Reconciliation of income recorded within the revenue account to operating income payable to the Consolidated Fund

	2006-07 £000	2005-06 £000
Operating income	2	10,831
Income authorised to be appropriated in aid	–	10,818
Operating income payable to the Consolidated Fund	2	13

7 Debtors

	2006-07 £000	2005-06 £000
Other debtors (non-government)	208	102
	208	102

8 Cash

	2006-07 £000	2005-06 £000
Cash balances: 1 April	1,899	557
Increase/(decrease) in cash balances	(422)	1,342
Cash balances: 31 March	1,477	1,899
All cash balances are held at Paymaster:		
Analysis of cash balances		
Consolidated Fund for unspent supply (Note 9.2)	1,477	1,886
Consolidated Fund – received and to be paid over	–	13
	1,477	1,899

9 Creditors: amounts payable within 12 months

9(a) Analysis by type

	2006-07 £000	2005-06 £000
Operating Creditors:		
Tax and Social security (other central government)	(1,239)	(1,250)
Other Creditors (non-government)	(641)	(641)
	(1,880)	**(1,891)**
Consolidated Fund (CF) creditors:		
Supply issued and not used (Note 9.(b))	(1,477)	(1,886)
CFER arising and not paid over (Note 9(c))	–	–
Excess appropriations in Aid (Note 6)	–	(13)
Debts surrenderable when collected (Note 5)	–	–
Excess cash receipts (Note 9(c))	–	–
	(1,477)	**(1,899)**
Total: Operating and Consolidated Fund	**(3,357)**	**(3,790)**

9(b) CF Creditor for unused Supply

	2006-07 £000	2005-06 £000
2006-07 Supply drawn down	(112,710)	(113,100)
"Deemed" supply (retained from 2005-06)	(1,886)	(510)
	(114,596)	(113,610)
Net Cash Requirement (Note 4)	113,119	111,724
Supply creditor	**(1,477)**	**(1,886)**
Actual Supply creditor	*£1,477,428.46*	*£1,885,945.03*

9(c) Other CFER items

	2006-07 £000	2005-06 £000
Held at 1 April	–	(47)
Arising during the year	(2)	(18)
Cash received additional to funding requirements	–	(7,900)
Paid over during the year	2	7,965
Held at 31 March	**–**	**–**
Actual other CF creditor	*£353.80*	*£454.22*

10 Provisions for Pension Liabilities

	2006-07 £000
Analysis of movment in scheme liabilities	
At 1 April 2006	**(1,280,808)**
Current Service Cost	–
Past Service Costs	–
Interest cost	(65,785)
Benefits Payable	113,002
Transfers In	–
Transfers Out	–
Actuarial gains and losses	(89,508)
At 31 March 2007	**(1,323,099)**
Analysis of actuarial gains and losses	
Experience losses arising on scheme liabilities (1.05% of year end liability)	(13,853)
Cost of change in discount rate	(75,655)
	(89,508)

The schemes included in these statements are unfunded defined benefit schemes. A full actuarial valuation of the schemes was carried out as at 31 March 2006 by Government Actuary's Department (GAD), updated approximately for the subsequent financial year to reflect known changes which have occurred over the period 31 March 2006 to 31 March 2007. The major assumptions used by the Actuary were:

	2007	2006	2005
Rate of increase in salaries	n/a	n/a	n/a
Rate of increase in pensions in payment (%)	2.75	3.4	3.4
Rate of increase in deferred pensions (%)	2.75	3.4	3.4
Inflation assumption (long term) (%)	2.75	3.4	3.4
Inflation assumption (short term) (%)	2.75	2.5	2.5
Discount rate (real) (%)	1.8	2.8	3.5

The schemes' managers are responsible for providing the Actuary with the information he needs to carry out the valuation. This information includes, but is not limited to, details of:

scheme membership data, including age sex,

the benefit payable, including the member's pension and any spouse's pension,

the scheme's income and expenditure, 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.

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 far into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about future mortality.

The value of the liability included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to reduce the assumed rate of inflation, then the value of the pension scheme liability would decrease (other things being equal, in particular the total discount rate). Conversely, if the assumed rates are increased, the value of the liability will increase. 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 above. This also reports "experience" gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

11 General Fund

		2006-07 £000
At 1 April 2006		**1,282,597**
Outgoings for the year (Revenue Account)		65,783
Actuarial gains and losses (STRGL)		89,508
Financing		
Supply issued in 2006-07	(112,710)	
Supply re-issued (Note 9)	(1,886)	
Less: Supply creditor (Note 9)	1,477	
Net Financing in the year		(113,119)
Excess appropriations in Aid		–
Excess cash surrendered		–
Operating income payable to the Consolidated Fund		2
Change in General Fund during the year		42,174
General Fund at 31 March 2007		**1,324,771**

12 Notes to the cash flow statement

12(a) Reconciliation of net Outgoings to operating cash flows

	2006-07 £000	2005-06 £000
Net outgoings for the year	(65,783)	(68,121)
Increase in long term pension liability	65,785	78,952
Other non-cash expenditure	–	–
Benefits paid and payable	(113,002)	(114,589)
Transfer values paid	–	–
(Increase)/Decrease in debtors	(106)	20
less: movements in debtors for items not passing through the revenue account	–	(17)
Increase/(Decrease) in creditors	(433)	1,269
less: movements in creditors for items not passing through the revenue account	422	(1,325)
New debtors for accrued CF income	–	–
Net cash outflow from operating activities	**(113,117)**	**(103,811)**

12(b) Analysis of financing

	2006-07 £000	2005-06 £000
From the Consolidated Fund (Supply) – current year	(112,710)	(113,100)
Net financing	(112,710)	(113,100)

12(c) Reconciliation of net cash requirement to increase/(decrease) in cash

	2006-07 £000	2005-06 £000
Net Cash requirement	(113,119)	(111,724)
From the Consolidated Fund (Supply) – current year	112,710	113,100
CF amounts received in a previous year and paid over	(13)	(48)
Amounts due to the Consolidated Fund received and not paid	–	14
(Decrease)/increase in cash	(422)	1,342

13 Third Party Payments

	2006-07 £000
Balances due at 1 April 2006	**(7)**
Received	(225)
Paid	225
Balances held at 31 March 2007	**(7)**

14 Contingent Liabilities

Under the Hong Kong (Overseas Public Servants) Act 1996 – Sterling Safeguard Scheme for value of public service pensions – £132.0m (2005-06 £116.4m). The contingent safeguard is the amount by which a member's safeguard pension exceeds the current level of UK pension increases payable under Supplementary Pension for Overseas Service (SPOS). The member's safeguard increases in line with UK inflation. DFID pays the balance over the sterling level of each member's Hong Kong pension up to the greater of the safeguard pension or the UK pension increases. This is valued assuming that members' Hong Kong pensions ceased on 1 April 2006 (either because of default by the government of the Hong Kong Special Administrative Region or because of a fall in the value of the Hong Kong dollar).

Transfer value settlements: £93,814 (2005-06 £93,814). £64,568 is included in creditors for settlement values due to be paid to the Government of Hong Kong. The Government has claimed an additional £93,814. DFID does not believe this further amount is due and regards this as a contingent liability only.

In the unlikely event of a default by certain overseas governments, OPD will guarantee pension payments under the Carr/Robertson Assurance of 1964.

15 Related party transactions

None of the managers of the schemes, key managerial staff or other related parties has undertaken any transactions with the schemes during the year.

16 Accountability Notes

	2006-07 £000	2005-06 £000
Losses		
Total (66 cases, 2005-06: 109 cases)	70	116
Of which:		
Marked time payments		
Total (41 cases, 2005-06: 49 cases)	54	61
Special payments (3 cases, 2005-06: 1 case)	38	30

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