

**NHS Pension Scheme and
NHS Compensation for
Premature Retirement
Scheme
Resource Accounts
2008-2009**

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2008-2009**

(For the year ended 31 March 2009)

Ordered by the House of Commons to be printed 20 JUL 2009

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ISBN: 9780102962574

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID6244830 08/09 266 19585

Printed on Paper containing 75% recycled fibre content minimum.

Contents

Report of the Manager	3-9
Introduction	
How the Scheme works	
NHS Pension Scheme Benefits	
Review of the year	
Future developments	
Other issues	
Administration expenses	
Membership statistics	
Management structure and advisors	
Report of the Actuary	10-14
Statement of Accounting Officer's Responsibilities	15
Statement on Internal Control	16-19
Certificate and Report of the Comptroller and Auditor General	20-24
The Accounting Schedules:	
Statement of Parliamentary Supply	25-26
Combined Revenue Account	27
Combined Balance Sheet	28
Cash Flow Statement	29
Notes to the Accounts	30-45

REPORT OF THE MANAGER

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

NHS BUSINESS SERVICES AUTHORITY

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

HOW THE SCHEME WORKS

The NHS Pension Scheme is an unfunded occupational scheme backed by the Exchequer, which is open to all NHS employees and employees of other approved organisations. The Scheme provides pensions, based on final salary, in varying circumstances for employees of participating employers. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits.

Scheme provisions are governed by the following sets of Regulations:

The NHS Pensions Scheme Regulations 1995 and 2008, as amended

The NHS (Compensation for premature retirement) Regulations 2002 Consolidated

The Pensions (Increase) Act 1971

NHS AVC Regulations

NHS Gratuitous Expectations Regulations

During the financial year 2008-09, the Authority undertook the day-to-day administration of the Scheme, including calculation of benefits, maintenance of member records and payment of benefits.

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

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

As at 31 March 2009 there were 452 participating NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,258 participating GP Practice employers and 381 Direction Bodies.

NHS PENSION SCHEME BENEFITS

Contributions

In order to defray the costs of benefits, employers pay contributions at 14% of pensionable pay and most employees had up to April 2008 paid 6%, with manual staff paying 5%. Every four years the Government Actuary conducts a full actuarial review and recommends employer contribution rates in his Valuation report. Contribution rates payable during 2008-09 were determined in his Valuation report as undertaken as at 31 March 2004.

Following the full actuarial review by the Government Actuary undertaken as at 31 March 2004, and after consideration of changes to the NHS Pension Scheme taking effect from 1 April 2008, his Valuation report recommended that employer contributions could continue at the existing rate of 14% of pensionable pay, from 1 April 2008, following the introduction of employee contributions on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

Benefits

In 2008-09 the NHS Pension Scheme provided defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained:

Annual Pensions

The Scheme is a “final salary” scheme. Annual pensions are normally based on 1/80th for the 1995 section and of the best of the last three years pensionable pay for each year of service, and 1/60th for the 2008 section of reckonable pay per year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

With effect from 1 April 2008 members can choose to give up some of their annual pension for an additional tax free lump sum, up to a maximum amount permitted under HMRC rules. This new provision is known as “pension commutation”.

Pensions Indexation

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year.

Lump Sum Allowance

A lump sum is payable on retirement which is normally three times the annual pension payment.

Ill-Health Retirement

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

Death Benefits

A death gratuity of twice their final year’s pensionable pay for death in service, and five times their annual pension for death after retirement is payable.

Additional Voluntary Contributions (AVCs)

Members can purchase additional service in the NHS Scheme and contribute to money purchase AVC’s run by the Scheme’s approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers.

Transfer between Funds

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

Preserved Benefits

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

Compensation for Early Retirement

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

A REVIEW OF THE YEAR

Part-time staff access to the NHS Pension Scheme

During the year, the NHSBSA has made further progress in clearing cases affected as a consequence of the Preston and Others v Wolverhampton Healthcare NHS Trust employment tribunal case (the Preston case) and the subsequent test cases, appeals and cross-appeals. By the end of 2008-09 less than 100 individual cases remained, with almost 12,000 cases being processed. A small number of new cases continue to be brought to the attention of the NHSBSA each year but these are reducing year on year. Whilst it is difficult to state with certainty when no further cases will be received, it is anticipated that the exercise will be completed in 2009-10.

Where it is found that an NHS employee has been denied access to the pension scheme on account of Scheme Regulations, the employee will be permitted to recover the lost service on receipt of an appropriate contribution from the member. The employer contribution will be absorbed by the pension scheme.

Interest on late payment of pension scheme benefits

From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, the Scheme has never implemented this regulation in full and has only paid interest on request by the member.

Estimated costs of £25 million were accrued in 2007-08 for the interest payments. During 2008-09 the Scheme made interest payments to those members who experienced delay in receiving their initial pension scheme benefits. This involved the payment of £13.3 million to 32,800 members. During 2009-10 the remainder of the review will continue including cases related to revised benefits, and payments will be made before March 2010.

Change in the NHS Pension Scheme discount rate

In June 2006 the Financial Reporting Advisory Board (FRAB) decided that the discount rate for pension schemes should, in accordance with FRS17, be based on the AA corporate bond rate. Consequently, the discount rate has been changed with effect from 31 March 2009 from a real rate of 2.50% to a real rate of 3.20% (the gross discount rate, which combines the real discount rate with the inflation assumption, changed from 5.32% to 6.04% per annum). As a result the pension scheme liability as at 31 March 2009 decreased by £29.4 billion (Note 20.5 to the Scheme accounts that follow this report refers).

The rates used to assess the movement of the Scheme liability in 2008-09 are the rates determined to come into effect overnight on 31 March 2008. Details of the rates used since 2005 can be found in note 20.1.3 of the Scheme accounts.

National Fraud Initiative

On a biennial basis, the NHS Pension Scheme takes part in the National Fraud Initiative, which commenced in 1998 and is co-ordinated by the Audit Commission. This initiative allows the Scheme to submit approved data to the Audit Commission who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The table below provides an update of the position for the exercises conducted since 1998 (For the purposes of this report NFI1998, NFI2000, and NFI2002 have been consolidated), and lists the outstanding amounts, which are still being actively pursued. Details of the NFI2008 will be reported within the 2009-10 resource accounts.

	Total Identified £000	Total Cases	Prior Years		2007-08		2008-09		Amount Outstanding at 31.3.2009
			Recovered	Written off	Recovered	Written off	Recovered	Written off	
NFI 98 -02	3,086,100	978	2,083,600	811,200	21,900	19,000	12,300	2,300	135,800
NFI 2004	686,300	226	223,300	105,900	58,500	74,100	39,700	30,500	154,300
NFI 2006	1,529,500	472	-	-	320,800	3,900	662,100	87,000	455,700
Total	5,301,900	1,676	2,306,900	917,100	401,200	97,000	714,100	119,800	745,800

Pension Increase

The annual pension increase applied for payments after 9 April 2008 was 3.9% (2007-08: 3.6%). Pensions increase is based upon the rise in the retail price index (RPI) in the 12-month period up to the 30 September preceding the April uprating date.

In-house money purchase AVC provision

The Pensions Scheme has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life.

Scheme Funding and Liabilities

As at 31 March 2009 the liabilities of the pension scheme were valued at £199.50 billion (31 March 2008 £212.50 billion). As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer, which also funds the year on year difference between the scheme's contribution income and the actuarially assessed growth in scheme liability, interest charges and other in-year increases in liability. In 2008-09 this net deficiency was £13,395,745,000 (2007-08 £10,174,416,000) and is detailed in the Combined Revenue Account of the following scheme accounts.

Accounting Officer's disclosure to the Auditors

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

FUTURE DEVELOPMENTS

NHS Pension Scheme Review – NHS Pensions Choice

Following the consultation on the NHS Pensions Review in 2006 the Authority have worked alongside NHS Employers and Trade Unions leading to the final agreement on changes to the NHS Pension Scheme which were announced on 21 September 2007. On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. Most members of the Pension Scheme prior to 1 April 2008 will be in the 1995 Section. New joiners on, or after, 1 April 2008 will be members of the 2008 section. The proposals introduce new rules for NHS employees joining from 1 April 2008 and modify the rules for those already in the pension scheme prior to this date. (Further details of these changes can be found on the NHS Pensions website www.pensions.nhsbsa.nhs.uk).

During 2008-09 Review Partners (NHS Employers, NHS Trade Unions and the Department of Health) agreed that all contributing members of the 1995 Section on or after 1 October 2009 should be offered a choice to move to the 2008 Section or remain in the 1995 Section.

In order to allow scheme members to make their Choice, NHS Business Services Authority will, within the next 3 years send all eligible members a Choice Pack containing information about their pension benefits in the 1995 Section and what those benefits would be worth in the 2008 Section should they decide to move. The pack will also contain an explanatory booklet which is intended to highlight the differences between the two sections and provide the member with useful information to inform their Choice.

OTHER ISSUES

Guaranteed Minimum Pension

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

Over 200,000 NHS Pension Scheme pensioners have had their pension entitlement reviewed to see if they are affected and if their pensions have been incorrectly paid. No recovery is to be sought regarding overpaid amounts resulting from this specific corrective exercise although the position going forward will be corrected accordingly. Over 60,000 pensioners had been identified as requiring adjustment to their ongoing pension and the vast majority had their pensions adjusted between April and May 2009 to the correct rate. Residual cases will be corrected in 2009-10. It is estimated that a net amount of £32.3 million has been overpaid over prior years based on actual cases reviewed for the exercise, rather than the estimated amount £83.4 million as detailed in the Scheme accounts in 2007-08. There is no effect on the Scheme's Revenue Account or Balance Sheet.

Once this exercise has been completed the Scheme is to work in conjunction with HMRC to ensure measures are put in place to annually review pensioner records to stop a reoccurrence of this issue.

ADMINISTRATION EXPENSES

In 2008-09 the costs of administering the NHS Pension Scheme were met by NHS Business Services Authority (NHSBSA), which was in turn funded by the Department of Health. The annual accounts of the NHSBSA can be found at www.nhsbsa.nhs.uk.

MEMBERSHIP STATISTICS

Details of the current membership of the Scheme at 31 March 2009 are set out below:

Active Members

Active members at 1 April 2008	1,336,576
New entrants in the year (including deferred members who rejoin and transfers in)	155,100
Retirements in year	(37,324)
Transfers out	(3,007)
Members leaving the Scheme with deferred pension rights	(36,190)
Members leaving the Scheme and taking a refund of contributions	(30,100)
Deaths	(4,181)
Active members at 31 March 2009	1,380,874

Deferred members

Deferred members at 1 April 2008	411,458
Members leaving who have deferred pension rights, and members rejoining the Scheme	73,978
Members taking up deferred pension rights	(9,480)
Deferred members at 31 March 2009	475,956

Pensioners in payment (including Compensation payments)

	Members	Dependants	Total
Pensioners in payment at 1 April 2008			583,705
Members retiring	37,324		37,324
New Dependants		5,983	5,983
Cessations in year	(13,083)	(3,681)	(16,764)
Pensioners in payment at 31 March 2009			610,248

Nick Scholte
Chief Executive, NHS Business Services Authority
10 July 2009

MANAGEMENT STRUCTURE AND ADVISERS

Accounting Officer:

Nick Scholte
NHS Business Services Authority
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Newcastle Upon Tyne NE1 6SN

Scheme Administrator:

NHS Business Services Authority Pensions
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In-house AVC Providers:

Equitable Life Assurance Society
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Buckinghamshire HP21 7QW

Standard Life Assurance Company
Standard Life House
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Edinburgh EH1 2DH

Prudential Plc
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London NW1 2PQ

Actuary:

Government Actuary's Department
Finlaison House
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London EC4A 1AB

Auditors:

Comptroller and Auditor General
National Audit Office
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Victoria
London SW1W 9SS

Bankers:

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

NHS PENSION SCHEME

REPORT OF THE ACTUARY FOR THE ACCOUNTING YEAR ENDED 31 MARCH 2009 for the purposes of FRS17 (Resource Accounting)

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

Introduction

1. This statement has been prepared by the Government Actuary at the request of the NHS Business Services Authority (NHSBSA). It summarises the pensions disclosures required for the 2008-09 Resource Accounts of the NHS Pension Scheme (NHSPS).
2. The statement is based on the results of a valuation carried out as at 31 March 2006, with an approximate updating to 31 March 2009 to reflect known changes

Membership data

3. Tables A to C summarise the principal membership data as at 31 March 2006 and 31 March 2009 used to prepare this statement.

Table A – Active members

	31 March 2006		2005-06	2008-09
Number (thousands)	Total salaries (pa) (£ billion)	Total accrued pensions (£ billion)	Total salaries (£ billion)	Total salaries (£ billion)
1,323	31.96	5.59	30.72	35.72

Note: The number of contributors includes those who work part time – the number of contributors therefore double counts those who are concurrently both practitioners and officers.

Table B – Deferred members

	31 March 2006	31 March 2009
Number (thousands)	Total deferred pension (pa) (£ million)	Number (thousands)
415	959	476

Table C – Pensions in payment

31 March 2006	2005-06	2008-09
Number (thousands)	Total pension (£ billion)	Total pension (£ billion)
550	3.25	4.23

Methodology

4. The present value of the liabilities has been determined using the Projected Unit Method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2008-09 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2009 was determined using the Projected Unit Method and the principal financial assumptions applying to the 2007-08 Resource Accounts (HC 87 2008-09).
5. 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.
6. The assessed actuarial liability as at 31 March 2009 allows for changes to the benefit structure which came into force on 1 April 2008.

Principal financial assumptions

7. The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2009, the assumed rate of return in excess of prices was increased from 2.5% a year to 3.2% a year, and the assumed rate of return in excess of earnings was increased from 1.0% a year to 1.7% a year. In addition, with effect from 31 March 2009, the assumed rate of future price inflation is 2.75% a year and the assumed nominal rate of salary growth is 4.29% a year (both the same as at 31 March 2008).

Table D – Principal financial assumptions

Assumption	31 March 2009	31 March 2008
Rate of return (discount rate)	6.04%	5.32%
Rate of return in excess of:		
Earnings increases	1.7%	1.0%
Pension increases	3.2%	2.5%
Expected return on assets:	n/a	n/a

Demographic assumptions

8. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
9. The demographic assumptions (other than the mortality assumptions) adopted for the assessment of the liabilities as at 31 March 2009 and the accruing cost in 2008-09 are those adopted for the 2004 funding valuation of the NHSPS. These are the same assumptions as used to assess the liabilities as at 31 March 2008 for the purpose of the 2007-08 Resource Accounts.

10. The mortality assumptions adopted for the purpose of the 2008-09 Resource Accounts are also the same as those adopted for the 2007-08 Resource Accounts. These include allowance for future mortality improvement in accordance with the UK 2006-based principal population projections but the assumed current level of mortality remains in accordance with the scheme's own experience, as reviewed at the 2004 valuation.

Liabilities

11. Table E summarises the assessed value as at 31 March 2009 of benefits accrued under the scheme prior to 31 March 2009 based on the data, methodology and assumptions described in paragraphs 3 to 10. The corresponding figures as at 31 March 2008 are also included in the table.

Table E – Past service liabilities

Liability in respect of	31 March 2009 £ billion	31 March 2008 £ billion
Pensions in payment	63.1	60.8
Deferred members	20.3	22.5
Active members	116.1	129.2
Total liabilities	199.5	212.5

Accruing costs

12. The cost of benefits accruing in the year ended 31 March 2009 (the Current Service Cost) is based on a standard contribution rate of 26.3%, as determined at the start of the year. Members contributed between 5.0% and 8.5% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 6.5%. The corresponding figures for 2007-08 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	2008-09	2007-08
Standard contribution rate	26.3%	31.7%
Members' estimated average contribution rate	6.5%	5.95%
Employers' estimated share of standard contribution rate	19.8%	25.75%

13. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate charged to employers, currently 14.0%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of price increases, which was 2.5% pa for 2008-09 Current Service Cost (1.8% pa for 2007-08) compared with 3.5% pa for scheme funding. The higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury and is expected to stay the same for an extended period, so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of FRS17.
14. The pensionable payroll for the financial year 2008-09 was £35.72 billion. Based on this information, the accruing cost of pensions in 2008-09 (at 26.3% of pay) is assessed to be £9.4 billion.

Disclosures

15. Tables G to K show the balance sheet and the profit and loss disclosures as at 31 March 2009.

Table G – Balance sheet disclosures

	31 March 2009	31 March 2008
	£ billion	£ billion
Total market value of assets	nil	nil
Assessed value of liabilities	(199.5)	(212.5)
Surplus (deficit)	(199.5)	(212.5)
of which recoverable by employers	n/a	n/a

Table H – Analysis of amount charged to operating profit

	Year ending 31 March 2009	Year ending 31 March 2008
	£ thousand	£ thousand
Current service cost	- 9,400,000	- 10,600,000
Past service cost	-	3,850,000
Total operating charge	- 9,400,000	- 6,750,000

Table I – Analysis of amount credited to other finance income

	Year ending 31 March 2009	Year ending 31 March 2008
	£ thousand	£ thousand
Expected return on scheme assets	-	-
Interest on pension liabilities	- 11,400,000	- 10,170,000
Net return	- 11,400,000	- 10,170,000

Table J – Analysis of amount recognised in Statement of Recognised Gains and Losses

	Year ending 31 March 2009	Year ending 31 March 2008
	£ thousand	£ thousand
Actual return less expected return on scheme assets	-	-
Experience gains and losses arising on pension liabilities	- 850,445	252,990
Changes in mortality assumptions	-	-12,450,000
Changes in demographic assumptions (other than mortality)	-	-
Changes to financial assumptions from 31 March 2009	29,400,000	30,020,000
Actuarial gain recognised in Statement of Recognised Gains and Losses	28,549,555	17,822,990

Table K – Movement in surplus during the year

	Year ending 31 March 2009	Year ending 31 March 2008
	£ thousand	£ thousand
Surplus at 31 March 2008	- 212,500,000	- 218,000,000
Current Service Cost	- 9,400,000	- 10,600,000
Past service cost	-	3,850,000
Enhancements (transfers in, added years, early retirement)	-374,985	-500,000
Benefits paid during the year	5,625,430	5,097,010
Other finance income	- 11,400,000	- 10,170,000
Actuarial gain	28,549,555	17,822,990
Surplus at 31 March 2009	- 199,500,000	- 212,500,000

Trevor Llanwarne FIA
Government Actuary

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

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

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

The Department of Health has appointed Nick Scholte, Chief Executive of the NHS Business Services Authority as Accounting Officer for the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Annex 2 of the Government Financial Reporting Manual.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives, whilst safeguarding the public funds and Authority's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The NHS Business Services Authority (NHSBSA) manages five diverse NHS business activities on behalf of the Department of Health (DH) of which the NHS Pension Scheme (the Scheme) is one. The accountability arrangements with the DH comprise an overall Authority sponsor and specialist sponsors linking with the service streams.

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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 NHS Business Services Authority for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Board considers how to manage and mitigate corporate risks and those of the individual business streams. The Audit and Risk Management Committee (ARC) and the Head of Internal Audit and Risk Management support the Board in this. Internal control and risk management processes comprise:

- Approval of the Authority's strategy and business plans by both the Authority and the DH
- Authority standards, policies and processes for core business activities
- Clearly defined organisation structures and delegated authorities appropriate to the NHSBSA's business
- Regular management review processes

The risk and control framework

The Board sets its objectives systematically through corporate strategy and business planning, and identifies the key risks to delivery. The Leadership Team monitors and manages delivery of the business plan regularly, and progress against business plan objectives is a core element of NHSBSA's governance arrangements with the DH.

Since establishment, the Authority has worked to harmonise risk management and controls where appropriate. These arrangements include:

- A corporate risk management strategy
- The Board monitors progress with the management of its principal strategic risks through a corporate risk register, combining strategic and the most important operating risks

- The Leadership Team regularly reviews and updates the corporate risk register
- Business streams maintain risk registers that are reviewed regularly by the Leadership Team – significant emerging risks are added to the corporate register
- The ARC actively monitors developments in risk management
 - the Head of Internal Audit and Risk Management reports on activity in this area as a standing item on the Committee's agenda
 - the Committee regularly considers the corporate risk register
 - the Committee reviews the management assurance framework, which maps out the policies and procedures through which the Authority's risks are managed, quarterly
- The Leadership Team monitors the delivery of service objectives closely through a suite of critical KPIs in the form of a balanced scorecard. This is a key reason why we have invested heavily in the development of performance management systems across all areas of our business

The NHSBSA's business streams have well established internal controls appropriate to the delivery of their services, and the respective managing directors of the business streams have confirmed that these have remained in place during 2008-09.

The Head of Internal Audit provides me with an opinion on the overall arrangements for internal control and on the controls reviewed as part of the internal audit programme. Our internal audit service is delivering an effective service uniformly across all of the NHSBSA.

The Authority recognises that its assets include information, which it needs to maintain accurately and handle securely. An Information Governance Steering Group (IGSG) was established during 2007-08 to provide me with assurance in this area, and has met regularly during 2008-09, reporting to the Board through the ARC.

We are an employer with staff entitled to membership of the NHS Pension Scheme. Controls are in place to ensure all employer obligations contained within the Scheme regulations are met. This includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme Regulations, and that members' records are accurately updated in accordance with the required timescales.

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:

- I have clear performance management arrangements in place with directors at Leadership Team level. They in turn have developed arrangements for managing their responsibilities – a balance between empowering experienced teams with detailed business knowledge whilst maintaining clear accountabilities for delivery of agreed objectives.
- Business stream managers have provided me with letters of representation to underpin management and accountability arrangements to the effect that:
 - Internal controls have remained in place during the year.
 - Financial information reported to the Authority is to the best of their knowledge correct.
 - There is no material information of which they are aware that we have not also been made aware of.
- Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control also provide me with assurance through management accountability and performance management arrangements.
- The ARC has informed the Board about the outcome of its activities through submission of its minutes and its annual report to the Board.
- As weaknesses emerge or are identified by audit reviews, action plans are put in place to address them. The ARC oversees progress with these plans.
- During 2008-09 the NHSBSA has appointed a Local Counter Fraud Specialist to take forward the message that the Authority will not tolerate fraud.

The Head of Internal Audit opinion for 2008-09 is '**significant assurance**'¹. The internal audit projects undertaken have not identified any critical control issues that have had an impact on the delivery of services.

Significant Internal Control Issues

During the year the Authority has continued to address those internal control issues identified in the previous year. The new control issue identified in 2007-08 relating to overcharging of employer funded premature retirement costs was resolved in 2008-09, and refunds paid to affected employers in September 2008.

Completeness of Membership data

In January 2009 the Business Services Authority commissioned the Government Actuary's Department (GAD) to undertake an actuarial assessment of the Scheme liability as at 31 March 2006 and, based on that assessment, to estimate the Scheme liability as at 31 March 2009.

The information provided to the Actuary to enable them to conduct their valuation is based upon an extract of the scheme membership database. The extract of data used by the GAD was 81% of all member data, where the data fulfilled the required parameters for use within the assessment (when this extract was obtained in January 2008 the percentage was 75%).

As a result uprating factors were used to extrapolate to 100%. The use of uprating factors per se does not introduce material uncertainty to the valuation result, provided that the rating up factors for each group are valid and the membership profile of the membership that is excluded from the data extract is similar to the profile of the membership that the Actuary receives.

The Authority has no reason to believe that the data for members excluded from the valuation exercise is not similar in terms of age/sex/salary/past service distribution than for those included.

Whilst recognising that the NHSBSA is reliant upon Employing Authorities to comply with scheme rules with regard to updating member records, every effort is being made to ensure that a framework is in place to facilitate this and that aspects which are within the control of the Scheme Manager are appropriately addressed.

As a pre-cursor to the "Choice" exercise in order to improve the quality of member data provided by employers and that are already held by the Authority, a Data Governance Project has been initiated which incorporates the data cleanse work undertaken previously. The immediate impact is evidenced by the increase in completeness of all member data. The aims of the strategy are to:

- Cleanse existing errors that are critical to business operations and customer service.
- Prevent new errors (wherever possible) from being accepted – moving responsibility for clean data to the supplier (Employing Authority's) and the customer (member).
- Educate staff and raise awareness and interest in Data Quality via the Data Quality Forum, intranet and other means.
- Put in place robust governance, including data standards, to ensure that accuracy is maintained, and increases, following completion of the project.
- Review each member record to ensure that all data are complete and a benefit calculation can be performed.

The Data Governance Project aims to achieve a substantial increase in the number of complete member records included within the valuation due as at 31 March 2008 and future valuations. Member data as at 1 June 2009 is now updated to 91% as at 31 March 2006.

¹ There is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

Contributions Income

The Scheme collects both employee and employer contributions from each employing authority and GP practice on a monthly basis. The Scheme does not currently receive independent certification of the amounts it receives. The absence of such independent certification is mitigated by the circularisation of all employing authorities at the year end requiring each organisation's Director of Finance or Chief Executive to declare that the payments made are correct.

During 2008-09, the Authority has built on the developments to the assurance process made in 2007-08 as follows:

- Designed specific returns for each employer type, such as Primary Care Trusts, Strategic Health Authorities and Foundation Trusts to aid completion. The Authority has also combined the Whole of Government Accounts requirements into the process to assist employers. This has enabled a better understanding of the monies received and review process from different employer types.
- NHSBSA Internal Audit have again undertaken a risk based independent review of a number of employers (sample agreed with the National Audit Office) through site visits to review their records and controls to ensure compliance with NHS Pension Scheme regulations. Employers were advised of this in the covering letter issued with the Assurance Statements. The work undertaken provided assurance that actual receipts were reconciled to the underlying payroll records and that reconciliation differences could be explained. In addition in 2008-09 members of the Pensions Finance Team also participated on a visit to a 'Shared Service' who undertake financial services for a Strategic Health Authority. This has strengthened the knowledge of the team and will now contribute to the development of an ongoing assurance programme.
- Contacted all GP practice employers to seek assurance of the correct implementation of tiered employee contributions.
- Commenced review of the implementation of tiered employee contributions for employers who use ESR.

Erroneous implementation of Regulation T8 within the Pensions regulations

From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, the Scheme has never implemented this regulation in full and has only paid interest on request by the member.

Estimated costs of £25 million were accrued in 2007-08 for the interest payments. During 2008-09 the Scheme made interest payments to those members who experienced delay in receiving their initial pension scheme benefits. This involved the payment of £13.3 million to 32,800 members. During 2009-10 the remainder of the review will continue including cases related to revised, and payments will be made before March 2010.

The Authority Board and Audit & Risk Management Committee are kept fully updated on issues and progress.

Nick Scholte
Chief Executive, NHS Business Services Authority
10 July 2009

**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 NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2009 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 Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Chief Executive as 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 Scheme 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 Scheme'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 Scheme's corporate governance procedures or its risk and control procedures.

I read the other information contained in the annual report, which comprises 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

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 2009 and the net cash requirement, net resource outturn, net outgoings, recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on 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.

Emphasis of Matter: Scheme Liabilities

In forming my opinion on the financial statements, which is not qualified, I have considered the valuation of the Scheme's long term liabilities. As described in note 20.1 to the accounts, the valuation of these liabilities requires the actuary to make assumptions to obtain a reliable estimate of the liability for those members whose records have not been updated. The data used to calculate the total liability was based on the 81% of member records that were up to date, which is lower than that of other major public sector pension schemes. As a result the actuarial valuation of the liabilities contains a greater degree of uncertainty than would normally be expected in schemes of this nature. Further details of this matter are set out in my report.

*Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
17 July 2009*

**Report of the Comptroller and Auditor General on the NHS Pension Scheme and NHS
Compensation for Premature Retirement Scheme Resource Accounts 2008-09**

Executive Summary

My report on the 2007-08 financial statements detailed uncertainties remaining after taking account of the Scheme manager's arrangements for validating the assumptions on which the valuation of the Scheme's future pension liabilities are based. I did not qualify my opinion in this respect but drew your attention to this matter.

This report details the actions taken to reduce these uncertainties during 2008-09 by the NHS Business Services Authority as the Scheme managers. The Authority has responded positively to the 2007-08 report to actively address the concerns over the completeness and accuracy of data on which the valuation of the Scheme's future pension liabilities are based. Whilst improvements have been made to the percentage of members whose records are up-to-date, I continue to draw your attention to this matter.

This Report also draws your attention to my separate examination of errors in a number of public sector pension schemes in respect of Guaranteed Minimum Pension payments.

Valuation of the Scheme's Long Term Liability

Introduction

1. The NHS Pension Scheme is an unfunded occupational scheme supported by the Exchequer and is open to all NHS employees and employees of approved organisations. In order to defray the costs of benefits both employers and members pay contributions at rates determined by the Scheme Actuary.
2. At 31 March 2009 the employing organisations of members of the NHS Pension Scheme comprised 452 NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,258 GP practices and 381 Directed Bodies (non-NHS employers meeting specific criteria) in England and Wales.
3. In accordance with the Treasury guidance the Scheme's long term liabilities to pay pensions are valued by the Scheme Actuary in accordance with Financial Reporting Standard (FRS) 17 – Retirement Benefits. The Combined Balance Sheet of the Resource Account shows a liability of £199.5 billion at 31 March 2009 compared to £212.5 billion at 31 March 2008. At 31 March 2007 the liability stood at £218 billion.
4. The Scheme managers collect employer and employee contributions and use these to fund payments to existing pensioners with the excess receipts being paid into the Consolidated Fund. The Combined Revenue Account shows that 2008-09 contribution income totalled £7.6 billion. Payment of pensions are shown as a movement on the Scheme liability provision in note 20.2 to the accounts and totalled £5.4 billion in 2008-09 leaving £2.2 billion due to be paid over to the Consolidated Fund.
5. Positive action has been taken by management to address the issues raised in my 2007-08 report. I provide full details of these issues and their resolution in the remainder of my report.

Valuation of the Scheme's long term liability

6. The scheme is required to comply with the provisions of Financial Reporting Standard 17 – Retirement Benefits (FRS 17). FRS 17 requires that the financial statements reflect the actuarially calculated liabilities arising from an employer's retirement benefit obligations. The NHS Pension Scheme, like many similar public sector schemes is unfunded and the cash required to meet the payment of pensions is met from employer and employee contributions with any shortfall financed by the Exchequer.
7. FRS 17 requires a full actuarial valuation of scheme liabilities every three years, although Treasury require such a valuation only every four years to fit in with the Government spending review cycle. In addition to this liability valuation, the rules and regulations of the NHS Scheme require a funding valuation every four years in order to determine the contributions members and employers should make to the Scheme.
8. The FRS 17 liability valuation must reflect the best estimate of the present value of the amounts that will actually be paid out taking into account all expected changes in factors affecting the payments. In between full valuations the Treasury, in line with FRS 17, require annual updates of the value of liabilities to reflect current conditions. The valuation in the Resource Account is based on the most recent full FRS 17 liability valuation report published in May 2009. This is based on the Actuarial Investigation of membership data as at 31 March 2006.
9. The scheme liability must be calculated by an actuary and reflect expected future benefit payments arising in respect of both current and deferred pensioners and currently active members of the scheme. The actuarial assumptions used in determining the cash flows arising from these future scheme obligations are fundamental to the valuation. Assumptions are required for numerous factors including salary growth rates and mortality rates. Changing the assumptions will generally have a material impact on the results of the valuation.

Concerns over the accuracy of membership data

10. While all pension schemes have significant uncertainties over future liabilities, the NHS Scheme has a larger number of uncertainties due to the size and complexity of membership. This increases the importance of having up to date membership data. For the valuation for the year ended 31 March 2009 only 81 percent of member records had been updated, i.e. were suitable for a pensions estimate to be completed using information up to 31 March 2006. Within this overall total there are some membership groups where the updating is lower. These percentages were lower than for the other major public sector pension schemes.
11. In valuing the future pension liabilities of the Scheme the Government Actuary's Department apply uprating factors to obtain a reliable estimate of the liability in respect of that percentage of total members whose records have not been updated. As in previous years the Scheme managers believe that this deficiency does not materially affect the overall Scheme liability at 31 March 2009.

Improvements in the accuracy of membership data

12. From 1 April 2008 new entrants to the Pension Scheme join a new section of the Scheme, with different rules. Those who are already members of the Scheme will be able to choose either to remain in the previous section or to join the new section. In order to help them make the decision, a 'Choice' exercise is being undertaken. As a pre cursor to the 'Choice' exercise, a data governance project has been implemented. This is focused on cleansing existing errors and preventing new errors being accepted by implementing a more robust governance framework around data acceptance and input. This is intended to reduce the need for extrapolation and rating up. As noted above this was 81 percent complete when the valuation was carried out.

13. This additional work on the previously excluded data, carried out for the 'Choice' exercise, has provided more evidence to support the Scheme managers' assertion that the uprating method is appropriate in establishing an estimate of future pensions liabilities. Any misstatement as a result of applying uprating factors rather than basing the estimate on fully updated membership records is therefore unlikely to be material. I have therefore not qualified my opinion but draw this to your attention.

Ongoing Work to Improve the Data Quality

14. NHS Business Services Authority has informed me that it has in place a comprehensive programme of actions to further reduce uncertainties related to the completeness of membership data, whilst recognising that it does not have control over employing organisations, as detailed in the Statement on Internal Control. This includes better checking of data received from employers, before it is entered on to the pensions system (Penserver) and identifying and chasing up employers who are persistently late in submitting data. This is in addition to the data cleansing carried out for the 'Choice' exercise.
15. Currently NHS Business Services Authority estimate the percentage of members whose data is up to date to be over the 90 percent threshold for accuracy that the Scheme had been aiming for, which is in line with the levels of accuracy attained by other public sector schemes. This should reduce still further the uncertainties related to the membership data for future years' accounts, provided this level is maintained.

Guaranteed Minimum Pensions

16. As set out in the Report of the Manager, administrative checks in 2007-08 revealed an inconsistency in the calculation of a number of individual pensions because of incorrect uprating being applied to an element known as the Guaranteed Minimum Pension or GMP. This resulted in both overpayment and underpayments of pensions which has continued in 2008-09. These were significant but immaterial. The results of my separate examination of the end to end process to identify the causes of the error, presented to Parliament under section 9 of the National Audit Act 1983, are published as HC 878/2008-09, Review of errors in Guaranteed Minimum Pension payments. My opinion is not qualified in this respect.

*Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
17 July 2009*

Statement of Parliamentary Supply

Summary of Resource Outturn 2008-09

Request for Resources	Note	Estimate £000			Outturn £000			2008-09 £000 Outturn	2007-08 £000 Outturn
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: Saving/(excess)	Net Total
Pensions and associated payment		21,615,699	(7,544,603)	14,071,096	21,174,985	(7,544,603)	13,630,382	440,714	4,130,368
Total resources	4	21,615,699	(7,544,603)	14,071,096	21,174,985	(7,544,603)	13,630,382	440,714	4,130,368

Summary of net cash requirement 2008-09

Note	Estimate	Outturn	2008-09 £000	2008-09 £000
			Net Total outturn compared with Estimate: Saving/(excess)	Outturn
Net cash requirement	5	1	0	1

Summary of income/cash payable to the Consolidated Fund

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

	Note	2008-09 Forecast £000		2008-09 Outturn £000	
		Income	Receipts	Income	Receipts
Excess cash receipts surrendered to the Consolidated Fund collected in 2008-09			1,800,000	2,153,877	1,945,140
Total	6	-	1,800,000	2,153,877	1,945,140

Explanation of the variation between estimate and outturn.

Income

- i. Contributions – The amount was more than forecast by £249 million (3.4% of contributions budget). This relates to growth originally anticipated in 2007-08 which did not occur, impacting in 2008-09 (the outturn growth in 2007-08 was 2.5% rather than the 7% growth forecast).
- ii. Transfers In – The amount was less than forecast by £23 million (19% of transfer in budget). The continuing downward trend seen over recent years has continued in 2008-09, albeit by less than a reduction of £10 million. There is no specific data available to inform the future forecast budget for transfers in.
- iii. Premature Retirements Prefunded by the employer – The amount was more than forecast by £23 million (47.5% of prefunded premature retirement budget). The estimate assumed a return to a level prior to the wide ranging restructuring and cost reduction programmes within the NHS seen over recent years. The outturn has reduced by over £120 million from 2007-08, but there is no specific data available to inform the future forecast budget for premature retirements.
- iv. Premature Retirements Recharged to the employer – The amount was less than forecast by £15 million (22.9% of recharged premature retirement budget). This relates to the refund of overcharged amounts charged to employers as detailed in the SIC, and also the reducing caseload due to the repayment option no longer being available to employers.

Expenditure

- i. Interest – The amount was less than forecast by £351 million (2.9% of interest budget). This is attributable to the majority of interest being charged on the opening liability, which is an estimate in itself at the time of the submission of the Scheme Estimate, and did not include the impact of Past Service Cost in movement scheme liability in 2007-08.
- ii. Pension cost – Current Service Cost. The amount was less than forecast by £39 million (0.4% of current service cost budget). The employer contribution income figure is used to estimate the pensionable payroll figure on which the Current Service Cost is calculated. However the budget estimate was based on the estimate for the prior year, where the final contribution income outturn was 4.5% less than budget. The variance in 2008-09 is therefore only 0.5% even though contributions are 3% over budget as detailed under point i of the income variance explanations.
- iii. Enhancements (added years and additional pensions) – The amount was less than forecast by £50 million (20% of enhancements budget). The variance is attributed to over-estimate of the budget.
- iv. Transfers In – There is a direct one for one relationship with the corresponding income stream detailed under point ii of the income variance explanations.
- v. Premature Retirements Prefunded by the employer – There is a direct one for one relationship with the corresponding income stream detailed under point iii of the income variance explanations.

**NHS Pension Scheme & Compensation for
Premature Retirement Scheme**

Resource Accounts 2008-09

**Combined Revenue Account
for the year ended 31 March 2009**

		2008-09	2007-08
	<u>Note</u>	<u>£000</u>	<u>£000</u>
Income			
Contributions receivable	8	(7,554,091)	(6,873,823)
Special contributions - Prefunded premature retirement contributions	8	(73,755)	(198,567)
Other income - Premature retirement benefits paid and subsequently recharged to the employer	8	(50,164)	(62,732)
Transfers in	9	(101,230)	(110,462)
		<u>(7,779,240)</u>	<u>(7,245,584)</u>
Outgoings			
Pension Cost – Current service cost	10	9,400,000	10,600,000
Pension Cost – Past service cost	10	-	(3,850,000)
Enhancements	11	200,000	190,971
Transfers in	12	101,230	110,462
Prefunded premature retirements	13	73,755	198,567
Interest on Scheme liabilities	14	11,400,000	10,170,000
		<u>21,174,985</u>	<u>17,420,000</u>
Net outgoings for the year		13,395,745	10,174,416

**Statement of Recognised Gains and Losses for the year
ended 31 March 2009**

Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	17	46,822	(70,747)
Actuarial loss/(gain) on Pension Scheme Liabilities	20.5	(28,549,555)	(17,822,990)
Total recognised losses for the financial year		<u>(28,502,733)</u>	<u>(17,893,737)</u>

The notes on pages 30 to 45 form part of these accounts.

**NHS Pension Scheme & Compensation for
Premature Retirement Scheme**

Resource Accounts 2008-09

**Combined Balance Sheet
as at 31 March 2009**

	Note	2008-09 £000	2007-08 £000
Current Assets and Liabilities			
Debtors	16a	526,958	391,849
Cash at bank and in hand	18	694,827	813,091
		1,221,785	1,204,940
Creditors (amounts falling due within one year)	19a	(1,221,785)	(1,204,940)
Net current assets, excluding pension liability		-	-
Estimated discounted future cash flows in respect of early retirement recharges	17	840,331	887,153
		840,331	887,153
Provisions for liabilities and charges:			
Pension Scheme Liability	20.2	(199,500,000)	(212,500,000)
Total net liabilities, including pension liabilities		(198,659,669)	(211,612,847)
Taxpayers' equity:			
General fund	21	(198,659,669)	(211,612,847)
		(198,659,669)	(211,612,847)

Nick Scholte
Chief Executive, NHS Business Services Authority
10 July 2009

The notes on pages 30 to 45 form part of these accounts.

**Cash Flow Statement
For the year ended 31 March 2009**

		<u>2008-09</u>	<u>2007-08</u>
	<u>Note</u>	<u>£000</u>	<u>£000</u>
Net cash inflow from operating activities	22a	1,945,140	2,359,147
Payments of amounts due to the Consolidated Fund	25	<u>(2,063,404)</u>	<u>(2,257,971)</u>
Increase/(decrease) in cash in the period		<u>(118,264)</u>	<u>101,176</u>

The notes on pages 30 to 45 form part of these accounts.

Notes to the Scheme Statements for the year ended 31 March 2009

Accounting Policies

1. Basis of Preparation of scheme statements

- 1.1 The combined scheme financial statements have been prepared in accordance with the relevant provisions of the Financial Reporting Manual (FReM) for 2008-09 issued by the Treasury, which reflect the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes* to the extent that these are appropriate.

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.

- 1.2 The combined scheme financial statements summarise the transactions of the National Health Service Pension Scheme and the National Health Service (Compensation for premature retirement) Scheme. The balance sheet shows the deficit on the scheme; the Revenue Account shows, *inter alia*, the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the report of the Actuary, and the scheme statement should be read in conjunction with that Report.
- 1.3 The NHS Pension Scheme acts as a principal for employers in the payment of compensation benefits arising under the NHS Compensation for Premature Retirement Scheme. Employers have the option of discharging their liability by way of payment of a capital sum, or by paying for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding debtor within the balance sheet).
- 1.4 The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the combined financial statements.

2. Accounting policies for the NHS Pension Scheme

The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (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 the most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

2.1 *Accounting convention*

These accounts have been prepared under the historical cost convention.

2.2 *Contributions receivable*

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

- b. Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.
- c. Employees' pension contributions which include amounts in respect of added years (dealt with in (d) below) are accounted for on an accruals basis.
- d. Employees' contributions paid in respect of the purchase of added years or additional pension entitlement are accounted for on an accruals basis. The associated increase in the scheme liability is recognised as expenditure. Where Scheme members make additional voluntary contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 15 to the financial statements. Please refer to Note 15 for further information on Scheme AVC providers. Where Scheme members make Free Standing AVC payments these are paid direct to the supplier by the member and are not included in these financial statements.

2.3 Transfers in and out

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

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

2.3 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue account. The cost is based on a discount rate of 2.5% (2007-08: 1.80%) real (i.e. 5.32% including inflation [2007-08: 4.60%]). These assumptions are used to calculate the in year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability as detailed in note 2.6.

2.4 Past service cost

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

2.5 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue account. The interest cost is based on a discount rate of 2.5% (2007-08: 1.80%) real (i.e. 5.32% including inflation [2007-08: 4.60%]).

2.6 Scheme Liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 3.2% (2007-08: 2.50%) real (i.e. 6.04% including inflation [2007-08: 5.32%]).

For the purposes of FRS17 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. The most recent review took place in 2008-09 based on data as at 31 March 2006.

2.7 Pension benefits payable

Pension benefits payable are accounted for as a decrease in the scheme liability on an accrual basis.

2.8 Pension payments to and on account of leavers before their normal retirement age.

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

2.9 Lump sums payable on death in service

Lump sum payments on death in service are accounted for on an accruals basis. They are a direct charge to the pension scheme as they are not funded through the normal pension contributions.

2.10 Actuarial gains / losses

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

2.11 Additional Voluntary Contributions

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

2.12 Overpaid pension benefits

Overpaid pension benefits arising as a result of the incorrect application of Guaranteed Minimum Pension increases are accounted for as debtors, less full provision against the relevant figure in recognition that recovery of overpayments will not be sought.

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

3.1 Compensation payments or the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, benefits are paid initially by the NHS Pension Scheme throughout the month and recovered from employers on a quarterly basis (this method is referred to as "quarterly recharging").

3.1.1 The Secretary of State may alternatively allow employers to make a cash payment, as either a lump sum or in five annual instalments, to the NHS Pension Scheme in order to discharge their liabilities to the Scheme and to fund compensation payments payable to their former employees in the forthcoming years (this is referred to as "pre-funding").

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

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

3.2 Where the employer chooses to pay by one-off lump sum, this amount is recognised as income at the point the employee's pension becomes payable. Where the employer chooses to pay by instalments, income is recognised when the instalment becomes due, with the amounts due from the employer in respect of future uninvoiced instalments disclosed by way of a note to the debtors disclosure.

3.2.1 Any amounts receivable in respect of an employer's decision to allow an employee's early departure, where the employer has discharged their liability by way of a capitalised payment, are accounted for as special pension scheme contributions (see note 2.2b). All amounts received are appropriated-in-aid of Scheme expenditure.

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

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

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

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

3.3.1 Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as "Other Income" to the pension scheme and are appropriated-in-aid.

3.3.2 In recognition of the fact that significant future cashflows will arise from these arrangements, the estimated future cashflows which may accrue to the Scheme after the balance sheet date, discounted to current values, are disclosed on the balance sheet.

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

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

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

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

4. Reconciliation of Estimates, accounts and budgets

			2008-09 £000	2007-08 £000
	Supply Estimate £000	Outturn £000	Outturn compared with Estimate	Outturn
Note				
Net Resource Outturn	14,071,096	13,630,382	440,714	4,130,368
Net Outgoings	14,071,096	13,630,382	440,714	4,130,368

5. Reconciliation of resources to cash requirement

	Note	Supply Estimate £000	Outturn £000	Net total outturn compared with estimate: Savings/(excess) £000
Net Resource Outgoings – Combined Revenue Account		14,071,096	13,395,745	675,351
Accruals adjustments				
Non-cash items	23	(21,615,699)	(21,174,985)	(440,714)
Change in Consolidated Fund Creditor	19a	36,104	90,473	(54,369)
Use of pension provision	20.3 /			
Excess cash receipts surrendered to the Consolidated Fund	20.4	5,708,500	5,625,430	83,070
	25	1,800,000	2,063,337	(263,337)
Net cash requirement		1	-	1

6. Analysis of income payable to the Consolidated Fund

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

Note	Forecast 2008-09 £000		Outturn 2008-09 £000	
	Income	Receipts	Income	Receipts
Excess cash receipts to be surrendered to the Consolidated Fund collected in 2008-09	-	<i>1,800,000</i>	2,153,877	<i>1,945,140</i>
Total income payable to the Consolidated Fund	-	<i>1,800,000</i>	2,153,877	<i>1,945,140</i>

7. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	2008-09 £000	2007-08 £000
Operating income	(7,779,240)	(7,245,584)
Gross income	(7,779,240)	(7,245,584)
Income authorised to be appropriated-in-aid	7,544,603	7,245,584
Excess income not appropriated in aid	(234,637)	-

8. Pension Contributions receivable

	2008-09 £000	2007-08 £000
Employers		
Standard	(5,006,587)	(4,686,588)
Pre-funded premature retirement costs	(73,755)	(198,567)
Re-chargeable premature retirement costs	(50,164)	(62,732)
Employees		
Standard (including Added Years)	(2,547,504)	(2,187,235)
	(7,678,010)	(7,135,122)

**NHS Pension Scheme & Compensation for
Premature Retirement Scheme**

Resource Accounts 2008-09

9. Pension transfers in (see also note 12)

	2008-09 £000	2007-08 £000
Individual transfers in from other schemes	(93,969)	(89,931)
Group transfers in from other schemes	(7,261)	(20,531)
	<u>(101,230)</u>	<u>(110,462)</u>

10. Pension Cost

	2008-09 £000	2007-08 £000
Current service cost	9,400,000	10,600,000
Past service cost	-	(3,850,000)
	<u>9,400,000</u>	<u>6,750,000</u>

11. Enhancements

	2008-09 £000	2007-08 £000
Enhancements	200,000	190,971
	<u>200,000</u>	<u>190,971</u>

12. Pension transfers in (see also note 9)

	2008-09 £000	2007-08 £000
Pension transfers in	101,230	110,462
	<u>101,230</u>	<u>110,462</u>

13. Prefunded premature retirement contributions
(see also note 8)

	2008-09 £000	2007-08 £000
Prefunded premature retirement contributions	73,755	198,567
	<u>73,755</u>	<u>198,567</u>

14. Interest on Scheme liabilities

	2008-09 £000	2007-08 £000
Interest charge for the year	11,400,000	10,170,000
	<u>11,400,000</u>	<u>10,170,000</u>

15. Additional Voluntary Contributions

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

Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments were as follows:

	2008-09	2007-08
	£000	£000
The Equitable Life Assurance Society (ELAS)		
Movements in the year were as follows:		
Balance at 6 April	117,410	121,582
New investments	1,866	2,216
Sale of investments to provide pension benefits	(5,917)	(7,500)
Changes in market value of investments	(7,890)	1,112
	<u>105,469</u>	<u>117,410</u>

	2008-09	2007-08
	£000	£000
Standard Life Assurance Company		
Movements in the year were as follows:		
Balance at 6 April	105,526	107,014
New investments	5,304	5,701
Sale of investments to provide pension benefits	(4,698)	(6,404)
Changes in market value of investments	(18,854)	(785)
	<u>87,278</u>	<u>105,526</u>

	2008-09	2007-08
	£000	£000
Prudential Plc		
Movements in the year were as follows:		
Balance at 1 April	40,027	40,427
New investments	3,708	4,221
Sale of investments to provide pension benefits and switches to new funds	(2,782)	(3,921)
Changes in market value of investments	(5,669)	(697)
*Adjustment to closing balance	-	(3)
	<u>35,284</u>	<u>40,027</u>

*Adjustment to closing balance – This relates to corrective/adjustment work carried out during the last scheme year on AVC payments to member's accounts that had investment date before the start of the current revision period, the 1st April 2008. These were therefore included in the previous closing balance at 31st March 2008, and have since changed resulting in the difference to the closing balance.

16a. Debtors – Contributions due in respect of pensions

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

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

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

Overpayment debtors relating to Guaranteed Minimum Pension

As referred to in the Report of the Manager a number of pensions have been overpaid as a result of the incorrect application of Guaranteed Minimum Pension increases. The original estimate in 2007-08 was £83.4 million based on a sample of cases prior to commencement of corrective action taking place. A revised estimate based on cases corrected from April to May 2009 was £32.3 million, and this change in estimate is shown within the note below. Recovery will not be sought for these overpayments.

Amounts due within One Year	2008-09	2007-08
	£000	£000
Employer Contributions	336,632	252,682
Employee Contributions	173,610	119,008
Invoiced pre-funded premature retirement contributions	2,598	5,978
Invoiced re-chargeable premature retirement contributions	14,118	14,181
Overpaid pensions relating to incorrect application of GMP	(42,869)	75,169
	484,089	467,018
Less non recovery of overpaid pensions relating to incorrect application of GMP	42,869	(75,169)
Total due within one year	526,958	391,849
Un-invoiced future instalments due from NHS employers	3,909	7,577

Included within these figures is £283,983,250.15 (2007-08: £75,245,870.34) that will be due to the Consolidated Fund once the debts are collected.

16b. Intra-Government Balances

	Amounts falling due within one year 2008-09	Amounts falling due within one year 2007-08	Amounts falling due after more than one year 2008-09	Amounts falling due after more than one year 2007-08
	£000	£000	£000	£000
Balances with other central government bodies	78,628	68,789	-	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	356,734	142,485	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	91,596	180,575	-	-
At 31 March	526,958	391,849	-	-

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

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

Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as "Other Income" to the pension scheme and are appropriated-in-aid.

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

**NHS Pension Scheme & Compensation for
Premature Retirement Scheme**

Resource Accounts 2008-09

The increase in the estimate in 2007-08 is attributed primarily to the introduction of revised actuarial factors used by the Scheme with an underlying discount rate of 2.2% as per FRS12 and the latest mortality assumptions used by the Government Actuary Department. In 2006-07 the actuarial factors used by the Scheme were based on an underlying discount rate of 3.5% in line with the rate used to estimate the Scheme liability.

	2008-09	2007-08
	£000	£000
Balance at 1 April	887,153	816,406
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(46,822)	70,747
Balance at 31 March	840,331	887,153

18. Cash at bank and in hand

	2008-09	2007-08
	£000	£000
Balance at 1 April	813,091	711,915
Net change in cash balances	(118,264)	101,176
Balance at 31 March	694,827	813,091

The following balances at 31 March were held at:

Office of HM Paymaster General	691,061	807,841
Commercial banks and cash in hand	3,766	5,250
Balance at 31 March	694,827	813,091

19. Creditors - in respect of pensions

19a. Analysis by type

	2008-09	2007-08
	£000	£000
Amounts falling due within one year		
Pensions	(193,515)	(265,694)
HM Revenue & Customs	(48,936)	(44,471)
Voluntary deductions	(252)	(183)
Amounts due to Employers: Initial Widows Claims	(17)	(163)
Employee and employer contributions	(232)	(5,224)
Prefunded premature retirements	(7)	(840)
Rechargeable premature retirements	(16)	(28)
	(242,975)	(316,603)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	(694,827)	(813,091)
Receivable	(283,983)	(75,246)
	(978,810)	(888,337)
	(1,221,785)	(1,204,940)

19b. Intra-Government Balances

	Amounts falling due within one year 2008-09 £000	Amounts falling due within one year 2007-08 £000	Amounts falling due after more than one year 2008-09 £000	Amounts falling due after more than one year 2007-08 £000
Balances with other central government bodies	(1,027,803)	(1,008,581)	-	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	(207)	(5,110)	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	(193,775)	(191,249)	-	-
At 31 March	(1,221,785)	(1,204,940)	-	-

20. Provision for pension liability

20.1 Assumptions underpinning the provision for pension liability

20.1.1 The NHS Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the scheme liabilities as at 31 March 2009. The Report of the Actuary on pages 10 - 14 sets out the scope, methodology and results of the work the actuary has carried out.

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

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

The information provided to the Actuary to enable them to conduct their valuation is based upon an extract of the scheme membership database. The extract of data used was based upon 81% of all member data. Uprating factors have therefore been used to extrapolate to 100%. The use of uprating factors per se does not introduce additional material uncertainty to the valuation result, provided that the rating up factors for each group are valid and the membership profile of the membership that is excluded from the data extract is similar to the profile of membership that the Actuary receives. The Business Services Authority has no reason to believe that the data for members excluded from the valuation exercise is not similar in terms of age/sex/salary/past service distribution than those included. However, this has not been validated.

The membership data used was based on the position as at 31 March 2006, and the results rolled forward to 31 March 2009 to estimate the position in 2008-09.

20.1.3 The major assumptions used by the actuary were:

At 31 March	2009	2008	2007	2006	2005
Rate of increase in salaries (pa)	4.29%	4.29%	4.29%	4.04%	4.04%
Inflation assumption (pa)	2.75%	2.75%	2.75%	2.50%	2.50%
Life expectancy in years (note 1)					
Current pensioners					
Males (age 60)	28.6	28.5	25.0	24.9	23.9
Males (age 65)	23.5	23.4	20.4	20.3	19.3
Females (age 60)	31.8	31.7	28.0	27.9	26.9
Females (age 65)	26.7	26.6	23.4	23.3	22.3
Future pensioners					
Males (age 60)	30.2	30.1	27.0	27.0	26.0
Males (age 65)	25.6	25.5	22.3	22.2	21.2
Females (age 60)	33.3	33.2	30.0	29.9	28.9
Females (age 65)	28.6	28.6	25.2	25.1	24.2
Discount rate (pa)	6.04%	5.32%	4.60%	5.37%	6.09%
Discount rate net of inflation (pa)	3.20%	2.50%	1.80%	2.80%	3.50%

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.

20.1.4 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. As set out in the FReM, and as required by FRS17, the scheme managers use the AA corporate bond rate to discount the liabilities. From 2005-06, the Government Actuary has calculated the rate annually on behalf of HM Treasury, who then advise the scheme managers of the rate for the year. The rates are set out in the above table. Any decrease in the rate leads to a significant increase in the reported liability.

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

Analysis of the provision for pension liability £billion

At 31 March	2009	2008	2007	2006	2005
Active members (past service)	116.1	129.2	144.7	106.8	80.1
Deferred Pensions	20.3	22.5	18.6	13.7	10.6
Pensions in payment	63.1	60.8	54.7	44.9	37.2
Total liability	199.5	212.5	218.0	165.4	127.9

20.2 Analysis of movement in scheme liability

	Note	2008-09 £000	2007-08 £000
Scheme liability at 1 April		(212,500,000)	(218,000,000)
Pension cost - Current service cost	10	(9,400,000)	(10,600,000)
Pension cost - Past service cost	10	-	3,850,000
Enhancements	11	(200,000)	(190,971)
Transfers in	12	(101,230)	(110,462)
Prefunded premature retirements	8	(73,755)	(198,567)
Interest on pension scheme liability	14	(11,400,000)	(10,170,000)
Benefits payable	20.3	5,447,902	4,898,735
Pension payments to and on account of leavers	20.4	177,528	198,275
Actuarial gain/(loss)	20.5	28,549,555	17,822,990
Scheme liability at 31 March		(199,500,000)	(212,500,000)

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

During the year ended March 2009, contributions represented an average of 20.5% of pensionable pay.

Current Service Cost is defined as the present value of benefits accruing to active members over the year, with allowance for salary increases to the assumed date of retirement or exit, expressed as a level percentage of expected pensionable pay over the same period. The method can be expected to result in a stable current service cost at successive valuations as long as the profile by age, sex and salary of the active membership, as well as the benefits being valued, remain broadly unchanged at successive valuation dates. The current service cost would increase if, for example, the average age of employees rose. The current service cost used in 2008-09 was 26.3% (2007-08 31.7%).

Past Service Cost arose due to changes to the Scheme benefits on 1 April 2008. The main change impacting on the past service cost is the opportunity for members to take additional tax free lump sum cash on retirement in return for a reduction to future taxable pension. This applies to all pension benefits of active members, not just benefits built up after the date of change.

The impact has been estimated to amount to a reduction of £3.85 billion in Scheme liability in 2007-08 based on an assumption that members will take on average half the extra lump sum they are entitled to take.

20.3 Analysis of benefits paid

	2008-09 £000	2007-08 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	4,229,520	3,890,955
Commutations and lump sum benefits on retirement	1,218,382	1,007,780
Per cash flow statement	5,447,902	4,898,735

20.4 Analysis of payments to and on account of leavers

	2008-09 £000	2007-08 £000
Refunds to members leaving service	12,804	18,166
Group transfers to other schemes	26,459	1,479
Payment to State Scheme	20,889	3,626
Individual transfers to other schemes	117,376	175,004
Per cash flow statement	177,528	198,275

20.5 Analysis of actuarial losses

	2008-09 £000	2007-08 £000
Experience gains/(losses) arising on the scheme liabilities	(850,445)	252,990
Changes in assumptions underlying the present value of scheme liabilities – demographic assumptions	-	(12,450,000)
Changes in assumptions underlying the present value of scheme liabilities – change in discount rate	<u>29,400,000</u>	<u>30,020,000</u>
Per Statement of Recognised Gains and Losses	<u>28,549,555</u>	<u>17,822,990</u>

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

20.6 History of Experienced losses

	2008-09 £000	2007-08 £000	2006-07 £000	2005-06 £000	2004-05 £000
Experience and losses on the scheme liabilities:					
Amount	(850,445)	252,990	808,209	-	(13,598,832)
Percentage of the present value of the scheme liabilities	0.40%	0.12%	0.37%	-	10.4%
Total amount recognised in Statement of Recognised Gains and (Losses)					
Amount	28,549,555	17,822,990	(39,791,791)	(3,968,315)	(17,598,832)
Percentage of the present value of the scheme liabilities	13.47%	8.41%	18.25%	2.4%	13.4%

21. General Fund

The General Fund represents the total assets less liabilities of the pensions scheme, to the extent that the total is not represented by other reserves and financing items.

	2008-09 £000	2007-08 £000
Balance at 1 April	<u>(211,612,847)</u>	<u>(217,183,594)</u>
Net Parliamentary Funding	-	-
Net Transfer from Operating Activities		
Combined Net Outgoings	(13,395,745)	(10,174,416)
CFERS repayable to the Consolidated Fund	(978,810)	(888,337)
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	(46,822)	70,747
Payment to the Consolidated Fund	(1,175,000)	(1,260,237)
Actuarial gains and losses (SRGL)	<u>28,549,555</u>	<u>17,822,990</u>
Balance at 31 March	<u>(198,659,669)</u>	<u>(211,612,847)</u>

22. Notes to the Cash Flow Statement

22a. Reconciliation of net outgoings to operating cash flows

	Note	2008-09	2007-08
		£000	£000
Net outgoings for the year		(13,395,745)	(10,174,416)
Amounts received and paid in year to the Consolidated Fund relating to a prior year		67	237
Adjustments for non-cash transactions:			
Movement in working capital other than cash	24	(208,737)	210,336
Increase in pension provision	23	21,174,985	17,420,000
Use of provisions – pension liability	20.3	(5,447,902)	(4,898,735)
Use of provisions – refunds and transfers	20.4	(177,528)	(198,275)
Net cash inflow from operating activities		<u>1,945,140</u>	<u>2,359,147</u>

22b. Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2008-09	2007-08
		£000	£000
Net cash requirement		-	-
From the Consolidated Fund – current year		-	-
Due to the Consolidated Fund – received in a prior year and paid over		(813,091)	(711,915)
Amounts due to the Consolidated Fund received and not paid	19.a	694,827	813,091
Increase/(decrease) in cash		<u>(118,264)</u>	<u>101,176</u>

23. Non-cash items

	2008-09	2007-08
	£000	£000
Increase in pension provision:		
Pension cost - current service cost	9,400,000	10,600,000
Pension cost - past service cost	-	(3,850,000)
Enhancements	200,000	190,971
Transfers	101,230	110,462
Prefunded premature retirements	73,755	198,567
Interest on pension scheme liability	11,400,000	10,170,000
	<u>21,174,985</u>	<u>17,420,000</u>

24. Movements in working capital, other than cash

	2008-09	2007-08
	£000	£000
Movement in debtors – Pension contributions	(135,109)	55,482
Movement in creditors – falling due within 12 months - Pensions	(73,628)	112,932
Movement in prepaid pension benefits	-	41,922
	<u>(208,737)</u>	<u>210,336</u>

25. Payments to the Consolidated Fund

	Note	2008-09 £000	2007-08 £000
Payments of amounts due to the:			
Consolidated Fund – Realisation of prior year net debtors and creditors		75,246	285,582
Consolidated Fund – Surplus cash relating to current year Supply		1,175,000	1,260,237
Surplus cash surrendered to the:			
Consolidated Fund relating to the prior year		813,091	711,311
Consolidated Fund excess receipts not classified to be appropriated in aid relating to prior years, paid to the Consolidated Fund		67	841
		<u>2,063,404</u>	<u>2,257,971</u>

26. Additional Voluntary Contributions

The NHS Pension Scheme guarantees to meet the pension payments in the event of a default by one or more of the NHS Pension Scheme's approved Additional Voluntary Contributions (AVC) providers. Therefore there is a maximum contingent liability of the full balance of the AVC investments as at 31 March 2009, which are disclosed at note 15. The scheme does not however guarantee pension payments from the other free-standing AVC providers.

27. Losses

During the year, losses arose in 8,310 cases as a result of overpaid pension scheme benefits (2007-08: 5,535 cases). The total loss was £651,958 (2007-08: £745,321). These figures include write-offs in respect of the cases highlighted in the review of the year, and all relate to claims abandoned.

28. Financial Instruments

FRS25, FRS26 and FRS29 requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the NHS Pension Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS25, FRS26 and FRS29 mainly applies.

29.1 Liquidity risk

Resources voted by Parliament finance the NHS Pension Scheme's net revenue resource requirements. The NHS Pension Scheme is not therefore exposed to significant liquidity risks.

29.2 Interest rate risk

All of the NHS Pension Scheme's financial assets and liabilities carry nil or fixed rates of interest. The Scheme is not therefore exposed to an interest rate risk.

30. Related Party Transactions

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

31. Post balance sheet events

Guaranteed Minimum Pension

As disclosed in the Report of the Manager and elsewhere within the Scheme financial statements.

Overpayments up to 31 March 2009 arising as a result of incorrect GMP notification will not be recovered and have no impact on the Revenue Account or Balance Sheet. From 1 April 2009, affected payments going forward will be corrected and accounted for accordingly. Cases not reviewed before 31 March 2009 will be corrected in 2009-10 where it is found that there is an incorrect GMP notification.

Accounts Authorisation

The National Health Service Pension Scheme and the National Health Service (Compensation for Premature Retirement) Scheme's financial statements are laid before the Houses of Parliament by HM Treasury. FRS21 requires NHS Business Services Authority to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by NHS Business Services Authority to HM Treasury.

The authorised date for issue is 17 July 2009



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