

**NHS Pension Scheme and  
NHS Compensation for  
Premature Retirement  
Scheme  
Resource Accounts  
2007-2008**

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2007-2008**

(For the year ended 31 March 2008)

Ordered by the House of Commons to be printed 27 Jan 2009

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ISBN: 9780102958614



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## **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 1st 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, 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 2007-08, 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 2008 there were 462 participating NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,452 participating GP Practice employers and 374 Direction Bodies.

## **NHS Pension Scheme Review**

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. 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](http://www.pensions.nhsbsa.nhs.uk))

Detailed work has been undertaken throughout 2007-08 to prepare for the introduction of an Amended Arrangement for existing members of the Scheme at 31 March 2008, and a New Arrangement for new entrants from 1 April 2008, to enable a smooth transition to the new and revised regulations.

A communication strategy has been implemented to raise awareness amongst members and employers about the changes. This has involved presentations and workshops at 6 separate venues across England and Wales during February 2008 for employers, and the issue of payslip inserts for active members and awareness letters to pensioners, deferred members and dependants.

## **NHS PENSION SCHEME BENEFITS**

### **Contributions**

In order to defray the costs of benefits, employers pay contributions at 14% of pensionable pay and most employees have 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 2007-08 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 2007-08 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 of the best of the last three years pensionable pay for each year of service. 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, is available to members of the Scheme who are permanently incapable of fulfilling their duties 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 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 significant 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 2007-08 78% of known cases had been completed.

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.

During 2008-09 the Scheme will review all cases where benefits have been paid late since April 2001 and make good the missing interest payments. The costs are expected to be between £20 million to £25 million for this one-off back payment exercise, and have now been provided for in the Scheme Resource Accounts.

### **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 2008 from a real rate of 1.80% to a real rate of 2.50% (the gross discount rate, which combines the real discount rate with the inflation assumption, changed from 4.60% to 5.32% per annum). As a result the pension scheme liability as at 31 March 2008 decreased by £30 billion (Note 21.5 to the Scheme accounts that follow this report refers).



The rates used to assess the movement of the Scheme liability in 2007-08 are the rates determined to come into effect overnight on 31 March 2007. Details of the rates used since 2004 can be found in note 21.1.3 of the Scheme accounts.

### **National Fraud Initiative**

On a bi-annual 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.

	Total Identified £'s	Total Cases	Prior Years		2007-08		Amount Outstanding at 31.3.2008
			Recovered	Written off	Recovered	Written off	
NFI 98 -02	3,086,000	978	2,083,600	811,200	21,900	19,000	150,300
NFI 2004	682,900	219	223,300	105,900	58,500	74,100	221,100
NFI 2006	1,165,800	337	-	-	320,800	3,900	841,100
<b>Total</b>	<b>4,934,700</b>	<b>1,534</b>	<b>2,306,900</b>	<b>917,100</b>	<b>401,200</b>	<b>97,000</b>	<b>1,212,500</b>

### **Pension Increase**

The annual pension increase applied for payments after 9 April 2007 was 3.6% (2006-07: 2.7%). 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 2008 the liabilities of the pension scheme were valued at £212.5 billion (31 March 2007 £218.0 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 2007-08 this net deficiency was £10,174,416,000 (2006-07 £10,226,125,000) 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**

### **New NHS Pension Scheme - Choice Exercise**

In July 2009 NHS Pensions will commence a "Choice" exercise which will provide an opportunity for all members of the Amended Arrangement who are actively contributing to the Scheme during the period of the exercise to join the New Arrangement.

During 2008-09 NHS Pensions will continue to work with NHS Employers and Trade Unions to define the arrangements for the Choice exercise. Work will also continue to develop an effective platform from which to conduct the exercise.

In preparation for Choice, NHS Pensions commenced a Data Governance Project in December 2007 and formally introduced it to employers at the New Scheme Pension Events earlier this year. The objective of the Data Governance Project is to resolve all outstanding data issues that currently exist with members records ahead of the start of the "Choice" in 2009-10.

## **OTHER ISSUES**

### **GP Dynamisation Factors**

When the GP contract was agreed in 2004 between the British Medical Association (BMA), Department of Health (DH), and the NHS Confederation, it was determined that the medical dynamisation factors would be based on real growth in GP's pensionable income. In December 2006 the Secretary of State for Health (SoS) wrote to the BMA stating that the dynamisation factors would be 'capped' at a rate determined by the SoS.

The BMA challenged this in the High Court and in March 2008 a Judicial Review directed that the SoS should honour the GP Contract in respect of 2004-05 and 2005-06, and gave the SoS leave to revise the method of calculating factors for 2006-07 and 2007-08. Following the High Court ruling the SoS wrote to the BMA outlining the revised (final) factors. In October 2008 the BMA wrote to the SoS stating they were content with the revised factors.

As a consequence of this the Authority is required to revise up to 5,000 GP pension 'events' including retirement awards, transfers, and deaths. The processing of these pension events commenced in December 2008 with anticipated completion by 31 March 2009. It is estimated that the arrears due to be paid amount to £75 million, and this is included within the Creditors note 20a, and the movement in Scheme liability. The impact of the ruling has been an estimated increase of £600 million to the liability and is included within the valuation of Scheme liability as at 31 March 2008. From April 2008 onwards the dynamising factors will be based on RPI plus 1.5%.

### **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. This has affected 51,070 NHS Pension Scheme pensioners and has resulted in pensions being overpaid. Calculations based on a sample of these pensioners estimate that cumulative overpayments totalled £75.2m at 31 March 2008, rising to £83.4 million by 31 March 2009. No recovery is to be sought regarding these amounts although the position going forward will be corrected from 1 April 2009. There is no effect on the Scheme's Revenue Account or Balance Sheet.

## **ADMINISTRATION EXPENSES**

In 2007-08 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](http://www.nhsbsa.nhs.uk).

**MEMBERSHIP STATISTICS**

Details of the current membership of the Scheme at 31 March 2008 are set out below:

**Active Members**

Active members at 1 April 2007	1,291,852
New entrants in the year (including deferred members who rejoin and transfers in)	135,497
Retirements in year	(36,666)
Transfers out	(14,799)
Members leaving the Scheme with deferred pension rights	(11,986)
Members leaving the Scheme and taking a refund of contributions	(25,962)
Deaths	(1,360)
<b>Active members at 31 March 2008</b>	<b>1,336,576</b>

**Deferred members**

Deferred members at 1 April 2007	399,152
Members leaving who have deferred pension rights	11,986
Members rejoining Scheme	9,405
Members taking up deferred pension rights	(9,085)
<b>Deferred members at 31 March 2008</b>	<b>411,458</b>

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

	<b>Members</b>	<b>Dependants</b>	<b>Total</b>
Pensioners in payment at 1 April 2007			558,079
Members retiring	36,666		36,666
New Dependants		5,629	5,629
Cessations in year	(12,752)	(3,917)	(16,669)
<b>Pensioners in payment at 31 March 2008</b>			<b>583,705</b>

**Nick Scholte**  
**Chief Executive, NHS Business Services Authority**  
**16 January 2009**

**MANAGEMENT STRUCTURE AND ADVISERS**

**Accounting Officer:**

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

**Scheme Administrator:**

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

**In-house AVC Providers:**

Equitable Life Assurance Society  
Walton Street  
Aylesbury  
Buckinghamshire HP21 7QW

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

Prudential Plc  
250 Euston Road  
London NW1 2PQ

**Actuary:**

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

**Auditors:**

Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
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 2008 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.*

**1. Liabilities**

The capitalised value as at 31 March 2008 of expected future benefit payments under the NHS Pension Scheme, for benefits accrued in respect of employment or former employment prior to 31 March 2008, has been assessed using the methodology and assumptions set out in sections 3 and 4 below. The results are as follows:

<b>Value of Liabilities</b>	<b>£ billion</b>
Active members (past service)	129.2
Deferred pensions	22.5
Pension in payment	60.8
<b>Total</b>	<b>212.5</b>

**2. Accruing Costs**

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the balance of the cost of the benefits being met by the employers. The total cost of benefits accruing in the year 2007-08 has been assessed, using the methodology and assumptions set out in sections 3 and 4 below, as follows:

	<b>% of Pensionable Pay</b>
Current service cost	31.7
Members' average contribution rate	5.95
Employers' share of current service cost	25.75
Actual rate charged to employers in 2007-08	14.0

The current service cost disclosed in the scheme accounts is £10.60 billion. This is based on an estimated average payroll over the year of £33.45 billion.

**3. Methodology**

The value of liabilities has been obtained using the projected unit method with a one year control period, which allows for expected future pay increases in respect of active members. The liabilities and standard contribution rate include pension increases awarded since leaving service for pensioners and deferred pensioners, plus allowance for future pension increases for all categories of member.

#### **4. Assumptions**

The principal financial assumptions adopted for the calculation of the liabilities as at 31 March 2008, as set out in section 1 above, are a notional investment return in excess of price increases of 2.5% a year (most pension benefits under the scheme are increased in line with prices), and a notional investment return in excess of earning increases of 1.0% a year. The gross rate of return is assumed to be about 5.3% a year, although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 4.3% a year and an allowance for price inflation of 2.75% a year. The demographic assumptions adopted for the assessments are derived from the specific experience of the membership of the scheme to 31 March 2004, and other similar large public service pension schemes where some aspect of the experience is not readily available.

The principal financial assumptions adopted for calculation of the current service cost for the year ending 31 March 2008, as set out in section 2 above, are a notional investment return in excess of price increases of 1.8% a year and a notional investment return in excess of earnings increases of 0.3% a year. The assumptions are the same as used to calculate the capitalised value of the liabilities as at 31 March 2007 disclosed in last year's statement.

#### **5. Notes**

- (i) Section 1 of this statement is based on an actuarial assessment carried out using membership data as at 31 March 2006 for the purposes of FRS17 (Resource Accounting), with an approximate updating for the subsequent financial years to reflect known changes that have occurred between 1 April 2006 and 31 March 2008, based on data supplied by NHSBSA PD. The method assumes that the profile of the membership has remained stable within the period, which may not necessarily be the case, and so the results should be viewed as an indication of the order of magnitude of the liabilities rather than a full actuarial assessment.
- (ii) In section 2 of this statement the current service cost expressed as a percentage of pensionable pay is based on an actuarial assessment carried out using membership data as at 31 March 2004.
- (iii) The actual rate charged to employers for 2007-08 of 14% of pensionable pay follows the recommendations made at the 1999 funding valuation. This rate remains payable from 2008-09 onwards following the results of the 2004 funding valuation.
- (iv) The pension benefits taken into account in this assessment are those normally provided from the rules of the scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessment of the liability for pension in payment includes the cost of premature retirement benefits awarded on redundancy but excludes the cost of injury benefits.

## **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 and Chief Executive, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives. I am also personally responsible for safeguarding the Authority's assets, public funds and information as set out in the Accounting Officer Memorandum.

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.

### **The purpose of the system of internal control**

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

- Identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives
- Evaluate the likelihood of those risks being realised and the impact should they be realised, and
- Manage risks efficiently, effectively and economically

The system of internal control has been in place in the Authority for the year ended 31 March 2008 and up to the date of approval of these accounts. I acknowledge that there have been weaknesses during 2007-08, as reported in the paragraph "Significant Internal Control Issues" and that action is being taken to address these in 2008-09.

### **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 of the plan. The Leadership Team monitors and manages delivery of the business plan regularly. An enhancement during planning for 2008-09 has been the inclusion of an extended leadership team in strategic business planning.

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



- A corporate risk management strategy
- A corporate risk register, through which the Board monitors progress with the management of its principal strategic risks
- The Leadership Team maintains a risk register combining strategic risks and the most important operating risks
- Business streams maintain risk registers that are reviewed regularly by the Leadership Team
- 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 corporate risk register is considered regularly by the Committee
  - a management assurance framework, which maps out the policies and procedures through which the Authority's risks are managed, is updated quarterly for review by the ARC
- 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 these have remained in place during the year.

Our harmonised internal audit service is delivering an effective service uniformly across all of the NHSBSA. 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.

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 and has met regularly during 2007-08 to provide assurance to the Accounting Officer.

### **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.

The Head of Internal Audit opinion for 2007-08 is '**significant assurance**<sup>1</sup>'. The internal audit projects undertaken have not identified any critical control issues that have had an impact on the delivery of services.

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<sup>1</sup> 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.

During 2007-08 we reviewed our arrangements for handling data securely. The IGSG drew up an initial improvement plan and the highlights of progress made include:

- All transfers of information into, out of and within the NHSBSA have been identified and subject to risk assessment – significant assurance has been gained from this exercise
- A much improved information governance return has been filed with the Department of Health for 2007-08
- Policies, strategies and procedures have been reviewed and strengthened

Whilst robust arrangements are now generally in place, our review has highlighted a number of areas where controls need further strengthening. These are for the most part in areas where third parties transport or process data on behalf of our business streams. Work is under way to strengthen our contracts with third parties to ensure this important element is given due emphasis.

Another area where we have identified the need to improve our arrangements is business continuity planning. Our service streams all have plans to recover from significant interruptions to services, but we have identified that they are in need of updating and testing. We also need to strengthen corporate monitoring of arrangements, and this work is currently under way.

My review has confirmed that a framework of internal control and assurance has remained in place at the NHSBSA for the year ended 31 March 2008 and up to the date of approval of the Resource Accounts. During 2007-08, no significant control issues have had a material impact on the delivery of services. I am pleased to report that the DH continues to be satisfied with our performance and progress following a recent accountability meeting - the Authority has met all significant business objectives and further strengthened its overall control environment.

In summary, the review of effectiveness above has given me significant assurance that the NHSBSA managed risk to deliver its principal objectives during 2007-08.

### **Significant Internal Control Issues**

There has been one new control issue identified in 2007-08 relating to overcharging of employer funded premature retirement costs. During the year the Authority has continued to address those internal control issues identified in the previous year.

### **Completeness of Membership data**

The Agency 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 2008. 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 provided was based on 75% of all members data. 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.

As a pre-cursor to the "Choice" exercise in order to improve the quality of member data provided by employers and that already held by the Authority, a Data Governance Project has been initiated which incorporates the data cleanse work undertaken previously. 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.

The Data Governance Project aims to achieve a substantial increase in the number of complete member records included within the future valuations.

### **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 2007-08, the Authority have built on the developments to the assurance process made in 2006-07 as follows:

- Issuing the Annual Circularisation Certificates through the Department of Health Gateway, on a letter jointly signed by the NHSBSA and DH Directors of Finance, ensuring that these are recognised by Employers as compulsory returns.
- NHSBSA Internal Audit have 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.

### **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.

During 2008-09 the Scheme will review all cases where benefits have been paid late since April 2000 and intends to make good the missing interest payments. Estimated costs of £25 million have been accrued in 2007-08.

### **Overcharging of employer funded early retirements**

When an employer approves the early retirement of one of its employees who is a member of the Scheme they are responsible for the costs of the pension up to the normal retirement date of the member. The pension cost consists of actuarially reduced benefits and a compensatory amount where the reason for the early retirement was redundancy. The employer is charged in full for these costs on a quarterly basis, until the member reaches normal retirement age at which time only the compensatory element is rechargeable.

At the end of 2007-08 the Authority has identified a number of cases where following the attainment of normal retirement age by the member, the charging system has failed to reduce the amount charged to the employer. An investigation has identified 199 cases out of an estimated caseload over the period of in excess of 50,000 cases, with a total overcharge of £9.6 million. The Authority has identified all cases affected, the cause of the failure, and implemented an action plan to ensure that employers are reimbursed for overcharged amounts and

that future invoicing is accurate.

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

**Nick Scholte**  
**Chief Executive, NHS Business Services Authority**  
**16 January 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 the National Health Service Pension Scheme and National Health Service Compensation for Premature Retirement Scheme for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Combined Revenue Account, the Statement of Recognised Gains and Losses, the Combined Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

**Respective responsibilities of the Accounting Officer and auditor**

The Accounting Officer is responsible for preparing the Report of the Manager 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. The Report of the Actuary is the responsibility of the Schemes' actuary.

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 the 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. I also report to you if, in my opinion, the Report of the Manager is not consistent with the financial statements, if the Report of the Manager is not consistent with the Report of the Actuary, if the Schemes have 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 relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Schemes' 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 Schemes' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Report of the Manager and the Report of the Actuary and consider whether it is consistent with the audited financial statements. I consider the implications for my report 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 opinion**

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 Schemes' circumstances, consistently applied and adequately disclosed.

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

**Opinions**

**Audit Opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Schemes' affairs as at 31 March 2008, and the net cash requirement, net resource outturn, recognised gains and losses and cashflows for the year then ended; and
- the financial statements have been properly prepared in accordance with the HM Treasury directions issued under the Government Resources and Accounts Act 2000.

**Audit Opinion on Regularity**

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

**Emphasis of matter: Scheme Liabilities**

- As described in note 21.1 to the accounts (page 37), the valuation of the Schemes' future pension liabilities requires the application of uprating factors to obtain a reliable estimate of the liability in respect of that percentage of total members whose records have not been updated and so are not suitable to be used as the basis for a pensions estimate. The data used to calculate the liability was based on the 75% of member records that were updated. The Actuary seeks assurances from the Scheme that the factors applied to the remaining 25% of members are valid but scheme managers have been unable to provide this assurance. Any resulting misstatement of liabilities is unlikely to be material and I have therefore not qualified my opinion but draw this to your attention.
- My report on pages 20-22 provides more information on this Emphasis of Matter and the improvements made in relation to completeness of contributions income which previously was reported as a further emphasis of matter.

T J Burr  
Comptroller and Auditor General  
23 January 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

**Report of the Comptroller and Auditor General on the NHS Pension Scheme and NHS  
Compensation for Premature Retirement Scheme Resource Accounts 2007-08**

**Executive Summary**

- My report on the 2006-07 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 and the controls over contributions paid over by employing authorities. I did not qualify my opinion in these respects but drew your attention to these matters.
- This report details the actions taken to reduce these uncertainties during 2007-08 by the NHS Business Services Authority as the Scheme manager. The Authority has responded positively to the 2006-07 report to actively address the controls over contribution income and I have been able to remove my previous reference to this from my certificate. However some uncertainties remain in respect of the valuation of liabilities and although I have not qualified my opinion I again draw your attention to this matter.

**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 2008 the employing organisations of members of the NHS Pension Scheme comprised 462 NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,452 GP practices and 374 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 (page 26) shows a liability of £212.5 billion at 31 March 2008 compared to £218 billion at 31 March 2007. At 31 March 2006 the liability stood at £165.4 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 (page 25) shows that 2007-08 contribution income totalled £6.9 billion. Payment of pensions are shown as a movement on the Scheme liability provision in note 21.2 to the accounts (page 39) and totalled £4.9 billion in 2007-08 leaving £2.0 billion due to be paid over to the Consolidated Fund.
5. Whilst positive action has been taken by management to address some of the issues raised in my 2006-07 report, remaining uncertainties exist in the arrangements for validating the assumptions on which the Scheme's future pension liabilities are based. I provide full details of the issues in paragraphs 6 to 10. However additional work undertaken by NHS BSA in confirming completeness of contribution income has provided sufficient assurance that I no longer need to report on this as an emphasis of matter in my certificate. Details are provided in paragraphs 11 to 13.

**Valuation of the Scheme's long term liabilities**

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 (prior to 2004 a full funding valuation took place every five years) in order to determine the contributions members and employers should make to the Scheme. The 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.
8. 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.
9. 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 up to date membership data. At 31 March 2006 only 75 per cent of member records had been updated ie were suitable for a pensions estimate to be completed using information up to 31 March 2004. Within this overall total there are some membership groups where the updating is much lower. These percentages are significantly worse than for the other major public sector pension schemes.
10. In valuing the future pension liabilities of Scheme members 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. However, the Scheme manager has not been able to provide for 2007-08 confirmation that the characteristics of the 25% of records not suitable for a pensions estimate were consistent with the other 75% of records. The Scheme manager had hoped to provide this but due to data retrieval problems this was not possible. As in previous years the Scheme managers believe that this deficiency does not materially affect the overall Scheme liability at 31 March 2008. Furthermore the Scheme managers have carried out a full validation of the uprating factors applied in the valuation at 31 March 2008 . Any resulting misstatement of liabilities is unlikely to be material and I have therefore not qualified my opinion but draw this to your attention.

### **Completeness of Contribution Income**

11. The Scheme collects on a monthly basis employee and employer contributions from each employing authority and GP practice. Each year the Scheme:
  - provides GP practices with a statement of contributions made seeking confirmation of the accuracy of this; and
  - circularises employing authorities at each year-end to confirm contributions receivable to salary payments.
12. To improve the links between Employing Authorities' Annual Accounts and these contribution statements, they are countersigned by Directors of Finance and for NHS Employing Authorities a requirement was introduced in 2006-07 that the Authorities' Statement on Internal Control included reference to the correct application of Pension Scheme Regulations by the Employing Authority. The



NHS Business Services Authority also introduced a more rigorous process of review undertaking a detailed review of those Authorities where there was a discrepancy between the contribution statement and income actually received. This exercise is now conducted to significantly tighter tolerances than in previous years.

13. In 2007-08 a further significant step was implemented. The assurance certificates were attached to a covering letter which highlighted that an independent review would be undertaken of a sample of contribution assurance statements. Subsequently an exercise was undertaken by NHS BSA Internal Audit (subject to NAO review) which provided assurance that actual contribution receipts were reconciled to underlying payroll records or that reconciliation differences could be adequately explained. The outcome of this exercise has provided sufficient assurance that I no longer need to draw your attention to this matter in my certificate.

### **Future Plans**

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, as detailed in the Statement on Internal Control on pages 13 to 17.

### *Valuation of Liabilities*

15. The NHS Business Services Authority recognises the need to increase the percentage of membership data which is up to date and hence included within future valuations. As a pre cursor to the 'choice' exercise required as a result of the implementation of the new scheme, a data governance project has been implemented. This is focused on cleansing existing errors and preventing new errors being accepted via implementing a more robust governance framework around data acceptance and input. This is intended to reduce the need for extrapolation and rating up. While previous initiatives proposed for 2007-08 have not been implemented due to focus on other operational priorities, GAD was provided with scheme membership data as at 31 March 2006 to enable a revaluation to be undertaken of the scheme liability for 2007-08.

T J Burr  
Comptroller and Auditor General  
23 January 2009

National Audit Office  
151 Buckingham Palace Road  
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London SW1W 9SS

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

**Resource Accounts 2007-08**

**Statement of Parliamentary Supply  
Summary of Resource Outturn 2007-08**

Request for Resources	Note	Estimate £000's			Outturn £000's			2007-08 £000s Outturn	2006-07 £000s 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		21,850,884	(7,546,100)	14,304,784	17,420,000	(7,245,584)	10,174,416	4,130,368	62,881
<b>Total resources</b>	<b>4</b>	<b>21,850,884</b>	<b>(7,546,100)</b>	<b>14,304,784</b>	<b>17,420,000</b>	<b>(7,245,584)</b>	<b>10,174,416</b>	<b>4,130,368</b>	<b>62,881</b>

**Summary of net cash requirement 2007-08**

Note	Estimate	Outturn	2007-08 £000s	2006-07 £000s
			Net Total outturn compared with Estimate: Saving/(excess)	Outturn
<b>Net cash requirement</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>1</b>

**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 21.3 and 21.4, 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	Income	2007-08 Forecast £000	2007-08 Outturn £000
			Receipts	Income
Excess cash receipts surrendered to the Consolidated Fund collected in 2007-08			2,664,245	2,148,811
<b>Total</b>	<b>6</b>	<b>-</b>	<b>2,664,245</b>	<b>2,148,811</b>

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

**Income**

- i. Contributions – When the budget was set in February 2007, contributions income was based on a Department of Health (DH) estimate of NHS paybill growth of 7% as this was the only data source available at the time. The actual growth realised by the scheme was 2.5% resulting in a shortfall on income of £327 million (4.5% of the contributions budget).
- ii. Transfers In – The amount was less than forecast by £14 million (11.6% of transfer in budget). The continuing downward trend of transfer activity was again supported by the outturn for 2007-08. It is assumed that this is due to the reduction in movement of staff into the NHS due to local decisions on staff recruitment, and outsourcing of services to the independent sector.
- iii. Premature Retirements Prefunded by the employer – The amount was greater than forecast by £48 million (32.3% of prefunded premature retirement budget). The estimate provided for the continued effect of the restructuring of Primary Care Trusts and Strategic Health Authorities that commenced in 2006-07. The increased receipts may have also arisen due to employers fulfilling cost reduction programs, although no specific data is available to support this.
- iv. Premature Retirements Recharged to the employer – The amount was less than forecast by £7 million (10.3% of the recharge budget) . There has been a trend in recent years where employers chose to pay off their costs by way of a single capital value rather than on an ongoing basis.

**Expenditure**

- i. Interest – The amount was less than forecast by £51 million (0.5% of interest budget). This is attributable to the estimate of the interest charge on the movement in year of the Scheme liability.
- ii. Pension cost
  - a. Current Service Cost – The amount was £544 million (4.9% of current service cost budget) less than forecast. The employer contribution income figure is used to estimate the pensionable payroll figure on which the Current Service Cost is calculated. As the outturn figure from employer contributions was lower than forecast, there was a direct impact on the calculation of the current service cost.
  - b. Past Service Cost – No provision was made within the estimate for the impact of past service cost, that the Scheme Actuary has estimated to be £3.85 billion. This reduction arises from the impact of the revised NHSPS arrangements from 1 April 2008 for existing members, particularly the introduction of a cash commutation of pension on retirement, in addition to the fixed lump sum.
- iii. Enhancements (added years) – The amount was less than forecast by £19 million (9.1% of enhancement budget). The added year figure is derived from a calculation based on employee contribution income. As the outturn figure for employee contributions was lower than forecast, there was a direct impact on the calculation of added years.
- 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 2007-08**

**Combined Revenue Account  
for the year ended 31 March 2008**

		2007-08	2006-07
	Note	£000	£000
<b>Income</b>			
Contributions receivable	8	(6,873,823)	(6,706,920)
Special contributions - Prefunded premature retirement contributions	8	(198,567)	(162,578)
Other income - Premature retirement benefits paid and subsequently recharged to the employer	8	(62,732)	(64,742)
Transfers in	9	(110,462)	(109,635)
		<u>(7,245,584)</u>	<u>(7,043,875)</u>
<b>Outgoings</b>			
Pension Cost – Current service cost	10	10,600,000	7,840,000
Pension Cost – Past service cost	10	(3,850,000)	-
Enhancements	11	190,971	177,787
Transfers in	12	110,462	109,635
Prefunded premature retirements	13	198,567	162,578
Interest on Scheme liabilities	14	10,170,000	8,980,000
		<u>17,420,000</u>	<u>17,270,000</u>
<b>Net outgoings for the year</b>		<b>10,174,416</b>	<b>10,226,125</b>

**Statement of Recognised Gains and Losses for the year  
ended 31 March 2008**

Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	18	(70,747)	13,630
Actuarial loss/(gain) on Pension Scheme Liabilities	21.5	(17,822,990)	39,791,791
<b>Total recognised losses for the financial year</b>		<u>(17,893,737)</u>	<u>39,805,421</u>

The notes on pages 28 to 43 form part of these accounts.

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

**Resource Accounts 2007-08**

**Combined Balance Sheet  
as at 31 March 2008**

	<u>Note</u>	<u>2007-08</u> <u>£000s</u>	<u>2006-07</u> <u>£000s</u>
<b>Current Assets and Liabilities</b>			
Debtors	16a	391,849	447,331
Prepayments - Prepaid pension benefits	17	-	41,922
Cash at bank and in hand	19	813,091	711,915
		<u>1,204,940</u>	<u>1,201,168</u>
Creditors (amounts falling due within one year)		<u>(1,204,940)</u>	<u>(1,201,168)</u>
<b>Net current assets, excluding pension liability</b>		-	-
<b>Estimated discounted future cash flows in respect of early retirement recharges</b>	18	<u>887,153</u>	<u>816,406</u>
		<b>887,153</b>	<b>816,406</b>
<b>Provisions for liabilities and charges:</b>			
Pension Scheme Liability	21.2	<u>(212,500,000)</u>	<u>(218,000,000)</u>
<b>Total net liabilities, including pension liabilities</b>		<u>(211,612,847)</u>	<u>(217,183,594)</u>
<b>Taxpayers' equity:</b>			
General fund	22	<u>(211,612,847)</u>	<u>(217,183,594)</u>
		<u>(211,612,847)</u>	<u>(217,183,594)</u>

**Nick Scholte**  
**Chief Executive, NHS Business Services Authority**  
**16 January 2009**

The notes on pages 28 to 43 form part of these accounts.

**Cash Flow Statement  
For the year ended 31 March 2008**

		<u>2007-08</u>	<u>2006-07</u>
	<u>Note</u>	<u>£000s</u>	<u>£000s</u>
Net cash inflow from operating activities	23a	2,359,147	2,706,311
Payments of amounts due to the Consolidated Fund	26	(2,257,971)	(2,994,166)
Amounts not classified to be appropriated in aid, due to the Consolidated Fund		-	604
<b>Increase/(decrease) in cash in the period</b>		<u><b>101,176</b></u>	<u><b>(287,251)</b></u>

The notes on pages 28 to 43 form part of these accounts.

Notes to the Scheme Statements for the year ended 31 March 2008

**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 (FRm) for 2007-08 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.
- 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**

- 2.1 *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 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.

*2.2 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 1.80% (2006-07: 2.80%) real (i.e. 4.60% including inflation [2006-07: 5.37%]). 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 1.80% (2006-07: 2.80%) real (i.e. 4.60% including inflation [2006-07: 5.37%]).

*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 2.50% (2006-07: 1.80%) real (i.e. 5.32% including inflation [2006-07: 4.60%]).

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 2007-08 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 2.1b). 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**

			2007-08 £000	2006-07 £000
	Note	Supply Estimate £000	Outturn £000	Outturn compared with Estimate
Net Resource Outturn		14,304,784	10,174,416	4,130,368
<b>Net Outgoings</b>		<u>14,304,784</u>	<u>10,174,416</u>	<u>4,130,368</u>

**5. Reconciliation of resources to cash requirement**

	Note	Supply Estimate £000	Outturn £000	Net total outturn compared with estimate: Savings/(excess) £000
Net Resource Outturn	4	14,304,784	10,174,416	4,130,368
Accruals adjustments				
Non-cash items	24	(21,850,884)	(17,420,000)	(4,430,884)
Movement in Consolidated Fund creditor	20a	-	(109,160)	109,160
Use of pension provision	21.3 / 21.4	4,881,856	5,097,010	(215,154)
Excess cash receipts surrendered to the Consolidated Fund	26	2,664,245	2,257,734	406,511
<b>Net cash requirement</b>		<u>1</u>	<u>-</u>	<u>1</u>

**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 2007-08 £000		Outturn 2007-08 £000	
		Income	Receipts	Income	Receipts
Excess cash receipts to be surrendered to the Consolidated Fund collected in 2007-08		-	<i>2,664,245</i>	2,148,811	<i>2,359,147</i>
<b>Total income payable to the Consolidated Fund</b>		<u>-</u>	<u><i>2,664,245</i></u>	<u>2,148,811</u>	<u><i>2,359,147</i></u>

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

	2007-08 £000s	2006-07 £000s
Operating Income	(7,245,584)	(7,043,875)
Gross income	<u>(7,245,584)</u>	<u>(7,043,875)</u>
Income authorised to be appropriated-in-aid	<u>7,245,584</u>	<u>7,043,875</u>
	<u>-</u>	<u>-</u>

**8. Pension Contributions receivable**

	<b>2007-08</b> £000s	<b>2006-07</b> £000s
Employers		
Standard	(4,686,588 )	(4,579,685 )
Pre-funded premature retirement costs	(198,567 )	(162,578 )
Re-chargeable premature retirement costs	(62,732 )	(64,742 )
Employees		
Standard (including Added Years)	(2,187,235 )	(2,127,235 )
	<u><b>(7,135,122 )</b></u>	<u><b>(6,934,240 )</b></u>

**9. Pension transfers in (see also note 12)**

	<b>2007-08</b> £000s	<b>2006-07</b> £000s
Individual transfers in from other schemes	(89,931 )	(109,007 )
Group transfers in from other schemes	(20,531 )	(628 )
	<u><b>(110,462 )</b></u>	<u><b>(109,635 )</b></u>

**10. Pension Cost**

	<b>2007-08</b> £000s	<b>2006-07</b> £000s
Current service cost	10,600,000	7,840,000
Past service cost	(3,850,000 )	-
	<u><b>6,750,000</b></u>	<u><b>7,840,000</b></u>

**11. Enhancements**

	<b>2007-08</b> £000s	<b>2006-07</b> £000s
Enhancements	190,971	177,787
	<u><b>190,971</b></u>	<u><b>177,787</b></u>

**12. Pension transfers in (see also note 9)**

	<b>2007-08</b> £000s	<b>2006-07</b> £000s
Pension transfers in	110,462	109,635
	<u><b>110,462</b></u>	<u><b>109,635</b></u>

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

	<b>2007-08</b> £000s	<b>2006-07</b> £000s
Prefunded premature retirement contributions	198,567	162,578
	<u><b>198,567</b></u>	<u><b>162,578</b></u>

**14. Interest on Scheme liabilities**

	<b>2007-08</b> £000s	<b>2006-07</b> £000s
Interest charge for the year	10,170,000	8,980,000
	<u><b>10,170,000</b></u>	<u><b>8,980,000</b></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:

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
<b>The Equitable Life Assurance Society (ELAS)</b>		
Movements in the year were as follows:		
Balance at 6 April	121,582	121,484
New investments	2,216	2,574
Sale of investments to provide pension benefits	(7,500)	(8,778)
Changes in market value of investments	1,112	6,302
	<u>117,410</u>	<u>121,582</u>
	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
<b>Standard Life Assurance Company</b>		
Movements in the year were as follows:		
Balance at 6 April	107,014	96,404
New investments	5,701	6,634
Sale of investments to provide pension benefits	(6,404)	(5,034)
Changes in market value of investments	(785)	9,010
	<u>105,526</u>	<u>107,014</u>
	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
<b>Prudential Plc</b>		
Movements in the year were as follows:		
Balance at 1 April	40,427	37,347
New investments (see note)	4,221	33,997
Sale of investments to provide pension benefits and switches to new funds (see note)	(3,921)	(32,061)
Changes in market value of investments	(697)	1,144
	<u>40,030</u>	<u>40,427</u>

Note - the reason for the high level of new investments and for the high level of sale of investments in 2006-07 is that Prudential restructured their funds as a result of the following:

- the introduction of the Forward Pricing method of valuing funds rather than the Previous Day Pricing method; and
- a reduction in the number of duplicated funds which previously existed, for example as a result of the acquisition of other companies.

These changes have resulted in a consistent method of pricing across all funds. There was no cost or charge to investors as a result of these changes.

**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 19<sup>th</sup> 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. Recovery will not be sought for these overpayments.

<b>Amounts due within One Year</b>	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
Employer Contributions	252,682	275,104
Employee Contributions	119,008	127,816
Invoiced pre-funded premature retirement contributions	5,978	28,284
Invoiced re-chargeable premature retirement contributions	14,181	16,127
Overpaid pensions relating to incorrect application of GMP	75,169	-
	<u>467,018</u>	<u>447,331</u>
Less non recovery of overpaid pensions relating to incorrect application of GMP	(75,169)	-
<b>Total due within one year</b>	<u><b>391,849</b></u>	<u><b>447,331</b></u>
Un-invoiced future instalments due from NHS employers	7,577	10,819

Included within these figures is £75,245,870.34 (2006-07: £285,582,111.01) that will be due to the Consolidated Fund once the debts are collected.

**16b. Intra-Government Balances**

	<b>Amounts falling due within one year 2007-08</b>	<b>Amounts falling due within one year 2006-07</b>	<b>Amounts falling due after more than one year 2007-08</b>	<b>Amounts falling due after more than one year 2006-07</b>
Balances with other central government bodies	68,789	138,699	-	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	142,485	226,131	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	180,575	82,501	-	-
<b>At 31 March</b>	<u><b>391,849</b></u>	<u><b>447,331</b></u>	<u>-</u>	<u>-</u>

**17. Prepayments - Prepaid Pension Benefits**

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
Prepaid pension benefits	-	41,922
<b>Total</b>	<u>-</u>	<u>41,922</u>

**18. 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.

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.

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
Balance c/f 1 April	816,406	830,036
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	70,747	(13,630)
<b>Balance at 31 March</b>	<u>887,153</u>	<u>816,406</u>

**19. Cash at bank and in hand**

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
Balance at 1 April	711,915	999,166
Net change in cash balances	101,176	(287,251)
<b>Balance at 31 March</b>	<u>813,091</u>	<u>711,915</u>
The following balances at 31 March were held at:		
Office of HM Paymaster General	807,841	705,061
Commercial banks and cash in hand	5,250	6,854
<b>Balance at 31 March</b>	<u>813,091</u>	<u>711,915</u>

## 20. Creditors - in respect of pensions

### 20a. Analysis by type

	2007-08 £000s	2006-07 £000s
<b>Amounts falling due within one year</b>		
Pensions	(265,694 )	(152,360 )
HM Revenue & Customs	(44,471 )	(40,551 )
Voluntary deductions	(183 )	(213 )
Amounts due to Employers: Initial Widows Claims	(163 )	(447 )
Employee and employer contributions	(5,224 )	(5,218 )
Prefunded premature retirements	(840 )	(4,814 )
Rechargeable premature retirements	(28 )	(68 )
	<u>(316,603 )</u>	<u>(203,671 )</u>
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	(813,091 )	(711,915 )
Receivable	(75,246 )	(285,582 )
	<u>(888,337 )</u>	<u>(997,497 )</u>
	<u><b>(1,204,940 )</b></u>	<u><b>(1,201,168 )</b></u>

### 20b. Intra-Government Balances

	Amounts falling due within one year 2007-08	Amounts falling due within one year 2006-07	Amounts falling due after more than one year 2007-08	Amounts falling due after more than one year 2006-07
Balances with other central government bodies	(1,008,581 )	(1,042,880 )	-	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	(5,110 )	(5,349 )	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	(191,249 )	(152,939 )	-	-
<b>At 31 March</b>	<u><b>(1,204,940 )</b></u>	<u><b>(1,201,168 )</b></u>	<u>-</u>	<u>-</u>

## 21. Provision for pension liability

### 21.1 Assumptions underpinning the provision for pension liability

**21.1.1** 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 2008. The Report of the Actuary on pages 10 and 11 sets out the scope, methodology and results of the work the actuary has carried out.

**21.1.2** 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 provided was based upon 75% of all members 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<sup>st</sup> March 2006, and the results rolled forward to 31<sup>st</sup> March 2008 to estimate the position at that date.

**21.1.3** The major assumptions used by the actuary were:

<b>At 31 March</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Rate of increase in salaries (pa)	4.29%	4.29%	4.04%	4.04%	4.04%
Inflation assumption (pa)	2.75%	2.75%	2.50%	2.50%	2.50%
Life expectancy in years (note 1)					
Current pensioners					
Males (age 60)	27.4	25.0	24.9	23.9	22.8
Males (age 65)	22.8	20.4	20.3	19.3	18.4
Females (age 60)	30.1	28.0	27.9	26.9	25.8
Females (age 65)	25.5	23.4	23.3	22.3	21.3
Future pensioners					
Males (age 60)	30.1	27.0	27.0	26.0	24.4
Males (age 65)	25.5	22.3	22.2	21.2	19.8
Females (age 60)	33.2	30.0	29.9	28.9	27.4
Females (age 65)	28.6	25.2	25.1	24.2	22.8
Discount rate (pa)	5.32%	4.60%	5.37%	6.09%	6.09%
Discount rate net of inflation (pa)	2.50%	1.80%	2.80%	3.50%	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.

**21.1.4** 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	2008	2007	2006	2005	2004
Active members (past service)	128.7	144.7	106.8	80.1	63.2
Deferred Pensions	22.5	18.6	13.7	10.6	8.5
Pensions in payment	60.7	54.7	44.9	37.2	32.5
<b>Total liability</b>	<b>212.5</b>	<b>218.0</b>	<b>165.4</b>	<b>127.9</b>	<b>104.2</b>

**21.2 Analysis of movement in scheme liability**

	Note	2007-08 £000s	2006-07 £000s
Scheme liability at 1 April		<u>(218,000,000)</u>	<u>(165,400,000)</u>
Pension cost - Current service cost	10	(10,600,000)	(7,840,000)
Pension cost - Past service cost	10	3,850,000	-
Enhancements	11	(190,971)	(177,787)
Transfers in	12	(110,462)	(109,635)
Prefunded premature retirements	8	(198,567)	(162,578)
Interest on pension scheme liability	14	(10,170,000)	(8,980,000)
Benefits payable	21.3	4,898,735	4,294,797
Pension payments to and on account of leavers	21.4	198,275	166,994
Actuarial gain/(loss)	21.5	17,822,990	(39,791,791)
<b>Scheme liability at 31 March</b>		<u><b>(212,500,000)</b></u>	<u><b>(218,000,000)</b></u>

Within the closing Scheme liability it is estimated by the GAD that there is £2 billion that relates to employer funded enhanced premature retirement costs, which equates to less than 1% of the total Scheme liability.

During the year ended March 2008, contributions represented an average of 19.95% 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 2007-08 was 31.7% (2006-07 24.0%).

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 £3.85bn in Scheme liability based on an assumption that members will take on average half the extra lump sum they are entitled to take.

### 21.3 Analysis of benefits paid

	2007-08 £000s	2006-07 £000s
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	3,890,955	3,481,162
Commutations and lump sum benefits on retirement	1,007,780	813,635
<b>Per cash flow statement</b>	<b>4,898,735</b>	<b>4,294,797</b>

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

	2007-08 £000s	2006-07 £000s
Refunds to members leaving service	18,166	25,650
Group transfers to other schemes	1,479	2,874
Payment to State Scheme	3,626	4,261
Individual transfers to other schemes	175,004	134,209
<b>Per cash flow statement</b>	<b>198,275</b>	<b>166,994</b>

### 21.5 Analysis of actuarial losses

	2007-08 £000s	2006-07 £000s
Experience gains/(losses) arising on the scheme liabilities	252,990	808,209
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	30,020,000	(40,600,000)
<b>Per Statement of Recognised Gains and Losses</b>	<b>17,822,990</b>	<b>(39,791,791)</b>

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

### 21.6 History of Experienced losses

	2007-08 £000s	2006-07 £000s	2005-06 £000s	2004-05 £000s	2003-04 £000s
<b>Experience and losses on the scheme liabilities:</b>					
Amount	252,990	808,209	-	(13,598,832)	(1,445,137)
Percentage of the present value of the scheme liabilities	0.12%	0.37%	-	10.4%	1.4%
<b>Total amount recognised in Statement of Recognised Gains and (Losses)</b>					
Amount	17,822,990	(39,791,791)	(3,968,315)	(17,598,832)	(1,445,137)
Percentage of the present value of the scheme liabilities	8.41%	18.25%	2.4%	13.4%	1.4%

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

**Resource Accounts 2007-08**

**22. General Fund**

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
<b>Balance at 1 April</b>	<b><u>(217,183,594)</u></b>	<b><u>(164,569,964)</u></b>
Net Parliamentary Funding	-	-
Net Transfer from Operating Activities		
Combined Net Outgoings	(10,174,416)	(10,226,125)
CFERS repayable to the Consolidated Fund	(888,337)	(996,893)
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	70,747	(13,630)
Payment to the Consolidated Fund	(1,260,237)	(1,585,191)
Actuarial gains and losses (SRGL)	17,822,990	(39,791,791)
<b>Balance at 31 March</b>	<b><u>(211,612,847)</u></b>	<b><u>(217,183,594)</u></b>

**23. Notes to the Cash Flow Statement**

**23a. Reconciliation of net outgoings to operating cash flows**

	<b>Note</b>	<b>2007-08</b>	<b>2006-07</b>
		£000s	£000s
Net outgoings for the year		(10,174,416)	(10,226,125)
Amounts received and paid in year to the Consolidated Fund relating to a prior year		237	-
Adjustments for non-cash transactions:			
Movement in working capital other than cash	25	210,336	124,227
Increase in pension provision	24	17,420,000	17,270,000
Use of provisions – pension liability	21.3	(4,898,735)	(4,294,797)
Use of provisions – refunds and transfers	21.4	(198,275)	(166,994)
<b>Net cash inflow from operating activities</b>		<b><u>2,359,147</u></b>	<b><u>2,706,311</u></b>

**23b. Reconciliation of Net Cash Requirement to increase/(decrease) in cash**

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
Net cash requirement	-	-
From the Consolidated Fund – current year	-	-
Due to the Consolidated Fund – received in a prior year and paid over	(711,915)	(999,166)
Amounts due to the Consolidated fund received and not paid	813,091	711,915
<b>Increase/(decrease) in cash</b>	<b><u>101,176</u></b>	<b><u>(287,251)</u></b>

**24. Non-cash items**

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
Increase in pension provision:		
Pension cost - current service cost	10,600,000	7,840,000
Pension cost - past service cost	(3,850,000)	-
Enhancements	190,971	177,787
Transfers	110,462	109,635
Prefunded premature retirements	198,567	162,578
Interest on pension scheme liability	10,170,000	8,980,000
	<b><u>17,420,000</u></b>	<b><u>17,270,000</u></b>

**25. Movements in working capital, other than cash**

	<b>2007-08</b>	<b>2006-07</b>
	£000s	£000s
Movement in debtors – Pension contributions	55,482	66,869
Movement in creditors – falling due within 12 months - Pensions	112,932	43,090
Movement in prepaid pension benefits	41,922	14,268
	<b><u>210,336</u></b>	<b><u>124,227</u></b>

**26. Payments to the Consolidated Fund**

	Note	2007-08 £000s	2006-07 £000s
Payments of amounts due to the:			
Consolidated Fund – Realisation of prior year net debtors and creditors		285,582	409,809
Consolidated Fund – Surplus cash relating to current year Supply		1,260,237	1,585,191
Surplus cash surrendered to the:			
Consolidated Fund relating to the prior year		711,311	999,166
Consolidated Fund excess receipts not classified to be appropriated in aid relating to prior years paid to the Consolidated Fund		604	-
		<u>2,257,734</u>	<u>2,994,166</u>
Amounts not classified to be Appropriated in Aid, due to the Consolidated Fund		-	604
Amounts not classified to be Appropriated in Aid, paid to the Consolidated Fund in year		237	-
		<u>2,257,971</u>	<u>2,994,770</u>

**27. Contingent liabilities disclosed under FRS 12**

**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 2008, which are disclosed at note 15. The scheme does not however guarantee pension payments from the other free-standing AVC providers.

**28. Losses**

During the year, losses arose in 5,535 cases as a result of overpaid pension scheme benefits (2006-07: 7,162 cases). The total loss was £745,321 (2006-07: £684,543). These figures include write-offs in respect of the cases highlighted in the review of the year, and all relate to claims abandoned.

**29. Financial Instruments**

FRS13 *Derivatives and Other Financial Instruments* 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 FRS13 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 Department of Health, 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), 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**

#### **Changes to the Pension Scheme**

On 21 September 2007, it was announced that final agreement had been reached on changes to the NHS Pension Scheme to deliver a Scheme that meets the needs of a modern NHS and its staff, and is sustainable in the longer term. The key changes are as follows:

- There will be two sections within the Scheme – updated arrangements are being introduced for existing members and new arrangements for new members.
- Both sections will come into effect on 1 April 2008 – active members of the Scheme will automatically move to the updated existing arrangements, with a one-off choice to move to the new arrangements, currently planned for 1 July 2009 to 30 June 2010.
- The updated existing arrangements are still a final salary scheme with the same Normal Pension Age (NPA) of age 60 years (55 for special classes), but with new benefits like the option to take more pension as a tax free lump sum.
- The section for new members is a final salary Scheme with an NPA of 65 and more flexibilities particularly in the run-up to retirement, like the option for staff to step down to a less demanding role and take part of their pension.
- Both sections will have identical, new tiered contribution rates. Individual rates will be directly linked to individual earnings for a fairer way to fund new benefits and future costs.

#### **GP Dynamisation factors and Guaranteed Minimum Pension**

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

- The impact of the post year end change in GP Dynamisation factors has been fully recognised in these accounts
- 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.

#### **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 23 January 2009.

Printed in the UK by The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office  
ID6044476 03/09

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