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# *NHS Pension Scheme*

(Incorporating the NHS Compensation for Premature Retirement Scheme)

## **Accounts**

### **2014-15**

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

Ordered by the House of Commons to be printed 21 July 2015

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This publication is available at <https://www.gov.uk/government/publications>

Print ISBN 9781474123297

Web ISBN 9781474123303

ID 07071508 07/15

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

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## **1. REPORT OF THE MANAGERS**

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

## **2. BACKGROUND TO THE SCHEME**

### **2.1 Statutory basis for the Scheme**

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

Scheme provisions are governed by the following sets of Regulations:

- The NHS Pensions Scheme Regulations 1995, 2008 and 2015, as amended;
- The NHS (Compensation for Premature Retirement) Regulations 2002 (as amended);
- The Pensions (Increase) Act 1971;
- NHS Additional Voluntary Contributions (AVC) Regulations; and
- NHS Gratuitous Expectations Regulations (as amended).

On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. Most members of the Pension Scheme prior to 1 April 2008 are in the 1995 Section. New joiners on, or after, 1 April 2008 are members of the 2008 section. The changes introduced new rules for NHS employees joining from 1 April 2008 and modified the rules for those already in the pension scheme prior to this date.

On 1 April 2015 a new Career Average Revalued Earnings Scheme (CARE) was introduced and the existing Scheme (comprising the 1995 and 2008 sections) was closed from that date. New joiners on, or after, 1 April 2015 will enter the 2015 Scheme. There are a number of members who will keep their benefits in the existing scheme until they chose to retire. Further details are provided at note 6.1 below.

(Further details of these changes can be found on the NHS Pensions website <http://www.nhsbsa.nhs.uk/pensions>).

### **2.2 Eligibility to join the Scheme**

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

As at 31 March 2015 there were 9,168 participating employers:

129 NHS Trusts and Local Health Boards\*  
151 Foundation Trusts  
7,840 GP Practices  
15 Arms length bodies  
546 Direction Bodies  
226 Clinical Commissioning Groups and Support Units  
142 Local Authorities – PHT from 1<sup>st</sup> April 2013  
89 New Fair Deal  
30 Independent Providers

\*Local Health Boards are only applicable in Wales

### **2.3 Main features of the Scheme**

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

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

### **2.4 Annual Pensions**

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

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

### **2.5 Lump Sum Allowance**

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

## **2.6 Pensions Indexation**

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

## **2.7 Ill-Health Retirement**

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

## **2.8 Death Benefits**

For members who die in service a lump sum is payable of twice annual pensionable pay, or average uprated earnings for practitioners. For members who die after retirement an amount is payable which is the lesser of 5 times annual pension less pension already paid, or twice reckonable pay less any retirement lump sum taken. Other death benefits are also payable for members who have a deferred pension.

## **2.9 Added Years and Additional Pension purchase**

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

## **2.10 Transfer between funds**

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

## **2.11 Preserved benefits**

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

## **2.12 Compensation for early retirement**

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

## **3. MANAGEMENT OF THE SCHEME**

### **3.1 Organisations responsible for managing the Scheme**

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

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

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

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

### 3.2 Corporate governance of the Scheme

The governance arrangements of the NHSBSA, who are responsible for the administration of the Scheme, can be found in the Governance Statement on pages 24 to 37.

### 3.3 Arrangements governing determination of contribution rates and benefits

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

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

## 4. KEY DEVELOPMENTS IN YEAR

### 4.1 Changes to scheme contribution rates

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

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

#### Scheme Year 2014-2015

<i>Pensionable Pay band applicable</i>	<i>Contribution percentage rate (comparable rate for 2013-14 tier level in brackets)</i>	
Tier 1 Up to £15,431.99	5.0%	(5.0%)
Tier 2 £15,432.00 to £21,477.99	5.6%	(5.3%)
Tier 3 £21,478.00 to £26,823.99	7.1%	(6.8%)
Tier 4 £26,824.00 to £49,472.99	9.3%	(9.0%)
Tier 5 £49,473.00 to £70,630.99	12.5%	(11.3%)
Tier 6 £70,631.00 to £111,376.99	13.5%	(12.3%)
Tier 7 £111,377.00 to any higher amount	14.5%	(13.3%)

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

## 4.2 Changes in benefits

There have been no changes to benefits during 2014-15.

## 4.3 Data Quality

### 4.3.1 DataSure project

In November 2013 NHSBSA commenced data cleanse activities in readiness for the migration of data from the Penserver system to a new pensions processing system, Compendia, from April 2015. To enable this exercise, NHSBSA implemented DataSure, an Equiniti product to test data.

The objectives of the DataSure exercise were to:

- Identify and report data issues that may impact migration to the Compendia database during the 2015 Scheme Implementation project;
- Provide a baseline and measure improvements to data quality both pre and post Compendia migration;
- Provide data quality information and management information to maintain data integrity and support business activities going forward;
- Report on the quality of data based on The Pension Regulator's (TPR) recommended data standards for record keeping for occupational pension schemes.

Key activities undertaken:

- Agreed a library of data tests – 196 “vanilla” tests (existing DataSure tests) and 683 bespoke tests for development both pre and post Compendia, dependant on criticality;
- Build tests and provision of test results;
- Tests results checked and validated to ensure tests working correctly;
- Prioritisation of data cleanse activities, based on criticality to successful migration and impact on business activities;
- Training and support of 25 temporary staff to clear DataSure identified issues.

In June 2014 DataSure test results identified 5.5 million out of a total of 179 million data fields/data rows for completion or correction.

Reasons for this were:

- Incorrect, corrupt or incomplete fields;
- Null mandatory fields – Penserver compliant but not allowable in Compendia due to increased validation checks;
- Primary keys – Populating fields that are Compendia but not Penserver primary keys.

Test data conversions were run in January, February and March prior to live migration. 179 million rows of data were successfully migrated at ‘go live’, with only 91 rows of data relating to 5 members failing, that were subsequently corrected.

### 4.3.2 The Pensions Regulator (TPR) – Common Data Score

The Common Data Score is a measure introduced by The Pensions Regulator (TPR) now in place at NHS Pensions that enables the Scheme to report the accuracy of our common data in line with TPR code of practice. Common data includes fields such as name, address and date of birth, and is measured against all Scheme member data.



The Schemes' common data quality rating against all member data, as at February 2015 was 86% of the members we engage with, and within this, our active member score is 99%. Plans are in place to continue to improve the common data score against all member data held.

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

Details of the current membership of the Scheme at 31 March 2015 are set out below:

##### 4.4.1 Active Members

Active members at 1 April 2014	<b>1,412,836</b>
Adjustment (see note 1)	(21,244)
Restated active members at 1 April 2014 (see note 2)	<b>1,391,592</b>
<b>Active members at 1 April 2014</b>	
New entrants	136,996
Deferred members who rejoin in the year	61,001
Re-employed pensioners	466
Retirements	(33,101)
Leavers with deferred pension rights	(99,820)
Members who opt-out with deferred pension rights	(28,323)
Deaths	(761)
<b>Active members at 31 March 2015</b> (see note 6)	<b>1,428,050</b>

##### 4.4.2 Deferred members

Deferred members at 1 April 2014	<b>568,522</b>
Adjustment (see note 1)	3,302
Restated deferred members at 1 April 2014 (see note 2)	<b>571,824</b>
<b>Deferred members at 1 April 2014</b>	
Members leaving active membership with deferred pension rights	128,143
Pension credit members	434
Members taking up deferred pension rights	(8,843)
Members who rejoin the scheme	(61,001)
Movement to unclaimed refund (see note 3)	(18,693)
Members taking a refund of contributions during year	(26,569)
Members with deferred pension rights in both sections of the scheme (see note 4)	(7,379)
Transfers out	(3,799)
Death of member	(177)
<b>Deferred members at 31 March 2015</b>	<b>573,940</b>

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

Pensions in payment at 1 April 2014	<b>763,698</b>
Adjustment (see note 1)	5,485
Restated pensions in payment at 1 April 2014 (see note 2)	<b>769,183</b>
<b>Pensioners in payment at 1 April 2014</b>	
Members retiring from active	33,101
Members retiring from deferred	8,843
New widows and dependants	5,135
Deaths	(16,000)
Cessations (see note 5)	(464)
Child dependants leaving full time education	(461)
<b>Pensions in payment at 31 March 2015</b>	<b>799,337</b>

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

**Note 2.** The membership data at 31 March 2014 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in November 2014, whereas these statistics were taken from a data extract provided in April 2015 and member data is continually updated after the year end.

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

**Note 4.** A member may have deferred benefits in both the 1995 and 2008 sections of the scheme. The adjustment has been made due to a number of members with service in both sections being accounted for twice.

**Note 5.** This figure includes cessations due to remarriage or co-habitation and due to commutation of pensions on grounds of trivial value.

**Note 6.** The data used to produce the membership statistics was taken before the joiner and leaver information from Electronic Staff Records (ESR) was uploaded to Penserver. This approach was taken due to the implementation of Compendia and data migration. The total joiners were 21,055 and the total leaver 20,537. The revised position including these movements will be shown in the revised opening position in the 2015-16 Accounts.

## 4.5 Financial position at 31 March 2015

As at 31 March 2015 the pension liabilities of the Scheme were valued at £390.6 billion. This is an increase of £53.4 billion from the liabilities at 31 March 2014 of £337.2 billion. This is due to an actuarial loss of £34.3 billion (£36.0 billion loss relating to the impact of the change in net discount rate from 1.80% at 31 March 2014 to 1.30% at 31 March 2015, and £1.7 billion gain relating to changes in other assumptions and scheme experience) and current year net additions to the liability of £19.1 billion. The movement is detailed in note 16.4 to the accounts. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer.

## 4.6 Results for the year

The 2014-15 net resource outturn was £18.53 billion which was within the voted estimate of £18.80 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure (page 44) contained within the accounts.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of -£0.576 billion against the voted estimate of -£0.116 billion, this is surplus cash due to income exceeding pension benefit payments, and the £0.576 billion will be returned to HM Treasury during 2015-16.

## 5. KEY ACTIVITIES DURING 2014-15

### 5.1 Choice 2

During 2014-15 NHSBSA undertook a one off exercise to provide members of the 1995 section of the Scheme without full protection under the 2015 Scheme arrangements with an opportunity to move all of their current and potential service up to or beyond 1 April 2015 in the 1995 Section into the 2008 Section.

A total of 543,000 eligible members were contacted during this exercise with 10,045 members electing to move by the 16 March 2015 deadline.

### 5.2. National Fraud Initiative (NFI)

On a regular basis, the NHS Pension Scheme takes part in the National Fraud Initiative (NFI), which commenced in 1998 and is co-ordinated by the Cabinet Office. This initiative allows the Scheme to submit approved data to the Cabinet Office who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension.

This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The frequency of mortality matches has recently been increased to monthly, though all other matches remain biennial.

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

The benefit of being part of the service is the provision of a better service to the bereaved at a difficult time, and a reduction in the number of days between the death of a pensioner and the Scheme being informed. The aim is to stop or reduce the number and value of overpayments and associated activities and costs of recovery. The Pilot is currently being evaluated, with the potential for roll-out in future financial years.

The table below provides an update of the position for the NFI exercises conducted since 1998 and lists the outstanding amounts, which are still being actively pursued. Data from the 2014 data matching exercise is being analysed and the results will be reported in the 2015-16 accounts.

NFI Exercise	Total Identified £000	Total Cases	Prior Years		2013-14		2014-15		Outstanding at 31/03/2015 £000
			Recovered £000	Written-off £000	Recovered £000	Written-off £000	Recovered £000	Written-off £000	
NFI 1998 - 2006	5,423	1,758	3,860	1,392	34	7	13	10	107
NFI 2008	1,978	548	1,428	343	65	1	33	8	100
NFI 2010	2,743	675	1,731	118	192	27	85	296	294
NFI 2012	3,776	1,413	-	-	1,173	14	1,415	493	681
<b>Total</b>	<b>13,920</b>	<b>4,394</b>	<b>7,019</b>	<b>1,853</b>	<b>1,464</b>	<b>49</b>	<b>1,546</b>	<b>807</b>	<b>1,182</b>

### 5.3 Extending the access to the scheme

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

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

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

At the date of completion of the scheme accounts the Scheme has approved 35 private sector organisations 'Employer Status' covering 3,745 members, but the exact figure who may qualify is not yet known.

During the financial year an internal audit review was conducted by Health Group Internal Audit on the implementation and administration of IPs and New Fair Deal employers, with an overall report rating of Moderate being received, which is the second highest rating (where some minor improvements have been identified to enhance the adequacy and effectiveness of the framework of governance, risk management and control.)

#### **5.4 New Fair Deal**

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

NHSBSA has implemented new administrative processes and financial monitoring controls (as laid out by HM Treasury) to deal with New Fair Deal employers and their members. At the date of completion of the scheme accounts there were 104 New Fair Deal employers granted access to the NHS Pension Scheme covering 9,096 members.

NHSBSA has submitted the annual report to HM Treasury for 2014-15 outlining:

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

#### **5.5 Total Reward Statements (TRS)**

During 2014-15 NHSBSA, in conjunction with NHS Electric Staff Records (ESR), introduced a Total Reward Statement (TRS)/Annual Benefit Statement (ABS) for active and deferred members (excluding practitioner members). A number of awareness activities were undertaken to alert these members about the availability of their statement and encourage them to access them via ESR Self Service or the Government Gateway as appropriate to their circumstances.

TRS and ABS statements will be updated for members each autumn on an annual basis.

#### **5.6 NHS Pensions Board**

The Public Service Pensions Act 2013 requires the establishment of a Pension Board with responsibility for assisting the Scheme Manager in securing compliance with all relevant pensions law, regulations, directions and the relevant Pensions Regulator's Code of Practice 14. The Board's role is one of assurance and governance of the scheme administration.

The Pensions Board has an Independent Chair, appointed by the Secretary of State for Health and six member and employer representatives respectively. Although not a legal requirement until April 2015, the Pensions Board was introduced in Shadow form in September 2014 and has held quarterly meetings until March 2015. NHSBSA and the Department of Health have 'observer' status on the Board, and NHSBSA provides comprehensive management information in order to facilitate the Board to carry out its functions.

## 5.7 Customer satisfaction surveys

The NHS Pension Scheme completed three Customer Satisfaction Surveys during the year with active and deferred pension scheme members, employers and retired pension members.

The overall satisfaction rating for both active and deferred pension members and pension employers has decreased since 2013-14 as shown in the table below, whereas the satisfaction rating increased for retired pension members over the comparable period. The survey was answered on a scale of 1 to 10 where 1 is not at all satisfied and 10 is completely satisfied.

	Active and deferred pension members		Retired pension members		Pension employers	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Total sample	1,194	484	411	355	983	1,155
Overall satisfaction	7.1	7.3	8.7	8.3	6.8	7.0

Potential causes for the decline in satisfaction for active and deferred pension members could include the overarching scheme changes implemented on 1 April 2015, the lack of availability of Total Reward Statements to some members at the time of surveying and the demand for greater website functionality. Additional central support and greater website functionality are areas to be considered for employers. The results of the 2015-16 survey will be provided in the 2015-16 scheme accounts.

## 5.8 Implementation of Final Pay Control

On the 1 April 2014 Regulation D3 – Further Contributions by Employing Authorities in respect of excessive pay increases, was introduced.

For members of the 1995 section of the scheme final salary arrangement only, employers will be charged for the cost of pension benefits (excluding death benefits) calculated on any pay increases they make, which are greater than a new ‘cap’ equal to the level of the consumer price index (CPI) + 4.5%. The employer charge will apply to ‘over cap’ increases in one or more of the final 3 years prior to retirement. Member benefits will continue to be calculated on full ‘uncapped’ pay.

During 2014-15 a total of 32 employers were charged a total of £206,000 (see Note 5 to the Accounts).

## 5.9 Implementation of interest and administration charges

On the 1 April 2014 Regulation T9 – Interest and Administration Charges: Late paid contributions, was introduced. Although most employers pay their contributions on time a number continue to pay their contributions late, and like other schemes, the Department of Health introduced this regulation to encourage prompt payment by employers for all contributions due to the Scheme.

During 2014-15 a total of 4,976 invoices were issued to employers with a total of £74,000 being charged in interest (see Note 5 to the Accounts).

## 5.10 Events after the reporting period

### 5.10.1 Changes to redundancy and capitalisation costs applicable from 1 April 2015

As part of the recent pay settlement for staff covered by Agenda for Change terms and conditions, new redundancy provisions have been introduced that limit employer costs payable to the scheme so that they cannot exceed an employee's redundancy payment. Charges that are met by the employer where their employee is a member of the scheme are referred to as capitalisation costs.

### 5.10.2 Who is affected

All staff covered by Agenda for Change terms and conditions who are employed in England only.

The changes do not apply to:

- Staff employed in NHS Wales
- Hospital doctors and dentists
- Very senior managers
- All staff who leave in the Interests of the Efficiency of the Service.

For the groups not affected existing redundancy provisions continue to apply.

### 5.10.3 Effect of the changes

If the capitalisation costs exceed the redundancy payment any cost remaining after the redundancy payment has been utilised **must** be covered by the member, and not the employer.

The member will be able to pay the remaining cost in full or have some of their benefits actuarially reduced to cover the deficit. If they cannot afford the full amount they may pay a lesser amount to limit the actuarial reduction. The member will still be able to choose Actuarial Reduced Early Retirement (ARER) and keep their full redundancy payment.

If the capitalisation is less than the redundancy payment the existing provisions continue to apply.

## 6. KEY ACTIVITIES FOR 2015-16 AND BEYOND

### 6.1 Implementation of NHS Pensions 2015 Scheme Arrangements

#### 6.1.1 Background

In 2010, the Government made a commitment to review the long-term affordability and sustainability of public service pensions. The Independent Public Service Pensions Commission, chaired by Lord Hutton, concluded in its report that reform is needed. The Government accepted Lord Hutton's recommendations and, following consultation, reached a Proposed Final Agreement with the NHS Trade Unions on 4 July 2012, which was announced through a Written Ministerial Statement by the Chief Secretary to the Treasury.

As a result of the Hutton Review, changes are being made to the provision of retirement benefits accruing in the NHS Pension Scheme beyond April 2015. These changes are primarily the introduction of a Career Average Revalued Earnings (CARE) Scheme in respect

of membership from April 2015. The existing Legacy Schemes (1995 and 2008 Sections) will be closed from the same date but a number of members will keep their benefits in the 1995 or 2008 Sections until they choose to retire.

### **6.1.2 NHSBSA 2015 Scheme Implementation Project**

In order to deliver these reforms, a 2015 Scheme Implementation Project was established by the NHSBSA to ensure the on-going provision of the pensions service to the NHS from April 2015 and that this service is provided in the most effective and efficient way. The system solution required to deliver the changes required the move to a new Pension system platform, Compendia.

The strategic objectives of the project were:

- To enable the implementation of the 2015 Scheme, whilst;
- Laying a foundation for the long term future delivery of the strategic NHS Pensions service vision.

Throughout the planning and preparation work to implement the changes, the project was highly governed and assured by a number of bodies:

- Hutton Steering Committee – held monthly and chaired by Giles Denham, Department of Health (DH) Director of Workforce;
- Project and Programme Board monthly meetings;
- Delivery Project Team fortnightly meetings;
- Technical Design Authority Approvals Board fortnightly meetings;
- Major Project Authority Review (November 2013);
- Mazars LLP independent review (May 2014);
- Health Group Internal Audit - Scheme Implementation Audit (January 2015);
- Health Group Internal Audit - Preparation for the Introduction of the Code of Practice (February 2015).

As a direct result of the effective planning and governance controls, the delivery of the 2015 Scheme Implementation Project proved successful. Over five million data errors were corrected in the preparation to migrating 179 million rows of data from the legacy system to the new system. Full control total reconciliation took place as part of the migration and transformation activities, assured by Health Group Internal Audit Services.

Following robust user acceptance testing across all functional areas, functionality to process 1995, 2008 and 2015 Scheme requirements was implemented over Easter 2015 as part of Release 1 of the new system. Release 2 and Release 3 are scheduled for implementation throughout financial year 2015-16 to introduce further functionality in line with business needs. The NHSBSA's successful delivery of this significant project has been recognised by both HM Treasury and the NHS Pension Policy Lead at the Department of Health.

### **6.1.3 Impact on Scheme liability and membership**

The Scheme liability disclosed in the Report of the Actuary and the Combined Statement of Financial Position takes account of the expected impact of the scheme reforms introduced from 1 April 2015. The impact of the reforms on the liability shown is limited. This is because over 65% of the current Scheme liabilities (those relating to current pensioners, former members and active members within 10 years of their current normal pension age in 2012) are unaffected by the reforms (note 16.2 provides the liability per member category). Only those active members who were more than 10 years from current normal pension age in 2012 were moved to the 2015

Scheme on 1 April 2015. These members tend to have shorter service than those remaining in the existing scheme and their total liabilities are less than 35% of the scheme's total current liability.

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

At the date of transfer to the 2015 Scheme the member profile is detailed below:

<b>Scheme or Section</b>	<b>Number of members 000's</b>
1995 Member - Full protection	271
1995 Member - Partial protection	109
2008 Member - Full protection	26
2008 Member - Partial protection	17
2015 Member	1,005
<b>Total active scheme membership</b>	<b>1,428</b>

## 6.2 Pension Service Re-procurement

The re-procurement of the Pensions Service administration is currently being planned. The procurement aims to ensure full continuity of service following the expiry of the current Pensions Service administration contract in July 2016.

It is anticipated that the required procurement exercises will be initiated towards the end of 2015.

## 6.3 Pensions Service – Target Operating Model

A Target Operating Model (TOM) for the Pensions Service has been developed to ensure future compliance with changing Scheme Regulations and wider legislation, and to move towards a 'member self-serve' approach with the utilisation of the most suitable technology and digital services available, thus enhancing the customer experience. The key requirements of the TOM will be considered within the Pensions Service Re-procurement.

The first phase of this process has been to introduce an Interim Operating Model (IOM) that primarily focuses around staff engagement, strengthening of the compliance and governance framework and the restructure of the teams within Pensions Service Delivery.

The key changes delivered have been the re-organisation of Service delivery teams who previously focussed on a single transactional function, to teams who cross skill across a number of processes that are logically grouped together, i.e. the Sensitive Life Events team looks after bereavements, ill health and injury benefits. In addition to this a new team will be created for Stakeholder Engagement and this team will concentrate primarily on supporting and interacting with NHS Employers. Pilots for Technical and Compliance teams have also been implemented as referred to in the Annual Governance Statement.

To enable these changes to be effectively implemented a staff engagement group (Focus Forward) has been introduced where staff want to help the business make working in pensions administration a 'Proud, Positive and Professional environment'.



## 6.4 The Pensions Regulator (TPR)

The Pensions Regulator's Code of Practice no. 14 – Governance and Administration of Public Service Pension Schemes, was laid before Parliament in January 2015. The code provides scheme managers and pension board members with a summary of their key governance and administration duties. Whilst the Code is not a statement of the law, it does outline an approach that pension schemes can take in order to comply with the law. The courts have to take account of codes when considering whether legal requirements have been met and the Pensions Regulator may refer to the Code in exercise of his powers.

The Code outlines minimum requirements in relation to:

- Risk – including internal controls;
- Administration – including record keeping, maintaining contributions and providing information to members, and;
- Resolving issues – including internal disputes and reporting breaches of law.

Scheme managers and pension board members must report breaches of law which they consider likely to be of material significance to the Pensions Regulator.

Generally the main focus of the Pensions Regulator is to support and enable scheme managers, assisted by the pension board members, to deliver better standards and practices of governance and administration. However, he may take enforcement action where he considers this to be necessary, including referring matters to other regulatory bodies where appropriate.

## 6.5 Changes to benefits

There are no changes to the benefits for members in the 1995 and 2008 Sections of the Scheme however, members who became members of the 2015 on 1 April 2015 will now have benefits that as detailed below. This is not an exhaustive list but covers the key benefits:

- A Career Average Re-valued Earnings (CARE) basis on a proportion of pensionable earnings in each year of membership;
- A pension worth 1/54<sup>th</sup> of each years' pensionable earnings, re-valued at the beginning of each following scheme year in line with Consumer Price Index plus 1.5% whilst in active membership;
- An option to exchange part of the pension for lump sum up to 25% of the capital value of the accrued pension;
- A pension age that is equal to the individuals' State Pension age;
- Entitlement to remain in the scheme to a maximum age of 75, with no limit in years of membership;
- A minimum pension age of 55.

## 6.6 Changes to scheme contributions rates

Following discussions with Trade Unions and employer representatives on long term contribution rates that will apply to all members once the new 2015 NHS Pension Scheme is implemented from 1 April 2015, the Department has finalised a set of proposed long term member contribution rates, which will remain the same for four years from 1 April 2015 to 31 March 2019.

The main features of the proposed contribution rates structure are as follows:

- The headline contribution rates as set out in the Proposed Final Agreement published in March 2012 are retained;

- Rates will remain tiered according to whole time equivalent (WTE) pay or earnings;
- The rates are the same as the current 2014-2015 scheme year contribution rates except for a small adjustment to the tier 4/5 boundary; and
- Both rates and tier boundaries will be fixed for four years from 1 April 2015 to 31 March 2019.

The rates and bandings are set for each of the next four scheme years and will be revised at the next scheme valuation. There are no plans of carrying out any mid-year changes to account for any pay increases as the consequential movement of members across tiers has been factored into the rates shown. However, the scheme years will continue to operate independently, as they do now. As such, should a mid-year change be necessary, which is not planned, this would have a retrospective effect from the start of that Scheme year. The contribution rates will apply in both the 1995 and 2008 Sections, as well as the new 2015 Scheme from 1 April 2015 until 31 March 2019.

The employer contribution rate will change to 14.3% with effect from 1 April 2015 as advised by the Department of Health.

## **7. INFORMATION FOR MEMBERS**

### **7.1 Pension Increase**

The Pensions increase rate was 2.7% (2013-14 - 2.2%) with effect from 7 April 2014 (8 April 2013) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

### **7.2 Supplementary Information available to members**

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

### **7.3 Information about Free Standing AVCs and Stakeholder Pensions**

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

### **7.4 Disclosure of audit information to the auditors**

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

**Nick Scholte**

**Chief Executive, NHS Business Services Authority**

**13 July 2015**

## Management structure and advisors

### Accounting Officer:

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

### Scheme Administrator:

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

### Actuary:

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

### In-house AVC Providers:

Equitable Life Assurance Society  
Walton Street  
Aylesbury  
Buckinghamshire HP21 7QW

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

Prudential PLC  
250 Euston Road  
London NW1 2PQ

### Auditors:

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

### Legal advisers:

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

### Bankers:

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

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

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

## Further information

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

## Report of the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2015

### Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the NHS Business Services Authority (NHSBSA). It summarises the pensions disclosures required for the 2014-15 Resource Accounts of the NHSPS ('the scheme').
2. The NHSPS is a defined benefit pension with various different benefit structures. In the existing schemes there are two main sections (the 1995 section with normal pension age (NPA) 60 and the 2008 section with NPA 65, the rules of which are set out in the National Health Service Pension Scheme Regulations 1995 (SI 1995/300), the National Health Service Pension Scheme Regulations 2008 (SI 2008/653) and subsequent amendments to both. Both sections provide benefits to practitioners on a career average, rather than final salary, basis. The NHSPS 2015 is being introduced from 1 April 2015 and is a career average revalued earnings (CARE) scheme with NPA equal to State Pension Age, the rules of the scheme are set out in the National Health Service Pension Scheme Regulations 2015 (SI 2015/94). The schemes are wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).
3. The statement is based on an assessment of the liabilities as at 31 March 2014, with an approximate updating to 31 March 2015 to reflect known changes.

### Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2014 used to prepare this statement.

**Table A – Active members**

31 March 2014 membership data		2014-15 accounts	
Number (thousands)	Total salaries (pa) (£ billion)	Total accrued pensions (£ billion)	Total salaries implied by receipts (£ billion)
1,395	41.06	7.58	41.4

**Table B – Deferred members**

31 March 2014 membership data	
Number (thousands)	Total deferred pension (pa) (£ billion)
550	1.58

**Table C – Pensions in payment**

31 March 2014 membership data		2014-15 accounts
Number (thousands)	Total pension* (pa) (£ billion)	Total pension (pa) (£ billion)
766	6.40	6.98

\*Pension amounts as at the assessment date and so excludes pension increase due in April 2014.

## Methodology

- The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2014-15 Pension Accounts. The contribution rate for accruing costs in the year ended 31 March 2015 was determined using the PUCM and the principal financial assumptions applying to the 2013-14 Resource Accounts.
- This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

## Principal financial assumptions

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

**Table D – Principal financial assumptions**

Assumption	31 March 2015	31 March 2014
Rate of return (discount rate)	3.55%	4.35%
Rate of earnings increases*	4.20%	4.50%
Rate of future pension increases	2.20%	2.50%
Rate of return in excess of:		
Pension increases	1.30%	1.80%
Earnings increases (long term)*	-0.65%	-0.15%
Expected return on assets:	n/a	n/a

\* short term adjustments have been made to this assumption for the period 2014 - 2016 inclusive (2013-2015 inclusive for the assessment as at 31 March 2014)

- The pension increase assumption as at 31 March 2014 and 31 March 2015 is based on the Consumer Price Index (CPI) expectation of inflation.

## Demographic assumptions

- The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
- The standard mortality tables known as S1NXA (for normal health pensioners and dependants) and S1IXA (for ill-health pensioners) are used but with mortality rates reduced to 80% (males) and 85% (females) of actual rates (100% for both male and

female future ill-health pensioners). Mortality improvements are in accordance with those incorporated in the 2012-based principal population projections for the United Kingdom. These assumptions have been updated compared to the assumptions adopted for the 2013-14 Pension Accounts.

11. The contribution rate used to determine the accruing cost in 2014-15 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2013-14 Pension Accounts.

## Liabilities

12. Table E summarises the assessed value as at 31 March 2015 of benefits accrued under the scheme prior to 31 March 2015, based on the data, methodology and assumptions described in paragraphs 4 to 11. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

£ Billion

	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(390.6)	(337.2)	(284.2)	(247.0)	(257.7)
Surplus/(Deficit)	(390.6)	(337.2)	(284.2)	(247.0)	(257.7)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

## Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2015 (the Current Service Cost) is based on a standard contribution rate of 32.7%. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 9.5%. The corresponding figures for 2013-14 are also included in the table.

**Table F – Contribution rate**

	Percentage of pensionable pay	
	2014-15	2013-14
Standard contribution rate	32.7%	28.6%
Members' estimated average contribution rate	9.5%	9.0%
Employers' estimated share of standard contribution rate	23.2%	19.6%

14. For the avoidance of doubt, the actual rate of contributions payable by employers, 14.0% of pensionable pay for 2014-15, is not the same as the employers' share of the standard contribution rate as above (23.2% for 2014-15). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Pension Accounts is the discount rate. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of accounting standard IAS19.
15. The pensionable payroll for the financial year 2014-15 was £41.4 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2014-15 (at 32.7% of pay) is assessed to be £13.5 billion.

### Sensitivity analysis

16. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2015 of changes to the main actuarial assumptions.
17. The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.
18. There is significant uncertainty associated with how members will retire in the future, both for those remaining in the current scheme where recent patterns of retirement have been materially different to historic patterns, and as a result of the scheme reform, for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in the 1995 section and so I have included an indication of the approximate effect (on the total past service liability) of assuming all 1995 section members retire at their Normal Pension Age (on average this equates to members retiring approximately 2 years earlier than assumed). The pattern of retirements from the 2008 section doesn't have a significant impact on the liability as both early and late retirements are subject to actuarial adjustment.
19. Table G shows the indicative effects on the total liability as at 31 March 2015 of changes to these assumptions (rounded to the nearest ½%).

**Table G - Sensitivity to significant assumptions**

Change in assumption		Approximate effect on total liability		
<b>Financial assumptions</b>				
(i)	discount rate*:	-½% a year	+12%	+£47 billion
(ii)	(long term) earnings increase*:	-½% a year	-2%	-£8 billion
(iii)	pension increases*:	-½% a year	-8%	-£31 billion
<b>Pensioner mortality</b>				
(iv)	each pensioner subject to longevity of an individual 1 year younger than assumed:	further	+2%	+£8 billion
(v)	1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier)		+1.5%	+£6 billion

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

## Statement of Accounting Officer's Responsibilities

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

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

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

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

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



## **ANNUAL GOVERNANCE STATEMENT**

### **Introduction**

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

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

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

### **Scope of Responsibilities**

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

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

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

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

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

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

### **The Purpose of the Governance Framework**

The governance framework in place for the NHS Pension Scheme mirrors that which is in place for the NHSBSA, as the body responsible for the administration of the scheme. The governance

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

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

- identify and prioritise the risks to achieving our policies, aims and objectives
- evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework and system of internal control have been in place in the NHSBSA for the year ended 31 March 2015 and up to the date of the approval of the annual report and accounts.

### **NHSBSA Governance Framework**

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

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

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

### **Enhanced Governance and Assurance Controls**

#### **Background**

In line with the new legal framework, effective from April 2015, for the regulatory oversight of the governance and administration of public sector pension schemes by The Pensions Regulator (TPR), as set out in the requirements of the TPR code of practice entitled 'Governance and Administration of Public Sector Pension Schemes', it has been necessary for NHSBSA to undertake a review of internal quality and compliance structures within the administration of NHS Pensions, and to implement a revised governance framework to demonstrate compliance, examples include:

- **Governing your scheme** - The Public Service Pensions Act 2013 requires the establishment of a Pension Board with responsibility for assisting the Scheme Manager in securing compliance with all relevant pension law, regulations and directions. This role is one of assurance and governance of the scheme administration. Terms of Reference for

both the Pension Board and Scheme Advisory Board are now confirmed and have been operating in shadow form since October 2014.

- **Managing Risks** - Completion of a compliance assurance map based on the three line defence methodology used by NHSBSA specific to the NHS Pensions administration function is in operation.
- **Administration** - To support the revised governance arrangements a re-organisation of the internal quality and governance structures has taken place; resulting in the implementation of a dedicated Technical Consultancy Team, independent Compliance Team and the creation of new Stakeholder Engagement Manager posts to assist employers in respect of:
  - Record keeping
  - Payment of Contributions
  - Provision of Information to members

As the role of Employers in administering the scheme continues to be crucial in ensuring overall compliance in the administration of the NHS Pension Scheme, Employers have been requested to complete an annual Compliance Assurance Statement that highlights the requirements of the new arrangements and seeks assurance from those with Board accountability that their organisation is fully aware of their responsibilities. The requirement for the Boards to provide assurance that these obligations can be met was requested by the Parliamentary Under Secretary of State for Health.

- **Resolving Issues** - In line with requirements of the TPR Code of Practice, the Compliance Team have undertaken a gap analysis of the Internal Dispute Resolution (IDR) procedures and, as a result, enhancements to current practices have been made, or are planned during 2015-16.

In March 2015, Health Group Internal Audit conducted an independent assurance audit of the preparation work for The Pension Regulator requirements; the overall rating for their report was **SUBSTANTIAL** which is their highest rating, indicating the framework of governance, risk management and control is adequate and effective.

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

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

The FrED Action Plan details the financial impacts of fraud and error and a measurement of savings and preventions. The plan will continue to be developed and updated on an ongoing basis to provide assurance that steps are being taken to reduce the potential for fraud and error, thus reducing debt.

## **NHSBSA Board**

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

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

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

All powers of the NHSBSA that have not been retained as reserved for the Board or otherwise delegated to a standing committee are exercised on behalf of the Board by the Chief Executive, unless otherwise specified in the NHSBSA's Standing Financial Instructions or Scheme of Delegation. The Chair is primarily responsible for leading the Board and ensuring its effectiveness with the Chief Executive responsible for day-to-day management. The documents which describe how the NHSBSA operates are included in the Corporate Governance Framework. This framework includes the Standing Financial Instructions and Scheme of Delegation which details which decisions the Board has reserved for itself and those which it has delegated and to whom.

### **Board Membership and Responsibilities**

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

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

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

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

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

- Performance against the identified key performance indicators;
- The current financial position;
- People related issues;
- Customer satisfaction and complaints;
- Client engagement; and
- Progress against key change projects.

The data presented to the Board is produced and quality assured by the NHSBSA Information Services Team.

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

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

The table below shows the number of meetings attended by Board members during the 2014-15 financial year and also highlights their declared business interests.

<b>Board</b>	<b>Meetings Attended</b>	<b>Register of Interests</b>
<b>Non-executive Chair:</b> Silla Maizey	8 out of 8	Chair and Non-executive Director Trustee, British Airways Retirement Plan Director and Company Secretary, Saffron Solutions Ltd Non-executive Director, John Menzies plc
<b>Non-executive, Chair of Remuneration and Terms of Service Committee:</b> Mark Ellerby	8 out of 8	Independent industry advisor, Advent International Non-executive Director, Leeds Teaching Hospital Trust Non-executive Director Trustee, Dementia Forward
<b>Non-executive:</b> Andrew Flanagan	8 out of 8	Commissioner, Civil Service Commission Member of Advisory Board, NHS NELCSU Non-executive Director, CIPFA Business Services Ltd Non-executive Director, Criminal Injuries Compensation Authority
<b>Non-executive:</b> Malcolm Green	8 out of 8	Non-executive Director, Thrive Homes
<b>Non-executive, Chair of Audit and Risk Management Committee, Senior Independent Director:</b> David Hulf	8 out of 8	Non-executive Director and Chair of Audit and Risk Committee, National Savings and Investments
<b>Chief Executive:</b> Nick Scholte	8 out of 8	Nothing declared
<b>Director of Finance and Corporate Services:</b> Patrick McGahon (Director of Finance until 24 November 2014)	8 out of 8	Nothing declared
<b>Director of Service Delivery:</b> Alistair McDonald (Operations Director until 24 November 2014)	8 out of 8	Nothing declared
<b>Director of Change and Commercial Delivery:</b> Steven Pink (Commercial Director until 24 November 2014)	8 out of 8	Nothing declared

<p><b>Director of People and Organisational Development:</b> Roberta Barker (Final meeting 17 September 2014 – Role disestablished following reorganisation)</p>	<p>3 out of 4</p>	<p>Trustee of Richmondshire Leisure Trust</p>
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## NHSBSA Board Review of Effectiveness

The NHSBSA Board is required to consider its own effectiveness on a regular basis. The Board reviewed its effectiveness during January 2015 using an online survey. Results indicated strengths around well supported effective meetings with a culture of discussion and debate, and collective and individual member effectiveness. Areas of focus highlighted include further development of stakeholder relationships including client and customer feedback, further use of group and individual effectiveness evaluations and succession planning, and executive directors offering more input outside of their direct areas of responsibility.

During 2014-15, the Board continued to operate within its governance framework and codes of conduct. Furthermore, the Authority has:

- Achieved its financial targets;
- Consistently delivered against its agreed key performance indicators;
- Continued to strengthen its assurance process via the assurance map process, now extended to our key suppliers;
- Maintained its robust performance reporting mechanism using a dashboard style approach;
- Maintained its risk management procedures using dashboard reporting giving an overview of the risk profile of the whole organisation yet focusing attention on relevant areas; and
- Maintained an effective, risk-based internal audit programme, ensuring internal audit recommendations are addressed appropriately.

The Board's two standing committees are described below:

### Audit and Risk Management Committee

The Committee is chaired by a non-executive director and meets no less than six times a year. Membership of this Committee is made up of three non-executive directors (including the Chair), one of whom is required to have recent and relevant financial experience. David Hulf provides this experience and also chairs the Committee. There is also a requirement for regular attendance from the Director of Finance and Corporate Services and representatives from both Internal and External Audit. Nick Scholte, Chief Executive and Accounting Officer, is invited to attend at least one meeting during the year to discuss the assurance processes which support the production of the Annual Report and Accounts. Other staff are invited to attend meetings as appropriate. Please see table below for attendees for 2014-15.

Audit and Risk Management Committee	Meetings Attended
<b>Non-executive Directors:</b>	
David Hulf, Chair of Committee	6 out of 6
Andrew Flanagan	6 out of 6
Malcolm Green	6 out of 6
<b>Executive Directors:</b>	
Patrick McGahon (Director of Finance and Corporate Services)	6 out of 6
<b>Executive Directors (Specific items):</b>	
Nick Scholte (Chief Executive)	3 out of 6
Alistair McDonald (Director of Service Delivery)	3 out of 6
Steven Pink (Director of Change and Commercial Delivery)	3 out of 6

Our DH Senior Programme Manager, Nigel Zaman, has also attended 3 out of 6 Committee meetings during 2014-15.

The Committee is responsible for providing the Board with an independent and objective view of the adequacy of the NHSBSA's governance and assurance arrangements, including the governance framework, risk management, controls and related assurances. Verbal updates are provided to the Board following each meeting and subsequent Board meetings receive copies of the confirmed minutes. An annual report is submitted to the Board following the completion of the Annual Accounts process which summarises the work undertaken by the Committee during the previous year. In addition, the Board receives an annual review of the NHSBSA Risk Management Framework. This was most recently undertaken in June 2014 and concluded that the framework was effective and fit-for-purpose.

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

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

These standing items are complimented by a series of risk-based, deep dive exercises, providing further assurance in key areas (see Assurance Arrangements).

The Committee has reviewed the Accounting Policies and the Annual Report and Accounts which includes the Annual Governance Statement as required by HM Treasury's Managing Public Money Annex 3.1. The Committee is satisfied that the Annual Report appropriately covers the key requirements of disclosure, such as Board governance, risk and assurance, and overall compliance with the UK Corporate Governance Code (where applicable to public sector organisations). The Committee in particular has reviewed with management the basis of areas of judgment within the Accounts and sought explanations for any key changes during the year. An area of particular focus was Losses and Special Payments in relation to NHS Pensions.

## Audit and Risk Management Committee Review of Effectiveness

The Committee reviewed its effectiveness during January 2015 using an online survey. Results were very positive across the majority of questions and indicated an effective Committee. Key areas of strength were the activity within risk and assurance, internal control, the Annual Report and Accounts and audit arrangements. Areas discussed for development were the scope for improving reports to the committee and the use of assurance maps.

## Remuneration and Terms of Service Committee

The Remuneration and Terms of Service Committee is a standing committee of the Board and comprises two non-executive directors, one of whom chairs the Committee. The Chief Executive and/or other executive directors attend these meetings on an 'as required' basis. The Committee is chaired by a non-executive director, see table below.

Remuneration and Terms of Service Committee	Meetings Attended
<b>Non-executive Directors:</b> Mark Ellerby, Chair of Committee Silla Maizey, Chair of the Board	2 out of 2 2 out of 2
<b>Executive Directors (Specific items):</b> Nick Scholte, Chief Executive	2 out of 2

The key responsibilities of the Remuneration and Terms of Service Committee are to:

- Determine the terms of service, remuneration and other benefits of the executive team and any other relevant employees;
- Monitor systems to evaluate the performance of relevant employees;
- Oversee contractual arrangements for relevant employees; and
- Nominate candidates for appointment as officer members of the Board and monitor succession planning arrangements.

The Chair of the Committee provides verbal updates to the Board following each meeting and confirmed minutes are shared at subsequent Board meetings. The Committee produces an annual report for the Board which summarises the work undertaken during the previous year.

The full terms of reference for both of these Committees can be found in the NHSBSA's Corporate Governance Framework which is published on the NHSBSA website.

## Remuneration and Terms of Service Committee Review of Effectiveness

Due to the changing membership of the Committee and a limited number of meetings in 2014-15, the Committee did not undertake a formal review of its effectiveness. However the Committee members were satisfied that they had fulfilled their terms of reference for the year. They also agreed to undertake a formal review of effectiveness in 2015-16.



## **NHSBSA Sponsorship Arrangements**

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

## **External Auditors**

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

## **NHSBSA Management**

Other than those matters reserved for the Board, responsibility for the day-to-day management of the NHSBSA is delegated to the Chief Executive, who is the Accounting Officer. The Chief Executive is supported by a Leadership Team of executive directors responsible for specific areas of the business. The operation of the NHS Pension Scheme is managed within Pension Services which reports to the Director of Service Delivery.

Further details of the Leadership Team responsibilities can be found in the main Annual Governance Statement published in the NHSBSA Annual Report and Accounts 2014-15 ([www.nhsbsa.nhs.uk/about.aspx](http://www.nhsbsa.nhs.uk/about.aspx)).

## **Key Governance Systems**

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

- Risk management
- Assurance
- Managing information

The Audit and Risk Management Committee regularly review these areas to ensure that they remain robust and effective. This enables the committee to provide assurances to the Board that appropriate risk identification and management processes are taking place across the organisation.

## **Risk Management**

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

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

- Risk management policy

- Risk management methodology
- Risk and Issue register

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

- **Operational/ Corporate Teams** – Risks and issues are managed on an ongoing basis as part of business-as-usual, with registers owned and managed by the Head of Service.
- **Project/ Programme** – Risks are reviewed and managed by Project Managers as part of the project governance process. Significant risks and issues are escalated to the Programme Manager and Change Team and these are also reported to the Leadership Team on a monthly basis.
- **Corporate** – Each quarter the Leadership Team review the top-level Corporate Risk Register. This review is informed by a summary paper on risks and issues across the NHSBSA created by the Corporate Governance Team in collaboration with the Operational/Corporate Heads and Change Team Managers (Risk Group). The Leadership Team is also free to identify further risks and issues at this meeting.
- **Audit and Risk Committee** – Following the quarterly review of the Corporate Risk Register by the Leadership Team, the Committee receives an update on the work undertaken in the area of risk and issue management. The Committee also receives a copy of the Corporate Risk Register. This process enables the Committee to provide assurances to the Board that appropriate risk management processes are in place and risk mitigation is taking place.

## Significant Risks and issues

### Current Risks

The following summarises the ongoing significant risk at the end of 2014-15, focusing on the most highly rated and of significance for our stakeholders:

#### **Guaranteed Minimum Pension (GMP) requirements**

Changes in HMRC reporting of GMP data and a transfer of responsibility for calculation work post 2016 may have a major resource impact on the organisation. Ongoing monitoring of the situation, along with further work to calculate and address operational impacts continues.

By working closely with all stakeholders, including the DH, employing authorities and third party service providers the NHSBSA is confident that this risk is being managed appropriately.

#### **Managed and closed in year**

##### **New NHS Pension Scheme (Hutton review)**

Mitigation details: Successful delivery of the new Pension Scheme project.

## Assurance Arrangements

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

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

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

A schedule of two reviews of the overarching assurance map each year, by the Leadership Team and Audit and Risk Management Committee, has been implemented to ensure that the Authority is accurately represented and that areas of concern are being addressed. This provides challenge to the business and oversight of the process in terms of the assurances highlighted.

The Audit and Risk Management Committee has continued to embed a programme of deep dive exercises to assure itself on behalf of the Board regarding the robustness of the assurance maps and supporting evidence for each business area. During 2014-15 deep dive exercises were carried out in the following areas:

- Information Governance – data transfers
- Cyber security
- Change programme governance
- Concurrent major procurement management
- Pensions Regulatory Framework
- Supplier Management systems
- IT end of life

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

## Managing Information

During 2014-15 the NHSBSA has continued to improve its approach to handling information efficiently and securely. Each year, the NHSBSA undertakes a detailed self-assessment using the NHS-wide Information Governance Toolkit. Using this toolkit, the NHSBSA's rating for 2014-15 is an overall 'satisfactory' rating.

The NHSBSA has not had any security incidents classified as serious untoward incidents by the DH. However, using the DH categorisation framework, there were three incidents in relation to the Pension Scheme (classed as minor), to report during the year. As these were not level 2 or above, they were not reported to the DH.

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

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

## Data Protection and Freedom of Information

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

During 2014-15, we dealt with 104 DPA requests relating to the NHS Pension Scheme, all bar 5 were responded to within the required timeframe. The numbers of requests have increased by 8% when compared to the previous year.

The NHSBSA is also subject to the requirements of the Freedom of Information Act (FOI) 2000. This means that all requests for information are responded to within the provisions of the Act, typically within 20 working days. During 2014-15, we dealt with 39 FOI requests relating to the NHS Pension Scheme, all bar 3 were responded to within the required timeframe. The number of requests has increased by 22% when compared to last year.

As a public sector information holder, the NHSBSA complies with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. The NHSBSA can confirm that no charges were made for access to information during 2014-15.

## Handling Complaints

The NHSBSA takes complaints seriously and believes in the value of learning from the complaints which are made about its staff and services, to make improvements for customers. During 2014-15, we have maintained our approach to handling complaints, learning lessons about our services and the way in which we respond to our customers.

The total number of formal complaints received during 2014-15 (classified as Internal Dispute Resolution (IDR) stage 1 cases), relating to the NHS Pension Scheme was 469, of which 176 were upheld (37%). This compares with 369 of which 107 were upheld (29%) in 2013-14.

## Sources of Assurance

### Audit and Risk Management Committee

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

- **Quarterly Risk Management updates** - setting out and assessing the major risks and issues that we face, aligned with key areas of focus set out in the Business Plan and Strategy 2014-19. These reports detail the movements in risks and issues between reporting periods and identify emerging risks and issues, and actions which have been taken or are planned to mitigate them.

- **Annual Risk Management Report** - outlining how our risk management arrangements have continued to operate effectively during the year and how they have been reviewed and strengthened.
- **Assurance Map Review** – two reviews of the overarching NHSBSA Assurance Map each year.
- **Assurance Map Deep Dives** - individual business area assurance maps as part of a programme of deep dive exercises to consider the control environment in operation throughout the NHSBSA.
- **Internal/External Audit Workplans** - regular progress reports on the work undertaken against the agreed workplans.
- **Internal Audit Recommendations Tracker** - quarterly updates on progress made across the NHSBSA implementing internal audit recommendations.
- **Local Counter Fraud Specialist (LCFS) / Local Security Management Specialist (LSMS) Annual Reports** - reports detailing the work undertaken during the year mapped against the agreed workplans.
- **Whistleblowing Update Report** – two updates on whistleblowing activity across the business each year.

## Other Sources of Assurance

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

- **Risk Management Process** – see Risk Management section within the NHSBSA Annual Report and Accounts.
- **Enhanced Performance Management Framework** - reviewed by the Leadership Team on a monthly basis and by the Board at each meeting. The framework provides a balanced scorecard approach covering the key areas of performance.
- **Information Governance and Security Group (IGSG)** - all information risks are reviewed by the IGSG on a regular basis. The Group is also responsible for ensuring that the NHSBSA complies with information governance and security best practice and performs a self-assessment against a nationally developed toolkit.
- **Equality and Diversity Committee** - controls are in place to ensure that all the Authority's obligations under equality, diversity and human rights legislation are adhered to. The Equality and Diversity Committee, which is chaired by the executive director equality champion, monitors performance against our Equality Strategy and achievement of our equality objectives.
- **Statutory Function Discharge Review** – a full review is undertaken at least annually to ensure correct arrangements are in place, and legally compliant. The process would identify any irregularities, and is in line with the recommendations of the Harris Review.
- **NHS Pension Scheme** - as an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.
- **Corporate Responsibility** – controls are in place ensuring the delivery of our Corporate Responsibility targets and legislative requirements, specifically around environment and resource efficiency, health and safety, wellbeing and community investment. The NHSBSA is also required to deliver against the Greening Government Commitments,

requiring regular performance updates provided to the DH, and subsequently central government.

### **Accounting Officer's Review of Effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit provides me with an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

The Head of Internal Audit Opinion concluded that based on the work completed to date there is moderate assurance given to the Accounting Officer that the NHSBSA has had adequate and effective systems of control, governance and risk management in place for the reporting year 2014-15.

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

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

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

### **Significant Governance Issues**

There were no significant governance issues raised during 2014-15.

### **Conclusion**

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

**Nick Scholte**  
**Chief Executive**  
**NHS Business Services Authority**  
**13 July 2015**

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

I certify that I have audited the financial statements of the NHS Pension Scheme and the NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

### **Scope of the audit of the financial statements**

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

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

### **Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2015 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

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

### **Matters on which I report by exception**

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

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

### **Report**

I have no observations to make on these financial statements.

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

**Date 15 July 2015**



**Statement of Parliamentary Supply  
Summary of Resource and Capital Outturn 2014-15**

£000								2014-15	2013-14
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non- Voted	Total	Voted	Non- Voted	Total		
<b>Departmental Expenditure Limit</b>									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
<b>Annually Managed Expenditure</b>									
- Resource	<b>SoPS2</b>	18,801,400	-	18,801,400	18,533,716	-	18,533,716	267,684	13,932,608
- Capital		-	-	-	-	-	-	-	-
<b>Total Budget</b>		18,801,400	-	18,801,400	18,533,716	-	18,533,716	267,684	13,932,608
<b>Non-Budget</b>									
- Resource		-	-	-	-	-	-	-	-
<b>Total</b>		<b>18,801,400</b>	-	<b>18,801,400</b>	<b>18,533,716</b>	-	<b>18,533,716</b>	<b>267,684</b>	<b>13,932,608</b>

Total Resource		18,801,400	-	18,801,400	18,533,716	-	18,533,716	267,684	13,932,608
Total Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>18,801,400</b>	-	<b>18,801,400</b>	<b>18,533,716</b>	-	<b>18,533,716</b>	<b>267,684</b>	<b>13,932,608</b>

**Net Cash Requirement 2014-15**

£000	Note	2014-15		2014-15		2013-14
		Estimate		Outturn	Outturn compared with Estimate saving/ (excess)	Outturn
	<b>SoPS4</b>		<b>(115,837)</b>	<b>(576,331)</b>	<b>460,494</b>	<b>(1,196,013)</b>

**Administration Costs 2014-15**

2014-15 Estimate	2014-15 Outturn	2013-14 Outturn
-	-	-

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

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

## **Notes to the Statement of Parliamentary Supply**

### **SOPS1. Statement of accounting policies**

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

#### **SOPS1.1 Accounting convention**

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

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

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

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

#### **SOPS1.2 Comparison with IFRS-based accounts**

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

**SOPS2. Net outturn – analysis by section**

£000	2014-15									2013-14	
	Outturn						Estimate			Outturn	
	Administration			Programme			Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
Gross	Income	Net	Gross	Income	Net						

**Spending in Departmental  
Expenditure Limit**

Voted:	-	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-	-

**Annually Managed  
Expenditure**

Voted:											
A-Pensions	-	-	-	28,579,500	(10,045,784)	18,533,716	18,533,716	18,801,400	267,684	267,684	13,932,608
Non Voted	-	-	-	-	-	-	-	-	-	-	-
Non-budget	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	<b>28,579,500</b>	<b>(10,045,784)</b>	<b>18,533,716</b>	<b>18,533,716</b>	<b>18,801,400</b>	<b>267,684</b>	<b>267,684</b>	<b>13,932,608</b>

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

The outturn is less than than the Estimate due to:

- contributions received being higher than forecast by £77 million, due primarily to an unanticipated increase in scheme membership;
- the final actuarial assessment of the main elements of expenditure (current service cost and pension financing cost) being lower than the provisional assessment used in the Estimate.

**SOPS3. Reconciliation of outturn to net expenditure**

	SoPS Note	2014-15 Outturn £000	2013-14 Outturn £000
Total resource outturn in Statement of Parliamentary Supply	SoPS2	18,533,716	13,932,608
Income payable to the Consolidated Fund		-	-
<b>Combined net expenditure in Statement of Comprehensive Net Expenditure</b>		<b>18,533,716</b>	<b>13,932,608</b>

### SOPS4. Reconciliation of Net Resource Outturn to Net Cash Requirement

	2014-15	2014-15	2014-15
	Estimate	Outturn	Net total outturn compared with Estimate: saving/(excess)
SoPS Note	£000	£000	£000
<b>Resource Outturn</b>	18,801,400	18,533,716	267,684
<b>Capital Outturn</b>	-	-	-
<b>Accruals to cash adjustment:</b>			
Adjustments to remove non-cash items			
Non-cash items	(28,770,000)	(28,579,500)	(190,500)
Adjustments to reflect movements in working balances			
Changes in payables, receivables and prepaid pension benefits	40,763	3,058	37,705
Use of provision	9,812,000	9,466,395	345,605
<b>Net cash requirement</b>	<b>(115,837)</b>	<b>(576,331)</b>	<b>460,494</b>

#### Explanation of variance between Net Cash Requirement (NCR) Estimate and outturn:

The NCR for the NHS Pension Scheme currently refers to the amount of surplus cash the scheme generates each year as income exceeds pension benefits paid. The outturn surplus was more than the Estimate due to:

- pension benefit payments being £345m less than forecast, primarily as a result of the volume of lump sums and transfers out being lower in the final quarter of the year than the levels in the first three quarters which informed the Estimate;
- contributions received being higher than forecast by £77 million, due mainly to an unanticipated increase in scheme membership.

### SOPS5. Analysis of income payable to the Consolidated Fund

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

	Outturn 2014-15		Outturn 2013-14	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	<i>576,331</i>	-	<i>1,196,013</i>
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b><i>576,331</i></b>	<b>-</b>	<b><i>1,196,013</i></b>

**Combined Statement of Comprehensive Net Expenditure**  
for the year ended 31 March 2015

	Note	<u>2014-15</u> £000	<u>2013-14</u> £000
<b>Income</b>			
Contributions receivable	3	(9,891,986)	(9,613,427)
Transfers in	4	(71,928)	(69,333)
Other pension income	5	(81,870)	(84,946)
		<u>(10,045,784)</u>	<u>(9,767,706)</u>
<b>Expenditure</b>			
Service Cost	6	13,500,000	11,700,000
Enhancements	7	207,572	230,981
Transfers in	8	71,928	69,333
Pension financing cost	9	14,800,000	11,700,000
		<u>28,579,500</u>	<u>23,700,314</u>
<b>Net Expenditure</b>		<u><b>18,533,716</b></u>	<u><b>13,932,608</b></u>
<b>Other Comprehensive Net Expenditure</b>			
Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	13	8,946	39,174
Pension re-measurements			
Actuarial loss	16.7	34,286,895	38,016,125
Other remeasurements		-	-
<b>Total Comprehensive Net Expenditure for the year ended 31 March 2015</b>		<u><b>52,829,557</b></u>	<u><b>51,987,907</b></u>

The notes on pages 48 to 62 form part of these accounts.

**Combined Statement of Financial Position**  
as at 31 March 2015

		<b>31 March 2015</b>	<b>31 March 2014</b>
	Note	£000	£000
<b>Current assets:</b>			
Receivables	11.1	755,626	744,920
Cash and cash equivalents	12	576,331	1,196,013
<b>Total current assets</b>		<b>1,331,957</b>	<b>1,940,933</b>
<b>Current liabilities:</b>			
Payables (within 12 months)	15.1	(958,662)	(1,570,696)
<b>Net assets, excluding pension liability</b>		<b>373,295</b>	<b>370,237</b>
Estimated discounted future cashflows in respect of premature retirement recharges	13	613,832	622,778
Pension liability	16.4	(390,600,000)	(337,200,000)
<b>Net liabilities, including pension liability</b>		<b>(389,612,873)</b>	<b>(336,206,985)</b>
<b>Taxpayers' equity:</b>			
General fund		(389,612,873)	(336,206,985)
		<b>(389,612,873)</b>	<b>(336,206,985)</b>

**Nick Scholte**  
**Chief Executive**  
**NHS Business Services Authority**  
**13 July 2015**

The notes on pages 48 to 62 form part of these accounts.

**Combined Statement of Changes in Taxpayers' Equity**  
for the year ended 31 March 2015

	Note	<u>2014-15</u> £000	<u>2013-14</u> £000
<b>Balance at 1 April</b>		<b>(336,206,985)</b>	<b>(283,023,065)</b>
Net Parliamentary Funding – draw down		-	-
Net Parliamentary Funding - deemed		-	-
Consolidated Fund Standing Services		-	-
Supply payable/(receivable) adjustment		-	-
Excess Vote – prior year		-	-
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	13	(8,946)	(39,174)
CFERs payable to the Consolidated Fund	15.1	(576,331)	(1,196,013)
<b>Comprehensive Net Expenditure for the Year</b>		<b>(18,533,716)</b>	<b>(13,932,608)</b>
Actuarial loss – NHS Pension Scheme	16.7	(34,286,895)	(38,016,125)
<b>Net change in Taxpayers' Equity</b>		<b>(53,405,888)</b>	<b>(53,183,920)</b>
<b>Balance at 31 March</b>		<b>(389,612,873)</b>	<b>(336,206,985)</b>

The notes on pages 48 to 62 form part of these accounts.

**Combined Statement of Cash Flows**  
for the year ended 31 March 2015

	<b>2014-15</b>	<b>2013-14</b>
Note	£000	£000
<b>Cash flows from operating activities</b>		
Net expenditure for the year	SoPS2 (18,533,716)	(13,932,608)
Adjustments for non-cash transactions:		
Increase in receivables	(10,706)	(76,330)
Increase in payables	7,648	50,923
Increase in pension provision	16.4 28,300,000	23,400,000
Increase in pension provision – enhancements and transfers in	16.4 279,500	300,314
Decrease in pre-paid pension benefits	14 -	170,153
Use of provisions – pension liability	16.5 (9,057,373)	(8,439,061)
Use of provisions – refunds and transfers	16.6 (409,022)	(277,378)
<b>Net cash inflows from operating activities</b>	<b>576,331</b>	<b>1,196,013</b>
<b>Cash flows from financing activities</b>		
From the Consolidated Fund (Supply) – current year	-	-
From the Consolidated Fund (Supply) – prior year	-	-
From the Consolidated Fund (non-Supply)	-	-
<b>Net Parliamentary financing</b>	<b>-</b>	<b>-</b>
Adjustments for payments and receipts not related to Supply	-	-
<b>Net financing</b>	<b>-</b>	<b>-</b>
<b>Net Increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>	<b>576,331</b>	<b>1,196,013</b>
Receipts due to the Consolidated Fund which are outside the Scope of the Scheme's activities	-	-
Payments of amounts to the Consolidated Fund	(1,196,013)	(1,115,177)
<b>Net (decrease)/increase in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund</b>	<b>(619,682)</b>	<b>80,836</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,196,013</b>	<b>1,115,177</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>576,331</b>	<b>1,196,013</b>

The notes on pages 48 to 62 form part of these accounts.



## Notes to the Financial Statements

### 1. Basis of preparation of the Scheme financial statements

The financial statements of the combined NHS Pension Scheme and NHS Pension for Premature Retirement Scheme have been prepared in accordance with the relevant provisions of the 2014-15 *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 Employee benefits and IAS 26 Accounting and Reporting by Retirement Benefits Plans are of particular relevance to these statements.

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

#### 1.1 NHS Pension Scheme

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

Contributions to the Scheme by employers and employees were set at rates determined by the Scheme's Actuary and approved by the Secretary of State for Health for 2014-15. The income received where contributions are the main element currently exceed payments made by the Scheme, the balance of surplus cash being returned to HM Treasury. If payments exceed income, the balance of the funding would need to be provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the NHSBSA and reported in their financial statements.

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

#### 1.2 NHS Pension for Premature Retirement Scheme

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

## **2. Statement of accounting policies**

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

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

### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

### **2.2 Accounting policies for the NHS Pension Scheme**

#### **2.2.1 Contributions receivable**

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

#### **2.2.2 Transfers in and out**

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

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

#### **2.2.3 Final pay control**

Final pay control income is accounted for on an accruals basis when the employer is subsequently invoiced after the member has taken their benefits from the scheme.

#### **2.2.4 Interest charged on late payment of contributions**

Interest charged for late payment of contributions is accounted for on an accruals basis, where the employer is invoiced after the payment has been made after the required deadline

#### **2.2.5 Current service cost**

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a real discount rate of 1.8% (2013-14 2.35%) and 4.35% including inflation (2013-14 4.10%). These assumptions are used to calculate the in year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability

#### **2.2.6 Past service cost**

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

#### **2.2.7 Interest on Scheme liabilities**

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a gross discount rate of 4.35% (2013-14 4.10%).

#### **2.2.8 Scheme Liability**

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and as at 31 March 2014 was discounted at a real discount rate of 1.80% (i.e. 4.35% including inflation). The discount rate changed on 31 March 2015 to 1.30% and the Scheme was discounted at that rate. Further details of the financial assumptions used are set out at Note 16.1 to these accounts and in the Report of the Actuary on pages 19 to 22. For the purposes of IAS26 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. A full member data extract as at 31 March 2014 was provided to the GAD to facilitate a full actuarial valuation that has been used in the preparation of pension accounts for 2014-15.

#### **2.2.9 Pension benefits payable**

Pension benefits payable due to age, ill health retirements, and voluntary early retirement are accounted for as a decrease in the scheme liability on an accrual basis. Where benefits fall on a weekend or bank holiday benefits will be paid on the last working day before the benefits are due, and are classed as a prepayment (note 14).

### **2.2.10 Refund of contributions paid to and on account of members leaving the Scheme**

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

### **2.2.11 Lump sums payable on death in service**

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

### **2.2.12 Actuarial gains / losses**

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

### **2.2.13 Additional Voluntary Contributions**

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

### **2.2.14 Other Income**

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

### **2.2.15 Administration expenses**

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

## **2.3 Accounting policies for the NHS Compensation for Premature Retirement Scheme**

Compensation payments for the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative purposes, benefits are paid to the member and the employer is subsequently re-charged for the costs.

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

### **2.3.1 Accounting for quarterly rechargeable cases**

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

In recognition of the fact that significant future cash flows will arise from these arrangements, the estimated future cash flows which may accrue to the Scheme after the Statement of Financial Position date, discounted to current values, are disclosed on the Statement of Financial Position.

This asset is revalued on an annual basis and any net increases or decreases will be accounted for through the General Fund, and disclosed within the Combined Statement of Changes in Taxpayer's Equity.

### 2.3.2 Accounting for pre-funded cases

The Secretary of State now only allows the employer to discharge the liability to fund the compensation payments payable to their former employees by payment of a lump sum capital value, this is referred to as 'pre-funding'. This amount is recognised as income at the point the employee's pension becomes payable, and are accounted for as Other Pension Income (see note 5).

### 2.3.3 Accounting for pension scheme liabilities in respect of early retirement pension enhancements

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

## 2.4 Accounting standards that have been issued but have not yet been adopted

The Treasury Financial Reporting Manual (FReM) does not require the following Standards and Interpretations to be applied in 2014-15. The application of the Standards as revised would not have a material impact on the accounts for 2014-15, had they been applied in that year:

IFRS 9 Financial Instruments – subject to consultation  
IFRS 13 Fair Value Measurement – adopted in the 2015-16 FReM  
IFRS 15 Revenue from Contracts with Customers

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

## 3. Contributions receivable

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Employers	(5,795,564)	(5,733,885)
Employees:		
Normal	(3,929,896)	(3,692,210)
Purchase of added years	(150,229)	(170,398)
Purchase of additional pensions	(16,297)	(16,934)
	<u>(9,891,986)</u>	<u>(9,613,427)</u>

£10,025 million contributions are expected to be payable to the Scheme in 2015-16.

**4. Transfers in**

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Individual transfers in from other schemes	(70,235)	(69,254)
Group transfers in from other schemes	(1,693)	(79)
	<u>(71,928)</u>	<u>(69,333)</u>

**5. Other pension income**

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Pre funded premature retirement contributions	(41,046)	(43,649)
Rechargeable premature retirement contributions	(38,615)	(38,789)
Capitalised rechargeable premature retirement contributions	(1,929)	(2,508)
Final pay control	(206)	-
Interest charged contribution payments	(74)	-
	<u>(81,870)</u>	<u>(84,946)</u>

**6. Service cost (see also note 16.4)**

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Past service cost	-	-
Current service cost	13,500,000	11,700,000
	<u>13,500,000</u>	<u>11,700,000</u>

**7. Enhancements (see also notes 3 and 5)**

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Employees: Purchase of added years	150,229	170,398
Employees: Purchase of additional pension	16,297	16,934
Employers: Pre-funded premature retirement contributions	41,046	43,649
	<u>207,572</u>	<u>230,981</u>

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

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Individual transfers in from other schemes	70,235	69,254
Group transfers in from other schemes	1,693	79
	<u>71,928</u>	<u>69,333</u>

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

**9. Pension financing cost (see also note 16.4)**

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Interest charge for the year	<u>14,800,000</u>	<u>11,700,000</u>

## 10. Additional Voluntary Contributions

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

	<b>2014-15</b>	<b>2013-14</b>
	£000	£000
<b>The Equitable Life Assurance Society (ELAS)</b>		
Movements in the year were as follows:		
Balance at 1 April	110,151	110,718
New investments	1,053	1,065
Sale of investments to provide pension benefits	(6,410)	(7,449)
Changes in market value of investments	6,228	5,817
Balance at 31 March	<u>111,022</u>	<u>110,151</u>
Contributions received to provide life cover	21	25
Benefits paid on death	121	170
	<b>2014-15</b>	<b>2013-14</b>
	£000	£000
<b>Standard Life Assurance Company</b>		
Movements in the year were as follows:		(*Re-stated)
Balance at 1 April	122,272	123,500
New investments	2,574	3,160
Sale of investments to provide pension benefits	(8,418)	(10,173)
Changes in market value of investments	13,331	9,011
Change to how with profits fund valued *	-	(3,226)
Balance at 31 March	<u>129,759</u>	<u>122,272</u>
Contributions received to provide life cover	-	-
Benefits paid on death	-	-

\*In 2013-14 the with-profits values allowed for any final bonus or market value reduction that would have applied as at 31 March 2014. A change in how with-profits elements are valued has been introduced and now do not allow for any final bonus or market value reduction. The value used was the guaranteed amount (unit value) as at 1 April 2014.

	<b>2014-15</b>	<b>2013-14</b>
	£000	£000
<b>Prudential Plc</b>		
Movements in the year were as follows:		
Balance at 1 April	53,066	52,653
Adjustment *	3	-
New investments	2,349	2,462
Sale of investments to provide pension benefits and switches to new funds	(3,788)	(5,410)
Changes in market value of investments	5,249	3,361
Balance at 31 March	<u>56,879</u>	<u>53,066</u>
Contributions received to provide life cover	-	-
Benefits paid on death	43	32

\*The closing balance as at 31 March 2014 has been restated due to post audit change to the closing balance previously advised by Prudential.

## 11. Receivables – contributions due in respect of pensions

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

### 11.1 Analysis by type

	<b>31 March 2015</b>	<b>31 March 2014</b>
	£000	£000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	423,856	431,244
Employees' normal contributions	289,537	273,846
Purchase of added years	11,646	14,647
Purchase of additional pensions	2,337	1,056
Invoiced pre-funded premature retirement contributions	9,095	4,098
Invoiced re-chargeable premature retirement contributions	9,750	9,585
Invoiced final pay control income	184	-
Overpaid pension benefits	9,221	10,444
<b>Total due within one year</b>	<b>755,626</b>	<b>744,920</b>
Amounts falling due after more than one year	-	-
<b>Total receivables</b>	<b>755,626</b>	<b>744,920</b>

There are no amounts receivable after more than one year.

### 11.2 Analysis by organisation

	<b>Amounts falling due within one year</b>	
	<b>31 March 2015</b>	<b>31 March 2014</b>
	£000	£000
Balances with other central government bodies	23,036	58,797
Balances with local authorities	3,132	2,987
Balances with NHS Bodies	588,795	545,416
Balances with public corporations and trading funds	40	-
<b>Balances with public sector organisations</b>	<b>615,003</b>	<b>607,200</b>
Balances with bodies external to government	140,623	137,720
<b>Total receivables</b>	<b>755,626</b>	<b>744,920</b>



## 12. Cash and cash equivalents

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Balance at 1 April	1,196,013	1,115,177
Net change in cash balances	(619,682)	80,836
<b>Balance at 31 March</b>	<b>576,331</b>	<b>1,196,013</b>
The following balances at 31 March were held at:		
Government Banking Service	576,284	1,193,113
Commercial banks and cash in hand	47	2,900
<b>Balance at 31 March</b>	<b>576,331</b>	<b>1,196,013</b>

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

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

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

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Balance at 1 April	622,778	661,952
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(8,946)	(39,174)
<b>Balance at 31 March</b>	<b>613,832</b>	<b>622,778</b>

## 14. Prepayments – prepaid pension benefits

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

	<u>31 March</u>	<u>31 March</u>
	2015	2014
	£000	£000
Prepaid pension benefits	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

The pre-payment as at 31 March 2013 was £170,153,000 and the reduction during 2013-14 is included in the Consolidated Statement of Cashflows.

**15. Payables – in respect of pensions****15.1 Analysis by type**

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<u>£000</u>	<u>£000</u>
<b>Amounts falling due within one year:</b>		
Pensions	(289,409)	(280,369)
HMRC	(87,740)	(88,718)
Voluntary deductions	(245)	(197)
Amounts due to employers:		
Employee and employer contributions	(4,937)	(5,398)
Rechargeable premature retirements	-	(1)
	<u>(382,331)</u>	<u>(374,683)</u>
Amounts due to be paid to the Consolidated Fund:		
Received	(576,331)	(1,196,013)
	<u>(958,662)</u>	<u>(1,570,696)</u>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total payables</b>	<u>(958,662)</u>	<u>(1,570,696)</u>

**15.2 Analysis by organisation**

	<b>Amounts falling due within one year</b>	
	<b>31 March 2015</b>	<b>31 March 2014</b>
	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	(664,071)	(1,284,731)
Balances with local authorities	-	-
Balances with NHS Bodies	-	(45)
Balances with public corporations and trading funds	-	-
<b>Balances with public sector organisations</b>	<u>(664,071)</u>	<u>(1,284,776)</u>
Balances with bodies external to government	(294,591)	(285,920)
<b>Total payables</b>	<u>(958,662)</u>	<u>(1,570,696)</u>

There are no amounts payable after more than one year.

**16. Provisions for pension liabilities****16.1 Assumptions underpinning the provision for pension liability**

The NHS Pension Scheme is an unfunded defined benefit Scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2015. The Report of the Actuary's on pages 19 to 22 sets out the scope, methodology and results of the work the actuary has carried out.

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

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

The membership data used was based on the position as at 31 March 2014, and the results rolled forward to 31 March 2015 to estimate the position in 2014-15.

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

At 31 March	2015	2014	2013	2012	2011
Rate of increase in salaries	4.20%	4.50%	3.95%	4.25%	4.90%
Inflation assumption	2.20%	2.50%	1.70%	2.00%	2.65%
Nominal discount rate	3.55%	4.35%	4.10%	4.85%	5.60%
Discount rate net of price inflation	1.30%	1.80%	2.35%	2.80%	2.90%
Pension Increase at 1 April of relevant calendar year	1.2%	2.70%	2.20%	5.20%	3.10%
Life expectancy in years (Note 1)					
Current pensioners					
Males (age 60)	30.5	30.4	29.1	29.0	29.1
Males (age 65)	25.5	25.4	24.3	24.1	24.2
Females (age 60)	32.5	32.4	31.7	31.6	31.6
Females (age 65)	27.5	27.3	26.7	26.6	26.6
Future pensioners (Note 2)					
Males (age 60)	32.3	32.1	30.9	30.8	30.7
Males (age 65)	27.7	27.6	26.5	26.4	26.2
Females (age 60)	34.2	34.1	33.4	33.3	33.1
Females (age 65)	29.6	29.5	28.9	28.8	28.5

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

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

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

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

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

## 16.2 Analysis of the provision for pension liability

At 31 March	2015	2014	2013	2012	2011
Active members (past service)	218.5	188.3	156.9	143.5	156.4
Deferred Pensions	39.9	33.8	26.8	20.4	24.7
Pensions in payment	132.2	115.1	100.5	83.1	76.6
<b>Total liability</b>	<b>390.6</b>	<b>337.2</b>	<b>284.2</b>	<b>247.0</b>	<b>257.7</b>

Pension Scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

The value of the liability included on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, then the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 16.7. The notes also disclose 'experience' gains or losses for the year showing the amounts charged or credited for the year because events have not coincided with assumptions made for the last valuation.

## 16.3 Sensitivity analysis

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

Change in assumption*		Approximate effect on total liability	
<b>Financial assumptions</b>			
(i)	discount rate*: -½% a year	+12%	+£47 billion
(ii)	(long term) earnings increase*: -½% a year	-2%	-£8 billion
(iii)	pension increases*: -½% a year	-8%	-£31 billion
<b>Pensioner mortality</b>			
(iv)	each pensioner subject to longevity of an individual 1 further year younger than assumed:	+2%	+£8 billion
(v)	1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier)	+1.5%	+£6 billion

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

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

		<b>2014-15</b>	<b>2013-14</b>
	Note	£000	£000
<b>Scheme liability as at 1 April</b>		<b>(337,200,000)</b>	<b>(284,200,000)</b>
Service cost	6	(13,500,000)	(11,700,000)
Pension financing cost	9	(14,800,000)	(11,700,000)
		(28,300,000)	(23,400,000)
Enhancements	7	(207,572)	(230,981)
Pension transfers in	8	(71,928)	(69,333)
		(279,500)	(300,314)
Benefits payable	16.5	9,057,373	8,439,061
Pension payments to and on account of leavers	16.6	409,022	277,378
		9,466,395	8,716,439
Actuarial (loss)/gain	16.7	(34,286,895)	(38,016,125)
<b>Scheme liability as at 31 March</b>		<b>(390,600,000)</b>	<b>(337,200,000)</b>

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

During the year ended 31 March 2015, contributions represented an average of 23.5% of pensionable pay (excluding purchase of added years and additional pension contributions).

#### 16.5 Analysis of benefits paid

	<b>2014-15</b>	<b>2013-14</b>
	£000	£000
Pensions to retired employees and dependants (net of recoveries of overpayments)	6,867,453	6,347,043
Commutations and lump sum benefits on retirement	2,189,920	2,092,018
<b>Per Combined Statement of cash flows</b>	<b>9,057,373</b>	<b>8,439,061</b>

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

	<b>2014-15</b>	<b>2013-14</b>
	£000	£000
Death in service	51,124	53,420
Individual transfers to other schemes	311,269	175,974
Group transfers to other schemes	1,768	3,292
Payment to State Scheme	11,199	20,870
Refunds to members leaving service	33,662	23,822
<b>Per Combined Statement of Cashflows</b>	<b>409,022</b>	<b>277,378</b>

## 16.7 Analysis of actuarial (loss)/gain

	<u>2014-15</u>	<u>2013-14</u>
	£000	£000
Experience gain/(loss) arising on Scheme liabilities	1,713,105	(2,216,825)
Changes in assumptions underlying the present value of Scheme liabilities	(36,000,000)	(35,799,300)
<b>Per Combined Statement of Comprehensive Net Expenditure</b>	<b><u>(34,286,895)</u></b>	<b><u>(38,016,125)</u></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.

## 16.8 History of experience (losses)/gains

	2014-15	2013-14	2012-13	2011-12	2010-11
<b>Experience (losses)/gains on the scheme liabilities:</b>					
Amount (£000) (see note below)	1,713,105	(2,216,825)	(4,068,055)	17,546,406	(3,416,310)
Percentage of the present value of the scheme liabilities	-0.44%	0.66%	1.43%	7.10%	1.33%
<b>Total amount recognised in Statement of Other Comprehensive Net Expenditure</b>					
Amount (£000)	(34,286,895)	(38,016,125)	(22,968,055)	28,146,406	17,483,690
Percentage of the present value of the scheme liabilities	8.78%	11.27%	8.08%	11.40%	6.78%

## 17. Financial Instruments

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector Scheme of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Scheme's expected purchase and usage requirements and the scheme is therefore exposed to little credit, liquidity or market risk.

## 18. Contingent liabilities disclosed under IAS 37

The Scheme only has the contingent liability as disclosed below.

### Additional Voluntary Contributions

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

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

#### **19. Losses**

During the year, losses arose in 13,305 cases (2013-14; 6,482 cases). The total loss was £2,529,881 (2013-14; £581,491), and no individual case exceeded £300,000. The losses all relate to the write-off of pension overpayments. The figures for 2014-15 include 6,503 cases amounting to £1,053,479 relating to an exercise undertaken to clear notifications relating to Guaranteed Minimum Pension (GMP) received from HMRC.

#### **20. Related-party transactions**

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

#### **21. Events after the Reporting Period**

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

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

ISBN 978-1-4741-2329-7



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