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# *NHS Pension Scheme*

(Incorporating the NHS Compensation for Premature Retirement Scheme)

## **Annual Accounts**

### **2017-18**

*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 19 July 2018



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## ACCOUNTABILITY REPORT

### Corporate Governance Report

#### Report of the Managers

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

#### 1. Background to the Scheme

##### 1.1 Statutory basis for the Scheme

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

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

Scheme provisions are governed by the following sets of Regulations:

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

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

##### 1.2 Eligibility to join the Scheme

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

At 31<sup>st</sup> March 2018 there were 8,674 participating employers falling into the following categories:

Employer category	As at 31 March 2018	As at 31 March 2017	As at 31 March 2016
NHS Trusts and Local Health Boards (note 1)	91	115	128
Foundation Trusts	152	155	153
GP practices	7,155	7,361	7,630
Arm's length bodies	14	14	14
Direction bodies	566	564	564
Clinical Commissioning Groups and Support Units	228	239	237
Local Authorities (including PHT from 1 <sup>st</sup> April 2013)	155	141	142
New Fair Deal	209	177	132
Independent Providers (note 2)	104	82	65
<b>Total</b>	<b>8,674</b>	<b>8,848</b>	<b>9,065</b>

Note 1 – Local Health Boards are only applicable in Wales. The reduction in 2017-18 is due to re-classification of a number of employer codes.

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

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

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

The NHS Business Services Authority (NHSBSA) is the body responsible for the administration of the NHS Pension Scheme for England and Wales. The administration of the Scheme includes calculation of benefits, collection of contributions from employers, maintenance of member records and payment of benefits.

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

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

The cost of administering the Scheme for 2017-18 was met from the Scheme and was included in the Parliamentary Supply Estimate submitted to HM Treasury. This arrangement changed from 1 April 2017, and was previously met within the running costs of the NHSBSA. Further details can be found at note 3.5 of the Report of the Manager.

### **2.3 Corporate governance of the Scheme**

The governance arrangements of the NHSBSA, who are responsible for the administration of the Scheme, can be found in the Governance Statement on pages 18-32.

### **2.4 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 and 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 to be carried out as at 31 March 2016 and is currently being prepared. The direction assumptions are published by HM Treasury which are used to complete the valuation calculations, from which the final valuation report can be signed off by the scheme actuary. 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.

### 3 Key developments in year

#### 3.1 Changes to scheme contribution rates

There have been no changes to contribution rates during 2017-18.

#### 3.2 Changes in benefits

There have been no changes to benefits during 2017-18.

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

Details of the current membership of the Scheme at 31 March 2018 are set out below:

##### Active Members

Active members at 1 April 2017 (note 1)	<b>1,529,850</b>
New entrants	170,468
Deferred members who re-join in the year	67,736
Re-employed pensioners	789
Retirements	(31,946)
Leavers with deferred pension rights	(126,688)
Members who opt-out with deferred pension rights	(37,271)
Deaths	(885)
<b>Active members at 31 March 2018</b>	<b>1,572,053</b>

##### Deferred members

Deferred members at 1 April 2017 (note 1)	<b>633,895</b>
Members leaving active membership with deferred pension rights	163,959
Members taking up deferred pension rights	(10,806)
Members who re-join the scheme	(67,736)
Movement to unclaimed refund (see note 2)	(33,120)
Members taking a refund of contributions during year	(31,699)
Transfers out	(2,557)
Death of member	(559)
<b>Deferred members at 31 March 2018</b>	<b>651,377</b>

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

Pensions in payment at 1 April 2017 (note 1)	<b>871,837</b>
Members retiring from active	31,946
Members retiring from deferred	10,806
New widows and dependants	6,002
Deaths	(19,001)
Other Cessations (see note 3)	(877)
Child dependants leaving full time education	(558)
<b>Pensions in payment at 31 March 2018</b>	<b>900,155</b>

**Note 1.** The opening balance includes an adjustment to take account of member records that were updated retrospectively after the year end and after the original data extract was taken to prepare the membership statistics for the accounts. This is due to the volume of data required to be uploaded onto the pension administration systems from employers and the resolution of any subsequent data errors.

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

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

**Note 4.** The membership data at 31 March 2017 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in November 2017, whereas these statistics were taken from a data extract provided in May 2018 and member data is continually updated after the year end.



### 3.4 Financial position at 31 March 2018

#### 3.4.1 Resource Outturn to Supply Estimate

The 2017-18 net resource outturn was £26.5 billion and was within the voted estimate of £26.7 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure (page 39) contained within the financial statements.

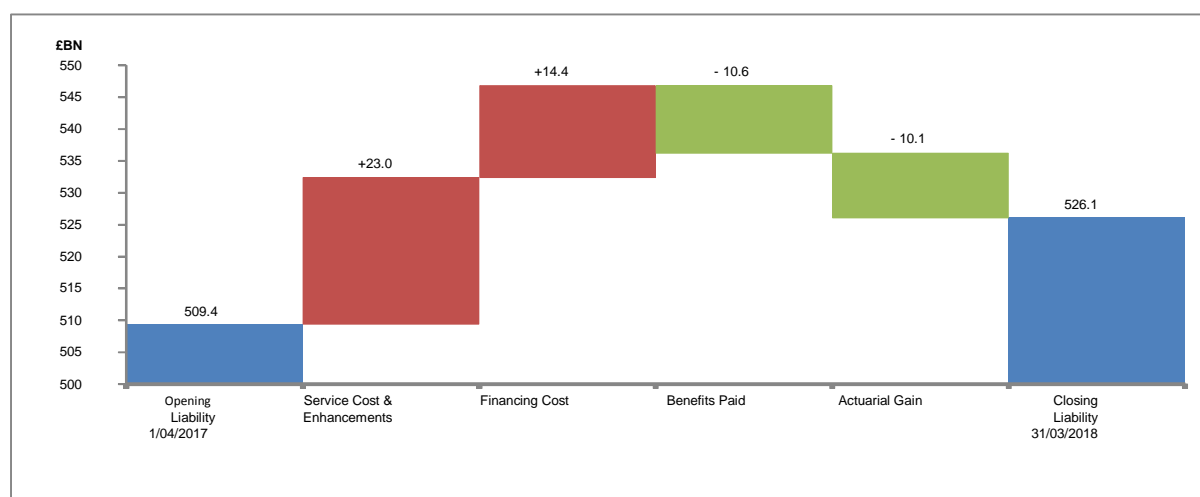
#### 3.4.2 Net cash requirement

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of minus £0.33 billion against the voted estimate of plus £0.27 billion, this means the Scheme has surplus cash due to income exceeding pension benefit payments, and the £0.33 billion will be returned to Treasury during 2018-19.

The Scheme is currently operating with a net cash inflow (negative Net Cash Requirement), due to receipts exceeding the payments made, and this surplus is returned to HM Treasury during the following financial year. If payments are forecast to exceed income within a financial year, or the scheme requires funds to maintain a level of cash flow to make payments, the balance of the funding required is requested from Parliament through the annual Supply Estimates process. The cash flows of the Scheme are classed as Annually Managed Expenditure (AME) for government accounting purposes. Further information regarding AME and all government accounting arrangements can be found in the HM Treasury Financial Reporting Manual which can be found at <https://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018>.

#### 3.4.3 Financial position

As at 31 March 2018 the pension liabilities of the Scheme were valued at £526.1 billion. This is an increase of £16.7 billion from the liabilities at 31 March 2017 of £509.4 billion. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer. Details of the key movements are shown in the diagram below and also within note 17 to the accounts.



#### 3.4.4 Service Cost

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

The 2016-17 service cost of £14.8 billion was calculated using the accounts assumptions at 31 March 2016 and the 2017-18 service cost of £22.6 billion was calculated using the accounts assumptions at 31 March 2017. The change in service cost from year to year reflects the change in the accounts assumptions at each date. The assumptions at 31 March 2017 are set out in Table D of the Report of the Actuary, and the key reason for the increase in the service cost during 2017-18 is the fall in the nominal discount rate from 3.60% at 31 March 2016 to 2.80% at 31 March 2017. A fall in the discount rate increases the cost of providing the pension benefits.

### **3.4.5 Contingencies Fund Drawdown**

A combination of factors contribute to the Scheme requiring additional funding outside of the main Parliamentary Estimate process to ensure benefits are paid on their due date each month. The primary reason for this relates to the timing of the receipt for the majority of the contributions paid by employers being due by the 19<sup>th</sup> of the month, for the previous month's payroll. The Scheme receives on average over £900 million near to or on this payment deadline date. The Scheme also has to surrender any end of year cash surplus to Treasury, within the first quarter of the following financial year, and this cannot be utilised in subsequent cash flow requirements.

To meet the cash flow requirement to pay member benefits from the 1<sup>st</sup> to the 18<sup>th</sup> of the month, the Scheme submitted a request for £680 million to Treasury to draw money from the Contingencies Fund (under section 5.14e of the Supply and Estimates Guidance manual). The funds were drawn down on 3 April 2017 and repaid to the Contingencies Fund in full during 2017-18 with the final payment being made on the 21<sup>st</sup> March 2018.

The Scheme has requested to draw down £658 million from the Contingencies Fund in 2018-19, as the same scenario exists as described above. The full amount will be repaid in 2018-19.

### **3.5 Introduction of Scheme administration levy**

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

On 1 April 2017 the Department of Health and Social Care (DHSC) introduced a levy to cover the cost of the administration of the Scheme. DHSC has determined that participating employers will be required to pay 0.08% of pensionable pay for their staff who are members of the scheme.

In introducing the levy, it is anticipated that the relationship between employers and the scheme should become more client focussed, leading to an administration service that is more responsive to employer needs.

During 2017-18 the cost of scheme administration was £37.5 million (see note 10 to the accounts), and £29.8 million was received from NHS employers via the levy (see note 5 to the accounts). Due to the nature of the funding arrangement, the cost of administration and the income received will not net off in any one year, and so DHSC has changed the Scheme Regulations so that the rate of the levy will be reviewed every 4 years in conjunction with the scheme Funding Valuation. This review will take into account the cumulative income/expenditure position at the end of the period, and recommend the levy percentage rate for the following period.

## 4 Key activities during 2017-18

### 4.1 Pension Service Re-procurement Programme

The primary objective of the programme is to maintain business continuity of services beyond the expiry of the current contract with our supplier Equiniti. Termination of contract assistance concludes on 22 July 2018.

Whilst maintaining service continuity, it was also considered of paramount importance that the programme also seeks to;

- Improve scheme member's experience, and streamline scheme administration, via the delivery of a series of new digital services
- Ensure that the resultant commercial and service delivery model is suitably flexible for future potential outsourcing of scheme administration
- Implement pension related components of the NHSBSA's organisation wide IT Infrastructure programme

To achieve this, the Programme has adopted a model that combines both the in-source and re-procurement of services as follows;

- Member administration to remain in-house
- Pensioner and Payroll Administration Services to be delivered in-house rather than via an out-sourced provider
- Facilities and Estates Management to be re-procured
- Medical Services to be re-procured

Key activities during the year were as follows;

- Commercial negotiations to formalise transition until July 2018, and on-going future support by Equiniti concluded, and contracts were signed by all parties in August 2017
- Medical Services contract was successfully let and a new provider, Medigold, was put in place from July 2017
- Equiniti Fleetwood Finance function successfully transferred to NHSBSA from July 2017
- Equiniti Fleetwood Debt Management function (Stage 2 Debt) successfully transferred to NHSBSA Newcastle Debt Management team from July 2017
- Equiniti Fleetwood Communications Centre function successfully transferred to NHSBSA Operations from July 2017
- Connectivity to the first of two professionally managed data centres was achieved on 28 February 2018, and connectivity to the second data centre was achieved on 28 March 2018
- Member Administration BAU system was successfully migrated from Fleetwood to the first data centre
- Pensioner Data Migration, Compendia Administration and Payroll System enhancements were developed; System testing and UAT commenced
- Business readiness and knowledge gathering activities were undertaken across all Pensioner Administration, Payroll and Finance work streams; New staff were recruited
- Business Readiness activities to prepare the supporting structures, end to end processes and underlying procedures were undertaken
- Options were re-appraised for Pensions IT Service Management, and a decision was taken to in-source the current Equiniti Help Desk

- Approval of the Pensions IT Infrastructure Services Contract award to Atos was given by the NHSBSA Board and by the Atos Board, and was signed by both parties
- Contribution Collection, as a part of Employer Services Digitisation, progressed to Private Beta with the first groups of employers on-boarded from February 2018
- Online Awards Submissions, as a part of Member Requests Digitisation, progressed into Private Beta with the first group of clients on-boarded from March 2018
- An option was determined to enable non-ESR users to continue to access the Total Reward Statements via the NHS Digital Integrated Citizen ID platform, in anticipation of Government Gateway being decommissioned.

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

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

Considerable progress was made during the year with the introduction of new 'bulk automations' which have been developed in collaboration with HMRC. In 2017-2018 active members were incorporated into the combined database and the volumes of in-scope membership subsequently increased from 1.6 million to 3.2 million members. Over 372,000 queries were cleared in 2017-2018 and the match rate increased from 73% to 88%. There are 370,000 outstanding queries which may still require submission to HMRC by the cut-off date in October 2018. As the reconciliation phase of the project comes to an end with a cut off of October 2018 for any further queries to be submitted to HMRC. Focus will then move on to rectification. This phase will involve marking member records with a reconciliation status and calculating any under or over payments resulting from the exercise. The Project team is currently working with our IT supplier to deliver this functionality.

#### **4.3 Customer satisfaction surveys**

The NHS Pension Scheme completed Customer Satisfaction Surveys during the year with active, deferred and retired pension members, and Scheme employer organisations. The surveys were answered on a scale of 1 to 10 where 1 is not at all satisfied and 10 is completely satisfied.

The overall satisfaction rating for both active and deferred pension members has remained consistent since 2015-16, whereas retired pension members and employers have increased during 2017-18.

The overall satisfaction for retired pension members has increased to 9.0 from 8.2 in 2016-17 and is attributed mainly to the change in contact method only being via email with no telephone calls being made and so easier to complete with less time constraints, and additionally focussing on intended future improvements for our pensioners.

The overall satisfaction for pension employers has increased to 7.4 from 7.1 in 2016-17 and is attributed to the increased interaction with employers by the Stakeholder Engagement Team

holding Stakeholder events, and distributing targeted communications to different employer types.

	Active and deferred pension members		Retired pension members		Pension employers	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Total sample	6,134	2,295	5,521	1,177	1,568	1,120
Overall satisfaction	6.4	6.4	9.0	8.2	7.4	7.1

#### 4.4 Events after the reporting period

There were no key events to report after the end of the reporting period.

### 5 Key activities arising for 2018-19

#### 5.1 Pension Service Re-procurement Programme

The programme will put in place the remaining required services to continue delivery of the Scheme beyond expiry of the current contract with our supplier Equiniti, using Equiniti contract termination assistance.

The remaining activities are;

- The completion of full Disaster Recovery Failover Testing of the two professionally managed data centres
- The migration and consolidation of member data to the new Compendia Pensioner and Payroll System
- The implementation of the new Integra Pensions Scheme Accounting System in April 2018
- The transition of Pensioner Administration (including mail, email and call correspondence) from Equiniti to NHSBSA Pensions by 23 July 2018
- The transition of Pensioner Payroll Payments and Accounting from Equiniti to the NHSBSA by 23 July 2018
- The transition of Debt Management functions (Stage 1 Debt) from Equiniti to NHSBSA Pensions by 23 July 2018
- The insourcing of the Service Desk function to NHSBSA Pensions by 23 July 2018
- The on-boarding to the NHS Digital Integrated Citizen ID platform for access to Total Reward Statements in June 2018
- The continuation of digital development for Employer Services and Member Requests

### 6. Information for members

#### 6.1 Pension Increase

The Pensions increase rate was 1.0% (2016-17 0.0%) with effect from 10 April 2017 (6 April 2016) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

#### 6.2 Supplementary Information available to members

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

### 6.3 Information about Free Standing Additional Voluntary Contributions (AVC) and Stakeholder Pensions

The Pensions Scheme has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life. These contributions are not contained within the cash flows of the Scheme, but paid directly to the approved provider (please see note 11 to the accounts).

### 6.4 Management structure and advisors

**Accounting Officer:**

Alistair McDonald  
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:**

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

**Bankers:**

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

GBS Customer Service Team  
London Corporate Service Team  
CPB Services  
2<sup>nd</sup> Floor  
280 Bishopsgate  
London EC2M 4RB

### Further information

Any enquiries about the NHSPS should be addressed to:

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

### Disclosure of audit information to the auditors

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

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

**Alistair McDonald**  
**Chief Executive, NHS Business Services Authority**  
**11 July 2018**

## Report of the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2018

### Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the NHSBSA. It provides a summary of GAD's assessment of the scheme liability in respect of the National Health Pension Scheme (NHS) as at 31 March 2018, and the movement in the scheme liability over the year 2017-18, prepared in accordance with the requirements of Chapter 9 of the 2017-18 version of the Financial Reporting Manual.
2. The NHS is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.
3. The assessment has been carried out by calculating the liability as at 31 March 2017 based on the data provided as at 31 March 2017 and rolling forward that liability to 31 March 2018.

### Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2017 used to prepare this statement.

**Table A – Active members**

	Number 000's	Total pensionable pay* (pa) £m
Male	327	13,116
Female	1,161	30,213
<b>Total</b>	<b>1,488</b>	<b>43,329</b>

\*Pensionable pay is actual figure

**Table B – Deferred members**

	Number 000's	Total deferred pension* (pa) £m
Male	141	602
Female	458	1,253
<b>Total</b>	<b>599</b>	<b>1,855</b>

\*Pension amounts include the pension increase granted in April 2017

**Table C – Pensions in payment**

	Number 000's	Total pension* (pa) £m
Male	222	3,416
Female	649	4,247
<b>Total</b>	<b>871</b>	<b>7,663</b>

\*Pension amounts include the pension increase granted in April 2017

### Methodology

5. The present value of the liabilities as at 31 March 2018 has been determined using Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2018. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2018 was determined using PUCM and the demographic and financial



assumptions applicable at the start of the year, that is, those adopted as at 31 March 2017 in the 2016-17 accounts.

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

### Financial assumptions

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

**Table D – Principal financial assumptions**

Assumption	31 March 2018	31 March 2017
Nominal discount rate	2.55%	2.80%
Rate of pension increases	2.45%	2.55%
Rate of general pay increases	3.95%	4.55% from 2020/21
Rate of short-term general pay increase	n/a	1.0% pa to 2019/20
Real discount rate in excess of:		
Pension increases	0.10%	0.24%
Long-term pay increases	(1.4)%	(1.70)%
Expected return on assets:	n/a	n/a

- The assessment of the liabilities allows for the known pension increases up to and including April 2018.

### Demographic assumptions

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

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

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

- These assumptions are the same as those recommended for the 31 March 2016 funding valuation of the scheme. Note that the accounts as at 31 March 2017 were based on the assumptions adopted for the 2012 valuation.
- Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017. Note that the accounts as at 31 March 2017 were based on the previous 2014-based projections. The proposed life expectancies for this year's accounts are in the region of one year shorter relative to those adopted in last year's accounts. The key reason for the shorter life expectancy is the change in

the projected mortality improvements from the ONS 2014-based projections to the 2016-based projections, which reduces life expectancy by around one year.

## Liabilities

12. Table F summarises the assessed value as at 31 March 2018 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 11. The corresponding figures for the previous year are shown for comparison.

**Table F – Statement of Financial Position**

£ Billion

	31 March 2018	31 March 2017
Total market value of assets	nil	nil
Value of liabilities	526.1	509.4
Surplus/(Deficit)	(526.1)	(509.4)
of which recoverable by employers	n/a	n/a

## Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2018 (the current service cost) is assessed as 50.5% of pensionable pay.

14. For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2017-18 as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2017-18 accounts.

**Table G – Contribution rate**

	2017-18 % of pay	2016-17 % of pay
Employer contributions	14.3%	14.3%
Employee contributions (average)	9.5%	9.5%
<b>Total contributions</b>	<b>23.8%</b>	<b>23.8%</b>
<b>Current service cost (expressed as a % of pay)</b>	<b>50.5%</b>	<b>34.3%</b>

15. The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

16. The pensionable payroll for the financial year 2017-18 was £44.7 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2017-18 (at 50.5% of pay) is assessed to be £22.6 billion.

17. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018. This resulted in a past service cost in respect of these members of £0.2 billion. I am not aware of any other events that have led to a material past service cost over 2017-18.

18. A bulk transfer payment of £67.7m was made from NHS to CSPA in 2017-18 in relation to the transfer of pension benefits of employees transferred to Public Health England (PHE). As this was calculated using financial assumptions which differ from those used for accounts at the time the payment was received, the transfer payment made from NHS will not be equal to the reduction in the accounting liabilities. This difference is accounted for as a cost, equal to the difference between the value of the PHE liabilities on the assumptions used to calculate the transfer payment. Approximate calculations estimate that a settlement gain would emerge for NHS of around £50 million. Due to immaterial size of this potential settlement gain in the context of the NHS liabilities, the impact has been included as an actuarial gain rather than a settlement gain. I am not aware of any other events that have led to a material settlement or curtailment gain or loss over 2017-18.

### Sensitivity analysis

19. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2018 of changes to the most significant actuarial assumptions.
20. The most significant financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). Key demographic assumptions are pensioner mortality and retirement age.
21. Table H shows the indicative effects on the total liability as at 31 March 2018 of changes to these assumptions (rounded to the nearest 0.5 %).

**Table H - Sensitivity to significant assumptions**

Change in assumption *		Approximate effect on total liability	
<b>Financial assumptions</b>			
(i)	discount rate increase*: 0.5 % a year	-13.0%	-£68.4 billion
(ii)	(long term) earnings increase*: 0.5 % a year	+2.0%	+£10.5 billion
(iii)	pension increases*: 0.5 % a year	+9.0%	+£47.4 billion
<b>Demographic assumptions</b>			
(iv)	additional 1 year increase in life expectancy at retirement:	+3.0%	+£15.8 billion
(v)	1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)	+1.5%	+7.9 billion

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

**Garry Swann**  
**Government Actuary's Department**  
**21 May 2018**

## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme to prepare, for each financial year, a statement of resource accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the combined schemes at the year end and of the net resource outturn and cash flows for the financial year.

In preparing the accounts the Accounting Officer for the Scheme is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- Observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- Make judgements and estimates on a reasonable basis
- State whether applicable accounting standards have been followed and disclosed and explained any material departures in the accounts
- Prepare the financial statements on a going concern basis
- The report of the manager and accounts as a whole is fair, balanced and understandable
- Take personal responsibility for the report of the manager and accounts and the judgements required for determining that this is fair, balanced and understandable.

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

## Annual Governance Statement

### Introduction

The Accounting Officer for the NHS Business Services Authority (NHSBSA) is the Accounting Officer for the NHS Pension Scheme and is required to provide assurances about the stewardship of the organisation and the NHS Pension Scheme. These assurances are provided in this Governance Statement, in line with HM Treasury guidance.

The Accounting Officer for the NHSBSA and the NHS Pension Scheme is Alistair McDonald, Chief Executive.

### Scope of Responsibilities

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

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

### The Purpose of the Governance Framework

The NHSBSA operates an integrated governance framework and, as the body responsible for the administration of the scheme, this incorporates the NHS Pension Scheme. This framework comprises the systems and processes by which the NHSBSA leads, directs and controls its functions and accounts to, and engages with, the DHSC and the wider NHS community. The NHSBSA takes its responsibilities seriously, striving to be a good corporate citizen. In aiming to embed this, the corporate governance framework is underpinned by the culture, values and behaviours adopted across the NHSBSA.

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

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

The governance framework and system of internal control have been in place for the year ended 31 March 2018 and up to the date of the approval of the annual report and accounts.

### NHSBSA Governance Framework

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

- Statutory Instruments and Directions which describe and govern the NHSBSA's core operations, processes and structure.
- Code of Conduct and Accountability for NHS Boards, instilling a culture of accountability, probity and openness underpinning the work of the NHS.
- Matters determined by the Board which ensure that the NHSBSA has appropriate decision making processes in place, including:

- Standing Orders
- Standing Financial Instructions
- Scheme of Delegation.
- Other management information which supports effective governance and operation, i.e. corporate policies and procedures.

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

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

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

### **Pensions Board**

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

### **Pensions Compliance Team**

The Pensions Compliance Team conducts reviews covering all major aspects of the pensions administration service. During 2017-18 they have reviewed the following areas;

- Transfers out administration
- Bereavement award payments
- Ill Health award payments
- Redundancy award payments
- Early payment of actuarially reduced benefits
- Estimates of benefits
- Additional Pension
- Early Retirement Reduction Buy out
- Deferred benefits process
- Refund of contribution payments
- New Joiner processes
- Pension on Divorce administration

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

There have been four 'unsatisfactory' Compliance Reports, which related to the Transfers Out administration, Additional Pension purchase, Pension on Divorce processes and information for new joiners of a small number of non-NHS providers. Each process review highlighted some systematic issues with the lack of adequate processes and documentation. All areas only had a moderate to small number of affected cases.

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

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

In line with the TPR Code of Practice, in 2017-18 5 Breaches of Law reports were submitted to the Pensions Regulator for the non-payment of employer and employee contributions by 4 General Practices and one Independent Provider. Responses to all 5 are awaited however the Regulator is under no obligation to share results of their considerations or investigations with the Scheme and to date, has chosen not to disclose details of any remedial action taken.

In addition, a Breach of Law report was submitted to the Regulator for administrative breaches by NHS England in respect of General Practitioner pension records. A response is awaited. NHSBSA also submitted a Breach of Law report in respect of their failure to provide automatic Annual Benefit Statements (ABS) to 100% of entitled members. The Regulator has confirmed that no action is necessary in view of the proportion of members to whom an ABS was provided (almost 90%).

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

### **Financial Management**

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

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

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

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

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

### **Arrangements for the management out-sourced services**

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 continued to be partially contracted out to Equiniti during 2017-18. The contract with Equiniti can be split into a number of Service Streams outlined below:

- Finance (until July 2017)
- Communications Centre (until July 2017)
- IT
- Pensioner payroll
- Medical Services (until July 2017)
- Retained Services

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.

### **NHSBSA Board**

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

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

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

### **Board Membership and Responsibilities**

Membership of the Board during 2017-18 was made up of a non-executive Chair, five non-executive directors, Chief Executive and two executive directors, one of which was a finance director. A new Executive Director of Strategy, Business Development and Growth and new Executive Director of Finance and Commercial have been appointed and started their roles in April 2018. 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 has met nine times up to the end of March 2018 and is responsible for approving the business plan and budget in advance of the financial year. Subsequent reporting is based on an exception principle ensuring that the Board focuses on key issues and utilises its time effectively.

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

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

- Performance against the identified key performance indicators and strategic goals



- The current financial position
- People related issues
- Customer satisfaction and complaints
- Client engagement
- Progress against key change projects
- Corporate risks and issues.

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

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

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

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

Board member	Meetings Attended	Register of interests
<b>Non-executive Chair:</b> Silla Maizey	7 of 9	Non-executive director, Network Rail Director and Company Secretary, Saffron Solutions Ltd Non-executive director, John Menzies plc Non-executive director, Crown Commercial Service
<b>Non-executive:</b> Debra Bailey	7 of 9	Chief Information Officer, Nationwide Building Society (until 28 Feb 2018)
<b>Non-executive, Chair of Remuneration and Nominations Committee, Senior Independent Director:</b> Mark Ellerby	7 of 9	Non-executive director, Leeds Teaching Hospitals Trust Trustee, Dementia Forward
<b>Non-executive, Chair of Audit and Risk Management Committee:</b> Andrew Flanagan	7 of 9	Commissioner, Civil Service Commission Member of Advisory Board, NHS NELCSU Non-executive director, Criminal Injuries Compensation Authority Chair, Scottish Police Authority (until 30 Nov 2017)
<b>Non-executive:</b> Tim Nolan	7 of 9	Partner, LORW Ltd Management Consultancy Director, LORW Investments Ltd
<b>Non-executive (tenure started 15 Sep 2017):</b> Karen Seth	4 of 4	HR Director, Funeralcare, Life Planning and Legal Services, Co-op Trustee, Newcastle Law Centre
<b>Chief Executive (from 8 May 2017), Director of Service Delivery (until 7 May 2017):</b> Alistair McDonald	8 of 9	Nothing declared
<b>Director of Corporate Services and Corporate Secretary (from 1 Sep 2017):</b> Mark Dibble	5 of 5	Nothing declared

<b>Director of Finance and Commercial (from 1 Sep 2017 until 31 March 2018), Director of Finance and Corporate Services (until 31 Aug 2017):</b> Patrick McGahon	8 of 9	Chairman, Carlisle College
<b>Director of Change and Commercial Delivery (role removed from Board following reorganisation 30 Aug 2017):</b> Steven Pink	4 of 4	Nothing declared
<b>Chief Executive (retired 7 May 2017):</b> Nick Scholte	1 of 1	Nothing declared

### NHSBSA Board review of effectiveness

The NHSBSA Board is required to consider its own effectiveness on a regular basis. In 2015-16, the Board engaged an independent and experienced assessor to undertake the review. The process involved a series of discussions and one-to-one interviews. This in-depth review is scheduled to take place every three years, with an online review being completed in other years. The 2017-18 online review was completed in February 2018. Areas highlighted for consideration included further engagement between Board meetings, Board succession planning and a review of the standard format and information contained in some reports received by the Board. The recommendations were accepted by the Board and actions are being taken forward.

During 2017-18, the Board continued to operate within its governance framework and codes of conduct. Furthermore, the NHSBSA has:

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

### Audit and Risk Management Committee

The Committee is chaired by a non-executive director and has met four times during 2017-18. Membership of this Committee is made up of three non-executive directors including the Chair, one of whom is required to have recent and relevant financial experience. Andrew Flanagan provides this experience and also chairs the Committee.

There is also a requirement for regular attendance from the Director of Finance and Commercial and representatives from both internal and external audit. The Chief Executive and Accounting Officer also attends the meeting, including specifically to discuss the assurance processes which support the production of the Annual Report and Accounts. Other staff are invited to attend meetings as appropriate.

Audit and Risk Management Committee	Meetings Attended
<b>Non-executive Directors:</b>	
Andrew Flanagan (Chair of Committee)	4 of 4
Debra Bailey	3 of 4
Tim Nolan	4 of 4
Malcolm Green (co-opted member 1 Apr to 31 Jul 2017)	3 of 3
<b>Executive Directors:</b>	
Alistair McDonald (Chief Executive)	3 of 4
Mark Dibble (Director of Corporate Services and Corporate Secretary)	1 of 1
Patrick McGahon (Director of Finance and Commercial)	4 of 4

Note: Figures do not include the postponed March 2018 meeting, which was rearranged for 4 April 2018 due to extreme weather conditions.

The Committee is responsible for providing the Board with an independent and objective view of the adequacy and effectiveness of the NHSBSA's governance and assurance arrangements, including the governance framework, risk management, controls and related assurances. Updates are provided to the Board following each meeting and subsequent Board meetings receive copies of the confirmed minutes. An annual report is submitted to the Board following the completion of the Annual Accounts process which summarises the work undertaken by the Committee during the previous year. In addition, the Committee receives an annual review of the NHSBSA Risk Management Framework. This was most recently undertaken in June 2017 and concluded that the framework was effective and fit-for-purpose.

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

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

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

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

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

The Committee reviewed its effectiveness during February 2018 using an online survey. The questions were the same as those used in 2017 for comparison purposes. Overall, the results were positive and confirmed the effectiveness of the Committee. Some minor areas were highlighted for consideration including the continuation of the programme of training for Committee members which started in 2017-18.

### **NHSBSA Sponsorship Arrangements**

The NHSBSA manages a complex range of business activities on behalf of the DHSC. Accountability arrangements with the Department comprise an overall Senior Departmental Sponsor, with individual sponsors providing policy direction for each core service stream.

A clear ongoing accountability framework is in operation, which includes formal reviews with Senior Sponsors. This is consolidated through a formal framework agreement between the NHSBSA and DHSC. Strategic, policy and operational issues are reviewed alongside the corporate risk register, assurance arrangements and the latest financial position. Additionally, regular scheduled meetings are held with the individual service sponsors.

### External Auditors

The Comptroller and Auditor General (C&AG) is appointed by Statute as external auditor for the NHS Pension Scheme accounts. The C&AG does not undertake any non-audit services on behalf of the NHSBSA.

### NHSBSA Management

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



Note: Only the Chief Executive and Executive Directors are members of the Board. Andy McKinlay and Allison Newell joined the Leadership Team after 31 March 2018.

## Key Governance Systems

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

- Risk management
- Assurance
- Managing information

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

## Risk Management

Risk appetite - Risk appetite can be defined as 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:

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

## Significant risks and issues

In a dynamic and complex business environment significant risks can always be encountered.

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

- **Attraction and retention of specialist capability**

Throughout 2017 specific capability issues have been identified across the organisation, particularly in key technological roles. Specific local plans have been put in place to address these needs, and this has reduced the risk at a corporate level, although specific challenges remain at an operational/project level.

- **IT infrastructure and systems**

During 2017-18 a number of the critical software and hardware issues have been addressed. Where strategic issues remain, plans have been agreed to ensure appropriate action is taken. This has resulted in the risk being downgraded from a strategic risk, with mitigations being managed locally on a case-by-case basis.

### Current risks / issues

The following summarises the ongoing significant risks and issues that are specific to the NHS Pension Scheme at the end of 2017-18, focusing on the most highly rated and of significance for our stakeholders.

- **Payment to NHS pensioners**

With current contractual arrangements to run the NHS Pensions service coming to an end, there is a risk of service disruption if the re-procurement and insourcing project does not transition as required. Currently, the project is on target, with an agreed approach with the DHSC.

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

The ITIS Programme, created to deliver the replacement of the current outsourced IT arrangements, has faced considerable challenges including unsuccessful procurement exercises, and will now not deliver in line with its original timescales of December 2018. Work has been undertaken to re-plan the delivery of the programme's objectives, and ensure ongoing delivery of the Authority's IT requirements.

- **Information security**

Although the organisation has not suffered any major issues in this area, the volumes and sensitivity of data we hold means the Leadership Team and Board have purposefully continued to closely monitor the organisation's approach to information and cyber security. Ongoing benchmarking against best practice standards and ongoing scrutiny by our Audit and Risk Management Committee ensures the risk is managed as threats continue to evolve on a day-by-day basis. Improvements are also being made through our IT and digitisation programmes, and the implementation of a new Information Security management System (ISMS).

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

The introduction of GDPR creates risks for any organisation handling relevant data, including the possibility of legal breaches and significant fines. The NHSBSA has set up a specific cross-organisation project to help deliver compliance with new requirements. Assurance of

the activities being undertaken is being provided via a number of sources, including audit work by our internal audit service.

### Assurance arrangements

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

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

This model provides the basis upon which the NHSBSA leadership 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.

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

The Audit and Risk Management Committee has continued a programme of ‘Areas of Focus’ exercises to assure itself on behalf of the Board regarding the robustness of controls. During 2017-18 exercises were carried out in the following areas:

- IT Infrastructure and Sourcing Programme
- IT Service Continuity
- Cyber Security
- General Data Protection Regulation (GDPR)

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

### Managing Information

During 2017-18 the NHSBSA has maintained its approach to handling information efficiently and securely. Each year, the NHSBSA undertakes a detailed self-assessment using the NHS-wide Information Governance Toolkit. Using this toolkit, the NHSBSA’s rating for 2017-18 was an overall ‘satisfactory’ rating.

Over 600 security incidents were raised and closed in 2017-18, however there have not been any classified as serious (level 2) by the DHSC during the period. Using the DHSC categorisation framework, there were 10 incidents classed as minor (level 1), with 2 relating to the Pension Scheme, however, these are not required to be formally reported to the DHSC.

Category	Nature of incident	NHSBSA	Pension	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured NHS premises	1	0	1
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured NHS premises	2	1	3
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0	0	0
IV	Unauthorised disclosure	4	1	5

V	Other	1	0	1
	<b>Total number of incidents</b>	<b>8</b>	<b>2</b>	<b>10</b>

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 Executive Director of Corporate Services who holds the position of Senior Information Risk Owner (SIRO). In attendance at that meeting is the Caldicott Guardian the position of which is held by the Chief Insight Officer who ensures that any patient 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 2017-18 we dealt with 122 DPA requests relating to the NHS Pension Scheme. All but 9 were responded to within the required timeframe.

The NHSBSA is also subject to the requirements of the Freedom of Information Act (FOI) 2000. This means that all requests for information are responded to within the provisions of the Act, typically within 20 working days. During 2017-18, we dealt with 50 FOI requests relating to the NHS Pension Scheme. All but 3 were responded to within the required timeframe.

As a public sector information holder, the NHSBSA complies with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. The NHSBSA can confirm that for 2017-18 no charges were made for access to information under the Freedom of Information Act 2000, but that a £10 fee per request was charged for Subject Access Requests made under the provisions of the Data Protection Act 1998.

### **Whistleblowing**

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

### **Handling Complaints**

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

During 2017-18 we have maintained our approach to handling complaints, learning lessons about our services, putting things right when things have gone wrong and apologising when we have let anyone down.

The total number of formal complaints received during 2017-18 (classified as Internal Dispute Resolution (IDR) stage 1 cases), relating to the NHS Pension Scheme was 618, of which 165 were upheld (29%). This compares with 671 of which 228 were upheld (34%) in 2016-17.



## Sources of Assurance

### Audit and Risk Management Committee

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

The following is a list of the key reports:

- Risk Management updates - setting out and assessing the major risks and issues that we face, aligned with key areas of focus set out in the Business Plan and Strategy. These reports detail the movements in risks and issues between reporting periods and identify emerging risks and issues, the actions which have been taken or are planned to mitigate them, estimated post-mitigation risk and the target date
- 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 – annual review of the assurance mapping arrangements in place across the business
- Areas of Focus presentations – focusing on high-risk areas, or other topics highlighted, for example, through internal audits, assurance maps, etc
- Internal Audit progress report – regular progress reports on the work undertaken by Internal Audit against agreed plan
- External Audit reports – regular progress reports on the work undertaken by External Audit
- Internal/External Audit recommendations tracker – updates on progress made across the NHSBSA in implementing audit recommendations
- Fraud / Local Security Management annual reports - reports detailing the work undertaken during the year mapped against the agreed work plans
- Whistleblowing update report – updates on whistleblowing activity across the business each year

### Other Sources of Assurance

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

- Risk Management Process – see Risk Management section.
- 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 IG Toolkit.
- Diversity and Inclusion Committee - controls are in place to ensure that all of our obligations under equality, diversity and human rights legislation are adhered to. The Diversity and Inclusion Committee, which is chaired by the Chief Executive, monitors performance against our Diversity and Inclusion 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 Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations. In addition, access restrictions to staff pension records exist within pension administration systems with limited authorised staff able to view or amend records directly.
- Community, Environment and Wellbeing (CEW) Committee – our strategies and action plans in relation to community, environment and wellbeing are monitored by the CEW Committee, which is chaired by the Executive Director of Corporate Services. The NHSBSA must also deliver against the Greening Government Commitments, requiring regular performance updates provided to the DHSC, 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's opinion was that, based on the work completed to date, there is moderate assurance given to the Accounting Officer that the NHSBSA has had adequate and effective systems of control, governance and risk management in place for the reporting year 2017-18.

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

- The work of the Audit and Risk Management Committee which informs the Board about the outcome of its activities through submission of its minutes and its annual report to the Board
- The findings of both the NAO and the internal audit reviews. The Audit and Risk Management Committee oversees progress towards the implementation of all such recommendations
- The work of the Fraud Specialists is to prevent, deter, investigate and report fraud activity.

The Audit and Risk Management Committee receives the annual work plan and annual report of the Fraud Specialists and provides updates to the Board as appropriate.

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

### **Significant Governance Issues**

There were no significant issues raised during 2017-18.

### **Conclusion**

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

**Alistair McDonald**  
**Chief Executive**  
**NHS Business Services Authority**  
**11 July 2018**

**PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT**

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

**Summary of Resource and Capital Outturn 2017-18**

£000								2017-18	2016-17
	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>SoPS1</b>	26,747,300	-	26,747,300	26,504,809	-	26,504,809	242,491	18,274,469
- Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>26,747,300</b>	-	<b>26,747,300</b>	<b>26,504,809</b>	-	<b>26,504,809</b>	<b>242,491</b>	<b>18,274,469</b>

Total Resource		26,747,300	-	26,747,300	26,504,809	-	26,504,809	242,491	18,274,469
Total Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>26,747,300</b>	-	<b>26,747,300</b>	<b>26,504,809</b>	-	<b>26,504,809</b>	<b>242,491</b>	<b>18,274,469</b>

**Net Cash Requirement 2017-18**

£000	Note	2017-18		2017-18		2016-17
		Estimate		Outturn	Outturn compared with Estimate saving/ (excess)	Outturn
	<b>SoPS2</b>		<b>273,787</b>	<b>(334,014)</b>	<b>607,801</b>	<b>(306,581)</b>

**Administration Costs 2017-18**

2017-18 Estimate	2017-18 Outturn	2016-17 Outturn
-	-	-

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control. Explanations of variances between Estimate and outturn are given in SoPS1 and SoPS2.

## Notes to the Statement of Parliamentary Supply

### SOPS1 Net outturn – analysis by section

£000	2017-18										2016-17
	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	-	-	-	37,441,509	(10,936,700)	26,504,809	26,504,809	26,747,300	242,491	242,491	18,274,469
Non Voted	-	-	-	-	-	-	-	-	-	-	-
Non-budget	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	<b>37,441,509</b>	<b>(10,936,700)</b>	<b>26,504,809</b>	<b>26,504,809</b>	<b>26,747,300</b>	<b>242,491</b>	<b>242,491</b>	<b>18,274,469</b>

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

The outturn is less than the Estimate due to:

- income received being £159 million higher than forecast, due primarily to increased contributions as a result of pensionable pay-bill growth being higher than forecast; and
- the final actuarial assessment of the current service cost being lower than the provisional assessment used in the Estimate.

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

	2017-18	2017-18	2017-18
	Estimate	Outturn	Net total outturn compared with Estimate:
	£000	£000	saving/(excess)
	£000	£000	£000
<b>Resource Outturn</b>	26,747,300	26,504,809	242,491
<b>Capital Outturn</b>	-	-	-
<b>Accruals to cash adjustment:</b>			
Adjustments to remove non-cash items:			
Non-cash items	(37,487,000)	(37,403,974)	(83,026)
Adjustments to reflect movements in working balances:			
Changes in payables, receivables and prepaid pension benefits	171,487	(22,147)	193,634
Use of provision	10,842,000	10,587,298	254,702
<b>Net cash requirement</b>	<b>273,787</b>	<b>(334,014)</b>	<b>607,801</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 £255 million less than forecast, primarily as a result of lump sum payments being lower in the final quarter of the year compared to the levels in the first three quarters which informed the Estimate; and
- income received being higher than forecast by £159 million; and

- a change in accruals adjustments being £194 million, primarily due to the prepayment of lump sums being lower than the amount within the Estimate.

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

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

	Outturn 2017-18		Outturn 2016-17	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	<i>334,014</i>	-	<i>306,581</i>
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b><i>334,014</i></b>	<b>-</b>	<b><i>306,581</i></b>

### Parliamentary Accountability Disclosures (subject to audit)

#### Losses and special payments

##### Losses Statement

	2017-18	2016-17
Total number of losses*	7,822	24,954
Total value of losses (000's)	1,540	1,706

\*The higher number of cases during 2016-17 was related to the clearance of overpayments relating to Guaranteed Minimum Pension.

##### Special payments Statement

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

	2017-18	2016-17*
Total number of special payments	74	79
Total value of special payments (000's)	148	60

\*2016-17 data has been provided for comparative purposes.

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

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

### **Opinion on financial statements**

I certify that I have audited the financial statements of the NHS Pension Scheme (incorporating the NHS Compensation for Premature Retirement Scheme) for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and related notes and the information in the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2018 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Basis of opinions**

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the NHS Pension Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NHS Pension Scheme's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NHS Pension Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



## Other Information

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

## Opinion on other matters

In my opinion:

- the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the NHS Pension Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the Accountability Report; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report exception

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

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

## Report

I have no observations to make on these financial statements.

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

**Date 16 July 2018**

## FINANCIAL STATEMENTS

### Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

	Note	<u>2017-18</u> £000	<u>2016-17</u> £000
<b>Income</b>			
Contributions receivable	3	(10,779,459)	(10,424,973)
Transfers in	4	(71,622)	(62,324)
Other income	5	(85,619)	(48,089)
		<u>(10,936,700)</u>	<u>(10,535,386)</u>
<b>Expenditure</b>			
Service Cost	6	22,800,000	14,800,000
Enhancements	7	132,352	147,531
Transfers in – additional liability	8	71,622	62,324
Pension financing cost	9	14,400,000	13,800,000
Administration cost	10	37,535	-
		<u>37,441,509</u>	<u>28,809,855</u>
<b>Net Expenditure</b>		<u>26,504,809</u>	<u>18,274,469</u>
<b>Other Comprehensive Net Expenditure</b>			
Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	14	178,979	(28,393)
Pension re-measurements			
Actuarial (gain)/loss	17.7	(10,116,676)	108,668,275
<b>Total Comprehensive Net Expenditure for the year ended 31 March 2018</b>		<u>16,567,112</u>	<u>126,914,351</u>

The notes on pages 43-55 form part of these accounts.

**Combined Statement of Financial Position**  
as at 31 March 2018

		<b>31 March 2018</b>	<b>31 March 2017</b>
	Note	£000	£000
<b>Current assets:</b>			
Receivables	12	896,557	854,174
Cash and cash equivalents	13	334,014	306,581
Prepayments	15	87,896	108,683
<b>Total current assets</b>		<b>1,318,467</b>	<b>1,269,438</b>
<b>Current liabilities:</b>			
Payables (within one year)	16	(773,401)	(702,225)
<b>Net assets, excluding pension liability</b>		<b>545,066</b>	<b>567,213</b>
Estimated discounted future cashflows in respect of premature retirement recharges	14	404,728	583,707
Pension Scheme liability	17.4	(526,100,000)	(509,400,000)
<b>Net liabilities, including pension liability</b>		<b>(525,150,206)</b>	<b>(508,249,080)</b>
<b>Taxpayers' equity:</b>			
General fund		(525,150,206)	(508,249,080)
		<b>(525,150,206)</b>	<b>(508,249,080)</b>

**Alistair McDonald**  
Chief Executive  
NHS Business Services Authority  
11 July 2018

The notes on pages 43-55 form part of these accounts.

**Combined Statement of Changes in Taxpayers' Equity**  
for the year ended 31 March 2018

	Note	<u>2017-18</u> £000	<u>2016-17</u> £000
<b>Balance at 1 April</b>		<b><u>(508,249,080)</u></b>	<b><u>(381,028,148)</u></b>
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	14	(178,979)	28,393
Surplus cash payable to the Consolidated Fund	16	(334,014)	(306,581)
<b>Net Expenditure for the year</b>		<b><u>(26,504,809)</u></b>	<b><u>(18,274,469)</u></b>
Actuarial gain/(loss) – NHS Pension Scheme	17.7	10,116,676	(108,668,275)
<b>Net change in Taxpayers' Equity</b>		<b><u>(16,901,126)</u></b>	<b><u>(127,220,932)</u></b>
<b>Balance at 31 March</b>		<b><u>(525,150,206)</u></b>	<b><u>(508,249,080)</u></b>

The notes on pages 43-55 form part of these accounts.

**Combined Statement of Cash Flows**  
for the year ended 31 March 2018

	2017-18	2016-17
Note	£000	£000
<b>Cash flows from operating activities</b>		
Net expenditure for the year	(26,504,809)	(18,274,469)
Adjustments for non-cash transactions:		
Increase in receivables	(42,383)	(1,784)
Increase/(decrease) in payables	43,743	(40,208)
Decrease/(increase) in prepaid lump sum benefits	15 20,787	(108,683)
Increase in pension provision	17.4 37,200,000	28,600,000
Increase in pension provision – enhancements and transfers in	17.4 203,974	209,855
Use of provisions – pension liability	17.5 (10,323,909)	(9,886,973)
Use of provisions – refunds and transfers	17.6 (263,389)	(191,157)
<b>Net cash inflows from operating activities</b>	<b>334,014</b>	<b>306,581</b>
<b>Cash flows from financing activities</b>		
From the Contingencies Fund – current year	680,000	850,000
From the Consolidated Fund (non-Supply)	-	-
<b>Net Parliamentary financing</b>	<b>680,000</b>	<b>850,000</b>
Repayment to the Contingencies Fund – current year	(680,000)	(850,000)
<b>Net financing</b>	<b>-</b>	<b>-</b>
<b>Net Increase in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund</b>	<b>334,014</b>	<b>306,581</b>
Payments of amounts to the Consolidated Fund	(306,581)	(448,244)
<b>Net increase/(decrease) in cash and cash equivalents in the year after adjustments for receipts and payments to the Consolidated Fund</b>	<b>27,433</b>	<b>(141,663)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>306,581</b>	<b>448,244</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>334,014</b>	<b>306,581</b>

The notes on pages 43-55 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 2017-18 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

The following accounting standards were issued at the reporting date but are not yet effective:

IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases – there are no material balances within the NHSPS financial statements which will be affected by the implementation of these standards.

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

#### 1.1 NHS Pension Scheme

The NHS Pension Scheme is 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. The income received currently exceeds payments made by the Scheme, the balance of surplus cash is returned to HM Treasury. If payments exceed income, the balance of the funding would need to be provided by Parliament through the annual Supply Estimates process.

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

#### 1.2 NHS Pension for Premature Retirement Scheme

The NHS Pension Scheme acts as a principal for employers in the payment of compensation benefits arising under the NHS Compensation for Premature Retirement Scheme. Employers now only have the option of discharging their liability by way of payment of a capital sum, previously employers could pay for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. This arrangement ceased for employers from 1 October 2011

but the costs for historic cases are still being met by employers. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding estimated Discounted Future Cash flow within Combined Statement of Financial Position).

## **2. Accounting policies**

The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

### **2.2 Contributions receivable**

- Employers' normal pension contributions are accounted for on an accruals basis.
- Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.
- Employees' normal pension contributions are accounted for on an accruals basis.
- Employees' contributions paid in respect of the purchase added years are accounted for on an accruals basis, and additional pension contributions are accounted for on a cash basis. The associated increase in the scheme liability is recognised as expenditure.
- Where Scheme members make Additional Voluntary Contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 11 to the financial statements. Please refer to Note 11 for further information on Scheme AVC providers.

### **2.3 Transfers in and out**

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

### **2.4 Administration levy and costs**

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

Administration costs include all staff costs, overheads and general administration costs attributed to the Scheme.

## **2.5 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 0.24% (2016-17 1.37%) and 2.80% including inflation (2016-17 3.60%). These assumptions are used to calculate the in-year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability

## **2.6 Interest on Scheme liabilities**

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a gross discount rate of 2.80% (2016-17 3.60%).

## **2.7 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 2017 was discounted at a real discount rate of 0.24% (i.e. 2.80% including inflation). The discount rate changed on 31 March 2018 to 0.10% and the Scheme was discounted at that rate. Further details of the financial assumptions used are set out at Note 17.1 to these accounts and in the Report of the Actuary on pages 13 to 16. For the purposes of IAS26 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. A full member data extract as at 31 March 2017 was provided to GAD to facilitate a full actuarial valuation that has been used in the preparation of pension accounts for 2017-18.

## **2.8 Pension benefits payable**

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

## **2.9 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.

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

Compensation payments for the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative purposes, benefits are paid to



the member and the employer is subsequently re-charged for the costs. Except where stated otherwise below, the accounting policies outlined at Note 2 above, apply.

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

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

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

### 3. Contributions receivable

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Employers	(6,392,249)	(6,190,272)
Employees:		
Normal	(4,261,445)	(4,098,556)
Purchase of added years	(101,991)	(121,236)
Purchase of additional pensions	(22,681)	(13,933)
Purchase of early retirement reduction buy out	(1,093)	(976)
	<b>(10,779,459)</b>	<b>(10,424,973)</b>

£11,130 million in contributions are expected to be payable to the Scheme in 2018-19.

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

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Individual transfers in from other schemes	(68,689)	(60,123)
Group transfers in from other schemes	(2,933)	(2,201)
	<b>(71,622)</b>	<b>(62,324)</b>

### 5. Other income

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Pre funded premature retirement contributions	(6,587)	(11,386)
Rechargeable premature retirement contributions	(35,061)	(36,641)
Capitalised rechargeable premature retirement costs	(13,943)	-
Final pay control	-	54
Interest charged on contribution payments	(227)	(116)
Administration levy	(29,801)	-
	<b>(85,619)</b>	<b>(48,089)</b>

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

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Current service cost	22,600,000	14,800,000
Past service cost	200,000	-
	<b>22,800,000</b>	<b>14,800,000</b>

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

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Employees: Purchase of added years	101,991	121,236
Employees: Purchase of additional pension	22,681	13,933
Employees: Early retirement reduction buy out	1,093	976
Employers: Pre-funded premature retirement contributions	6,587	11,386
	<b>132,352</b>	<b>147,531</b>

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

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Individual transfers in from other schemes	68,689	60,123
Group transfers in from other schemes	2,933	2,201
	<b>71,622</b>	<b>62,324</b>

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

**9. Pension financing cost (see also note 17.4)**

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Net interest on defined benefit liability	14,400,000	13,800,000

**10. Scheme administration cost**

As detailed in note 3.5 of the Report of the Managers, there is no comparative figure for 2016-17 as the Scheme administration costs were met by the NHSBSA.

	<b>2017-18</b>
	£000
Scheme administration cost	<b>37,535</b>

## 11. Additional Voluntary Contributions

The NHS Pension Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to increase their pension entitlement or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment direct to the approved provider, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contributions Schemes. The NHS employers are responsible for payments made to the Scheme's approved provider. Members participating in this arrangement receive an annual statement from the approved provider made up to 5 April each year confirming the amounts held in their account and the movements in the year. AVC contributions are not part of the Scheme account cash flows or financial statements. Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments were as follows:

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
<b>The Equitable Life Assurance Society (ELAS)</b>		
Movements in the year were as follows:		
Balance at 1 April	100,002	100,102
New investments	526	667
Sale of investments to provide pension benefits	(7,761)	(11,502)
Changes in market value of investments	1,908	10,735
Balance at 31 March	<u><b>94,675</b></u>	<u><b>100,002</b></u>
Contributions received to provide life cover	-	-
Benefits paid on death	114	224
	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
<b>Standard Life Assurance Company</b>		
Movements in the year were as follows:		
Balance at 1 April	128,109	118,233
New investments	1,890	1,997
Sale of investments to provide pension benefits	(10,358)	(11,149)
Changes in market value of investments	2,186	19,028
Balance at 31 March	<u><b>121,827</b></u>	<u><b>128,109</b></u>
Contributions received to provide life cover	-	-
Benefits paid on death	100	-
	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
<b>Prudential Plc</b>		
Movements in the year were as follows:		
Balance at 1 April	62,943	54,883
New investments	2,915	3,073
Sale of investments to provide pension benefits and switches to new funds	(6,767)	(5,194)
Changes in market value of investments	1,824	10,181
Balance at 31 March	<u><b>60,915</b></u>	<u><b>62,943</b></u>
Contributions received to provide life cover	-	-
Benefits paid on death	177	38

## 12. Receivables

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

### Analysis by type

	<u>31 March 2018</u>	<u>31 March 2017</u>
	£000	£000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	518,988	493,622
Employees' normal contributions	345,043	329,326
Purchase of added years	7,724	8,913
Purchase of additional pensions	1,927	1,492
Purchase of early retirement reduction buy out	90	89
Invoiced pre-funded premature retirement contributions	428	823
Invoiced re-chargeable premature retirement contributions	9,038	9,166
Invoiced final pay control income	69	69
<b>Total due from employers</b>	<b>883,307</b>	<b>843,500</b>
Overpaid pension benefits	11,771	10,674
HMRC - VAT	1,479	-
<b>Total due within one year</b>	<b>896,557</b>	<b>854,174</b>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total receivables</b>	<b>896,557</b>	<b>854,174</b>

## 13. Cash and cash equivalents

	<u>2017-18</u>	<u>2016-17</u>
	£000	£000
Balance at 1 April	306,581	448,244
Net change in cash balances	27,433	(141,663)
<b>Balance at 31 March</b>	<b>334,014</b>	<b>306,581</b>
The following balances at 31 March were held at:		
Government Banking Service	334,009	306,524
Commercial banks and cash in hand	5	57
<b>Balance at 31 March</b>	<b>334,014</b>	<b>306,581</b>

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

Where the employer chose to pay the costs for premature retirements on a quarterly recharge basis, income is recognised as the invoices are raised. Amounts receivable in respect of the

compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, is classified as “Other Pension Income” to the pension scheme.

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

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Balance at 1 April	583,707	555,314
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(178,979)	28,393
<b>Balance at 31 March</b>	<b>404,728</b>	<b>583,707</b>

## 15. Prepayments – prepaid pension benefits

To ensure members receive their benefits on their due date, and where the due date falls on a weekend or bank holiday, the payment is made on the nearest preceding working day. The prepaid benefits relate to pension lump sum amounts paid at the end of March where the due date was the 1<sup>st</sup> and 2<sup>nd</sup> of April, for both 2017 and 2018.

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
Prepaid pension benefits	87,896	108,683
	<b>87,896</b>	<b>108,683</b>

## 16. Payables

### Analysis by type

	<b>31 March 2018</b>	<b>31 March 2017</b>
	£000	£000
<b>Amounts falling due within one year:</b>		
Pensions	(312,306)	(294,985)
HMRC	(112,073)	(96,235)
Voluntary deductions	(274)	(264)
Scheme administration costs payable to NHSBSA	(8,239)	-
Amounts due to employers:		
Employee and employer contributions	(6,495)	(4,158)
Pre funded premature retirements	-	(1)
Rechargeable premature retirements	-	(1)
	<b>(439,387)</b>	<b>(395,644)</b>
Amount due to be paid to the Consolidated Fund	(334,014)	(306,581)
	<b>(773,401)</b>	<b>(702,225)</b>
<b>Amounts falling due after more than one year</b>	<b>-</b>	<b>-</b>
<b>Total payables</b>	<b>(773,401)</b>	<b>(702,225)</b>

## 17. Provisions for pension liabilities

### 17.1 Assumptions underpinning the provision for pension liability

The NHS Pension Scheme is an unfunded defined benefit Scheme. GAD carried out an assessment of the Scheme liabilities as at 31 March 2017. The Report of the Actuary on pages 13 to 16 sets out the scope, methodology and results of the work the actuary has carried out.

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

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

The membership data used was based on the position as at 31 March 2017, and the results rolled forward to 31 March 2018 to estimate the position in 2017-18.

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

At 31 March	31 March 2018	31 March 2017
Nominal discount rate	2.55%	2.80%
Rate of pension increases	2.45%	2.55%
Rate of general pay increases	3.95%	4.55% from 2020-21
Rate of short-term general pay increase	n/a	1.0% pa to 2019-20
Real discount rate in excess of:		
Pension increases	0.10%	0.24%
Long-term pay increases	(1.4%)	(1.7%)
Life expectancies		
Life expectancy at age 60 –current pensioners		
Men	29.4	30.4
Women	30.8	31.9
Life expectancy at age 60 – current age 40		
Men	31.5	32.6
Women	32.8	34.1
Life expectancy at age 65 –current pensioners		
Men	24.4	25.3
Women	25.8	26.9
Life expectancy at age 65 –current age 45		
Men	26.4	27.5
Women	27.7	29.0

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

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most

appropriate rates to use in the annual valuation of the Scheme liabilities. However, the Scheme managers acknowledge that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

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

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

## 17.2 Analysis of the provision for pension liability

At 31 March	2018	2017	2016	2015	2014
Active members (past service)	307.5	274.0	208.2	218.5	188.3
Deferred Pensions	61.6	52.0	40.7	39.9	33.8
Pensions in payment	157.0	183.4	133.1	132.2	115.1
<b>Total liability</b>	<b>526.1</b>	<b>509.4</b>	<b>382.0</b>	<b>390.6</b>	<b>337.2</b>

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

The value of the liability included on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, then the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in Note 17.7. The notes also disclose 'experience' gains or losses for the year showing the amounts charged or credited for the year because events have not coincided with assumptions made for the last valuation.

### 17.3 Sensitivity analysis

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

Change in assumption *		Approximate effect on total liability	
<b>Financial assumptions</b>			
(i)	discount rate increase*: 0.5 % a year	-13.0%	−£68.4 billion
(ii)	(long term) earnings increase*: 0.5 % a year	+2.0%	+£10.5 billion
(iii)	pension increases*: 0.5 % a year	+9.0%	+£47.4 billion
<b>Demographic assumptions</b>			
(iv)	additional 1 year increase in life expectancy at retirement:	+3.0%	+£15.8 billion
(v)	1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)	+1.5%	+£7.9 billion

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

### 17.4 Analysis of movements in the Scheme liability

	Note	2017-18	2016-17
		£000	£000
<b>Scheme liability as at 1 April</b>		<b>(509,400,000)</b>	<b>(382,000,000)</b>
Service cost	6	(22,600,000)	(14,800,000)
Past service cost	6	(200,000)	-
Pension financing cost	9	(14,400,000)	(13,800,000)
		<u>(37,200,000)</u>	<u>(28,600,000)</u>
Enhancements	7	(132,352)	(147,531)
Pension transfers in	8	(71,622)	(62,324)
		<u>(203,974)</u>	<u>(209,855)</u>
Benefits payable	17.5	10,323,909	9,886,973
Pension payments to and on account of leavers	17.6	263,389	191,157
		<u>10,587,298</u>	<u>10,078,130</u>
Actuarial gain/(loss)	17.7	10,116,676	(108,668,275)
<b>Scheme liability as at 31 March</b>		<b>(526,100,000)</b>	<b>(509,400,000)</b>

During the year ended 31 March 2018, contributions represented an average of 23.8% of pensionable pay (excluding purchase of added years and additional pension contributions), and are anticipated to remain at this level in the immediate future years.

### 17.5 Analysis of benefits paid

	2017-18	2016-17
	£000	£000
Pensions to retired employees and dependants (net of recoveries of overpayments)	8,082,614	7,668,589
Commutations and lump sum benefits on retirement	2,241,295	2,218,384
<b>Per Combined Statement of cash flows</b>	<b>10,323,909</b>	<b>9,886,973</b>



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

	<b>2017-18</b>	<b>2016-17</b>
	£000	£000
Death in service	52,742	59,660
Individual transfers to other schemes	53,623	69,485
Group transfers to other schemes	68,441	7,044
Payment to State Scheme	44,837	16,346
Refunds to members leaving service	43,746	38,622
<b>Per Combined Statement of Cashflows</b>	<b>263,389</b>	<b>191,157</b>

## 17.7 Analysis of actuarial gain/(loss)

		<b>2017-18</b>	<b>2016-17</b>
	Note	£000	£000
Experience gain arising on Scheme liabilities	17.7.1	5,816,676	8,031,725
Changes in assumptions underlying the present value of Scheme liabilities	17.7.2	4,300,000	(116,700,000)
<b>Per Combined Statement of Comprehensive Net Expenditure</b>		<b>10,116,676</b>	<b>(108,668,275)</b>

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

### 17.7.1 Experience gain

The following table sets out an analysis of the experience gain for 2017-18.

<b>Experience gain</b>	<b>2017-18</b>
	<b>£billion</b>
April 2018 pension increase higher than expected	(1.0)
Membership and other experience	6.8
<b>Total experience gain</b>	<b>5.8</b>

### 17.7.2 Change in assumptions

The following table sets out an analysis of the impact in changes to assumptions on the scheme liability as at 31 March 2018.

<b>Reduction in liability from change in assumptions</b>	<b>2017-18</b>
	<b>£billion</b>
Change in projected improvements in mortality	20.4
Change in baseline mortality assumptions	2.9
Change in demographic assumptions (other than mortality)	1.8
Change in short term pay growth	(9.9)
Change in long term pay growth	10.2
Change in PES discount rate and pension increase	(21.1)
<b>Total changes in experience</b>	<b>4.3</b>

## 17.8 History of experience gains/(losses)

	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Experience gains/losses on the scheme liabilities:</b>					
Amount (£000)	5,816,676	8,031,725	3,815,355	1,713,105	(2,216,825)
Percentage of the present value of the scheme liabilities	-1.11%	-1.58%	-1.00%	-0.44%	0.66%
<b>Total amount recognised in Statement of Other Comprehensive Net Expenditure</b>					
Amount (£000)	10,116,676	(108,668,275)	28,415,355	(34,286,895)	(38,016,125)
Percentage of the present value of the scheme liabilities	-1.92%	21.33%	-7.44%	8.78%	11.27%

## 18. Financial Instruments

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

## 19. Contingent liabilities disclosed under IAS 37

The Scheme only has the contingent liability as disclosed below.

### Additional Voluntary Contributions

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

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

## 20. Related-party transactions

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

## 21. Events after the Reporting Period

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.



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