

# *NHS Pension Scheme*

*(incorporating the NHS Compensation for Premature Retirement Scheme)*

## **Annual Accounts 2019-20**



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## **Annual Accounts 2019-20**

*Accounts presented to the House of Commons pursuant to Section 7 of the  
Government Resources and Accounts Act 2000*

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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 effectively 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 Pension 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 Scheme's 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 2020 there were 8,290 participating employers falling into the following categories:

Employer category	As at 31 March 2020	As at 31 March 2019
NHS Trusts and Local Health Boards (note1)	233	237
GP practices	6,746	6,920
Arm's length bodies	14	14
Direction bodies	555	563
Clinical Commissioning Groups and Support Units	184	224
Local Authorities (including PHT from 1 <sup>st</sup> April 2013)	134	154
New Fair Deal contracts	263	247
Independent Providers contracts (note 2)	161	127
<b>Total</b>	<b>8,290</b>	<b>8,486</b>

Note 1 – Local Health Boards are only applicable in Wales.

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 2019-20 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 Cost of audit of the Scheme**

The Comptroller and Auditor General is appointed by statute to audit these accounts and his certificate and report appears on pages 39 to 42. The notional fee for the year is £106,000 (2018-19 £95,000) and relates to the statutory audit of the scheme's accounts. The notional fee is reflected in the accounts of the NHSBSA. The National Audit Office (NAO), as the Scheme's external auditor's, provided no other services during the year.

### **2.4 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 21 to 34.

### **2.5 Arrangements governing determination of contribution rates and benefits**

A full actuarial (funding) valuation is undertaken every four years and its purpose is to assess the liability in respect of the benefits due under the schemes (taking into account recent demographic experience), and to recommend contribution rates payable by employees and employers. The latest actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2016. The results of this valuation set the employer contribution rate payable from 1 April 2019 at a rate of 20.6% of pensionable pay.

The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap that was set following the 2012 valuation. In January 2019, the Government announced a pause to the cost control element of the 2016 valuations, due to the uncertainty around member benefits caused by the discrimination ruling relating to the McCloud case. As that uncertainty is now receding (see note 4.4.1) the Government announced in July 2020 that the pause has been lifted, and so the cost control element of the 2016 valuations can now be completed. The Government has set out that the costs of remedy of the discrimination will be included in this process. HMT will be preparing valuation directions setting out the technical detail of how the costs of remedy will be included in the valuation process.

The Government has also confirmed that GAD will now review the cost control mechanism (as was originally announced in 2018). The review will assess whether the cost control mechanism is working in line with original government objectives, with the review reporting in time for the completion of the 2020 actuarial valuations.

### 3 Key developments in year

#### 3.1 Changes to scheme contribution rates

As detailed in note 2.5 above, the employer contribution rate increased from 14.3% to 20.6% of pensionable pay from 1 April 2019.

#### 3.2 Changes in benefits

There have been no changes to benefit structures during 2019-20.

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

Details of the current membership of the Scheme at 31 March 2020 are set out below:

##### Active Members

Active members at 1 April 2019 (note 1)	<b>1,548,984</b>
New entrants	185,005
Deferred members who re-join in the year	83,060
Re-employed pensioners	1,045
Retirements	(28,826)
Leavers with deferred pension rights	(123,722)
Members who opt-out with deferred pension rights	(44,759)
Deaths	(934)
<b>Active members at 31 March 2020</b>	<b>1,619,853</b>

##### Deferred members

Deferred members at 1 April 2019 (note 1)	<b>691,477</b>
Members leaving active membership with deferred pension rights	168,481
Members taking up deferred pension rights	(12,217)
Members who re-join the scheme	(83,060)
Movement to unclaimed refund (see note 2)	(28,717)
Members taking a refund of contributions during year	(32,280)
Transfers out	(1,803)
Death of member	(533)
<b>Deferred members at 31 March 2020</b>	<b>701,348</b>

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

Pensions in payment at 1 April 2019 (note 1)	<b>937,438</b>
Members retiring from active	28,826
Members retiring from deferred	12,217
New widows and dependants	6,292
Ill health, phased retirement and pension credit members	363
Deaths	(21,411)
Other Cessations (see note 3)	(706)
Child dependants leaving full time education	(91)
<b>Pensions in payment at 31 March 2020</b>	<b>962,928</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 2019 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in November 2019, whereas these statistics were taken from a data extract provided in May 2020 and member data is continually updated after the year end.

### 3.4 Pension flexibilities

The Government listened closely to concerns raised by clinicians that pension tax charges were prompting them to reduce their working hours or retire early from the NHS. The manifesto pledged to address the taper problem in doctors' pensions, which caused many to turn down extra shifts for fear of high tax bills. Prior to the December 2019 General Election, the Government had consulted on a package of pension flexibilities for NHS Pension Scheme members which would have allowed them to reduce their pension accrual and manage the impact of the tapered annual allowance tax structure.

At Budget in March 2020, the Government addressed this issue with a tax solution. The Chancellor confirmed at Budget that both annual allowance taper thresholds would be increased by £90,000, removing anyone with income below £200,000. However, to ensure the very highest earners pay their fair share of pension tax, the minimum level to which the annual allowance can taper down reduced from £10,000 to £4,000. This will only affect those with income, including pension accrual, over £300,000. Based on income from NHS work, these measures will take up to 98% of consultants and 96% of GPs out of the taper altogether.

The incentive to take on extra NHS work is now restored, and from 6 April 2020 clinicians can earn at least an additional £90,000 before reaching the new taper thresholds. The pension flexibilities previously consulted on will no longer be implemented.

The implementation of pension flexibilities would have required system developments and increased administration, so the Government's tax solution has averted an increase in scheme administration costs. It is anticipated that the tax solution will also lead to a significant reduction in scheme pays nominations by members effective from financial year 2020-21. The impact of this on Scheme funding and liabilities will be minimal.

## PERFORMANCE and POSITION

### 3.5 Financial position at 31 March 2020

#### 3.5.1 Resource Outturn to Supply Estimate

The 2019-20 net resource outturn was £23.04 billion and was within the voted estimate of £27.76 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure (page 42) contained within the financial statements. An explanation of the variance is provided in the SoPS1 note on page 36.

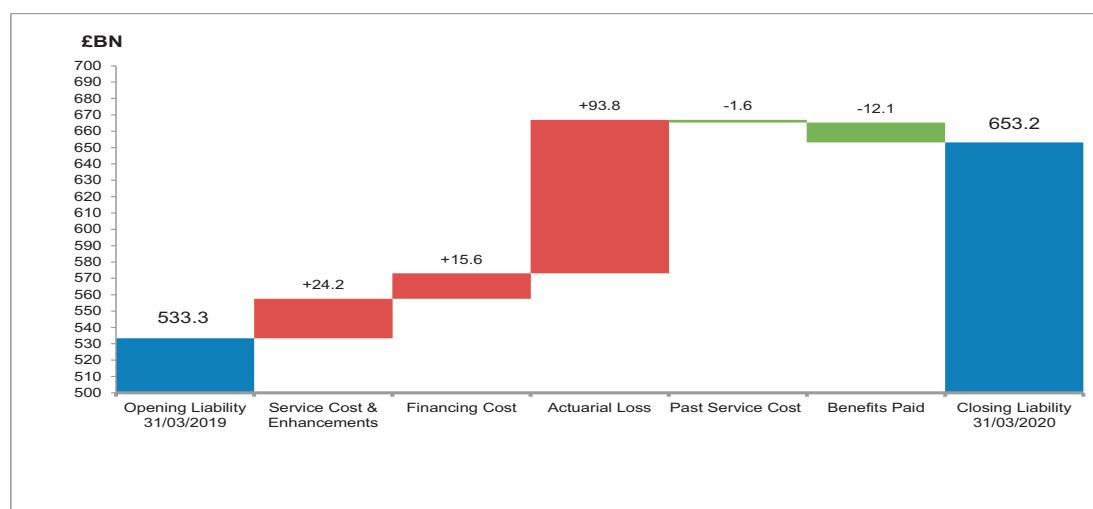
### 3.5.2 Net cash requirement

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of minus £3.02 billion against the voted estimate of minus £2.59 billion, this means the Scheme has surplus cash due to income exceeding pension benefit payments, and the £0.43 billion will be returned to Treasury during 2020-21.

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.

### 3.5.3 Financial position and key movements

As at 31 March 2020 the pension liabilities of the Scheme were valued at £653.2 billion. This is an increase of £119.9 billion from the liabilities at 31 March 2019 of £533.3 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 16 to the accounts.



### 3.5.4 Service Cost

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

The 2018-19 service cost of £24.0 billion was calculated using the accounts assumptions at 31 March 2018 and the 2019-20 service cost of £24.0 billion was calculated using the accounts assumptions at 31 March 2019. The change in service cost from year to year reflects the change in the accounts assumptions at each date. The assumptions at 31 March 2019 are set out in Table D of the Report of the Actuary. The service cost was lower than expected by £1.1 billion due to the adjustment made for the proposed changes in the McCloud case.

### 3.5.5 Past Service Cost

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

One off adjustments for past service costs have been recognised in 2019-20 of £1.5 billion in relation to Guaranteed Minimum Pension outlined in note 4.1, and £1 billion for the Goodwin legal challenge outlined in note 4.4.2.

The past service cost of £7.2bn accounted for in 2018-19 relating to transitional protection litigation (McCloud case) has been reduced by £4.1bn (voted element only), due to clarification of the proposed changes (subject to consultation) outlined in note 4.4.1.

The net negative past service cost of £1.6 billion is shown at note 6 of the accounts.

### 3.5.6 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 £976 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 1 April 2019 and repaid to the Contingencies Fund in full during 2019-20 with the final payment being made on 20 February 2020.

The Scheme has requested to draw down £1.0 billion from the Contingencies Fund in 2020-21, as the same scenario exists as described above. The full amount will be repaid in 2020-21.

### 3.6 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 2019-20 the cost of Scheme administration was £39.1 million (see note 10 to the accounts), and £32.8 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 four 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 2019-20**

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

The introduction of a new Single Tier State Pension from 6 April 2016 saw the end of contracting-out for Defined Benefit occupational pension schemes. The liability for tracking and maintaining contracted-out rights, known as Guaranteed Minimum Pension (GMP), was passed to individual pension schemes with notification to withdraw support services from HM Revenue & Customs (HMRC) National Insurance Contributions Office (NICO) from December 2018.

The Government published a response to the consultation on the indexation and equalisation of Guaranteed Minimum Pensions (GMP) in public service pension schemes in January 2018, which meant that the “interim solution” to GMP indexation was extended until 6 April 2021. A past service cost for the interim solution was included in the 2017-18 accounts. In October 2018, the High Court published its judgment in the Lloyds Banking Group case on the equalisation of GMP and found that pensions must be equalised for the effects of unequal GMP. As the Government has committed to addressing GMP equalisation, either through provision of full indexation of pensions or conversion of GMPs, an additional liability needed to be reflected in the Scheme financial statements.

The aggregate costs of each of the above options are broadly the same, although the impact at member level will not necessarily be so. The assessment provided by Government Actuary’s Department (GAD) of the impact on the Scheme liability in respect of the additional liabilities for members reaching State Pension age after 6 April 2021 is £1.5 billion. This has been treated as a past service cost within this year’s accounts (see note 6 to the accounts).

The expectation was to complete the GMP Reconciliation and Rectification projects during 2019-20, however the final data cut is still awaited from HMRC following the completion of its reconciliation exercise. Whilst we have completed the tasks aligned to reconciliation without this final affirmation cut of data from HMRC we have not been in a position to commence the rectification side of the project. We do not at this point have any further clarification from HMRC on when this data will be available. HMRC is expected to provide further general guidance on GMP equalisation and, at this stage, the approach for GMPs across public service schemes has not been fully confirmed.

The Project Team continue to monitor progress and prepare for the rectification work during 2020-21.

### **4.2 Customer satisfaction surveys**

The Scheme completed Customer Satisfaction Surveys during the year with active, retired and deferred 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 survey for retired pension members did not take place during 2018-19 due to the in-source of pensioner payroll administration during June and July 2018 and subsequent stabilisation of the service.

The overall satisfaction rating for all categories has remained consistent, as can be seen in the table below. The increase in completed returns for active members is due to the survey now being undertaken monthly instead of annually, and an increase in total member coverage. We now only include members who have contacted us within the last 12 months for the survey, and this is expected to provide more meaningful feedback that we can act on.

One of the key themes that came out of feedback from 2019-20 was improving the website, and this will be considered in conjunction with the other key theme of members requesting more

electronic access to information. This is being developed as part of the digital transformation work highlighted in note 4.3 below.

	Active and deferred pension members		Retired pension members		Pension employers	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Number of completed surveys	29,032	3,316	2,577	n/a	1,521	1,046
Overall satisfaction	5.2	5.2	7.8	n/a	7.2	7.0

### 4.3 Pensions Digital Transformation

We are developing digital services in two broad areas: Employer Services and Member Services with the objective of delivering a much improved customer experience for all users, significant efficiency savings for employers and allowing members to control their own data by self-service techniques.

#### 4.3.1 Employer Services

The majority of employers currently have rudimentary online capability for supplying and requesting information to and from the pension scheme via the Pensions Online (POL) system. But there remain a significant number of employers who have no online channel and cannot use POL as it sits within the NHS N3 network.

The underlying hardware platform for POL has been successfully upgraded and the operating system is being upgraded thus mitigating the risks we were facing of POL being operated on an out of support platform. This has been necessary because the replacement of POL with a new digital set of services has proved to be more complex than originally planned. The upgrade to the platform has allowed us to pause the replacement programme and re-assess the most effective way forward. This pause began shortly before the impact of COVID-19 became apparent and is still paused since resources have been diverted to higher priority tasks.

The plan remains to replace existing POL services with a new set of digital services integrated with the fully live Make Contribution Payment (MCP) service, however, as the restart date is uncertain given the current situation it is not possible to estimate a date for completion other than to say an elapsed time of 12 months from restart.

#### 4.3.2 Member Services

In the member services area the Total Reward Statement (TRS), continues as business as usual using the cross government Verify service. This means that all members can access their TRS from the internet with a much simpler user interface.

'My NHS Pension' is currently in private beta test with a controlled cohort of users with 2015 scheme estimates, scenario planning and personal details. Additional functionality was planned to be launched during April 2020 to include estimates and scenario planning for the 1995/2008 scheme with a plan to move to public beta (effectively live) in May 2020. However, as is the case with Employer Services, development of 'My NHS Pension' has been paused due to the impact of COVID-19 with no restart date yet planned as at the time of publication of the accounts.

## **4.4 Events after the reporting period**

### **4.4.1 Legal Case – McCloud and Sargeant judgement**

In 2015 the Government introduced reforms to public sector pensions (Hutton Report published in 2011, Public Service Pensions Act 2013 enacted the pensions reforms), meaning most public sector workers were moved into new career average pension arrangements in April 2015. Transitional protection was provided to members of the previous final salary arrangements based on their age at 1 April 2012 allowing them to continue in their existing arrangements and receive benefits from it, rather than transfer to the 2015 arrangements.

In December 2018, the Court of Appeal held that transitional protection provisions contained in reformed judicial and firefighter pension schemes, introduced as part of public service pension reforms in 2015, gave rise to direct age discrimination and were therefore unlawful. The Supreme Court issued a decision in June 2019 rejecting the Government's application for permission to appeal.

In line with other public service pension schemes the NHS Pension Scheme considered the potential impact of the outcome on the Scheme and, as a result, provided a Past Service Cost in 2018-19 of £7.2 billion.

In July 2020, the Government launched a consultation on changes to public service pensions to remove discrimination arising from the transitional protection arrangements that were introduced when the schemes were reformed in 2014-15. The consultation document sets out that the changes should apply to all members who were in service on both 31 March 2012 and 1 April 2015, including those with a break in service of less than five years. This represents a change in the approach from the calculations for the 2018-19 accounts, which assumed the case would affect all members who were in service on 1 April 2015.

Therefore the past service cost in 2018-19 and the projected 2019-20 service cost have been revisited based on the above proposed changes set out in the consultation.

The impacts of the proposed changes have been reflected in these accounts as a reduction in the past service costs of £4.1 billion.

### **4.4.2 Goodwin legal challenge and judgement**

A case was brought to Employment Tribunal by Goodwin against the Secretary of State for Education in spring 2020. It claimed direct sexual orientation discrimination within the Teachers' Pension Scheme (England and Wales), where male survivors of female scheme members were entitled to lower survivor benefits than a comparable same-sex survivor. Surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members have generally received benefits equivalent to those received by widows of opposite sex marriages following the Walker v Innospec Supreme Court ruling in 2017.

The Government announced on 20 July 2020 that it had concluded that changes are required to the Teachers' Pension Scheme (England and Wales) to address this discrimination, and that the Government believes that this difference in treatment will also need to be remedied in other public service pension schemes across the UK, where the husband or male civil partner of a female scheme member is in similar circumstances.

It has been determined that there is read across to the NHS Pension Scheme, and the potential impact has been assessed, resulting in an additional past service cost of £1.0 billion.

## **Key activities arising for 2020-21**

### **5.1 COVID-19 - Continuity of Pension Scheme Administration**

In February 2020, with the best performance Scheme administration has seen of recent times, the Operational Transformation Programme planned for 2020-21 was about to commence. The COVID-19 pandemic temporarily paused non-essential development to ensure resource was focused on protecting members' interests in such unprecedented times.

Pensions administration identified three priorities: to maintain the health, safety and wellbeing of colleagues, to ensure vital services continue uninterrupted, and support the wider NHSBSA to identify and deliver capabilities in the immediate fight against the pandemic. In addressing the first priority staff were required to work from home and to follow Government guidance, decisions on what work was "absolutely necessary" were required.

Vital services continued uninterrupted, with retirement applications, bereavement applications and the processing of pensions to current pensioners being priority. March Key Performance Indicator (KPI) results remained strong with all vital services continuing to achieve KPI. In April, this continued with the only exception being in bereavements where a small number of cases were a few days outside of KPI. Bereavements caseload has increased during this time which when compounded with the disruption caused by COVID-19, caused the KPI to fall marginally below the KPI threshold.

By mid-May 2020, Pensions administration were back up to full capacity and business as usual activities resumed. Work to recover from the COVID-19 impact commenced immediately, and will include such services as member estimates, refunds to members who have left the Scheme and transfers to and from the scheme.

## **6. Information for members**

### **6.1 Pension Increase**

The Pensions increase rate was 2.4% (2018-19 3.0%) with effect from 8 April 2019 (9 April 2018) 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 Assurance Company and Prudential PLC and an AVC only facility from Equitable Life Assurance Society. 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:**

Michael Brodie  
NHS Business Services Authority  
Stella House, Goldcrest Way  
Newcastle upon Tyne NE15 8NY

**Scheme Administrator:**

NHS Business Services Authority  
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

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

**Legal advisers:**

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Area 159 5<sup>th</sup> Floor  
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London WC2N 6HT

**Bankers:**

Government Banking Service  
Southern House  
Wellesley Grove  
Croydon CR9 1WW

### 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 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 Scheme auditors are aware of that information.



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

**Michael Brodie**  
**Chief Executive, NHS Business Services Authority**  
**12 November 2020**

## Statement by the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2020

### Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the NHS Business Services Authority (NHSBSA). It provides a summary of GAD's assessment of the Scheme liability in respect of the National Health Service Pension Scheme (NHSPS) as at 31 March 2020, and the movement in the Scheme liability over the year 2019-20, prepared in accordance with the requirements of Chapter 9 of the 2019-20 version of the Financial Reporting Manual.
2. The Scheme 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 2019 based on the data provided as at 31 March 2019 and rolling forward that liability to 31 March 2020.

### Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2019 used to prepare this statement.

#### Table A – Active members

	Number 000's	Total pensionable pay* (pa) £m
Male	341	13,956
Female	1,210	32,924
<b>Total</b>	<b>1,551</b>	<b>46,880</b>

\*Pensionable pay is actual figure

#### Table B – Deferred members

	Number 000's	Total deferred pension* (pa) £m
Male	155	771
Female	497	1,468
<b>Total</b>	<b>652</b>	<b>2,239</b>

\*Pension amounts include the pension increase granted in April 2019.

#### Table C – Pensions in payment

	Number 000's	Total pension* (pa) £m
Male	194	3,663
Female	632	4,488
Spouses & dependants	97	536
<b>Total</b>	<b>923</b>	<b>8,687</b>

\*Pension amounts include the pension increase granted in April 2019.

### Methodology

5. The present value of the liabilities as at 31 March 2020 has been determined using the 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 2020. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2020 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2019 in the 2018-19 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 2020	31 March 2019
Nominal discount rate	1.80%	2.90%
Rate of pension increases	2.35%	2.60%
Rate of general pay increases	4.10%	4.10%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
Pension increases	(0.54%)	0.29%
Long-term pay increases	(2.21%)	(1.15%)
Expected return on assets:	n/a	n/a

- The assessment of the liabilities allows for the known pension increases up to and including April 2020.

### Mortality assumptions

- Table E summarises the mortality assumptions adopted to prepare this statement, which 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 in table E above are the same as those adopted for the 31 March 2016 funding valuation of the Scheme and the accounts as at 31 March 2019.
- For the 2018-19 accounts, future improvements in mortality were assumed to be in line with the 2016-based population projections published by the Office for National Statistics (ONS). Mortality improvements are now assumed to be in line with the latest

2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a reduction in life expectancies.

## Liabilities

12. Table F summarises the assessed value as at 31 March 2020 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. The liabilities as at 31 March 2019 and 2020 both include an allowance for the higher cost of benefits accruing under McCloud.

**Table F – Statement of Financial Position**

	31 March 2020	31 March 2019
	£billion	£billion
Total market value of assets	nil	nil
Value of liabilities	653.2	533.3
Surplus/(Deficit)	(653.2)	(533.3)
of which recoverable by employers	n/a	n/a

## Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2020 (the current service cost) is assessed as 48.8% 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 2019-20 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2019-20 accounts.

**Table G – Contribution rate**

	2019-20 % of pay	2018-19 % of pay
Employer contributions	20.6%	14.3%
Employee contributions (average)	9.7%	9.6%
<b>Total contributions</b>	<b>30.3%</b>	<b>23.9%</b>
<b>Current service cost (expressed as a % of pay)</b>	<b>48.8%</b>	<b>51.6%</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 2019-20 was £49.2 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2019-20 (at 48.8% of pay) is assessed to be £24.0 billion. This includes an allowance for the higher cost of benefits accruing over the year under McCloud.
17. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. A past service cost of £1.5 billion has been determined in respect of the additional liabilities for the indexation and equalisation of

Guaranteed Minimum Pensions (GMP) in public service pension schemes for members reaching State Pension age after 6 April 2021. A past service cost of £1 billion has been determined in respect of a legal challenge regarding survivor benefits provided in public service schemes. A negative past service cost of £4.1 billion has been determined in respect of the change of scope of members covered by the McCloud judgement. I am not aware of any other events that have led to a material past service cost over 2019-20.

18. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2019-20.

### 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 2020 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). A key demographic assumption is pensioner mortality.
21. Table H shows the indicative effects on the total liability as at 31 March 2020 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	-11.0%	-£71.9 billion
(ii)	(long term) earnings increase*:	0.5% a year	+2.0%	+£13.1 billion
(iii)	pension increases*:	0.5% a year	+10.0%	+£65.3 billion
<b>Demographic assumptions</b>				
(iv)	additional 1 year increase in life expectancy at retirement:		+3.5%	+£22.9 billion
(v)	1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)		+1.0%	+£6.5 billion

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

### COVID-19 implications

22. The 2019-20 Resource Accounts are being produced at a time when the UK is in the midst of dealing with the COVID-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.
23. The assumptions for the discount rate and the pension increases are specified by HM Treasury in the PES (2019) 11 Revised, dated 6 December 2019. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.
24. The long-term salary assumption is set by the NHSBSA, having taken actuarial advice, and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The increase in the amount of Government debt being taken on to pay for its response to the COVID-19 pandemic is likely to affect salary growth. However, at

this stage, it is too early to speculate on the potential impacts for the long-term salary growth. Therefore I do not believe there is any information to justify changing the salary assumption.

25. The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics. The starting rates of mortality improvements are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether COVID-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from COVID-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

**Garry Swann FIA**  
**Actuary**  
**Government Actuary's Department**  
**22 July 2020**

## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction. The 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 is required to comply with the requirements of the Government Financial Reporting Manual (FRM) and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- Prepare the financial statements on a going concern basis; and
- Take personal responsibility for the annual report and financial statements and the judgements required for determining that as a whole are 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 Michael Brodie, Chief Executive Officer.

Alistair McDonald retired as Chief Executive and Accounting Officer of the NHSBSA at the end of June 2019. Andy McKinlay, Executive Director of Finance and Commercial Services, was Accounting Officer from 1 July 2019 to 31 August 2019, and Michael Brodie was appointed as Chief Executive of the NHSBSA and the NHS Pension Scheme Accounting Officer from 1 September 2019. A thorough handover process was undertaken to provide appropriate assurances on the governance of the NHSBSA over the reporting period at each point of transition.

### 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 NHSBSA 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 2020 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 for Board Members of Public Bodies, setting out clearly and openly, the standards expected from those who serve on the Board.
- 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 People and 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 2019-20 they have reviewed the following areas;

- Awards – deferred benefits
- Awards – redundancy benefits
- Awards – retirement from multiple schemes
- Awards – maximum pension age restrictions
- Pensioner 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 two 'unsatisfactory' Compliance Reports, which related to the administration of Awards – deferred benefits and Awards – retirement from multiple schemes.

The NHS Pension Board (NHSPB) 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 No 14, the NHSPB submits reports to TPR where material breaches of law occur.

In April 2019 a breach of law report was submitted to report the failure of an NHS employer to provide NHSBSA with information regarding a period of missing pensionable service.

In November 2019 a breach of law report was submitted in respect of failure to provide Annual Benefit Statements to 100% of the NHS Pension Scheme membership. TPR are aware of the constraints facing the largest centrally administered pension scheme and will take no further action.

In December 2019 a breach of law report was submitted for the NHSBSA failure to provide members with Pension Saving Statements within the three month statutory period for 'on demand' requests.

TPR have taken no further action in respect of any of the above breaches.

Regular engagement with TPR takes place and NHSBSA 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.

In the latter part of 2019, TPR changed their approach to scheme engagement. We will engage with TPR as part of their new approach – One to One Relationship Supervision. TPR have selected the NHSPS as an early adopter of this approach due to both our positive engagement with them and the strategic importance of the NHSPS as the largest centrally administered scheme.

### **Financial Management**

The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The Pensions Finance Reporting, Assurance and Reconciliation Team report to the Head of Financial Strategy and Reporting 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 Reporting 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.

### **Loss and Fraud Prevention**

The NHSBSA adopted the Government Counter Fraud Functional Standards in 2019 and are currently working towards full implementation during 2020. During the next three years the NHSBSA will explore and use emerging technology and data to develop new business tools to prevent loss and fraud in the services we deliver. One of our ambitions is to identify where loss can be reduced or eradicated, and this could have been the result of fraud, human and customer error, or waste.

This will be achieved by reviewing processes and procedures used to deliver our services, collate the risks and implement appropriate controls which will be monitored, reviewed and altered where needed. We will educate our staff in the types of frauds the NHS is exposed to, as well as engaging with staff to discuss their ideas to reduce loss in the system by improving processes. Educating our customers in the processes to ensure we can reduce human error and waste is an important part of our proactive approach to tackle loss. Collectively these activities will help achieve the NHSBSA Strategic Ambition of Fraud, Error and Waste Prevention.

The NHSBSA Loss and Fraud Prevention (LFP) Team undertook a review of several areas of Scheme administration. Key risks and issues where fraud and loss occur or may occur within NHS Pensions have been communicated with key staff and the known types of fraud, error and debt levels that exist in the provision of pension administration have also been highlighted.

Fraud awareness sessions have been held with all staff within the NHS Pension Service and the LFP Team have updated the Pensions Board on the proactive work being undertaken to tackle loss and fraud in the system. NHS Pensions will continue with the Tell Us Once Scheme and participation in the Cabinet Office National Fraud Initiative (NFI) to identify potential fraud and overpayments. Quarterly meetings will take place with the LFP Team to measure the controls

implemented to address risks and to provide assurance that steps are being taken to reduce the potential for loss, and fraud, thus reducing debt.

### **Key contractual arrangements supporting Pensions Administration**

The administration of the Scheme is currently delivered by NHSBSA employees, and is supported by a number of contracted services. The key contracts are detailed below:

- Pensioner and member payroll and administration application development, support and maintenance delivered by Claybrook Computing Ltd.
- IT infrastructure and hosting services delivered by Atos IT Services (UK) Ltd.
- Medical services delivered by Medigold Health Consultancy Ltd.
- Work manager application development and support and maintenance delivered by Verint Systems UK Ltd.

A range of contract management and governance mechanisms are in place to ensure the service delivery of these contracts, including monthly service review meetings, monthly reporting of performance, recommendations for innovation and change, escalation and dispute resolution procedures. Requirements under General Data Protection Regulations (GDPR) and the NHSBSA Information Governance policies and procedures are included within the contractual obligations and followed by all these suppliers.

### **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 is currently made up of a non-executive Chair, five non-executive directors, Chief Executive and three executive directors, one of which is a finance director. The key roles and responsibilities of the Board are:

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

The Board has met nine times up to the end of March 2020 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 insight including satisfaction, complaints and contact volumes
- Digital take up
- Progress against key change projects
- Business development pipeline
- 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 (Accuracy, Validity, Reliability, Completeness, Relevance and Timeliness).

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 Register of Board Member's Declared Interests for the financial year is available on the NHSBSA website.

### **NHSBSA Board review of effectiveness**

The NHSBSA Board is required to consider its own effectiveness on a regular basis. The NHSBSA undertakes such a review annually. The Board engaged an independent and experienced assessor to undertake the review for 2018-19. The process included an online survey and follow-up on-to-one interview with each member and regular attendee. This level of review is undertaken every three years, with online reviews being undertaken in the other years. The results of the 2019-20 online review indicated that the Board continued to be highly effective and high scores were registered across all of the survey areas including 'Board Skills', 'Board Behaviours', 'Board Decision Making', 'Board Processes', 'Strategy' and 'Stakeholders'. The results and recommendations were accepted by the Board and actions taken forward, including to continue to monitor initiatives being taken forward around Board succession planning and colleague development in this area.

During 2019-20, the Board continued to operate within its governance framework and codes of conduct. Furthermore, the NHSBSA has:

- Achieved its financial targets
- Delivered against the majority of its agreed key performance indicators, and ensured that any performance issues have been addressed through appropriate recovery plans
- 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 six times during 2019-20. 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 Services and representatives from both internal and external audit. The Chief Executive and Accounting Officer also attends the meeting, included 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) Debra Bailey Tim Nolan	6 of 6 5 of 6 6 of 6
<b>Executive Directors:</b> Michael Brodie (Chief Executive) – September 2019 to March 2020 Mark Dibble (Director of People and Corporate Services) Andy McKinlay (Director of Finance and Commercial) Alistair McDonald (Chief Executive) April to June 2019	3 of 3 5 of 6 6 of 6 2 of 2

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 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 2019 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 the 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 Scheme's Annual Report and 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 using an online survey sent to each member and regular attendee. Overall, the results were highly positive and confirmed the effectiveness of the Committee.

The full terms of reference for this Committee can be found in the NHSBSA's Corporate Governance Framework which is published on the NHSBSA website:

[www.nhsbsa.nhs.uk/our-policies/governance-framework](http://www.nhsbsa.nhs.uk/our-policies/governance-framework)

## **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 at review meetings. 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.

Our structure is illustrated below:



Note: Only the Chief Executive and Executive Directors are members of the Board.

## 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 the amount of risk that an organisation is willing to seek or accept in the pursuit of its long term objectives. The NHSBSA Board reviewed and agreed the organisation's Risk Appetite Statement in February 2020, setting appetite levels for key areas. The NHSBSA's aim is to seek to terminate, treat, tolerate or transfer risks as appropriate to ensure that it meets its objectives.

**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.
- 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.

The following summarises the ongoing significant risks and issues that are specific to the Scheme at the end of 2019-20, focusing on the most highly rated and of significance for our stakeholders.

## Significant risks and issues managed and closed in year

There were no significant risks and issues managed and closed in year relating to the Scheme.

## Current risks / issues

- **Public Sector Pensions ruling**

The NHSBSA are continuing to monitor developments in relation to the ruling in the Court of Appeal on the transitional arrangements within the Firefighter and Judicial pension schemes, and the potential for changes to the NHS Pension Scheme. This could result in a significant increase in Pension Service administration work and associated costs.

- **Information security**

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 the 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) aligned to the requirements of ISO27001, with external certification planned for 2020-21, which was delayed due to the COVID-19 outbreak.



- **COVID-19 Outbreak**

As a result of the COVID-19 outbreak and introduction of national controls, the NHSBSA has implemented actions across its business to ensure the health and wellbeing of people, the ongoing delivery of its critical services and ensure further support is provided to the wider health and care system as-and-when required. This includes the stand-up of the NHSBSA Business Continuity Management Gold Group (Leadership Team level), Tactical Steering Group (Silver level) and the Operational Steering Group (Bronze Level) – ensuring that the situation and any issues arising are monitored and assessed on a day-by-day basis, and teams are provided with the support and guidance required.

The support being provided to the wider system in addressing the outbreak has required a diversion of focus from some of the NHSBSA's strategic ambitions. These ambitions are therefore being reassessed and realigned to the current environment.

## **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 Team can determine the focus of assurance effort. 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 2019-20 exercises were carried out in the following areas impacting the Scheme:

- Public Sector Pensions Ruling

The Committee has gained an increased awareness over the assurances in place for the area reviewed. The assurance provided by these reports constitute the key report highlights from the committee during 2019-20.

## **Managing Information**

During 2019-20 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 Data Security and Protection Toolkit (DSPT). The DSPT return is based on the National Data Guardian's ten data security standards which were issued to all non-executive directors in July 2017. Our return was due to be submitted at the end of March 2020, but due to the COVID-19 pandemic this has been extended to 30 September 2020. Frequent compliance updates are provided to the NHSBSA Audit and Risk Management Committee and NHSBSA Board.

561 security incidents were raised during 2019-20 across NHSBSA, with 157 relating to the Scheme. Upon investigation and risk assessment (based on set DSPT criteria), one incident

required onward reporting to both NHS Digital and the Information Commissioners Office (ICO). The ICO were satisfied with the remediation actions taken and closed the case without their need to investigate further.

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 security within the NHSBSA are coordinated by the Business Information Security Group (BISG) which is chaired by the Executive Director of People and Corporate Services who holds the position of Senior Information Risk Owner (SIRO). The remit of the SIRO is to take ownership of the NHSBSA's information security 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 General Data Protection Regulation (GDPR) and the Data Protection Act (DPA) 2018. Appropriate notifications have been filed with the ICO. This means that all subject access requests are responded to within the provisions of the Act, typically within a calendar month. 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 2019-20 we have dealt with:

- 251 DPA requests relating to the Scheme, 18 more than the previous year. All but 26 were responded to within the required timeframe.
- 54 FOI requests relating to the Scheme, eight fewer than the previous year. All except two were responded to within the required timeframe.

The root causes for these exceptions have been identified and corrective action taken to avoid a recurrence. There are no trends that would give rise to any systematic issue. The reason for the targets not being met were due to a backlog of requests needing to be cleared at the beginning of the year. This was addressed through a combination of increased resource and improvements to processes.

As a public sector information holder, the NHSBSA complies with the cost allocation and charging requirements set out in HM Treasury and ICO guidance. The NHSBSA can confirm that for 2019-20 no charges were made for access to information under the Freedom of Information Act or DPA requests made under the provisions of the Data Protection legislation.

### **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

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. We view complaints as an opportunity to learn about how we can improve our services.

During 2019-20 we have maintained our approach to handling complaints. The total number of formal complaints received during 2019-20 (classified as Internal Dispute Resolution (IDR) stage 1 cases), relating to the NHS Pension Scheme was 1,111, of which 583 were upheld (52%). This compares with 1,208 of which 626 were upheld (52%) in 2018-19.

As we move into 2020-21 we are further aligning our complaints approach across the business and implementing a new, more robust process to capture the information we need to effectively deal with and accurately record complaints. Insight from this will allow us to drive forward more business wide improvements.

## 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 along with progress and impact of mitigation actions
- Annual Risk Management report - outlining how our risk management arrangements have continued to operate 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 the 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.
- 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.

- Wellbeing 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 Wellbeing and Inclusion Committee, which is chaired by the Chief Executive, monitors performance against our Diversity and Inclusion Strategy and achievement of our equality objectives. It also oversees the delivery of our wellbeing and community investment goals.
- Statutory Function Register – a register which details the current Statutory Instruments, Directions and other applicable agreements is maintained to ensure correct arrangements are in place, and the NHSBSA is legally compliant in discharging its duties.
- NHS Pension Scheme – as an employer with staff entitled to membership of the Scheme, control measures are in place to ensure all employer obligations contained within the Scheme are in accordance with the Scheme rules, and that member 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.

## COVID-19 Assurance

The importance of safeguarding the appropriate use of public money through effective governance has remained as important during this national emergency as at other times. The following aspects of NHSBSA financial governance arrangements have been reviewed and adapted to provide financial governance that is fit for the operating environment:

**Financial and Commercial Reporting and Funding** – Service Heads and their Finance and Commercial Business Partners working in partnership to develop and maintain records of key decisions, rationale and corresponding commitments. As well as supporting reporting requirements this information informs development of Accounting Officer Assessments (see below).

**Financial Operating Framework** – To ensure flexibility for staff to take on different roles, guidance and procedures have been reviewed and updated. Business Continuity Plans are in place for all NHSBSA finance operations. A prioritisation exercise has been undertaken with those critical to ongoing business having been reviewed and updated.

**Accounting Officer Assessment** – These records document the key considerations that form the basis of decisions reached and apply to changes to existing commitments and new commitments due to the impact of COVID-19. An Accounting Officer Assessment addresses 4 key standards:

- Regularity – powers to act
- Propriety
  - Compliance with Managing Public Money
  - Meets user need
  - Acceptable risks
  - Sustainable including funding commitment
- Value for money
- Feasibility – deliverable

### **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 2019-20.

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.

### **Significant Governance Issues**

There were no significant issues raised during 2019-20.

### **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.

**Michael Brodie**  
**Chief Executive**  
**NHS Business Services Authority**  
**12 November 2020**

## PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

### Statement of Parliamentary Supply (this section is subject to audit)

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) requires the Scheme to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SoPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and, an analysis of income payable to the Consolidated Fund (note 4).

### Summary of Resource and Capital Outturn 2019-2020

£000	2019-20								2018-19
	Outturn				Estimate			Voted outturn vs Estimate: saving/ (excess)	Prior Year Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Total	
<b>Departmental Expenditure Limit</b>									
Resource		-	-	-	-	-	-	-	-
Capital		-	-	-	-	-	-	-	-
<b>Annually Managed Expenditure</b>									
Resource	SoPS1	23,040,141	-	23,040,141	27,758,000	-	27,758,000	4,717,859	33,630,844
Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>23,040,141</b>	<b>-</b>	<b>23,040,141</b>	<b>27,758,000</b>	<b>-</b>	<b>27,758,000</b>	<b>4,717,859</b>	<b>33,630,844</b>
Total Resource		23,040,141	-	23,040,141	27,758,000	-	27,758,000	4,717,859	33,630,844
Total Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>23,040,141</b>	<b>-</b>	<b>23,040,141</b>	<b>27,758,000</b>	<b>-</b>	<b>27,758,000</b>	<b>4,717,859</b>	<b>33,630,844</b>

**Net Cash Requirement 2019-20**

£000	SoPS Note	2019-20		2019-20		2018-19
		Outturn		Estimate	Outturn vs Estimate saving/ (excess)	Outturn
	<b>SoPS3</b>	<b>(3,025,262)</b>		<b>(2,592,855)</b>	<b>432,407</b>	<b>(210,096)</b>

**Administration Costs 2019-20**

2019-20 Outturn	2019-20 Estimate	2018-19 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 (this section is subject to audit)**

**SOPS1 Outturn detail, by Estimate Line**

£000	2019-20									2018-19 Outturn	
	Resource Outturn						Estimate				Total
	Administration			Programme			Total	Total vs Estimate	Total vs Estimate, adjusted for virements		
	Gross	Income	Net	Gross	Income	Net					

**Spending in Departmental Expenditure Limit (DEL)**

Resource	-	-	-	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-	-	-	-

**Spending in Annually Managed Expenditure (AME)**

**Voted expenditure**

A-Pensions	-	-	-	38,255,287	(15,215,146)	23,040,141	23,040,141	27,758,000	4,717,859	4,717,859	33,630,844
Non Voted											
Non-budget	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	<b>38,255,287</b>	<b>(15,215,146)</b>	<b>23,040,141</b>	<b>23,040,141</b>	<b>27,758,000</b>	<b>4,717,859</b>	<b>4,717,859</b>	<b>33,630,844</b>

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

The outturn is less than the Estimate due to: Current service cost of £1.4 billion, past service cost of £3.1 billion and pensions financing cost of £147 million all being lower than forecast in the Estimate, primarily due to the impact of the adjustments made for the McCloud and Goodwin judgements, and a bulk transfer-in in March not included in the Estimate.

## SOPS2 Reconciliation of outturn to net operating expenditure

As the total resource outturn in the Statement of Parliamentary Supply (SoPS) is the same as the net operating expenditure in the Statement of Combined Net Expenditure (SoCNE), no reconciliation is required.

## SoPS3 Reconciliation of net resource outturn to net cash requirement

As noted in the introduction to the Statement of Parliamentary Supply above, outturn and Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

	2019-20	2019-20	2019-20
	Outturn	Estimate	Outturn vs Estimate: saving/(excess)
SoPS Note	£000	£000	£000
<b>Resource Outturn</b>	23,040,141	27,758,000	4,717,859
<b>Capital Outturn</b>	-	-	-
<b>Accruals to cash adjustment:</b>			
Adjustments to remove non-cash items:			
Non-cash items	(38,216,113)	(42,795,845)	(4,579,732)
Adjustments to reflect movements in working balances:			
Changes in payables, receivables and prepaid pension benefits	41,872	86,716	44,844
Use of provision	12,108,838	12,358,274	249,436
<b>Net cash requirement</b>	<b>(3,025,262)</b>	<b>(2,592,855)</b>	<b>432,407</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 £249 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 £137 million and accruals adjustments being £45 million lower than forecast.

## SoPS4 Amounts of income payable to the Consolidated Fund

In addition to the income retained by the Scheme to offset pension payments, the following income is payable to the Consolidated Fund (cash receipts being shown in italics).

	Outturn total 2019-20		Outturn 2018-19	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund – current year	-	3,025,262	-	210,096
Excess cash surrenderable to the Consolidated Fund – prior year		10,096	-	-
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b>3,035,358</b>	<b>-</b>	<b>210,096</b>



## Parliamentary Accountability Disclosures (this section is subject to audit)

### Losses and special payments

#### Losses Statement

	2019-20	2018-19
Total number of losses	10,518	4,961
Total value of losses (000's)	1,139	900

#### Special payments Statement

	2019-20	2018-19
Total number of special payments	134	154
Total value of special payments (000's)	110	86

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 2020 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 Accountability Report 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 2020 and of its total comprehensive 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 2020 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), Practice Note 15 'The Audit of Occupational Pension Schemes in the United Kingdom' and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 (incorporating the NHS Compensation for Premature Retirement 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.

### Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the NHS Pension Scheme's (incorporating the NHS Compensation for Premature Retirement Scheme) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the NHS Pension Scheme (incorporating the NHS Compensation for Premature Retirement Scheme) have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the NHS Pension Scheme's (incorporating the NHS Compensation for Premature Retirement Scheme) ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **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 (incorporating the NHS Compensation for Premature Retirement Scheme) internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.
- conclude on the appropriateness of the NHS Pension Scheme's (incorporating the NHS Compensation for Premature Retirement Scheme) 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 (incorporating the NHS Compensation for Premature Retirement Scheme) ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the NHS Pension Scheme (incorporating the NHS Compensation for Premature Retirement Scheme) to cease to continue as a going concern.

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 annual report, other than the parts of the Accountability Report 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 parts of the Accountability Report 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 (incorporating the NHS Compensation for Premature Retirement 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 by exception**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report 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.

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

**Date 18 November 2020**

## FINANCIAL STATEMENTS

### Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2020

	Note	<u>2019-20</u> £000	<u>2018-19</u> £000
<b>Income</b>			
Contributions receivable	3	(15,000,185)	(11,234,897)
Transfers in	4	(113,214)	(60,321)
Other pension income	5	(101,747)	(83,833)
		<u>(15,215,146)</u>	<u>(11,379,051)</u>
<b>Expenditure</b>			
Service Cost	6	22,400,000	31,200,000
Enhancements	7	102,899	113,357
Transfers in – additional liability	8	113,214	60,321
Pension financing cost	9	15,600,000	13,600,000
Administration cost	10	39,174	36,217
		<u>38,255,287</u>	<u>45,009,895</u>
<b>Net Expenditure</b>		<u><b>23,040,141</b></u>	<u><b>33,630,844</b></u>
<b>Other Comprehensive Net Expenditure</b>			
Revaluation loss/(gain) of estimated discounted future cash flows in respect of early retirement charges	14	33,302	(41,213)
Pension re-measurements			
Actuarial loss/(gain)	16.7	93,792,725	(26,509,363)
		<u>116,866,168</u>	<u>7,080,268</u>
<b>Total Comprehensive Net Expenditure for the year ended 31 March</b>		<u><b>116,866,168</b></u>	<u><b>7,080,268</b></u>

The notes on pages 47-61 form part of these accounts.

**Combined Statement of Financial Position  
as at 31 March 2020**

		<b>31 March 2020</b>	<b>31 March 2019</b>
	Note	£000	£000
<b>Current assets:</b>			
Receivables	12	1,023,380	933,166
Cash and cash equivalents	13	3,035,358	210,096
<b>Total current assets</b>		<b>4,058,738</b>	<b>1,143,262</b>
<b>Current liabilities:</b>			
Payables (within one year)	15	(3,603,377)	(729,773)
<b>Net assets, excluding pension liability</b>		<b>455,361</b>	<b>413,489</b>
Estimated discounted future cashflows in respect of premature retirement recharges	14	412,639	445,941
Pension Scheme liability	16.4	(653,200,000)	(533,300,000)
<b>Net liabilities, including pension liability</b>		<b>(652,332,000)</b>	<b>(532,440,570)</b>
<b>Taxpayers' equity:</b>			
General fund		(652,332,000)	(532,440,570)
		<b>(652,332,000)</b>	<b>(532,440,570)</b>

**Michael Brodie**  
**Accounting Officer**  
**NHS Business Services Authority**  
**12 November 2020**

The notes on pages 47 to 61 form part of these accounts.

**Combined Statement of Changes in Taxpayers' Equity  
for the year ended 31 March 2020**

		<u>2019-20</u>	<u>2018-19</u>
	Note	£000	£000
<b>Balance at 1 April</b>		<b><u>(532,440,570)</u></b>	<b><u>(525,150,206)</u></b>
Revaluation loss/(gain) of estimated discounted future cash flows in respect of early retirement recharges	14	(33,302)	41,213
Surplus cash payable to the Consolidated Fund – current year supply	SoPS4	(3,025,262)	(210,096)
<b>Net Expenditure for the year</b>	SoCNE	<b><u>(23,040,141)</u></b>	<b><u>(33,630,844)</u></b>
Actuarial (loss)/gain - NHS Pension Scheme	16.7	(93,792,725)	26,509,363
<b>Net change in Taxpayers' Equity</b>		<b><u>(119,891,430)</u></b>	<b><u>(7,290,364)</u></b>
<b>Balance at 31 March</b>		<b><u>(652,332,000)</u></b>	<b><u>(532,440,570)</u></b>

The notes on pages 47-61 form part of these accounts.



## Combined Statement of Cash Flows for the year ended 31 March 2020

	<b>2019-20</b>	<b>2018-19</b>
Note	£000	£000
<b>Cash flows from operating activities</b>		
Net expenditure for the year	SoCNE (23,040,141)	(33,630,844)
Adjustments for non-cash transactions:		
Increase in receivables	(90,214)	(36,609)
Increase in payables	48,342	80,290
Decrease in prepaid lump sum benefits	-	87,896
Increase in pension provision	16.4 38,000,000	44,800,000
Increase in pension provision – enhancements and transfers in	16.4 216,113	173,678
Use of provisions – pension liability	16.5 (11,904,496)	(11,052,554)
Use of provisions – refunds and transfers	16.6 (204,342)	(211,761)
<b>Net cash inflows from operating activities</b>	<b>3,025,262</b>	<b>210,096</b>
<b>Cash flows from financing activities</b>		
From the Contingencies Fund – current year	976,000	658,000
From the Consolidated Fund (non-Supply)	-	-
<b>Net Parliamentary financing</b>	<b>976,000</b>	<b>658,000</b>
Repayment to the Contingencies Fund – current year	(976,000)	(658,000)
<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>3,025,262</b>	<b>210,096</b>
Payments of amounts to the Consolidated Fund	(200,000)	(334,014)
<b>Net increase/(decrease) in cash and cash equivalents in the year after adjustments for receipts and payments to the Consolidated Fund</b>	<b>2,825,262</b>	<b>(123,918)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>210,096</b>	<b>334,014</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>3,035,358</b>	<b>210,096</b>

The notes on pages 47-61 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 2019-20 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.

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.

The Statement of Financial Position as at 31 March 2020 shows a pension liability of £653.2 billion (2018-19: £533.3 billion). Other movements in the liability reflect the inclusion of liabilities falling due in the long-term, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be grants of Supply approved annually by Parliament to meet the Scheme's pension benefits, which come into payment each year.

Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than as required for the service of the specified year or retained in excess of that need.

In common with other public service pension schemes, the future financing of the Scheme's liabilities is to be met by future grants of supply to be approved annually by Parliament. Such approval for amounts required for 2020-21 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

#### 1.1 NHS Pension Scheme

The NHS Pension Scheme is an unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the NHSBSA on behalf of the Secretary of State for Health and Social Care on behalf of members of the National Health Service who satisfy the 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 and Social Care. 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 Scheme financial statements.

### **2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

### **2.2 Critical Accounting Judgements and key sources of estimation uncertainty**

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis. The key estimates and judgements relate to the valuation of the pension liability set out in Note 16 below.

Further estimation uncertainty arises in relation to legal cases where either the outcome or impact of the cases on the Scheme remain uncertain at the reporting date. Management has therefore applied judgement in estimating the most likely impact on the Scheme based on the best available information at the reporting date.

### **2.3 Contributions receivable**

- Employers' normal pension contributions are accounted for on an accruals basis in the month to which the associated salaries and wages relate.
- Employees' normal pension contributions are accounted for on an accruals basis in the month to which the associated salaries and wages relate.
- 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.
- Contributions receivable are outside the scope of IFRS 15 – Revenue and Contract with Customers.

### **2.3.1 Contributions receivable relating to the Compensation for Premature Retirement Scheme**

Employers' contributions are accounted for in accordance with the agreement under which the employer chose to discharge their liability, or in absence of such an agreement, on an accruals basis.

### **2.4 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.

### **2.5 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 in the period to which the associated salaries and wages relate. 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.

### **2.6 Current service cost**

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' 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 0.29% (2018-19 0.10%) and 2.90% including inflation (2018-19 2.55%). 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.

### **2.7 Past service cost**

Past service costs are increases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the SoCNE on a straight line basis over the period in which increases in benefit vests.

## **2.8 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 2.90% (2018-19 2.55%).

## **2.9 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 2019 was discounted at a real discount rate of 0.29% (i.e. 2.90% including inflation). The discount rate changed on 31 March 2020 to (0.5%) and the Scheme liability was discounted at that rate.

Further details of the financial assumptions used are set out at Note 16.1 to these accounts and in the Report of the Actuary on pages 15 to 19. 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 2019 was provided to GAD to facilitate a full actuarial valuation that has been used in the preparation of the financial statements for 2019-20.

## **2.10 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.

## **2.11 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.

## **2.12 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 Pension Income (see Note 5).

In recognition of the fact that significant future cash flows will arise from these arrangements, the estimated future cash flows which may accrue to the Scheme after the Statement of Financial

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

### 2.13 Changes in Accounting Standards

An assessment of International Financial Reporting Standards (IFRS) issued but not yet effective considered 'IFRS 16 Leases' and 'IFRS 17 Insurance Contracts' and determined they are not applicable as the Scheme has not entered into any such arrangements.

### 3. Contributions receivable

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Employers	(10,144,320)	(6,660,896)
Employees:		
Normal	(4,757,403)	(4,466,038)
Purchase of added years	(80,114)	(88,638)
Purchase of additional pensions	(16,927)	(17,899)
Purchase of early retirement reduction buy out	(1,421)	(1,426)
	<b>(15,000,185)</b>	<b>(11,234,897)</b>

£15,230 million in contributions are expected to be payable to the Scheme in 2020-21.

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

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Individual transfers in from other schemes	(58,044)	(58,295)
Group transfers in from other schemes	(55,170)	(2,026)
	<b>(113,214)</b>	<b>(60,321)</b>

### 5. Other pension income

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Pre funded premature retirement contributions	(4,437)	(5,394)
Rechargeable premature retirement contributions	(34,204)	(34,080)
Final pay control	(30,042)	(13,134)
Interest charged on contribution payments	(234)	(172)
Administration levy	(32,830)	(31,053)
	<b>(101,747)</b>	<b>(83,833)</b>

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

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Current service cost	24,000,000	24,000,000
Past service cost	(1,600,000)	7,200,000
	<b>22,400,000</b>	<b>31,200,000</b>

**7. Enhancements (see also note 16.4)**

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Employees: Purchase of added years	80,114	88,638
Employees: Purchase of additional pension	16,927	17,899
Employees: Early retirement reduction buy out	1,421	1,426
Employers: Pre-funded premature retirement contributions	4,437	5,394
	<b>102,899</b>	<b>113,357</b>

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

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Individual transfers in from other schemes	58,044	58,295
Group transfers in from other schemes	55,170	2,026
	<b>113,214</b>	<b>60,321</b>

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

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

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Net interest on defined benefit liability	15,600,000	13,600,000

**10. Scheme administration cost**

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Scheme administration cost	39,174	36,217

**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>2019-20</b>	<b>2018-19</b>
	£000	£000
<b>The Equitable Life Assurance Society (ELAS)</b>		
Movements in the year were as follows:		
Balance at 1 April	94,248	94,675
New investments	281	415
Sale of investments to provide pension benefits	(6,085)	(5,521)
Changes in market value of investments	3,026	4,679
Balance at 31 March	<u>91,470</u>	<u>94,248</u>
Contributions received to provide life cover	6	-
Benefits paid on death	186	374
	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
<b>Standard Life Assurance Company</b>		
Movements in the year were as follows:		
Balance at 1 April	118,581	121,827
New investments	1,681	1,800
Sale of investments to provide pension benefits	(9,924)	(10,095)
Changes in market value of investments	(6,536)	5,049
Balance at 31 March	<u>103,802</u>	<u>118,581</u>
Contributions received to provide life cover	-	-
Benefits paid on death	343	280
	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
<b>Prudential PLC</b>		
Movements in the year were as follows:		
Balance at 1 April	62,893	60,915
New investments	5,241	4,050
Sale of investments to provide pension benefits	(5,879)	(4,918)
Changes in market value of investments	(4,653)	2,846
Balance at 31 March	<u>57,602</u>	<u>62,893</u>
Contributions received to provide life cover	-	-
Benefits paid on death	61	35



## 12. Receivables

Employers are responsible for the payment to the 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 for paying 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. All receivables are straightforward and therefore are recognised/measured at amortised cost and expected credit losses are nil.

<b>Analysis by type</b>	<b>31 March 2020</b>	<b>31 March 2019</b>
	£000	£000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	594,181	535,829
Employees' normal contributions	375,780	355,251
Purchase of added years	6,746	7,169
Purchase of additional pensions	725	1,809
Purchase of early retirement reduction buy out	111	188
Invoiced pre-funded premature retirement contributions	782	773
Invoiced re-chargeable premature retirement contributions	9,619	10,421
Invoiced final pay control income	16,864	9,155
<b>Total due from employers</b>	<b>1,004,808</b>	<b>920,595</b>
Overpaid pension benefits	18,413	12,328
HMRC - VAT	159	243
<b>Total due within one year</b>	<b>1,023,380</b>	<b>933,166</b>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total receivables</b>	<b>1,023,380</b>	<b>933,166</b>

## 13. Cash and cash equivalents

	<b>2019-20</b>	<b>2018-19</b>
	£000	£000
Balance at 1 April	210,096	334,014
Net change in cash balances	2,825,262	(123,918)
<b>Balance at 31 March</b>	<b>3,035,358</b>	<b>210,096</b>
The following balances at 31 March were held at:		
Government Banking Service	3,035,358	210,096
Commercial banks and cash in hand	-	-
<b>Balance at 31 March</b>	<b>3,035,358</b>	<b>210,096</b>

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

Where the employer chooses 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>2019-20</b>	<b>2018-19</b>
	£000	£000
Balance at 1 April	445,941	404,728
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(33,302)	41,213
<b>Balance at 31 March</b>	<b>412,639</b>	<b>445,941</b>

## 15. Payables

All payables are straightforward and therefore are recognised/measured at amortised cost.

	<b>31 March 2020</b>	<b>31 March 2019</b>
	£000	£000
<b>Analysis by type</b>		
<b>Amounts falling due within one year:</b>		
Pensions	(426,209)	(392,180)
HMRC	(129,152)	(114,928)
Voluntary deductions	(285)	(246)
Scheme administration costs payable to NHSBSA	(10,995)	(10,851)
Amounts due to employers:		
Employee and employer contributions	(1,373)	(1,446)
Final Pay Control	(5)	(23)
Prefunded premature retirements	(-)	(1)
Rechargeable premature retirements	(-)	(2)
	<b>(568,019)</b>	<b>(519,677)</b>
Amount due to be paid to the Consolidated Fund	(3,035,358)	(210,096)
	<b>(3,603,377)</b>	<b>(729,773)</b>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total payables</b>	<b>(3,603,377)</b>	<b>(729,773)</b>

## 16. Provisions for pension liabilities

### 16.1 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 2020. The Report of the Actuary on pages 15 to 19 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 2019, and the results rolled forward to 31 March 2020 to estimate the position in 2019-20.

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

At 31 March	31 March 2020	31 March 2019	31 March 2018
Nominal discount rate	1.80%	2.90%	2.55%
Rate of pension increases	2.35%	2.60%	2.45%
Rate of general pay increases	4.10%	4.10%	3.95%
Rate of short-term general pay increase	n/a	n/a	n/a
Real discount rate in excess of:			
Pension increases	(0.54%)	0.29%	0.10%
Long-term pay increases	(2.21%)	(1.15%)	(1.40%)
Life expectancies			
Life expectancy at age 60 –current pensioners			
Men	28.6	29.5	29.4
Women	30.1	30.9	30.8
Life expectancy at age 60 – current age 40			
Men	30.3	31.6	31.5
Women	31.7	32.9	32.8
Life expectancy at age 65 –current pensioners			
Men	23.7	24.5	24.4
Women	25.1	25.9	25.8
Life expectancy at age 65 –current age 45			
Men	25.3	26.5	26.4
Women	26.7	27.8	27.7

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.

## 16.2 Analysis of the provision for pension liability

At 31 March	2020	2019	2018	2017	2016
Active members (past service)	386.4	305.8	307.5	274.0	208.2
Deferred Pensions	82.2	65.7	61.6	52.0	40.7
Pensions in payment	184.6	161.8	157.0	183.4	133.1
<b>Total liability</b>	<b>653.2</b>	<b>533.3</b>	<b>526.1</b>	<b>509.4</b>	<b>382.0</b>

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

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

### 16.3 Sensitivity analysis

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

Change in assumption *		Approximate effect on total liability	
<b>Financial assumptions</b>			
(i)	discount rate increase*: 0.5 % a year	-11.0%	−£71.9 billion
(ii)	(long term) earnings increase*: 0.5 % a year	+2.0%	+£13.1 billion
(iii)	pension increases*: 0.5 % a year	+10.0%	+£65.3 billion
<b>Demographic assumptions</b>			
(iv)	additional 1 year increase in life expectancy at retirement:	+3.5%	+£22.9 billion
(v)	1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)	+1.0%	+£6.5 billion

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

### 16.4 Analysis of movements in the Scheme liability

	Note	2019-20 £000	2018-19 £000
<b>Scheme liability as at 1 April</b>		<b>(533,300,000)</b>	<b>(526,100,000)</b>
Service cost	6	(24,000,000)	(24,000,000)
Past service cost	6	1,600,000	(7,200,000)
Pension financing cost	9	(15,600,000)	(13,600,000)
		<u>(38,000,000)</u>	<u>(44,800,000)</u>
Enhancements	7	(102,899)	(113,357)
Pension transfers in	8	(113,214)	(60,321)
		<u>(216,113)</u>	<u>(173,678)</u>
Benefits payable	16.5	11,904,496	11,052,554
Pension payments to and on account of leavers	16.6	204,342	211,761
		<u>12,108,838</u>	<u>11,264,315</u>
Actuarial gain/(loss)	16.7	(93,792,725)	26,509,363
<b>Scheme liability as at 31 March</b>		<b>(653,200,000)</b>	<b>(533,300,000)</b>

During the year ended 31 March 2020, contributions represented an average of 30.3% 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.

### 16.5 Analysis of benefits paid

	2019-20 £000	2018-19 £000
Pensions to retired employees and dependants (net of recoveries of overpayments)	9,349,026	8,688,409
Commutations and lump sum benefits on retirement	2,555,470	2,364,145
<b>Per Combined Statement of cash flows</b>	<b>11,904,496</b>	<b>11,052,554</b>

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

	2019-20	2018-19
	£000	£000
Death in service	72,495	50,008
Individual transfers to other schemes	68,173	63,874
Group transfers to other schemes	1,324	752
Payment to State Scheme	11,776	55,885
Refunds to members leaving service	50,574	41,242
<b>Per Combined Statement of Cashflows</b>	<b>204,342</b>	<b>211,761</b>

## 16.7 Analysis of actuarial gain/(loss)

	2019-20	2018-19
	£000	£000
Experience gain arising on Scheme liabilities	7,307,275	1,000,000
Changes in assumptions underlying the present value of Scheme liabilities	(101,100,000)	25,509,363
<b>Per Combined Statement of Comprehensive Net Expenditure</b>	<b>(93,792,725)</b>	<b>26,509,363</b>

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

### 16.7.1 Experience gain

The following table sets out an analysis of the impact in changes to experience on the scheme liability as at 31 March 2020.

Experience gain	2019-20 £billion
April 2020 pension increase lower than expected	2.0
Pensionable pay increase lower than expected	3.3
Membership and other experience	2.0
<b>Total experience gain</b>	<b>7.3</b>

### 16.7.2 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 2020.

Change in assumptions	2019-20 £billion
Change in nominal discount rate	(150.8)
Change in assumed rate of pension increases	30.5
Change in assumed life expectancy	19.2
<b>Total changes in experience</b>	<b>(101.1)</b>

## 16.8 History of experience gains/(losses)

	2019-20	2018-19	2017-18	2016-17	2015-16
<b>Experience gains/losses on the scheme liabilities:</b>					
Amount (£000)	7,307,275	1,000,000	5,816,676	8,031,725	3,815,355
Percentage of the present value of the scheme liabilities	-1.12%	-0.19%	-1.11%	-1.58%	-1.00%
<b>Total amount recognised in Statement of Other Comprehensive Net Expenditure</b>					
Amount (£000)	(93,792,725)	26,509,363	10,116,676	(108,668,275)	28,415,355
Percentage of the present value of the scheme liabilities	14.36%	4.97%	-1.92%	21.33%	-7.44%

## 17. Financial Instruments

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

## 18. Contingent liabilities disclosed under IAS 37

The Scheme only has the contingent liability as disclosed below.

### Additional Voluntary Contributions

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

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

## 19. 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.

## 20. Events after the Reporting Period

The full impact of the Covid-19 pandemic is not known and will remain uncertain until further evidence is available. Therefore no adjustments have been made to the actuarial valuations in respect of the potential impact of the pandemic on Scheme liabilities.

### Legal cases

#### McCloud/Sargeant

In July 2020 HM Treasury launched a 12 week public consultation in relation to the McCloud/Sargeant case, which will provide evidence to support the delivery of an appropriate remedy for the affected schemes, including the NHS Pension Scheme. Whilst the remedy has yet to be agreed, the proposals have enabled the actuary to revisit their estimate of the 2018-19 provision. Their revised estimate was £4.1 billion lower than 2018-19 and this has been reflected in the financial statements as a negative past service cost.

#### Goodwin

In December 2019 a legal challenge was made against the Teachers' Pension Scheme for which the Secretary of State for Education, having sought legal counsel, agreed not to defend. In June 2020 the Employment Tribunal recorded its findings in respect of the claimant and it has been determined that there is read across to the NHS Scheme. Following the agreement of the remedy, the actuary calculated the value of the provision to be £1.0 billion and this has been reflected in the financial statements as an additional past service cost.

There were no other 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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