

# NHS Pension Scheme

## Annual Report and Accounts 2020-21

# **NHS Pension Scheme**

(Incorporating the NHS Compensation for Premature Retirement Scheme)

## **Annual Report and Accounts 2020-21**

Accounts presented to the House of Commons pursuant to Section 6(4) 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.

Contributions due to the Scheme are set at rates determined by the Scheme's Actuary and approved by the Secretary of State for Health and Social Care. 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 the 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 2021 there were 8,057 participating employers falling into the following categories:

Employer category	As at 31 March 2021	As at 31 March 2020
NHS Trusts and Local Health Boards (Note 1)	230	233
GP practices	6,590	6,746
Arm's length bodies	14	14
Direction bodies	524	555
Clinical Commissioning Groups and Support Units	133	184
Local Authorities (including PHT from 1 <sup>st</sup> April 2013)	133	134
New Fair Deal contracts	271	263
Independent Providers contracts (Note 2)	162	161
<b>Total</b>	<b>8,057</b>	<b>8,290</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 2020-21 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 3.4 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 40 to 44. The notional fee for the year is £118,000 (2019-20 £106,000, plus an additional £10,000 in respect of additional work performed over legal cases) 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 auditors, 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 20 to 33.

### 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 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. The review of the employer cost cap will assess whether the cost control mechanism is working in line with original government objectives

The Government announced in July 2020 that the pause had 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.

The final directions to enable completion of the 2020 valuation are expected from HMT in summer 2021, and the results of the 2020 valuation and the employer cost cap will be reported in the 2021-22 accounts.

### 3. Key developments in year

#### 3.1 Changes to scheme contribution rates

There have been no changes to contribution rates during 2020-21.

#### 3.2 Changes in benefits

There have been no changes to benefit structures during 2020-21.

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

##### Active members

<b>Total active members at 1 April 2020 (note 1)</b>		<b>1,610,198</b>
Add:	New entrants	198,689
	Deferred members who re-join in the year	85,381
	Re-employed pensioners	1,416
	<b>Total joiners</b>	<b>285,486</b>
Less:	Retirements	(30,450)
	Leavers with deferred pensions rights	(139,987)
	Members who opt-out with deferred pension rights	(23,045)
	Deaths	(1,357)
	<b>Total leavers/death in service</b>	<b>(194,839)</b>
<b>Total active members at 31 March 2021</b>		<b>1,700,845</b>

## Deferred members

<b>Total deferred members at 1 April 2020 (note 1)</b>		<b>706,042</b>
Add:	Members leaving active membership with deferred pension rights	163,032
	<b>Total new deferred and unclaimed benefits</b>	<b>163,032</b>
Less:	Members taking up deferred pension rights	(12,458)
	Members who re-join the scheme	(85,381)
	Movement to unclaimed refund (note 2)	(33,838)
	Members taking a refund of contributions during year	(22,402)
	Transfers out	(1,333)
	Death of member	(697)
	<b>Total removed from deferred population</b>	<b>(156,109)</b>
<b>Total deferred members at 31 March 2021</b>		<b>712,965</b>

## Pensioners in payment (including Compensation Scheme)

<b>Total pensions in payment at 1 April 2020 (note 1)</b>		<b>973,918</b>
Add:	Members retiring from active	30,450
	Members retiring from deferred	12,458
	Widows and dependants	7,171
	Ill health, phased retirement and pension credit members	341
	<b>Total benefits into payment</b>	<b>50,420</b>
Less:	Deaths	(23,684)
	Other cessations (note 3)	(732)
	Child dependants leaving full time education	(93)
	<b>Total benefits ceased in the year</b>	<b>(24,509)</b>
<b>Total pensions in payment at 31 March 2021</b>		<b>999,829</b>

## Membership Statistics Notes

**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 2020 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in November 2020, whereas these statistics were taken from a data extract provided in April 2021 and member data is continually updated after the year end.

## 3.4 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. The Scheme Regulations were amended when the levy was introduced so that the rate of the levy will be reviewed every four years in conjunction with the scheme Funding Valuation. The rate is now under consideration in conjunction with the 2020 Funding Valuation.

During 2020-21 the cost of Scheme administration was £38.0 million (see note 10 to the accounts), and £35.5 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.

## **4. Performance and Position**

### **4.1 Financial position at 31 March 2021**

#### **4.1.1 Resource Outturn to Supply Estimate**

The 2020-21 net resource outturn was £28.88 billion and was within the voted estimate of £29.05 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure (page 46) contained within the financial statements. An explanation of the variance is provided in the SoPS1 note on page 36.

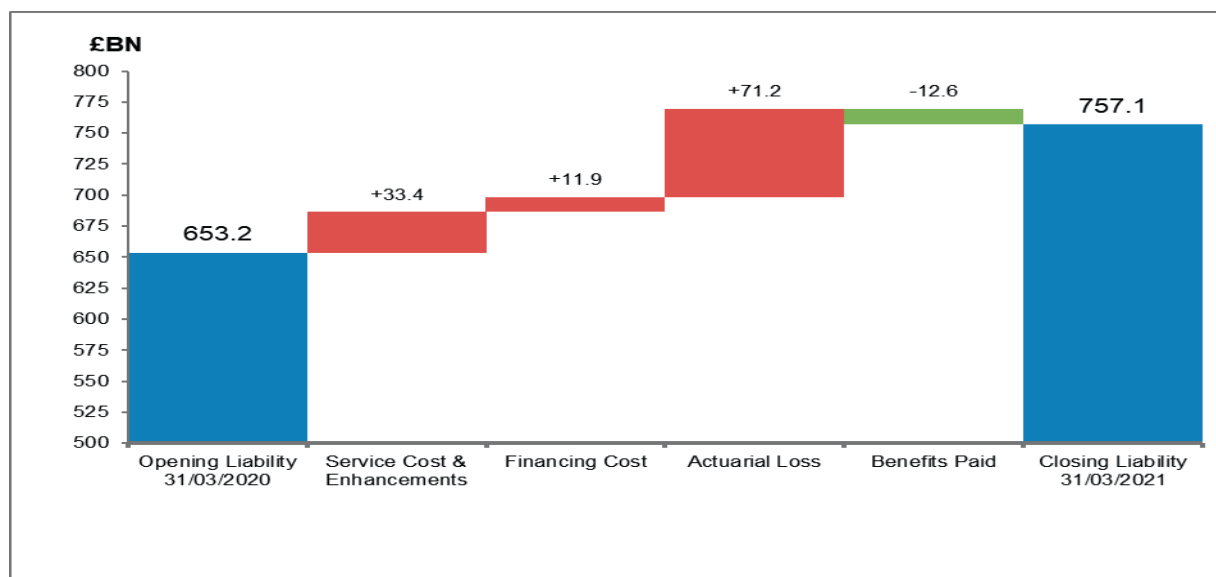
#### **4.1.2 Net cash requirement**

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of minus £3.64 billion against the voted estimate of minus £3.10 billion, this means the Scheme has surplus cash due to income exceeding pension benefit payments, and the £3.64 billion will be returned to Treasury during 2021-22.

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.

#### **4.1.3 Financial position and key movements**

As at 31 March 2021 the pension liabilities of the Scheme were valued at £757.1 billion. This is an increase of £103.9 billion from the liabilities at 31 March 2020 of £653.2 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.



#### 4.1.4 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 2019-20 service cost of £24.0 billion was calculated using the accounts assumptions at 31 March 2019 and the 2020-21 service cost of £33.2 billion was calculated using the accounts assumptions at 31 March 2020. The change in service cost from year to year reflects the change in the accounts assumptions at each date. The assumptions at 31 March 2020 are set out in Table D of the Statement by the Actuary.

#### 4.1.5 Contingencies Fund Drawdown

A combination of factors contribute to the Scheme requiring additional funding outside of the main Parliamentary Estimate process to ensure benefits are paid on their due date each month. The primary reason for this relates to the timing of the receipt for the majority of the contributions paid by employers being due by the 19<sup>th</sup> of the month, for the previous month's payroll. The Scheme receives on average over £925 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 £1.0 billion 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 2020 and repaid to the Contingencies Fund in full during 2020-21 with the final payment being made on 30 October 2020.

The Scheme has requested to draw down £1.18 billion from the Contingencies Fund in 2021-22, as the same scenario exists as described above. The full amount will be repaid in 2021-22.

## 5. Key activities during 2020-21

### 5.1 Customer satisfaction surveys

The Scheme completed Customer Satisfaction Surveys during the year with active 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. Please note that member and employer surveys were not conducted in April, May and June 2020 due to the COVID-19 pandemic. It is also likely, although not possible to verify, that response rates continued to be lower in subsequent months due to the pandemic.

The overall satisfaction rating for all categories has remained consistent, as can be seen in the table below. The member survey is sent monthly to members who have contacted NHS Pensions in the previous month. This is expected to provide more meaningful feedback that we can act on.

One of the key themes that came out of feedback from 2020-21 was improving process times and communications for members, 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 5.2 below.

	Active and deferred pension members		Retired pension members		Pension employers	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
<b>Number of completed surveys</b>	8,203	29,032	n/a*	2,577	1,342	1,521
<b>Overall satisfaction</b>	5.6	5.2	n/a*	7.8	7.2	7.2

\* The retired pensions members survey was not conducted in 2020-21. It was last conducted in March 2020 (although not reported until June 2020 due to the pandemic) and has not been requested to be conducted again during the on-going pandemic.

### 5.2 Pensions Digital Transformation

At the start of the first COVID-19 Pandemic lockdown the decision was made to pause all pensions digitisation projects to allow resources to focus on projects supporting the response to the pandemic. During this time an assessment was made of digital requirements primarily in light of the required response to the McCloud age discrimination court ruling in relation to pensions (see note 6.2).

#### 5.2.1 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.

In line with other pensions digitisation projects, work on employer services was paused and a reassessment has taken place in light of the McCloud ruling.

Work on the Make Contribution Payments (MCP) service recommenced in November 2020. The MCP service allows employers to submit information online for their monthly scheme contributions and create

a direct debit payment that is collected from their designated bank account. The service continues to be enhanced to be offered to more of the employer community. Other employer-focussed services are under review to assess how best to address the needs of the McCloud ruling.

## 5.2.2 Member Services

A decision has been made to utilise a product available from our pensions system supplier called 'Touch self-service' rather than continue with the in-house development. The Member Services work already done in-house is feeding the design for the new product.

Work on the Total Reward Statement (TRS) service recommenced in November 2020 and continues to be managed and enhanced by the pensions digitisation team as business as usual. The new Touch self-service product will take over TRS provision along with other member services when released but the current TRS service will continue using the cross government Verify service until then.

## 5.3 Events after the reporting period

### 5.3.1 2020 funding valuation

The final directions to enable completion of the 2020 valuation are expected from HM Treasury during summer 2021. The results of the 2020 valuation and the employer cost cap will be reported in the 2021-22 accounts.

## 6. Key activities arising for 2021-22

### 6.1 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 and was included within the 2019-20 accounts.

Although the intention was to complete rectification action for impacted members during 2020-2021 the impact of COVID-19 and the need to prioritise payment of pensions during this time meant that work on this project was paused even though the final data cut was received from HMRC. This work has now recommenced and the system solution for the implementation of rectification has been agreed. Development work is due to complete early in the 2021-22 financial year and the adjustments to member pensions are expected to be delivered during 2021.

In March 2021 it was announced that following consultation it is the Government's decision to discount conversion as a long-term policy solution and make full GMP indexation the permanent solution for public service pension schemes. Although full GMP indexation achieves equalisation for

the majority of our membership, further work is ongoing to understand the impacts across the whole membership.

## 6.2 NHS Pensions McCloud Remedy Project

An outcome of the development and implementation of the new NHS 2015 Pension Scheme was that all members were automatically moved to the new scheme in April 2015, unless they were covered by 'transitional protection' which was granted to some members based upon their proximity to retirement. Members of the Judicial and Firefighters' pension schemes challenged the application of transitional protection aspects of the move to the 2015 scheme, and in December 2018 the Court of Appeal ruled that the difference in treatment provided by transitional protection was not objectively justified and constituted unlawful age discrimination.

Following the Supreme Court's decision to deny the Government leave to appeal, the Government announced that all public sector pension schemes would need to rectify any discrimination suffered by its members.

There are two aspects to address the implications of this ruling:

- Addressing the discrimination suffered by members of the NHS Pension Scheme through the application of the transitional protection; and
- Ensuring the long-term sustainability of the NHS Pension Scheme, as per the original findings and recommendations made by the 2011 Independent Public Service Pensions Commission Report, led by Lord Hutton.

In response to this the Department of Health and Social Care (DHSC) have established a Programme with three core projects:

- **NHS Pensions McCloud Remedy Project** to rectify any discrimination suffered by members through the application of transitional protection;
- **NHS Pensions Reform Project** to ensure the long-term viability of the NHS Pension Scheme beyond 2022; and
- **NHS Pensions McCloud Engagement Project** to ensure timely, accurate and effective engagement with all stakeholders throughout the implementation of all NHS pensions McCloud projects.

### 6.2.1 NHS Pensions McCloud Remedy project

This project will look to address any discrimination suffered as a result of the application of transitional protection. The Government is in the process of identifying a cross-government remedy which will provide a statutory guarantee that no members will be worse off than they were prior to the implementation of the 2015 scheme. Aspects of this remedy are that:

- All possible life event scenarios that could be impacted by the McCloud judgement will be identified and documented;
- A remedial action for each life event scenario and member group is documented and agreed; and
- Annual allowance tax assessment will be applied retrospectively over the remedy period.

## 6.2.2 NHS Pensions McCloud Reform Project

This project will look to introduce the new scheme arrangements during the remedy period and will be applied to all active members of the NHS Pension Scheme from 2022 onwards.

Additionally, reforms to the 1995 and 2008 sections of the Scheme are planned. This will include the analysis, design and implementation of any proposed flexibilities.

## 6.2.1 NHS Pensions McCloud Engagement Project

Implementing the remedial action to address the McCloud judgement will require a significant amount of stakeholder engagement and communications, across multiple stakeholder groups at all different levels. Its careful handling is critical to the success of the projects, therefore, to ensure it is effectively co-ordinated a dedicated engagement project will be set up. The role of this engagement project will be to:

- Lead on the identification and analysis of all stakeholder groups affected by McCloud;
- Co-ordinate the development products required to raise awareness of McCloud messages and support affected members to make a choice as to the scheme/section from which they wish to receive remedy benefits; and
- Ensure that communications messages follow a unified set of key messages that comply with cross-government McCloud engagement activities.

The engagement project is an opportunity to re-engage with Scheme members and employers. The approach taken will reflect this, ensuring that every opportunity to modernise and enhance engagement mechanisms and messaging will be taken.

## 7. Information for members

### 7.1 Pension Increase

The Pensions increase rate was 1.7% (2019-20 2.4%) with effect from 6 April 2020 (8 April 2019) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

### 7.2 Supplementary Information available to members

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

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

The 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).



## 7.4 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:

Utmost Life and Pensions  
Walton Street  
Aylesbury  
Buckinghamshire HP21 7QW

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

Prudential PLC  
250 Euston Road  
London NW1 2PQ

### Auditors:

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

### Legal advisers:

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

### Bankers:

Government Banking Service  
Southern House  
Wellesley Grove  
Croydon CR9 1WW

## 7.5 Further information

Any enquiries about the NHS Pension Scheme should be addressed to:

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

## 7.6 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**  
**14 July 2021**

## Statement by the Actuary

### 1. Introduction

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 2021, and the movement in the scheme liability over the year 2020-21, prepared in accordance with the requirements of Chapter 9 of the 2020-21 version of the Financial Reporting Manual.

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.

The assessment has been carried out by calculating the liability as at 31 March 2020 based on the data provided as at 31 March 2020 and rolling forward that liability to 31 March 2021.

### 2. Membership data

Tables A to C summarise the principal membership data as at 31 March 2020 used to prepare this statement.

**Table A – Active members**

	Number thousands	Total pensionable pay* (p.a.) £ millions
<b>Males</b>	355	14,722
<b>Females</b>	1,259	35,132
<b>Total</b>	1,615	49,854

\* Pensionable pay is actual figure.

**Table B – Deferred members**

	Number thousands	Total deferred pension* (p.a.) £ millions
<b>Males</b>	157	793
<b>Females</b>	503	1,511
<b>Total</b>	660	2,305

\* Pension amounts include the pension increase granted in April 2020.

**Table C – Pensions in payment**

	Number thousands	Annual pension* (p.a.) £ millions
<b>Males</b>	199	3,821
<b>Females</b>	661	4,836
<b>Spouses &amp; dependents</b>	99	556
<b>Total</b>	960	9,213

\* Pension amounts include the pension increase granted in April 2020.

### 3. Methodology

The present value of the liabilities as at 31 March 2021 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 2021. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2021 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 2020 in the 2019-20 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.

### 4. Financial assumptions

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

**Table D – Principal financial assumptions**

Assumption	31 March 2021 p.a.	31 March 2020 p.a.
Nominal discount rate	1.25%	1.80%
Rate of increase in pensions in payment and deferred pensions (assuming CPI inflation)	2.22%	2.35%
Rate of general pay increases	3.72%	4.10%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
• CPI inflation	(0.95)%	(0.50)%
• Long-term pay increases	(2.38%)	(2.20%)
Expected return on assets	n/a	n/a

The assessment of the liabilities allows for the known pension increases up to and including April 2021.

### 5. 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**

<b>Baseline mortality</b>	<b>Standard table</b>	<b>Adjustment</b>
<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	S2DFA	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 2020.

Mortality improvements are assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019. This is the same assumption as that used for the 2019-20 accounts.

The other demographic assumptions, such as for commutation and family statistics, are unchanged from the 2019-20 accounts.

## 6. Liabilities

Table F summarises the assessed value as at 31 March 2021 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in sections 4 and 5. The corresponding figures for the previous year are shown for comparison. The liabilities at 31 March 2020 and 2021 both include an allowance for the higher cost of benefits accruing under McCloud.

**Table F – Statement of Financial Position**

	<b>31 March 2021</b>	<b>31 March 2020</b>
	<b>£ billion</b>	<b>£ billion</b>
<b>Total market value of assets</b>	nil	nil
<b>Value of liabilities</b>	757.1	653.2
<b>Surplus/(Deficit)</b>	(757.1)	(653.2)
<b>of which recoverable by employers</b>	n/a	n/a

## 7. Accruing costs

The cost of benefits accrued in the year ended 31 March 2021 (the current service cost) is assessed as 62.2% of pensionable pay.

For the avoidance of doubt, the actual rate of employer 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 2020-21 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2020-21 accounts.

**Table G – Contribution rate**

	<b>2020-21</b>	<b>2019-20</b>
	<b>% of pay</b>	<b>% of pay</b>
Employer contributions	20.6%	20.6%
Employee contributions (average)	9.8%	9.7%
<b>Total contributions</b>	<b>30.4%</b>	<b>30.3%</b>
Current service cost (expressed as a % of pay)	<b>62.2%</b>	<b>48.8%</b>

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 and the assumption for future improvements in life expectancy has been updated. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

The pensionable payroll for the financial year 2020-21 was £53.3 billion (derived from employer contributions payable over the year). Based on this information, the accruing cost of pensions in 2020-21 (at 62.2% of pay) is assessed to be £33.2 billion. This includes an allowance for the higher cost of benefits accruing over the year under McCloud.

Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. I am not aware of any other events that have led to a material past service cost over 2020-21.

I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2020-21.

## **8. Sensitivity analysis**

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 2021 of changes to the most significant actuarial assumptions.

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.

Table H shows the indicative effects on the total liability as at 31 March 2021 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% p.a.	- 12.0%	- £90.9 billion
(ii) (long-term) earnings increase*:	+0.5% p.a.	+ 2.0%	+ £15.1 billion
(iii) pension increases*:	+0.5%p.a.	+ 11.0%	+ £83.3 billion
<b>Demographic assumptions</b>			
(iv) additional 1 year increase in life expectancy at retirement		+ 4.0%	+ £30.3 billion
(v) 1995 sections members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)		+ 0.5%	+ £3.3 billion

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

## 9. COVID-19 implications

As with the accounts last year, the 2020-21 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.

The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2020) 12 Revised, dated 18 December 2020, and remain unchanged for these accounts. 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.

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 assumption allows for a reduction in our view of the long-term salary increases as well as lower short-term forecasts from the Office for Budgetary Responsibility.

The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics. The starting rates of mortality improvement 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 years' accounts.

**Garry Swann FIA**  
**Actuary**  
**Government Actuary's Department**  
**29 June 2021**

## 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 cashflows 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, or 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.

### 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 2021 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 Corporate Governance Code for Central Government Departments where it applies to us.

## **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 ten times up to the end of March 2021 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's Performance and Data & Insight teams 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 Head of Governance 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 one-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 2020-21 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 Board also recognised the challenges faced during 2020-21 due to the pandemic and the need for the Board to adapt to new ways of working, which had not impacted on its operation. The results and recommendations were accepted by the Board and actions taken forward, including to continue to monitor and develop how the Board received insight from customers and clients.

During 2020-21, 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 five times during 2020-21. 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 provided this experience and also chaired the Committee to 31 March 2021, and Kathryn Gillatt provided this experience from 1 April 2021 and became Chair of the Committee from this date. 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
<p><b>Non-executive Directors:</b>            Andrew Flanagan (Chair of Committee) – until 31 March 2021            Debra Bailey            Tim Nolan – 1 April 2020 to 30 September 2020            Kathryn Gillatt – 1 October 2020 to 31 March 2021 (Chair of Committee from 1 April 2021)</p> <p><b>Executive Directors:</b>            Michael Brodie (Chief Executive)            Mark Dibble (Executive Director of People and Corporate Services)            Andy McKinlay (Executive Director of Finance and Commercial Services)</p>	<p>5 of 5            4 of 5            3 of 3            2 of 2</p> <p>5 of 5            5 of 5            5 of 5</p>

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 2021 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, including the administration of the Pension Scheme.

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 financial reporting and accounting for the Scheme is managed within Finance, Estates and Commercial Services.



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 2021, 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 2020-21, 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.

## Accessibility Compliance

The requirements of the Accessibility Regulations 2018, and wide scope of NHSBSA services, led to a risk of some NHSBSA services not being compliant by the required date (September 2020). Following the establishment of a business-wide project, requirements were delivered and rolled-out aligned to the required deadlines. Also, a new role - Accessibility Advisor - has been established to provide expert advice and guidance to the business.

## Delivery of the IT Infrastructure and Sourcing (ITIS) Programme

The ITIS Programme was created to deliver the replacement of the organisation's outsourced IT arrangements. The programme incurred significant delays between June and December 2019 due to a failure of a critical path supplier to deliver services. The risk of not completing the programme by December 2019 was triggered, and extended transition support arrangements with Capita were put in place that avoided any business disruption. The ITIS programme made good progress between January and March 2020, and after a short pause to put in place COVID-19 safe working, completed the transfer of all services from Capita to the new suppliers between May and August 2020; with final programme closure in September 2020. Key risk mitigation actions included establishing a new achievable baseline, agreed by all suppliers, utilising internal and external programme governance and assurance oversight by the Infrastructure and Projects Authority (IPA).

## Current risks / issues

### Public Sector Pensions ruling

In December 2018 the Court of Appeal ruled that the difference in treatment provided by transitional protection was not objectively justified and constituted unlawful age discrimination. Subsequently HM Treasury's published response to the Public Consultation determined that the removal of discrimination will be delivered under a Deferred Choice Underpin where members will be given the choice at retirement of how they wish their service to be considered during the Remedy Period which is from 1 April 2015 to 31 March 2022.

The government have determined that all Public Sector Pension Schemes must adhere to the findings of the court and implement the removal of the age discrimination that was determined to be in place. A programme for the delivery of these changes, chaired by DHSC, has commenced and the projects within that programme are following internal governance policies and procedures. The ongoing delivery of the programme is continuing to be tracked on the Corporate Risk Register.

### 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 ARC 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) which has been externally certified to the ISO27001 standard.

### COVID-19 Outbreak

As a result of the COVID-19 pandemic 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 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.

## 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 2020-21 exercises were carried out in the following areas impacting the Scheme:

- ITIS Programme;
- Pensions Legal Challenges;
- Business Continuity and COVID-19;
- User Access Management, and
- The Impact of COVID-19 on the NHSBSA Change Programme.

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 2020-21.

## Managing Information

During 2020-21 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. Our return was submitted at the end of June 2021. Frequent compliance updates are provided to the NHSBSA Audit and Risk Management Committee and NHSBSA Board.

241 security incidents were raised during 2020-21 relating to the Scheme, this compares with 157 incidents in 2019-20. Upon investigation and risk assessment (based on set DSPT criteria), no security incidents were reported to the Information Commissioners Office (ICO).

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 2020-21 we have dealt with:

- 216 DPA requests relating to the Scheme, all except 31 were responded to within the required timeframe. This compares to 251 DPA requests in 2019-20, all except 26 were responded to within the required timeframe.
- 41 FOI requests relating to the Scheme, 13 fewer than the previous year. All except 4 were responded to within the required timeframe. This compares to 54 FOI requests in 2019-20, 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. The reason for the targets not being met were due to a number of reasons:

- Between 25 March 2020 and 12 May 2020 the NHS Pension staff who provided the information to respond to these requests were sent home without IT equipment. Therefore requests were not responded to on time and a backlog developed.
- Scanning staff who need to recognise the posted requests were also adjusting to new working arrangements and new staff were drafted in to help.
- Contact Centre agents receiving email and phone requests have not been promptly forwarding the requests or have not correctly recognised them.

This was addressed through a combination of:

- staff being able to resume supporting these requests,
- additional training for scanning staff to recognise these requests and
- contact centre agents received updated guidance and being made aware of their processing errors.

The Information Commissioner's office normally monitor organisations who consistently fail to respond by the legal deadline for 10% of requests. However, due to the COVID-19 pandemic this has been suspended.

## Freedom to Speak Up (Whistleblowing)

The NHSBSA has adopted the NHS National Guardian's Office (NGO) - Freedom to Speak Up (FTSU) approach – adopting the model FTSU Policy and aligning our practices to the NGO's guidance and training. We have a FTSU Strategy and Improvement Plan – which is reviewed and endorsed by our Board on an annual basis. The Audit and Risk Management Committee also continue to oversee policy and process. We have an appointed FTSU Guardian, Executive Lead



for FTSU (Mark Dibble), and Non-Executive Lead for FTSU (Tim Nolan until 30 September 2020, then Karen Seth from 1 October 2020).

## 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 2020-21 we have maintained our approach to handling complaints. The total number of formal complaints received during 2020-21 (classified as Internal Dispute Resolution (IDR) stage 1 cases), relating to the NHS Pension Scheme was 776, of which 405 were upheld (52%). This compares with 1,111 of which 583 were upheld (52%) in 2019-20.

## 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
- Freedom to Speak Up (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.

## Enhanced governance, compliance and assurance specific to the Scheme

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

### 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 2020- 21 they have reviewed the following areas;

- Deferred benefits – multiple schemes
- Greenbury products
- EERBO products
- Pension credit member products
- Pension credit member casework

Following a review, the Pensions 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 pensions system Compendia.

There have been two 'unsatisfactory' Compliance Reports, which related to the administration of deferred benefits – multiple schemes and pension credit member casework.

The multiple schemes unsatisfactory report related to inadequate controls, primarily of case checklists and validation questions, and the pension credit member casework report related to the lack of an adequate process guide. Both report findings did not impact the processing of cases.

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 October 2020 a breach of law report was submitted in respect of failure to provide Annual Benefit Statements (ABS) to 100% of the NHS Pension Scheme membership.

The NHSBSA provides ABS to members (both active and deferred) via NHS Total Reward Statements (TRS). Members who do not have access to an ABS via the on-line portals are directed to request one from NHSBSA. In August 2020 91.56% of NHS Pension Scheme members were provided an ABS (an increase in statements from 2019 of 365,228), although a slight reduction in percentage due to an increase in active members.

Whilst the NHSBSA remains committed to its long-standing aspiration of delivering ABS to all NHS Pension Scheme members, there are obstacles in achieving this goal. The NHS Pension Scheme is the largest centrally administered Pension Scheme in Europe with over 2.3 million active or deferred members and some of the most complicated working patterns and calculations in the pensions industry. The complex nature of the scheme means that it is unlikely that 100% full automation of ABS calculations will be possible.

TPR are aware of the constraints facing the largest centrally administered pension scheme and will take no further action in respect of the above breach.

Regular engagement with TPR takes place and updates are provided in respect of record keeping, annual benefit statement production and compliance.

## Financial Management

The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The Pensions Finance Reporting, Assurance and Reconciliation Team report to the Head of Financial Strategy and Reporting who in turn reports to the NHSBSA Executive Director of Finance and Commercial 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 launched their Loss and Fraud Prevention Strategy in 2020 which explained 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 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 and NHS Pensions have produced a Fraud Risk Assessment (FRA) which details all fraud and bribery risks within the NHS Pension Scheme administration. The FRA has been produced in accordance with the Cabinet Office FRA guidance and on their template. Quarterly meetings are held where these risks are reviewed and controls monitored. Data analytical work is being undertaken with colleagues in NHSBSA Data & Insight to look for anomalies and potential fraud as well as measuring the value of some of the risks identified.

The LFP Team updated the Pensions Board on the proactive work being undertaken to tackle loss and fraud in the system in February 2021 and will continue to do this on an annual basis. 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.

### **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.

### **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 2020-21.

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 2020-21.

### **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**

**14 July 2021**

## Parliamentary Accountability and Audit Report

### Statement of Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FRM) requires the NHS Pension Scheme (incorporating the NHS Compensation for Premature Retirement 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: Analysis of resource outturn by estimate line (SoPS 1); and a reconciliation of net resource outturn to net cash requirement (SoPS 3).

## Statement of Parliamentary Supply for the year ended 31 March 2021

### Summary of Resource Outturn 2020-21

This section has been subject to audit.

£000								2020-21	2019-20
	Note	Voted	Non-Voted	Outturn Total	Voted	Non-Voted	Estimate Total	Outturn vs Estimate saving / (excess)	Prior Year Outturn Total
<b>Annually managed expenditure</b>	SoPS1								
- Resource		28,881,809	-	28,881,809	29,053,269	-	29,053,269	171,460	4,717,859
<b>Total Budget</b>		<b>28,881,809</b>	-	<b>28,881,809</b>	<b>29,053,269</b>	-	<b>29,053,269</b>	<b>171,460</b>	<b>4,717,859</b>
<b>Non-Budget</b>									
- Resource		-	-	-	-	-	-	-	-
<b>Total</b>		<b>28,881,809</b>	-	<b>28,881,809</b>	<b>29,053,269</b>	-	<b>29,053,269</b>	<b>171,460</b>	<b>4,717,859</b>

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

#### Net cash requirement 2020-21

2020-21	2020-21		2019-20
Outturn £000	Estimate £000	Outturn vs Estimate saving/(excess) £000	Prior Year Outturn Total £000
<b>(3,642,299)</b>	<b>(3,102,464)</b>	<b>539,835</b>	<b>432,407</b>

#### Administration costs 2020-21

2020-21	2020-21		2019-20
Outturn £000	Estimate £000	Outturn vs Estimate saving/(excess) £000	Prior Year Outturn Total £000
-	-	-	-

## Notes to the Statement of Parliamentary Supply

### SoPS1. Analysis of Resource outturn by Estimate line

£000	2020-21									2019-20
	Resource Outturn						Estimate	Outturn vs Estimate saving / (excess)	Prior Year Outturn Total	
	Administration			Programme						Total
	Gross	Income	Net	Gross	Income	Net	Total	Total	Total	
Departmental Expenditure Limit										
Voted:	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-
Annually Managed Expenditure										
Voted:										
A: NHS Pension Scheme										
	-	-	-	45,302,186	(16,420,377)	28,881,809	<b>28,881,809</b>	<b>29,053,269</b>	<b>171,460</b>	4,717,859
Non Voted:	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	45,302,186	(16,420,377)	28,881,809	<b>28,881,809</b>	<b>29,053,269</b>	<b>171,460</b>	4,717,859

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

The outturn is less than the Estimate primarily due to:

- Contribution income being higher than forecast by £233 million, Service Cost being higher than forecast by £100 million. This is attributed to the NHS dealing with the COVID-19 pandemic that resulted in increased workforce and pensionable earnings of scheme members.
- Pensions financing expenditure being lower than forecast by £40 million.

### SoPS2. Reconciliation of outturn to net operating expenditure

The total resource outturn of £28.88bn shown above in the SoPS summary table on page 35 is the same as the combined net expenditure shown in the Statement of Comprehensive Net Expenditure (SoCNE) on page 46. Therefore no reconciliation table is required.



**SoPS3. Reconciliation of net resource outturn to net cash requirement**

Item	Reference	2020-21			2019-20
		Outturn Total £000	Estimate £000	Outturn vs Estimate savings/ (excess) £000	Outturn £000
Resource Outturn	SoPS1	28,881,809	29,053,269	171,460	4,717,859
Capital Outturn		-	-	-	-
<b>Accruals to cash adjustments:</b>					
<i>Adjustments to remove non-cash items:</i>					
Non-cash items		(45,264,183)	(45,202,102)	62,081	(4,579,732)
<i>Adjustments to reflect working balances:</i>					
Changes in payables and receivables		128,045	81,369	(46,676)	44,844
Use of provision		12,612,030	12,965,000	352,970	249,436
<b>Net cash requirement</b>		<b>(3,642,299)</b>	<b>(3,102,464)</b>	<b>539,835</b>	<b>432,407</b>

As noted in the introduction to the SoPS 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.

**Explanation of the 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 primarily due to:

- Contribution income being higher than forecast by £233 million
- Payments being lower than forecast by £352 million, comprising of lump sums £213 million, payments to HMRC £66 million, death gratuities £22 million, transfer out £23 million and other payments totalling £28 million.

## 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).

Item	Outturn total 2020-21		Outturn total 2019-20	
	Income £000	Receipts £000	Income £000	Receipts £000
Income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund – current year	-	<i>3,642,299</i>	-	<i>3,025,262</i>
Excess cash surrenderable to the Consolidated Fund – prior year	-	-	-	<i>10,096</i>
<b>Total income payable to the Consolidated Fund</b>	-	<b><i>3,642,299</i></b>	-	<b><i>3,035,358</i></b>

## Losses and Special Payments Disclosures

This section has been subject to audit.

### Losses statement

	2020-21	2019-20
Total number of losses	10,314	10,518
Total value of losses £000	826	1,139

Losses relate to overpaid pension benefits that were deemed irrecoverable.

### Special payments

	2020-21	2019-20
Total number of special payments	72	134
Total value of special payments £000	77	110

Special payments relate to compensatory payments made to members where a complaint was made against the scheme administrator.

There were no individual losses greater than £300,000 or special payments during 2020-21.

## 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) (together “the Scheme”) for the year ended 31 March 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury’s Government Financial Reporting Manual.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability and Audit Report that is described in that report 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 2021 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 2021 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), Practice Note 15 (revised) ‘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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Scheme in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the Scheme's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Scheme is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

### Other Information

The other information comprises information included in the Annual Report, but does not include the parts of the Parliamentary Accountability and Audit Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 Parliamentary Accountability and Audit Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Report of the Managers and the Statement by 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 Parliamentary Accountability and Audit 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.

## **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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Scheme will not continue to be provided in the future.

## **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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Scheme's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Scheme's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Scheme's controls relating to the NHS Pensions Scheme Regulations 1995, 2008 and 2015, as amended, the NHS (Compensation for Premature Retirement) Regulations 2002, as amended, the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator.
- discussing among the engagement team and involving relevant internal and external specialists, including actuarial specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, significant or unusual transactions and selection of inappropriate assumptions underpinning significant estimates.
  - obtaining an understanding of the Scheme's framework of authority as well as other legal and regulatory frameworks that the Scheme operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Scheme. The key laws and regulations I considered in this context included the NHS Pensions Scheme Regulations 1995, 2008 and 2015, as amended, the NHS (Compensation for Premature Retirement) Regulations 2002, as amended, the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator; and
  - obtaining an understanding of the control environment in place at the Scheme, the administrator and the scheme actuary in respect of membership data, the pension liability, contributions due and benefits payable.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- performing substantive testing of contributions received and benefits paid in the year to ensure compliance with laws, and regulations and regularity;
- engaging an auditor's expert to review the actuarial methods and assumptions used by the scheme actuary, reviewing the expert's report and undertaking any further procedures as necessary; and
- reviewing any significant correspondence with the Pensions Regulator.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted 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.

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.

## Report

I have no observations to make on these financial statements.

**Gareth Davies**  
**Comptroller and Auditor General**

**16 July 2021**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP



# Financial Statements

## Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
<b>Income</b>			
Contributions receivable	3	(16,262,282)	(15,000,185)
Transfers in	4	(67,379)	(113,214)
Other income	5	(90,716)	(101,747)
		<b>(16,420,377)</b>	<b>(15,215,146)</b>
<b>Expenditure</b>			
Service cost	6	33,200,000	22,400,000
Enhancements	7	96,804	102,899
Transfers in – additional liability	8	67,379	113,214
Pension financing cost	9	11,900,000	15,600,000
Administration cost	10	38,003	39,174
		<b>45,302,186</b>	<b>38,255,287</b>
<b>Combined net expenditure</b>	SoPS1	<b>28,881,809</b>	<b>23,040,141</b>
<b>Other comprehensive net expenditure</b>			
<b>Pension re-measurements:</b>			
Revaluation loss/(gain) of estimated discounted future cash flows in respect of early retirement charges	15	20,519	33,302
Actuarial loss/(gain)	16.7	71,247,847	93,792,725
<b>Total Comprehensive Net Expenditure</b>		<b>100,150,175</b>	<b>116,866,168</b>

The notes on pages 50 to 64 form part of these financial statements.

## Combined Statement of Financial Position

as at 31 March 2021

	Note	2021 £000	2020 £000
<b>Current assets:</b>			
Receivables	12	1,170,050	1,023,380
Cash and cash equivalents	13	3,642,299	3,035,358
<b>Total current assets</b>		<b>4,812,349</b>	<b>4,058,738</b>
<b>Current liabilities</b>			
Payables (within one year)	14	(4,228,943)	(3,603,377)
<b>Net current liabilities, excluding pension liability</b>		<b>583,406</b>	<b>455,361</b>
Estimated discounted future cashflows in respect of premature retirement recharges	15	392,120	412,639
Pension liability	16.4	(757,100,000)	(653,200,000)
<b>Net liabilities, including pension liabilities</b>		<b>(756,124,474)</b>	<b>(652,332,000)</b>
<b>Taxpayers' equity</b>			
General Fund		(756,124,474)	(652,332,000)
		<b>(756,124,474)</b>	<b>(652,332,000)</b>

**M Brodie**  
**Accounting Officer**  
**14 July 2021**

The notes on pages 50 to 64 form part of these financial statements.

## Combined Statement of Changes in Taxpayers' Equity

for year ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
<b>Balance at 1 April</b>		<b>(652,332,000)</b>	<b>(532,440,570)</b>
Revaluation loss/(gain) of estimated discounted future cash flows in respect of early retirement recharges	15	(20,519)	(33,302)
Surplus cash payable to the Consolidated Fund – current year supply	SoPS4	(3,642,299)	(3,025,262)
<b>Comprehensive Net Expenditure for the Year</b>	SoCNE	<b>(28,881,809)</b>	<b>(23,040,141)</b>
Actuarial (loss)/gain – NHS Pension Scheme	16.7	(71,247,847)	(93,792,725)
<b>Net Change in Taxpayer's Equity</b>		<b>(103,792,474)</b>	<b>(119,891,430)</b>
<b>Balance at 31 March 2021</b>		<b>(756,124,474)</b>	<b>(652,332,000)</b>

The notes on pages 50 to 64 form part of these financial statements.

## Combined Statement of Cash Flows

for the year ended 31 March 2021

	Note	2019-20 £000	2018-19 £000
<b>Cash flows from operating activities</b>			
Net expenditure for the year	SoCNE	(28,881,809)	(23,040,141)
Adjustments for non-cash transactions:			
Increase in receivables		(146,670)	(90,214)
Increase in payables		18,625	48,342
Increase in pension provision	16.4	45,100,000	38,000,000
Increase in pension provision – enhancements and transfers in	16.4	164,183	216,113
Use of provisions – pension liability	16.5	(12,444,633)	(11,904,496)
Use of provisions – refunds and transfers	16.6	(167,397)	(204,342)
<b>Net cash outflow from operating activities</b>		<b>(3,642,299)</b>	<b>(3,025,262)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		-	-
From the Contingencies Fund – current year		1,000,000	976,000
Repayment to the Contingencies Fund		(1,000,000)	(976,000)
<b>Net Financing</b>		<b>-</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund</b>		<b>(3,642,299)</b>	<b>3,025,262</b>
Payments of amounts due to the Consolidated Fund		(3,035,358)	(200,000)
<b>Net increase in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund</b>		<b>606,941</b>	<b>2,825,262</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>3,035,358</b>	<b>210,096</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>3,642,299</b>	<b>3,035,358</b>

The notes on pages 50 to 64 form part of these financial statements.

## Notes to the Financial Statements

### 1.1 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 2020-21 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.

### 1.2 Going Concern

The Statement of Financial Position as at 31 March 2021 shows a combined pension and compensation liability of £757.1 billion (2019-20: £653.2 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 2021-22 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### 1.3 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.

## 1.4 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 costs

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 (0.50%) (2019-20 0.29%) and 1.80% including inflation (2019-20 2.90%). 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 costs

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 1.80% (2019-20 2.90%).

## 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 2020 was discounted at a real discount rate of (0.50%) (i.e. 1.80% including inflation). The discount rate changed on 31 March 2021 to (0.95%) 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 Statement by the Actuary on pages 14 to 18. 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 2020 was provided to GAD to facilitate a full actuarial valuation that has been used in the preparation of the financial statements for 2020-21.

## 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 adopted by the FReM at the reporting date:

- IFRS 16 Leases – there are no material balances within NHSPS financial statements affected by the changes to IFRS16.
- IFRS 17 Insurance Contracts - there are no material balances within NHSPS financial statements affected by the changes to IFRS17.

**3. Contributions receivable**

	2020-21 £000	2019-20 £000
Employers	(10,976,998)	(10,144,320)
Employees:		
Normal	(5,194,762)	(4,757,403)
Purchase of added years	(70,049)	(80,114)
Purchase of additional pensions	(18,837)	(16,927)
Purchase of early retirement redundancy buy out	(1,636)	(1,421)
	<b>(16,262,282)</b>	<b>(15,000,185)</b>

£16.77 billion contributions are expected to be payable to the Scheme in 2021-22. During the year ended 31 March 2021, employee contributions represented an average of 9.9% of pensionable pay.

**4. Transfers in (see also Note 8)**

	Note	2020-21 £000	2019-20 £000
Individual transfers in from other schemes	8	(54,832)	(58,044)
Group transfers in from other schemes	8	(12,547)	(55,170)
		<b>(67,379)</b>	<b>(113,214)</b>

**5. Other pension income**

	2020-21 £000	2019-20 £000
Pre funded premature retirement contributions	(6,282)	(4,437)
Capitalised rechargeable premature retirement contributions	(5,701)	-
Rechargeable premature retirement contributions	(32,990)	(34,204)
Final pay control	(9,999)	(30,042)
Interest charged on contribution payments	(206)	(234)
Administration levy	(35,538)	(32,830)
	<b>(90,716)</b>	<b>(101,747)</b>

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

	Note	2020-21 £000	2019-20 £000
Current service cost		33,200,000	24,000,000
Past service cost		-	(1,600,000)
		<b>33,200,000</b>	<b>22,400,000</b>

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

	Note	2020-21 £000	2019-20 £000
Employees: Purchase of added years		70,049	80,114
Employees: Purchase of additional pension		18,837	16,927
Employees: Early retirement reduction buy out		1,636	1,421
Employers: Pre-funded premature retirement contributions		6,282	4,437
		<b>96,804</b>	<b>102,899</b>

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

	Note	2020-21 £000	2019-20 £000
Individual transfers in from other schemes		54,832	58,044
Group transfers in from other schemes		12,547	55,170
		<b>67,379</b>	<b>113,214</b>

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

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

	Note	2020-21 £000	2019-20 £000
Net interest on defined benefit liability		11,900,000	15,600,000
		<b>11,900,000</b>	<b>15,600,000</b>

**10. Scheme administration cost**

	Note	2020-21 £000	2019-20 £000
Scheme administration cost		38,003	39,174
		<b>38,003</b>	<b>39,174</b>

**11. Additional Voluntary Contributions**

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

### Utmost Life and Pensions (formally The Equitable Life Assurance Society)

	2020-21 £000	2019-20 £000
Movements in the year were as follows:		
Balance at 1 April	91,470	94,248
New investments	204	281
Sale of investments to provide pension benefits	(9,279)	(6,085)
Changes in market value of investments	11,380	3,026
<b>Balance at 31 March</b>	<b>93,775</b>	<b>91,470</b>
Contributions received to provide life cover	4	6
Benefits paid on death	190	186

### Standard Life Assurance Society

	2020-21 £000	2019-20 £000
Movements in the year were as follows:		
Balance at 1 April	103,802	118,581
New investments	1,951	1,681
Sale of investments to provide pension benefits	(8,129)	(9,924)
Changes in market value of investments	20,737	(6,536)
<b>Balance at 31 March</b>	<b>118,361</b>	<b>103,802</b>
Contributions received to provide life cover	-	-
Benefits paid on death	241	343

### Prudential PLC

	2020-21 £000	2019-20 £000
Movements in the year were as follows:		
Balance at 1 April	57,602	62,893
Opening balance adjustment	(921)	-
Re-stated balance at 1 April	56,681	62,893
New investments	3,015	5,241
Sale of investments to provide pension benefits	-	(5,879)
Changes in market value of investments	-	(4,653)
*Balancing figure of sale and change in market value of investments	10,381	
<b>Balance at 31 March</b>	<b>70,077</b>	<b>57,602</b>
*Contributions received to provide life cover	-	-
*Benefits paid on death	-	61

\*Full figures were not available at the time of publication of the accounts, however the closing fund value and new investments has been confirmed as correct by Prudential. Restated values will be provided in the 2021-22 accounts.

## Statement of Financial Position

### 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.

	2021 £000	2020 £000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	706,120	594,181
Employees' normal contributions	413,326	375,780
Employees' purchase of added years	5,628	8,746
Employees' purchase of additional pensions	1,580	725
Employees' purchase of early retirement reduction buy out	127	111
Invoiced pre-funded retirement contributions	918	782
Invoiced re-chargeable premature retirement contributions	9,225	9,619
Invoiced final pay control income	12,338	16,864
<b>Total due from employers</b>	<b>1,149,262</b>	<b>1,004,808</b>
Overpaid pension benefits	20,788	18,413
HMRC - VAT	-	159
<b>Total due within one year</b>	<b>1,170,050</b>	<b>1,023,380</b>
<b>Amounts falling due after more than one year:</b>	-	-
<b>Total receivables</b>	<b>1,170,050</b>	<b>1,023,380</b>

### 13. Cash and cash equivalents

	2021 £000	2020 £000
Balance at 1 April	3,035,358	210,096
Net change in cash balances	606,941	2,825,262
<b>Balance at 31 March</b>	<b>3,642,299</b>	<b>3,035,358</b>
The following balances at 31 March were held at:		
Government Banking Service	3,642,299	3,035,358
<b>Balance at 31 March</b>	<b>3,642,299</b>	<b>3,035,358</b>

## 14. Payables

	2021 £000	2020 £000
<b>Amounts falling due within one year:</b>		
Pensions	(452,815)	(426,209)
HM Revenue & Customs	(127,831)	(129,152)
Voluntary deductions	(298)	(285)
Scheme administration costs payable to NHSBSA	(1,731)	(10,995)
HMRC - VAT	(58)	-
Amounts due to employers:		
Employee and employer contributions	(3,688)	(1,373)
Final pay control	(155)	(5)
Prefunded premature retirements	(68)	-
	<b>(586,644)</b>	<b>(568,019)</b>
Amounts due to be paid to the Consolidated Fund	(3,642,299)	(3,035,358)
<b>Amounts falling due after more than one year</b>	-	-
<b>Total payables</b>	<b>(4,228,943)</b>	<b>(3,603,377)</b>

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

## 15. 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.

	2020-21 £000	2019-20 £000
Balance at 1 April	412,639	445,941
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(20,519)	(33,302)
<b>Balance at 31 March</b>	<b>(392,120)</b>	<b>412,639</b>

## 16. Pension Liabilities

### 16.1 Assumptions underpinning the pension liability

The NHS Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2021. The Statement by the Actuary starting on page 14 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 profiles, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;
- income and expenditure, including details of expected bulk transfers into or out of the Scheme; and,
- following consultation with the Actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The key assumptions used by the actuary were:

	At 31 March 2021	At 31 March 2020	At 31 March 2019
Nominal discount rate	1.25%	1.80%	2.90%
Rate of pension increases	2.22%	2.35%	2.60%
Rate of general pay increases	3.72%	4.10%	4.10%
Rate of short-term general pay increase	n/a	n/a	n/a
Real discount rate in excess of			
Pension increases	(0.95%)	(0.50%)	0.29%
Long-term pay increases	(2.38%)	(2.20%)	(1.15%)
Life expectancies			
- Life expectancy at 60 – current pensioners			
• Men	28.7	28.6	29.5
• Women	30.1	30.1	30.9
- Life expectancy at 60 – current age 40			
• Men	30.4	30.3	31.6
• Women	31.8	31.7	32.9
- Life expectancy at 65 – current pensioners			
• Men	23.8	23.7	24.5
• Women	25.2	25.1	25.9
- Life expectancy at 65 – current age 45			
• Men	25.4	25.3	26.5
• Women	26.8	26.7	27.8

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 financial statements 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 price inflation leads to a significant increase in the reported liability.

In accordance with IAS 19 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 analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

## 16.2 Analysis of the provision for pension liability

	At 31 March 2021 £bn	At 31 March 2020 £bn	At 31 March 2019 £bn	At 31 March 2018 £bn	At 31 March 2017 £bn
Active members (past service)	459.7	386.4	305.8	307.5	274.0
Deferred pensions	92.8	82.2	65.7	61.6	52.0
Pensions in payment	204.6	184.6	161.8	157.0	183.4
<b>Total</b>	<b>757.1</b>	<b>653.2</b>	<b>533.3</b>	<b>526.1</b>	<b>509.4</b>

Pension Scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. The 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 on the CSoFP 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, 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 at the end of the reporting period is detailed below. The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

The table below shows the indicative effects on the total liability as at 31 March 2021 of changes to these assumptions (rounded to the nearest 0.5%).



Change in Assumption		Approximate effect on total liability	
<b>Financial Assumptions</b>			
Discount rate*	+ 0.5% a year	-12.0%	-£90.9 billion
Earnings increases*	+ 0.5% a year	+2.0%	+£15.1 billion
Pension increases*	+ 0.5% a year	+11.0%	+£83.3 billion
<b>Demographic Assumptions</b>			
Additional one year increase to life expectancy at retirement		+4.0%	+£30.3 billion
1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire 2 years earlier)		+0.5%	+£3.3 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	2020-21 £000	2019-20 £000
Scheme liability at 1 April		<b>(653,200,000)</b>	<b>(533,300,000)</b>
Current service cost	6	(33,200,000)	(24,000,000)
Past service cost	6	-	1,600,000
Pension financing cost	9	(11,900,000)	(15,600,000)
Enhancements	7	(96,804)	(102,899)
Pension transfers in	8	(67,379)	(113,214)
		<b>(45,264,183)</b>	<b>(38,216,113)</b>
Benefits payable	16.5	12,444,633	11,904,496
Pension payments to and on account of leavers	16.6	167,397	204,342
		<b>12,612,030</b>	<b>12,108,838</b>
Actuarial (loss)/gain	16.7	(71,247,847)	(93,792,725)
<b>Scheme liability at 31 March</b>		<b>(757,100,000)</b>	<b>(653,200,000)</b>

#### 16.5 Analysis of benefits paid

	2020-21 £000	2019-20 £000
Pensions to retired employees and dependants (net of recoveries or overpayments)	9,862,446	9,349,026
Commutations and lump sum benefits on retirement	2,582,187	2,555,470
<b>Total benefits paid</b>	<b>12,444,633</b>	<b>11,904,496</b>

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

	2020-21 £000	2019-20 £000
Death in service	77,869	72,495
Individual transfers to other schemes	46,711	68,173
Group transfers to other schemes	142	1,324
Payment to State Scheme	(101)	11,776
Refunds to members leaving service	42,776	50,574
<b>Total payments to and on account of leavers</b>	<b>167,397</b>	<b>204,342</b>

## 16.7 Analysis of actuarial (gains) / losses

	2020-21 £000	2019-20 £000
Experience loss arising on the Scheme liabilities	(547,847)	7,307,275
Changes in assumptions underlying the present value of Scheme liabilities	(70,700,000)	(101,100,000)
<b>Total actuarial loss</b>	<b>(71,247,847)</b>	<b>(93,792,725)</b>

### 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 2021.

Experience Gain	2020-21 £billion
April 2021 pension increase lower than expected	5.1
Pensionable pay increase lower than expected and CARE revaluation (based on pension increase) lower than expected	(6.0)
Membership and other experience	0.4
<b>Total experience gain</b>	<b>(0.5)</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 2021.

Change in assumptions	2020-21 £billion
Change in nominal discount rate	(93.7)
Change in assumed rate of pension increases	23.0
Change in assumed life expectancy	-
<b>Total changes in assumptions</b>	<b>(70.7)</b>

## 16.8 History of experience (gains) / losses

	2020-21	2019-20	2018-19	2017-18	2016-17
Experience (gains) / losses on scheme liabilities: (£000)	(547,847)	7,307,275	1,000,000	5,816,676	8,031,725
Percentage of the present value of the scheme liabilities	0.07%	-1.12%	-0.19%	-1.11%	-1.58%
Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000)	(71,247,847)	(93,792,725)	26,509,363	10,116,676	(108,668,275)
Percentage of the present value of the scheme liabilities	9.41%	14.36%	4.97%	-1.92%	21.33%

## 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. There are no material financial instruments in relation to the Scheme.

## 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**

### **20.1 2020 funding valuation**

The final directions to enable completion of the 2020 valuation are expected from HM Treasury during summer 2021. The results of the 2020 valuation and the employer cost cap will be reported in the 2021-22 accounts.

## **21. Date of authorisation for issue**

The financial statements have been authorised for issue by the Accounting Officer on the same date as the C&AG's certificate.

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