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**Judicial Pensions Scheme  
Annual Report and Accounts  
2011-12**

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# **Judicial Pensions Scheme Annual Report and Accounts 2011 - 12**

**(For the year ended 31 March 2012)**

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

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## **REPORT OF THE MANAGERS**

### **Background to the Judicial Pensions Scheme**

These Accounts relate to the financial year ending 31 March 2012. The following paragraphs summarise the arrangements operating in 2011-12.

There are currently various judicial pension arrangements, all contracted out of the State Second Pension, that are known collectively as the JPS. The JPS comprises unfunded, salary-related, occupational pension schemes open to most members of the Judiciary under the provisions of two Acts: the Judicial Pensions Act 1981 and the Judicial Pensions & Retirement Act 1993 (JUPRA). In addition, these Accounts include pensions paid to former Lord Chancellors under the Lord Chancellor's Pension Act 1832, as amended.

The JPS is a defined benefit scheme. Salaried Judges appointed for the first time on or after 31 March 1995 belong to the JPS under the 1993 Act. Those appointed prior to that date generally belong to a scheme under the 1981 Act. There is a right of election to transfer from the 1981 Act to the 1993 Act at any time up to a date 6 months after retirement.

The 1993 Act provides a lump sum of 2.25 times the member's annual pension. The annual pension is calculated at 1/40<sup>th</sup> of the highest of the last three years pensionable pay, up to a level reflecting the former HMRC earnings cap, multiplied by the number of years of reckonable service, up to a maximum of 20. Pension benefits are payable from age 65 subject to 5 years service.

A top up scheme operates to provide pension benefits for 1993 Act members in respect of salaries above the HMRC earnings cap. The 2011-12 earnings cap was £129,600 (2010-11: £123,600).

There are different arrangements for different Judicial Offices under the 1981 Act; in some cases maximum benefits accrue over 15 years, in others the period is 20 years. The qualifying conditions for pension benefits vary according to age and length of service requirements. Here, the lump sum is twice the annual pension.

The Judicial Pensions Scheme is not a registered scheme for the purposes of the Finance Act 2004. As a result lump sum benefits payable from, and members' contributions payable to, the schemes do not attract income tax relief. Judges receive a service award which becomes payable when they near retirement. The level of the award, which is a proportion of the lump sum, reflects their years of service and their judicial grade and ensures their net position is maintained. The service awards are accounted for in the Ministry of Justice's Resource Accounts.

Spouses' pension benefits, payable on the death of a member, are paid at the rate of half that of the member's annual pension entitlements under both the 1993 and 1981 Acts. Provision is also made for surviving civil partner benefits.

The JPS also provides death benefits on death in service and death in early retirement, the level of benefits depending on the appropriate Act (1993 or 1981 Acts), as well as early payment of pension benefits in the event of retirement on the grounds of ill health. There is also provision for leaving members who have completed 2 years service to preserve their accrued JPS benefits for payment when they reach normal pension age.

Judicial pension benefits are paid from two sources. Under statute, certain judicial post-holders' basic pension benefits (but not the annual pension increase) can only be paid out of the Consolidated Fund (CF). For the rest, the pension benefits are paid from Judicial Pensions Scheme Estimates voted by Parliament.

The boundary of these JPS Accounts is inclusive of all relevant expenditure and income relating to the payment of judicial pension benefits irrespective of the source of the funds. As salaried judges automatically become members of the JPS on appointment it is not necessary to provide a separate stakeholder pension scheme.

The Scheme Administrator is Mrs Shirley Hales, Head of the Pensions and Judicial Reward Team, within the Human Resources Directorate of the Corporate Performance Group of the Ministry of Justice, who administer the JPS.

The JPS Board oversees the financial, accounting and administrative functions of the JPS.

### **Contributions into the JPS**

The cost of benefits accruing for each year of service is shared between the Appointing Bodies and the judicial office-holders. For the Appointing Bodies their contributions rate was 32.15% of pensionable pay for 2011-12 and 2010-11. For judicial office-holders their share was 1.8% or 2.4% of pensionable pay for 2011-12 and 2010-11.

Judicial office-holders in the 1981 scheme pay contributions of 2.4% for a maximum of 15 years or 1.8% for 20 years and those in the 1993 scheme pay contributions of 1.8% for a maximum of 20 years.

### **Members' Additional Voluntary Contributions (AVCs)**

Serving members are able to increase their personal pension benefits and/or dependants' entitlements by making additional voluntary contributions to one of three AVC facilities within the JPS and also externally, to the AVC suppliers – The Equitable Life Assurance Society and Prudential plc. The three "in-house" AVC facilities were closed to new subscribers with effect from 6 April 2006. Making additional contributions to the external AVC scheme does not increase a member's pension benefits under the JPS. It is also possible for members to contribute to a freestanding AVC scheme (FSAVCs).

### **Pension Increases**

Annual increases are applied to pension payments from the first Monday on or before

6 April, in line with the RPI all-items index, as at the previous 30 September, in accordance with the Pensions (Increase) Act 1971. The annual pension increase in April 2011 was 3.1% (2010: 0%).

From April 2011 the annual increases applied to pension payments has been in line with the CPI index.

## **Review of the Year**

### **Key Developments in the year**

Since 2006 the discount rate for pensions has been reviewed annually, using market conditions. On 5 December 2011 Her Majesty's Treasury advised that the discount rate for pension liabilities would change from 2.9 per cent in real terms to 2.8 per cent in real terms with effect from 31 March 2012.

During 2010-11 the independent Public Service Pensions Commission, chaired by Lord Hutton, undertook a fundamental structural review of public service pension provision. The JPS was included in this review.

The Commission's final report, published in March 2011, made recommendations in relation to the contributions paid by active members of public service pension schemes and the Pensions Act 2012 included a clause which allows for personal pension contributions (PPC) within the JPS.

The Pensions Act 2011 amended the judicial pension legislation to allow the taking of contributions towards the cost of the personal pension for those judicial office holders who have not yet accrued full service. The Judicial Pensions (Contributions) Regulations 2012 determined the rate of the personal pension contribution (PPC), which is 1.28% of gross salary (the pension cap does not apply to the PPC). The contributions commenced from 1 April 2012 in line with other public service pension schemes.

As reported in the 2010-11 JPS accounts (section 19. Contingent liabilities disclosed under IAS 37), the Ministry of Justice is involved in a number of cases involving fee paid judicial office holders claiming retrospective pension rights. The lead case went before the Supreme Court in June 2010 who referred two questions to the European Court of Justice. The Judgment of the European Court was given in March 2012 and the case is awaiting a hearing in the Supreme Court. Their judgment is expected in summer 2012 and the Executive Management Corporate Board (EMCB) will be appraised of the potential implications.

Corporate HR is currently undertaking a structural review which is due to be put in place by summer 2012. As part of Corporate HR, the Pension and Judicial Reward team come within this review and it is anticipated that the majority of the team will become part of the HR Flexible Specialist Team (FST). This may require changes to the administration of the JPS, governance and procedures.

During 2011-12 the JPS was audited by the National Audit Office and by the MoJ's Internal Audit Division (IAD). Details of the recommendations by IAD and the follow up

actions are set out in the Governance Statement on pages 14 to 18.

### Disclosure of audit information to the auditors

As far as the Accounting Officer is aware, there is no relevant audit information of which the JPS's auditors are unaware. The Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the JPS's auditors are aware of that information.

### Membership Statistics

A. Active members: office-holders who are in service.

B. Deferred members: former office-holders who are not currently in pensionable service but who are entitled to JPS benefits as a result of previous service, at some future date.

C. Pensioners in payment: former office-holders who are currently receiving JPS benefits, plus other JPS beneficiaries such as widow(er)s and other dependants of former office-holders.

Details of the current membership of the JPS is as follows:

<i>A. Active members</i>	<i>2011-12</i>	<i>2010-11</i>
Active members B/F	2,213	2,236
Add: New entrants in the year	151	95
Less: Retirements in the year	-115	-115
Deferred members	-3	-2
Deaths	-6	-1
<b>Active members at 31 March</b>	<b>2,240</b>	<b>2,213</b>

<i>B. Deferred members</i>	<i>2011-12</i>	<i>2010-11</i>
Deferred members B/F	8	6
Add: Members leaving who have deferred pension rights	3	2
Less: Members who are re-appointed to Judicial posts	-1	0
<b>Deferred members at 31 March</b>	<b>10</b>	<b>8</b>



<i>C. Pensioners in payment</i>	<i>2011-12 Members</i>	<i>2011-12 Dependants</i>	<i>2011-12 Total</i>	<i>2010-11 Total</i>
Pensioners in payment B/F	1,156	489	1,645	1,563
Members retiring in year at normal retirement age	115	0	115	114
New pensioners under a pension sharing on divorce order (1)	3	0	3	4
Members retiring in year, previously in receipt of Guaranteed Minimum Pension (GMP)	-16	0	-16	-13
Members in receipt of GMP	10	0	10	11
New dependants	0	41	41	31
Deaths in year	-44	-26	-70	-61
Cessation of full time education	0	-4	-4	-2
Suspension of pension (2)	-3	0	-3	-2
Reinstatement of pension (3)	4	0	4	0
<b>Pensioners in payment at 31 March</b>	<b>1,225</b>	<b>500</b>	<b>1,725</b>	<b>1,645</b>

(1) Members under a pension sharing on divorce order are not part of retirements in the active membership table.

(2) Pensioners where contact has been lost but there is no evidence that they have died.

(3) Where contact has been re-established with the pensioner. This includes one pensioner where contact was lost in the prior year.

Membership numbers do not always reconcile to the GAD report on pages 9 and 10 due to differences in definitions.

## Financial position

The key figures of interest costs and current service costs are supplied by the Government Actuary's Department (GAD). In the case of both these costs a more prudent approach is adopted for estimates since the accounts will be qualified if the Estimate is breached. Discount rates, the major determinant of both costs, are unchanged between the 2011-12 Supplementary Estimate and outturn.

Interest costs have increased significantly from the prior year but were still slightly below the 2011-12 Supplementary Estimate of £124m owing to the more prudent approach. The interest cost is calculated by applying the gross discount rate to the liability. The gross discount rate has increased from 4.6% at 31 March 2010 to 5.6% at 31 March 2011 resulting in interest costs increasing from £105m in 2010-11 to £123m in 2011-12.

The Current Service Cost (CSC) is primarily driven by applying the net discount rate to the annual payroll figure. CSC decreased to £113m from £124m in 2010-11 although

this was only slightly below the Supplementary Estimate figure of £115m, again because of the more prudent approach. The 2010-11 CSC was calculated using the net discount rate at 31 March 2010, allowing for the change in indexation from RPI to CPI on 22 June 2010, so was calculated using a combination of a discount rate of 1.8% (net of RPI) from 1 April 2010 to 22 June 2010, and 2.5% (net of CPI) from 23 June 2010 to 31 March 2011. The 2011-12 CSC is calculated using the net discount rate at 31 March 2011, which was 2.9%. Since the rate has increased, the cost of service accruing over the next year, as a percentage of pay, has decreased, hence the fall in CSC for 2011-12.

The difference between the net and gross discount rates is the CPI inflation figure, the assumed percentage increase in pensions.

### **Information for Members**

The JPS Board, Managers, Advisers and Appointing Bodies for the JPS are as listed below:

#### **JPS Board**

Chairman	- Steve Gillespie
Deputy Director Pensions & Judicial Reward	- Ian Gray
Scheme Administrator	- Shirley Hales
Corporate Finance	- Vicky Creed
Internal Audit	- Krysia Bialoszewska
JPS Accountant	- Adrian Matthews
Board Secretary	- Jane Storrar

#### **Managers**

##### *JPS Manager and Accounting Officer:*

Helen Edwards, Interim Permanent Secretary, Ministry of Justice, 102 Petty France, London, SW1H 9AJ

##### *Scheme Administrator:*

Mrs Shirley Hales, Head of Branch, Pensions and Judicial Reward, Ministry of Justice, 102 Petty France, London SW1H 9AJ.

#### **Advisers**

##### *Scheme Actuary:*

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

##### *Auditors:*

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

*Bankers:*

The Government Banking Service, Southern House, 7<sup>th</sup> Floor, Wellesley Grove, Croydon, CR9 1WW.

*Providers of external Additional Voluntary Contributions:*

The Equitable Life Assurance Company - Walton Street, Aylesbury, Bucks HP21 7QW.

Prudential Plc - Laurence Pountney Hill, London EC4R 0HH.

*Pension Payment Contractors:*

Xafinity Paymaster – Sutherland House, Russell Way, Crawley, West Sussex RH10 1UH.

**Appointing or Administering Bodies**

As at 31 March 2012 the following bodies participated in the JPS:

- Her Majesty's Courts and Tribunal Service
- Competition Commission
- Northern Ireland Court Service
- Scottish Executive
- Corporation of London
- Department for Communities and Local Government
- Welsh Government

**Further Information**

Any enquiries about the JPS should be addressed to:

Judicial Pensions Scheme,  
Pensions and Judicial Reward  
102 Petty France  
London SW1H 9AJ.

Resource Accounts from 2004-05 onwards can be found within the House of Commons Papers sections, or via the search function, at:  
[www.official-documents.gov.uk/menu/browseDocuments.htm](http://www.official-documents.gov.uk/menu/browseDocuments.htm)

*Helen Edwards*  
Accounting Officer

Date: 22 June 2012

## REPORT OF THE ACTUARY

### Introduction

This statement has been prepared by the Government Actuary's Department at the request of the Ministry of Justice ('the Department'). It summarises the pensions disclosures required for the 2011-12 Resource Accounts of the Judicial Pensions Scheme ('the scheme').

The JPS is a final salary defined benefit scheme, the rules of which are set out in the Judicial Pensions Act 1981 (the 1981 Scheme) and the Judicial Pensions and Retirement Act 1993 (the 1993 Scheme) and subsequent amendments. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

The statement is based on an assessment of the liabilities as at 31 March 2011, with an approximate updating to 31 March 2012 to reflect known changes.

### Membership data

Tables A to C summarise the principal membership data as at 31 March 2011 and 31 March 2012 used to prepare this statement.

**Table A – Active members**

Number	31 March 2011		2011-12
	Total salaries in membership data (pa) (£ million)	Total accrued pensions (£ million)	Total salaries (£ million)
2,238	273.0	61.4	263.9

**Table B – Deferred members**

31 March 2011	
Number	Total deferred pension (pa) (£ million)
6	0.2

**Table C – Pensions in payment**

	31 March 2011		31 March 2012	
Number	Total pension (pa)		Total pension (pa)	
	(£ million)		(£ million)	
1,646	70.1		74.7	

## Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2011-12 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2012 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2010-11 Resource Accounts.

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

## Principal financial assumptions

The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2012, the assumed rate of return in excess of pension increases was reduced from 2.9% a year to 2.8% a year, and the assumed rate of return in excess of earnings was reduced from 0.7% a year to 0.6% a year. In addition, with effect from 31 March 2012, the assumed rate of future pension increases is 2.0% a year and the assumed nominal rate of salary growth is 4.25% a year (changed from 2.65% and 4.9% respectively as at 31 March 2011).

**Table D – Principal financial assumptions**

Assumption	31 March 2012	31 March 2011
Rate of return (discount rate)	4.85%	5.6%
Rate of return in excess of:		
Earnings increases	0.6%	0.7%
Pension increases	2.8%	2.9%
Expected return on assets:	n/a	n/a

## Demographic assumptions

The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2012 are based on those adopted for the 2009 funding valuation of the JPS.

The standard mortality tables known as PNXA00 are used. Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom.

The contribution rate used to determine the accruing cost in 2011-12 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2010-11 Resource Accounts.

## Liabilities

Table E summarises the assessed value as at 31 March 2012 of benefits accrued under the scheme prior to 31 March 2012 based on the data, methodology and assumptions described in paragraphs 3 to 11. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

£ million

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
<b>Total market value of assets</b>	nil	nil	nil	nil	nil
<b>Value of liabilities</b>	2,192	2,183	2,392	1,774	1,829
<b>Surplus/(Deficit)</b>	(2,192)	(2,183)	(2,392)	(1,774)	(1,829)
<b>of which recoverable by employers</b>	n/a	n/a	n/a	n/a	n/a

## Accruing costs

The cost of benefits accruing in the year ended 31 March 2012 (the Current Service Cost) is based on a standard contribution rate of 42.9%, as determined at the start of the year. Members contributed either 1.8% or 2.4% of pensionable pay, depending on which scheme they are in. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 1.8%. The corresponding figures for 2010-11 are also included in the table.

**Table F – Contribution rate**

	Percentage of pensionable pay	
	2011-12	2010-11
<b>Standard contribution rate</b>	42.9%	46.7%
<b>Members' estimated average contribution rate</b>	1.8%	1.9%
<b>Employers' estimated share of standard contribution rate</b>	41.1%	44.8%

For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 32.15%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 2.9% pa for the 2011-12 Current Service Cost (1.8% pa for 2010-11) compared with 3.5% pa for scheme funding. The higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and although expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government, it was revised in the March 2011 Budget. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

The pensionable payroll for the financial year 2011-12 was £263.9 million. Based on this information, the accruing cost of pensions in 2011-12 (at 42.9% of pay) is assessed to be £113.2 million.

**Government Actuary's Department**

**7 June 2012**

## **STATEMENT OF THE ACCOUNTING OFFICER'S RESPONSIBILITIES**

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Judicial Pensions Scheme (JPS) to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction.

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

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) 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 (FReM), have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

HM Treasury has appointed the Permanent Secretary of the Ministry of Justice as Accounting Officer for the JPS. 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 Chapter Three of Managing Public Money, published by HM Treasury.



## **Governance Statement**

### **Scope of Responsibility**

I am Interim Permanent Secretary of the Ministry of Justice (MoJ). I was appointed Accounting Officer on 9 June but prior to that was Director General, Justice Policy Group and have attended the MoJ Departmental Board (DB) and Executive Management Committee of the Board (EMCB) meetings for a number of years so took up this temporary position with a good understanding of the control environment within the Department (the MoJ) and of the risks facing it. As the Interim Permanent Secretary of the MoJ, I am the Accounting Officer for the Judicial Pensions Scheme (JPS) and have responsibility for maintaining a sound system of internal control that supports the achievement of the Ministry of Justice's (MoJ) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

MoJ, as lead department for judicial pensions within the UK, has full responsibility for the central administration of the JPS. The JPS Estimate covers the payment of pensions and other related benefits normally paid out of funds voted by Parliament. It also includes pension contributions from bodies with judicial appointments, in the form of accrued superannuation liability charges, and members' contributions.

The JPS Estimate excludes the payment of pension benefits met directly from the Consolidated Fund (CF), which are authorised by the Exchequer Fund Account Team (EFA) of HM Treasury.

As Accounting Officer, I work with Ministers and senior MoJ Management through the Departmental Board and other meetings and correspondence to implement the MoJ's plans, allocate resources and delegate financial authority to senior staff. I delegate responsibility for the administrative and operational activities of the JPS to Ian Gray, Deputy Director, Pensions and Judicial Reward who manages the Pensions and Judicial Reward (PJR) team, which is part of the Corporate Performance Group within the MoJ. I therefore place reliance upon the annual assurance from the Deputy Director, PJR, as evidenced by his endorsement of this governance statement.

### **The purpose of the Governance Arrangements**

The governance arrangements are designed to ensure that scheme outcomes are delivered and associated risk is managed to a reasonable level within the money provided and in line with the rules of the scheme. Overall the governance is intended to ensure agreed policies and processes are compliant. The governance in place is designed to provide reasonable and not absolute assurance of effectiveness. The governance draws on an ongoing process designed to identify and prioritise the risks to the achievement of JPS policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. In particular, governance is designed to safeguard against fraud and minimise omissions and material errors in the payment of pensions and receipt of contributions from Appointing Bodies and JPS members.

The governance arrangements in place in the MoJ for the year ended 31 March 2012 and up to the date of approval of the annual accounts accords with Treasury guidance.

### Governance Framework

The JPS Board oversees the financial, accounting and administrative functions of the Scheme. It is a requirement that the Board is chaired by an independent chairperson, outside of the JPS’s administration structure. The Chair of the JPS Board since 1 April 2011 is Steve Gillespie, Finance Director, Her Majesty’s Courts and Tribunals Service. The Board’s members include the Deputy Director PJR, a representative from Internal Audit Division, the Scheme Administrator, the JPS Accountants and since June 2011, a senior manager from Corporate Finance (a full list of the current Board members is included in the Report of the Managers).

The full range of duties and responsibilities are set out in the Board’s Terms of Reference. Standing agenda items for every meeting include;

- The report of the Scheme Administrator
- The Risk Register and Issues Log
- The key issues for the JPS (currently pension reform and the litigation around claiming retrospective pension rights by fee paid judicial office holders).

The Board manages risks actively using a risk register approach, challenging at each meeting the reported impact and likelihood of each risk. Beyond that the Board endorsed the response to the risk that was identified that payments may be continuing to deceased pensioners by adopting an industry accepted practice of “Proof of Life” to mitigate this.

The Board met 4 times in the financial year 2011-12. The table below shows the attendance at each meeting.

Date of Meeting/Board Member	1.4.11	24.6.11	26.10.11	21.2.12
Chairman (Chris Ball for 1.4.11, Steve Gillespie from 24.6.11)	Attended	Attended	Attended	Attended
Deputy Director, Financial Control (appointed to the Board from 24.6.11)	N/A	Attended	Attended	Attended
Deputy Director, Pension & Judicial Reward	Attended	Attended	Attended	Attended
Scheme Administrator	Attended	Attended	Attended	Attended
Scheme Accountant	Attended	Attended	Attended	Attended
Internal Auditor	Attended	Attended	Attended	Attended

In line with good practice, the Board has reviewed its performance during 2011-12 and is satisfied that it has complied with its Terms of Reference. It has ensured that all action points have been followed up and that the key risks are reviewed at every meeting. As part of this assessment the Board has put in place arrangements to review the scheme administration costs and will continue to measure its own performance going forward. Both these topics will be standing agenda items for future meetings.

In line with good practice, the Board has reviewed its effectiveness and is content with its performance but has put in place arrangements to review the scheme administration costs and will continue to measure its own performance going forward.

The following bodies also inform my review of JPS matters if they are referred to them, via the Senior Management Team (SMT):

- **The Departmental Board (DB) and Executive Management Committee of the Board (EMCB)**

The DB has overall responsibility for the MoJ's strategic direction, including delivering the structural reform plan and the new public services transparency framework. The Secretary of State chairs the DB and membership includes the Ministerial Team, all Directors General and the Departmental Non-Executive Board Members. The DB meets, on average, every other month.

To support the DB, to manage the day-to-day business of MoJ, and to support my duties as Accounting Officer and Principal Advisor to the Secretary of State, I chair the EMCB. The EMCB meets weekly and is attended by all Directors General.

It is not considered relevant to provide information on the performance of, or the attendance of, either of these Boards in this Statement due to that fact that no JPS matters were referred to them, via the Senior Management Team, during the period ended 31 March 2012. For the same reason, it is not considered relevant to include highlights of Board committee reports for either Board. This information will be available in the Departmental Governance Statement when the MoJ's 2011-12 Annual Report and Accounts are published.

- **MoJ Audit Committee (AC)**

The MoJ's Audit Committee is a continuing source of advice and assurance on the effectiveness of the risk management process. The Committee meets a minimum of four times each year and has a non-executive Chairman, who reports directly to me and to the DB twice a year. The Committee receives updates on any material weakness in the administration of the JPS as identified, advises on the Internal Audit work programme and considers key recommendations from Internal Audit Reports and reports made by the National Audit Office. The Committee reviews and clears the annual JPS accounts.

- **Internal Audit Division (IAD)**

The MoJ's IAD operates to the Government Internal Audit Standards. It submits reports on the adequacy and effectiveness of the JPS's administrative processes and makes recommendations for improvement.

The Deputy Director, is responsible for the administrative and operational activities of the JPS. He is supported by the PJR team which includes the Scheme Administrator. The PJR team sits within the authority of Antonia Romeo, the Director General, Transforming Justice.

Financial reporting for the JPS is carried out by the Small Accounts Section of MoJ Corporate Finance in accordance with a Service Level Agreement.

Xafinity Paymaster Limited (Paymaster) is contracted to provide payroll services for the payment of lump sums, base pensions and pension increases paid from the Consolidated Fund and the JPS Estimate. Paymaster operates appropriate governance and internal control arrangements and these services are audited. The PJR team actively manages and monitors the performance of Paymaster under the contract and Paymaster provides an assurance to support their governance and control arrangements.

Liberata UK Limited (Liberata) maintains and manages the JPS accounts at the Government Banking Service. Liberata also provides and maintains the accounting system that supports the JPS accounts. These services are provided under the terms of the company's contract with the MoJ. Liberata provides an assurance that the services provided by them have been delivered in compliance with the assurance and control requirements of that contract.

The JPS is a small public service pension scheme with 2,240 active members and 1,725 pensioners as at 31 March 2012. In line with the guidance of the Corporate Governance Code the Board has reviewed and concluded there are areas within the Code which are not felt to be appropriate. These include the membership and composition of the Board where Ministerial or non-executive director involvement is not needed. I am satisfied that can be explained on grounds of appropriateness and proportionality and I am also satisfied that adequate oversight and control of the JPS has been maintained throughout the period covered by these accounts.

## **Risk Assessment and Management**

The Department's Risk Management Strategy, Policy and Framework document, approved and endorsed by the Corporate Management Board (now the Departmental Board) was initially published in July 2008, with an updated version published in April 2010. The document is available to all staff on the MoJ's intranet. This, in conjunction with the guidance on the Quarterly Risk Reporting process sets out the department's attitude to risk in the achievement of its policies and objectives, and provides guidance on the process of identifying, assessing and managing risk.

Risks that threaten the JPS's objectives are identified and analysed in terms of impact, materiality and probability, assigned to an individual owner and reported regularly at JPS Board level.

The PJR team is represented on the Knowledge and Information Liaison Officers network which provides a structured and co-ordinated approach throughout the department for Freedom of Information and Data Protection/Handling matters.

The Deputy Director and all members of the PJR team have successfully completed the "Protecting Information" training programme required annually of all MoJ staff and the PJR Team's procedures and processes comply with MoJ policies, for example the "clear desk" policy.

The other key elements in the JPS's control system are regular financial and management information. This includes management reports by the Scheme

Administrator to the JPS Board, together with financial reports, on an exception basis, and the position on any business risk – financial, accounting and operational. The JPS Board also regularly reviews the JPS Risk Register and Issues Log.

There were no new risks identified and no ministerial directions were given. There were no lapses of data security.

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance arrangements. My review of these arrangements is informed by the work of the internal auditors, the Deputy Director and administrators of the JPS, who have responsibility for the development and maintenance of the governance framework, and comments made by the external auditors in their management letter and other reports. The key elements of the governance arrangements are set out above and contribute to my review of its effectiveness.

### **Significant Compliance Issues**

In accordance with the Risk and Control framework, the JPS's administrative processes are reviewed by Internal Audit Division (IAD) annually. Their review of 2010-11 gave an amber/red audit rating and made the following four priority 2 recommendations (a priority 2 recommendation relates to a significant weakness in control where remedial action should be taken at the earliest opportunity):

1. The provision of guidance by the Director of Finance to the Scheme Administrator and the JPS Board on the needs for and form of the delegated authority.
2. A senior finance representative to join the JPS Board.
3. The development of a Service Level Agreement (SLA) setting out the respective roles and responsibilities for administering the JPS between the JRP (now PJR) team and Corporate Finance.
4. The Small Accounts Team to develop process documents for the activities they undertake for the JPS.

IAD conducted a follow up review during 2011-12 and their report in March 2012 confirmed that all four recommendations had been implemented. There were no other significant compliance issues noted.

This statement applies to the JPS. The Governance Statement for the Ministry of Justice as a whole will be available from the Stationery Office when the MoJ's 2011-12 Accounts are published.

Helen Edwards  
Accounting Officer  
Dated: 22 June 2012

Ian Gray  
Deputy Director, Pensions & Judicial Reward  
Dated: 21 June 2012

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

I certify that I have audited the financial statements of the Judicial Pensions Scheme for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

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

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

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



## **Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2012 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## **Opinion on other matters**

In my opinion:

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

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

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

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

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**Report**

I have no observations to make on these financial statements.

Amyas C E Morse  
Comptroller and Auditor General

Date 26 June 2012

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



**Statement of Parliamentary Supply  
for the Year ended 31 March 2012**

**Summary of Resource Outturn 2011-12**

	Note	2011-12 Estimate			2011-12 Outturn			2011-12 Difference	2010-11 Outturn
		Voted £'000	Non-Voted £'000	TOTAL £'000	Voted £'000	Non-Voted £'000	TOTAL £'000	Voted outturn compared with Estimate saving/ (excess) £'000	NET TOTAL £'000
DEL - Resource		-	-	-	-	-	-	-	-
DEL - Capital		-	-	-	-	-	-	-	-
AME - Resource	4	<b>85,468</b>	69,000	154,468	<b>83,668</b>	67,800	151,468	<b>1,800</b>	(44,197)
AME - Capital		-	-	-	-	-	-	-	-
Total Budget		<b>85,468</b>	69,000	154,468	<b>83,668</b>	67,800	151,468	<b>1,800</b>	(44,197)
Non-Budget - Resource		-	-	-	-	-	-	-	-
<b>Total</b>		<b>85,468</b>	<b>69,000</b>	<b>154,468</b>	<b>83,668</b>	<b>67,800</b>	<b>151,468</b>	<b>1,800</b>	<b>(44,197)</b>
Total - Resource		<b>85,468</b>	69,000	154,468	<b>83,668</b>	67,800	151,468	<b>1,800</b>	(44,197)
Total - Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>85,468</b>	<b>69,000</b>	<b>154,468</b>	<b>83,668</b>	<b>67,800</b>	<b>151,468</b>	<b>1,800</b>	<b>(44,197)</b>

**Net cash requirement 2011-12**

	Note	2011-12 Estimate £'000	2011-12 Outturn £'000	2011-12 Difference Outturn compared with Estimates saving/ (excess) £'000	2010-11 Outturn £'000
Net cash requirement	5	<b>(46,482)</b>	<b>(47,027)</b>	<b>545</b>	<b>(48,571)</b>

The accounts contain expenditure that is considered to be for administration for financial accounting purposes but is included as programme within the supply estimate.

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

The disclosures in the Statement of Parliamentary Supply have been changed from 2010-11 in line with HM Treasury clear line of sight requirements.

Explanations of variances between Estimate and outturn are given in the management commentary and note 3.

The notes on pages 27 to 41 form part of these accounts

## Statement of Comprehensive Net Expenditure for the Year Ended 31 March 2012

		2011-12		2010-11	
	Note	£'000	£'000	£'000	£'000
<b>Income</b>					
Contributions receivable	7	(89,142)		(89,930)	
Other pension income	8	<u>(660)</u>		<u>(667)</u>	
			(89,802)		(90,597)
<b>Expenditure</b>					
Current service cost	9	113,000		124,000	
Past service cost	9	-		(183,000)	
Interest on JPS liabilities	10	123,000		105,000	
Administration expenses	11	<u>400</u>		<u>400</u>	
			236,400		46,400
<b>Net Expenditure/(Income)</b>			<u><b>146,598</b></u>		<u><b>(44,197)</b></u>
<b>Other Comprehensive Net Expenditure</b>					
Actuarial gains	16(e)		(137,000)		(175,000)
<b>Total Comprehensive Net Expenditure/(Income) for the year ended 31 March 2012</b>			<u><b>9,598</b></u>		<u><b>(219,197)</b></u>

The notes on pages 27 to 41 form part of these accounts

**Statement of Financial Position  
as at 31 March 2012**

		31 March 2012		31 March 2011	
	Note	£'000	£'000	£'000	£'000
<b>Current assets:</b>					
Receivables	13	7,544		7,531	
Cash and cash equivalents	14	<u>9,586</u>		<u>11,738</u>	
<b>Total current Assets</b>			17,130		19,269
<b>Current Liabilities:</b>					
Payables	15	<u>(9,315)</u>		<u>(11,412)</u>	
<b>Total current liabilities</b>			<u>(9,315)</u>		<u>(11,412)</u>
<b>Net current assets, excluding pension liability</b>			7,815		7,857
<b>Non current liabilities:</b>					
Pension liability	16b		(2,191,917)		(2,182,610)
<b>Net liabilities, including pension liability</b>			<u>(2,184,102)</u>		<u>(2,174,753)</u>
<b>Taxpayers' equity:</b>					
General fund			(2,184,102)		(2,174,753)
			<u>(2,184,102)</u>		<u>(2,174,753)</u>

Helen Edwards  
Accounting Officer

Date: 22 June 2012

The notes on pages 27 to 41 form part of these accounts

## Statement of Changes in Taxpayers Equity for the Year Ended 31 March 2012

		2011-12	2010-11
	Note	<u>£'000</u>	<u>£'000</u>
<b>Balance at 31 March</b>		(2,174,753)	(2,384,015)
Consolidated Fund Standing Services:			
Pension payable by the Consolidated Fund	16(d)	52,998	47,987
Accruals adjustment for pension payable by the Consolidated Fund regarding other years		(424)	-
Contributions receivable directly by the Consolidated Fund		(340)	(231)
Accruals adjustment for contributions receivable directly by the Consolidated Fund regarding other years		14	(221)
Income attributable to the Judiciary at the Corporation of London		(102)	(102)
Excess income payable to the Consolidated Fund	4	(4,870)	(8,797)
Extra receipts payable to the Consolidated Fund	6	(47,027)	(48,571)
Comprehensive Net Expenditure for the year	4	(146,598)	44,197
Actuarial gains	16(e)	137,000	175,000
<b>Balance at 31 March</b>		<b><u>(2,184,102)</u></b>	<b><u>(2,174,753)</u></b>

The notes on pages 27 to 41 form part of these accounts

## Statement of Cash Flows for the Year Ended 31 March 2012

	Note	2011-12 £'000	2010-11 £'000
<b>Cash flows from operating activities:</b>			
Net expenditure for the year	4	(146,598)	44,197
Adjustments for non-cash transactions:			
Contributions receivable directly by the Consolidated Fund		(325)	(231)
Income attributable to Judiciary at the Corporation of London		(102)	(102)
(Increase) / decrease in cash receivables		(15)	102
Increase / (decrease) in cash payables		(1,773)	1
Increase in pension provision	9 & 10	236,000	46,000
Use of provisions - pension liability	16(d)	(36,233)	(31,942)
Use of provisions - death in service	16(d)	(462)	-
<b>Net increase in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund</b>		<b>50,492</b>	<b>58,025</b>
Payment of amounts to the Consolidated Fund – current year		(43,453)	(48,177)
Payment of amounts to the Consolidated Fund – prior year		(9,191)	(9,867)
<b>Net (decrease) in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(2,152)</b>	<b>(19)</b>
Cash and cash equivalents at the beginning of the year	14	11,738	11,757
<b>Cash and cash equivalents at the end of the year</b>	14	<b>9,586</b>	<b>11,738</b>

The notes on pages 27 to 41 form part of these accounts.

## **Notes to the Judicial Pensions Scheme Statements for the year ended 31 March 2012**

### **1. Basis of preparation of the JPS Statements**

The financial statements of the Judicial Pensions Scheme (JPS) have been prepared in accordance with the relevant provisions of the 2011-12 Government Financial Reporting Manual (FReM), issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) 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 IFRS, the FReM also requires the JPS to prepare an additional statement – a *Statement of Parliamentary Supply*. This and its supporting notes, show Outturn against Estimate in terms of the net resource requirement and the net cash requirement.

#### **1.1 Judicial Pensions Scheme (JPS)**

The Judicial Pensions Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme administered by the Ministry of Justice's Pensions and Judicial Rewards Team (P&JR) open to members of the Judiciary who satisfy the membership criteria.

Contributions to the JPS by employers and members are set at rates determined by the Government Actuary's Department (GAD) and approved by the JPS Board. The contributions partially fund payments made to members' dependants by the JPS, the balance of funding being provided by Parliamentary Vote, through the annual Supply Estimates process, and directly from the Consolidated Fund. The administrative expenses associated with the operation of the JPS are borne by the Ministry of Justice and reported in that entity's financial statements (note 2.13 refers).

The financial statements of the JPS show the financial position of the JPS at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the JPS; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the current service costs (which are actuarially assessed), transfers in and out, and the interest on the scheme liability. Further information about the actuarial position of the JPS is dealt with in the Report of the Actuary, and the JPS financial statements should be read in conjunction with that Report.

The financial statements also have regard to the Statement of Recommended Practice (SORP) entitled Financial Reports of Pension Schemes as adapted by the Treasury for public sector pension schemes. They have been laid in accordance with the Government Resources and Accounts Act 2000, chapter 20, Section 6 (4).

## **1.2 Going Concern**

The Statement of Financial Position as at 31 March 2012 shows a net pension liability of £2,191,917,000 (2010-11: £2,182,610,000). This reflects 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 JPS'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. All monies, including those derived from pension contributions in excess of pensions benefits paid, are surrenderable to the Fund.

In common with other public sector pension schemes, the future financing of the JPS's liabilities is to be met by future grants of Supply and the application of future pension contributions, both to be approved annually by Parliament. Such approval for amounts required for 2012-13 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

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

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

Where the FReM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the JPS 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 in relation to the JPS financial statements.

### **2.1 Pension contributions receivable**

Appointing Bodies' normal pension contributions are accounted for on an accruals basis.

WPS contributions under the 1993 Act are accounted for on an accruals basis. Under the 1981 Act, members could elect to pay WPS contributions either throughout their service or through a reduction in their lump sum upon retirement. Where members have elected to pay these contributions throughout their service, they are accounted for on an accruals basis.

If a member has no dependants at retirement then they will receive a refund of all WPS contributions made throughout their service. These refunds are paid with the lump sum on retirement and are accounted for on a cash basis.

Members' contributions paid in respect of the purchase of added years, or any other benefits to be gained from the JPS, are also recognised on an accruals basis. Any associated increase in the Scheme liability is recognised as expenditure.

## **2.2 Other pension income**

The Ministry of Justice (MoJ) is the manager of the JPS. Within the 32.15% Accruing Superannuation Liability Charges (ASLCs) received from Appointing Bodies is a 0.25% administration fee recognised as other pension income in these accounts.

## **2.3 Transfers in and out**

Transfers in or out of the JPS in respect of individual members are accounted for on a cash basis. Transfer values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. The values have been included in the financial statements in the period in which the sums were paid to or received from another pension scheme.

## **2.4 Current service cost**

The current service cost is the increase in the present value of the scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is based on the assumptions used by the Actuary.

## **2.5 Past service costs**

Past service costs represent changes in the present value of the scheme liabilities related to member service in prior periods arising in the current period as a result of the introduction of, or changes to, retirement benefits. Past service costs are recognised in the Statement of Comprehensive Net Expenditure on a straight-line basis over the period in which the increase in benefit arises. The current year's accounts show a negative past service cost of £183m in the 2010-11 comparative as a result of indexing public service retirement benefits using the Consumer Price Index rather than the Retail Price Index from April 2011.

## **2.6 Interest on scheme liabilities**

The interest cost is the increase during the period in the present value of the scheme liabilities because accrued members' benefits are one year closer to settlement and this is recognised in the Statement of Comprehensive Net Expenditure. The gross discount rate of 5.6 per cent (2010-11 4.6 per cent) is consistent with the assumptions used for current service costs (2.4 above).

## **2.7 Scheme liability**

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and has been discounted at a real rate, as prescribed by HM Treasury, which for 2011-12 is 2.8 per cent per annum real (2010-11: 1.8 per cent). The valuation takes account of the overnight change in the Scheme's liabilities as a result of the change in the discount rate to 2.8 per cent real as at 31 March 2012. Such changes are recognised in the Statement of Comprehensive Net Expenditure for the year as advised by HM Treasury.



Full actuarial valuations by a professionally qualified Actuary are obtained at intervals not exceeding four years with interim valuations every two years. The full valuation was carried out as at 31 March 2009. GAD are currently working on the 2012 desk top valuation and this should be completed later this year.

## **2.8 Pension benefits payable**

Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

## **2.9 Pension payments to those retiring at their normal retirement age**

Since a retiring member of the JPS has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

## **2.10 Pension payments to and on account of leavers before their normal retirement age**

Where a member of the JPS is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

## **2.11 Lump sums payable on death in service (or death early in retirement)**

Lump sum payments payable on death in service or in early retirement are accounted for on an accruals basis. They are a direct charge to the pension provision, as they are funded through the normal pension contributions.

## **2.12 Actuarial gains/losses**

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Statement of Financial Position date are recognised in the Statement of Comprehensive Net Expenditure for the year. These gains and losses are based on the figures provided by the Actuary and the related assumptions, which have been deemed appropriate by GAD and JPS Managers.

## **2.13 Administration fees**

The JPS is authorised by HM Treasury to pay the Ministry up to £400,000 of the administration fees received, per annum. In 2011-12 the full £400,000 was passed over to the Ministry, deemed as the cost of administering the JPS. This payment is reported in MoJ's accounts.

The administration of the JPS is carried out by staff from the Pensions and Judicial Reward Team, part of the Human Resources Directorate of the Ministry of Justice. The costs of the P&JR team are paid by the MoJ.

## **2.14 Other expenses**

Other pension related expenses to the Judiciary (such as payments for early retirement and ex-gratia payments) are borne by the relevant Appointing Body and reported in their Departmental Resource Accounts.

## 2.15 Consolidated Fund pension payments

Pension payments met directly from the Consolidated Fund and not from the funds held by the JPS are reflected in these accounts as notional expenditure. The JPS has no control over the issue of these payments.

The ultimate control for pensions paid out of the Consolidated Fund remains with the National Audit Office's Exchequer Section.

## 3. Net outturn

	2011-12									2010-11 Outturn
	Outturn						Estimate			
	Administration			Programme						
	Gross	Income	Net	Gross	Income	Net	Total	Net Total	Net total compared to Estimate	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
AME:										
Voted	-	-	-	168,600	(84,932)	83,668	83,668	85,468	1,800	(8,797)
Non-voted	-	-	-	67,800	-	67,800	67,800	69,000	1,200	(35,400)
<b>Total</b>	-	-	-	<b>236,400</b>	<b>(84,932)</b>	<b>151,468</b>	<b>151,468</b>	<b>154,468</b>	<b>3,000</b>	<b>(44,197)</b>

The outturn is below Estimate owing to current service cost and interest costs both being below the Estimate forecast. Current service costs are calculated by applying the net discount rate to the annual payroll. Current service cost variances are therefore influenced by of payroll variations since the discount rates are unchanged. In the case of both current service and interest costs a more prudent approach is adopted for estimates since the accounts will be qualified if the Estimate is breached.

## 4. Reconciliation of net resource outturn to net expenditure

		2011-12	2010-11
	Note	Outturn £'000	Outturn £'000
Voted - net resource outturn	3	83,668	-
Non-voted - non-supply expenditure	9	67,800	(35,400)
Income payable to the Consolidated Fund		(4,870)	(8,797)
<b>Net expenditure for the year in SCNE</b>		<b>146,598</b>	<b>(44,197)</b>

The negative outturn in the prior year comparative is accounted for by a £183m adjustment for past service costs.

## 5. Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2011-12	2010-11
	Outturn £'000	Outturn £'000
Net cash requirement	47,027	48,571
Excess cash paid to Consolidated Fund current year	(47,027)	(48,571)
Amounts due to the Consolidated Fund received and not paid over	8,443	9,191
Amounts due to the Consolidated Fund received in prior year and paid over	(9,191)	(9,867)
Movement in cash held by Xafinity	(1,404)	657
<b>Net increase/(decrease) in cash</b>	<b>(2,152)</b>	<b>(19)</b>

## 6. Analysis of Income payable to the Consolidated Fund

In addition to income retained by the Consolidated Fund, the following income relates to the JPS and is also payable to the Consolidated Fund (cash receipts shown in italics)

	2011-12 Forecast		2011-12 Outturn	
	Income £'000	<i>Receipts</i> £'000	Income £'000	<i>Receipts</i> £'000
Operating income outside the ambit of the Estimate	-	-	4,870	<i>4,870</i>
Excess cash receipts surrenderable to the Consolidated Fund	-	<i>46,482</i>	47,027	<i>47,027</i>
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b><i>46,482</i></b>	<b>51,897</b>	<b><i>51,897</i></b>

## 7. Pension contributions receivable

	2011-12 £'000	2010-11 £'000
Employers; appointing bodies:		
Accruing Superannuation Liability Charges (ASLCs)	84,177	85,100
Employees; Judicial Office-holders:		
Normal contributions: Widow(er)s' Pension Scheme (WPS)	4,518	4,302
Purchase of Added Years: internal JPS AVC's only	447	528
	<b>89,142</b>	<b>89,930</b>

Judicial Office-holders' contributions may fluctuate from year to year as members can elect to change their rates of contributions and elect to defer their contribution payments until they receive their lump sums.

## 8. Other pension income

	2011-12	2010-11
	£'000	£'000
Administration fees receivable from appointing bodies	660	667
	<b>660</b>	<b>667</b>

## 9. Pension Cost

	2011-12	2010-11
	£'000	£'000
Current service cost: (see note 16c)		
Judiciary paid from the JPS Estimate and pension increases for all Judiciary	45,200	49,600
Judiciary paid from the Consolidated Fund (notional expenditure)	67,800	74,400
Past service costs:		
Paid from the JPS Estimate and pension increases for all Judiciary	-	(73,200)
Paid from the Consolidated Fund (notional expenditure)	-	(109,800)
	<b>113,000</b>	<b>(59,000)</b>

The pension cost is apportioned between Vote and non-Vote expenditure based on a percentage split provided by the Government Actuary's Department. The 2011-12 pension cost has been allocated at 40% Vote and 60% non-Vote (2010-11: 40% Vote and 60% non-Vote).

The past service cost in 2010-11 is the result of changing the indexation of retirement benefits from the Retail Price Index to the Consumer Price Index. The percentage split is as current service costs (40% Vote, 60% non-Vote).

## 10. Interest on scheme liabilities

	2011-12	2010-11
	£'000	£'000
Interest charge for the year (see note 16c)	123,000	105,000
	<b>123,000</b>	<b>105,000</b>

## 11. Administration Expenses

	2011-12	2010-11
	£'000	£'000
Administration expenses paid to the Ministry	400	400
	<b>400</b>	<b>400</b>

## 12.1 Additional Voluntary Contributions to External Approved Providers

The JPS provides for members to make additional voluntary contributions (AVCs) to increase their pension entitlements. Members may arrange to have agreed sums deducted from their salaries for onward payment to the approved providers, the Equitable Life Assurance Company and Prudential plc. The managers of the JPS have responsibility only for the onward payment, by Appointing Bodies, of members' contributions to the provider. These AVCs are not reflected in the primary financial statements. Members of the JPS participating in this arrangement receive an annual statement from the provider confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	Equitable Life		Prudential	
	2011-12	2010-11	2011-12	2010-11
	£'000	£'000	£'000	£'000
<b>Movements in the year</b>				
Balance at 1 March / 1 April	463	570	1,443	1,078
New investments	26	24	517	467
Sales of investments to provide pension benefits	(12)	(156)	(30)	(185)
Changes in market value of investments	18	25	93	83
<b>Balance at 29 February / 31 March</b>	<b>495</b>	<b>463</b>	<b>2,023</b>	<b>1,443</b>
Contributions received to provide life cover	2	3	1	1

Note that the figures for Equitable Life cover the period 1 March 2011 to 29 February 2012 while the Prudential figures are for the period 1 April 2011 to 31 March 2012. Equitable Life only provide a valuation at their anniversary date which is 28 February.

## 12.2 Additional Voluntary Contributions – historic internal arrangements

Historically there have been three AVC arrangements within the JPS provided for under the Judicial Pensions and Retirement Act 1993 (“the 1993 Act”) and the Judicial Pensions Act 1981 (“the 1981 Act”) as amended by the 1993 Act. The arrangements are as follows:

- The Judicial Added Benefit Scheme (JABS) (for 1981 Act members only). JABS enables members to increase the level of benefits payable from their main Judicial Pensions Scheme.
- The Judicial Added Years Scheme (JAYS) (for 1993 Act members only). JAYS enables members of the 1993 Scheme to increase the length of service and the benefits at retirement.
- The Judicial Added Surviving Spouse’s Pension Scheme (JASSPS) (for 1993 Act members only). JASSPS enables members to make contributions that will increase only the level of the contingent surviving spouse’s or civil partner’s pension.

All three of these AVC facilities were closed to new subscribers with effect from 6 April 2006.

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

#### 13 (a) Analysis by type

Amounts falling due within one year

	2011-12	2010-11
	£'000	£'000
Pension contributions due from appointing bodies:		
Accruing Superannuation Liability Charges (ASLCs), including administration fees	7,151	7,145
Pension contributions due from Judicial Office-holders:		
Normal contributions - Widow(er)s' Pension Scheme (WPS)	355	343
Purchase of Added Years: internal JPS AVC's only	36	41
Overpaid pensions to be returned	1	2
Lump sums paid early	1	-
	<b>7,544</b>	<b>7,531</b>

#### 13 (b) Analysis by organisation

	2011-12	2010-11
	£'000	£'000
Balances with other central government bodies	7,151	7,145
Balances with bodies external to government	393	386
	<b>7,544</b>	<b>7,531</b>

### 14. Cash and cash equivalents

	2011-12	2010-11
	£'000	£'000
Balances as at 1 April	11,738	11,757
Net change in cash balances	(2,152)	(19)
<b>Balance at 31 March</b>	<b>9,586</b>	<b>11,738</b>
The following balances at 31 March were held at:		
Government Banking Service	8,443	9,191
Xafinity Paymaster	1,143	2,547
<b>Balance at 31 March</b>	<b>9,586</b>	<b>11,738</b>

In 2011-12 cash held by Xafinity Paymaster is due to pensioners and other counterparties and will be paid in 2012-13. It is mainly lump sums to be paid to beneficiaries. In 2010-11 it was mainly tax due to HMRC.

## 15. Payables – in respect of pensions

### 15 (a) Analysis by type

	2011-12	2010-11
	£'000	£'000
<b>Amounts falling due within one year</b>		
Pension benefits payable – lump sums due on retirement	117	220
Death in service payments	681	-
Tax due to HM Revenue and Customs	10	1,942
Contributions received in advance	31	26
Administration charges due to Ministry of Justice	33	33
Extra receipts due to the Consolidated Fund	8,443	9,191
<b>Total Creditors</b>	<b>9,315</b>	<b>11,412</b>

### 15 (b) Analysis by organisation

	2011-12	2010-11
	£'000	£'000
Balances with other central government bodies	8,517	11,192
Balances with bodies external to government	798	220
<b>Total Creditors</b>	<b>9,315</b>	<b>11,412</b>

## 16. Provisions for pension liability

### 16 (a) Assumptions underpinning the provision for pension liability

The Judicial Pensions Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out a full actuarial valuation as at 31 March 2009. The meets the FReM requirement that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years." However currently formal actuarial valuations are suspended on value for money grounds, and this may impact on accounts for future reporting periods. The Report of the Actuary, on pages 9 to 12, sets out the scope, methodology and results of the work the Actuary has carried out.

In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension.

The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits, quantified for JPS by the Government Actuary's Department at £183m, was recognised as a negative past service cost in accordance with IAS 19 in 2010-11. This accounting treatment was adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

The question of whether, as regards the main public service pensions schemes, there was a legitimate expectation that RPI should be used for inflation indexing was brought before the courts in judicial review proceedings. The Government case that no legitimate expectation existed was upheld. The Government's case being proven, there is no change to the accounting treatment adopted in these accounts.

The Scheme Manager is responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

- JPS membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the JPS;
- income and expenditure, including details of expected bulk transfers into or out of the JPS; 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 – with the exception of the discount rate (see note 2.7) - reflect a best estimate of future experience.

The major assumptions used by the Actuary were:

	At 31 March 2012	At 31 March 2011	At 31 March 2010	At 31 March 2009	At 31 March 2008
Rate of increase in salaries	4.25%	4.9%	4.3%	4.3%	4.3%
Rate of increase in pensions in payment and deferred pensions	2.0%	2.65%	2.75%	2.75%	2.75%
Inflation assumption	2.0%	2.65%	2.75%	2.75%	2.75%
Nominal discount rate	4.85%	5.6%	4.6%	6.04%	5.3%
Discount rate net of price inflation	2.8%	2.9%	1.8%	3.2%	2.5%
Mortality rates at aged 60					
Current retirements					
Females	30.2%	30.3%	30.2%	29.6%	29.5%
Males	28.4%	28.5%	28.4%	26.9%	26.8%
Retirements in 20 years time					
Females	33.0%	32.7%	32.6%	32.4%	32.3%
Males	31.1%	30.8%	30.7%	29.3%	29.2%

The 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 Manager acknowledges that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will



either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in a significant 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. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The Scheme Manager does not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the Scheme Manager, the Actuary has used key assumptions that are the most appropriate for the JPS in the light of current knowledge.

#### 16 (b) Analysis of the provision for pension liability

	March 2012	March 2011	March 2010
	£m	£m	£m
Liability relating to active members	1,205	1,278	1,461
Liability relating to deferred pensioners	3	3	3
Liability relating to pensioners in payment	984	902	928
<b>Scheme liability at 31 March</b>	<b>2,192</b>	<b>2,183</b>	<b>2,392</b>

The scheme liability as assessed by the Actuary is based on a roll forward of the last full valuation as at 31 March 2009. This is the professional judgement of the Actuary based on the information provided by the Scheme Administrator (see the Report of the Actuary pages 9-12).

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, civil partner or dependants survive the pensioner. In valuing the scheme liability, the Actuary must estimate the impact of several inherently uncertain variables far into the future. The variables include not only the key 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. Membership numbers in the years between full actuarial valuations are assumed to be stable.

The value of the liability on the statement of financial position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or

decrease. The Scheme Manager accepts 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(e). The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

### 16 (c) Analysis of movement in scheme liability

	Note	2011-12 £'000	2010-11 £'000
Scheme liability at 1 April		2,182,610	2,391,539
Current service cost	8	113,000	124,000
Past service cost	8	-	(183,000)
Interest on pension scheme liability	9	123,000	105,000
Pension benefits payable	15(d)	(89,693)	(79,929)
Actuarial gains	15(e)	(137,000)	(175,000)
<b>Scheme liability at 31 March</b>		<b>2,191,917</b>	<b>2,182,610</b>

During the years ended 31 March 2012 and 31 March 2011, employer's contributions represented 32.15 per cent of pensionable pay. Employees' contributions were 2.4 or 1.8 per cent of earnings. For members in the 1993 Scheme, contributions are taken from salary up to a level reflecting the former Inland Revenue earnings cap, while members of the 1981 Scheme pay contributions based on the whole salary.

### 16 (d) Analysis of benefits paid

	2011-12		2010-11	
	£'000	£'000	£'000	£'000
Members – Base pensions	14,777		12,939	
Members – Pensions increase	10,847		9,752	
Members – Lump sum on retirement	4,958		3,978	
Dependants – Base pensions	1,750		1,669	
Dependants – Pensions increase	3,901		3,604	
Dependants – Lump sum on death of members	462		-	
<b>Pension benefits from Supply per Statement of Cash Flows</b>		<b>36,695</b>		<b>31,942</b>
Members – Base pensions	37,933		35,453	
Members – Lump sum on retirement	8,170		7,282	
Dependants – Base pensions	5,548		5,224	
Dependants – Lump sum on death of member	1,347		28	
<b>Pension benefits payable from Consolidated Fund</b>		<b>52,998</b>		<b>47,987</b>
<b>Total pension benefits payable charged against provision</b>		<b>89,693</b>		<b>79,929</b>

## 16 (e) Analysis of actuarial gains and losses

	2011-12 £'000	2010-11 £'000
Experience gains arising on the scheme liabilities	167,000	78,000
Gains/(losses) resulting from changes in assumptions underlying the present value of scheme liabilities	(30,000)	97,000
<b>Per Statement of Changes in Taxpayers Equity</b>	<b>137,000</b>	<b>175,000</b>

## 16 (f) History of experience gains and losses

	2011-12 £'000	2010-11 £'000	2009-10 £'000	2008-09 £'000	2007-08 £'000
<i>Experience gains/(losses) on scheme liabilities:</i>					
Amount	167,000	78,000	33,000	22,000	(117,000)
Percentage of the present value of the scheme liabilities at the balance sheet date	(7.62%)	(3.57%)	(1.38%)	1.24%	6.40%
<i>Total actuarial gains/(losses):</i>					
Amount	137,000	175,000	(479,000)	197,000	(82,000)
Percentage of the present value of the scheme liabilities at the balance sheet date	(6.25%)	(8.02%)	20.03%	11.10%	4.48%

## 17. Financial Instruments

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

## 18. Contingent liabilities disclosed under IAS 37

The Ministry of Justice is involved in a number of cases before employment tribunals. They involve fee paid judicial office holders claiming retrospective pension rights. The initial case was withdrawn but several new cases were brought before the Tribunal in the years 2006-07 to 2011-12. As at 31 March 2012, 252 individual claims and three group claims for 75 people were outstanding.

It is not possible to calculate the potential liability to the JPS of a negative judgement, as a precedent might be set up for 6,000-8,000 other office holders with potential claims dating back twenty years.

The latest developments are described in the Report of the Managers on page 4 of this document.

## **19. Related-party transactions**

The Judicial Pensions Scheme does not fall within the ambit of the Ministry of Justice, as it obtains Parliamentary approval for its resources under a separate Supply Estimate. The Ministry of Justice is the Lead Appointing Body for most Judiciary within the JPS, and also the Scheme Manager. The Permanent Secretary to the Ministry of Justice has been appointed as Accounting Officer for the JPS. The Ministry of Justice is regarded as a related party.

The JPS has not had unusual material transactions with the Ministry of Justice and other participating Government Departments who appoint Judicial Office Holders that are members of the JPS.

The Scheme Manager, key managerial staff or other related parties have not undertaken any material transactions with the JPS during the year.

## **20. Events after the reporting period**

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the Comptroller and Auditor General certifies the accounts.

Date of authorisation for issue:

The Accounting Officer authorised the issue of these financial statements on 22 June 2012.



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