Department of Health, Social Services and Public Safety

HPSS Superannuation Scheme Resource Accounts For the year ended 31 March 2006

Laid before the Houses of Parliament
by the Department of Finance and Personnel
in accordance with Paragraph 36 of the Schedule to the
Northern Ireland Act 2000 (Prescribed Documents) Order 2004

31 October 2006

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Introduction

The HPSS Superannuation Scheme is an unfunded, contributory, voluntary membership Scheme administered by the Department of Health, Social Services and Public Safety. The current regulations under which the Scheme operates are the *Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995.*

The Regulations apply to the employees of the Health and Personal Social Services bodies, the principal employer, although the employees of a number of other bodies are also permitted to join.

Further information about the Scheme is given in the explanatory booklet published in December 2005, which is issued to all members.

Managers, Advisers and Employers

Managers

Accounting Officer: Dr A McCormick
Permanent Secretary
Department of Health, Social Services and Public Safety
Castle Buildings
Stormont Estate
Belfast
BT4 3SQ

Scheme Administrator: Department of Health, Social Services and Public Safety
Castle Buildings
Stormont Estate
Belfast
BT4 3SQ

Advisers

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

Auditors: Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

Employers

Principal employers: Health and Social Services Boards
Health and Social Services Trusts

Additional bodies permitted to join: General Practitioners
Staff employed by General Medical Practitioners
Direction Bodies

Changes to the Scheme

Pensions were increased by 3.1% with effect from 11 April 2005. Employee contribution rates remained the same at 6% and employer contribution rates remained the same at 7%.

Notional transfers

During the year, the following notional transfers were made between the Scheme and equivalent Schemes for the Department of Education and the Northern Ireland Civil Service:

	2005-06		2004-05	
	Cases	£000	Cases	£000
Transfers to the Department of Education	**1**	**76**	1	3
Transfers to the Northern Ireland Civil Service	**18**	**526**	16	477
	19	**602**	17	480
Transfers from the Department of Education	**7**	**56**	2	128
Transfers from the Northern Ireland Civil Service	**24**	**300**	21	146
	31	**356**	23	274

Post balance sheet events

There are no post balance sheet events.

Membership statistics

Detail of the current membership of the Scheme is as follows:

Active members	
Active members at 1 April 2005	53,299
add: New entrants in the year	3,618
Transfers in	685
less: Retirements in the year	(969)
Transfers out	(258)
Deaths	(26)
Active members at 31 March 2006	**56,349**

Deferred members	
Deferred members at 1 April 2005	11,927
add: Members leaving who have deferred pension rights	517
less: Members taking up deferred pension rights	(318)
Deferred members at 31 March 2006	**12,126**

Pensioners in payment	Members	Dependants	Total
Pensioners in payment at 1 April 2005	10,430	2,850	13,280
Members retiring in year at normal retiring age	330		330
Members retiring in year, previously in receipt of compensation payments	17		17
New dependants		171	171
Deaths in year	(399)	(137)	(536)
Pensioners in payment at 31 March 2006	**10,378**	**2,884**	**13,262**

Compensation payments	
Members in receipt of compensation payments at 1 April 2005	2,385
add: Members leaving under early retirement schemes during the year	10
less: Members reaching normal retirement age during the year	(17)
Deaths before normal retirement age	(1)
Members in receipt of compensation payments at 31 March 2006	**2,377**

Ill health retirement	
Ill health retirement members at 1 April 2005	7,505
add: Members retiring on ill health grounds	311
less: Deaths in year	(136)
Ill health members at 31 March 2006	**7,680**

Financial commentary

The movements in the Scheme during the year are summarised in the Revenue Account and net outgoings for the year are £523,882k.

Income mainly comprises contributions from employers (who are defined per page 2 above), of £88,335k and employee contributions of £74,402k. Other receipts include transfers in of £9,637k from other Schemes and other pension income of £129k per Note 9 to the accounts.

The charge to the Revenue account now recognises the movements in the scheme liability (other than those arising from actuarial gains and losses). This comprises the current service cost £330,000k, enhancements of £5,925k, transfers in £9,637k and interest on the scheme liabilities £350,000k. Payments include other pension expenditure of £823k per Note 14 to the accounts.

Further information

Any enquiries about the HPSS Superannuation Scheme should be addressed to:

HPSS Superannuation Branch
Department of Health, Social Services and Public Safety
Waterside House
75 Duke Street
Derry
County Londonderry
BT67 1FP

Report of the Actuary

Accounts for the year ended 31 March 2006

A. Liabilities

The capitalised value as at 31 March 2006 of expected future benefit payments under the HPSS Superannuation Scheme, for benefits accrued in respect of employment (or former employment) prior to 31 March 2006, has been estimated using the methodology and assumptions set out in Sections C and D below. The results are as follows:

Value of Liabilities	£ billion
Pensions in Payment	2.0
Deferred Pensions	0.3
Active Members (Past Service)	4.9
Total	7.2

B. Accruing Costs

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the employer meeting the balance of the cost of the benefits. The cost of the increases to benefits in line with the Retail Prices Index, after leaving service, is met by the Exchequer. The total cost of benefits accruing in the year 2005-06 have been assessed using the methodology and assumptions set out in Sections C and D below. The results are as follows:

	% of Pensionable Pay
Current Service Cost	26.2%
Average Members' Contribution Rate	5.9%
Employer's share of Current Service cost	20.3%
Actual rate charged to employers for current year	7.0%

The actual rate charged of 7% is the rate recommended in my 1999 valuation report. The total of member and employer contributions to the scheme is significantly lower than the standard cost of 26.2% because the actual contribution rate excludes the cost of pension increases, and because the resource accounting disclosures are calculated using a lower assumption for notional investment returns.

In relation to the pensionable payroll for the financial year, the employers' charges at 7% in cash terms were £0.085 billion (excluding income for compensation for premature retirements) for the financial year 2005-06. The Current Service Cost disclosed in the scheme accounts was £0.33 billion.

C. Methodology

The value of the liabilities has been obtained using the projected unit method with a one year control period, which allows for expected future pay increases in respect of active members. The liabilities and standard contribution rate include pension increases awarded since leaving service for pensioners and deferreds, plus allowance for future pension increases for all categories of member.

D. Assumptions

The principal financial assumptions adopted for the pension assessments made in relation to this Statement are an investment return in excess of price increases of 2.8% p.a. (most pension benefits under the scheme are increased in line with prices), and an investment return in excess of earnings increases of 1.3% p.a.

The gross rate of return is assumed to be close to 5.4% a year, although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 4.0% a year and an allowance for price inflation of 2.5% a year.

The demographic assumptions adopted for the assessments are derived from the specific experience of the membership of the scheme to 31 March 2003, and other similar large public service pension schemes where some aspect of the experience is not readily available. Allowance has been made for the expected impact of Agenda for Change and the atypically high dynamisation factors, which are used to revalue General Medical Practitioners' accrued benefits, over the three year period ending 31 March 2006.

E. Notes

(1) Sections A and B of this Statement are based on the results of an actuarial assessment carried out as at 31 March 2003 for the purposes of FRS 17, with an approximate updating for the subsequent financial years to reflect known changes that have occurred between 1 April 2003 and 31 March 2006, based on the available data. The method assumes that the profile of the membership has remained stable within the period, which may not necessarily be the case, and so the results should be viewed as an indication of the order of magnitude of the liabilities rather than a full actuarial assessment.

(2) The actual rate charged to employers for 2005/06 at 7.0% of pensionable pay follows the recommendations made at the 1999 funding valuation. This excludes the cost of pension increases which is not borne by the scheme at present. The next funding valuation is due as at 31 March 2004.

(3) The pension benefits taken into account in this assessment are those normally provided from the rules of the scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits), or premature retirement benefits awarded on redundancy, other than where the latter are pre-funded by employers.

Ian A Boonin FIA **07 September 2006**
Chief Actuary
Government Actuary's Department
London

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance and Personnel has directed the Department of Health, Social Services and Public Safety HPSS Superannuation Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis) the financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the scheme during the year and the disposition, at the end of the financial year, of the net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year, nor on the net liabilities at the year end.

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

- observe the accounts direction issued by the Department of Finance and Personnel including the relevant accounting and disclosure requirements, and apply suitable policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Department of Finance and Personnel has appointed Dr. Andrew McCormick as Accounting Officer for the HPSS Superannuation 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 the Accounting Officers' Memorandum issued by the Department of Finance and Personnel and published in *Government Accounting Northern Ireland.*

Statement on Internal Control

Scope of responsibility

This statement is given in respect of the Departmental Resource Account for 2005/06. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department's 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 *Government Accounting Northern Ireland.* I am also required to combine these duties with my duty to serve the Minister in charge of my Department and I have particular responsibility to see that appropriate advice is tendered to the Minister on all matters of financial propriety and regularity and more broadly as to all considerations of prudent and economical administration, efficiency and effectiveness.

In providing advice to Minister the consequences of the achievement or non-achievement of particular policies, and objectives are explored as part of the planning and decision making process. This process includes highlighting specific business implications or risks and, where appropriate, the measures that could be employed to manage these risks or implications.

As principal Accounting Officer for the Department I also have responsibility for the Department's Executive Agency, Health Estates. I am also Accounting Officer for the Non Departmental Public Bodies, namely the NI Practice and Education Council for Nursing and Midwifery, the Mental Health Commission for NI, the NI Social Care Council, the NI Health and Personal Social Services Regulation and Improvement Authority and the Fire Authority for NI.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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 the achievement of the departmental 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. The system of internal control has been in place in the Department for the year ending 31 March 2006 and up to the date of approval of the annual report, and accords with the Department of Finance and Personnel guidance.

Capacity to handle risk

During 2005/06 risk management arrangements continued to be operated across the Department, its Non-Departmental Public Bodies (NDPBs) and Health Estates Agency (HEA). The risk management strategy, based on the Australia / New Zealand standard provides guidance on the risk assessment process. This involves the identification, assessment, recording and review of risks in a consistent manner across all business areas.

The risk and control framework

As from March 2003, the Department has had in place a Corporate Risk Register (CRR) and a Departmental Risk Management Strategy. The CRR specifies the key risks for the Department as a whole, including the identification of risks to the provision of health and personal social services and the provision of fire and rescue cover to the local population. It is reviewed twice a year by the Departmental Board, with individual risks considered on an exception basis where necessary. The in-year and end-year reports on internal control demonstrate the steps being taken to manage risks in significant areas of responsibility and monitor progress reports on key initiatives and projects.

In addition risk registers are maintained by individual Directorates and Professional Groups and by NDPBs and the HEA.

As part of an ongoing process, during 2005/06, reviews of risk registers across all business areas have been conducted in line with departmental guidance. It is intended to work closely with directorates on the continuing embedding of risk management, to build on work already done and, where possible, to simplify and streamline the processes in order to effect improvement in risk management.

Following the initial risk assessment, and subsequent reviews, the key identified risk that it is considered may impact upon the Superannuation branch relates to the need to modernise the existing HPSS Superannuation Scheme provisions, including GP contractors, and to develop a new Scheme for future new entrants to the HPSS. These changes, which have arisen from proposed wider Government changes to the legislative framework regarding pensions, Inland Revenue's simplification measures and from changes in terms and conditions and working practices across the HPSS, will add significantly to the complexity of administration, legislation payment and IT requirements. In addition a project is underway to procure and implement a replacement HPSS Superannuation computer system. Final negotiations with suppliers are underway, and are expected to conclude with the award of a contract during the summer. The branch is developing a Business Change Plan to co-ordinate all these changes and is identifying and closely monitoring the potential risk impacts of these developments.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Departmental Board has a key role in the effective corporate governance of the Department's business and monitors closely the progress in the achievement of key objectives and targets, for example those set out in the Corporate and Business Plan and the Public Service Agreement. The Board at its twice-monthly Board meetings also considers issues such as key policy proposals, budget allocations and critical issues which may have arisen.

The Department has an internal audit unit, which operates to defined standards and whose work is informed by an analysis of the risks to which the body is exposed, and annual audit plans are based on this analysis. Its remit not only includes an assessment of internal financial controls but also the wider internal control environment, which applies to the achievement of Departmental objectives. It submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control, together with recommendations for improvement. A robust monitoring process ensures that the Departmental Audit Committee biannually reviews progress on outstanding internal audit recommendations.

Following audit work completed over the past couple of years the Department's Head of Internal Audit has provided an assessment of limited assurance on the Superannuation Branch internal control systems. There has been a very good response by management to the audit recommendations. However work carried out this year but not yet at the report stage, has identified significant control issues and I can only provide Limited Assurance for now.

Dr Andrew McCormick **09 October 2006**
Accounting Officer

The Certificate and Report of the Comptroller and Auditor General to the House of Commons and the Northern Ireland Assembly

I certify that I have audited the financial statements of HPSS Superannuation Scheme for the year ended 31 March 2006 under the Government Resources and Accounts Act (Northern Ireland) 2001. These comprise the Statement of Parliamentary Supply, the Revenue Account and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, the Annual Report is not consistent with the Actuary's Report, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 8 to 9 reflects the Department's compliance with the Department of Finance and Personnel's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the financial commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the Scheme for the year ending 31 March 2006, the net resources, the net outgoings, recognised gains and losses and the cash requirement for the year and the amount and disposition at that date of its assets and liabilities, and have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

JM Dowdall CB **11 October 2006**
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

Statement of Parliamentary Supply 2005-06

Summary of Resource Outturn 2005-06

		2005-06							2004-05
		Estimate			Outturn				
	Note	Gross Expend-iture £000	Accruing Resources £000	Net Total £000	Gross Expend-iture £000	Accruing Resources £000	Net Total £000	Net total outturn compared with Estimate: saving or (excess) £000	Prior Year Outturn £000
Request for Resources A: Providing a superannuation scheme for persons employed in the health and personal social services									
Annually Managed Expenditure		693,100	165,137	527,963	696,385	165,137	531,248	(3,285)	378,325
Non-budget		900,000	-	900,000	800,000	-	800,000	100,000	-
Total resources	3	1,593,100	165,137	1,427,963	1,496,385	165,137	1,331,248	96,715	378,325

Summary of Net Cash Requirement 2005-06

		2005-06			2004-05
	Note	Estimate	Outturn £000	Net total outturn compared with Estimate: saving or (excess) £000	Prior Year Outturn £000
Net Cash Requirement	4	5,080	-	5,080	6,902

Summary of income payable to the Consolidated Fund

In addition to accruing resources, the following income relates to the pension scheme and is payable to the Consolidated Fund (cash receipts being shown in italics):

		2005-06 Forecast		2005-06 Outturn	
	Note	Income £000	Receipts £000	Income £000	Receipts £000
Total	5	-	-	19,610	16,570

Income Excess AR is £19,609,626.80. Cash Excess AR is £16,570,293.69. This amount is surrenderable to the Consolidated Fund.

Explanation of the variation between estimate and outturn (net total resources):

I. Non-budget £100,000k.

The figure of £900,000k in the Estimate allowed for the impact of longevity improvements in the opening balance sheet, whereas the outturn figure of £800,000k makes allowance for this at the end of the year so that the cost of the longevity improvement is explicitly shown as part of the actuarial loss emerging over the year.

Explanation of the variation between estimate and outturn (net cash requirement):

II. Changes in working capital other than cash £13,150k

No estimate cover was provided for changes in working capital.

III. Change in discount rate % (£100,000k)

See explanation I above.

IV. Excess cash receipts surrenderable to the Consolidated Fund (CF) (£12,244k)

Pension contributions receivable were in excess of payments made to pensioners.

The notes on pages 17 to 32 form part of these financial statements.

Revenue Account for the Year Ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Income			
Contributions receivable	7	162,737	146,244
Transfers in	8	9,637	9,570
Other income	9	129	175
		172,503	**155,989**
Outgoings			
Pension cost	10	330,000	250,000
Enhancements	11	5,925	2,000
Transfers in	12	9,637	9,570
Interest on scheme liabilities	13	350,000	260,000
Other expenditure	14	823	595
		696,385	**522,165**
Net Outgoings for the Year		**523,882**	**366,176**

Statement of Recognised Gains and Losses for the Year Ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Actuarial (loss)	19.4	(300,000)	(830,000)
Total recognised (losses) for the financial year		**(300,000)**	**(830,000)**
Adjustment due to change in discount rate %		(800,000)	-
Total losses recognised since last annual report		**(1,100,000)**	**(830,000)**

The notes on pages 17 to 32 form part of these financial statements.

Balance Sheet as at 31 March 2006

	Note	2005-06 £000	2004-05 £000
Current Assets			
Debtors	16	**20,418**	**12,092**
		20,418	12,092
Creditors: Amounts falling due within one year	17	(22,080)	(12,065)
Net Current (Liabilities)/Assets, excluding pension liability		**(1,662)**	**27**
Pension liability	19.1	(7,225,716)	(5,595,374)
Net (Liabilities), including pension liabilities		**(7,227,378)**	**(5,595,347)**
Taxpayers Equity:			
General Fund	20	(7,227,378)	(5,595,347)
		(7,227,378)	**(5,595,347)**

The notes on pages 17 to 32 form part of these financial statements.

Dr Andrew McCormick
Accounting Officer

09 October 2006

Cash Flow Statement
for the Year Ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash (outflow)/inflow from operating activities	21a	(5,595)	18,685
Payments of amounts due to the Consolidated Fund		(3)	(20,423)
Financing	21b	5,598	1,738
Increase / (Decrease) in cash in the period	21c	-	-

The notes on pages 17 to 32 form part of these financial statements.

Notes to the Accounts

Accounts for the year ended 31 March 2006

1. Basis of preparation of the Scheme statement

The Scheme statement has been prepared in accordance with the relevant provisions of the 2005-06 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance and Personnel, which reflect the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. These accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes* to the extent that these are appropriate, together with the provisions of the Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995.

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

The Scheme statement summarises the transactions of the HPSS Superannuation Scheme. The balance sheet shows the deficit on the Scheme; the Revenue Account shows, inter alia, the movements in the liability analysed between the pension cost, enhancements, transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the Report of the Government Actuary and the Scheme statement should be read in conjunction with that Report.

2. Statement of Accounting policies

The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Contributions receivable

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

Employers' special pension and compensation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on a cash basis.

Employees' pension contributions and amounts received in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the scheme liability is recognised as expenditure. Neither Additional Voluntary Contributions (AVCs) nor payments to providers of Stakeholder Pensions are brought into account in this statement.

2.3 Pre-funding of Contribution from Employing Bodies

Amounts receivable from employing bodies to reduce or extinguish their liabilities in respect of future payment of benefits arising from the early retirement of their employees are accounted for on an accruals basis.

2.4 Transfers in and out

Transfers in, in respect of individual members, are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis.

Transfers of members to and from the following schemes are accounted for on a notional basis, with no cash transfers:

Principal Civil Service Pension Scheme (Northern Ireland)
Teachers' Superannuation Scheme

2.5 Other income

Other income, including Contributions Equivalent Premium (CEP) and refunds of pension overpayments, are accounted for on an accruals basis.

Contributions Equivalent Premium income relates to the refund of National Insurance Contributions from the Contributions Agency resulting from members who left the Scheme but subsequently returned to the Scheme before the end of their 13-month disqualifying period.

Other income includes refunds of gratuities, pension overpayments and miscellaneous income. Pension overpayments can arise as a result of pensioner error, Departmental error or Exchequer loss.

2.6 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue account.

2.7 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue account. The interest cost is based on a discount rate of 2.8% real rate.

2.8 Other payments

Other payments are accounted for on an accruals basis.

Contributions Equivalent Premium payments relate to National Insurance Contributions due to the Contributions Agency resulting from members who have left the Scheme.

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 accrued benefit method and is discounted at 2.8% real rate.

As per the requirements of FRS 17, full actuarial valuations by a professionally qualified actuary are required at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date, in this case the 2003 valuation, and updates it to reflect current conditions.

2.10 Pension benefits payable

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

2.11 Pension payments to those retiring at their normal retirement age

Where a retiring member of the pension scheme 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.

Where a retiring member of the pension scheme has a 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 a cash basis.

2.12 Pension payments to and on account of leavers before their normal retirement age

Where a member leaving the Scheme before normal retirement age is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis. Refunds include amounts payable both at the time of leaving or at normal retirement age (or earlier death).

Where a member leaving the Scheme before normal retirement age has the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.13 Lump sums payable on death in service

Lump sum payments payable on death in service are accounted for on a cash basis. They are funded through the normal pension contributions and are a charge on the pension provision.

2.14 Actuarial gains/losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect the conditions at the balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

2.15 Additional Voluntary Contributions

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

2.16 Administration expenses

All costs of administering the HPSS Superannuation Scheme are borne by the Department of Health, Social Services and Public Safety.

3. Reconciliation of Estimates, accounts and budgets

3(a) Reconciliation of net resource outturn to net outgoings

	Note	Outturn £000	Supply estimate £000	2005-06 Outturn compared with estimate £000	2004-05 Outturn £000
Net Resource Outturn		1,331,248	1,427,963	96,715	378,325
Adjustment due to change in discount rate%	3(a)	(800,000)	(900,000)	(100,000)	-
Non–supply income (CFERs)	5	(7,366)	-	7,366	(12,149)
Net Outgoings		**523,882**	**527,963**	**4,081**	**366,176**

An adjustment of £800m was put through the opening reserve position as at 1 April 2005. It was reflected in the Report of the Actuary for the year ended 31 March 2006 and represents the difference between the Estimates and accounting treatment of the change in discount rate from 3.5% to 2.8%. Parliamentary approval was given for the necessary resources and was reflected as a non-budget item of £900m in the Estimates and in the Statement of Parliamentary Supply.

For accounting purposes, the effects of the change in discount rate are reflected through reserves and not recognised in the Revenue Account. There is thus a difference between the bases on which the Statement of Parliamentary Supply and the Revenue Account have been prepared. For 2006-07 the Estimates and the accounting treatment will be brought into line.

3(b) Outturn against final administration budget

All costs of administering the HPSS Superannuation Scheme are borne by the Department of Health, Social Services and Public Safety.

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving or (excess) £000
Net Resource Outturn	3(a)	**1,427,963**	**1,331,248**	**96,715**
Accruals adjustments:				
Changes in working capital other than cash	4(a)	-	(13,150)	13,150
Use of provisions	19.1	170,217	165,220	4,997
New provisions and adjustments to previous provisions	19.1	(693,100)	(695,562)	2,462
Change in discount rate %	3(a)	(900,000)	(800,000)	(100,000)
Excess cash receipts surrenderable to the CF		-	12,244	(12,244)
Net Cash Requirement		**5,080**	**-**	**5,080**

4(a) Movements in Working Capital other than Cash

	Note	2005-06 £000	2004-05 £000
(Increase)/ Decrease in debtors related to supply	16(a)	(13,267)	13,599
Decrease in debtors not related to supply	16(a)	22	120
Increase/ (Decrease) in creditors falling due within 1 year	17(a)	1,190	(48)
Movement in Working Capital	21(a)	**(12,055)**	**13,671**
Movement in interdepartmental balance with DHSSPS	18	10,026	(11,365)
Adjustment for CFERs included in debtors		14,500	(2,073)
Adjustment for amount due to Consolidated Fund		679	-
Movement in Working Capital	4	**13,150**	**233**

5. Analysis of income payable to the Consolidated Fund

	2005-06 Forecast		2005-06 Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess accruing resources	-	-	7,363	4,323
Other operating income and receipts not classified as accruing resources	-	-	3	3
	-	**-**	**7,366**	**4,326**
Excess cash receipts surrenderable	-	-	12,244	12,244
Total	**-**	**-**	**19,610**	**16,570**

6. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	2005-06 £000	2004-05 £000
Operating income	172,503	155,989
Income authorised to be Accruing Resources	(165,137)	(143,840)
Operating income payable to the Consolidated Fund	**7,366**	**12,149**

7. Pension contributions receivable

	2005-06 £000	2004-05 £000
Employers	88,335	79,912
Employees	74,402	66,332
	162,737	**146,244**

8. Pension Transfers in (see also note 12)

	2005-06 £000	2004-05 £000
Individual transfers in from other schemes	9,637	9,570
	9,637	**9,570**

9. Other pension income

	2005-06 £000	2004-05 £000
Contributions Equivalent Premium reclaimed	11	7
Refund of superannuation payments	111	156
Other	7	12
	129	**175**

10. Pension cost

	2005-06 £000	2004-05 £000
Current service cost	330,000	250,000
	330,000	**250,000**

11. Enhancements (see also note 19.1)

	2005-06 £000	2004-05 £000
Employees:		
Purchase of added years	2,552	2,000
Employers:		
Pre-funded compensation payments	3,373	-
	5,925	**2,000**

12. Transfers in (see also note 8)

	2005-06 £000	2004-05 £000
Individual transfers in from other schemes	9,637	9,570
	9,637	**9,570**

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

13. Interest on scheme liabilities (see also note 19.1)

	2005-06 £000	2004-05 £000
Interest charge for the year	350,000	260,000
	350,000	**260,000**

14. Other pension expenditure

	2005-06 £000	2004-05 £000
Contributions Equivalent Premium	362	222
Contribution refund	461	373
	823	**595**

15. Additional Voluntary Contributions

The HPSS Superannuation Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to supplement their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment to one of the approved providers, Equitable Life Assurance Society or Standard Life, 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 Contribution (FSAVC) Schemes. The Managers of the HPSS Superannuation Scheme have responsibility only for the onward payment by employers of members' contributions to the Scheme's approved provider. These AVCs are not brought to account in this statement. Members participating in this arrangement each receive an annual statement from the approved provider at 31 March each year confirming the amounts held to their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

The Equitable Life Assurance Society

Employees make contributions to two Schemes (W0111) and (WP111) provided by the Equitable Life Assurance Society.

Scheme number W0111

	2005-06 £000	2004-05 £000
Movements in the year were as follows:		
Balance at 1 April	2,024	1,938
New investments (net of transfers / refunds)	(19)	105
Sales of investments to provide pension benefits	(96)	(137)
Changes in market value of investments	239	118
Balance at 31 March	**2,148**	**2,024**

Scheme number WP111

	2005-06 £000	2004-05 £000
Movements in the year were as follows:		
Balance at 1 April	2,334	2,281
New investments (net of transfers / refunds)	(26)	-
Sales of investments to provide pension benefits	(47)	(55)
Changes in market value of investments	179	108
Balance at 31 March	**2,440**	**2,334**

Standard Life

	2005-06 £000	2004-05 £000
Movements in the year were as follows:		
Balance at 1 April	2,733	2,328
New investments (net of transfers / refunds)	234	228
Sales of investments to provide pension benefits	(48)	(90)
Changes in market value of investments	712	267
Balance at 31 March	**3,631**	**2,733**

16. Debtors – contributions due in respect of pensions

16(a) Analysis by type

	2005-06 £000	2004-05 £000
Amounts falling due within one year:		
Pension contributions due	14,500	11,461
Capitalised cost of enhancement to pensions payable on departure	506	317
Overpaid pensions	225	211
Contributions Equivalent Premium refunds due	1	-
Balance due from the Department of Health, Social Services and Public Safety	5,107	-
Other debtors	8	10
Subtotal	**20,347**	**11,999**
Non-supply debtors:		
Injury benefit	71	93
	20,418	**12,092**

Included within these figures is £14,500k that will be due to the Consolidated Fund once the debts are collected. The prior year comparative for debtors for amounts due to the Consolidated Fund of £11.461m has been reclassified in the current financial year as available as accruing resources following Excess Vote authorisation for 2004/05.

16(b) Intra-government balances

	Amounts falling due within one year 2005-06 £000	Amounts falling due within one year 2004-05 £000
Balances with other central government bodies	8,698	1,314
Balances with HPSS Trusts	11,404	10,462
Balances with bodies external to government	316	316
At 31 March	**20,418**	**12,092**

17. Creditors – in respect of pensions

17(a) Analysis by type

	2005-06 £000	2004-05 £000
Amounts falling due within one year:		
Pensions	1,691	584
Inland Revenue	103	19
Other creditors	-	1
Balance due to the Department of Health, Social Services and Public Safety	-	4,919
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund	20,286	6,542
	22,080	**12,065**

17(b) Intra-government balances

	Amounts falling due within one year 2005-06 £000	Amounts falling due within one year 2004-05 £000
Balances with other central government bodies	20,389	11,480
Balances with bodies external to government	1,691	585
At 31 March	**22,080**	**12,065**

18. Amounts due (to)/from the Consolidated Fund

	2005-06 £000	2004-05 £000
Net cash requirement (Summary of Resource Outturn)	-	6,902
Surplus carried over from the previous year	5,598	434
Cash drawn down during the year	(5,598)	(1,738)
Due from Consolidated Fund at year end	-	**5,598**
Excess cash receipts surrenderable	(12,244)	-
Excess ARs payable to the Consolidated Fund	(7,363)	(12,140)
	(19,607)	**(6,542)**
Balance due from/(to) the Department of Health, Social Services and Public Safety	5,107	(4,919)
Consolidated Fund Extra Receipts included in Debtors	14,500	11,461
	19,607	**6,542**

19. Provision for pension liability

The HPSS Superannuation Scheme is an unfunded defined benefit scheme. A full actuarial valuation was carried out as at 31 March 2003 and has been updated to 31 March 2006 by the Government Actuary.

The major assumptions used by the Actuary were:

	31 March 2006	31 March 2005	31 March 2004
Rate of investment return net of salary increases	1.3%	2.0%	2.0%
Rate of investment return net of price increases	2.8%	3.5%	3.5%

The scheme managers/trustees are 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:

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

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 far into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

The value of the liability included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. The managers/ trustees 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 notes 19.4 and 19.5. 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.

19.1 Analysis of movement in scheme liability

		2005-06		2004-05	
	Note	£000	£000	£000	£000
Scheme liability at 1 April			5,595,374		4,391,996
Adjustment due to change in discount rate %			800,000		-
			6,395,374		**4,391,996**
Current service cost	10	330,000		250,000	
Interest on pension scheme liability	13	**350,000**		**260,000**	
			680,000		510,000
Enhancements	11	5,925		2,000	
Transfer in of pre-funded compensation payments	24	-		2,188	
Pension transfers in	8	**9,637**		**9,570**	
			15,562		13,758
Benefits payable	19.2	(158,973)		(145,339)	
Pension payments to and on account of leavers	19.3	**(6,247)**		**(5,041)**	
			(165,220)		(150,380)
Actuarial loss	19.4		300,000		830,000
Scheme liability at 31 March			**7,225,716**		**5,595,374**

During the year ended 31 March 2006, employer contributions represented an average of 7% of pensionable pay.

19.2 Analysis of benefits payable

	2005-06 £000	2004-05 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	133,657	124,796
Commutations and lump sum benefits on retirement	23,748	18,927
Death in Service Benefits	1,568	1,616
Per cash flow statement	**158,973**	**145,339**

19.3 Analysis of payments to and on account of leavers

	2005-06 £000	2004-05 £000
Individual transfers to other schemes	6,247	5,041
Per cash flow statement	**6,247**	**5,041**

19.4 Analysis of actuarial (loss)

	2005-06 £000	2004-05 £000
Experience (losses) arising on scheme liabilities	(150,000)	(530,000)
Changes in assumptions underlying the present value of Scheme liabilities	(150,000)	(300,000)
Per Statement of Recognised Gains and Losses	**(300,000)**	**(830,000)**

19.5 History of Experience (losses)

	2005-06	2004-05	2003-04
Experience (losses) on scheme liabilities:			
Amount (£000)	(150,000)	(530,000)	(30,000)
% of the present value of the scheme liabilities	-2.1%	-9.5%	-0.7%
Total actuarial (loss):			
Amount (£000)	(300,000)	(830,000)	(370,000)
% of the present value of the scheme liabilities	-4.2%	-14.8%	-8.4%

20. General Fund

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

	Note	2005-06 £000	2004-05 £000
Balance at 1 April		(5,595,347)	(4,393,924)
Adjustment due to change in discount rate%	3(a)	(800,000)	-
		(6,395,347)	**(4,393,924)**
Net Parliamentary Funding:			
Draw down		-	1,304
Year End Adjustment:			
Supply debtor – current year		-	5,598
Excess vote – prior year		11,461	-
Net transfer from operating activities:			
Net outgoings		(523,882)	(366,176)
CFERs repayable to consolidated fund	5	(7,366)	(12,149)
Excess cash receipts surrenderable to the consolidated fund	5	(12,244)	-
Actuarial losses (SRGL)		(300,000)	(830,000)
Balance at 31March		**(7,227,378)**	**(5,595,347)**

21. Notes to the Cash Flow Statement

21(a) Reconciliation of Net Outgoings to operating cash flows

	Note	2005-06 £000	2004-05 £000
Net outgoings for the year		(523,882)	(366,176)
(Increase)/decrease in debtors related to supply		(13,267)	13,599
Decrease in debtors not related to supply		22	120
Increase/(decrease) in creditors		1,190	(48)
Increase in pension provision	19.1	680,000	510,000
Increase in pension provisions – enhancements and transfers in	19.1	15,562	11,570
Use of provisions – pension liability	19.2	(158,973)	(145,339)
Use of provisions – refunds and transfers	19.3	(6,247)	(5,041)
Net cash (outflow)/inflow from operating activities		**(5,595)**	**18,685**

21(b) Analysis of financing and reconciliation to the net cash requirement

	Note	2005-06 £000	2004-05 £000
From Consolidated Fund (Supply) – current year		-	1,304
From Consolidated Fund (Supply) – prior year	18	5,598	434
Adjustment for payments and receipts not related to supply			
Amounts due to the Consolidated Fund - received in a prior year and paid over in the current year		-	(6,880)
Amounts due to the Consolidated Fund - received in a prior year and not paid over		(679)	-
Amounts due to the Consolidated Fund – received and not paid over		7,363	679
Amounts due to the Consolidated Fund – not yet received		(14,500)	-
Excess cash receipts surrenderable to the Consolidated Fund		12,244	-
Movement in interdepartmental balance with the Department of Health, Social Services and Public Safety	18	(10,026)	11,365
Net Cash Requirement per Statement of Parliamentary Supply		**-**	**6,902**

21(c) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2005-06 £000	2004-05 £000
Net cash requirement	-	(6,902)
From Consolidated Fund (Supply) – current year	-	1,304
From Consolidated Fund (Supply) – prior year	5,598	434
Amounts due to the Consolidated Fund - received in a prior year and paid over in the current year	-	(6,880)
Amounts due to the Consolidated Fund - received in a prior year and not paid over	(679)	-
Amounts due to the Consolidated Fund – received and not paid over	7,363	679
Amounts due to the Consolidated Fund – not yet received	(14,500)	-
Excess cash receipts surrenderable to the Consolidated Fund	12,244	-
Movement in interdepartmental balance with the Department of Health, Social Services and Public Safety	(10,026)	11,365
Increase / (decrease) in cash	**0**	**0**

22. Financial Instruments

FRS 13 *Derivatives and Other Financial Instruments* requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Liquidity risk

Resources voted by Parliament finance the Scheme's net revenue resource requirements. The Scheme is not therefore exposed to significant liquidity risks.

23. Contingent liabilities and assets

In the unlikely event of a default by one of the approved AVC providers, the Department of Health, Social Services and Public Safety will guarantee pension payments. This guarantee does not apply to members who make payments to institutions offering Free Standing Additional Voluntary Contributions.

The Department has received legal claims from 313 individuals who are pursuing the possibility of having part time HPSS service before 1 April 1991 considered for pension purposes. To date approximately 44 claims have been identified as eligible for settlement. At this time 15 formal offers of reinstatement have been issued and 13 have been accepted by the claimants. We await replies on the other 2 offers. Should all 44 individuals choose to avail of the offer, the maximum cost to the HPSS Superannuation Scheme is estimated to be in the region of £101,420.

The Department has given an undertaking to maintain parity with GB on granting freelance and GP locums access to the HPSS Superannuation Scheme. Backdating for freelance locums would be to 1 April 2001, and for GP locums 1 April 2002. Accurately establishing employer contribution costs for backdated service has proved difficult. However, Superannuation Branch has estimated that the total employer contribution liability for backdating these locums would be in the region of £416,624. This estimate assumes that one third of all locums will seek to have membership backdated. If locums decide to have their memberships backdated, then they will be liable to pay the employee contributions themselves. Information regarding the value of this contingent asset is not available at this time. Once these contingent assets are realised, there will be an associated liability reflected in the Scheme Liability that represents the pension benefits of the new members

24. Deferred Income – Pre-funded Contributions from Employing Bodies

Employing bodies are able to use current year expenditure to reduce or extinguish existing liabilities in respect of future payment of benefits arising from the early retirement of their employees.

In previous years, to the extent that such underspends were not utilised to offset liabilities relating to the current year, the balance of the pre-funding was shown as deferred income in the Balance Sheet and was carried forward to be released in the Revenue Account over an agreed period.

In 2004/05 it was decided that the pre-funded liabilities should be included in the actuarial report of the scheme's liabilities and therefore the balance on the deferred income account as at 1 April 2004 has been transferred to the pension scheme liability.

Movements in the balance of the deferred income are shown below:

	Note	2005-06 £000	2004-05 £000
Balance as at 1 April		-	2,188
Transfer to pension scheme liability	19.1	-	(2,188)
Balance at 31 March		-	-

25. Losses and Special Payments

25(a) Losses Statement

	2005-06		2004-05
	No of cases	£000	£000
Total	135	37	10

25(b) Special Payments

	2005-06		2004-05
	No of cases	£000	£000
Total	19	54	15

26. Related party transactions

The HPSS Superannuation Scheme falls within the ambit of the Department of Health, Social Services and Public Safety, which is regarded as a related party. During the year, the Scheme has had material transactions with the Department and the employing bodies whose employees are members of the Scheme. None of the Managers of the Scheme, key managerial staff or other related parties have undertaken any material transactions with the Scheme during the year.

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