

# **NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme**

## **Resource Accounts 2004-05**

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## **Resource Accounts 2004 - 05**

**(For the year ended 31 March 2005)**

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## **INTRODUCTION**

The NHS Pension Scheme provides pensions in varying circumstances for employees of participating employers. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits.

### **REPORT OF THE MANAGER**

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

The specific features of the year have been:

- A widening of the Schemes participation in the National Fraud Initiative with the Audit Commission to identify deceased pensioners where the Scheme has not received notification of the death and to investigate potential erroneous pension payments to pensioners re-employed within the NHS;
- The delivery of the 31 March 2003 valuation of the Pension Scheme as required under Financial Reporting Standard (FRS) 17;
- Continuing work on implementing European Court of Justice rulings on part-time staff and certain classes of NHS employees with special rights within the Scheme;
- Responding to the NHS Employers Organisation consultation document, 'Moving to a 21st century Pension Scheme', on the proposals for a new NHS Pension Scheme;
- Preparing for changes to government legislation on pensions taxation, civil partnerships, gender recognition and age discrimination.

### **HOW THE SCHEME WORKS**

The NHS Pension Scheme is an unfunded occupational scheme backed by the Exchequer, which is open to all NHS employees and employees of other approved organisations. The Scheme provides pensions, based on final salary, in varying circumstances for employees of participating employers. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits.

Scheme provisions are governed by the following sets of Regulations:

- The NHS Pensions Scheme Regulations 1995, as amended
- The NHS (Compensation for premature retirement) Regulations 2002 Consolidated
- The Pensions (Increase) Act 1971
- NHS AVC Regulations
- NHS Gratuitous Expectations Regulations

The NHS Pensions Agency Special Health Authority (the Agency) undertakes the day-to-day administration of the Scheme, including calculation of benefits, maintenance of member records and payment of benefits. The annual report of the Agency for 2004-05 contains information regarding the organisations governance, activities, objectives and achievements over the last year and can be viewed at [www.nhspa.gov.uk](http://www.nhspa.gov.uk)

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

There are 666 participating NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,304 participating GP Practice employers and 336 Direction Bodies.

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

## **NHS PENSION SCHEME BENEFITS**

### **Contributions**

In order to defray the costs of benefits, employers and members pay contributions. Most employees pay 6% of pensionable pay but manual staff pay 5%. The Government Actuary conducts actuarial reviews every five years and recommends an employer contributions rate in his Valuation report. In 2002-03 employers paid 7% but the rate did not include the cost of pension indexation funded directly by Treasury. In November 2002 Ministers announced the transfer of indexation costs to the Scheme costs with a commensurate increase in the Department of Health's baseline. The employer contribution rate increased to 14% from April 2003.

### **Benefits**

The NHS Pension Scheme provides defined benefits, which are summarised below:

#### **Annual Pensions**

The Scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

#### **Pensions Indexation**

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year.

#### **Lump Sum Allowance**

A lump sum is payable on retirement which is normally three times the annual pension payment.

#### **Ill-Health Retirement**

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity.

#### **Death Benefits**

A death gratuity of twice their final year's pensionable pay for death in service, and five times their annual pension for death after retirement is payable.

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

Members can purchase additional service in the NHS Scheme and contribute to money purchase AVC's run by the Scheme's approved providers or by other FSAVC providers.

### **Transfer between Funds**

Scheme members have the option to transfer their pension between the NHS Pension Scheme and another scheme when they move into or out of NHS employment.

### **Preserved Benefits**

Where a scheme member ceases NHS employment with more than two years service they can preserve their accrued NHS pension for payment when they reach retirement age.

### **Compensation for Early Retirement**

Where a member of the Scheme is made redundant they may be entitled to early receipt of their pension plus enhancement, at the employer's cost.

*This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained.*

## **A REVIEW OF THE YEAR**

### **Part-time staff access to the NHS Pension Scheme**

During the year, the Agency has continued to work with Employment Tribunals to identify which cases appear to be "must win", "must fail" or "may succeed in part" as a consequence of the Preston and Others v Wolverhampton Healthcare NHS Trust employment tribunal case (the Preston case) and the subsequent test cases, appeals and cross-appeals.

Where it is found that an NHS employee has been denied access to the pension scheme on account of Scheme Regulations, the employee will be permitted to recover the lost service on receipt of an appropriate contribution from the member. The employer contribution will be absorbed by the pension scheme.

The scheme actuary has considered the consequential impact on the pension scheme liability and advised that the potential additional liability on the scheme is unlikely to exceed 0.05% of total liabilities, based on current information.

### **Part-time Mental Health Officers**

The Agency has completed work to identify and correct the membership records of members and pensioners of the scheme who worked part-time in the area of mental health, and may now have access to special rights. In total 18,461 cases were investigated. The impact on the scheme liability is not deemed to be significant.

### **National Fraud Initiative**

The NHS Pension Scheme takes part in the National Fraud Initiative, co-ordinated by the Audit Commission, which commenced in 1998, and continues to do so on a bi-annual basis. This initiative allows the Scheme to submit approved data to the Audit Commission who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The table below provides an update of the position for all 3 exercises conducted since 1998, and lists the outstanding amounts, which are still being actively pursued.

	Total Identified £'s	Total Cases	Prior Years		2003-04		2004-05		Amount Outstanding at 31.3.2005
			Recovered	Written off	Recovered	Written off	Recovered	Written off	
NFI 98	1,739,000	308	1,001,100	330,200	21,100	199,200	22,600	34,100	130,700
NFI 2000	541,700	291	387,800	56,600	19,600	16,200	12,000	2,000	47,500
NFI 2002	798,400	373	-	-	433,000	27,000	122,400	60,000	156,000
<b>Total</b>	<b>3,079,100</b>	<b>972</b>	<b>1,388,900</b>	<b>386,800</b>	<b>473,700</b>	<b>242,400</b>	<b>157,000</b>	<b>96,100</b>	<b>334,200</b>

As noted earlier, the Agency also took part in the NFI2004 exercise. However the results of the exercise were not available in time for inclusion in the 2004-05 Resource Accounts.

An update on the progress of the exercises will be noted in next year's report.

### **Re-employment and the National Fraud Initiative**

NHS Pension Scheme Regulations for NHS pensioners who become re-employed under the age of 60 do not allow their combined current earnings and pension to exceed their earnings prior to retirement. In order to keep the aggregated sum of their earnings and pension below the pre-retirement salary the pension is abated or in some cases suspended in full. If the pension is suspended and their current earnings still exceed their pre-retirement earnings there is no further penalty.

The onus is on the pensioner to advise the Agency if they become re-employed within the NHS. This is to enable Paymaster to assess whether or not future pension payments are affected and require abatement or suspension action. The attention of the pensioner is drawn to these regulations in the annual newsletter that is distributed to all recipients of an NHS pension every April.

In 2004 the NFI data match was extended to cover all NHS pensioners in receipt of benefits in a match against the NHS payroll records to identify those pensioners who were re-employed within the NHS. This match highlighted some 18,407 re-employed pensioners, of whom 5,887 fell into the under-60 category, where abatement or suspension should be in effect.

Work is on-going to review these cases for compliance with Scheme regulations, the results of which will be reported next year.

### **Pension Increase**

The annual pension increase applied for payments after 12 April 2004 was 2.8% (2003-04:1.7%). Pensions increase is based upon the rise in the retail price index (RPI) in the 12-month period up to the 30 September preceding the April uprating date.

Following recommendations made by the NAO, the NHSPA Internal Audit team have conducted a review of the process by which Pensions Increase is applied to member pensions, and have found the process to be working satisfactorily.

### **In-house money purchase AVC provision**

The Agency has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life.

Scheme member take-up of both Standard Life and Prudential products has been improved during the year following low take-up in 2003-04. The Prudential and Standard Life have continued to accompany the Agency at NHS Conferences and made themselves available for local presentations on hospital and GP Practice premises.

On 5 April 2005, the Agency's 7-year contract with Equitable Life came to an end but was extended from 6 April 2005 on a limited basis. From April 2005 the arrangements with Equitable Life will remain open only to NHS Pension Scheme members who already hold AVCs with the company. All new AVCs will be taken with the Agency's other providers. This new arrangement brings the NHS Pension Scheme into line with other Equitable Life clients, to whom new business has been closed since 2000.

### **Scheme Funding and Liabilities**

As at 31 March 2005 the liabilities of the pension scheme were valued at £127.9 billion (2004: £104.26 billion). As the NHS pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer, which also funds the year on year difference between the scheme's contribution income and the actuarially assessed growth in scheme liability, interest charges and other in-year increases in liability. In 2004-05 this net deficiency was £6,396,065,000 (2003-04: £6,193,919,000) and is detailed in Schedule 2 of the following scheme accounts.

### **2003 Valuation of the NHS Pension Scheme**

In accordance with the requirement in the Resource Accounting Manual to produce a full actuarial valuation of the pension scheme every four years, the Agency commissioned the Government Actuary's Department (GAD) to produce an appropriate valuation of the scheme as at 31 March 2003 (the last valuation having taken place as at 31 March 1999). The results of this exercise form the basis of the statement of scheme liabilities disclosed in these financial statements.

During 2005 the Agency and GAD will be working on a full valuation of the scheme as at 31 March 2004, in accordance with NHS Pension Scheme regulations. This valuation will inform future contribution rates and will also form the basis of the 2005-06 statement of scheme liabilities.

## **FUTURE DEVELOPMENTS**

### **Arms Length Bodies Review**

As reported in last years Report of the Manager, the Government published details of the Arms Length Body Review (ALBR) on 22 July 2004, and this was further amplified on 30 November 2004.

The aims of the Review were:

- To reduce the numbers of Arms Length Bodies (the Agency was one of 38);
- To save £500 million;
- To reduce the Arms Length Body headcount by 25%;
- To redistribute resources to the NHS frontline.

As a consequence of the ALBR, the Agency will merge with the Prescription Pricing Authority (PPA), the NHS Counter Fraud and Security Management Service (NHSCFSMS), and the Dental Practice Board (DPB) to form the new Business Services Authority (BSA).

The timetable is for the new BSA to come into operation in 2005-06, although details are awaited on the dissolution of the existing organisations. Work is ongoing with the merging organisations and the Department of Health to determine the exact nature of the arrangements for the BSA, which includes identifying the governance, organisational and operational implications and practicalities.

### **Pension Scheme Review**

On 10 January 2005, the NHS Employers organisation launched a consultation on the review of the NHS Pension Scheme 'Moving to a 21st century Pension Scheme'. This coincided with a wider review of public sector pension schemes, including those in local government.

Following on from the launch of these consultations, the Government and the TUC have agreed to meet within the Public Services Forum, to discuss wider pensions reform including the Government's proposal to increase the normal pension age from 60 to 65. The aim of the meetings is to develop a framework for negotiations across all public service schemes. Government and the TUC will then share with public service pension schemes the framework and key principles, which will underpin scheme specific negotiations.

The NHS Employers organisation and their trade union partners have provisionally arranged to reconvene the joint Steering Group meetings from October, but it is too early to say exactly when the design of a new NHS Pension Scheme will be finalised or when a new pension scheme might be implemented. Public service schemes including the NHS scheme had planned to implement new schemes from 2006, but in light of ongoing negotiations between the TUC and Government, this will now depend on when final decisions on scheme design are made including the necessary consultation process.

### **Post Balance Sheet Events**

#### **Change in the NHS Pension Scheme discount rate**

Following a decision by the Financial Reporting Advisory Board (FRAB) that the discount rate for pension schemes should, in accordance with FRS17, be based on the AA corporate bond rate, the discount rate has been changed with effect from 1 April 2005 from a real rate of 3.5% to a real rate of 2.8% (6% to 5.37% gross). As a result the pension scheme liability as at 1 April 2005 increased by £17.9 billion.

### **Membership Statistics**

Details of the current membership of the Scheme at 31 March 2005 are set out below:

#### **Active Members**

Active members at 1 April 2004	1,213,932
New entrants in the year	126,076
Transfers in	9,169
Retirements in year	(23,451)
Transfers out	(18,060)
Members leaving the Scheme and taking a refund of contributions	(38,977)
Deaths	(7,750)
<b>Active members at 31 March 2005</b>	<b>1,260,939</b>

#### **Deferred members**

Deferred members at 1 April 2004	357,411
Members leaving who have deferred pension rights	9,566
Members taking up deferred pension rights	5,144
<b>Deferred members at 31 March 2005</b>	<b>372,121</b>

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

	<b>Members</b>	<b>Dependants</b>	<b>Total</b>
Pensioners in payment at 1 April 2004	–	–	503,793
Members retiring	23,451	–	23,451
New Dependants	–	4,960	4,960
Cessations in year	(9,678)	(2,359)	(12,037)
<b>Pensioners in payment at 31 March 2005</b>	–	–	520,167

A Stuttard  
Chief Executive  
18 January 2006

**MANAGEMENT STRUCTURE AND ADVISERS**

**Scheme Administrator :**

NHS Pensions Agency Special Health Authority  
Hesketh House  
200-220 Broadway  
Fleetwood  
FY7 8LG

**In-house AVC Providers :**

Equitable Life Assurance Society  
Walton Street  
Aylesbury  
Buckinghamshire  
HP21 7QW

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

Prudential Plc  
250 Euston Road  
London  
NW1 2PQ

**Actuary :**

Government Actuary's Department  
New King's Beam House  
22 Upper Ground  
London  
SE1 9RJ

**Auditors :**

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

## NHS PENSION SCHEME REPORT OF THE ACTUARY FOR THE ACCOUNTING YEAR ENDED 31 MARCH 2005

*The report of the Actuary sets out the liabilities and accruing costs of the NHS Pension Scheme for the purposes of Resource Accounting.*

### 1. Liabilities

The capitalised value as at 31 March 2005 of expected future benefit payments under the NHS Pension Scheme, for benefits accrued in respect of employment or former employment prior to 31 March 2005, has been assessed using the methodology and assumptions set out in sections 3 and 4 below. The results are as follows:

Value of Liabilities	£ billion
Pensions in Payment	37.2
Deferred Pensions	10.6
Active Members (Past Service)	80.1
<b>Total</b>	<b>127.9</b>

### 2. Accruing Costs

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the balance of the cost of the benefits being met by the employers. The total cost of benefits accruing in the year 2004-05 has been assessed, using the methodology and assumptions set out in sections 3 and 4 below, as follows:

	% of Pensionable Pay
Current Service Cost	19.7%
Members' Average Contribution Rate	5.9%
Employers' share of Current Service Cost	13.8%
Actual rate charged to employers for current year	14.0%

In relation to the pensionable payroll for the financial year, the employers' actual charges in cash terms were £3.89 billion for the financial year 2004-05. The Current Service Cost disclosed in the scheme accounts was £5.8 billion, and includes an allowance for the expected impact of Agenda for Change.

### 3. Methodology

The value of 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.

### 4. 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 3.5% a year (most pension benefits under the scheme are increased in line with prices), and an investment return in excess of earnings increases of 2% a year. The gross rate of return is assumed to be 6% 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.

**5. Notes**

- (i) Sections 1 and 2 of this statement are based on actuarial assessment carried out as at 31 March 2003 for the purposes of FRS17 (Resource Accounting), with an approximate updating for the subsequent financial years to reflect known changes that have occurred between 1 April 2003 and 31 March 2005, 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.
- (ii) The actual rate charged to employers for 2004-05 at 14.0% of pensionable pay follows the recommendations made at the 1999 funding valuation, with an additional allowance for the cost of pension increases, which are now met by the scheme. The next valuation to determine funding rates is due as at 31 March 2004.
- (iii) 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 or premature retirement benefits awarded on redundancy, other than where the latter are Pre-funded by employers.

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

Under the Government Resources and Accounts Act 2000, the Accounting Officer is required to prepare a combined financial statement for the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme in the form and on the basis determined by HM Treasury.

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accruals basis and must show a true and fair view of the financial transactions of the combined scheme during the year and the disposition, at the end of the financial year, of the combined 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 combined net liabilities at the year end.

In preparing these financial statements, the Accounting Officer is required to satisfy himself that:

- Suitable accounting policies have been selected and applied consistently;
- The combined financial statements have been prepared on a going-concern basis, unless it is inappropriate to presume that either of the schemes will continue in operation;
- Reasonable and prudent judgements and estimates have been made;
- Applicable accounting standards have been followed, in accordance with the guidelines set out by HM Treasury, subject to any material departures disclosed in the financial statements.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Schemes' assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

A Stuttard  
Chief Executive  
18 January 2006

## **STATEMENT ON INTERNAL CONTROL**

### **Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the Agency's assets for which I am personally responsible, as set out in the Accounting Officer's Memorandum issued by the Department of Health.

On 1 April 2004, the NHS Pensions Agency became a Special Health Authority and is accountable, through its Chair, to the Secretary of State for Health. The Agency's Senior Departmental Sponsor (SDS) in the Department of Health is responsible for ensuring that the Agency's procedures operate effectively, efficiently and in the interests of the public and the NHS. I provide regular business and financial reports to the Authority Board.

### **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 principal risks to the achievement of Agency policies, aims and objectives; and
- to evaluate the likelihood and impact 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 Agency for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts. I acknowledge that there have been weaknesses during 2004/05, as reported in the paragraph "Significant Internal Control Issues" and that action is being taken to address these in 2005/06.

On 1 June 2004, I replaced Pat Corless as Chief Executive of the NHS Pensions Agency. The remaining members of the management team were appointed between June and August 2004. The new management team does not include any of the former Directors of the NHS Pensions Agency, who either retired, or left the Agency, prior to my appointment. In addition, between April 2003 and August 2004, the Agency did not have a qualified Finance Director in post. This undoubtedly had an impact on the Agency's capacity to respond to and act upon emerging financial control and assurance issues, particularly those arising from the management of the contractual relationship with our major outsourced service provider, Paymaster (1836) Ltd. The following highlights how and where the new management team are addressing the backlog of issues and planning for future improvement.

### **Capacity to handle risk**

An Agency Risk Management Strategy is in place and the Agency's Executive Team has responsibility for ensuring this is delivered effectively. Risk workshops have been held during the year, including joint risk workshops with our private sector partner Paymaster and the continuing maintenance of a joint risk register. Also for the 2004-05 business planning round, templates have been devised which link business planning and risk management. The Agency's risk guidance and strategy is also available on the Agency's Intranet site. The Agency's Risk Manager and Internal Audit are available to provide advice and regularly benchmark the Agency's risk management processes to ensure that good practice is reflected in the Agency's overall risk strategy.

### **The risk and control framework**

The system of internal control is underpinned by compliance with the requirements of the core Controls Assurance Standards:

- Governance
- Planning & Delivery
- Risk Management
- Resource Management

The Agency has both Audit and Risk Management Committees who review and provide advice to me on audit, internal control and risk management issues.

The Agency has a number of Risk Registers in operation covering Corporate, Business, Project, Fraud and Partnership risks. Copies of the Corporate and Partnership Risk Registers have been routinely copied to the Risk Management Committee.

The Corporate Risk Register is where the principal risks of the Agency are actively managed. The Executive Team reviews this Register each month when risks and associated actions are evaluated. Corporate Risks are allocated to Executive Team members to manage, they are prioritised and actions are identified to improve management of each risk. The Corporate Risk Management priorities of the Agency during 2004-05 have been:

- Contract Management
- IT System Developments, particularly in relation to PenServer implementation
- Financial Management, particularly in relation to Scheme Resource Accounting
- Impact of Arms Length Body Review
- Business Continuity Planning
- Agenda for Change
- Modernisation of the NHS Pension Scheme and associated policy and legislative requirements
- Communications – Internal and External
- Relocation of Student Grants Unit

The Agency is committed to managing risks to an acceptable level on all aspects of business activity. The Agency's Corporate and Business Risk Registers have been aligned with the Agency's Corporate and Business Plans to ensure that all priorities and objectives have been risk assessed.

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Assistant Director – Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the internal audit work. Executive managers within the Agency who have responsibility for the development and maintenance of the system of internal control provide me with assurances. The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also informed by findings of the National Audit Office as the Agency's External Auditors.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the internal mechanisms, eg the Authority Board, Audit Committee and Risk Management Committee, who play an important role in ensuring that the Agency has in place an effective and robust assurance framework. A plan to address weaknesses and ensure continuous improvement of the system is in place.

The assurance framework was strengthened during the year to take forward recommendations made by Internal Audit and the National Audit Office. To support the framework, the Agency published its Corporate Governance material, including the core assurance standards and toolkit, on the Intranet site.

The Agency's Executive Directors are formally allocated accountability for risk management, budgets and internal control. At the end of 2004-05, all Executive Directors signed an assurance statement confirming the adequacy of risk management and internal control in their business areas. Our private sector partner has also signed an annual assurance statement, which sets out the processes they have in place to provide assurance over the effectiveness of their risk management and internal control. This statement was quality reviewed by Internal Audit and Agency management.

The Agency has its own in-house Internal Audit Unit, which operates to standards within the Government Internal Audit Manual. They submit regular reports, which include an independent opinion by the Assistant Director – Internal Audit on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement. For 2004-05 the Assistant Director – Internal Audit (AD-IA) concluded that the work of the Internal Audit team had gathered significant assurance that there is a generally sound system of control designed to meet the Agency's objectives. The main areas of weakness identified in the AD-IA report are covered below.

### **Significant Internal Control Issues**

#### **On-going Control Issues**

In 2004-05 the internal control issues most relevant to the pension scheme were identified as:-

- Penser development implementation delays and dispute of payments to contractor for Phases 2 & 3 of Penser;
- Lack of tested Business Continuity Plan
- Accuracy of NHS employer pension scheme contributions
- Internal Controls Assurance from out-sourced service providers
- Compliance with FRS17

In respect of each of the areas listed above, the following action been is being taken:-

#### **Penser Development**

With regard to Penser development, actions have been taken to successfully bring the project back on track. However, events in the wider environment, driven by Government policy have essentially changed the scope of what the Agency needs to achieve over the next 3 years. A more strategic structured approach has been developed with regard to the implementation and development of the proposed changes. In order to facilitate this, the Agency is working with Envision, with the help of external consultants to re-define a plan for the change programme and develop an overall programme management approach.

#### **Business Continuity Planning**

The Agency continues to address the weaknesses identified with regard to business continuity planning. An annual contract for off-site testing has been set-up with an external organisation who are leading specialists on business continuity planning provision. Successful off-site testing has taken place in February 2005 and there are plans for further tests during 2005/06 to include the new Penser systems. The Authority Board and Sub-Committees are kept fully updated on progress.

### **Scheme Contributions**

The Agency has undertaken a detailed circularisation exercise to verify both the amounts paid over and the year-end debtors amounts due from every major NHS contributor in England and Wales. The exercise involved some 845 bodies covering over 90% of contributions due to the scheme. In cases where amounts reported by the contributor varied by more than 2% with the figures held by the Agency, these were investigated and resolved by the Agency and amendments made to our records where necessary. The Authority Board received an interim report on the exercise on 31 August 2005. Overall the exercise offers a far higher level of assurance over the accuracy of both contributions income and debtors.

For future years the Agency is considering further improvements to the assurance gathering process, which it looks forward to discussing with its auditors in due course.

### **Internal Controls Assurance from out-sourced service providers**

Drawing on the recommendations by the NAO, various Internal Audit reports and recommendations and its own internal reviews, the Agency has put in place detailed action plans to address the issues identified in relation to the Pension Scheme Resource Accounts, with regular meetings taking place between Agency and Paymaster Finance staff to progress issues. The National Audit Office and the Department of Health are kept regularly informed of any significant issues and have had the opportunity to comment on the progress against action plans. The Agency's Internal Audit Team continues to carry out investigations on systems and processes. Updates on progress and issues are reported to the Authority Board and the Audit Committee.

The majority of the initial actions are now complete and any emerging issues are raised and managed through the monthly Pensioner Payroll and Finance Joint Service Review meetings chaired by the Assistant Director – Finance and Partnership and escalated via the Chair to the Service Review Group, which is Chaired by the Agency Director of Finance, IT and Partnership and comprises of senior Agency and Envision Partnership managers and directors.

### **Compliance with FRS17**

During 2004-05 the Agency has worked with the Government Actuary's Department (GAD) to produce an actuarial valuation of the Scheme for FRS17 accounting purposes, following the protocols laid down in the FRS17 Memorandum of Understanding, to which the NAO, the GAD and the Agency are co-signatories. As part of this process the GAD has widened the scope of its sensitivity analysis to include emerging NHS pay and workforce issues such as the new Agenda for Change and GMS contracts. The valuation of the scheme as at 31 March 2003 was delivered in July 2005 and forms the basis of the statement of scheme liabilities as at 31 March 2005 disclosed in these accounts.

The Agency has commissioned GAD to undertake a further valuation of the Scheme as at 31 March 2004 at the same time as the next funding valuation, the results of which will inform the statement of scheme liabilities as at 31 March 2006. In the interim the Agency continues to investigate ways of improving the reliability, completeness and timeliness of the data upon which scheme valuations are based.

Alan Stuttard  
Chief Executive  
18 January 2006

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

I certify that I have audited the financial statements on pages 21 to 39 under the Government Resources and Accounts Act 2000. The financial statements have been prepared under the accounting policies set out on pages 26 to 29.

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

As described on page 13, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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 report whether the contributions payable to the scheme have been paid in accordance with the Scheme rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Scheme manager is not consistent with the financial statements, if the Agency has not kept proper accounting records for the Scheme or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 14 to 17 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedures.

### **Basis of audit opinion**

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Agency in the preparation of the financial statements, and of whether the accounting policies are appropriate to the scheme'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 error, or by fraud or other irregularity, 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 financial transactions of the Scheme for the year ending 31 March 2005, the net outgoings, recognised gains and losses, and 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 2000 and directions made thereunder by the Treasury;
- 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; and
- the contributions payable to the Scheme during the year ended 31 March 2005 have been paid in accordance with the Scheme rules and the recommendations of the Actuary;

My report on the financial statements is at page 20.

John Bourn  
Comptroller and Auditor General  
23 January 2006

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

## **THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL**

1. The NHS Pension Scheme is an unfunded occupational scheme supported by the Exchequer and open to all NHS employees and employees of approved organisations. In order to defray the costs of benefits both employers and members pay contributions at rates determined by the Scheme Actuary.
2. At 31 March 2005 the employing organisations of members of the NHS Pension Scheme comprised 666 NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,304 GP practices and 336 Directed Bodies (non-NHS employers meeting specific criteria) in England and Wales.
3. In accordance with the Resource Accounting Manual, the NHS Pensions Agency was required for the first time at 31 March 2004 to implement Financial Reporting Standard (FRS) 17 – Retirement Benefits in reporting the NHS Pensions Scheme’s liabilities for future pension payments.
4. I qualified my opinion on the Scheme’s 2003-04 Resource Account because the valuation of pension liabilities at 31 March 2004 (£104.2 billion) was based on an actuarial valuation at 31 March 1999. As such the valuation did not comply with Treasury’s guidance on the implementation of FRS 17 which requires four-yearly actuarial valuations.
5. During 2005 the Scheme has obtained from the Government Actuary’s Department a new valuation of liabilities as at 31 March 2003 updated to 31 March 2005, which totals £127.9 billion as shown in Schedule 3. The rise in the value of liabilities between 31 March 2004 and 31 March 2005 is some £23.7 billion. Of this, some £8.8 billion relates to in year movements in the Scheme liability as disclosed in note 20.5. The remaining £14.9 billion is the actuarial loss relating to the valuation.
6. The £14.9 billion actuarial loss reflects experience changes made to assumptions and calculations in the light of experience at the time the new valuation is undertaken (£10.9 billion), and a change in longevity predictions (£4.0 billion), as summarised in Note 20.8. The majority of changes to assumptions and calculations can only be understood in the light of the new data as at 31.03.03 produced during 2004-05. Other changes relate solely to events during 2004-05, and so could only be taken into account at 31 March 2005. The changes in longevity predictions would have been taken into account had an up to date valuation been produced as at 31 March 2004.
7. I note that not all of the £23.7 billion rise is due to changes that took place during 2004-05. Had all of the information now available to the actuary been available to inform the statement of Scheme liabilities at 31 March 2004, the total pension Scheme liability of £104.7 billion reported at that date and shown in Schedule 3 would have been higher to reflect changes to longevity predictions and some experience gains and losses. However I am satisfied that the financial statements are not materially misstated in respect of the liability as at 31 March 2004 and so I have given an unqualified opinion on the financial statements for 2004-05.

John Bourn  
Comptroller and Auditor General  
23 January 2006

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

## SCHEDULE 1

### Summary of Resource Outturn for the year ended 31 March 2005

	Estimate			2004-05 Outturn			2003-04	
	<i>Gross Expenditure</i>	<i>A in A</i>	<i>Net Total</i>	<i>Gross Expenditure</i>	<i>A in A</i>	<i>Net Total</i>	<i>Net Total Outturn compared with Estimated saving/ (excess)</i>	<i>Prior-Year Outturn</i>
	1	2	3	4	5	6	7	8
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Request for resources</b>								
NHS Pensions	14,106,400	6,318,454	7,787,946	12,395,281	5,999,216	6,396,065	1,391,881	6,509,900
Non-budget	-	-	-	-	-	-	-	12,166,565
<b>Total</b>	<b>14,106,400</b>	<b>6,318,454</b>	<b>7,787,946</b>	<b>12,395,281</b>	<b>5,999,216</b>	<b>6,396,065</b>	<b>1,391,881</b>	<b>18,676,465</b>
<b>Net Cash Requirement</b>			<b>1</b>			<b>-</b>	<b>1</b>	<b>-</b>

### Summary of income payable to the Consolidated Fund (£000's)

In addition to appropriations in aid the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts are shown in italics)

	2004-05 Forecast		2004-05 Outturn	
	<i>Income</i>	<i>Receipts</i>	<i>Income</i>	<i>Receipts</i>
Operating income and receipts – excess A in A	-	-	-	-
Other CFERs not classified to be Appropriated in Aid	283	283	284	284
Excess cash receipts to be surrendered to the Consolidated Fund	-	2,778,455	2,345,102	2,103,700
<b>TOTAL</b>	<b>283</b>	<b>2,778,738</b>	<b>2,345,386</b>	<b>2,103,984</b>

### Explanation of variation between estimate and outturn

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

There are a number of factors contributing to the underspend against the Resource Estimate:

- (i) Delays across the NHS implementing the Agenda For Change contract has resulted in lower than expected levels of pensions contributions leading to an under-receipt of Appropriations in Aid of £0.32 billion, 5% less than expected.
- (ii) The lower level of contributions had a concomitant effect upon the current service cost calculation, lowering the current service cost by approximately £0.4 billion.
- (iii) Current service cost was a further £0.65 billion lower than expected due to the cost of benefits (given as a percentage of pensionable pay) was at the lower end of the range at 19.7%, in comparison to the estimate of 23%.
- (iv) The lower than forecast current service cost has had a knock-on effect in reducing the interest on scheme liability for the year by approximately £0.625 billion

**Reconciliation of resources to cash requirements (£000s)**

		Estimate	Outturn	Net total outturn compared with estimate saving/ excess	Prior year outturn (Restated)
	Note	Net Total	Net Total		
<b>Net Total</b>		7,787,946	6,396,065	1,391,881	18,676,465
Capital		-	-	-	-
Investments		-	-	-	-
Non-operating appropriations in aid		-	-	-	-
<b>Accrual adjustments:</b>					
Non-cash items	23	(14,106,400)	(12,330,000)	(1,776,400)	(11,560,000)
Changes in working capital other than cash – pensions	24	-	234,247	(234,247)	124,830
Changes in working capital other than cash – premature retirements	22	-	7,155	(7,155)	(146,202)
Surplus cash surrendered to the Consolidated Fund	26	2,778,455	1,613,773	1,164,682	1,704,100
Release of pension provision	20.5	3,540,000	3,588,832	(48,832)	3,355,137
Surplus cash at bank		-	489,928	(489,928)	12,235
Prior year adjustment	12	-	-	-	(12,166,565)
<b>Net cash requirement (Schedule 4)</b>		<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>

**Footnote:** The prior year outturn has been restated to remove the negative net cash requirement reported in the 2003-04 as such a disclosure does not comply with Treasury reporting protocols. This change has been effected by reclassifying the negative net cash requirement of £12,235,000 to “Surplus cash at bank” in the above prior year outturn disclosure.

**SCHEDULE 2**

**Combined Revenue Account**  
*for the year ended 31 March 2005*

		<u>2004-05</u>	<u>2003-04</u>
	Note	£000	£000
Contributions receivable	4	(5,708,307)	(5,233,427)
Prefunded premature retirement Contributions	4	(52,470)	(67,581)
Transfers in	6	(173,158)	(199,513)
Income relating to premature retirement benefits paid recharged to the employer	5	(65,281)	–
		<u>(5,999,216)</u>	<u>(5,500,521)</u>
Pension Cost	7	5,800,000	5,290,000
Enhancements	8	206,842	120,487
Transfers in	9	173,158	199,513
Interest on Scheme liabilities	11	6,150,000	5,950,000
Revaluation of prefunded premature retirement provision	21	–	66,859
Increase in pre-funded premature retirement provision	21	–	67,581
Premature retirement benefits paid and subsequently recharged to employers	10/22	65,281	–
		<u>12,395,281</u>	<u>11,694,440</u>
<b>Net outgoings for the year</b>		<u>6,396,065</u>	<u>6,193,919</u>
Net Resource Outturn		6,396,065	18,676,465

**STATEMENT OF RECOGNISED GAINS AND LOSSES**

Actuarial (gain)/loss	20.8	14,898,832	1,445,137
<b>Total recognised (gains) and losses for the financial year</b>		<u>14,898,832</u>	<u>1,445,137</u>
Prior year adjustment		–	88,023,435
<b>Total (gains) and losses recognised since last annual report</b>		<u>14,898,832</u>	<u>89,468,572</u>

The notes on pages 26 to 39 form part of these accounts

**SCHEDULE 3**

**Combined Balance Sheet  
as at 31 March 2005**

	Note	<u>2004-05</u> £000	<u>2003-04</u> (Restated) £000
<b>Current Assets and Liabilities</b>			
Cash at bank		490,212	328,598
Debtors:			
Amounts due from employers in respect of scheme contributions: due within one year	16	500,868	313,591
Contributions due from employers in respect of premature retirements recharged to employers on an ongoing basis: due within one year	17	87,813	90,311
due after one year	17	676,794	683,343
		<u>1,755,687</u>	<u>1,415,843</u>
<b>Creditors: amounts falling due within 12 months</b>			
Pensions	18	(40,994)	(79,046)
Amounts to be repaid to the Consolidated Fund	19	(970,386)	(567,371)
<b>Net current assets</b>		<u>744,307</u>	<u>769,426</u>
<b>Provisions for liabilities and charges</b>			
Pensions	20.5	(127,900,000)	(104,677,112)
Rechargeable premature retirements	22	(744,307)	(751,462)
<b>Net (liabilities)/assets</b>		<u>(127,900,000)</u>	<u>(104,659,148)</u>
<b>Financed by:</b>			
<b>Revenue Account</b>			
Balance brought forward		(104,659,148)	(94,749,003)
Financing from the Consolidated Fund		-	-
Combined net outgoings for the year (Schedule 2)		(6,396,065)	(6,193,919)
Actuarial gain/(loss) (SRGL)	20.8	(14,898,832)	(1,445,137)
Adjustment for prefunded premature retirement provision included within SRGL	21	417,112	-
Adjustment for prefunded premature retirement instalment debtor	24	(17,965)	-
Excess appropriations in aid for current year	19	-	(315,981)
Payment to Consolidated Fund (Schedule 4)	26	(1,375,000)	(1,517,988)
Surplus cash to be repaid to the Consolidated Fund (2002-03)	26	-	(186,112)
Surplus cash to be repaid to the Consolidated Fund (2003-04)	19	-	(251,008)
Surplus cash to be repaid to the Consolidated Fund (2004-05)	19	(970,102)	-
<b>Balance carried forward</b>		<u>(127,900,000)</u>	<u>(104,659,148)</u>

A Stuttard  
Chief Executive  
18 January 2006

The notes on pages 26 to 39 form part of these accounts

**Footnote:** The prior year comparative debtors figures above have been restated to reflect the change in disclosure of amounts due from NHS employers in respect of additional contributions for early retirement costs within one year and after one year, and to reflect the reclassification of pre-funded early retirement recharges as additional pension scheme contributions (Note 2.3 to these accounts refers).

**SCHEDULE 4**

**Cash Flow Statement**

*For the year ended 31 March 2005*

		<b>2004-05</b>	<b>2003-04 (Restated)</b>
	Note	£000	£000
Net cash inflow from operating activities (note A)		2,103,701	2,032,316
Receipts due to the Consolidated Fund, not classified to be appropriated in aid	19	284	382
Payments of amounts due to the Consolidated Fund – receipts not classified to be appropriated in aid	26	(382)	(451)
Payments of amounts due to the Consolidated Fund for prior year	26	(315,981)	(170,418)
Payments of amounts due to the Consolidated Fund – surplus cash relating to prior year	26	(251,008)	(186,112)
Payments of amounts due to the Consolidated Fund – surplus cash relating to current year	26	(1,375,000)	(1,517,988)
Financing (note B)		–	–
<b>Increase in cash in period</b>		<b>161,614</b>	<b>157,729</b>

**Note A – Reconciliation of Net income to operating cash flows**

		<b>2004-2005</b>	<b>2003-2004</b>
		£000	£000
Net outgoings for the year (Schedule 2)		(6,396,065)	(6,193,919)
Adjustments for movement in non-cash working capital	24	(234,247)	(124,830)
Adjustment for movement in premature retirement non-cash working capital	22	(7,155)	146,202
Increase in pension provision	23	11,950,000	11,240,000
Increase in pensions provision – enhancements and transfers in	20.5	380,000	320,000
Use of pension provision – benefits payable	20.5	(3,412,532)	(3,207,040)
Use of pension provision – leavers	20.5	(176,300)	(148,097)
<b>Net cash inflow from operating activities</b>		<b>2,103,701</b>	<b>2,032,316</b>

**Note B – Analysis of financing, and reconciliation to the net cash requirement**

		<b>2004-2005</b>	<b>2003-2004</b>
		£000	£000
From the Consolidated Fund (Supply) – current year		–	–
<b>Net Financing</b>		–	–
<b>(Increase) in cash during the period</b>		<b>(161,614)</b>	<b>(157,729)</b>
<b>Net cash flows other than financing</b>		<b>(161,614)</b>	<b>(157,729)</b>
<b>Adjustments for payments and receipts not relating to supply:</b>			
Amounts due to the Consolidated Fund – received in a prior year and paid over	26	(328,598)	(170,869)
Amounts due to the Consolidated Fund – received and not paid over		490,212	328,598
Net cash requirement (Schedule 1)		–	–

The notes on pages 26 to 39 form part of these accounts

## Notes to the Scheme Statements for the year ended 31 March 2005

### Accounting Policies

#### 1. Basis of Preparation of scheme statement

1.1 The combined scheme financial statements have been prepared in accordance with the relevant provisions of the Resource Accounting Manual for 2004-05 issued by the Treasury, 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. The 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.

1.2 The combined scheme financial statements summarise the transactions of the National Health Service Pension Scheme and the National Health Service (Compensation for premature retirement) 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 and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the report of the Actuary, and the scheme statement should be read in conjunction with that Report.

1.3 The NHS Pension Scheme acts as a principal for employers in the payment of compensation benefits arising under the NHS Compensation for Premature Retirement Scheme. Employers have the option of discharging their liability by way of payment of a capital sum, or by paying for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding debtor within the balance sheet).

1.4 The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the combined financial statements.

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#### 2. Accounting policies for the NHS Pension Scheme

##### 2.1 Contributions receivable

- a. Employers' normal pension contributions are accounted for on an accruals basis.
- b. Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on a cash basis.
- c. Employees' pension contributions which include amounts in respect of added years (dealt with in (d) below) are accounted for on an accruals basis.
- d. Employees' contributions paid 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. Where Scheme members make additional voluntary contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 15 to the financial statements. Please refer to Note 15 for further information on Scheme AVC providers. Where Scheme members make Free Standing AVC payments these are paid direct to the supplier by the member and are not included in these financial statements.

**2.2 Transfers in and out**

Transfers in are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

**2.3 Income received from employers in respect of premature retirements**

**Pre-funded early retirements pension enhancements**

- a. Amounts receivable in respect of an employer's decision to allow an employee's early departure, where the employer has discharged their liability by way of a capitalised payment, are accounted for as special pension scheme contributions (see 2.1b).
- b. This represents a change in accounting policy from previous years where such receipts were classed as "Other Income".
- c. This change in policy brings the description and disclosure of these receipts into line with their treatment within NHS Pension Scheme regulation D2(3), where they are specifically referred to as "additional contributions". As these receipts represent less than 1.25% of total pension scheme contributions the prior period has not been adjusted. However to aid comparability where disclosures within the notes to the financial statements are affected by this change, a narrative explanation for the change is provided. This change does not materially affect the financial results for this period or the prior period.
- d. This change does not represent a departure from the Resource Accounting Manual.

**Quarterly rechargeable early retirement pension enhancements**

- e. Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as "Other Income" to the pension scheme and are appropriated-in-aid. This represents a change in accounting policy from previous years when the amounts recharged to employers were netted-off against the corresponding expenditure.
- f. This change in policy brings the description and disclosure of these receipts into line with their treatment within NHS Pension Scheme regulations. As these receipts represent less than 1.3% of total pension scheme income, the prior period has not been adjusted. However to aid comparability where disclosures within the notes to the financial statements are affected by this change, a narrative explanation for the change is provided. This change does not materially affect the financial results for this period or the prior period.
- g. This change does not represent a departure from the Resource Accounting Manual.

**2.4 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. The cost is based on a discount rate of 3.5% real (ie 6% including inflation). This will fall to 2.8% real (5.37% gross) with effect from 1 April 2005 (see the Report of the Manager).

**2.5 Past service cost**

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

**2.6 Interest on scheme liabilities**

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue account. The interest cost is based on a discount rate of 3.5% real rate, (ie 6% including inflation). This will fall to 2.8% real (5.37% gross) with effect from 1 April 2005 (see the Report of the Manager).

**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 is discounted at 3.5% real rate (ie 6% after inflation). This will fall to 2.8% real (5.37% gross) with effect from 1 April 2005 (see the Report of the Manager).

Full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. The most recent actuarial review took place as at 31 March 2003.

**2.8 Pension benefits payable**

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

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

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

**2.10 Lump sums payable on death in service**

Lump sum payments on death in service are accounted for on an accruals basis. They are a direct charge to the pension scheme as they are not funded through the normal pension contributions.

**2.11 Actuarial gains/losses**

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

**2.12 Additional Voluntary Contributions**

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

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**3. Accounting arrangements for the NHS Compensation for Premature Retirement Scheme**

**3.1 Benefits payable that are re-charged to employers on an ongoing basis**

Compensation payments for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, benefits are paid initially by the NHS Pension Scheme throughout the month and recovered from employers on a quarterly basis.

**3.2 Pre-funding and prepayment of early retirement pension enhancements**

Employers have an option to make a cash payment as either a lump sum or in five annual instalments to the NHS Pension Scheme to fund compensation payments payable to their former employees in the

forthcoming years. Where the employer chooses to pay by one-off lump sum, this amount is recognised as income at the point the employee's pension becomes payable. Where the employer chooses to pay by instalments, income is recognised when the instalment becomes due, with the amounts due from the employer in respect of future uninvoiced instalments disclosed by way of a note to the debtors disclosure.

In both instances, a liability equal to the total due from the employer is recognised in the pension scheme liability at the point of the member's retirement. This latter treatment represents a change in accounting policy from previous years. In prior years, the liabilities arising from such early departures were disclosed on the pension scheme balance sheet but outside of the main pension scheme liability.

As these receipts represent less than 1.25% of total pension scheme contributions and the overall liabilities represented on the NHS Pension Scheme balance sheet remain unchanged, the prior period has not been adjusted.

However to aid comparability where disclosures within the notes to the financial statements are affected by this change, a narrative explanation for the change is provided. Neither change materially affects the financial results for the 2004-05 accounting period.

Neither of these changes represents a departure from the Resource Accounting Manual.

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**4. Pension contributions receivable**

	<b>2004-05</b>	<b>2003-04 (Restated)</b>
	<u>£000s</u>	<u>£000s</u>
Employers' Normal	(3,890,167)	(3,588,337)
Employees' Normal (including AVCs)	(1,818,140)	(1,645,090)
Employers pre-funded premature retirement contributions	(52,470)	(67,581)
	<u><b>(5,760,777)</b></u>	<u><b>(5,301,008)</b></u>

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**5. Other Income**

	<b>2004-05</b>
	<u>£000</u>
Re-chargeable early retirement enhancements	(65,281)
	<u><b>(65,281)</b></u>

Due to the change in accounting policy set down at Note 2.3, income from employers in respect of early retirement enhancements recharged on a quarterly basis has been reclassified with effect from 1 April 2004. The comparative figure for 2004 was £70,686,000 (Note 22 refers). This change gives the effect of properly disclosing the income and benefits paid in respect of rechargeable early retirements within Schedule 2. However as the amounts in question are not material in the context of Schedule 2, the prior period has not been adjusted.

**6. Pension transfers in (also see note 9)**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Group transfers in from other schemes	–	(20,492)
Individual transfers in from other schemes	(173,158)	(179,021)
	<u>(173,158)</u>	<u>(199,513)</u>

**7. Pension Cost – charged to provisions**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Current service cost	5,800,000	5,290,000
Past service costs	–	–
	<u>5,800,000</u>	<u>5,290,000</u>

**8. Enhancements**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Employees:		
Purchase of added years	206,842	120,487
	<u>206,842</u>	<u>120,487</u>

**9. Pension transfers in (also see note 6)**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Group transfers in from other schemes	–	20,492
Individual transfers in from other schemes	173,158	179,021
	<u>173,158</u>	<u>199,513</u>

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.

**10. Other Expenditure (also see Note 5)**

	<u>2004-05</u>
	£000
Premature retirement benefits paid and subsequently re-charged to employer	65,281
	<u>65,281</u>

**11. Interest Charge**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Interest charge for the year	6,150,000	5,950,000
	<u>6,150,000</u>	<u>5,950,000</u>

**12. Reconciliation of net outgoings for the year to control total and net resource outturn**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Net outgoings (Schedule 2)	6,396,065	6,193,919
Add income scored as CFERS (excess AinA)	-	315,981
Add: Prior-year adjustment	-	12,166,565
<b>Net Resource Outturn (Schedule 1)</b>	<u>6,396,065</u>	<u>18,676,465</u>

**13. Administration Expenses**

The costs of administering the NHS Pension Scheme are met by the NHS Pensions Agency Special Health Authority (NHSPA), which is in turn ultimately funded by the Department of Health. The annual accounts of the NHSPA can be found at [www.nhspa.gov.uk](http://www.nhspa.gov.uk).

**14. Additional Voluntary Contributions**

The NHS Pension Scheme provides for employees to make additional voluntary contributions (AVCs) to increase their pension entitlement or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment direct to the approved provider, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contributions Schemes. The NHS employers are responsible for payments made to the Scheme's approved provider. Members participating in this arrangement receive an annual statement from the approved provider made up to 5 April each year confirming the amounts held in their account and the movements in the year.

Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments were as follows:

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
<b>The Equitable Life Assurance Society (ELAS)</b>		
Movements in the year were as follows:		
Balance at 6 April	110,351	104,860
New investments	3,433	4,136
Sale of investments to provide pension benefits	(6,437)	(7,822)
Changes in market value of investments	6,094	9,177
Balance at 5 April	<u>113,441</u>	<u>110,351</u>

**NHS Pension Scheme & Compensation for  
Premature Retirement Scheme**

**Resource Accounts 2004-05**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
<b>Standard Life Assurance Company</b>		
Movements in the year were as follows:		
Balance at 6 April	60,405	44,074
New investments	6,631	7,719
Sale of investments to provide pension benefits	(1,564)	(1,307)
Changes in market value of investments	6,901	9,919
Balance at 5 April	<u>72,373</u>	<u>60,405</u>
	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
<b>Prudential Plc</b>		
Movements in the year were as follows:		
Balance at 1 April	22,934	15,819
New investments	5,048	4,707
Sale of investments to provide pension benefits	(2,446)	(1,167)
Changes in market value of investments	2,254	3,320
*Post Audit Adjustment	-	255
Balance at 31 March	<u>27,790</u>	<u>22,934</u>

\*The 2003-04 closing balance has been restated due to a post-audit change to the closing balance previously advised by Prudential.

## 15. Contingent Liabilities

The NHS Pension Scheme guarantees to meet the pension payments in the event of a default by one or more of the NHS Pension Scheme's approved Additional Voluntary Contributions (AVC) providers. Therefore there is a maximum contingent liability of the full balance of the AVC investments as at 31 March 2005, which are disclosed at Note 14. The scheme does not however guarantee pension payments from other free-standing AVC providers.

The contingent liabilities noted in previous years in respect of the outcome of the Preston and Others Vs Wolverhampton Healthcare NHS Trust employment tribunal and in respect of part-time NHS employees denied access to the pension scheme have now been assessed by the scheme actuary. It is the view of the actuary that these additional liabilities are unlikely to exceed 0.05% (or £64 million) of current scheme liabilities.

## 16. Debtors – Contributions due in respect of pensions

Employers are responsible for the payment to the Pension Scheme of both Employer and Employee contributions. Contributions should be paid over by the Employer by the 19th of the month, for contributions relating to the previous months.

Employers are also responsible for the payment of special contributions, either as a lump sum or in five annual instalments, to the NHS Pension Scheme where employees receive enhanced pension benefits upon retirement. Where lump sums or annual instalments have been invoiced but not yet paid, these are disclosed below.

**NHS Pension Scheme & Compensation for  
Premature Retirement Scheme**

**Resource Accounts 2004-05**

Amounts due within One Year	2004-05	2003-04 (Restated)
	£000	£000
Employer Contributions	344,117	162,602
Employee Contributions	152,944	123,492
Invoiced pre-funded premature retirement Contributions	3,807	9,532
	<b>500,868</b>	<b>295,626</b>
Uninvoiced future instalments due from NHS Employers	15,555	17,965
<b>TOTAL</b>	<b>516,423</b>	<b>313,591</b>

As at 31 March 2005 a potential further £15,555,000 (2004: £17,965,000) is due to be invoiced to NHS Employers in future years in respect of future instalments of early retirement contributions. However in line with the accounting policy set down at Note 3.2 this is not recognised as income until the invoices are raised. Consequently these amounts are no longer recognised as debtors on the Scheme Balance Sheet. However as the amounts are not material in the context of the balance sheet, the 2003-04 comparator has not been restated. Furthermore because any restatement would impact on the prior year Schedule 1, it is not practical to restate.

Of the above amount, £480,174,223.99 is due to be surrendered to the Consolidated Fund during 2005-06.

**17. Debtors – Contributions due in respect of premature retirements**

	2004-05	2003-04 (Restated)
	£000	£000
Amounts receivable within 12 months – invoiced	20,300	22,192
Amounts receivable within 12 months – uninvoiced	67,513	68,119
Amounts receivable after 12 months	676,794	683,343
	<b>764,607</b>	<b>773,654</b>

**18. Creditors – Pensions amounts falling due within 12 months**

	2004-05	2003-04 (Restated)
	£000	£000
Pensions	(7,196)	(45,415)
Inland Revenue	(31,820)	(29,140)
Voluntary deductions	(139)	(560)
Amounts due to employers	(1,839)	(3,931)
	<b>(40,994)</b>	<b>(79,046)</b>

**19. Creditors – amounts falling due within one year payable to the Consolidated Fund**

	<b>2004-05</b>	<b>2003-04</b>
	£000	£000
Appropriations in Aid realised (Schedule 2)	(5,999,216)	(5,500,521)
Less: appropriations in aid authorised (Schedule 1)	5,999,216	5,184,540
<b>Income not appropriated in aid, payable to the Consolidated Fund</b>	–	(315,981)
Surplus income payable to the Consolidated Fund	(970,102)	(251,008)
	(970,102)	(566,989)
Other amounts not classified to be Appropriated in Aid, due to the Consolidated Fund	(284)	(382)
	<b>(970,386)</b>	<b>(567,371)</b>

**20. Provision for pension liability**

20.1 The NHS Pension Scheme is an unfunded defined benefit scheme. An actuarial valuation was carried out as at 31 March 2003. The major assumptions used by the Actuary were:

	<b>At 31 March 2005</b>	<b>At 31 March 2004</b>
	% per annum	% per annum
Rate of notional investment return in excess of prices	3.5%	3.5%
Rate of notional investment return in excess of salaries	2.0%	2.0%

For the year ending 31 March 2005, the price inflation used was 2.5%, in line with HM Treasury's long-term future inflation assumption.

20.2 The scheme managers are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. The information includes, but is not limited to, details of:

- Scheme membership, including age and gender profile, active membership, deferred pensions 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.

20.3 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.

20.4 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 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 20.2 and 20.5. 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.

**20.5 Analysis of movement in scheme liability**

	Note	<b>2004-05</b>	<b>2003-04</b> (Restated)
		£000	£000
Scheme liability at 1 April		(104,260,000)	(94,610,000)
Current service cost	7	(5,800,000)	(5,290,000)
Past service cost		-	-
Interest on pension scheme liability	11	(6,150,000)	(5,950,000)
		<u>(11,950,000)</u>	<u>(11,240,000)</u>
Enhancements	8	(206,842)	(120,487)
Pension Transfers in	6	(173,158)	(199,513)
		<u>(380,000)</u>	<u>(320,000)</u>
Benefits paid	20.6	3,366,507	3,167,182
Pension payments to and on account of leavers	20.7	176,300	148,097
Death in service benefits		46,025	39,858
		<u>3,588,832</u>	<u>3,355,137</u>
Actuarial loss	20.8	(14,898,832)	(1,445,137)
Assimilation of pre-funded early retirement liability	21	-	(417,112)
<b>Scheme liability at 31 March</b>		<b><u>(127,900,000)</u></b>	<b><u>(104,677,112)</u></b>

During the year ended March 2005, contributions represented an average of 19.7% of pensionable pay.

**20.6 Analysis of benefits paid**

	<b>2004-05</b>	<b>2003-04</b>
	£000	£000
Pensions or annuities to retired employees and dependents	2,905,797	2,703,411
Commutations and lump sum benefits on retirement	460,710	463,771
<b>Per cash flow statement (Schedule 1 and 4)</b>	<b><u>3,366,507</u></b>	<b><u>3,167,182</u></b>

**20.7 Analysis of payments to and on account of leavers**

	<b>2004-05</b>	<b>2003-04</b>
	£000	£000
Refunds to members leaving service	17,684	16,239
Group transfers to other schemes	906	-
Individual transfers to other schemes	149,545	125,617
Payments to State Scheme	8,165	6,241
<b>Per cash flow statement (Schedule 1 and 4)</b>	<b><u>176,300</u></b>	<b><u>148,097</u></b>

**20.8 Analysis of actuarial gains/losses**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Experience losses arising on the scheme liabilities	(10,898,832)	(1,445,137)
Change in longevity assumptions underlying the present value of scheme liabilities	(4,000,000)	-
<b>Per Statement in Recognised Gains and Losses</b>	<b><u>(14,898,832)</u></b>	<b><u>(1,445,137)</u></b>

The experiential losses to the Scheme reported above arise from the pay implications of the new contract for general medical services; the pay and regrading implications of the new Agenda For Change contract for NHS staff; other pensionable pay increases arising from for example the new contracts for NHS consultants and staff grade doctors; higher than forecast pensions increases affecting both deferred and current pensioners; and other miscellaneous factors.

The actuarial loss recorded above includes an allowance for expected improvement in longevity across the scheme membership. This information emerged from the full valuation of the scheme as at 31 March 2003. Consequently, had this valuation been available to inform the statement of scheme liabilities as at 31 March 2004, the total pension scheme liability reported at that time would have been higher. That said it is the view of the Scheme Manager that the scheme liability reported in the 2003-04 accounts was not materially misstated.

**20.9 History of Experience gains and losses**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Experience and loss on scheme liabilities:	10,898,832	1,445,137
Percentage of the present value of the scheme liabilities	8.5%	1.4%
Total actuarial loss:	14,898,832	1,445,137
Percentage of the present value of the scheme liabilities	11.6%	1.4%

**21. Analysis of movement in pre-funded premature retirement provision**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Balance at 1 April	(417,112)	(340,695)
Provision assimilated into scheme liability	417,112	-
Increase in provision – new cases	-	(67,581)
Increase in provision – new instalment cases	-	(2,383)
Release in provision – benefits payable (Schedule 1)	-	60,406
Revaluation of provision	-	(66,859)
<b>Balance at 31 March</b>	<b><u>-</u></b>	<b><u>(417,112)</u></b>

In accordance with the change in accounting policy with regard to pre-funded early retirement liabilities set down at Note 3.2, these liabilities have been consolidated within the main pension scheme liability with effect from 1 April 2004. The change in liability in year is included within the enhancements elements of the scheme actuary's analysis.

For consistency the prior year pension scheme liability figure has also been restated to include these liabilities (note 20.5 refers).

**22. Analysis of movement in rechargeable premature retirement provision**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Balance at 1 April	(751,462)	(681,677)
Amounts invoiced to Employer in year	(65,281)	(70,686)
Benefits paid	65,281	70,686
Revaluation of Provision	7,155	(69,785)
<b>Balance at 31 March</b>	<b>(744,307)</b>	<b>(751,462)</b>
<b>Total Movement in Provision (Schedule 1 &amp; 4)</b>	<b>7,155</b>	<b>(146,202)</b>

**23. Non-cash items**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Increase in pension provision:		
Current service cost	5,800,000	5,290,000
Interest on Scheme liabilities	6,150,000	5,950,000
Increase in pension provision – enhancement, inward transfers and prefunded premature retirements (from 2004-05 onwards)	380,000	320,000
<b>Non cash items per Schedule 1</b>	<b>12,330,000</b>	<b>11,560,000</b>

**24. Movements in working capital, other than cash (Schedules 1 and 4)**

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Movement in debtors – pension contributions (Schedule 3)	(187,277)	(94,378)
Movement in debtors – contributions due from employers in respect of premature retirements	9,047	(33,419)
Movement in creditors falling due within 12 months – Pensions	(38,052)	2,967
Adjustment for prefunded premature retirement debtor	(17,965)	–
<b>Per Schedule 1 and 4</b>	<b>(234,247)</b>	<b>(124,830)</b>

In order to comply with the change in accounting policy with regard to accounting for contributions in respect of pre-funded early retirements, the long-term NHS debtor in respect of future instalments yet to be invoiced has been written-back against the General Fund (also see note 16).

**25. Intra-government balances – NHS Pension Scheme**

	Debtors: Amounts falling due within one year  £000s	Debtors: Amounts falling due after more than one year  £000s	Creditors: Amounts falling due within one year  £000s	Creditors: Amounts falling due after more than one year  £000s
Balances with other central government bodies	158,034	–	(1,003,324)	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	313,852	–	(344)	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	49,282	–	(7,712)	–
<b>At 31 March 2005</b>	<b>521,168</b>	<b>–</b>	<b>(1,011,380)</b>	<b>–</b>
Balances with other central government bodies	115,404	–	(598,620)	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	177,505	–	(1,823)	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	24,909	–	(45,974)	–
<b>At 31 March 2004</b>	<b>317,818</b>	<b>–</b>	<b>(646,417)</b>	<b>–</b>

The above debtor balances relate only to debt invoiced as at 31 March 2005. The balance of the debt recorded on the scheme balance sheet relates to uninvoiced amounts due from NHS employers in future years in respect of additional contributions for premature early retirement costs totalling £744,307,000 (2004: £769,426,000).

**26. Payments to the Consolidated Fund**

	<b>2004-05</b> £000	<b>2003-04</b> £000
Payment of amounts due to the Consolidated Fund – Realisation of prior years net debtors and creditors	238,773	186,112
Payment of amounts due to the Consolidated Fund – surplus cash relating to current year	1,375,000	1,517,988
<b>As Per Schedule 1</b>	<b>1,613,773</b>	<b>1,704,100</b>
Payment of amounts due to the Consolidated Fund for prior year (Excess AinA)	315,981	170,418
Amounts not classified to be appropriated in aid, due to the Consolidated Fund	382	451
Surplus cash to be surrendered to the Consolidated Fund relating to a prior year	12,235	–
<b>Total amount repaid to the Consolidated Fund as per Schedule 4</b>	<b>1,942,371</b>	<b>1,874,969</b>

In discussions with HM Treasury after the publication of the 2003-04 Resource Account, we were advised that it was not permitted to show a negative net cash requirement for the year. The figure of £12,235,000 should have been included within the amount to be surrendered to the Consolidated Fund.

This has been corrected in the 2004-05 resource account and the 2003-04 figures restated accordingly. This adjustment also affects the reconciliation of resource to cash requirements at Schedule 1, but has no overall effect on the prior year outturn figures.

## **27. Related Party Transactions**

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

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## **28. Losses**

During the year, losses arose in 4,259 cases (2003-04; 3,465 cases). The total loss was £352,311 (2003-04; £680,418). These figures include write-offs in respect of the cases highlighted in the review of the year.

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## **29. Financial Instruments**

FRS13 *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 NHS Pension 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 FRS13 mainly applies.

### **29.1 Liquidity risk**

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

### **29.2 Interest rate risk**

All of the NHS Pension Scheme's financial assets and liabilities carry nil or fixed rates of interest. The Scheme is not therefore exposed to any interest rate risk.

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