Department of Finance and Personnel

Superannuation and Other Allowances Resource Account

For the year ended 31 March 2005

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

15 November 2005

Laid before the Northern Ireland Assembly by the Department of Finance
and Personnel under section 10(4)of the Government
Resources and Accounts Act (Northern Ireland) 2001

15 November 2005

Ordered by the House of Commons to be printed

15 November 2005

HC 504 **LONDON: The Stationery Office** **£10.10**
NIA 241/03

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REPORT OF THE MANAGERS

Account for the year ended 31 March 2005

Introduction

The Principal Civil Service Pensions Scheme (Northern Ireland) (PCSPS(NI)) is an unfunded, non-contributory, defined-benefit Scheme administered by the Department of Finance and Personnel's (DFP's) Civil Service Pensions Branch which is based in Waterside House, Londonderry. The Scheme draws its statutory authority from the Superannuation (Northern Ireland) Order 1972.

The Scheme, which has approximately 35,000 members and 23,000 pensioners, is applicable to all members of the Northern Ireland Civil Service plus some additional public sector bodies and offers a wide range of benefits.

Managers, Advisers and Employers

Managers

Accounting Officer
Mr John Hunter
DFP
Rathgael House
Balloo Road
BANGOR, BT19 7PR

Pension Scheme Administrator
Compensation Scheme Administrator
Mrs Catherine Gilchrist
DFP
Civil Service Pensions
Waterside House
75 Duke Street
LONDONDERRY, BT47 6EP

Advisers

Scheme Actuary
Government Actuary's Dept.
Finlaison House
15-17 Furnival Street
LONDON, EC4A 1AB

Banker
Northern Bank
Donegall Square West
BELFAST

Legal Advisers
Departmental Solicitor's Office
Victoria Hall
12 May Street
BELFAST, BT1 4NL

Auditor
NIAO
106 University Street
BELFAST, BT7 1EU

Employers

Principal Employer
All NICS Departments & Agencies

Additional Bodies
See Appendix 1

CHANGES TO THE SCHEME

From 1 October 2002, new pension arrangements were introduced which apply to most new entrants from that date and those existing members who were in post on or before 30 September 2002 and chose to join one of two new statutory based "final salary" defined benefit schemes (Premium and Classic Plus). Under the Premium and Classic Plus Scheme, benefits accrue at 1/60 of final pensionable earnings with no automatic lump sum. Contributions from employees are set at 3.5 per cent of pensionable earnings. In comparison, under Classic benefits accrue at 1/80 of final pensionable earnings with an automatic lump sum of 3/80 of final pensionable earnings and employee contributions are set at 1.5% of pensionable earnings and these are earmarked for provision of widow(er) benefits.

All pension benefits payable under Classic, Classic Plus or Premium are increased in line with increases to the Retail Price Index (RPI) annually.

In addition new entrants from 1 October 2002 may choose from either the Premium Scheme or a money purchase stakeholder based arrangement to which the employer contributes (Partnership Pension Account). Under these arrangements, the employer pays a contribution (the level of which depends on the age of the member) into the pension account. Employees are not required to contribute, but any contributions made are matched by the employer up to an upper limit of 3%.

During the year, the following changes were made to the scheme:

Pensions were increased by 2.8% with effect from 12 April 2004.

Various changes were made to the rules of the scheme to make provision for:

- periods of Statutory Paternity Leave and Ordinary Adoption Leave (paid or unpaid) to be counted as reckonable service;
- members of the Classic Plus and Premium arrangements, who are aged 50 or over, with at least 5 years service and who are being retired early under the compulsory, flexible or approved retirement categories may now surrender part of their Civil Service Compensation Scheme (NI) award in return for their employer purchasing added years in the PCSPS(NI);
- the extension, to Classic Plus or Premium members, of the right to qualify to commute their pension into a lump sum (equivalent to 5 times their annual pension) if they are medically assessed as having a greatly reduced life expectancy (less than 12 months);
- the Department of Finance and Personnel to limit the benefits payable under the scheme where the member has made a false declaration about the health or deliberately suppressed a material fact where the Department has accepted an application, by the member, for a transfer value from another scheme;
- part-time employees, subject to the House of Lords judgment of 8 February 2001, to be granted retrospective admission to the scheme for service before 1 January 1995;
- greater flexibility for Civil Service Employers, subject to the agreement of Department of Finance and Personnel, to grant members added years of reckonable service in exceptional circumstances;
- the extension of the time limit by which a Classic member may apply for a (non-Club) transfer until one year before the retiring age (currently 60) as well as clarification

that a Club transfer application must be made within 12 months of the member joining the PCSPS(NI) and before the retiring age of the sending scheme.

The following represents the position in relation to bulk transfers completed or ongoing throughout the 2004/05 financial year:

Name	Comments
Youth Justice Agency (YJA)	**Bulk Transfer In (Complete)** - YJA became part of PCSPS(NI) on 1/10/03. Bulk transfer payment in respect of previous service with NILGOSC was received November 2004.
Invest NI	**Bulk Transfer In (Complete)** – Invest NI became part of PCSPS(NI) on 01/04/02. Transfer payment in respect of previous service with LEDU was received on 7/04/04. Transfer payment in respect of previous service with NITB was received 10/12/03.
Police Service of Northern Ireland (PSNI) *	**Bulk Transfer In (Ongoing)** – PSNI became part of PCSPS(NI) on 30/09/02. Transfer Payment to be received in 2005.
Child Benefit Office	**Bulk Transfer Out (Complete)** – Child Benefit ceased to be part of PCSPS(NI) on 1/4/03. Transfer values were paid between Dec 03 and April 04.

In addition, there were a number of smaller inward transfers at an individual or group level

* The technical date of the transfer of liability for the PSNI Civilian Direct Recruits was 30 September 2002. However, due to difficulties in resolving the requirements of the legislation relating to the inclusion of this group as a Schedule 1 Body under the 1972 Superannuation (NI) Order, the legislation was not made until February 2004 but was retrospective to 30 September 2002. In the interim PSNI continued to meet the liabilities in relation to scheme members and pensioners.

FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS

Employees of Departments and other organisations which participate in the PCSPS(NI) may make their own arrangements for making payments to institutions which offer free-standing additional voluntary contributions (FSAVC) schemes. The Managers of the PCSPS(NI) have no responsibility in connection with such arrangements but have in place in-house arrangements with three AVC providers.

Standard Life has been formally appointed to the designated stakeholder pension provider for the PCSPS(NI) employment in accordance with the access requirements of the Welfare and Pensions Reform Act 1999. Employers have made the arrangements known to staff and provide a facility for staff to contribute through payroll if they so wish. No contributions are made by the Managers of the PCSPS(NI) or by employers.

POST BALANCE SHEET EVENTS

No significant Post Balance Sheet Events have occurred.

MEMBERSHIP STATISTICS

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

Active Members

	Active Members at the start of the year		**33,829**
Add:	New entrants in the year		2,059
Less:	Retirements in the year		(628)
	Members leaving with deferred pensions		(350)
	Transfers out		(71)
	Death		(33)
	Other		(405)
	Active members at the end of the year		**34,401**

Deferred Members

	Deferred members at the start of the year		**6,470**
Add:	Members leaving who have deferred pension rights		642
Less:	Members taking up deferred pension rights (there may be deaths within this category, which will be reflected in the Pensions or Members figures, as their status is now historic).		(280)
	Transfers Out		(42)
	Deaths		(10)
	Deferred members at the end of the year		**6,780**

Pensioners in payment

	Pensioners at the start of the year:	- Members	**17,516**
		- Dependents	**5,107**
Add:	Members retiring in the year		908
	New retirees dependents		271
Less:	Pensioners who died/cessations/others in year		
		- Members	(600)
		- Dependents	(221)
	Pensioners at the end of the year:		
		- Members	**17,824**
		- Dependents	**5,157**

Due to the nature of the current HRMS system (staff details are reconciled on a real time basis) it is difficult to provide accurate information on the movement in these statistics during the year. The figures in bold are definitive, as they are position statements. It is intended that a new system will be implemented shortly to improve the provision of this information

Further information

Any enquiries about the Scheme should be addressed to:

Mrs Catherine Gilchrist
DFP
Civil Service Pensions
Waterside House
75 Duke Street
LONDONDERRY
BT47 6EP

APPENDIX TO REPORT OF THE MANAGERS

Additional employment or offices to which the PCSPS(NI) applies.

EMPLOYMENT

1. **Museums**
   Ulster Folk and Transport Museum
   Ulster Museum
   Northern Ireland Museums Councils

2. **Public Agencies and Commissions**
   Labour Relations Agency
   Equality Commission for Northern Ireland
   Employment By the Northern Ireland Assembly Commission
   Youth Justice Agency

3. **Public Offices**
   Northern Ireland Economic Development Office
   General Consumer Council for Northern Ireland
   Invest NI
   Economic Research Institute for Northern Ireland Limited
   Office for the Commissioner for Children and Young people for Northern Ireland

4. **Other Employments**
   Civilian Direct Recruits to the Police Service of Northern Ireland

OFFICES

1. **Assembly Offices**
   Clerk to the Assembly
   Clerk – Assistant to the Assembly
   Second Clerk – Assistant to the Assembly
   Fourth Clerk at the Table
   Librarian
   Assistant Librarian
   Editor, Deputy Editor and Assistant
   Editor of Official Reports of Debates
   Reporter

2. **Office of the Planning Appeals Commission**
   Chief Commissioner
   Chief Professional Commissioner
   Senior Professional Commissioner
   Professional Commissioner
   Principal Professional Commissioner

3. **Other Offices**
   Chairman of the Labour Relations Agency
   Chief Commissioner of the Equality Commission for Northern Ireland
   Director General of Electricity Supply for NI
   Chief Executive to the Mental Health Commission

REPORT OF THE ACTUARY

Accounts for the year ended 31 March 2005

A. The Scheme

The Principal Civil Service Pension Scheme (Northern Ireland), (PCSPS NI) is an unfunded public service scheme. Participating employers make contributions known as accruing superannuation liability charges (ASLCs). ASLCs are assessed regularly by the Scheme Actuary to be consistent with those which might have applied had the scheme been funded. These contributions include an allowance for amortised surpluses or deficits that would have arisen in a funded scheme.

B. Data

A full actuarial valuation of PCSPS NI was carried out as at 31 March 2003. Full membership data has been supplied as at 31 March 2005 in order to make this assessment of the pension commitments, and is summarised in my report of the 2005 actuarial assessment of the liabilities. This available data included;

(a) Total payroll for the financial year 2004/05 of approximately £705 million. The corresponding payroll figure for 2003/04 was £668.3 million.

(b) Pensions in payment to retired members and dependants of retired members of £119 million for 2004/05. The corresponding figure for 2003/04 being £110 million.

C. Liabilities

The capitalised value as at 31 March 2005 of expected future benefit entitlements under the Principal Civil Service Pension Scheme (Northern Ireland), 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 E and F below. The results are as follows:

Value of Liabilities	£ billion
Pensions in Payment	1.671
Deferred Pensions	0.143
Active Members (Past Service)	2.510
Total	4.324

D. **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. The employer's contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates assessed as required to meet the cost of benefits accruing in the year 2004-05, were as follows:

Employer's Share of Contribution Rate

Pay band from April 2004	% of Pensionable Pay Charged
£18,199 and below	12.0%
£18,200 to £37,099	13.0%
£37,100 to £80,199	16.0%
£80,200 and above	18.0%
Rate payable by the Prison Service for prison officers employed before May 1989 and entitled to enhanced benefits	20.5%

The employers' contributions receivable are assessed as £99 million for financial year 2004-05. The rates charged are less than the standard charges, because allowance was made for a notional surplus, based on the experience of the scheme as at 31 March 1999. The surplus was spread over the remaining working lifetime of staff in post.

E. **Methodology**

The value of the liabilities has been obtained by using the projected accrued benefits method, with allowance for expected future pay increases in respect of active members. The standard contribution rate for accruing costs has been determined using the projected unit method, with a control period of 3 years.

F. **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 3½% p.a. (pension benefits under the scheme are increased in line with prices), and an investment return in excess of earnings increases of 2% p.a. As far as possible, the demographic assumptions used for this assessment are derived from the specific experience of the membership of this scheme. Where the scheme experience is not sufficiently large to be statistically significant, appropriate standard tables have been adopted. With one exception, the demographic assumptions adopted for this assessment are those adopted at the most recent valuation. The exception is the mortality assumptions which, although are based on the standard tables adopted at the most recent valuation, now make greater allowance for projected mortality improvement reflecting the continuing increases in longevity.

G. Notes

1) This Statement is based on the results of the actuarial valuation carried out as at 31 March 2003 and the full membership data available as at 31 March 2005. The results should be viewed as a reasonable indication of the order of magnitude of the liabilities rather than a full actuarial assessment.

2) The pension benefits taken into account in this assessment are those normally provided from the rules of the pension scheme, including retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member.

Incoming Bulk Transfers

Civilian staff in the Police Service of Northern Ireland (PSNI) were absorbed into the Northern Ireland Civil Service as at 1 April 2004. The market value of the liabilities was assessed as approximately £71 million at 31 March 2004, and agreement has been reached for this sum to be transferred into PCSPS NI. The transfer payment in respect of this transfer is outstanding at the date of this assessment.

In addition, a further liability in respect of the Civilian staff of the PSNI is expected to be absorbed into the Northern Ireland Civil Service during 2005/06. The value of this further liability is approximately £7 million as at 31 March 2005, and is not included in the calculation of the liabilities in this assessment, as the value of the liabilities has not yet been agreed.

D G Ballantine
Fellow of the Faculty of Actuaries
Government Actuary's Department, London ***June 2005***

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (NI) 2001, the Accounting Officer is required to prepare a combined financial statement for pension and compensation in the form and on the basis determined by DFP.

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 3, "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 or herself 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 Department's assets, are set out in the Accounting Officers' Memorandum issued by DFP and published in Government Accounting Northern Ireland.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by the Department's Minister, 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.

All relevant internal control considerations, including any issues of risk, are taken into account with regard to the achievement of departmental policies, aims and objectives and where necessary are brought to the attention of the Minister.

Internal Audit provides a written report to the Departmental Accounting Officer, timed to support this Statement on Internal Control, on the overall adequacy and effectiveness of the Department's risk management, control and governance process.

2. 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 Department of Finance and Personnel's 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. This system of internal control has been in place in the Department of Finance and Personnel for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and accords with DFP guidance.

3. Capacity to handle risk

The Department's capacity to manage risk is established through the risk and control framework and the increasing experience of managers in the risk management process. Directors, senior managers and Chief Executives provide leadership to the risk management process in their particular areas of responsibility and also corporately through their involvement in the Departmental Board, the Departmental Advisory Group and the Departmental Audit and Risk Committee.

Guidance/legislation issued centrally is communicated to staff for implementation, as appropriate. Where this impacts on the business of an agency/departmental directorate, either as a new requirement or as a change to existing processes, it is considered in the wider context of the agency/directorate business plan and risk register. Where significant, the risk is documented in the risk register and ownership allocated and reviewed on an ongoing basis.
Training in the area of risk management was previously provided to managers; and following a review of Corporate Governance arrangements within the Department, additional risk management training will be progressed during the 2005-06 financial year.

4. The risk and control framework

Risk management has been incorporated into the corporate planning and decision-making processes of the Department. In compiling risks, business areas are required to review risks against objectives and targets and document the outcome in a risk register.

The management board has ensured that procedures are in place for verifying that aspects of risk management and internal control are regularly reviewed and reported on:

Each business area prioritises risk against pre-determined weightings to reduce subjectivity in assessing risk;

Key risks identified at agency/directorate level are documented on risk registers and are reviewed formally at least twice a year at business area Audit and Risk Committees (ARCs). The Departmental Risk Register is also reviewed twice yearly by the Departmental Audit and Risk Committee. The Committee assesses the continued appropriateness of risks, and the means through which they are managed. Also, the need to add, delete, relegate or promote risks is also determined in order to reflect the current business environment;

Agency chief executives and senior management of the core directorates complete stewardship statements at the end of each financial year. Mid-year reports are the vehicle for ensuring the continued maintenance of registers during the year.

5. 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 of Finance and Personnel 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

A number of elements that contribute to the review of effectiveness of the system of internal control include:

- A full review of the Department's Corporate Governance arrangements was completed during the year with formal recommendations going to the Departmental Board in August 2004. The Board endorsed the recommendations and agreed that the arrangements should be reviewed regularly. Amongst the recommendations were:

    - a redefinition of the roles of the Departmental Board and Departmental Advisory Group;
    - the addition of the Departmental Directors of Finance and Personnel to the Board;
    - the appointment of two Non-Executive Directors to the Board (appointed from 1 April 2005); and
    - the production of a Business Diary (2005), including dates for meetings for the Departmental Board.

In addition, the Board Secretariat at the request of the Director, Corporate Services Group, reviewed the arrangements against the HM Treasury Code of Practice on Corporate Governance in Central Government Departments. This exercise provided reassurance in respect of Corporate Governance arrangements operating within the Department.

- The Departmental Board, which exercises authority at a corporate level within the Department and comprises the Accounting Officer, the Second Permanent Secretary (transferred to the Department of Health, Social Services and Public Safety from 1 August 2005) and the senior managers within the core directorates. The Board is supported in an advisory and consultative capacity by the Departmental Advisory Group (DAG), comprising a wider group of senior managers, including Chief Executives of the Department's executive agencies. During the year the Departmental Board met separately on 6 occasions, DAG convened one separate meeting and they met jointly on 5 subsequent occasions. This was augmented by a series of weekly and ad-hoc meetings attended by key senior staff.

- The Departmental Audit and Risk Committee, which receives periodic reports concerning internal control. It provides oversight in ensuring that appropriate steps are being taken to manage risks in significant areas of responsibility and monitoring progress.

- The Department's Internal Audit Unit, which operates to standards defined in the Government Internal Audit Manual. Regular reports are submitted, which include the HIA's independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement. Internal Audit also incorporates reviews of corporate governance arrangements in periodic plans. An Internal Audit Review of Corporate Governance will be undertaken in 2005-06.

- A pilot exercise which is currently underway, drawing on best practice, to further develop and enhance the risk management process within the Department. An integrated business planning application incorporating risk management functionality, has been introduced to monitor the Departmental Business Plan and is currently being piloted within the Corporate Services Group for wider implementation.

6. Significant Internal Control Problems

The Department failed to operate adequate internal controls to monitor unusual and complex movements in debtors during 2004/05 and this resulted in the net cash requirement limit in respect of the Superannuation and Other Allowances Resource Account being exceeded. The Spring Supplementary Estimate for 2004/05 provided for a net cash requirement of £28.189m. The net cash requirement outturn for 2004/05 is £35.167m representing an excess cash requirement of £6.978m.

This is a significant internal control problem and the Department is taking action to review processes for monitoring debtors and the consequential impacts on the cash requirement for the Superannuation and Other Allowances Resource Account. New monitoring systems and procedures to improve accuracy in forecasting the cash requirement will be introduced and these will be kept under review.

John Hunter

JOHN HUNTER
Accounting Officer
Department of Finance & Personnel

25th October 2005

Principal Civil Service Pension Scheme (NI)

The Certificate 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 on pages 19 to 41 under the Government Resources and Accounts Act (Northern Ireland) 2001. These financial statements have been prepared under the accounting policies set out on pages 24 to 27.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 11, the Accounting Officer is responsible for the preparation of 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 transactions. The Accounting Officer is also responsible for the preparation of the other 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 (Northern Ireland) 2001 and Department of Finance and Personnel 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 Department 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 page 12 to 15 reflects the Department's compliance with the Department of Finance and Personnel’s guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Department of Finance and Personnel, 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 Department 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.

As explained more fully in the attached report, Parliament authorised a Net Cash Requirement for the Department of Finance and Personnel Superannuation and other Allowances of £28.2million. in the Budget (Northern Ireland) Order 2004, the Budget (Northern Ireland) (No.2) Order 2004 and the Budget (Northern Ireland) Order 2005. Against this authorised limit, the department incurred an actual Net Cash Requirement of £35.2 million as shown in Schedule 1 to the Resource Accounts for 2004-05 and have thus exceeded the authorised limit.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from expenditure in excess of amounts authorised

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Principal Civil Service Pension Scheme for the year ending 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 (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel;

- Except for cash net expenditure of £7.0 million in excess of the authorised Net Cash Requirement, referred to in paragraphs 1 to 10 of my report, 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.

See also my report on pages 42 to 45.

J Dowdall

J M Dowdall CB
Comptroller and Auditor General
26th October 2005

Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

Schedule 1

SUPERANNUATION AND OTHER ALLOWANCES RESOURCE ACCOUNT

SUMMARY OF RESOURCE OUTTURN 2004-2005

	2004-05							2003-04
	ESTIMATE			OUTTURN				
	Gross Expenditure	A-in-A	NET TOTAL	Gross Expenditure	A-in-A	NET TOTAL	Net total Outturn compared to Estimates Saving/ (Excess)	Prior Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources - DEL	3,742	4,053	(311)	3,582	3,619	(37)	(274)	(1,018)
Request for Resources - AME	451,000	192,000	259,000	447,253	192,000	255,253	3,747	597,971
Total Resources	**454,742**	**196,053**	**258,689**	**450,835**	**195,619**	**255,216**	**3,473**	**596,953**
Net Cash Requirement			28,189			35,167	(6,978)	30,648

Summary of income payable to the Consolidated Fund

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

		Forecast 2004-05		Outturn 2004-05	
		Income	**Receipts**	**Income**	**Receipts**
	Note	**£000**	**£000**	**£000**	**£000**
Operating income and receipts - excess Accruing Resources	22	0	0	931	13,297
Total		0	0	931	13,297

Reconciliation of resources to cash requirements	Note	Estimate NET TOTAL	Outturn NET TOTAL	Net total outturn compared with Estimate saving (excess)	Prior year outturn
		£000	£000	£000	£000
Net Total Resources		**258,689**	**255,216**	**3,473**	**596,953**
Capital		-	-	-	-
Investments		-	-	-	-
Non-operating appropriations in aid		-	-	-	-
Accruals adjustments					
Non Cash Items	26	(451,000)	(446,989)	**(4,011)**	(348,799)
Changes in working capital other than cash	27	72,000	80,516	**(8,516)**	(1,544)
Changes in creditors falling due after more than one year	28	-	82	**(82)**	192
Use of Provisions	24 & 25.1	148,500	146,342	**2,158**	137,231
Prior Year Adjustment: Superannuation Provision					(353,385)
Net Cash Requirement (Schedule 4)		**28,189**	**35,167**	**(6,978)**	**30,648**

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

The excess of **£6,978,347.96** between the net cash requirement outturn (£35,167,347.96) and the estimate (£28,189,000.00) is due mainly to the fact that the actual increase in working capital was **£80.516m** compared to an estimate of **£72.000m** The forecast increase in Debtors was based on the mistaken assumption that the movement in debtors would be the measurement of the difference between opening Debtors of £22.428m and closing Debtors of £87.226m an increase of £64.798m.

This base assumption was flawed in that it did not recognise the need to remove any monies due to the Consolidated Fund on collection and any Consolidated Fund Supply Debtors from balances prior to calculating the movement in Debtors. The subsequent impact of this adjustment is to effectively reduce the opening balance of Debtors to £5.681m, a reduction of **£16.747m,** resulting in a movement in Debtors of £81.545m (£8.516m above the forecast movement). This is partially offset by the use of provisions being **£2.16m** less than estimate.

SUPERANNUATION AND OTHER ALLOWANCES RESOURCE ACCOUNT

COMBINED REVENUE ACCOUNT
For the year ended 31 March 2005

NI Superannuation Pension Scheme Contributions and Benefits	**Note**	**2004-05 £000**	**2003-04 £000**
Contributions receivable	4	112,825	104,637
Transfers in	5	75,239	4,078
Other income	6	4,600	-
		192,664	**108,715**
Pension cost	7 &25.1	(150,000)	(140,000)
Enhancements	8	(750)	(718)
Transfers in	9	(75,239)	(4,078)
Injury Benefits	10	(264)	-
Other expenditure	11	-	(53)
Interest on scheme liabilities	12 & 25.1	(221,000)	(204,000)
		(447,253)	**(348,849)**
Net Outgoings for the Year		**(254,589)**	**(240,134)**
NI Superannuation Compensation Scheme			
Contributions and Benefits			
Contributions receivable	13	3,886	5,880
Benefits payable	14	(3,582)	(4,862)
Net Outgoings for the Year		**304**	**1,018**
Combined Net Outgoings for the Year	15	**(254,285)**	**(239,116)**
Net Resource Outturn (Schedule 1)	15	**255,216**	**596,953**
Statement of Recognised Gains & Losses			
Actuarial (gain)/loss	25.4	413,494	(22,462)
Total Recognised (gains) and losses for the Financial Year		413,494	(22,462)
Prior Year Adjustment		-	3,196,000
Total (gains) and losses recognised since last annual report		**413,494**	**3,173,538**

SUPERANNUATION AND OTHER ALLOWANCES RESOURCE ACCOUNT

Combined Balance Sheet as at 31 March 2005

	Note	31 March 2005 £000	31 March 2004 £000
Current Assets			
Debtors	19	87,226	22,428
		87,226	**22,428**
Creditors: Amounts falling due within one year			
Pensions	21	(10,869)	(6,536)
Amounts due to the Consolidated Fund			
Excess Appropriations in Aid	21	(931)	(14,003)
Net Current Assets		**75,426**	**1,889**
Creditors: Amounts falling due after more than one year	20	**(5)**	**(87)**
Provision for liabilities and charges			
Early Retirement	24	(559)	(1,216)
Pensions	25.1	(4,324,351)	(3,609,554)
NET LIABILITIES		**(4,249,489)**	**(3,608,968)**
Financed by:			
Balance brought forward		(3,608,968)	(3,418,513)
Financing from the Consolidated Fund		28,000	13,003
Combined net outgoings (Schedule 2)		(254,285)	(239,116)
Actuarial gain(loss) (SRGL)	25.4	(413,494)	22,462
Consolidated Fund Extra Receipts:			
Excess Appropriations in Aid and Consolidated Fund Extra Receipts for current year	22	(931)	(4,452)
Consolidated Fund Debtor for Undrawn Supply (current year)	23	189	3,717
Adjustment for Consolidated Creditor for unspent Supply (prior year)	23	-	13,931
			-
Balance carried forward		**(4,249,489)**	**(3,608,968)**

Signed: ______________________________ Accounting Officer

Date: ______________________________

SUPERANNUATION AND OTHER ALLOWANCES RESOURCE ACCOUNT

Cash Flow Statement
For the year ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Net Cash Outflow from Operating Activities (note A)		(17,714)	(8,912)
Payments of amounts due to the Consolidated Fund		(14,003)	(4,088)
Financing (note B)		31,717	13,000
Increase/(Decrease) In Cash During Period		**(0)**	**0**
Note A: Reconciliation of Net Outgoings to Operating Cash Flow			
Net Outgoings for the Year (Schedule 2)		(254,285)	(239,116)
Adjustments for movements in working capital other than cash	27	(63,994)	18,827
Adjustments for creditors falling due after more than one year	28	(82)	(191)
Increase in pension provision	26	371,000	344,000
Increase in pension provisions - enhancements and transfers in	26	75,989	4,796
Adjustments for non-cash items	26	-	3
Use of provisions - pension liability	25.1	(140,146)	(128,426)
Use of provisions - refunds and transfers	25.3	(3,318)	(5,890)
Use of provisions - Death in Service	25.1	(2,221)	(1,761)
Use of provisions - central funding arrangements	24	(657)	(1,154)
Net Cash Outflow from operating Activities		**(17,714)**	**(8,912)**
Note B: Analysis of Financing and Reconciliation to net Cash Requirements			
From Consolidated Fund (Supply): Current Year	23	28,000	13,000
From Consolidated Fund (Supply): Prior Year		3,717	-
Net Financing		31,717	13,000
(Increase)/decrease in cash		-	-
Net cash flows other than financing		**31,717**	**13,000**
Adjustment for payments and receipts not related to supply:			
Amounts due to the Consolidated Fund received in a prior year and paid over		(974)	(55)
Amount due to the Consolidated Fund - received and not paid over excess appropriations in aid relating to current year		267	974
Movement related to funding through interdepartmental balance	27	4,157	16,729
Net Cash Requirements (Schedule 1)		**35,167**	**30,648**

i. Amount of grant actually issued to support the net cash requirement = **£28,000,000. 00**

SUPERANNUATION AND OTHER ALLOWANCES
RESOURCE ACCOUNT

NOTES TO THE SCHEME STATEMENT

Accounts for the year ended 31 March 2005

1. **Basis of preparation of the scheme statement**

1.1. The combined scheme statements have been prepared in accordance with the relevant provisions of NIRAM for 2004-05 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. 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, together with the Superannuation (Northern Ireland) Order 1972.

1.2 The scheme statement summarises the transactions of the Principal Civil Service Pension Scheme where the Department of Finance and Personnel acts as a Principal. 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 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.

2. **Accounting Policies for the Principal Civil Service Pension Scheme**

2.1 **Contributions Receivable**

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

2.1.2 There are no employers' special pension and compensation contributions.

2.1.3 Employees' pension contributions which include amounts paid in respect of the purchase of added years, but which exclude Additional Voluntary Contributions, are accounted for on an accruals basis. The associated increase in the scheme liability is recognised as expenditure.

2.2 **Transfers in and out**

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

2.3 **Other Income**

Other income such as superannuation lump sums is accounted for on an accruals basis. Overpayments recovered, other than by deduction from future benefits, are accounted for on a cash basis.

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 3½% real (ie 6% including inflation).

2.5 **Past Service Cost**

The past service cost is the increase in the present value of the scheme liabilities related to employee service in the prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

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 3½% real, (ie 6% including inflation).

2.7 **Other payments**

Other payments are accounted for on an accruals basis.

2.8 **Scheme liability**

2.8.1 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 3½% real (ie 6% after inflation).

2.8.2 Full actuarial valuations by a professionally 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.

2.9 Pension and compensation benefits payable

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

2.10 Pension payments to those retiring at their normal retirement age

2.10.1 Where a member retiring 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 on an accruals basis.

2.10.2 Where a retiring member of the pension scheme has a choice over the allocation of benefits between the value of the lump sum and the annual pension, the transaction is accounted for on a cash basis

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

2.11.1 Where a member of the pension scheme 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.

2.11.2 Injury benefits

Injury benefits are accounted for on an accruals basis. The recurring element is a charge on the pension provision. The non recurring element is a charge to the operating costs statement, neither are charged on to other Departments.

2.11.3 Lump sums payable on death in service

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

2.12 Actuarial gains/losses

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

2.13 **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.

2.14 **Prior Year Reporting**

Prior Year figures have been re-analysed in line with 2004-2005 NIRAM requirements in schedules 3 & 4 and notes 10, 19, 21 and 25.1

3. Accounting Policies for Compensation Scheme

3.1 Central Funding for Compensation Payments

Some employers receive central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support will continue until the former employees reach normal retirement age (normally age 60). At that stage, compensation payments will be replaced by pension payments payable under the rules of the Principal Civil Service Pension Scheme (Northern Ireland).

The liabilities for central funding are recognised in the Balance Sheet (Schedule 3) as a provision.

Compensation benefits payable are accounted for on an accruals basis.

3.2 Prefunding of Compensation Payments/Deferred Income

Under arrangements, which were discounted with effect from 1 April 2000, some employers were able to make cash payments to pre-fund compensation payments payable to their former employees in the forthcoming years. These amounts, which were subsequently surrendered to the Consolidated Fund, have been allocated for use in each financial year up to and including 2006-07.

Amounts received from employing Departments to reduce or extinguish their liabilities in respect of compensation payments are accounted for on an accruals basis.

Amounts relating to future periods are deferred and released to the Revenue Account (Schedule 2) over the relevant periods.

4. Pension Contributions Receivable

	2004-05 £000	2003-04 £000
Employers	99,031	92,305
Employees: Normal	13,044	11,614
Purchase of added years	750	718
	112,825	**104,637**

5. Pension Transfers In (see also note 9)

	2004-05 £000	2003-04 £000
Group transfers in from other schemes	71,848	0
Individual transfers in from other schemes	3,391	4,078
	75,239	**4,078**

6. Other Pension Income

	2004-05 £000	2003-04 £000
Amounts receivable in respect of Transfer In Interest charge	4,600	0
	4,600	**0**

7. Pension Cost

		2004-05 £000	2003-04 £000
Pension cost	Note		
Current Service Cost	25.1	150,000	140,000
		150,000	**140,000**

The current service cost was provided by GAD and includes a £2m provision for Injury Benefits Liability.

8. Enhancements (see also note 25.1)

	2004-05 £000	2003-04 £000
Employees:		
Purchase of added years	750	718
	750	**718**

9. Transfers In (see also note 5)

	2004-05 £000	2003-04 £000
Group transfers in from other schemes	71,848	0
Individual transfers in from other schemes	3,391	4,078
	75,239	**4,078**

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. Injury Benefits

	2004-05 £000	2003-04 £000
Injury Benefits payable	264	0
Less: recoverable from employers	0	0
	264	**0**

11. Other Expenditure

	2004-05 £000	2003-04 £000
Contribution Equivalent Premium Payments	0	53
	0	**53**

Contribution equivalent payments of £40k in 2004/05 are refunds in respect of members leaving service and as such form part of note 25.3.

12. Interest Charge (see also note 25.1)

	2004-05 £000	2003-04 £000
Interest charge for the year	221,000	204,000
	221,000	**204,000**

The interest charge is calculated by assuming that the scheme's liabilities grow at a rate of 6% per year and that the scheme earns interest at the rate of 6% on its cash flows.

13. Compensation Contributions Receivable

	2004-05 £000	2003-04 £000
Employers contribution receivable in the year	3,427	5,516
Prefunding from employers utilised in the year	192	364
Accruing Resources	**3,619**	**5,880**
Receipts surrenderable to Consolidated Fund	267	
Schedule 2 Contributions receivable	**3,886**	**5,880**

14. Compensation Benefits Payable

	2004-05 £000	2003-04 £000
Annual compensation payments	3,490	3,902
Lump sum payments	92	960
	3,582	**4,862**

15. Reconciliation of Net Outgoings for the year and Net Resource Outturn

	Note	2004-05 £000	2003-04 £000
Net Outgoings (Schedule 2)		(254,285)	(239,116)
Add: Income not appropriated in aid payable to the Consolidated Fund	22	(931)	(4,452)
Add: Prior year adjustment		0	(353,385)
Net Resource Outturn (Schedule 1)		**(255,216)**	**(596,953)**

16. Administration fees and expenses

All costs of administering the NI Superannuation Scheme are borne by the Department of Finance and Personnel.

17. Additional Voluntary Contributions

The NI Superannuation scheme provides for employees to make additional voluntary contributions (AVC's) 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 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 Schemes. The Managers of the NI Superannuation Scheme are responsible only for the payments made to approved providers. Members participating in this arrangement each receive an annual statement made up to 31 March from the approved provider confirming the amounts held to the account and the movements in the year.

During the year **£1,368,000** was paid to the approved providers. The aggregate amounts of AVC investments are as follows:

Movements in the year were as follows:	**2004-05 £000**	**2003-04 £000**
The Equitable Life Assurance Policy		
Balance as at 6 April	1,830	1,759
New Investments	102	106
Transfer Values		-
Internal transfers from other policies		-
Life Assurance Premium	(37)	(38)
Retirement Benefits	(85)	(145)
Leavers (transfers and withdrawals)	(607)	(26)
Internal transfers to other policies		-
Payment for death and refunds		-
Contributions received by not yet used to purchase benefit		-
Changes in market Value of Investments	99	174
Balance as at 5 April	**1,302**	**1,830**

	2004-05 £000	**2003-04 £000**
Scottish Widows		
Balance as at 5 April	4,175	3,735
Contributions received	780	426
Benefits Settled	(542)	(167)
Changes in Market Value of Investments	229	395
Balance as at 6 April	**4,642**	**4,389**

Scottish Widows have confirmed that in the years prior to 2004/05, the system for collating the yearly figures was not as accurate as it might have been. In addition a data cleansing exercise was recently undertaken. This in part meant that those records that had additional premiums in error were corrected, those policies had been settled but as yet to be removed from the record, were removed. These factors combined have therefore led to the erroneous 2003-04 closing figure. Scottish Widows have confirmed the opening balance quoted in the 2004/2005 figures is correct.

	2004-05 £000	**2003-04 £000**
Standard Life		
Balance as at 06 April	581	336
Contributions received	486	134
Changes in Market Value	66	111
Value of Fund at 31 March	**1,133**	**581**
Sales of Investments to Provide Benefits	(73)	0
Surrender Value Adjustment (notional)	(14)	(30)
Net Asset Value as at 5 April	**1,046**	**551**

Standard Life have confirmed that the difference between the closing balance in 2003/2004 and the opening balance in 2004/2005 relates solely to the surrender value adjustment. This charge is notional and only applies if all contributions were redeemed. This is added back to the opening balance of the following year.

18. Contingent Liabilities

AVCs

In the unlikely event of a default by one of the approved AVC providers, DFP will guarantee pension payments. This guarantee does not apply to members who make payments to institutions offering FSAVCs.

19. Debtors

	2004-05 £000	2003-04 £000
Pension Contributions Due from Employers	9,771	8,327
Employees' normal contributions	1,068	910
Contributions for employees' added years	65	60
Overpaid Pensions	133	74
Amount due from Consolidated Fund	189	3,717
Other Debtors - Group Transfers in	76,000	9,336
Other Debtors	0	4
	87,226	**22,428**

Included within these figures is £664,414 (2003-04 **£13,030,188**) that would be due to the Consolidated Fund once the debts are collected.

Bulk Transfer
Legislation was in place from March 2004, for the bulk transfer in of Police Service of Northern Ireland (PSNI) civilian staff to the Principal Civil Service Pension Scheme. The transfer valuation exercise has not yet been completed. A valuation at 1st April 2004 has been estimated at £71.4m by GAD. The liability has therefore been reflected as a transfer in 2004-05 Resource Accounts. It is estimated a further £6.5 million will be due when the valuation exercise is completed, this will include £2.7m ASLCs already paid over and deferred in 2004-05 Resource Accounts.

20. Deferred Income

Prefunded Contributions from Employing Departments

Employing Departments were able to use current year underspends on running costs to reduce or extinguish existing liabilities in respect of future payment of benefits arising from the early retirement of their employees. To the extent that such underspends are not utilised to offset liabilities relating to the current year, the balance of the prefunding is shown as deferred income in the Balance Sheet and is carried forward to be released to the Revenue account over an agreed period. Movements in the balance of the deferred income are shown below:

	2004-05 £000	2003-04 £000
Balance at 1 April	279	643
Less: utlised in the current year	(192)	(364)
Balance at 31 March	**87**	**279**
To be used in next 12 months	82	192
To be used in more than 12 months	5	87

21. Creditors: Amounts payable within 12 months for pensions

	2004-05 £000	2003-04 £000
Pensions	582	419
Injury benefits		
Deferred Income: Prefunded contributions from employing Departments (see note 20)	82	192
Inter Departmental Balance	6,900	2,743
Group transfer pre-payment	2,741	2,741
Other Creditors	564	441
	10,869	**6,536**
Excess Accruing Resources & Consolidated Fund Extra Receipts	931	14,003
	11,800	**20,539**

22. Creditors: Amounts payable within 12 months for CFERS and excess Accruing Resources

	Note	2004-05 £000	2003-04 £000
Pension Scheme			
Accruing Resources realised RFR A Departmental Expenditure (Schedule 2)		192,664	108,715
Less: accruing Resources authorised RFR A Departmental Expenditure (Schedule 1)		(192,000)	(105,000)
Excess Appropriations in Aid *		**664**	**3,715**
Compensation Scheme			
Accruing Resources realised (Schedule 2)	13	3,619	5,880
Less: accruing Resources authorised (Schedule 1)		(4,053)	(5,143)
Excess Appropriations in Aid		**0**	**737**
Consolidated Fund Extra Receipts		**267**	**0**
Income not appropriated in aid, payable to the Consolidated Fund	15	**931**	**4,452**

* Excess Appropriations in aid relates to Pension Scheme only

23. Debtor – amounts falling due within one year: Undrawn Supply – see Schedule 1

	2004-05 £000	2003-04 £000
Net cash requirement restricted to Estimate (Schedule 1)	28,189	30,648
Parliamentary Funding		
Drawdown (Schedule 4)	(28,000)	(13,000)
Deemed supply (settlement of Prior year's Supply creditor)	-	(13,931)
Amounts due from (to) Consolidated Fund	**189**	**3,717**

24. Provisions for liabilities and charges – Central funding of early retirement benefits

Provision has been made to recognise that the compensation scheme has a liability to make payments to employers in respect of centrally funded elements of the compensation scheme. It is expected central funding will cease in the financial year 2006-07. The future liabilities are estimated at £.559m (2003–04 £1.21m).

	2004-05 £000	2003-04 £000
Balance at 1 April	1,216	2,370
Use of provision	(657)	(1,154)
	559	**1,216**

25. Provision for Pension Liability

The pension scheme is an unfunded defined pension benefit scheme. An interim actuarial valuation was carried out as at 31 March 2005 by the Government Actuaries Department. The major assumptions used by the Actuary were:

	At 31 March 2005	At 31 March 2004	At 31 March 2003
Real Investment yield in excess of annual earnings increases	2%	2%	2%
Real investment yield in excess of annual prices increases	3.5%	3.5%	3.5%
Gross yield earned on future investments	6.0%	8.5%	8.5%

The scheme managers 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 25.4 and 25.5. 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.

25.1 Analysis of movement in scheme liability

	Note	2004-05 £000	2003-04 £000
Scheme Liability at 1 April		**3,609,554**	**3,419,297**
Current Service cost	7	150,000	140,000
Interest in pension scheme liability	12	221,000	204,000
		371,000	344,000
Enhancements	8	750	718
Pension transfers in	9	75,239	4,078
		75,989	4,796
Benefits Paid	25.2	(140,146)	(128,426)
Pension payments to and on account of leavers	25.3	(3,318)	(5,890)
Death in service benefits	25.2	(2,221)	(1,761)
		(145,685)	(136,077)
Actuarial (gain) / loss	25.4	413,494	(22,462)
Scheme liability at 31 March		**4,324,351**	**3,609,554**

During the year ended 31 March 2005, contributions represented an average of 15.99% of pensionable pay. Revised contributions have been applied with effect from 1st April 2005. Death in Service benefits are separately disclosed in 2004-05 figures, but were not shown separately in this note in 2003-04.

25.2 Analysis of benefits paid

	2004-05 £000	2003-04 £000
Pensions or annuities to retired employees and dependents (net of recoveries of overpayments)	118,628	109,362
Commutations or lump sum benefits on retirement	19,649	17,471
Injury Benefits	1,869	1,761
Per Cash flow statement (schedule 4)	140,146	128,594
Death in service benefits	2,221	1,593
	142,367	**130,187**

25.3 Analysis of payments to and on account of leavers

	2004-05 £000	2003-04 £000
Refunds to members leaving service	564	413
Group transfers to other schemes	-	1,894
Individual transfers to other schemes	2,754	3,583
Per cash flow statement (schedule 4)	**3,318**	**5,890**

25.4 Analysis of Actuarial loss / (gain)

	2004-05 £000	2003-04 £000
Experience loss / (gain) arising on the scheme liabilities	168,494	(22,462)
Changes in assumptions underlying the present value of scheme liabilities	245,000	
Per Statement of Recognised Gains and Losses	**413,494**	**(22,462)**

25.5 History of Experience losses/(gains)

	2004-05 £000	2003-04 £000	2002-03 £000
Experience gains and losses on scheme liabilities			
Amount (£000)	168,494	22,000	(23,000)
Percentage of the present value of the scheme liabilities	3.9%	0.6%	0.7%
Total Actuarial loss/(gain):			
Amount (£000)	413,494	(22,462)	42,000
Percentage of the present value of the scheme liabilities	9.6%	0.6%	(1.2%)

26. Non-Cash Items

	Note	2004-05 £000	2003-04 £000
Non-cash items per Cash Flow Statement (Schedule 4)			3
Increase in pension provision	25.1	371,000	344,000
Increase in pension provisions - enhancements and inward transfers	25.1	75,989	4,796
Non-cash items per Schedule 1		**446,989**	**348,799**

27. Movements in Working Capital, other than cash (see Schedules 1 and 4)

	2004-05 £000	2003-04 £000
Movement in debtors	(64,798)	10,353
Adjustment for Consolidated Fund supply debtor	(3,528)	3,717
Movement in creditors due within one year (Note 21)	(8,740)	(8,809)
Adjustment for Consolidated Fund supply creditor	-	13,931
Income payable to the Consolidated Fund	13,072	(365)
Movement in Working Capital for Schedule 4	**(63,994)**	**18,827**
Adjustment for interdepartmental bank	(4,157)	(16,729)
Adjustment for excess Accruing Resources debtors	(12,365)	(554)
Movement in Working Capital recognised in Schedule 1	**(80,516)**	**1,544**

28. Movement in Creditors falling due after more than one year

	Note	2004-05 £000	2003-04 £000
Decrease in long term Creditors - pre-funding	20	(82)	(191)
		(82)	**(191)**

29. Intra-Government Balances

In 2004-05 all receipts and expenditure for both the Department of Finance and Personnel and the PCSPS(NI) were processed through a shared bank account.

The balance on this bank account, which reflects the transactions of both parliamentary votes, is disclosed in the Department of Finance and Personnel's Resource Account. A corresponding inter-departmental balance on both the Department of Finance and Personnel's resource account and the PCSPS (NI) Resource Account reflects the amounts outstanding at the year end as a result of this arrangement.

	Debtors: Amounts falling due within one year	Debtors: Amounts falling due after more than one year	Creditors: Amounts falling due within one year	Creditors: Amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	86,949		11,231	5
Balances with Public corporations and trading funds				
Balances with bodies external to government	277		569	
At 31 March 2005	**87,226**	**0**	**11,800**	**5**
Balances with central government bodies	22,354		20,120	87
Balances with Public corporations and trading funds				
Balances with bodies external to government	74		419	
At 31 March 2004	**22,428**	**0**	**20,539**	**87**

30. Cash at Bank and in hand

	2004-05 £000	2003-04 £000
Balance at 01 April	0	0
The balance at 31 March comprises		
Inter Departmental Balance (Note 21)	6,900	2,743
Consolidated Fund Extra Receipts Received and due to be paid to the Consolidated Fund	267	974
Amounts due from the NICF for undrawn supply	(189)	(3,717)
Cash spent in excess of Parliamentary Authority	(6,978)	-
Balance at 31 March	0	0

31. **Related-Party Transactions**

The Pension Scheme and the Compensation Scheme fall within the ambit of the Department of Finance and Personnel, which is regarded as a related party. During the year, the Schemes have had material transactions with the Department and other departments, executive Agencies and trading funds 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.

32. **Financial Instruments**

FRS 13 *Derivatives and Other Financial Instruments* requires disclosure of the role that 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 Principal Civil Service 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 FRS 13 mainly applies.

Liquidity risk

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

Interest Rate risk

All of the Principal Civil Service 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.

33. **Losses**

Total losses were less than **£100k** for 04-05. In accordance with DAO(DFP) 13/95, no further disclosure is required.

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

EXCESS VOTE

Department of Finance and Personnel Superannuation and Other Allowances

Resource Account 2004-05

Purpose of Report
1. In 2004-05, the Department of Finance and Personnel Superannuation and Other Allowances resource account reflects that it expended more cash than Parliament had authorised. By so doing, the Department breached Parliament's control of expenditure and incurred what is termed an "excess" for which further parliamentary authority is required. I have qualified my opinion on the Department of Finance and Personnel Superannuation and Other Allowances 2004-05 resource account in this regard. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard to the breach of regularity
2. As part of my audit of the Department of Finance and Personnel Superannuation and Other Allowances' financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities that govern them; that is, they are "regular". In doing so, I have had regard to Parliamentary authority and in particular the Supply limits Parliament has set on expenditure.

3. By incurring expenditure that is unauthorised and is thus not regular, the Department has breached Parliament's controls.

Background to the Excess

4. Parliament authorises and sets limits on departmental expenditure on two bases – ‘resources’ and ‘cash’. Such amounts are set out in Supply Estimates for which Parliament’s approval and authority is given in annual Budget Orders.

5. By this means, Parliament has authorised a single ‘Net Cash Requirement’ for the Department of Finance and Personnel Superannuation Scheme. This is the limit on the amount of cash that can be used. The Department of Finance and Personnel Superannuation Scheme’s Net Cash Requirement, for the Superannuation account covers all of its Requests for Resources plus working capital requirements.

6. The Net Cash Requirement also represents the maximum amount of cash that may be provided to the Department of Finance and Personnel Superannuation Scheme from the Consolidated Fund. It is net of the amount of cash that the Department receives relating to income that Parliament has authorised as Accruing Resources. Parliament sets separate limits on the amount of Accruing Resources that can be applied towards meeting current expenditure.

Limits

7. The limits described above for the Department of Finance and Personnel Superannuation Scheme were set out in the Northern Ireland Main Supply Estimate for 2004-05, as amended by the Northern Ireland Spring Supplementary Estimates. The limit on the Net Cash Requirement was set at £28,189,000. This limit was authorised in the Budget (Northern Ireland) Order 2004, the Budget (Northern Ireland) (No.2) Order 2004 and the Budget (Northern Ireland) Order 2005. The breach reported below is against this limit.

Breach of limit on Net Cash Requirement

8. Schedule 1 to the Department of Finance and Personnel Superannuation and Other Allowances 2004-05 resource accounts shows that the Net Cash Requirement was £35,167,347.96 which is £6,978,347.96 (24.76%) in excess of the amount authorised. This was funded by the Department’s shared Bank Account. It is proposed to ask Parliament to authorise an additional grant of Supply from the Consolidated Fund of £6,978,347.96 by an Excess Vote.

Details and Causes

9. As explained by the Department in the footnote to Schedule 1 (page 20) of the resource accounts, the Excess arose due to a miscalculation of the amount of increase in working capital included in the Estimate (£8.516million). This is partially offset by under-expenditure in the pension scheme (£2.158 million) and insignificant other variances (£0.6million).

I asked the Department how the miscalculation in the Estimate had arisen. The Department told me that in preparing the estimates, it failed to exclude monies due to the Consolidated Fund on collection and Consolidated Fund Supply debtors from the calculation of the movement in debtors;

The Committee of Public Accounts reported on 7 February 2005 in the report entitled 'Excess Votes (Northern Ireland) 2003-04' (HC 311) that it expected "all Pension Schemes in Northern Ireland which are subject to resource budgeting to review their estimates procedures to make sure they are not vulnerable to the deficiencies which gave rise to [the excess arising in the Teachers' Pension Scheme 2003-04 resource account]." As a result, the Committee expressed its expectation that all Northern Ireland departments have robust procedures in place to estimate and monitor their use of cash and resources.

I asked the Department to explain what it has done to meet the Committee's expectation that Northern Ireland pension schemes should review their estimates procedures to avoid excesses. The Department has informed me that it has reviewed its pension scheme estimates' procedures in light of the requirement to produce a Superannuation and Other Allowances resource account which complies with Financial Reporting Standard 17. This has included the development of processes and procedures, incorporating the use of Government Actuaries Department to provide specialist and professional advice in forecasting pension scheme running costs and liabilities, to help inform the estimates process. In addition steps have been taken to improve knowledge and understanding of the technical budgetary and accounting issues in respect of preparing estimates and accounts for the Principal Civil Service Pension Scheme (Northern Ireland). The Department is continuing to review and strengthen internal systems to support the estimates and accounts production process and in particular finance staff have updated their technical knowledge and now have a greater understanding of the issues unique to the calculation of movements in working capital.

Actions taken by the Department to help prevent a recurrence

10. The Department told me that, it has taken steps to minimise the risk of such an excess recurring. Steps taken include:

- improved knowledge and understanding within Finance staff of the technical budgetary and accounting issues in respect of the Superannuation and Other Allowances Resource Account including greater interaction between staff working in these areas;

- a review of procedures for monitoring Pension Scheme cash receipts and cash expenditure;

- a review to take place of the existing policy to use a shared bank account for the Pension Scheme transactions.

Summary and conclusions

11. In forming my opinion on the Department of Finance and Personnel Superannuation and Other Allowances 2004-05 financial statements, I am required to confirm whether, in all material respects, the expenditure and income of the Department of Finance and Personnel Superannuation and Other allowances have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. On the basis of my findings at paragraphs 1 to 10 above, I concluded that cash net expenditure of £35,167,347.96 was in excess of the amount authorised by Parliament and that it was therefore irregular. My audit opinion has been qualified in this respect.

JM Dowdall

JM Dowdall CB
Comptroller and Auditor General
26th October 2005

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