NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme Resource Accounts 2009-2010

HC 300

Price: £9.75

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(For the year ended 31 March 2010)

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

Ordered by the House of Commons to be printed 22 July 2010

HC 300 LONDON: The Stationery Office Price: £9.75

ISBN: 978 0 10 296848 4

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002379800 07/10 4543 19585

Printed on paper containing 75% recycled fibre content minimum.

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REPORT OF THE MANAGER

The NHS Pension Scheme provides pensions in varying circumstances for employees of participating employers. 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.

NHS BUSINESS SERVICES AUTHORITY

From 1 April 2006, the NHS Business Services Authority (the Authority) has been the body responsible for the administration of the NHS Pension Scheme for England and Wales.

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 and 2008, as amended
The NHS (Compensation for premature retirement) Regulations 2002 Consolidated
The Pensions (Increase) Act 1971
NHS AVC Regulations
NHS Gratuitous Expectations Regulations

Following the consultation on the NHS Pensions Review in 2006 the Authority worked alongside NHS Employers and Trade Unions leading to the final agreement on changes to the NHS Pension Scheme which were announced on 21 September 2007. On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. Most members of the Pension Scheme prior to 1 April 2008 will be in the 1995 Section. New joiners on, or after, 1 April 2008 will be members of the 2008 section. The changes introduced new rules for NHS employees joining from 1 April 2008 and modified the rules for those already in the pension scheme prior to this date. (Further details of these changes can be found on the NHS Pensions website www.pensions.nhsbsa.nhs.uk).

During the financial year 2009-10, the Authority undertook the day-to-day administration of the Scheme, including calculation of benefits, maintenance of member records and payment of benefits.

In support of the Authority, NHS employers are required to comply with Scheme Regulations and explain the Scheme to their employees. In addition they submit pension data to the NHS Business Services Authority (NHSBSA), and a significant number of employers calculate pensions benefit estimates for their employees.

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.

As at 31 March 2010 there were 432 participating NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8258 participating GP Practice employers and 403 Direction Bodies.

NHS PENSION SCHEME BENEFITS

Contributions

Employers and employees pay contributions based on a percentage of pensionable pay. Every four years the Government Actuary conducts a full actuarial review and recommends employer contribution rates in his Valuation report. Contribution rates payable during 2009-10 were determined in his Valuation report as undertaken as at 31 March 2004.

Following this review, and after consideration of changes to the NHS Pension Scheme taking effect from 1 April 2008, his Valuation report recommended that employer contributions could continue at the existing rate of 14% of pensionable pay from 1 April 2008. This followed the introduction of employee contributions on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

Benefits

In 2009-10 the NHS Pension Scheme provided defined benefits, which are summarised below. 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:

Annual Pensions

The Scheme is a “final salary” scheme. On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. Most members of the Pension Scheme prior to 1 April 2008 will be in the 1995 Section. New joiners on, or after, 1 April 2008 will be members of the 2008 section.
Members in the 1995 Section receive a pension worth 1/80th of the best of the last three year's pensionable pay for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.4% of total pensionable earnings over the relevant pensionable service.

Members in the 2008 Section receive a pension worth 1/60th of the average of the best three consecutive years pensionable pay in the last ten; for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.87% of 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. Members in the 1995 Section receive a lump sum which is normally three times the annual pension payment. Members in the 2008 Section receive a lump sum which may be a maximum of 25% of the value of their fund at retirement.

Ill-Health Retirement

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

Death Benefits

For members who die in service a lump sum is payable of twice annual pensionable pay, or average uprated earnings for practitioners. For members who die after retirement an amount is payable which is the lesser of 5 times annual pension less pension already paid, or twice reckonable pay less any retirement lump sum taken. Other death benefits are also payable for members who have a deferred pension.

Additional Voluntary Contributions (AVCs)

Members can contribute to money purchase AVC's run by the Scheme's approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers. These contributions are not contained within the cash flows of the Scheme, but paid directly to the approved provider.

Added Years and Additional Pension purchase

Members may purchase additional service (added years) in the NHS Scheme by paying an agreed percentage of salary over an agreed length of time, this option ceased to be available on 31st March 2008. It was replaced on 1st April 2008 by the option to purchase extra annual pension amounts.

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.

A REVIEW OF THE YEAR

Part-time staff access to the NHS Pension Scheme

During the year, the NHSBSA has made further progress in clearing cases affected 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. By the end of 2009-10 less than 20 individual cases remained, with almost 12,000 cases being processed. A small number of new cases continue to be brought to the attention of the NHSBSA each year but these are reducing year on year.

Where it is found that an NHS employee has been denied access to the pension scheme, 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.

Interest on late payment of pension scheme benefits

From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, this regulation was not initially implemented in full and interest was only paid on request by the member.

A review of all qualifying cases commenced in 2006-07, and during 2009-10 the Scheme continued to make interest payments to those members who experienced delays in receiving benefits following a change of circumstances notified after their retirement. This involved the payment of £14.4 million to 18,700 members.

The bulk of the known cases have now been paid, but investigations are still continuing in relation to cases processed between 1 April 2000 and 31 December 2002. These investigations will be completed and any payments due made during 2010– 11.

Change in the NHS Pension Scheme discount rate

In June 2006 HMT decided that the discount rate for pension schemes should be based on the AA corporate bond rate. Consequently, the discount rate has been changed with effect from 31 March 2010 from a real rate of 3.20% to a real rate of 1.80% (the gross discount rate, which combines the real discount rate with the inflation assumption, changed from 6.04% to 4.60% per annum). As a result the pension scheme liability as at 31 March 2010 increased by £71.7 billion (Note 20.5 to the Scheme accounts that follow this report refers).

The rates used to assess the movement of the Scheme liability in 2009-10 are the rates determined to come into effect overnight on 31 March 2010. Details of the rates used since 2005 can be found in note 20.1.3 of the Scheme accounts.

National Fraud Initiative

On a biennial basis, the NHS Pension Scheme takes part in the National Fraud Initiative, which commenced in 1998 and is co-ordinated by the Audit Commission. 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 the exercises conducted since 1998 (For the purposes of this report NFI1998, NFI2000, and NFI2002 have been consolidated), and lists the outstanding amounts, which are still being actively pursued.

	Total Identified £000	Total Cases	Prior Years		2008-09		2009-10		Amount Outstanding at 31.03.2010 £000
			Recovered £000	Written off £000	Recovered £000	Written off £000	Recovered £000	Written off £000	
NFI 98 -02	3,092	981	2,105	830	12	2	13	7	121
NFI 2004	694	231	282	180	40	31	29	32	101
NFI 2006	1,549	493	321	4	662	87	134	97	244
NFI 2008	760	207	-	-	-	-	421	5	333
Total	6,095	1,912	2,708	1,014	714	119	597	140	801

Pension Increase

The annual pension increase applied for payments after 9 April 2009 was 5.0% (2008-09: 3.9%). 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.

In-house money purchase AVC provision

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

Scheme Funding and Liabilities

As at 31 March 2010 the liabilities of the pension scheme were valued at £287.6 billion (31 March 2009 £199.5 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 2009-10 this net deficiency was £12.5 billion (2008-09 £13.4 billion) and is detailed in the Combined Revenue Account of the following scheme accounts.

Accounting Officer's disclosure to the Auditors

As far as the Accounting Officer is aware, there is no relevant audit information of which the NHS Pension Scheme auditors are unaware and the Accounting Officer has taken all steps he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

FUTURE DEVELOPMENTS

NHS Pension Scheme Review – NHS Pensions Choice

On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. Most members of the Pension Scheme prior to 1 April 2008 will be in the 1995 Section, new joiners on, or after, 1 April 2008 will be members of the 2008 section. Review Partners (NHS Employers, NHS Trade Unions and the Department of Health) agreed that all contributing members of the 1995 Section on or after 1 October 2009 should be offered a choice to move to the 2008 Section or remain in the 1995 Section.

During 2009-10 communication products together with supporting systems and processes were designed and created in order to enable members to make their choice. Following a successful pilot with selected employing authorities NHS Business Services Authority commenced distribution of Choice Packs in accordance with the agreed rollout schedule in January 2010. Within the next two years all eligible members will receive a Choice Pack containing information about their pension benefits in the 1995 Section and what those benefits would be worth in the 2008 Section should they decide to move. The pack also contains an explanatory booklet and DVD which is intended to highlight the differences between the two sections and provide the member with useful information to inform their Choice.

ADMINISTRATION EXPENSES

In 2009-10 the costs of administering the NHS Pension Scheme were met by NHS Business Services Authority (NHSBSA), which was in turn funded by the Department of Health. The annual accounts of the NHSBSA can be found at www.nhsbsa.nhs.uk.

MEMBERSHIP STATISTICS

Details of the current membership of the Scheme at 31 March 2010 are set out below:

Active Members

Active members at 1 April 2009	1,380,874
New entrants in the year (including deferred members who rejoin and transfers in)	107,409
Retirements in year	(29,307)
Transfers out	(3,844)
Members leaving the Scheme with deferred pension rights	(47,743)
Members leaving the Scheme and taking a refund of contributions	(34,836)
Deaths	(4,338)
Active members at 31 March 2010	**1,368,215**

Deferred members

Deferred members at 1 April 2009	475,956
Members leaving who have deferred pension rights, and members rejoining the Scheme	58,671
Members taking up deferred pension rights	(9,901)
Deferred members at 31 March 2010	**524,726**

Pensioners in payment (including Compensation payments)

	Members	Dependants	Total
Pensioners in payment at 1 April 2009			610,248
Members retiring	39,208		39,208
New Dependants		5,823	5,823
Cessations in year	(12,933)	(3,736)	(16,669)
Pensioners in payment at 31 March 2010			**638,610**

Nick Scholte
Chief Executive, NHS Business Services Authority
12 July 2010

MANAGEMENT STRUCTURE AND ADVISERS

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NHS PENSION SCHEME
REPORT OF THE ACTUARY FOR THE ACCOUNTING YEAR ENDED 31 MARCH 2010 for the purposes of IAS19 (Resource Accounting)

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

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the NHS Business Services Authority (NHSBSA). It summarises the pensions disclosures required for the 2009-10 Resource Accounts of the NHS Pension Scheme (NHSPS).

2. The statement is based on an assessment of the liabilities as at 31 March 2008, with an approximate updating to 31 March 2010 to reflect known changes.

Membership data

3. Tables A to C summarise the principal membership data as at 31 March 2008 and 31 March 2010 used to prepare this statement.

Table A – Active members

31 March 2008			2007-08	2009-10
Number (thousands)	Total salaries in membership data (pa) (£ billion)	Total accrued pensions (£ billion)	Total salaries implied by contribution receipts (£ billion)	Total salaries implied by contribution receipts (£ billion)
1,259	34.40	6.28	33.45	38.05

Table B – Deferred members

31 March 2008		31 March 2010
Number (thousands)	Total deferred pension (pa) (£ billion)	Number (thousands)
459	1.05	525

Table C – Pensions in payment

31 March 2008		31 March 2010
Number (thousands)	Total pension (pa) (£ billion)	Total pension (pa) (£ billion)
584	3.76	4.64

Methodology

4. The present value of the liabilities has been determined using the Projected Unit Method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2009-10 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2010 was determined using the Projected Unit Method and the principal financial assumptions applying to the 2008-09 Resource Accounts.

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

Principal financial assumptions

6. The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2010, the assumed rate of return in excess of prices was decreased from 3.2% a year to 1.8% a year, and the assumed rate of return in excess of earnings was decreased from 1.7% a year to 0.3% a year. In addition, with effect from 31 March 2010, the assumed rate of future price inflation is 2.75% a year and the assumed nominal rate of salary growth is 4.29% a year (both the same as at 31 March 2009).

Table D – Principal financial assumptions

Assumption	31 March 2010	31 March 2009
Rate of return (discount rate)	4.60%	6.04%
Rate of return in excess of:		
Earnings increases	0.3%	1.7%
Pension increases	1.8%	3.2%
Expected return on assets:	n/a	n/a

7. The Government has recently announced that it intends to adopt the Consumer Price Index (CPI), rather the Retail Prices Index (RPI), for the indexation of public service pensions from April 2011. No changes have been made to this assessment as a result of the announcement.

Demographic assumptions

8. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

9. The demographic assumptions (other than the mortality assumptions and rates of ill health retirement) adopted for the assessment of the liabilities as at 31 March 2010 are those adopted for the 2004 funding valuation of the NHSPS. The ill health retirement rates adopted for the assessment of the liabilities as at 31 March 2010 are half of those adopted for the actuarial funding valuation of the NHSPS as at 31 March 2004.

10. The standard mortality tables known as PMA92 (male) and PFA92 (female) are used but with the mortality rates applicable for one year of age younger than members' actual age. Mortality improvements from the 1992 base year up to 2006 are in line with the

improvement basis in the published tables. Improvements from 2006 to 2008 are in line with observed UK population improvements. Improvements from 2008 onwards are in accordance with those incorporated in the 2008-based principal population projections for the United Kingdom.

11. The contribution rate used to determine the accruing cost in 2009-10 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2008-09 Resource Accounts.

Liabilities

12. Table E summarises the assessed value as at 31 March 2010 of benefits accrued under the scheme prior to 31 March 2010 based on the data, methodology and assumptions described in paragraphs 3 to 11. The corresponding figures as at 31 March 2009 are also included in the table.

Table E – Past service liabilities

Liability in respect of	31 March 2010 £ billion	31 March 2009 £ billion
Pensions in payment	81.7	63.1
Deferred members	28.8	20.3
Active members	177.1	116.1
Total liabilities	**287.6**	**199.5**

Accruing costs

13. The cost of benefits accruing in the year ended 31 March 2010 (the Current Service Cost) is based on a standard contribution rate of 21.9%, as determined at the start of the year. Members contributed between 5.0% and 8.5% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 6.5%. The corresponding figures for 2008-09 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	2009-10	2008-09
Standard contribution rate	21.9%	26.3%
Members' estimated average contribution rate	6.5%	6.5%
Employers' estimated share of standard contribution rate	15.4%	19.8%

14. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 14.0%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of price increases, which was 3.2% pa for the 2009-10 Current Service Cost (2.5% pa for 2008-09) compared with 3.5% pa for scheme funding. The higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury and is expected to stay the same for an extended period, so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

15. The pensionable payroll for the financial year 2009-10 was £38.05 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2009-10 (at 21.9% of pay) is assessed to be £8.3 billion.

Disclosures

16. Tables G to K show the balance sheet and the profit and loss disclosures as at 31 March 2010.

Table G – Balance sheet disclosures

	31 March 2010 £ billion	31 March 2009 £ billion
Total market value of assets	nil	Nil
Assessed value of liabilities	287.6	199.5
Deficit	(287.6)	(199.5)
of which recoverable by employers	n/a	n/a

Table H – Analysis of amount charged to operating profit

	Year ending 31 March 2010 £ thousand	Year ending 31 March 2009 £ thousand
Current service cost	(8,300,000)	(9,400,000)
Past service cost	-	-
Total operating charge	**(8,300,000)**	**(9,400,000)**

Table I – Analysis of amount credited to other finance income

	Year ending 31 March 2010 £ thousand	Year ending 31 March 2009 £ thousand
Expected return on scheme assets	-	-
Interest on pension liabilities	(12,100,000)	(11,400,000)
Net return	**(12,100,000)**	**(11,400,000)**

Table J – Analysis of amount recognised in Statement of Recognised Gains and Losses

	Year ending 31 March 2010 £ thousand	Year ending 31 March 2009 £ thousand
Actual return less expected return on scheme assets	-	-
Experience gains and losses arising on pension liabilities	(2,159,855)	(850,445)
Changes in mortality assumptions	(1,700,000)	-
Changes in demographic assumptions (other than mortality)	2,100,000	-
Changes to financial assumptions	(71,700,000)	29,400,000
Actuarial gain/(loss) recognised in Statement of Recognised Gains and Losses	**(73,459,855)**	**28,549,555**

Table K – Movement in surplus during the year

	Year ending 31 March 2010 £ thousand	Year ending 31 March 2009 £ thousand
Deficit at start of year	(199,500,000)	(212,500,000)
Current service cost	(8,300,000)	(9,400,000)
Past service cost	-	-
Enhancements (transfers in, added years, added pensions, early retirement)	(530,231)	(374,985)
Benefits paid during the year	6,290,086	5,625,430
Other finance income	(12,100,000)	(11,400,000)
Actuarial gain/(loss)	(73,459,855)	28,549,555
Deficit at end of year	**(287,600,000)**	**(199,500,000)**

Sue Vivian FIA
Government Actuary's Department **6 July 2010**

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

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 give 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 the financial statements, the Accounting Officer is required to comply with the requirements of the *Financial Reporting Manual* (FREM) and in particular to:

- Observe the Accounts Direction issued by HM Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the FREM have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

The Department of Health has appointed Nick Scholte, Chief Executive of the NHS Business Services Authority as Accounting Officer for the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in *Managing Public Money* published by HM Treasury.

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 organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities set out in HM Treasury's Managing Public Money and as assigned to me in the Accounting Officers Memorandum.

The NHSBSA manages a range of business activities on behalf of the Department of Health (DH), including the operation of the NHS Pension Scheme (the Scheme). Accountability arrangements with the Department of Health comprise an overall Senior Departmental Sponsor, with individual sponsors providing policy direction for each service, including NHS Pensions. A clear ongoing accountability framework is in place, which includes formal quarterly reviews with all sponsors, where strategic, policy and operational issues are considered. Additionally, regular scheduled meetings are held with individual service sponsors.

Whilst the NHSBSA is responsible for administering the overall Scheme, the Scheme Regulations set out the obligations of each employer. This includes ensuring that deductions from salary, employers contributions and payments into the Scheme are in accordance with scheme rules, and that member pension scheme records are accurately updated in accordance with the timescales detailed in the regulations. The Accounting Officer of each Employing Authority is required to include a positive statement to this effect in their Statement on Internal Control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives,
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the NHS Business Services Authority for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The NHSBSA is committed to ensuring that risk management is an integral part of the leadership and management of the organisation. The Board has overall responsibility for approving the Authority's Risk Management Strategy and assurance relating to the implementation and monitoring of this strategy is provided by the Audit and Risk Management Committee. As Accounting Officer, I have overall responsibility for establishing the organisation's internal controls and I have delegated certain risk management responsibilities to other Directors and their senior managers.

We have established a team with responsibility for coordinating the risk management activities within each business stream, including NHS Pensions, and supporting all staff with the effective identification and management of risks.

The Authority aims to empower all staff to assume responsibility for contributing to effective risk management. This is achieved by robust governance systems and processes which enable the identification, assessment, analysis and management of risk at appropriate levels for all operational and project related risks. During 2009/10 we have continued to make significant progress in developing our capability to manage risk. We have reviewed and refreshed our risk management processes to ensure a consolidated and common methodology is in place and that appropriate training is provided. We are also developing a measured approach to reviewing and agreeing our risk appetite.

The risk and control framework

Responsibility for approving the Authority's policy and procedures for the management of risk rests with the Board and as Accounting Officer, responsibility for ensuring the NHSBSA has a programme of risk management in place, including those risks relating to NHS Pensions, has been delegated to me.

The Audit and Risk Management Committee provide the Authority's Board with an independent and objective review of the adequacy and effectiveness of the Authority's overall assurance framework and in particular the organisation's risk management approach. The Committee has responsibility for reviewing:

- All risk and control related disclosure statement including the annual Head of Internal Audit statement and external audit opinion.
- The underlying assurance process that governs the management of principal risks and the achievement of corporate objectives.
- The appropriateness of policies and procedures for ensuring compliance with law, guidance and codes of conduct, and their effectiveness.
- Policies and procedures related to the detection and prevention of fraud and corruption.

The Committee meets these responsibilities by receiving regular reports on a range of audit and assurance topics and in particular through the receipt and review of:

- Quarterly risk management reports setting out and assessing the major risk facing the organisation, stratified into strategic external risks; business plan risks; operational risks and project risks. Such reports set out the key movements in risks between reporting periods and identify emerging risks and the mitigating actions which have been taken or are planned to mitigate them.
- A half yearly corporate assurance schedule which sets out the key elements of the Authority's overarching assurance framework and identifies the extent to which robust arrangements are in place and operating effectively in each area.
- An annual risk management report outlining how the Authority's risk management arrangements have continued to operate effectively during the year and how they have been reviewed and strengthened.

Supporting the role of the Board and the Audit and Risk Management Committee, the NHSBSA's risk and control framework also includes the following elements:

- Regular quarterly reviews of the Corporate Risk Register by my Executive Directors and I, as a precursor to the Audit and Risk Management Committee Review.
- The maintenance and quarterly review of Divisional Risk Registers by each Business Division covering their operational and project risks.
- A Risk Management Group led by the Director of Finance with representation from all of the NHSBSA's business divisions, which reviews risk issues and provides a platform for shared learning and a harmonised approach.
- Annual letters of divisional management representation from each Managing Director providing confirmation that an appropriate control environment has been in place throughout the financial year for their area, thus informing this Statement on Internal Control.
- Regular reviews of all information risks by an Information Governance and Security Group (IGSG) which monitors the Authority's compliance with information governance and security

best practice and self assessing against a nationally developed toolkit.

- Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with.
- As an employer with staff entitled to membership of the NHS Pension scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

As set out above, the Authority has strong governance arrangements to manage and minimise the risks it faces. However, like any organisation, there remain a number of major risks facing the NHSBSA. In particular, the Authority faces key risks regarding external factors which impact upon the organisation. The current pressures on public expenditure is likely to have a significant impact upon our funding in future years and may subsequently impact upon our ability to deliver all of our services in the way we do now. As an organisation we have identified a risk that, due to the complexity of our activities, we may be insufficiently agile to respond to changes in policy where these are required at short notice. We are looking to mitigate this risk through a programme of client relationship management training, regular engagement with stakeholders and organisational and service redesign.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The head of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the risk based internal audit work. For 2009/10 the Head of Internal Audit Opinion concluded that based on the work completed to date significant assurance can be given that there is a generally sound system of internal control designed to meet the organisation's objectives and that controls are generally being applied consistently. Some control issues were brought to the attention of management. The significant areas are outlined below.

Executive Directors and Managing Directors within the organisation who have responsibility for the development and maintenance of the system of internal control within their service area provide me with assurance via annual letters of management representation assurance which confirm that internal controls have remained in place during the year; financial information for their service is to the best of their knowledge correct and there is no material information of which they are aware that I have not also been made aware of.

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:

- The work of the Audit and Risk Management Committee which informs the Board about the outcome of its activities through submission of its minutes and its annual report to the Board.
- The findings of both the National Audit Office and our internal audit reviews. The Audit and Risk Management Committee oversees progress towards the implementation of all such recommendations.
- The work of our Local Counter Fraud Specialist to prevent, deter, investigate and report on fraud activity.

A plan to address weaknesses and ensure continuous improvement of the assurance system is in place and the Audit and Risk Management Committee will continue to monitor improvements in the overall corporate assurance framework.

Significant Internal Control Issues

During the year the Authority has continued to address those internal control issues identified in the previous year. Progress has been as follows:

Completeness of Membership data

In January 2010 the Business Services Authority commissioned the Government Actuary's Department (GAD) to undertake an actuarial assessment of the Scheme liability as at 31 March 2008.

The information provided to the Actuary to enable them to conduct their valuation is based upon an extract of the scheme membership database. The extract of data used by the Government Actuary's Department included 87% of all member data. This data fulfilled the required parameters for use within the assessment and represents a significant increase over the percentage used in previous years. To extrapolate this to 100%, uprating factors were applied to the data. The use of uprating factors per se does not introduce material uncertainty to the valuation result, provided that the rating up factors for each group are valid and the membership profile of the membership that is excluded from the data extract is similar to the profile of the membership that the Actuary receives.

The Authority has no reason to believe that the data for members excluded from the valuation exercise is not similar in terms of age/sex/salary/past service distribution than for those included.

Whilst recognising that the NHSBSA is reliant upon Employing Authorities to comply with scheme rules with regard to updating member records, every effort is being made to ensure that a framework is in place to facilitate this and that aspects which are within the control of the Scheme Manager are appropriately addressed.

As a pre-cursor to the "Choice" exercise in order to improve the quality of member data provided by employers and the records held by the Authority, a Data Governance Project has been initiated which incorporates the data cleanse work undertaken previously. The impact of this is evidenced by the increase in completeness of all member data again during 2009/10.

The aims of the strategy are to:

- Cleanse existing errors that are critical to business operations and customer service.
- Prevent new errors wherever possible from being accepted – moving responsibility for clean data to the supplier (Employing Authority's) and the customer (member).
- Educate staff and raise awareness and interest in Data Quality via the Data Quality Forum, intranet and other means.
- Put in place robust governance, including data standards, to ensure that accuracy is maintained, and increases, following completion of the project.
- Review each member record to ensure that all data are complete and a benefit calculation can be performed.

The Data Governance Project aims to achieve a substantial increase in the number of complete member records included within the valuation data and has to date successfully cleansed over 4.7m data items within the member records.

In addition to this, a further programme of work has been agreed for 2010/11 to develop a revised valuation extract specification and to provide the technical architecture to allow the NHSBSA to streamline the valuation process.

Erroneous implementation of Regulation T8 within the Pensions regulations

From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, this regulation was not initially implemented in full and interest was only paid on request by the member.

A review of all qualifying cases commenced in 2006-07, and during 2009-10 the Scheme continued to make interest payments to those members who experienced delays in receiving benefits following a change of circumstances notified after their retirement. This involved the payment of £14.4 million to 18,700 members.

The bulk of the known cases have now been paid, but investigations are still continuing in relation to cases processed between 1 April 2000 and 31 December 2002. These investigations will be completed and any payments due made during 2010 – 2011.

Conclusion

With the exception of the internal control issues that I have outlined in this statement, my review confirms that the NHSBSA has a generally sound system of internal control that supports the achievement of its policies, aims and objectives and that those control issues are being addressed.

Nick Scholte
Chief Executive
NHS Business Services Authority

12 July 2010

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

I certify that I have audited the financial statements of NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Revenue Account, the Statement of Financial Position, the Statement of Recognised Gains and Losses, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme, and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, 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.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2010, and the net cash requirement, net resource outturn, combined net outgoings, recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Emphasis of Matter: Scheme Liabilities

In forming my opinion on the financial statements, which is not qualified, I have considered the valuation of the Scheme's long term liabilities. As described in note 20.1 to the accounts, the valuation of these liabilities requires the actuary to make assumptions to obtain a reliable estimate of the liability for those members whose records have not been updated. The data used to calculate the total liability was based on the 87% of member records that were up to date, which is lower than that of other major public sector pension schemes. As a result the actuarial valuation of the liabilities contains a greater degree of uncertainty than would normally be expected in schemes of this nature. Further details of this matter are set out in my report on pages 24-26.

Opinion on other matters

In my opinion, the information given in the Report of the Managers for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

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

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury’s guidance.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157 - 197 Buckingham Palace Road
Victoria
London SWIW 9SP
16 July 2010

Report of the Comptroller and Auditor General on the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme Resource Accounts 2009-10

Executive Summary

My report for 2008-09 and previous reports on the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme's resource accounts have detailed long standing uncertainties remaining after taking account of the Scheme manager's arrangements for validating the assumptions on which the valuation of the Scheme's future pension liabilities are based. I did not qualify my opinion in this respect but drew your attention to this matter.

This report details the ongoing actions taken by the NHS Business Services Authority ("the Authority"), as the Scheme managers, to reduce these uncertainties. During the 2009-10 financial year the Authority has continued to respond positively to previous reports and to address the concerns over the completeness and accuracy of data on which the valuation of the Scheme's future pension liabilities are based. Whilst further improvements have been made to the percentage of members whose records are up-to-date (from 81% for 2008 - 09 to 87% for 2009 – 10), I continue to draw your attention to this matter.

Valuation of the Scheme's Long Term Liability

Introduction

1. The NHS Pension Scheme is an unfunded occupational scheme supported by the Exchequer and is 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 2010 the employing organisations of members of the NHS Pension Scheme comprised 432 NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,258 GP practices and 403 Direction Bodies (non-NHS employers meeting specific criteria) in England and Wales.

3. The Scheme managers collect employer and employee contributions and use these to fund payments to existing pensioners with the excess receipts being paid into the Consolidated Fund. The Combined Revenue Account shows that 2009-10 contribution income totalled £8 billion. Payment of pensions are shown as a movement on the Scheme liability provision in note 20.2 to the accounts and totalled £6 billion in 2009-10 leaving £2 billion to be paid over to the Consolidated Fund.

4. In accordance with the Treasury guidance the Scheme's long term liabilities to pay pensions are valued by the Scheme Actuary in accordance with International Accounting Standards (IAS) 19 – *Employee Benefits* and 26 *Accounting and Reporting by Retirement Benefit Plans*. The Combined Statement of Financial Position of the Resource Account shows a liability of £287.6 billion at 31 March 2010 compared to £199.5 billion at 31 March 2009. At 31 March 2008 the liability stood at £212.5 billion.

5. The main element of the increase in the liability from 31 March 2009 to 31 March 2010 is £70.7 billion of actuarial adjustments resulting from a change in the discount rate, which is set by HM Treasury. This underlines the sensitivity of the liability valuation to changes in the underlying assumptions.

6. Positive action has been taken by management to address the issues raised in my 2008-09 report. I provide full details of these issues and their resolution in the remainder of my report.

Valuation of the Scheme's long term liability

7. The scheme is required to comply with the provisions of International Accounting Standards (IAS) 19 – *Employee Benefits* and 26 -*Accounting and Reporting by Retirement Benefit Plans*. These require that the financial statements reflect the actuarially calculated liabilities arising from an employer's retirement benefit obligations. The NHS Pension Scheme, like other similar public sector schemes, is

unfunded and the cash required to meet the payment of pensions is met from employer and employee contributions with any shortfall financed by the Exchequer.

8. The Accounting Standards require a full actuarial valuation of scheme liabilities every three years, although HM Treasury require such a valuation only every four years to fit in with the Government spending review cycle. In addition to this liability valuation, the rules and regulations of the NHS Scheme require a funding valuation every four years in order to determine the contributions members and employers should make to the Scheme.

9. The liability valuation must reflect the best estimate of the present value of the amounts that will actually be paid out taking into account all expected changes in factors affecting the payments. In between full valuations HM Treasury, in line with Accounting Standards, require annual updates of the value of liabilities to reflect current conditions. The valuation in the Resource Account is based on the most recent full liability valuation using membership data as at 31 March 2008, with the results rolled forward to 31 March 2010.

10. The scheme liability must be calculated by an actuary and reflect expected future benefit payments arising in respect of both current and deferred pensioners and currently active members of the scheme. The actuarial assumptions used in determining the cash flows arising from these future scheme obligations are fundamental to the valuation. Assumptions are required for numerous factors including salary growth rates and mortality rates. Changing the assumptions will generally have a material impact on the results of the valuation.

Concerns over the accuracy of membership data

11. While all pension schemes have significant uncertainties over future liabilities, the NHS Scheme has a larger number of uncertainties due to the size and complexity of membership. This increases the importance of having up to date membership data. For the valuation for the financial statements 2009-10, 87 percent of member records had been updated, i.e. were suitable for a pensions estimate to be completed using information up to 31 March 2008. Within this overall total there are some membership groups where the updating is lower. Whilst this percentage has improved compared to the 2008-09 financial statements, the percentage remains lower than for the other major public sector pension schemes.

12. In valuing the future pension liabilities of the Scheme the Government Actuary's Department apply uprating factors to obtain a reliable estimate of the liability in respect of that percentage of total members whose records have not been updated. As in previous years the Scheme managers believe that this deficiency does not materially affect the overall Scheme liability at 31 March 2010.

Ongoing Improvements in the accuracy of membership data

13. From 1 April 2008 new entrants to the Pension Scheme join a new section of the Scheme, with different rules. Those who are already members of the Scheme will be able to choose either to remain in the previous section or to join the new section. In order to help them make the decision, a 'Choice' exercise has been undertaken over the past two years. As part of the 'Choice' exercise, an ongoing data governance project has been put in place. This is focused on cleansing existing errors and preventing new errors being accepted by implementing a more robust governance framework around data acceptance and input. This is intended to reduce the need for extrapolation and rating up. As noted above, 87 percent of records were up to date as a result of these improvements when the actuarial valuation was carried out.

14. This additional work on the previously excluded data, carried out for the 'Choice' exercise, has provided more evidence to support the Scheme managers' assertion that the uprating method is appropriate in establishing an estimate of future pensions liabilities. Any misstatement as a result of applying uprating factors rather than basing the estimate on fully updated membership records is therefore unlikely to be material. I have therefore not qualified my opinion but draw this to your attention.

15. Under International Financial Reporting Standards, as modified by HM Treasury in the Financial Reporting Manual, a valuation has to be undertaken every 4 years. As the last valuation was at 31 March 2006, this meant that for the Statement of Financial Position at 31 March 2010, a new valuation was required. This was carried out at 31 March 2008. The improvement in the accuracy of data is, therefore, more significant than a simple move of 6 percent, as the date at which the data was taken is also more recent. This suggests that the efforts made by Scheme managers is having an ongoing impact in improving the percentage of records that are up to date.

Ongoing Work to Improve the Data Quality

16. Last year, as a result of my audit work, NHS Business Services Authority informed me that it had in place a comprehensive programme of actions to further reduce uncertainties related to the completeness of membership data, whilst recognising that it does not have control over employing organisations, as detailed in the Statement on Internal Control. These improvements have continued over the past year and include better checking of data received from employers, before it is entered on to the pensions system (Penserver) and identifying and chasing up employers who are persistently late in submitting data. This is in addition to the ongoing data cleansing carried out as part of the ‘Choice’ exercise.

17. However, the percentage of records that are up to date, whilst significantly improved from 81 percent to 87 percent, has not yet reached the levels of other major public sector pension schemes (over 90 percent). The Authority has told me that the main reason for the failure to reach the expected levels of accuracy remains the delays by employers in updating information, and inaccuracies in the data that the employers do supply.

18. The Authority has no sanctions to encourage Employers to make returns on time and to ensure that these returns are accurate. It can only seek to persuade. Notwithstanding this fact, the Authority informs me that it continues to make improvements to ensure that a framework is in place to facilitate timely and accurate returns from employers and that aspects which are within the control of the Scheme Manager are appropriately addressed.

19. The Data Governance Project aims to achieve a substantial increase in the number of complete member records included within the valuation data. Key to this is the data cleanse exercise. The Authority has informed me that, on 24 June 2010 the percentage of data records at 31 March 2008 that are up to date is 92 percent. They will need to ensure that a level of accuracy of over 90 percent is maintained in future years in order for me to provide an unmodified audit opinion.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157 - 197 Buckingham Palace Road
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London SWIW 9SP
16 July 2010

Statement of Parliamentary Supply
Summary of Resource Outturn 2009-10

		Estimate £000			Outturn £000			2009-10 £000 Outturn	2008-09 £000 Outturn
Request for Resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: Saving/ (excess)	Net Total
Pensions and associated payments		21,318,212	(8,466,318)	12,851,894	20,930,231	(8,406,059)	12,524,172	327,722	13,630,382
Total resources	4	**21,318,212**	**(8,466,318)**	**12,851,894**	**20,930,231**	**(8,406,059)**	**12,524,172**	**327,722**	**13,630,382**

Summary of net cash requirement 2009-10

				2009-10 £000	2009-10 £000
	Note	Estimate	Outturn	Net Total outturn compared with Estimate: Saving/(excess)	Outturn
Net cash requirement	5	**1**	**0**	**1**	**0**

Summary of income payable to the Consolidated Fund

Expenditure for which resources are sought within the estimate are resource based and relate to increases to the Pension Scheme liability. Details of cash based expenditure can be found in notes 20.3 and 20.4, and are accounted for as a release of Pension Scheme liability. Surplus cash is surrendered to the Consolidated Fund as cash income exceeds the cash benefits the Scheme currently pays out.

		2009-10 Forecast £000		2009-10 Outturn £000	
	Note	Income	Receipts	Income	Receipts
Excess cash receipts surrendered to the Consolidated Fund collected in 2009-10			1,900,000	2,116,244	2,050,957
Total	6a	**-**	**1,900,000**	**2,116,244**	**2,050,957**

Explanation of the variation between estimate and outturn.

Income – Total variance was £60 million (0.7% of income budget)

i. Contributions – The amount was less than forecast by £30 million (0.4% of contributions budget).

ii. Transfers In – The amount was less than forecast by £27 million (13.6% of transfer in budget). There is no specific data available to inform the forecast budget for transfers in.

iii. Premature Retirements Prefunded by the employer – The amount was more than forecast by £0.5 million (0.5% of prefunded premature retirement budget).

iv. Premature Retirements Recharged to the employer – The amount was less than forecast by £3 million (5.5% of recharged premature retirement budget).

Expenditure – Total variance was £388 million (1.8% of expenditure budget)

i. Interest – The amount was more than forecast by £1,376 million (12.8% of interest budget). The majority of interest is charged on the opening liability, which is an estimate in itself at the time of the submission of the Scheme Estimate. HMT advise what the rate should be annually but an incorrect interest rate was used within the calculations of the estimate of interest budget. The interest rate used resulted in a compensating over estimate of current service cost – see ii below.

ii. Pension cost – Current Service Cost. The amount was less than forecast by £1,724 million (17.2% of current service cost budget). The majority of the variance is attributable to the use of a higher percentage than that used by GAD.

iii. Enhancements (added years and additional pensions) – The amount was less than forecast by £13 million (5% of enhancements budget).

iv. Transfers In – There is a direct one for one relationship with the corresponding income stream detailed under point ii of the income variance explanations.

Combined Revenue Account
for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Income			
Contributions receivable	8	(8,066,021)	(7,554,091)
Transfers in	9	(172,795)	(101,230)
Other pension income	10	(167,243)	(123,919)
		(8,406,059)	**(7,779,240)**
Expenditure			
Pension Cost	11	8,300,000	9,400,000
Enhancements	12	357,436	273,755
Transfers in	13	172,795	101,230
Interest on Scheme liabilities	14	12,100,000	11,400,000
		20,930,231	**21,174,985**
Net expenditure		**12,524,172**	**13,395,745**

Statement of Recognised gains and losses for the financial year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	17	87,775	46,822
Actuarial (gain) / loss	20.5	73,459,855	(28,549,555)
Total recognised gains and losses for the financial year		**73,547,630**	**(28,502,733)**

The notes on pages 32 to 48 form part of these accounts.

**Combined Statement of Financial Position
as at 31 March 2010**

	Note	2010 £000	2009 £000	2008 £000
Current Assets:				
Receivables	16a	591,325	526,958	391,849
Cash and cash equivalents	18	781,703	694,827	813,091
		1,373,028	1,221,785	1,204,940
Payables (within 12 months)	19a	(1,373,028)	(1,221,785)	(1,204,940)
Net current assets, excluding pension liability		-	-	-
Estimated discounted future cash flows in respect of early retirement recharges	17	752,556	840,331	887,153
		752,556	**840,331**	**887,153**
Provisions for liabilities and charges:				
Pension Scheme Liability	20.2	(287,600,000)	(199,500,000)	(212,500,000)
Total net liabilities, including pension liabilities		(286,847,444)	(198,659,669)	(211,612,847)
Taxpayers' equity:				
General fund	21	(286,847,444)	(198,659,669)	(211,612,847)
		(286,847,444)	(198,659,669)	(211,612,847)

**Nick Scholte
Chief Executive, NHS Business Services Authority
12 July 2010**

The notes on pages 32 to 48 form part of these accounts.

Combined Statement of Cash Flows
for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Cash flows from operating activities			
Combined net expenditure for the year		(12,524,172)	(13,395,745)
Non supply – amounts paid to the Consolidated Fund	6b	271	67
Adjustments for non-cash transactions:			
(Increase)/Decrease in receivables	16a	(64,367)	(135,109)
Increase/(Decrease) in payables	19a	(920)	(73,628)
Increase in pension provision	20.2	20,400,000	20,800,000
Increase in pension provision – enhancements and transfers in	20.2	530,231	374,985
Use of provisions – pension liability	20.3	(6,068,499)	(5,447,902)
Use of provisions – refunds and transfers	20.4	(221,587)	(177,528)
Net cash flows from operating activities		**2,050,957**	**1,945,140**
Net increase/(decrease) in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund		**2,050,957**	**1,945,140**
Payments of amounts to the Consolidated Fund	6b	(1,964,081)	(2,063,404)
Net increase/(decrease) in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund		**86,876**	**(118,264)**
Cash and cash equivalents at the beginning of the period	18	**694,827**	**813,091**
Cash and cash equivalents at the end of the period	18	**781,703**	**694,827**

The notes on pages 32 to 48 form part of these accounts.

Notes to the Scheme Statements for the year ended 31 March 2010

Accounting Policies

1. Basis of Preparation of scheme statements

1.1 The combined scheme financial statements have been prepared in accordance with the relevant provisions of the 2009-10 *Financial Reporting Manual* (FReM) issued by HM Treasury, which reflect the requirements of IAS 19 Employee Benefits and IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. These accounts show the unfunded pension liability and movements in that liability during the year. These accounts also have regard to the recommendations of the Statement of Recommended Practice entitled *Financial Reports of Pension Schemes* to the extent that these are appropriate.

Following a high level review of accounting standards that have been issued but are not yet effective and have not been adopted, we do not anticipate any future material impact on the scheme accounts.

1.2 In addition to the primary statements prepared under International Financial Reporting Standards, the FReM also requires the scheme to prepare an additional statement – a Statement of Parliamentary Supply. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.3 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 Statement of Financial Position shows the deficit on the scheme; the Revenue account shows, amongst other things, 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.

1.4 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).

1.5 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.

2. Statement of accounting policies for the NHS Pension Scheme

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

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

2.1 *Accounting convention*

These accounts have been prepared under the historical cost convention.

2.2 *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 an accruals 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 or additional pension entitlement 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.

2.3 *Transfers in and out*

Transfers in are normally accounted for 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.

Amounts receivable in respect of inward transfers are accounted for under income, but also expenditure as they increase the pension scheme liability to the same extent. The increase is reflected in the Revenue account as expenditure as part of the movements in the provision during the year.

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 3.2% (2008-09: 2.50%) real (i.e. 6.04% including inflation [2008-09: 5.32%]). These assumptions are used to calculate the in year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability as detailed in note 2.6.

2.5 *Past service cost*

Past service costs are increases/decreases 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, change, 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 3.2% (2008-09: 2.50%) real (i.e. 6.04% including inflation [2008-09: 5.32%]).

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 1.8% (2008-09: 3.20%) real (i.e. 4.60% including inflation [2008-09: 6.04%]).

For the purposes of IAS26 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. The most recent review took place in 2009-10 based on data as at 31 March 2008.

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 a cash 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.

3. Accounting policies for the NHS Compensation for Premature Retirement Scheme

3.1 Compensation payments or the costs of service enhancements 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 (this method is referred to as "quarterly recharging").

3.1.1 The Secretary of State may alternatively allow employers to make a cash payment, as either a lump sum or in five annual instalments, to the NHS Pension Scheme in order to discharge their liabilities to the Scheme and to fund compensation payments payable to their former employees in the forthcoming years (this is referred to as "pre-funding").

3.1.2 Except where stated otherwise below, the accounting policies outlined at Note 2 above apply.

Accounting for pre-funded income in respect of rechargeable early retirement pension enhancements

3.2 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.

3.2.1 Any 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 note 2.2b). All amounts received are appropriated-in-aid of Scheme expenditure.

Accounting for pre-funded liabilities in respect of early retirement pension enhancements

3.2.2 In cases where a member's pension entitlement is enhanced to compensate for early retirement, the costs of such enhancements are recognised in the pension scheme liability at the point of the member's retirement.

Accounting for quarterly recharge income in respect of early retirement pension enhancements

3.3 Where the employer chooses to pay quarterly, income is recognised as invoices are raised.

3.3.1 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.

3.3.2 In recognition of the fact that significant future cashflows will arise from these arrangements, the estimated future cashflows which may accrue to the Scheme after the balance sheet date, discounted to current values, are disclosed on the balance sheet.

3.3.3 The above asset will be revalued on an annual basis and any net increases or decreases will be debited / credited to the General Fund, and disclosed within the Statement of Recognised Gains and Losses.

Accounting for quarterly recharge liabilities in respect of early retirement pension enhancements

3.3.4 In cases where a member's pension entitlement is enhanced to compensate for early retirement, the costs of such enhancements are recognised in the pension scheme liability at the point of the member's retirement.

3.4 None of the above accounting policies represents a departure from the Financial Reporting Manual (FReM).

4. Reconciliation of Estimates, accounts and budgets

4a Reconciliation of net resource outturn to combined net outgoings

			2009-10 £000	**2008-09 £000**
	Supply Estimate £000	**Outturn £000**	**Outturn compared with Estimate**	**Outturn**
Net Resource Outturn	12,851,894	12,524,172	327,722	13,630,382
Net Outgoings	12,851,894	12,524,172	327,722	13,630,382

5. Reconciliation of resources to net cash requirement

	Note	Supply Estimate £000	Outturn £000	Net total outturn compared with estimate: Savings/(excess) £000
Net Resource Outturn		12,851,894	12,524,172	327,722
Accruals adjustments				
Non-cash items		(21,318,212)	(20,930,231)	(387,981)
Change in Consolidated Fund Creditor		178,168	152,163	26,005
Use of pension provision		6,388,151	6,290,086	98,065
Excess cash receipts surrendered to the Consolidated Fund		1,900,000	1,963,810	(63,810)
Net cash requirement		**1**	**-**	**1**

6. Analysis of income payable and cash paid to the Consolidated Fund

6a. Analysis of income payable to the Consolidated Fund

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

	Note	Forecast 2009-10 £000 Income	Forecast 2009-10 £000 Receipts	Outturn 2009-10 £000 Income	Outturn 2009-10 £000 Receipts
Excess cash receipts to be surrendered to the Consolidated Fund collected in 2009-10		-	1,900,000	2,116,244	2,050,957
Total income payable to the Consolidated Fund		-	1,900,000	2,116,244	2,050,957

6b. Analysis of cash paid to the Consolidated Fund

	2009-10 £000	2008-09 £000
Payments of amounts due to the:		
Consolidated Fund – Realisation of prior year net debtors and creditors	283,983	75,246
Consolidated Fund – Surplus cash relating to current year Supply	985,000	1,175,000
Surplus cash surrendered to the:		
Consolidated Fund relating to the prior year	694,827	813,091
	1,963,810	**2,063,337**
Surplus cash surrendered to the:		
Consolidated Fund excess receipts not classified to be appropriated in aid relating to prior years, paid to the Consolidated Fund	271	67
	1,964,081	**2,063,404**

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

	2009-10	2008-09
	£000	£000
Operating income	(8,406,059)	(7,779,240)
Gross income	(8,406,059)	(7,779,240)
Income authorised to be appropriated-in-aid	8,406,059	7,544,603
Excess income not appropriated in aid	-	(234,637)

COMBINED REVENUE ACCOUNT

8. Pension Contributions receivable

	2009-10	2008-09
	£000	£000
Employers	(5,330,140)	(5,006,587)
Employees		
Normal	(2,489,008)	(2,347,504)
Purchase of Added Years	(246,873)	(200,000)
	(8,066,021)	**(7,554,091)**

9. Pension transfers in (see also note 13)

	2009-10	2008-09
	£000	£000
Individual transfers in from other schemes	(168,098)	(93,969)
Group transfers in from other schemes	(4,697)	(7,261)
	(172,795)	**(101,230)**

10. Other pension income

	2009-10	2008-09
	£000	£000
Pre funded premature retirement contributions	(110,563)	(73,755)
Re-chargeable premature retirement contributions	(56,680)	(50,164)
	(167,243)	**(123,919)**

11. Pension Cost

	2009-10	2008-09
	£000	£000
Current service cost	8,300,000	9,400,000
Past service cost	-	-
	8,300,000	**9,400,000**

12. Enhancements (see also notes 8 and 10)

	2009-10	2008-09
	£000	£000
Employees :		
Purchase of added years and additional pension	246,873	200,000
Employers :		
Pre-funded premature retirement contributions	110,563	73,755
	357,436	**273,755**

13. Pension transfers in (see also note 9)

	2009-10	2008-09
	£000	£000
Individual transfers in from other schemes	168,098	93,969
Group transfers in from other schemes	4,697	7,261
	172,795	**101,230**

14. Interest on Scheme liabilities

	2009-10	2008-09
	£000	£000
Interest charge for the year	12,100,000	11,400,000
	12,100,000	**11,400,000**

15. 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:

	2009-10 £000	2008-09 £000
The Equitable Life Assurance Society (ELAS)		
Movements in the year were as follows:		
Balance at 6 April	105,469	117,410
New investments	1,828	1,866
Sale of investments to provide pension benefits	(6,717)	(5,917)
Changes in market value of investments	14,435	(7,890)
	115,015	**105,469**
Contributions received to provide life cover	49	50
Benefits paid on death	-	-

	2009-10 £000	2008-09 £000
Standard Life Assurance Company		
Movements in the year were as follows:		
Balance at 6 April	87,278	105,526
New investments	4,766	5,304
Sale of investments to provide pension benefits	(4,772)	(4,698)
Changes in market value of investments	25,220	(18,854)
	112,492	**87,278**
Contributions received to provide life cover	1	1
Benefits paid on death	-	-

	2009-10 £000	2008-09 £000 (Re-stated)
Prudential Plc		
Movements in the year were as follows:		
Balance at 1 April	35,284	40,027
New investments	4,333	3,708
Sale of investments to provide pension benefits and switches to new funds	(3,485)	(2,782)
Changes in market value of investments	10,506	(5,669)
	46,638	**35,284**
Contributions received to provide life cover	7	13
Benefits paid on death	-	-

STATEMENT OF FINANCIAL POSITION

16a. Receivables – 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 month.

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. Where such amounts due have yet to be invoiced, these are disclosed separately in the table below.

Employees may also pay for the costs of enhanced early retirement benefits by quarterly recharge. Such contributions to the scheme are classified as other income. Where such charges have been invoiced but remain unpaid as at the year end, these are disclosed below.

Amounts falling due within one year:	**2009-10**	**2008-09**	**2007-08**
	£000	£000	£000
Pension contributions due from employers	380,954	336,632	252,682
Employee contributions			
Normal	178,309	158,459	108,619
Added Years / APS	17,049	15,151	10,389
Invoiced pre-funded premature retirement contributions	1,759	2,598	5,978
Invoiced re-chargeable premature retirement contributions	13,254	14,118	14,181
Total due within one year	**591,325**	**526,958**	**391,849**
Un-invoiced future instalments due from NHS employers	1,755	3,909	7,577

Included within these figures is £349,269,000 (2008-09: £283,983,000) that will be due to the Consolidated Fund once the debts are collected.

16b. Intra-Government Balances

	Amounts falling due within one year 2009-10 £000	Amounts falling due within one year 2008-09 £000	Amounts falling due after more than one year 2009-10 £000	Amounts falling due after more than one year 2008-09 £000
Balances with other central government bodies	113,092	77,151	-	-
Balances with local authorities	78	21	-	-
Balances with NHS Trusts	379,752	356,734	-	-
Balances with public corporations and trading funds	3,951	1,456	-	-
Balances with bodies external to government	94,452	91,596	-	-
At 31 March	**591,325**	**526,958**	-	-

17. Estimated discounted future cash flows in respect of early retirement recharges

Where the employer chooses to pay quarterly recharges, income is recognised as invoices are raised.

Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, is classified as “Other Income” to the pension scheme and is appropriated-in-aid.

In recognition of the fact that significant future cashflows will arise from these arrangements, the estimated future cashflows which may accrue to the Scheme after the Statement of Financial Position date, discounted to current values, are disclosed in the Statement of Financial Position.

	2009-10 £000	2008-09 £000	2007-08 £000
Balance at 1 April	840,331	887,153	816,406
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(87,775)	(46,822)	70,747
Balance at 31 March	**752,556**	**840,331**	**887,153**

18. Cash and cash equivalents

	2009-10 £000	2008-09 £000	2007-08 £000
Balance at 1 April	694,827	813,091	711,915
Net change in cash balances	86,876	(118,264)	101,176
Balance at 31 March	**781,703**	**694,827**	**813,091**
The following balances at 31 March were held at:			
Office of HM Paymaster General	776,782	691,061	807,841
Commercial banks and cash in hand	4,921	3,766	5,250
Balance at 31 March	**781,703**	**694,827**	**813,091**

19. Payables – in respect of pensions

19a. Analysis by type

		2009-10 £000	2008-09 £000	2007-08 £000
Amounts falling due within one year				
Pensions		(194,042)	(193,515)	(265,694)
HM Revenue & Customs		(47,741)	(48,936)	(44,471)
Voluntary deductions		(249)	(252)	(183)
Amounts due to Employers:	Initial Widows Claims	(12)	(17)	(163)
	Employee and employer contributions	(1)	(232)	(840)
	Prefunded premature retirements	(9)	(7)	(5224)
	Rechargeable premature retirements	(1)	(16)	(28)
		(242,055)	(242,975)	(316,603)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:				
Received		(781,703)	(694,827)	(813,091)
Receivable		(349,270)	(283,983)	(75,246)
		(1,130,973)	(978,810)	(888,337)
		(1,373,028)	**(1,221,785)**	**(1,204,940)**

19b. Intra-Government Balances

	Amounts falling due within one year 2009-10 £000	Amounts falling due within one year 2008-09 £000	Amounts falling due after more than one year 2009-10 £000	Amounts falling due after more than one year 2008-09 £000
Balances with other central government bodies	(1,178,714)	(1,027,803)	-	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	(2)	(207)	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	(194,312)	(193,775)	-	-
At 31 March	**(1,373,028)**	**(1,221,785)**	-	-

20. Provision for pension liability

20.1 Assumptions underpinning the provision for pension liability

20.1.1 The NHS Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the scheme liabilities as at 31 March 2010. The Report of the Actuary on pages 10 - 14 sets out the scope, methodology and results of the work the actuary has carried out.

20.1.2 The scheme managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the scheme managers should make available to the actuary in order to meet the expected requirements of the scheme auditor. This information includes, but is not limited to, details of:

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

The information provided to the Actuary to enable them to conduct their valuation is based upon an extract of the scheme membership database. The extract of data used was based upon 87% of all member data. Uprating factors have therefore been used to extrapolate to 100%. The use of uprating factors per se does not introduce additional material uncertainty to the valuation result, provided that the rating up factors for each group are valid and the membership profile of the membership that is excluded from the data extract is similar to the profile of membership that the Actuary receives. The Business Services Authority has no reason to believe that the data for members excluded from the valuation exercise is not similar in terms of age/sex/salary/past service distribution than those included. However, this has not been validated.

The membership data used was based on the position as at 31st March 2008, and the results rolled forward to 31st March 2010 to estimate the position in 2009-10.

20.1.3 The major assumptions used by the actuary were:

At 31 March	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Rate of increase in salaries (pa)	4.29%	4.29%	4.29%	4.29%	4.04%	4.04%
Inflation assumption (pa)	2.75%	2.75%	2.75%	2.75%	2.50%	2.50%
Life expectancy in years (note 1)						
Current pensioners						
Males (age 60)	29.1	28.6	28.5	25.0	24.9	23.9
Males (age 65)	23.9	23.5	23.4	20.4	20.3	19.3
Females (age 60)	32.3	31.8	31.7	28.0	27.9	26.9
Females (age 65)	27.1	26.7	26.6	23.4	23.3	22.3
Future pensioners						
Males (age 60)	30.6	30.2	30.1	27.0	27.0	26.0
Males (age 65)	26.0	25.6	25.5	22.3	22.2	21.2
Females (age 60)	33.8	33.3	33.2	30.0	29.9	28.9
Females (age 65)	29.1	28.6	28.6	25.2	25.1	24.2
Discount rate (pa)	4.60%	6.04%	5.32%	4.60%	5.37%	6.09%
Discount rate net of inflation (pa)	1.80%	3.20%	2.50%	1.80%	2.80%	3.50%

Note 1 – Stated life expectancy assumptions are for members retiring on grounds other than ill health. Assumed life expectancy of ill-health pensioners is lower.

20.1.4 These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. However, the scheme managers acknowledge that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

The assumption that has the biggest impact on the amount of the reported liability is the discount rate. As determined by HM Treasury, and as required by IAS19, the scheme managers use a high quality corporate bond rate to discount the liabilities (in practice a AA corporate bond rate is used). From 2005-06, the Government Actuary has calculated the rate annually on behalf of HM Treasury, who then advise the scheme managers of the rate for the year. The rates are set out in the above table. Any decrease in the rate leads to a significant increase in the reported liability.

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

Analysis of the provision for pension liability £billion

At 31 March	2010	2009	2008	2007	2006	2005
Active members (past service)	177.1	116.1	129.2	144.7	106.8	80.1
Deferred Pensions	28.8	20.3	22.5	18.6	13.7	10.6
Pensions in payment	81.7	63.1	60.8	54.7	44.9	37.2
Total liability	**287.6**	**199.5**	**212.5**	**218.0**	**165.4**	**127.9**

20.2 Analysis of movement in scheme liability

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Scheme liability at 1 April		**(199,500,000)**	**(212,500,000)**	**(218,000,000)**
Pension cost - Current service cost	11	(8,300,000)	(9,400,000)	(10,600,000)
Pension cost - Past service cost	11	-	-	3,850,000
Interest on scheme liability	14	(12,100,000)	(11,400,000)	(10,170,000)
		(20,400,000)	**(20,800,000)**	**(16,920,000)**
Enhancements	12	(357,436)	(273,755)	(389,538)
Pension transfers in	13	(172,795)	(101,230)	(110,462)
		(530,231)	**(374,985)**	**(500,000)**
Benefits payable	20.3	6,068,499	5,447,902	4,898,735
Pension payments to and on account of leavers	20.4	221,587	177,528	198,275
		6,290,086	**5,625,430**	**5,097,010**
Actuarial gain/(loss)	20.5	(73,459,855)	28,549,555	17,822,990
Scheme liability at 31 March		**(287,600,000)**	**(199,500,000)**	**(212,500,000)**

Within the closing Scheme liability it is estimated by the GAD that there is approximately £2 billion that relates to employer funded enhanced premature retirement costs.

During the year ended March 2010, contributions represented an average of 20.5% of pensionable pay.

Current Service Cost is defined as the present value of benefits accruing to active members over the year, with allowance for salary increases to the assumed date of retirement or exit, expressed as a level percentage of expected pensionable pay over the same period. The method can be expected to result in a stable current service cost at successive valuations as long as the profile by age, sex and salary of the active membership, as well as the benefits being valued, remain broadly unchanged at successive valuation dates. The current service cost would increase if, for example, the average age of employees rose. The current service cost used in 2009-10 was 21.9% (2008-09 26.3%).

20.3 Analysis of benefits paid

	2009-10 £000	2008-09 £000	2007-08 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	4,624,067	4,229,520	3,890,955
Commutations and lump sum benefits on retirement	1,444,432	1,218,382	1,007,780
Per cash flow statement	**6,068,499**	**5,447,902**	**4,898,735**

20.4 Analysis of payments to and on account of leavers

	2009-10 £000	2008-09 £000	2007-08 £000
Refunds to members leaving service	22,390	12,804	18,166
Group transfers to other schemes	762	26,459	1,479
Payment to State Scheme	10,296	20,889	3,626
Individual transfers to other schemes	188,139	117,376	175,004
Per cash flow statement	**221,587**	**177,528**	**198,275**

20.5 Analysis of actuarial losses

	2009-10 £000	2008-09 £000	2007-08 £000
Experience gains/(losses) arising on the scheme liabilities	(2,159,855)	(850,445)	252,990
Changes in assumptions underlying the present value of scheme liabilities – demographic assumptions	400,000	-	(12,450,000)
Changes in assumptions underlying the present value of scheme liabilities – change in discount rate	(71,700,000)	29,400,000	30,020,000
Per Statement of Recognised Gains and Losses	**(73,459,855)**	**28,549,555**	**17,822,990**

Scheme liabilities are calculated by reference to assumptions, which are set with regard to the actual experience of the scheme, taking account of known future changes. Actual scheme experience will usually be different; for example, rates of staff turnover, mortality and salary progression are unlikely to be exactly as assumed. The actuarial gain/loss shows the financial impact of actual experience being different to that assumed.

20.6 History of Experienced losses

	2009-10	2008-09	2007-08	2006-07	2005-06
	£000	£000	£000	£000	£000
Experience and losses on the scheme liabilities:					
Amount	(2,159,855)	(850,445)	252,990	808,209	-
Percentage of the present value of the scheme liabilities	0.75%	0.40%	0.12%	0.37%	-
Total amount recognised in Statement of Recognised Gains and (Losses)					
Amount	(73,459,855)	28,549,555	17,822,990	(39,791,791)	(3,968,315)
Percentage of the present value of the scheme liabilities	25.54%	13.47%	8.41%	18.25%	2.4%

21. General Fund

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

	Note	2009-10	2008-09	2007-08
		£000	£000	£000
Balance at 1 April		**(198,659,669)**	**(211,612,847)**	**(217,183,594)**
Net Parliamentary Funding		-	-	-
Net Transfer from Operating Activities				
Combined Net Outgoings		(12,524,172)	(13,395,745)	(10,174,416)
CFERS repayable to the Consolidated Fund	19a	(1,130,973)	(978,810)	(888,337)
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	17	(87,775)	(46,822)	70,747
Payment to the Consolidated Fund	6b	(985,000)	(1,175,000)	(1,260,237)
Actuarial gains and losses (SRGL)	20.5	(73,459,855)	28,549,555	17,822,990
Balance at 31 March		**(286,847,444)**	**(198,659,669)**	**(211,612,847)**

22. Financial Instruments

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

23. Contingent liabilities disclosed under IAS 37

Additional Voluntary Contributions

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 2010, which are disclosed at note 15. The scheme does not however guarantee pension payments from the other free-standing AVC providers.

24. Losses

During the year, losses arose in 9,525 cases as a result of overpaid pension scheme benefits (2008-09: 8,310 cases). The total loss was £594,212 (2008-09: £651,958). These figures include write-offs in respect of the cases highlighted in the review of the year, and all relate to claims abandoned.

25. 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 NHS Business Services Authority, which is regarded as a related party. During the year, the Schemes have had material transactions with NHS employers (including the NHS Business Services Authority which administers the Schemes on behalf of the Department of Health), 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.

26. Events after the Reporting Period

Accounts Authorisation

The National Health Service Pension Scheme and the National Health Service (Compensation for Premature Retirement) Scheme's financial statements are laid before the Houses of Parliament by HM Treasury. The financial statements were authorised for issue on 16 July 2010 by Nick Scholte (Accounting Officer).

Change in Indexation

It was announced in the Budget on Tuesday 22^{nd} June 2010 that the Government will adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the NHS Pension Scheme.

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ISBN 978-0-10-296848-4
9 780102 968484