Presented to the House of Commons pursuant to Government Resources and Accounts Act 2000 c20 S.6

Cabinet Office: Civil Superannuation

Resource Accounts 2007-08

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Cabinet Office: Civil Superannuation

Resource Accounts 2007-08

(For the year ended 31 March 2008)

being the accounts of the Principal Civil Service Pension Scheme, compensation agency arrangements and other minor agency and principal pension scheme arrangements

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Introduction

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, defined benefit, contributory, public service occupational pension scheme. The PCSPS covers four pension arrangements. The final salary arrangements of **premium**, **classic** and **classic plus**, have been explained in previous reports. New entrants joining the Civil Service from 30 July 2007 are offered membership of **nuvos**, a whole career pension with a pension age of 65. Membership of **nuvos** is voluntary. Money purchase pensions known as **partnership** are available as an alternative for employees joining on or after 1 October 2002. **Partnership** is delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

Roles and responsibilities

Employers

Cabinet Office as manager of the scheme (see below) has formally delegated responsibility for pensions administration to employers. Employers are responsible for:

- maintaining pay and service records;
- determining eligibility for the pension arrangements on recruitment;
- keeping their employees informed on pension issues;
- arranging with their Authorised Pension Administration Centre for the calculation of pension benefits for their employees;
- paying employers' and employees' pension contributions to the scheme.

Authorised Pension Administration Centres (APACs)

Employers use one of nine APACs to calculate pension awards on their behalf. All APACs use PenServer, pension administration software, to calculate the awards.

Capita Hartshead

APACs send awards to Capita Hartshead to pay benefits. Capita Hartshead is responsible for pensions administration for pensioners and deferred pensioners including paying pensions, maintaining accurate and secure records and maintaining a proper audit trail of all transactions, calculating and paying annual pensions increases, deducting and paying over tax to HMRC, operating a payroll bank account, producing financial and management reports, responding to pensioners' enquiries and taking action on death.

Civil Service Pensions Division (CSP), Cabinet Office

CSP manages the Scheme. It is responsible for:

- admission of employers to the PCSPS;
- development of policy and maintenance of scheme rules;
- maintenance and development of pensions administration software (PenServer);
- provision of advice, information and guidance to employers, APACs and scheme members;
- provision of second tier internal dispute resolution procedures;
- scheme finances, including production of annual resource accounts;
- management of the Capita Hartshead, pensioner payroll contract.

CSP also acts as agent for employers in the payment of compensation benefits arising under the Civil Service Compensation Scheme (CSCS). These benefits are calculated by APACs and paid by Capita but are subsequently recovered from employers. These flows are not brought to account in these financial statements.

The financial statements also include pensions and pensions increases payable under a number of other schemes, the majority of which are closed small schemes. Expenditure on all these schemes is less than one per cent of the total expenditure. This report makes no further reference to them. Money invested in the stakeholder pension option is not under the control of the Cabinet Office and is not shown in these statements although employer contributions will be reflected in individual departmental resource accounts.

The statements also include transactions and balances in respect of the Security Service and Secret Intelligence Service pension schemes, which are managed under separate arrangements.

The managers and advisers for the Civil Service schemes are listed below:

Managers

Accounting Officer:	Sir Gus O'Donnell KCB, Cabinet Office, 70 Whitehall, London, SW1A 2AS.
Scheme Manager:	Civil Service Pensions Division, Cabinet Office, 8th Floor, Grosvenor House, Basing View, Basingstoke, RG21 4HG.

Advisers

Scheme Actuary:	Hewitt Associates Ltd, Parkside House, Epsom, KT18 5BS.
Legal Advisers:	The Treasury Advisory Division, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ.
Medical Advisers:	Capita Health Services, Greyfriars, 10 Queen Victoria Road, Coventry, CV1 3PJ.
Money Purchase Scheme Advisors:	Hewitt Associates Financial Services Ltd, 6 More London Place, London, SE1 2DA.
Auditors:	Comptroller and Auditor General, 157-197 Buckingham Palace Road, London, SW1W 9SP.
Bankers:	Office of HM Paymaster General, Sutherland House, Russell Way, Crawley, RH10 1UH.

Legislative changes

Pension scheme rules were revised and updated during the course of the year to reflect policy and legislative changes. Amendment schemes were laid before Parliament on 26 July 2007, 22 October 2007 and 5 February 2008. Details of the changes can be found on the CSP website at www.civilservice-pensions.gov.uk.

Review of the Year

Reform of Civil Service pension arrangements

During the reporting year, the Cabinet Office implemented significant reforms to the Civil Service pension arrangements and these were described in a Written Ministerial Statement made by Gillian Merron MP on 26 July 2007. New entrants joining the Civil Service from 30 July 2007 are offered membership of **nuvos**, a whole career pension, whereby pension reflects earnings over the whole career, with a pension age of 65. The pension structure offered by **nuvos** is intended to provide a better fit for the working patterns seen in today's Civil Service. The increase in pension age to 65 reflects changes happening across the public services and is intended, over time, to reduce pension costs by £2.1bn (against the baseline of continuing with the current schemes and a pension age of 60).

Cabinet Office supported employers and administrators with the introduction of **nuvos** in a number of ways, including through the provision of seminars and web-based tools.

Existing staff continue in their current final salary schemes with a pension age of 60 but the reform programme has sought to modernise these by taking advantage of the increased flexibilities provided by the Finance Act 2004. These changes have included:

- increased flexibility at the time of retirement - staff now have an option to give up pension for a tax-free lump sum to the maximum permitted by the Finance Act 2004 (from October 2007)
- greater recognition of longer working lives – the service limits in the pension schemes have increased from 40 to 45 years (phased in from March 2008)
- facilitation of a gradual move from work to retirement – staff who reshape their job (so that their pay decreases by at least 20%) may draw all or part of their pension while they carry on working (introduced from March 2008)

In addition, members of all schemes now have the option to top-up their pension by purchasing amounts of "added pension" by monthly contributions or lump sum. This new feature is intended to be more flexible than the added years facility which it replaces.

The Cabinet Office continues to engage with the Council of Civil Service Unions (CCSU) in discussions on measures to enhance the scheme's sustainability and governance. In common with other public service schemes, and as announced previously, Cabinet Office expects to share responsibility for dealing with future cost pressures between employers and all employees. Cabinet Office also expects to limit the average employer contribution to a maximum of 20% of pay.

Appointment of Scheme Actuary

The contract for the Civil Service pensions Scheme Actuary was re-tendered during the year. Following publication of a notice in the Official Journal of the European Union, four providers were invited to tender. The tender bids were considered by a panel consisting of Cabinet Office officials and two independent actuarial advisers. The panel decided to re-appoint the existing provider, Hewitt Associates (formerly known as Hewitt Bacon & Woodrow).

Ill-health Retirement Review

The Scheme Medical Advisor reports on the number of applications for medical retirement they deal with each year. During 2007-08 they advised on 1,275 cases, supporting medical retirement in 511. This compares with 1,860 applications in 2006-07, of which 900 were supported.

Guaranteed Minimum Pension (GMP)

During the year administrative checks revealed an inconsistency in the calculation of some of the 569,000 pensions in payment. Around 20,000 pensions, based on service between 1978 and 1997, paid after state pension age, were affected. As at 31 March 2008 around 17,000 had been overpaid some £12 million and around 3,000 underpaid £189,000. Payment of these pensions continues at the incorrect rate but will be corrected from April 2009. Recovery of the overpayments will not be sought. Arrears will be paid in full.

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

CSP continues to exercise its duty of care towards members by monitoring the CSAVCS providers, working with the schemes' financial advisers, Hewitt Associates Financial Service Ltd (Hewitt).

As a result of advice received from Hewitt, CSP has closed a number of CSAVCS funds, including the Standard Life and Scottish Widows With-Profits funds. CSP wrote out to members on each occasion offering alternative investment options. The scheme has also restricted the number of funds available through the CSAVCS with Standard Life. Members were informed of the decision but given the opportunity to switch to alternate funds if they wished or to remain in their current funds. All funds continue to be monitored where there is member investment.

CSP is in the process of introducing web-based scheduling which is a more secure way for employers and their payrolls to transfer member contribution data to the money purchase providers. The majority of employers have already signed up to web-based scheduling and CSP expects all employers to adopt this method within the next few months.

Communications

CSP continues to lead the Pensions Communication Network of representatives from employing departments to deliver our up-dated pensions communication strategy to raise members' awareness and appreciation of their Civil Service pension provision. CSP held the first Pensions Conference for network representatives in April 2007 with a focus on the introduction of **nuvos** in July 2007. CSP developed a new range of communication materials for **nuvos** members. These included pension Starter Packs for new entrants as well as booklets and web pages.

CSP also kept current scheme members up to date on reforms to their pension schemes via office notices and newsletters. They produced new booklets and leaflets to explain added pension and partial retirement, and provided web calculators so that members could view the potential financial impact for them of taking advantage of these new scheme flexibilities.

Complaints under the Internal Dispute Resolution (IDR) Procedures

Members and beneficiaries of the Civil Service pension arrangements who have a complaint can raise this through the IDR procedure. At the first stage of the procedure the complaint is reviewed and a decision made by the administrator concerned (either the APAC or Capita). In the event of an appeal against the first stage decision the complainant can request that a further review be undertaken by CSP. Finally, members who remain dissatisfied after completing the IDR process can ask the Pensions Ombudsman to investigate their complaints. His decisions are binding on all parties, subject only to an appeal to the High Court on a point of law.

During the year the APACs and Capita completed 212 first stage decisions, upholding in full or part 28 of the complaints that they investigated. In the same period CSP completed 142 investigations at the second stage of the IDR process. In 107 cases CSP found in favour of the administrators. In the remaining 35 cases, CSP upheld in full or in part the complaints made by the scheme members and, where appropriate ordered remedial action.

The Pensions Ombudsman completed investigations into 21 of CSP's cases during the year and upheld CSP's decision, in full or part, in 13 of them.

Administration improvements

The Common Application Repository (CAR) system has been developed by CSP to use the Government Secure Intranet (GSi) in an innovative way. It has provided a mechanism for secure transfer of personal data and improved helpdesk and other services to the Civil Service pensions administration community. Its increased usage and capability has produced further administrative efficiencies. The CAR approach is seen as an exemplar for the transmission of data up to a restricted classification within Government.

Reporting of Personal Data incidents

No personal data related incidents were reported to the Manager during the year.

National Fraud Initiative (NFI)

CSP participated in NFI 2006. NFI is a biennial IT data matching exercise co-ordinated by the Audit Commission involving organisations within central and local government working together to identify and eliminate frauds and overpayments. Data on PCSPS pensions in payment are compared against data on recorded deaths to identify cases where pensions might remain in payment to deceased persons. PCSPS data are also matched against housing benefits so that local authorities can identify claimants who have failed to declare receipt of an occupational pension. NFI 2006 was the fifth exercise in which CSP had participated. CSP identified about 700 potential overpayments of about £1.4 million in total. Around 300 cases have been cleared and £550,000 recovered. Investigation and recovery of the remaining overpayments are being actively pursued. During 2007-08, £130,000 of the £400,000 outstanding debts arising from the NFI 2004 exercise were recovered or written-off.

Pensions increase

Pension payments increased by 3.6% from 9 April 2007, in line with the movement in the RPI All-items index from September 2005 to September 2006.

Membership statistics

Membership of the PCSPS at 31 March:

	2008	**2007**
Active members*	577,000	594,000
Deferred members	322,000	316,000
Pensions in payment		
Officers	440,000	437,000
Dependants of deceased members	129,000	132,000
Annual compensation payments (and other on-going payments) for which employers are responsible	16,500	14,500
Staff opting for **partnership** pension arrangements	7,000	5,700

*The approximate split of active membership at 31 March 2008 was 58% **classic**, 3% **classic plus**, 36% **premium** and 3% **nuvos**. The approximate split at 31 March 2007 was 65% **classic**, 3% **classic plus** and 32% **premium** respectively.

At 31 March 2008 CSP had delegated pension administration to 222 employers (At 31 March 2007 – 216).

Further information

Please address any enquiries about Civil Service pension arrangements to:

Civil Service Pensions Division
Cabinet Office
8th Floor
Grosvenor House
Basing View
Basingstoke
RG21 4HG

Gus O'Donnell 2 December 2008
Accounting Officer

Report of the Actuary

Accounts for the year ended 31 March 2008

A. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded public service scheme made under the Superannuation Act 1972. All payments of benefits and other liabilities from the scheme are met from the Civil Superannuation Request for Resources (RfR). Participating employers make contributions known as accruing superannuation liability charges (ASLCs), which are treated as Appropriations in Aid on the RfR. ASLCs are regularly assessed by the Scheme Actuary and are consistent with those that might have applied had the scheme been funded, making allowance for amortised surpluses or deficits that would have arisen in a funded scheme based on an assumed notional investment return. The most recent ASLC assessment was carried out by Hewitt Associates Limited as at 31 March 2007 and included recommendations for the contribution rates applicable from 1 April 2009. The rates applicable until 31 March 2009 were recommended in the previous ASLC assessment carried out by Hewitt Associates Limited as at 31 March 2003.

B. This Report relates solely to the liabilities of the Principal Civil Service Pension Scheme. Liabilities relating to payments made before normal retirement age as compensation for early retirement under the terms of the Civil Service Compensation Scheme fall to employers and are excluded.

C. Liabilities

We have assessed the value of the expected benefit entitlements under the Principal Civil Service Pension Scheme built up during periods of employment (or former employment) prior to 31 March 2008. The capitalised value as at 31 March 2008 has been assessed using the methodology and assumptions set out in Sections E and F below. The results are as follows:

Value of Liabilities	£ billion
Current pensions & associated contingent pensions	46.4
Deferred pensions, including contingent pensions, for those no longer contributing	21.0
Accrued benefits available to members contributing to the scheme	52.0
Total	**119.4**

D. Accruing Costs

The cost of benefits accruing for each year of service is shared between members and employers. Employees in the **classic** section make contributions of 1.5% of pensionable pay. Employees in the **classic plus** and **premium** sections, which came into effect as from 1 October 2002, make contributions of 3.5% of pensionable pay. Employees in the **nuvos** section, which came into effect as from 30 July 2007, also make contributions of 3.5% of pensionable pay. Employers meet the balance of the cost.

The employers' contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates which were assessed under the ASLC mechanism as required to meet the cost of benefits accruing in the year 2007-08 were as follows:

Employer's Share of Contribution Rate

Pay band from April 2007	% of Pensionable Pay Rate charged
£19,000 and under	17.1%
£19,001 to £39,000	19.5%
£39,001 to £66,500	23.2%
£66,501 and above	25.5%
Estimated average rate charged to Employers for current year	**19.4%**
Rate payable by the Prison Service for prison officers employed before September 1987 and entitled to enhanced benefits	26.5%

The employers' contributions receivable are assessed as £2.7 billion for financial year 2007-08. The next ASLC assessment will be carried out as at 31 March 2010.

E. Methodology

The value of the liabilities has been obtained by using the projected accrued benefits method. Expected future pay increases made to employed members are allowed for. The standard contribution rate for accruing costs has been determined under the ASLC assessment using the projected unit method, with a control period of 1 year.

F. Assumptions

The principal financial assumptions adopted for the pension assessments made in relation to this statement are an investment return in excess of price increases of 2.50% p.a. (pension benefits under the scheme are generally increased in line with prices), and an investment return in excess of earnings increases of 1.03% p.a.. The gross rate of return is assumed to be 5.32% p.a. although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 4.25% p.a. and an allowance for price inflation of 2.75% p.a.

The demographic assumptions are those adopted for the most recent ASLC assessment, and were derived from the specific experience of the membership of this scheme.

As an illustration, the assumed life expectancy at age 60 for a member (in normal health) who is currently age 60 is 26.4 years for a man and 28.1 years for a woman. The assumed life expectancy at age 60 for a member (in normal health) who is currently aged 40 is 29.0 years for a man and 29.6 years for a woman.

G. Notes

Our calculation of the liabilities as at 31 March 2008 has been based on a detailed but approximate update of a full actuarial valuation of the scheme as at 31 March 2007. For this purpose we have used data supplied by the Scheme administrators as at 31 December 2007. Our calculations take account of the 3.9% pension increase granted in April 2008.

The pension benefits taken into account in this assessment are those normally provided under the rules of the pension scheme. These include those paid on retirement, ill-health retirement, and following the death of a member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits) or redundancy benefits which might arise in respect of current employees.

Statement

We have prepared this Report for the Cabinet Office as managers of the Principal Civil Service Pension Scheme. In our opinion the assessment of the liabilities of the Scheme as at 31 March 2008 and of the accruing cost of benefits set out above comply with the requirements of Chapter 8 of the Financial Reporting Manual for the financial year 2007-08.

for Hewitt Associates Limited 25 June 2008
Jonathan Teasdale
Fellow of the Institute of Actuaries

Statement of Accounting Officer's Responsibilities

Under the Government Resources & Accounts Act 2000, HM Treasury has directed the Principal Civil Service Pension 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 Principal Civil Service Scheme and certain other minor pension schemes during the year and the disposition, at the end of the financial year, of the net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the net liabilities at the year end.

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

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

HM Treasury has appointed Sir Gus O'Donnell as Accounting Officer for the Principal Civil Service Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in the *Government Financial Reporting Manual.*

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 Civil Superannuation's policies, aims and objectives, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

For the year ending 31 March 2008 I have delegated to the Head of Civil Service Pensions Division (CSP), responsibilities for the management of the Civil Superannuation resources. This delegation is contained in a Memorandum of Understanding (MOU) which forms part of a wider delegation and control framework designed to ensure that Civil Superannuation receives all monies properly due, and to safeguard the regularity and propriety of expenditure. The MOU sets out those responsibilities which co exist with, and are additional to, the Head of CSP's normal duties as a Cabinet Office official.

Responsibility for pensions administration is delegated to employers under the Superannuation Act 1972. This means that Accounting Officers in departments are responsible for all aspects of pensions administration including the calculation of pension benefits for their employees and for ensuring that appropriate systems of internal control are in place. All employers have engaged one of nine APACs to calculate pension awards on their behalf. These APACs operate to a developed control framework standard. All APACs have been reminded of their corporate governance responsibilities during the year and have accepted these responsibilities. Under an agreed protocol Accounting Officers provide me with annual assurance certificates regarding the administration of the PCSPS for their staff.

This year for the first time I introduced a new checklist and more detailed guidance to assist Accounting Officers and to create a consistent approach to confirm that Accounting Officers have carried out their delegated roles and responsibilities. Accounting Officers now also have to sign the checklist to confirm they have evidence to support their assurance certificate. I, personally, write to Accounting Officers if they do not provide their assurance certificate and checklist to me on time. I have received all certificates for the financial year 2007-08.

The Accounting Officers are responsible for qualifying any certificates where they have either not been able to carry out their responsibilities fully or where controls have not been operating effectively. For 2007-08 I have received 53 qualified certificates (from a total of over 200). This is a much larger number than in previous years because I have strengthened the process for gaining assurance from Accounting Officers by introducing a detailed checklist to ensure greater consistency in the evidence on which Accounting Officer Certificates are based. Overall, I am satisfied that the qualifications are not material and that the certificates provide me with an adequate level of assurance.

Responsibility for the administration of the Security Service and Secret Intelligence Service pension schemes included in these financial statements rests with the relevant agencies. Robert Hannigan, Head of Security, Intelligence and Resilience provides me with an annual assurance statement that he is satisfied that there are suitable controls in operation within the agencies.

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 aims and objectives of Civil Superannuation, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Civil Superannuation for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

CSP is a small organisation with some 50 staff. Management of risk is embedded in policymaking, planning and delivery. Comprehensive guidance on risk management is available on the departmental intranet and CSP's risk management approach is raised with all new staff as part of the induction process. In CSP the main processes for identifying, evaluating, managing risk and changes to risks are conducted at Branch level. In accordance with the MOU, risk registers are maintained by each branch of CSP and are reviewed regularly by the branches and by the CSP risk manager. The risk manager is responsible for compiling and maintaining a register of CSP's Top 10 risks. These risks are discussed as a standing agenda item at each monthly CSP management team meeting. The risk manager makes any changes to the Top 10 risk register necessary following discussion at the monthly team meeting. Business priorities are set out in the CSP business plan and all risks which could have a major impact on the Cabinet Office are communicated to the Senior Management Team of the Civil Service Capability Group (to which the Head of CSP reports), and to me. They would also be reported to the Cabinet Office Audit and Risk Committee (COARC) who advise me on the effectiveness of the systems of internal control. CSP regularly submits a copy of the Top 10 risk register to COARC for discussion.

The risk and control framework

The respective roles and responsibilities of employers and APACs are documented and are kept under review by CSP. Responsibilities for maintenance of sound corporate governance arrangements form part of that documentation. Periodic audit is a condition of the Employer delegation and both employers and APACs report on the date of their last internal audit, whether recommendations have been implemented, and their intentions regarding future audits. CSP strategically monitors the operation of APACs who provide quarterly compliance statements, six monthly corporate governance statements and an annual assurance report. CSP holds bilateral meetings at each APAC site on an approximate 6 monthly cycle at which a range of issues including corporate governance and the management of risks are discussed. CSP maintains joint risk registers with APACs. CSP chairs meetings of the APAC Board where higher level risks are discussed as a standing agenda item. CSP also chairs the PenServer (scheme software) User Group and attends and contributes to meetings of the APAC Business Liaison Team, where identification of risks to scheme administration are a natural consequence of these working level meetings.

The pensioner payroll service is operated under contract by Capita Hartshead. Their contractual responsibilities include paying pensioners and processing new awards received from APACs on behalf of employers. In 2007-08 they operated appropriate corporate governance and internal control arrangements and their operations were audited. Capita's directors and Head of Internal Audit provide assurance statements, six monthly and annually respectively, on the adequacy and effectiveness of their system of internal control. CSP manages the contract, monitors performance and operates a joint risk register with Capita.

CSP continued to develop and mandate the use of its Common Application Repository (CAR) system for secure data transfer. Where use of CAR was not possible, CSP provided guidance to both employers and APACs on the application of security controls to pensions data. In addition, CSP issued enhanced guidance on the storage and transfer of pensions data including agreeing a suitable encryption mechanism. CSP will keep this important matter under review.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by COARC. My review is also informed by the work of the executive managers within CSP who have responsibility for the development and maintenance of the internal control framework, as well as comments made by both internal and external auditors in their management letter and other reports.

As noted earlier, the very nature of the Scheme's devolved structure necessitates CSP obtaining assurances provided from a range of sources outside its direct control. During the year, Cabinet Office Internal Audit has been working with CSP to develop an assurance framework which maps available sources of assurance to the key Scheme risks. The assurance framework will help CSP, Cabinet Office and COARC ensure assurances across the Scheme are coordinated to minimise gaps and potential duplication.

Civil Superannuation is a standing agenda item at all COARC meetings and CSP provide the Committee with updates, as necessary, on accounting and risk/control issues.

The National Audit Office has also considered the level of assurance that the system of internal control provides. They consider that the systems used by CSP to process financial transactions are sound, the financial control environment is satisfactory so as to ensure the accuracy of financial reports and budgets and that the overall IS/IT environment is operating satisfactorily. NAO's review included both APAC and Capita Hartshead operations.

Planned improvements

CSP regularly reviews the effectiveness of the system of internal control and seeks to make improvements. In particular CSP has, with the assistance of Pricewaterhouse Coopers, undertaken a wide-ranging review of the delivery model for the Civil Service pension arrangements. This review covered all aspects of the delivery, including the responsibilities and structure of CSP. The review considered various different delivery models and chose as its preferred option moving to a single administrator in place of the 9 APACs and the pensioner payroll provider. Having a single administrator should lead to improved efficiency, both in terms of cost and service delivery, and enable Cabinet Office to transfer its current operational delivery activities to the administrator. In addition it should reduce operational risk and strengthen control. CSP will be looking at how best to take forward this preferred option.

CSP will introduce a Governance Board during 2008-09 comprising of representatives from employers and the Civil Service Trade Unions.

Cabinet Office Internal Audit's 2008-09 plan is based on the assurance framework and includes reviews of CSP's forecasting and budgetary control mechanisms, contract management arrangements and complaints handling process. Cabinet Office Internal Audit will also be working with CSP to develop assurance activity across the Scheme.

As covered in the Report of the Manager, administrative checks have revealed an inconsistency in the calculation of a number of individual pensions, which led to both over- and underpayments. CSP is taking forward the work necessary to resolve these cases and to prevent similar occurrences in the future.

Gus O'Donnell 2 December 2008
Accounting Officer

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

I certify that I have audited the financial statements of Cabinet Office: Civil Superannuation for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Combined Revenue Account and Statement of Recognised Gains and Losses, the Combined Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Report of the Managers and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Resource Accounts, which consists of the Report of the Manager and the Report of the Actuary and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the scheme's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net outgoings, recognised gains and losses and cashflows 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.

Audit 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.

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

12 January 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Statement of Parliamentary Supply

Summary of Resource Outturn 2007-08

		2007-08 £000							2006-07 £000
		Estimate			Outturn				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
Civil superannuation	5	10,933,001	3,317,000	7,616,001	10,915,859	3,317,000	7,598,859	17,142	6,043,267
Total Resources		**10,933,001**	**3,317,000**	**7,616,001**	**10,915,859**	**3,317,000**	**7,598,859**	**17,142**	**6,043,267**

Summary of net cash requirement 2007-08

		2007-08 £000			2006-07 £000
	Note	Estimate	Outturn	Net Total Outturn Compared with Estimate: saving/ (excess)	
Net cash requirement	36	950,000	635,906	314,094	649,540

Summary of income payable to the Consolidated Fund

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

		Forecast 2007-08 £000		Outturn 2007-08 £000	
	Note	Income	Receipts	Income	Receipts
Operating income & receipts – excess AinA	7	–	–	22,887	–
Non-operating income & receipts – excess AinA	7	–	–	2,740	2,740
Total		–	–	25,627	2,740

Explanation of the variation between Estimate Request for Resources and Outturn Request for Resources.

The outturn is within 0.2% of the Estimate.

Explanation of the variation between estimate net cash requrement and outturn net cash requirement.

The use of provisions for pensions was less than expected due to the timing of the settlement of bulk transfers and the payment of lump sums.

The notes on pages 20 to 39 form part of these accounts.

Combined Revenue Account for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Principal arrangements			
PCSPS			
Income			
Contributions receivable	9	(3,078,235)	(3,024,792)
Transfers in	10	(116,896)	(125,466)
Other pension income	11	(91,923)	(87,017)
		(3,287,054)	(3,237,275)
Outgoings			
Charged to provisions			
Pension cost	12	4,580,000	3,522,299
Enhancements	13	121,212	112,308
Transfers-in	14	115,826	119,093
Interest on scheme liabilities	15	5,940,000	5,441,660
		10,757,038	9,195,360
Not charged to provisions			
Benefits payable	16	7,449	7,485
Net outgoings for the year		**7,477,433**	**5,965,570**

	Note	2007-08 £000	2006-07 £000
Compensation agency arrangements			
Outgoings			
CSCS			
Not charged to provisions			
Benefits payable	17	723	362
		723	362
Net outgoings for the year		**723**	**362**

	Note	2007-08 £000	2006-07 £000
Other minor agency and principal pension scheme arrangements			
Other pension schemes			
Income			
Contributions receivable		(55,573)	(48,086)
Outgoings			
Charged to provisions			
Total charge to provisions		149,538	118,247
Not charged to provisions			
Benefits payable	18	1,111	1,143
Net outgoings for the year		**95,076**	**71,304**
Combined net outgoings for the year		**7,573,232**	**6,037,236**

Consolidated Statement of Recognised Gains and Losses

	Note	2007-08 £000	2006-07 £000
for the year ended 31 March 2008			
Actuarial (gain)/loss	35	(16,217,961)	22,304,785
Recognised loss for the financial year		**(16,217,961)**	**22,304,785**

The notes on pages 20 to 39 form part of these accounts.

Combined Balance Sheet as at 31 March 2008

	Note	2007-08 £000	2006-07 £000
Principal arrangements			
PCSPS			
Current assets:			
Debtors	21	359,139	408,981
Cash at bank	22	182,714	178,195
Balance with Government Departments	22	206	291
Creditors (amounts falling due within one year)	23	(155,386)	(147,379)
Consolidated Fund – Excess AinA current year	24	(22,887)	–
Consolidated Fund – unspent supply	25	(184,094)	(180,460)
Net current assets, excluding pension liability		**179,692**	**259,628**
Debtors: amounts receivable after more than one year	21	216,000	252,000
Pension liability	26	(119,397,000)	(128,781,428)
Net liabilities, including pension liabilities		**(119,001,308)**	**(128,269,800)**
Compensation agency arrangements			
CSCS			
Current assets and liabilities:			
Debtors	27	1,160	1,965
Creditors (amounts falling due within one year)	28/29	(668)	(1,235)
Net current assets		**492**	**730**
Creditors (amounts falling due after more than one year)	29	(23)	(434)
Net assets		**469**	**296**
Other minor agency and principal pension scheme arrangements			
Other pension schemes			
Current assets and liabilities			
Debtors	32	6,417	3,624
Creditors (amounts falling due within one year)	33	(1,486)	(36)
Net current liabilities, excluding pension liability		**4,931**	**3,588**
Pension liability	34	(1,613,000)	(1,598,000)
Net liabilities, including pension liabilities		**(1,608,069)**	**(1,594,412)**
Combined Scheme – Total net Liabilities		**(120,608,908)**	**(129,863,916)**
Taxpayers' equity:			
General Fund	35	**(120,608,908)**	**(129,863,916)**

The notes on pages 20 to 39 form part of these accounts.

Accounting Officer
2 December 2008

Consolidated Cash Flow Statement for the year ended 31 March 2008

		2007-08	2006-07
		£000	£000
Net cash outflow from operating activities	36.1	(632,366)	(508,642)
Payments of amounts due to the Consolidated Fund		(2,740)	(138,412)
Financing	36.2	639,540	734,721
Increase in cash in the period	36.3	**4,434**	**87,667**

The notes on pages 20 to 39 form part of these accounts.

Notes to the Accounts

1. Basis of preparation of the scheme statement

1.1 The combined scheme statements have been prepared in accordance with the relevant provisions of the 2007-08 *Government Financial Reporting Manual (FReM)* issued by the Treasury which reflect the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*. These accounts show the unfunded pension liabilities and movements in those liabilities during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes (Revised May 2007)* to the extent that these are appropriate.

PCSPS principal arrangements

1.2 The statement summarises the transactions of the PCSPS where Civil Service Pensions Division (CSP) acts as a principal. The balance sheet shows the deficit on the scheme. The revenue account shows, amongst other things, the movements in liabilities analysed between the current service cost, enhancements and transfers in, and the interest on the scheme liabilities. The actuarial position of the PCSPS is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

CSCS agency arrangements

1.3 CSP acts as agent for employers in the payment of compensation benefits arising under the CSCS. Benefits paid out in the month are generally recovered from employers at month-end. These financial flows are not brought to account in the financial statements. However, the statements recognise the liabilities arising from any amounts that have been pre-funded by employers (see note 29) and from the central funding of compensation payments (see note 31). The liabilities in relation to prefunding of compensation liabilities by employers are £0.434 million (2006-07: £1.7 million). The liabilitities relating to central funding have now been discharged. The accumulated value of the future funding to be reimbursed from the Consolidated Fund as and when payments are made to beneficiaries is not reflected as an asset of the CSCS in these accounts as the sums payable are subject to annual approval by Parliament through the supply procedure.

Other minor agency and principal pension scheme arrangements

1.4 In addition, the financial statement includes transactions relating to other minor pension schemes, a number of which are closed schemes. CSP acts as principal in respect of pensions paid to the widows of former members of the Royal Irish Constabulary, and a pension paid to the Governor of an overseas colony, awarded prior to the introduction of a new scheme on 30 September 1978. CSP acts as principal in respect of the Security Service and Secret Intelligence Service pension schemes on the basis of audited information supplied by the agencies. CSP acts an agent for the following schemes:

- Pension increases to former Prime Ministers, former Speakers, various former public service appointees and former MEPs and their widow(er)s;
- Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service;
- Payments to Post Office Staff Superannuation Scheme for pensions paid in respect of periods in the Civil Service;
- Pension increases in respect of insurance based pensions to former staff of the Wheat Commission;
- Pension increases in respect of pensions paid to former staff of the Raw Cotton Commission;
- Pension increases in respect of pensions paid to former staff of the Sugar Board;

- Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seamans' National Insurance Society);
- Federated Superannuation Scheme for Universities.

1.5 The accounting policies adopted are described below. They have been consistently applied in dealing with items that are considered material in relation to the scheme statement.

2. Accounting policies for PCSPS principal arrangements

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

2.2 Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Schemes 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.

2.3 These accounts have been prepared under the historical cost convention.

2.4 Contributions receivable

2.4.1 Employers' normal pension contributions are accounted for on an accruals basis. There are no employers' special pension and compensation contributions.

2.4.2 Employees' pension contributions which exclude amounts received in respect of the purchase of added years service (dealt with in 2.4.3 below) and Additional Voluntary Contributions (dealt with in 2.16 below) are accounted for on an accruals basis.

2.4.3 Employees' pension contributions paid in respect of the purchase of added years service are accounted for on an accruals basis. The associated increase in the PCSPS pension liabilities is recognised as expenditure.

2.5 Transfers in

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

2.6 *Income received from departments in respect of enhancements*

2.6.1 Amounts receivable from employers in respect of bringing forward the payment of accrued superannuation lump sums, and in respect of the capitalised costs of pension enhancement either at early departure or normal retirement age, are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on an accruals basis.

2.7 Other pension income

2.7.1 The remaining element of "other income" including repayment of gratuities and overpayments recovered other than by deduction from future benefits, are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on an accruals basis.

2.8 Pension cost

2.8.1 The current service cost is the increase in the present value of the PCSPS pension liabilities arising from members' service in the current period and is recognised in the revenue account. It is determined by the scheme actuary taking into account employer and employee contributions receivable in 2007-08 and based on a discount rate of 1.8% real (4.6% including inflation).

2.9 Interest on scheme liabilities

2.9.1 The interest cost is the increase during the period in the present value of the PCSPS pension liabilities because benefits are one year closer to settlement and is recognised in the revenue account. The interest cost is based on a nominal rate of 4.6% (discount 1.8% real and assumed inflation rate of 2.75%).

2.10 Injury benefits

2.10.1 Injury benefits are accounted for on an accruals basis. They are not funded through the employers' pension contributions and the amounts payable in respect of injuries sustained before 1 April 1998 are a charge on the PCSPS and are shown in the revenue account. Those benefits paid in respect of injuries sustained on or after 1 April 1998 are recoverable from employers each month.

2.11 Scheme liabilities

2.11.1 Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at 2.5% real (5.32% after inflation). 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.

2.12 Pension benefits payable

2.12.1. Pension benefits payable, including lump sums, are accounted for on an accruals basis as a decrease in the PCSPS pension liabilities.

2.13 Overpaid pension benefits

2.13.1 Overpaid pension benefits are accounted for as debtors, less a provision in recognition that recovery of overpayments relating to Guaranteed Minimum Pensions will not to be sought.

2.14 Payments to and on account of leavers

2.14.1 Refunds of employees' contributions are accounted for on an accruals basis and as a decrease in the PCSPS pension liabilities. Refunds include amounts payable both at time of leaving or at normal retirement age (or earlier death).

2.15 Transfers out

2.15.1 Transfers out are accounted for on a cash basis. They are accounted for as a decrease in the PCSPS pension liabilities.

2.16 Actuarial gains/losses

2.16.1 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.

2.17 Additional Voluntary Contributions

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

2.18 Central management administrative expenses

2.18.1 Employers are responsible for the day to day administration of the PCSPS/CSCS and meet the associated costs from their running cost provision. An element of the accruing superannuation liability charge, paid by employers, is appropriated in aid of the Cabinet Office to offset central management costs. These include the costs associated with the management and development of Civil Service pension arrangements, the procurement of pension payroll and other services, maintenance and development of pension software used by scheme administrators and the publication of explanatory scheme material. In 2007-08 these costs amounted to £10.2 million (2006-07: £9 million).

3. Accounting policies for CSCS agency arrangements

3.1 Benefits payable

3.1.1 Compensation benefits for staff leaving before normal retirement age are met by employing departments. For administrative convenience and value for money considerations, compensation benefits are paid initially by CSP, throughout the month, but then recovered from employers at month-end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2007-08 are shown at note 17.

3.2 Central funding of early departures

3.2.1 Some employers receive central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support will continue until their former employees reach normal retirement age, usually 60. At that stage compensation payments will be replaced by pension payments payable under the rules of the PCSPS. There are a small number of cases where the former employee's normal retirement age is 65. Central funding support will continue for these members until they reach age 65.

3.3 Pre-funding of early retirements

3.3.1 Under arrangements that were discontinued with effect from 1 April 2000, some employers were able to make cash payments to CSP to pre-fund compensation payments that will be paid to their former employees in the forthcoming years. Employers have allocated these amounts, subsequently surrendered to the Consolidated Fund, for use in each financial year, up to and including 2009-10. Cash received, but not yet utilised, is recognised as a liability in the combined balance sheet. Transactions that clear these liabilities are recorded as balance sheet items only.

3.3.2 The cash pre-funded by employers reduces their liabilities for compensation benefits by a greater amount and the discount, the difference between the cash pre-funded and the offset allowed in the year, is charged to the combined revenue account, see note 17.

3.4 Pre-payment of early retirement costs

3.4.1 Prior to the privatisation of Her Majesty's Stationary Office (HMSO) in September 1996, a cash payment was made to CSP, subsequently surrendered to the Consolidated Fund, to extinguish liabilities for compensation benefits in respect of their former employees. The cash payment has been fully utilised. Compensation benefits payable in respect of former HMSO employees are charged to the combined revenue account, see note 17. These compensation payments will be replaced by pension payments payable under the rules of the PCSPS when former HMSO employees reach age 60.

4. Accounting policies for other minor agency and principal pension scheme arrangements

4.1 The policies applied to the PCSPS principal arrangements also apply to the transactions and balances of the Security Service and Secret Intelligence Service pension schemes included within these financial statements, with the exception that current service costs are calculated using rates specific to the agencies.

5. Reconciliation of Estimates, accounts and budgets

5.1 Reconciliation of net resource outturn to combined net outgoings

	Note	2007-08 £000 Outturn	2007-08 £000 Supply Estimate	2007-08 £000 Outturn compared with Estimate	2006-07 £000 Outturn
Net Resource Outturn		7,598,859	7,616,001	17,142	6,043,267
Non-supply income (CFERs)	8	(25,627)	–	–	(6,031)
Combined Net Outgoings		**7,573,232**	**7,616,001**	**17,142**	**6,037,236**

6. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: Saving/ (excess) £000
Net Resource Outturn	5	7,616,001	7,598,859	17,142
Accruals adjustments:				
Non-cash items	37	(10,924,000)	(10,906,576)	(17,424)
Changes in working capital other than cash	38	(14,765)	(78,830)	64,065
Changes in creditors/debtors falling due after more than one year	39	–	(35,590)	35,590
Use of provision to pay pensions		4,122,764	4,058,043	64,721
Excess cash to be surrendered to the Consolidated Fund		150,000	–	150,000
Net Cash Requirement		**950,000**	**635,906**	**314,094**

7. Analysis of income payable to the Consolidated Fund

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

		Forecast 2007-08		Outturn 2007-08	
		£000	*£000*	£000	*£000*
	Note	Income	*Receipts*	Income	*Receipts*
Operating income and receipts – Excess A in A		–	–	22,887	–
Other operating income and receipts not classified as A in A	8		–	2,740	*2,740*
		–	–		
Other non-operating income and receipts not classified as A in A		–	–		
Other amounts collectable on behalf of the Consolidated Fund		–	–		
Excess cash surrenderable to the Consolidated Fund		–	–		
Total income payable to the Consolidated Fund		**–**	**–**	**25,627**	***2,740***

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

		2007-08	2006-07
	Note	£000	£000
Operating income	9-11	3,342,627	3,285,361
Gross income		3,342,627	3,285,361
Income authorised to be Appropriated in Aid		(3,317,000)	(3,279,330)
Operating income payable to the Consolidated Fund		**25,627**	**6,031**

Revenue account – PCSPS principal arrangements

9. Pension contributions receivable

	2007-08	2006-07
	£000	£000
Employers'	(2,740,598)	(2,699,816)
Employees':		
Normal	(305,608)	(293,654)
Purchase of added years	(32,029)	(31,322)
	(3,078,235)	**(3,024,792)**

10. Pension transfers-in (see also Note 14)

	2007-08	2006-07
	£000	£000
Group transfers from other schemes	(21,146)	(10,696)
Individual transfers in from other schemes	(95,750)	(114,770)
	(116,896)	**(125,466)**

11. Other pension income

	2007-08	2006-07
	£000	£000
Refund of gratuities received	(2)	(2)
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	(18,459)	(20,836)
capitalised cost of enhancement to pensions, payable on departure	(52,318)	(42,630)
capitalised cost of enhancement to pensions, payable at age 60	(18,404)	(17,518)
Non-retainable income	(2,740)	(6,031)
	(91,923)	**(87,017)**

12. Pension Cost

	2007-08	2006-07
	£000	£000
Current service cost (see note 26.3)	4,580,000	3,522,299
	4,580,000	**3,522,299**

13. Enhancements (see also Note 26.3)

	2007-08	2006-07
	£000	£000
Employees:		
Purchase of added years	32,029	31,322
Refund of gratuities received	2	2
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	18,459	20,836
capitalised cost of enhancement to pensions, payable on departure	52,318	42,630
capitalised cost of enhancement to pensions, payable at age 60	18,404	17,518
	121,212	**112,308**

14. Transfers in (see also Note 10)

	2007-08	2006-07
	£000	£000
Group transfers in from other schemes	20,076	4,323
Individual transfers in from other schemes	95,750	114,770
	115,826	**119,093**

15. Interest on scheme liabilities (see also Note 26)

	2007-08	2006-07
	£000	£000
Interest charge for the year	5,940,000	5,441,660
	5,940,000	**5,441,660**

16. Benefits payable – not charged to provisions

	2007-08	2006-07
	£000	£000
Injury benefits payable	12,378	10,840
Less recoverable from employers	(4,929)	(3,355)
	7,449	**7,485**

Revenue account – CSCS compensation agency arrangements

17. The following represent annual compensation payments payable, not recoverable from employers, brought to account in the combined revenue account.

17.1 Benefits payable – not charged to provisions

	2007-08	2006-07
	£000	£000
Difference between provision for current year and outturn expenditure and residual payments	564	79
Discounts allowed on pre-funded annual compensation payments	158	199
Discounts allowed on pre-paid annual compensation payments	1	84
	723	**362**

The following represent the total annual compensation payments and compensation lump sums payable:

Recoverable from employers (note 36)	209,599	189,936
Pre-funded by employers (note 29)	1,236	3,938
Discounts allowed on pre-funding (note 17.1)	158	199
Discounts allowed on pre-payments (note 17.1)	1	84
Amounts met from central funding:		
Use of provision (note 31)	–	4,500
Borne by compensation scheme (note 17.1)	564	79
Total annual compensation payable	**211,558**	**198,736**
Lump sum payable recoverable from employers (note 36)	277,805	234,647
Total lump sums payable	**277,805**	**234,647**

Revenue account – Other minor agency and principal pension scheme arrangements

18. Benefits payable – not charged to provisions

	2007-08	2006-07
	£000	£000
Royal Irish Constabulary dependents	–	1
Pensions increase for ex-PMs/Speakers	50	52
Pensions increase for Public Service Appointments	133	122
Pensions increase for ex MEPs/widow(er)s	241	190
Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	62	82
Payments to Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	301	350
Pensions increases in respect of pensions paid to former staff of the Raw Cotton Commission	2	4
Pensions increases in respect of pensions paid to former staff of the Sugar Board	21	21
Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seamans' National Insurance Society)	3	4
Pensions to Governors of overseas colonies awarded prior to the introduction of a new scheme in 1978	1	1
Federated Superannuation Scheme for Universities	297	316
	1,111	**1,143**

19. Additional Voluntary Contributions

19.1 The Civil Service Additional Voluntary Contribution Scheme (CSAVCS) provides for employees to make AVCs to increase their pension entitlements or to increase life cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment by their employers to one of the three appointed providers (Equitable Life Assurance Society, Scottish Widows' Fund and Standard Life Assurance Society), or may chose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution Schemes (FSAVCs). The Managers of the CSAVCS are only responsible for payments made to the Scheme's appointed providers. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the appointed provider at 31 March each year (5 April for Equitable Life) confirming the amounts held to their account and the movements in year.

19.2 The aggregate amounts of AVC investments are as follows:

	2007-08 Standard Life	2007-08 Equitable Life[1]	2007-08 Scottish Widows	2006-07 SL	2006-07 EL[1]	2006-07 SW
	£000	£000	£000	£000	£000	£000
Movements in the year:						
Balance at 1 April	48,192	23,132	153,209	43,735	26,116	150,775
New investments	4,028	256	12,014	4,596	494	15,503
Sales of investments to provide pension benefits	(3,899)	(3,258)	(16,428)	(3,703)	(4,558)	(17,971)
Changes in market value of investments	(1,477)	346	709	3,564	1,080	4,902
Balance at 31 March	**46,844**	**20,476**	**149,504**	**48,192**	**23,132**	**153,209**
Contributions to provide life cover	n/a	137	n/a	n/a	158	n/a
Benefits paid on death	n/a	146	n/a	n/a	35	n/a

1 – data as at 5 April

20. Contingent liabilities

20.1 In the unlikely event of default by an appointed AVC provider, pension payments are guaranteed by the scheme. This guarantee does not apply to members who make payments to institutions offering FSAVCs nor where members exercise the open market option and purchase their annuity elsewhere.

Balance sheet – PCSPS principal arrangements

21. Debtors

	2007-08	2006-07
	£000	£000
Amounts falling due within one year:		
Employers' contributions	178,237	181,411
Employees' normal contributions	19,457	19,474
Employees' added years	2,215	2,142
Bringing forward the payment of accrued superannuation lump sums	8	17
Capitalised cost of enhancement to pensions payable on departure	51	153
Capitalised cost of enhancement to pensions payable at age 60	70	91
Prepayments	–	118
Individual transfers	231	–
Group transfers	156,060	202,777
Sub Total	**356,329**	**406,183**
Overpayment debtors (net of provision for non-recovery*)	2,797	2,789
Injury benefit debtors	13	9
Balance at 31 March	**359,139**	**408,981**
Amounts falling due after more than one year:		
Group transfers	216,000	252,000
	216,000	**252,000**

*includes a provision for non-recovery of £12.074 million overpayments.

22. Cash analysis

	2007-08	2006-07
	£000	**£000**
Cash at bank	182,714	178,195
Balance with Government Departments	206	291
Non-Supply debtors for CSCS payments	1,160	1,965
Non-Supply debtors for injury benefit payments	14	9
Amounts undrawn from the Consolidated Fund in respect of Supply	130,000	–
	314,094	**180,460**
Consolidated Fund Supply unspent at year-end	314,094	180,460
	314,094	**180,460**

23. Creditors – amounts falling due within one year

	2007-08	2006-07
	£000	**£000**
Pensions	(120,123)	(115,372)
Inland Revenue	(35,263)	(32,007)
Balance at 31 March	**(155,386)**	**(147,379)**

24. Creditors – amounts falling due within one year for Consolidated Fund excess appropriations in aid

	2007-08	2006-07
	£000	**£000**
Appropriations in Aid realised	(3,339,887)	(3,279,330)
Less: Appropriations in Aid authorised	3,317,000	3,279,330
Income not appropriated in aid, payable to the Consolidated Fund – Current year	**(22,887)**	**–**

25. Creditors – amounts falling due within one year: unspent Supply

	2007-08	2006-07
	£000	**£000**
Net Cash Requirement	635,906	649,540
Parliamentary Funding	(820,000)	(830,000)
Amounts issued from the Consolidated Fund for Supply but not spent	**(184,094)**	**(180,460)**

26. Provision for pension liability

26.1 Assumptions underpinning the provision for pension liability

26.1.1 The PCSPS is an unfunded defined benefit scheme. Hewitt Associates Ltd carried out a full actuarial valuation of the scheme liabilities as at 31 March 2007. The Report of the Actuary on pages 8 and 9 sets out the scope, methodology and results of the work the actuary has carried out.

26.1.2 CSP, together with the actuary and the auditor, have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that CSP should make available to the actuary in order the 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.

26.1.3 The major assumptions used by the actuary were:

At 31 March	**2008**	**2007**	**2006**	**2005**
Rate of increase in salaries	4.25%	4.25%	3.9%	3.9%
Inflation assumption	2.75%	2.75%	2.5%	2.4%
Discount rate	2.5%	1.8%	2.8%	3.5%

26.1.4 The actuary has looked into the mortality experience of the PCSPS within the past four years. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations at age 60 are:

In years	**2008**	**2007**	**2006**	**2005**
Retiring at 31 March age 60				
Males	26.4	24.4	24.4	24.4
Females	28.1	27.4	27.4	27.4
Retiring in 20 years (a 40 year old)				
Males	29.0	26.8	26.8	26.8
Females	29.6	29.8	29.8	29.8

26.1.5 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, CSP acknowledges that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

26.1.6 The assumption that has the biggest impact on the amount of the reported liability is the discount rate. As set out in *FReM,* and as required by FRS 17, the PCSPS uses the AA corporate bond rate to discount the liabilities. From 2005-06, the Government Actuary has calculated the rate annually on behalf of HM Treasury, who then advise the PCSPS 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.

26.1.7 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 PCSPS does not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the PCSPS, the actuary has used key assumptions that are the most appropriate for the scheme in the light of current knowledge.

26.2 Analysis of the provision for pension liability

Value of liabilities (£ billion)

At 31 March	**2008**	**2007**	**2006**	**2005**
Current pensions and associated contingent pensions	46.4	44.8	37.9	34.4
Deferred pensions, including contingent pensions, for those no longer contributing to the scheme	21.0	25.1	18.3	12.7
Accrued benefits available to members contributing to the PCSPS	52.0	58.9	45.1	37.0
Total	**119.4**	**128.8**	**101.3**	**84.1**

26.3 Analysis of movement in scheme liability

	2007-08	**2006-07**
	£000	**£000**
Scheme liability at 1 April	(128,781,428)	(101,336,313)
Current service cost (note 12)	(4,580,000)	(3,522,299)
Enhancements (note 13)	(121,212)	(112,308)
Pension transfers-in (note 14)	(115,826)	(119,093)
Interest on pension scheme liability (note 15)	(5,940,000)	(5,441,660)
Benefits paid (note 26.4)	3,844,660	3,583,115
Pension payments to and on account of leavers (note 26.5)	166,003	174,323
Actuarial gain/(loss) (note 26.6)	16,130,803	(22,007,193)
Scheme liability at 31 March	**(119,397,000)**	**(128,781,428)**

During the year ended 31 March 2008, contributions represented an average of 19.4% of pensionable pay. Contribution rates remain unchanged in 2008-09.

26.4 Analysis of benefits paid

	2007-08	**2006-07**
Pensions to:	**£000**	**£000**
Retired employees	2,858,312	2,694,901
Widow(er)s*	369,419	362,250
Dependants	6,872	6,651
Lump sum benefits paid:		
on retirement (including early retirement)	569,431	478,619
on death	40,626	40,694
Per cash flow statement	**3,844,660**	**3,583,115**

* includes partners (Classic Plus/Premium members) and civil partners

26.5 Analysis of payments to and on account of leavers

	2007-08	2006-07
	£000	£000
Refunds to members leaving the service	30,091	26,333
Payments for members joining State scheme	3,079	2,271
Group transfers to other schemes	41,324	58,743
Individual transfers to other schemes	91,509	86,976
Per cash flow statement	**166,003**	**174,323**

26.6 Analysis of actuarial gain/(loss)

	2007-08	2006-07
	£000	£000
Experience gains/(losses) arising on the scheme liabilities	4,402,803	(1,359,719)
Changes in assumptions underlying the present value of scheme liabilities*	11,728,000	(20,647,474)
Per Statement of Recognised Gains and Losses	**16,130,803**	**(22,007,193)**

*These are mainly attributable to the changes in the discount rate (note 26.1.3)

26.7 History of Experience gains and losses

	2007-08	2006-07	2005-06	2004-05
Experience (gains)/losses on the scheme liabilities				
Amount (£000)	(4,402,803)	1,359,719	911,961	1,232,124
Percentage of the present value of the scheme liabilities	(3.7%)	1.0%	0.9%	1.5%
Total actuarial (gain)/loss				
Amount (£000)	(16,130,803)	22,007,192	911,961	1,232,124
Percentage of the present value of the scheme liabilities	(13.5%)	17.0%	0.9%	1.5%

Balance sheet – CSCS compensation agency arrangements

27. Debtors – Non-Supply

	2007-08	2006-07
	£000	£000
Recoverable annual compensation payments	759	1,450
Recoverable lump sums	401	515
Balance at 31 March	**1,160**	**1,965**

28. Creditors – amounts falling due within one year

	2007-08	2006-07
	£000	£000
Central funding	(258)	–
Balance at 31 March	**(258)**	**–**

29. Annual compensation payments pre-funded by employers

Employing departments were, until March 2000, able to use current-year underspends on running costs to reduce or extinguish their existing liabilities in respect of future annual compensation payments arising from the early retirement of their employees. Details of departments' pre-funding are as follows:

Pre-funding	**2007-08**	**2006-07**
	£000	**£000**
Balance at 1 April	(1,669)	(5,607)
Used in year: compensation paid	1,236	3,938
Balance at 31 March	**(433)**	**(1,669)**
To be used in next 12 months	(410)	(1,236)
To be used after more than 12 months	(23)	(433)

30. Provisions for liabilities and charges – central funding of early retirement benefits

Provision has been made to recognise that the CSCS has a liability to make payments to employers in respect of centrally funded elements of the compensation scheme. Some employers receive central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support will continue until their employees reach normal retirement age, usually 60.

31. Central funding of annual compensation payments

	2007-08	**2006-07**
	£000	**£000**
Balance at 1 April	–	(4,500)
Used in year: compensation paid	–	4,500
Balance at 31 March	**–**	**–**

Balance sheet – Other minor agency and principal pension scheme arrangements

32. Debtors

	2007-08	**2006-07**
	£000	**£000**
Contributions	6,417	3,624
Balance at 31 March	**6,417**	**3,624**

33. Creditors payable within 12 months

	2007-08	**2006-07**
	£000	**£000**
Pensions	(1,486)	(36)
Balance at 31 March	**(1,486)**	**(36)**

34. Provision for pension liability

34.1 The Government Actuary provides an annual valuation of the Security Service and Secret Intelligence Service pension schemes included within these financial statements. The assumptions underlying the valuation are disclosed in his Report, which is examined by the Comptroller and Auditor General as part of his audit of information supplied by the agencies for inclusion in these financial statements

34.2 Analysis of movement in scheme liability

	2007-08	2006-07
	£000	£000
Opening scheme liability at 1 April	1,598,000	1,226,400
Net movement in year (including actuarial gain/loss)	15,000	371,600
Scheme liability at 31 March	**1,613,000**	**1,598,000**

35. General Fund

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

	2007-08	2006-07
	£000	£000
Balance at 1 April	(129,863,916)	(102,165,404)
Net Parliamentary Funding		
Drawn down	639,540	734,721
Deemed	180,460	95,279
Year end adjustment		
Supply Creditor – current year	(184,094)	(180,460)
Net Transfer from Operating Activities		
Combined Net Outgoings	(7,573,232)	(6,037,236)
Excess Appropriations in aid	(22,887)	–
CFERs repayable to the Consolidated Fund	(2,740)	(6,031)
Actuarial gains and losses (SRGL)	16,217,961	(22,304,785)
Balance at 31 March	**(120,608,908)**	**(129,863,916)**

36. Notes to the Cash Flow Statement

36.1 Reconciliation of combined net outgoings to operating cash flows

		2007-08	2006-07
		£000	£000
Net combined outgoings for the year		(7,573,232)	(6,037,236)
Adjustments for non-cash transactions	38	56,743	(60,601)
Adjustments for creditors/debtors falling due after more than one year	39	35,590	81,765
Increase in PCSPS pension provision	26	10,757,038	9,195,360
Increase in other schemes pension provision		149,538	118,247
Use of PCSPS provisions	26	(4,010,663)	(3,757,438)
Use of CSCS provisions	31	–	(4,500)
Use of other schemes provisions		(47,380)	(44,239)
Net cash outflow from operating activities		**(632,366)**	**(508,642)**

36.2 Analysis of financing, and reconciliation to the net cash requirement

		2007-08	2006-07
		£000	£000
From the Consolidated Fund (Supply) current year		820,000	830,000
From the Consolidated Fund (Supply) prior year		(180,460)	(95,279)
From the Contingencies Fund		–	70,000
To the Contingencies Fund		–	(70,000)
Net Financing		**639,540**	**734,721**
Increase in cash		(4,434)	(87,667)
Net cash flows other than financing		**635,106**	**647,054**
Compensation agency payments made on behalf of employers	17	(209,599)	(189,936)
Reimbursement of compensation payments by employers		210,290	189,521
Lump sum payments made on behalf of employers	17	(277,805)	(234,647)
Reimbursement of lump sums by employers		277,919	237,551
Injury benefit payments made on behalf of employers	16	(4,929)	(3,355)
Reimbursement of injury benefit payments by employers		4,924	3,352
Net cash requirement per Statement of Parliamentary Supply		**635,906**	**649,540**

36.3 Reconciliation of Net Cash Requirement to increase in cash

	2007-08	2006-07
	£000	£000
Net cash requirement	(635,906)	(649,540)
From the Consolidated Fund (Supply) – current year	820,000	830,000
From the Consolidated Fund (Supply) – prior year	(180,460)	(95,279)
Non-supply - cash flows from other sources	800	2,486
Increase in cash	**4,434**	**87,667**

37. Non-cash items

	2007-08	2006-07
	£000	£000
Current service cost	4,580,000	3,522,299
Enhancements	121,212	112,308
Pension transfers-in	115,826	119,093
Interest on pension scheme liability	5,940,000	5,441,660
Total charge to provisions – other schemes	149,538	118,247
Non cash items	**10,906,576**	**9,313,607**

38. Movements in working capital other than cash

	2007-08	2006-07
	£000	£000
Movement in debtors related to supply – PCSPS	(49,847)	68,719
Movement in debtors related to supply – Other schemes	2,792	724
Movement in creditors due within 1 year – PCSPS	(8,007)	(9,041)
Movement in creditors due within 1 year – CSCS	567	2,703
Movement in creditors due within 1 year – Other schemes	(1,449)	(18)
Movement in debtors not related to supply – Injury benefit	5	4
Movement in debtors not related to supply – ACPs	(690)	415
Movement in debtors not related to supply – Lump sums	(114)	(2,905)
	(56,743)	**60,601**
Movement in Consolidated Fund	(22,887)	132,381
Adjustment for movement in non-supply debtors	800	2,486
	(78,830)	**195,468**

39. Movements in creditors/debtors falling due after more than one year

	2007-08	2006-07
	£000	£000
Movement in creditors due after 1 year – CSCS (note 29)	410	1,235
Movement in debtors due after 1 year – PCSPS (note 21)	(36,000)	(83,000)
	(35,590)	**(81,765)**

40. Adjustments re Consolidated Fund

	2007-08	2006-07
	£000	£000
Consolidated Fund Supply debtor/(creditor)	(184,094)	(180,460)
	(184,094)	**(180,460)**

41. Intra-Government Balances

Balances with:	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after one year £000
Other central government bodies	342,065	216,000
Local authorities	9,104	–
NHS Trusts	–	–
Balances with public corporations and trading funds	10,028	–
Bodies external to government	5,519	–
At 31 March 2008	**366,718**	**216,000**
Other central government bodies	234,179	252,000
Local authorities	10,057	–
NHS Trusts	–	–
Balances with public corporations and trading funds	9,293	–
Bodies external to government	161,041	–
At 31 March 2007	**414,570**	**252,000**

Balances with:	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after one year £000
Other central government bodies	245,280	–
Local authorities	–	–
NHS Trusts	–	–
Balances with public corporations and trading funds	–	–
Bodies external to government	119,241	23
At 31 March 2008	**364,521**	**23**
Other central government bodies	213,939	434
Local authorities	–	–
NHS Trusts	–	–
Balances with public corporations and trading funds	–	–
Bodies external to government	115,171	–
At 31 March 2007	**329,110**	**434**

42. Post Balance Sheet Events

Cabinet Office: Civil Superannuation's financial statements are laid before the Houses of Parliament by HM Treasury. FRS21 requires Cabinet Office: Civil Superannuation to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by Cabinet Office: Civil Superannuation to HM Treasury.

The authorised date for issue is 14 January 2009.

43. Financial Instruments

FRS13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

CSP has no borrowings and relies solely on resources voted by Parliament to finance the PCSPS's net revenue resource requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

44. Losses

During the year 1,948 losses of £238,605 were written off (2006-07: 2,467 – £172,445).

45. Related Party Transactions

The PCSPS, CSCS and the Security Service and Secret Intelligence Service schemes fall within the ambit of the Cabinet Office, which is regarded as a related party. During the year, the Schemes have had material transactions with the Cabinet Office and other departments, executive agencies and trading funds whose employees are members of the Schemes. None of the Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions during the year.

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