
Department for International Development

Overseas Superannuation Accounts 2017-18

(For the year ended 31 March 2018)

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

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Section A: Accountability Report

Report of the Managers

Introduction

These accounts are a scheme statement for the payments of Overseas Superannuation Schemes (“Schemes” or “Scheme”) made by the Department for International Development (DFID). The financial statements have been prepared in accordance with the relevant provisions of the 2017-18 *Government Financial Reporting Manual* (FRoM).

DFID’s Overseas Pensions Department (OPD), on behalf of the Schemes, has responsibility for the administration and payment of pensions and related benefits to former expatriate colonial civil and public servants and their dependants, including those who served in a civil or military capacity in former British India and the Sudan public service. Other than HM Treasury, OPD are not reliant on any other UK Government Department in order to pay the pensions. OPD is also responsible for the formulation of the British Government’s policy on overseas pensions and UK pension increase supplements.

The activities reported in these accounts mainly derive from two policy initiatives by the British Government: a 1962 agreement to supplement the pensions paid to certain former colonial civil servants and a 1970 announcement that the British Government would assume responsibility from overseas governments for the payment of pensions due to expatriate colonial civil servants who had mainly been appointed by or on behalf of the Secretary of State for the Colonies.

The element of these pensions arising from service after independence, together with certain widows’ pensions, derive from the capital sums which were paid over to the British Government on assuming responsibility from the overseas governments, or by funded pension schemes which have been wound up, to cover their future liabilities. The British Government meets the cost of the pre-independence element and the cost of those widows’ and dependants’ pensions that do not derive from a previously funded scheme. The UK Government does not hold any dedicated assets in respect of these pension obligations.

All payments have been agreed under HM Treasury classification to be Annually Managed Expenditure (AME). AME is used to reflect costs which are volatile in a way that cannot be controlled by OPD.

Since 9 January 2018, Lord Bates has been the Minister with responsibility for the Schemes for the financial year ended 31 March 2018 (Minister of State Rory Stewart MP was responsible from 1 April 2017 to 8 January 2018). The Scheme Manager of the Overseas Superannuation Schemes is Vince Kelly, who is an employee of DFID and is Head of OPD. In this capacity he is responsible for the operations of OPD. Matthew Rycroft CBE, who is the DFID Permanent Secretary and Accounting Officer, is the Accounting Officer of the Schemes.

Management Commentary

Pensions and related benefits included in these accounts are all paid in Sterling. Whilst some pensions are expressed in foreign currency with payments calculated using current exchange rates, foreign exchange liability is limited by the supplement and/or safeguard caps. This is taken into account by the Government Actuary’s Department in their actuarial valuation. There are 102 pension Schemes that have been set up under the following Acts of Parliament:

- Overseas Pensions Act 1973
- Pensions (Increase) Act 1971, as amended
- Hong Kong (Overseas Public Servants) Act 1996
- UK Police and Firemen Acts 1997

Change in Member Numbers

The Schemes managed by OPD are closed to new members and the number of pensioners falls each year. There are however 5 deferred police pensioners and 8 serving Hong Kong officers who will potentially become pensioners. Table 1 shows the number of pensioners, number of pensions payable and the total number of payments made under these pension obligations during the last three years. These figures are based on information at 31 March:

Table 1¹

	2017-18	2016-17	2015-16
No. of Service Pensioners	4,061	4,507	4,973
No. of Dependants	5,099	5,487	5,870
Total No. of Pensioners	9,160	9,994	10,843
Total No. of Pensions ²	18,849	20,633	22,496
Total No. of Payments	90,267	99,389	111,835

Pensioners are often in receipt of more than one pension, reflecting their service in different territories covered by different individual pension schemes, however each individual payment they receive will include an element for each relevant pension. The total number of payments cannot be directly related to the number of pensioners at a given time. A pensioner's entitlement can be negated in any payment period due to exchange rate movements, periodic suspensions and death.

Table 2 shows the percentage change in pensioner numbers and payments in the last three years.

Table 2

	2017-18 % Change	2016-17 % Change	2015-16 % Change
No. of Service Pensioners	-9.9%	-9.4%	-9.4%
No. of Dependants	-7.1%	-6.5%	-6.0%
Total No. of Pensioners	-8.4%	-7.8%	-7.6%
Total No. of Pensions	-8.7%	-8.3%	-8.0%
Total No. of Payments	-9.2%	-11.1%	-10.1%

Of the current 9,160 pensioners:

- 42 per cent are male
- 67 per cent live in the UK; the remainder in 83 other countries
- 87 per cent have chosen a monthly payment frequency; 13 per cent quarterly, bi-annually, or annually. Regardless of the frequency, payments are not always due because of exchange rate movements, periodic suspensions and death
- the average age of service pensioners is 85 years
- the average age of dependent pensioners is 86 years
- the oldest pensioner is now 105 years of age, and there are 68 other centenarians on OPD's books.

Projections of pensioner numbers estimate that the remaining payments relating to existing pensioners will be fully realised by the middle of the century, at which point the Schemes will cease.

¹ The data in Table 1 is not directly comparable with the data in Tables 5 and 6 of the Report of the Actuary on pages 7 and 8 due to differences in categorisation.

² This excludes Hong Kong pensions as these are not directly managed by OPD.

Service Standards

A key measure of OPD performance is the service it provides to pensioners. Standards are set through a Service Level Agreement (SLA) between DFID and OPD. The SLA defines the required performance standards and efficiencies and these are subject to regular monitoring and review. OPD's aim is that its service should always be:

- prompt
- efficient
- accurate
- helpful and courteous
- responsive to those with special needs.

Table 3 below shows performance against service standards. These figures are obtained from data held on OPD's computer systems.

Table 3

	SLA Target	2017-18 achieved	2016-17 achieved
	%	%	%
Accuracy of initial payment calculations	97.50	99.96	99.92
Accuracy of initial calculation of new and revised awards	95.00	100.00	99.58
Number of new awards put into payment within 2 weeks	97.50	100.00	100.00
Timeliness of payments by due date	99.00	100.00	100.00
Response to enquiries within 2 weeks of receipt	99.00	100.00	100.00
Response to complaints within 2 weeks of receipt*	95.00	100.00	100.00

*OPD received 7 complaints during 2017-18 (2016-17: 3 complaints) from pensioners or their agents.

OPD investigate customer service satisfaction through a questionnaire issued to existing members whose entitlement to pension has recently commenced. During 2017-18 OPD issued 158 questionnaires, of which 93 (59 per cent) were returned. The main conclusions were that:

- 68 per cent (2016-17: 71 per cent) of respondents rated OPD's service as excellent, 28 per cent (2016-17: 22 per cent) as good and 4 per cent (2016-17: 7 per cent) as satisfactory
- 86 per cent described OPD staff as helpful (2016-17: 82 per cent)
- 83 per cent described OPD staff as efficient (2016-17: 76 per cent).

The results of these questionnaires are used when reviewing processes and identifying areas which require improvement.

Efficiency

OPD's main measure of efficiency is the cost of administration for each unit of activity. Targets are set within the SLA. The aim is to reduce running costs in line with the continuing reduction in pensioner numbers. Savings are calculated over a three-year period and based on those OPD costs which are directly associated with the award and payment of pensions.

Efficiency (continued)

Table 4 below shows performance against SLA target unit costs. Targets are set on the basis of actual costs for the previous year plus inflation of 2.45 per cent.

Table 4

	2017-18 Actual	2017-18 Target Unit Cost	2016-17 Actual
Per pensioner	£29.14	£31.36	£30.61
Per pension	£14.16	£15.19	£14.83
Per payment	£2.95	£3.16	£3.08

Unit costs are below the SLA targets for 2017-18.

A full review of the SLA was carried out during quarter four of 2017-18.

Information Assurance

A large quantity of personal and sensitive data is kept for the Schemes. A governance structure is in place to ensure information security and to manage the associated risks. DFID follows ISO/IEC 27001:2013, the international standard for information security management systems and conducts internal reviews and audits against that. OPD is working with the DFID General Data Protection Regulation project team to ensure compliance with the new Data Protection legislation.

OPD identified no reportable incidents of the loss of any personal data to the Information Commissioner's Office in 2017-18 and the Information Commissioner made no findings against OPD for breach of Data Protection principles. No such incidents were reported in the previous ten years.

Financial Review

The Government Actuary's Department performed a full actuarial valuation of the Schemes as at 31 December 2017 and it has been assumed that there have been no material changes to membership between 31 December 2017 and 31 March 2018.

The pension liability at 31 March 2018 was £736.6 million (31 March 2017: £871.7 million).

Pensions paid in 2017-18 were £60.5 million (2016-17: £66.9 million) and the interest cost was £23.6 million (2016-17: £28.4 million). The interest cost increases the discounted liabilities because future benefit payments are one year closer to settlement. It is determined by the applied discount rate and assumptions about price inflation. For 2017-18 liabilities were discounted at a nominal rate of 2.55 per cent (2016-17: 2.80 per cent) based on the real discount rate in excess of pension increases of 0.10 per cent (2016-17: 0.24 per cent). Discount rates are determined by HM Treasury with reference to market yields on high quality corporate bonds.

At 31 March 2018, valuation adjustments have decreased the pension liability by £98.2 million (2016-17: £89.2 million increase). The decrease is due to the full actuarial valuation resulting in gains of £50.1 million from changes in mortality assumptions and also membership experience gains of £57.1 million, offset by £3.3 million of other experience losses and £5.7 million of losses from changes in financial assumptions.

Financial Review (continued)

Primarily due to the inclusion of the pension liability, as at 31 March 2018 the Statement of Financial Position shows negative taxpayers' equity of £737.0 million (2016-17: £872.2 million). In common with other obligations of Government Departments, the future financing of pension liabilities will be met from grants of supply approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming and it has accordingly been considered appropriate to adopt a going concern basis for the preparation of these accounts.

The Parliamentary Supply Outturn was 12.8 per cent lower than the Estimate and the Net Cash Requirement was 8.4 per cent lower than the Estimate. The variance in the actual Outturn and Net Cash Requirement to that included within the Estimate reflects lower than forecast pension payments, based on actual pensioner numbers.

OPD costs for managing pensions are part of DFID administration expenditure and are included in DFID's 2017-18 Annual Report and Accounts. In 2017-18 administration costs were £405,016 (2016-17: £445,855). The decrease of £40,839 from 2016-17 is due to a restructure of finance posts, a staff secondment and reduced overtime costs.

Principal Risks and Uncertainties

The key risk which the Schemes face is the continued (unauthorised) payment of pension benefits after a member has died. To mitigate against this risk, the Schemes require all members to complete and return a signed annual declaration confirming their identity. Further details on controlling this risk are provided within the Governance Statement.

DFID Management Board (previously Executive Management Committee)

There is no Management Board in place within the Schemes due to the Schemes being closed. Where any decisions are required in respect of the Schemes the Management Board of DFID is consulted by the Director for People, Operations and Systems as appropriate. The composition of the DFID Management Board at the reporting date was as follows:

Matthew Rycroft CBE

Permanent Secretary

Lindy Cameron

Director General, Country Programmes

Joy Hutcheon

Director General, Finance and Corporate Performance

Nick Dyer

Director General, Economic Development and International
Interim Director General, Policy, Research and Humanitarian

The Permanent Secretary³ appoints members to the DFID Management Board.

³ Sir Mark Lowcock performed this role until July 2017, followed by Nick Dyer as Interim Permanent Secretary until Matthew Rycroft CBE became Permanent Secretary on 22 January 2018.

Events After the Reporting Period

The Department for International Development Overseas Superannuation Schemes' accounts are laid before the Houses of Parliament by HM Treasury. IAS 10 *Events After the Reporting Period* requires the accounts to disclose the date on which the accounts are authorised for issue. This is the date on which the accounts are certified by the Comptroller and Auditor General. Note 11 details any events after the reporting period.

Further Information

An explanatory booklet "A Guide to Your Pension" is issued to all pensioners. The booklet contains details of the standard of service they can expect to receive from OPD and general information on the administration of their pensions, including dispute resolution procedures. A copy of the Guide and other general information can be obtained from OPD.

Any enquiries about the Overseas Superannuation accounts can be addressed to:

The Scheme Manager
Overseas Pensions Department
Department for International Development
East Kilbride G75 8EA

Managers and Advisers

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Legal Advisers:	Office of the Solicitor to the Advocate General for Scotland, Victoria Quay, Edinburgh EH6 6QQ
Auditors:	The Comptroller and Auditor General, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP

Report of the Actuary

Overseas Superannuation Schemes administered by the Department for International Development

Accounts for the year ended 31 March 2018

Introduction

This statement has been prepared by the Government Actuary's Department at the request of the Department for International Development (DFID). It provides the pensions disclosures required for the 2017-18 Annual Report and Accounts of the Department for International Development Overseas Superannuation.

The Schemes are defined benefit schemes, and the benefits are paid under the Overseas Pensions Act 1973, the Pensions (Increase) Act 1971 (as amended), the Hong Kong (Overseas Public Servants) Act 1996 and the UK Police and Firemen Acts 1997. We have valued the Schemes in line with our understanding of the benefits provided. The Schemes are wholly unfunded. I am not aware of any informal practices operated within the Scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

The statement is based on a full actuarial valuation of the liabilities as at 31 December 2017 and we have assumed that the membership at 31 March 2018 is not materially different from that at 31 December 2017.⁴

Membership Data

Tables 5 and 6 below summarise the principal membership data as at 31 December 2017 used to prepare this statement.

The tables report the number of records; some members have more than one record. The pension figures exclude the pension increase award in April 2018. Average ages are weighted by pension amount.

Table 5: Membership data (excluding Hong Kong) by type of member

Membership	Number of records	Total pension (£000's p.a.)	Average age (years)
Service pensioners	3,318	17,920	89
Dependant pensioners	5,655	39,584	88
Total (excluding Hong Kong)	8,973	57,504	88

⁴ We have since been informed that there were 254 deaths and 64 new awards from 1 January 2018 to 31 March 2018. Allowing for this additional data would impact the calculated liability at 31 March 2018 although we would not expect the impact to be material.

Membership Data (continued)

Table 6: Hong Kong membership data*

	Number of records	SPOS ceiling (£000's p.a.)	SPOS base (£000's p.a.)	Total safeguard (£000's p.a.)	Contingent safeguard (£000's p.a.)	Average age (years)
Total	1,359	39,471	20,408	22,332	5,471	79

*Pension increases are known as the Supplementary Pension for Overseas Service (SPOS). The "SPOS base" pension is the member's pension at retirement converted into Pounds Sterling and the "SPOS ceiling" pension is the SPOS base pension plus pension increases. The "Safeguard" pension acts as an underpin to the SPOS pension and may apply for example if the value of the Hong Kong Dollar falls against the Pound Sterling.

Methodology

The present value of the liabilities as at 31 March 2018 has been determined using the Projected Unit Credit Method (PUCM) and the financial and demographic assumptions applying as at 31 March 2018. This method has been adapted for actives in agreement with DFID and the auditors in view of the small number of active members. That is, the actuarial liability of active members has been valued assuming members retire immediately but allowing for full future service to their normal retirement date. The contribution rate for accruing costs in the year ended 31 March 2018 was nil because of the way the methodology has been adapted for active members.

This statement takes into account the benefits normally provided under the Schemes.

Principal Financial Assumptions

The principal financial assumptions adopted to prepare this statement are shown in Table 7.

Table 7: Principal financial assumptions

Assumption (p.a.)	31 March 2018	31 March 2017
Nominal discount rate	2.55%	2.80%
Rate of increase in pension increases	2.45%	2.55%
Real discount rate in excess of pension increases	0.10%	0.24%
Expected return on assets	n/a	n/a

In assessing pension liabilities as at 31 March 2018, known pension increases up to and including April 2018 have been allowed for, with the assumptions set out in Table 7 above used for future pension increases. However, when summarising the membership data provided to us, the pensions in Tables 5 and 6 above exclude the pension increase award for April 2018.

Demographic Assumptions

The demographic assumptions determine the incidence of projected benefit outflow. For this assessment the only demographic assumptions that are relevant are mortality (in retirement), proportions married and ages of dependants. A full mortality analysis has been carried out based on the deaths over the period 31 March 2014 to 31 December 2017. The mortality assumptions have been set by reference to the outcome of this analysis. Table 8 summarises the demographic assumptions adopted to prepare this statement. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S2 tables' with the percentage adjustments to those tables derived from Scheme experience.

Demographic Assumptions (continued)

Table 8: Post-retirement mortality assumptions

Baseline mortality	Standard table	Adjustment
Males	S2NMA	102%
Females	S2NFA	100%

Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics (ONS) on 26 October 2017. Note that the accounts as at 31 March 2017 were based on the previous 2014-based projections.

We have used the same assumptions as for the previous assessment as at 31 March 2017 in relation to the proportion of members with a dependant and the age difference between a member and dependant. These assumptions only impact the calculation of the liabilities for members and not for dependants who are already in receipt of their pension.

The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2018 reflect a change to the mortality assumptions adopted for the previous assessment as at 31 March 2017.

Liabilities

Table 9 summarises the assessed value as at 31 March 2018 of benefits accrued under the Schemes prior to this date based on the data, methodology and assumptions described in the sections 'Membership Data', 'Methodology', 'Principal Financial Assumptions' and 'Demographic Assumptions'. The corresponding figures for the previous year are also included in the table.

Table 9: Statement of Financial Position

	31 March 2018 (£ million)	31 March 2017 (£ million)
Total market value of assets	nil	nil
Value of liabilities	(736.574)	(871.725)
Deficit	(736.574)	(871.725)
of which recoverable by employers	n/a	n/a

Accruing Costs

The cost of benefits accruing in the year ended 31 March 2018 (the Current Service Cost) is nil as a result of the adaptation to the PUCM agreed for the valuation of the active membership.

Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The past service cost in the year ended 31 March 2017 was £0.001m in respect of medical costs for a pensioner member. I am not aware of any events that have led to a material past service cost over 2017-18.

I am not aware of any events that have led to a material settlement or curtailment gain over 2017-18.

Sensitivity Analysis

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2018 of changes to the most significant actuarial assumptions.

The most significant financial assumptions are the real and nominal discount rates (the real discount rate represents the difference between the nominal discount rate and the assumed rate of pension increases) and the impact of these varies with the different types of pension benefit for which DFID is responsible.

- Where DFID is responsible for all of an increasing pension, the key impact comes from the difference between the nominal discount rate and the pension increase assumption, i.e. the real discount rate.
- Where DFID is responsible for the entire pension which is fixed in payment, it is the nominal discount rate that affects the value placed on the benefit, as the value is unaffected by changes in the pension increase assumption.
- There are also pensions where DFID is only responsible for the increases on pensions in payment, the impact depends on the difference between the value of an increasing and non-increasing pension, i.e. the difference between the values in the above two bullet points.

The key demographic assumption is pensioner mortality and we show the impact of assuming members live longer in retirement.

Table 10 shows the indicative effects on the total liability as at 31 March 2018 of changes to these assumptions (rounded to the nearest 0.5%) and we provide additional commentary on the impact of changes in financial assumptions below.

Table 10: Sensitivity to significant assumptions

Change in assumption				Approximate effect on total liability	
Financial assumption (p.a.)*	Nominal discount rate	Rate of pension increases	Real discount rate in excess of pension increases		
Financial assumptions adopted	2.55%	2.45%	0.1%	n/a	n/a
(i) Nominal discount rate 0.5% p.a. lower with no change in the real discount rate	2.05%	1.95%	0.1%	-2.0%	-£15 million
(ii) Real discount rate 0.5% p.a. lower with no change in the nominal discount rate	2.55%	2.95%	-0.4%	+6.5%	+£48 million
Demographic assumptions					
(iii) Pensioners assumed to experience mortality as if they were 1 year younger				+5.5%	+£41 million

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

Sensitivity Analysis (continued)

A lower real discount rate places a higher value on pensions that increase in payment and therefore the real discount rate sensitivity impacts on the value of both the increasing pensions and where DFID is only responsible for the increases on pensions in payment. The real discount rate does not affect the value of pensions that are fixed in payment. The overall impact of the lower real discount rate is a higher liability value.

The nominal discount rate sensitivity impacts on the value of pensions that are fixed in payment and on pensions where DFID is only responsible for the increases on pensions in payment as follows. It does not impact on the value of pensions where DFID is responsible for all of an increasing pension.

- The value of the benefits where DFID is only responsible for the increases on pensions in payment reduces when the nominal discount rate falls. As we assume that the real discount rate remains unchanged at 0.1% p.a. the value of the total increasing pension remains unchanged. The reduction in the nominal discount rate from 0.1% p.a. to -0.4% p.a. increases the value of the non-increasing element of the pension. The value of the pension increase element decreases as this is the difference between the value of the increasing pension and the value of the non-increasing element.
- The value of benefits where pensions are fixed in payment increases when the nominal discount rate falls.
- Due to the mix of these two types of pensions, the decrease in the value of benefits where DFID is only responsible for the increases on pensions in payment is greater than the increase in the value of benefits where pensions are fixed in payment. This leads to an overall reduction in liability.

Garry Swann
Government Actuary's Department
7 June 2018

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for International Development Overseas Superannuation to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Scheme and of its net resource Outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by 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
- prepare the financial statements on a going concern basis.

HM Treasury has appointed me, as Permanent Secretary, Accounting Officer of the Department and also Accounting Officer for the Overseas Superannuation Schemes. 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 Superannuation Schemes are set out in *Managing Public Money* published by HM Treasury.

The Accounting Officer is required to confirm that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that 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.

The Accounting Officer is required to confirm that the accounts as a whole are fair, balanced and understandable and that he takes personal responsibility for the accounts and the judgments required for determining that they are fair, balanced and understandable.

Governance Statement

Introduction

As Accounting Officer I have responsibility for ensuring that an effective corporate governance framework applies within the Overseas Superannuation Schemes, which provides strategic direction and effective management of the Schemes and their administrators. In particular the supporting corporate governance systems are designed to manage risks, ensure accountability and deliver efficient and effective organisational performance. As Accounting Officer for DFID as well as for the Overseas Superannuation Schemes, I also have particular responsibility for the activities which are carried out by DFID's OPD on behalf of the Schemes.

Opinion

As Accounting Officer, my opinion is informed by:

- the work of DFID's Internal Audit Department (IAD) and in particular any reviews carried out on OPD and their processes during the year under review
- the DFID Audit and Risk Assurance Committee
- the Director General for Finance and Corporate Performance, who has responsibility for OPD, confirmed through the Director's Statement of Assurance verification
- the Director for People, Operations and Systems, who is accountable for OPD, confirmed through his annual Director's Statement of Assurance verification
- the work performed and reported by the National Audit Office.

On the basis of this advice and evidence, I am satisfied with the overall standard of corporate governance that has been in place in OPD, applied to the Schemes, for the year ended 31 March 2018 and up to the approval date of these accounts. Any weaknesses identified in the internal operating environment have been assessed and appropriate action has been taken, or is in progress to address these.

Governing Bodies

This Statement describes the governance structure and arrangements that DFID has put in place in its capacity as administrating authority for the Schemes.

Since 9 January 2018, Lord Bates has been the Minister with responsibility for the Overseas Superannuation Schemes for the financial year ended 31 March 2018 (Minister of State Rory Stewart MP was responsible from 1 April 2017 to 8 January 2018).

The Scheme Manager of the Overseas Superannuation Schemes is an employee of DFID, in his capacity as Head of OPD.

The Director for People, Operations and Systems of DFID is accountable to DFID's Management Board for the work of OPD and for assessing and managing associated risks. OPD's sole responsibility is in relation to serving and fulfilling the requirements of the Schemes, set out within the SLA.

There is no Management Board in place within the Schemes due to the Schemes being closed. Where any decisions are required in respect of the Schemes the Management Board of DFID is consulted by the Director for People, Operations and Systems as appropriate. There have been no instances where this has been required during 2017-18.

Governing Bodies (continued)

Details of the DFID Management Board members and their respective meeting attendance records are included within the Governance Statement in DFID's 2017-18 Annual Report and Accounts, which can be found at www.gov.uk/government/organisations/department-for-international-development.

The pensions and related benefits under the Schemes have been set up under the Acts of Parliament noted in the Management Commentary (refer to page 1).

Compliance with the Corporate Governance Code of Good Practice

The Overseas Superannuation Schemes comply with the 'Corporate Governance in Central Government Departments: Code of Good Practice 2017' through the use of DFID systems and governance, applied within OPD. Confirmation that DFID is satisfied that it has complied with the Code is given in DFID's 2017-18 Annual Report and Accounts.

OPD's Performance

A SLA is in place between DFID, as sponsoring employer to the Schemes, and OPD, who have been appointed to carry out the administration of the Schemes. This confirms that OPD are responsible for the administration and payment of pensions to the Schemes' members and their dependants. The terms of the agreement also include OPD's responsibility within the British Government for all aspects of policy and advice on colonial pension matters.

This SLA was signed by the Scheme Manager and the Accounting Officer of DFID. It is subject to regular review to ensure it remains appropriate and effective in governing the work and resources of OPD. This includes consideration of the appropriateness of the information used to measure performance, both in terms of content and quality. A full review of the SLA was carried out during quarter four of 2017-18.

OPD's effectiveness is outlined within the OPD Annual Report. This is provided to the Minister with responsibility for the Schemes, myself as the Accounting Officer for both DFID and the Schemes, the Director General for Finance and Corporate Performance whose remit includes responsibility for OPD and the Director for People, Operations and Systems who is accountable for OPD, in order for them to review the performance of OPD. The data supplied includes details of workload and transactions undertaken in the year under review, number of complaints and compensation paid, details of payment irregularities, standards of service against targets together with details of financial performance of the department.

An update on the recommendations of the 2016-17 DFID Internal Audit Department Fraud Assurance Review is outlined under the Internal Control section.

Board's Performance

The effectiveness of DFID's Management Board is detailed in the Governance Statement within DFID's 2017-18 Annual Report and Accounts.

There have been no ministerial directions given in 2017-18.

Highlights of Management Committee Sub-Committees

DFID's Management Board sub-committees held meetings throughout the year 2017-18. The meetings identified no actions or outcomes in relation to the Overseas Superannuation Schemes. Highlights of the relevant Management Board sub-committees can be found within the Governance Statement in DFID's 2017-18 Annual Report and Accounts.

Risk Management and Internal Control Environment

The Schemes' assessment of risk and the internal control environment is based on the assessment of the environment applied within OPD and how this mitigates the principal risks and uncertainties identified which apply to the Schemes.

Internal Control

OPD's risk management architecture, as part of DFID as a whole, was fully reviewed in financial year 2017-18 and continues to be strengthened to deliver more active and effective management of risks. Management of risk in OPD is supported by the DFID Management Board's Risk Appetite Statement.

The Scheme Manager works with the Director for People, Operations and Systems to identify the key risks facing the Schemes and develop controls within OPD to mitigate, prevent and detect weaknesses in controls over these risks.

A Fraud Assurance Review on OPD was carried out during 2016-17 covering governance, risk management and control. The audit determined that OPD was operating outside DFID's risk appetite in terms of identification and management of fraud risk. IAD assessed the controls as designed and operated as inadequate, due to the historic nature of the IT system used, lack of documented and analysed fraud risks and limited risk management. An internal review was undertaken following IAD's report and an action plan was put in place. The audit recommendations have been implemented including expanding the documentation of risks, mapping out control processes, preparing an OPD Fraud Risk Assessment and specific staff fraud training.

As part of the IAD recommendations, OPD agreed a need to strengthen the accountability and governance arrangements for funds managed by third parties. Formal Third Party Agreements are being put in place to clarify the roles and provide assurance on the responsibilities of both parties. This work is being taken forward with the expectation that it will be concluded in the second quarter of 2018-19.

Although it was also highlighted that the OPD Payment system does not have an inbuilt facility for a case by case authorisation and approval, all key input is checked online and authorised from a data check report printed from the system. This key input is certified online daily by an OPD member of staff, ensuring a segregation of duties is in place. The monthly pay run cannot proceed without this certification being up to date. In addition to the additional manual checks implemented, DFID's Business Solutions Department are exploring what system enhancements can be made to further reduce risk; they are considering further upgrades to the existing system and also system replacement.

Capacity to Handle Risk

DFID's capacity to handle risk, including that of OPD, is set out in the Governance Statement in DFID's 2017-18 Annual Report and Accounts. This includes the overall responsibility of the Management Board in respect of risk management, and details of the integration of risk management throughout the Department.

The Risk and Control Framework

DFID's processes for identifying, evaluating and managing risk are set out in the Governance Statement in DFID's 2017-18 Annual Report and Accounts. These processes include the identification, evaluation and review of strategic risk by the Management Board and include the risks with potentially the most significant impact on DFID financially and non-financially. Risks associated with the work of OPD have not been identified among the strategic and policy risks monitored by the Management Board.

OPD has a Risk Register which highlights potential areas of risk, the key point of impact and the controls in place. Following the Fraud Risk Assessment of OPD in 2016-17, specific fraud training was provided for staff and the documentation of risks was expanded. The Risk Register is reviewed monthly by the Scheme Manager. Control of risk within OPD is also partly exercised through the setting of performance standards for OPD in the SLA. The SLA defines the required performance standards and efficiencies and these are subject to monitoring and review. The pension entitlement and payment authorisation processes have been reviewed and fully mapped. Performance against the SLA is included within the Report of the Managers. The Scheme Manager reviews these results and takes action where appropriate to identify and implement improvement opportunities.

A key risk that OPD faces is making continued pension payments following the death of a pensioner. The Scheme requires all members or their legal representatives to complete and return a signed annual declaration confirming proof of life and verifying their identity. The verification process ensures that all the data requested is clearly provided. This process has been fully reviewed and documented. If the annual declaration is not received or is returned incomplete, OPD suspend the pension payment until an explanation is provided or a properly completed declaration is received. OPD also conducts annual validation exercises on samples of pensioner groups to provide assurance on continued pension entitlement.

OPD participates in the Cabinet Office's National Fraud Initiative (NFI), which aims to detect possible frauds of public monies by matching the information held on individuals on the databases of participating public sector organisations. The NFI is effectively a formal fraud risk assessment process, and the results are used by management to inform an assessment of the Scheme's susceptibility to fraud. The participation in the NFI is now an established practice in OPD and will be conducted every two years. OPD had no incidents arising from the NFI in 2016-17 and will participate again in 2018-19.

In OPD, consistent compliance with prescribed procedures is promoted and supported through general and OPD specific guidance manuals, training programmes, help desks, and central scrutiny and checks. OPD has controls in place to address the risk that pensions continue to be paid after the death of beneficiaries. OPD also has contingency plans in place to respond to threats to key information systems and, where possible, to maintain continuity of operations.

OPD, as part of DFID, follows ISO/IEC 27001:2013, the internationally recognised standard for information security management. This provides considerable assurance on the efficiency of our information security management system, which is utilised by OPD to record information pertaining to the Overseas Superannuation Schemes. DFID has an Information and Cyber Security Management Group, who manage DFID's Information Security Management System and regularly report the information risk position to DFID's Management Board. OPD is working with the DFID General Data Protection Regulation project team to ensure compliance with the new Data Protection legislation.

DFID is required to report on data incidents which meet criteria for severity to central government and to the Information Commissioner's Office. OPD had no incidents which met these criteria in 2017-18.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within DFID, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in the management letter and other reports and by the DFID Audit and Risk Assurance Committee.

The Director for People, Operations and Systems has provided me with an annual statement of assurance for the directorate, covering identification and management of risk and an assurance on compliance with management and control systems within his Division. The statement of assurance informs my review of OPD systems for performance management and compliance with control systems. This reflects input from the Scheme Manager on the performance of OPD during the year under review, which is provided in the Scheme Manager's annual report.

Significant Internal Control Issues

There were no significant internal control issues found during 2017-18. The documented Internal Control framework in place enables all internal controls to be continually reviewed. This allows OPD to respond and adapt quickly to any change in circumstances. As mentioned in an earlier section, the recommendations of the 2016-17 IAD Fraud Assurance Review have been largely implemented. The expectation is that the remainder will be concluded in the second quarter of 2018-19.

Statement of Parliamentary Supply

Summary of Resource Outturn 2017-18

	Note	2017-18						2016-17	
		Estimate			Outturn			Outturn	
		Voted £000	Non- Voted £000	Total £000	Voted £000	Non- Voted £000	Total £000	Voted Outturn compared with Estimate: saving £000	Total £000
Departmental Expenditure Limit									
- Resource		-	-	-	-	-	-	-	
- Capital		-	-	-	-	-	-	-	
Annually Managed Expenditure									
- Resource		27,030	-	27,030	23,561	-	23,561	3,469	28,355
- Capital		-	-	-	-	-	-	-	-
Total Budget	SOPS1	27,030	-	27,030	23,561	-	23,561	3,469	28,355
Non-Budget									
- Resource		-	-	-	-	-	-	-	-
Total		27,030	-	27,030	23,561	-	23,561	3,469	28,355
Total Resource		27,030	-	27,030	23,561	-	23,561	3,469	28,355
Total Capital		-	-	-	-	-	-	-	-
Total		27,030	-	27,030	23,561	-	23,561	3,469	28,355

Net Cash Requirement 2017-18

Note	2017-18 Estimate £000	2017-18		2016-17
		Outturn £000	Outturn compared with Estimate: saving £000	Outturn £000
SOPS2	66,150	60,579	5,571	66,904

Administration Costs 2017-18

2017-18 Estimate £000	2017-18 Outturn £000	2016-17 Outturn £000
-	-	-

Figures in the areas outlined in bold are the voted totals or other totals subject to Parliamentary control.

Explanations of variances between Estimate and Outturn are given in the Financial Review on pages 4 to 5.

Notes to the Statement of Parliamentary Supply

SOPS1 Analysis of Net Resource Outturn by Section

	2017-18									2016-17
	Outturn						Estimate			Outturn
	Administration			Programme			Total £000	Net Total £000	Net total compared to Estimate adjusted for virements £000	Total £000
Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000					
Annually Managed Expenditure										
Voted:										
A: Interest on Scheme liability and other expenses	-	-	-	23,561	-	23,561	23,561	27,030	3,469	28,355
TOTAL	-	-	-	23,561	-	23,561	23,561	27,030	3,469	28,355

SOPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net total Outturn compared with Estimate: saving/(excess) £000
Resource Outturn				
		27,030	23,561	3,469
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Addition to pension provision	5.2	(27,030)	(23,561)	(3,469)
<i>Adjustments to reflect movements in working balances:</i>				
Use of pension provision	5.2	66,150	60,530	5,620
Decrease in receivables		-	(56)	56
Decrease in payables	4.1	-	105	(105)
Net cash requirement	4.2	66,150	60,579	5,571

Parliamentary Accountability Disclosures

Losses and Special Payments

Losses Statement

	2017-18	2016-17
Total number of losses	89	100
Total value of losses	£38,044	£34,780

There are no individual cases greater than £300,000.

Special Payments

	2017-18	2016-17
Total number of special payments	1	1
Total value of special payments	£40,455	£30,794

There are no individual cases greater than £300,000.

The Statement of Parliamentary Supply, Notes to the Statement of Parliamentary Supply and Parliamentary Accountability Disclosures are subject to audit.

Matthew Rycroft CBE
Accounting Officer for the Department for International Development and Overseas
Superannuation Schemes

21 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the Department for International Development Overseas Superannuation pension schemes (“the Scheme”) for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Income/(Expenditure), Financial Position, Cash Flows, Changes in Taxpayers’ Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme’s affairs as at 31 March 2018 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2016. I am independent of the Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Accountability Report, other than the parts described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the Accountability Report; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on 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 or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

Date 27 June 2018

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

Section B: Financial Statements

Statement of Comprehensive Net Income/(Expenditure)

for the year to 31 March 2018

	Note	2017-18 £000	2016-17 £000
Income			
Other pension income		-	-
Expenditure			
Interest on Scheme liability	5.2	(23,561)	(28,354)
Past service cost	5.2	-	(1)
Net expenditure		(23,561)	(28,355)
Other comprehensive net income/(expenditure)			
Pension re-measurements:			
Loss due to change in financial assumptions	5.3	(5,730)	(73,455)
Gain due to change in mortality assumptions	5.3	50,053	-
Experience gain/(loss) arising on Scheme liability	5.3	53,859	(15,747)
		98,182	(89,202)
Total comprehensive net income/(expenditure) for the year ended 31 March		74,621	(117,557)

Notes on pages 28 to 35 form part of these accounts.

Statement of Financial Position

as at 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Current assets			
Receivables		174	230
Cash and cash equivalents	3	83	3,082
Total current assets		<u>257</u>	<u>3,312</u>
Current liabilities			
Payables	4.1	(582)	(687)
Consolidated Fund payable for unused supply	4.2	(83)	(3,082)
Total current liabilities		<u>(665)</u>	<u>(3,769)</u>
Net current liabilities, excluding pension liability		<u>(408)</u>	<u>(457)</u>
Pension liability	5.2	(736,574)	(871,725)
Net liabilities, including pension liability		<u>(736,982)</u>	<u>(872,182)</u>
Taxpayers' equity			
General fund		<u>(736,982)</u>	<u>(872,182)</u>
		<u>(736,982)</u>	<u>(872,182)</u>

Matthew Rycroft CBE
Accounting Officer for the Department for International Development and Overseas
Superannuation Schemes

21 June 2018

Notes on pages 28 to 35 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2018

	Note	General Fund	
		2017-18 £000	2016-17 £000
Balance at 1 April		(872,182)	(821,529)
Net Parliamentary funding - drawn down	4.2	57,580	69,140
Net Parliamentary funding - deemed	4.2	3,082	846
Supply payable adjustment	4.2	(83)	(3,082)
Comprehensive net income/(expenditure) for the year		74,621	(117,557)
Net change in taxpayers' equity		135,200	(50,653)
Balance at 31 March		(736,982)	(872,182)

Notes on pages 28 to 35 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Cash flows from operating activities	6.1	(60,579)	(66,904)
Cash flows from financing activities	6.2	<u>57,580</u>	<u>69,140</u>
Net (decrease)/increase in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund		(2,999)	2,236
Payments of amounts due to the Consolidated Fund		-	-
Net (decrease)/increase in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund	3	<u>(2,999)</u>	<u>2,236</u>
Cash and cash equivalents at the beginning of the year	3	<u>3,082</u>	<u>846</u>
Cash and cash equivalents at the end of the year	3	<u>83</u>	<u>3,082</u>

Notes on pages 28 to 35 form part of these accounts.

Notes to the Financial Statements

For the year ended 31 March 2018

1 Basis of preparation

- 1.1 The financial statements of the Overseas Superannuation Schemes have been prepared in accordance with the Government Resources and Accounts Act 2000 and the relevant provisions of the 2017-18 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans* are of particular relevance to these statements in the context of their application under the FReM.
- 1.2 In addition to the primary statements prepared under IFRS, the FReM also requires the Scheme to prepare an additional statement – a Statement of Parliamentary Supply. This, statement and its supporting notes, show Outturn against Estimate in terms of the net resource requirement and the net cash requirement.
- 1.3 The financial statements of the Overseas Superannuation Schemes show the financial position at the year end and the income and expenditure during the year. The Statement of Financial Position shows the deficit of the Scheme; the Statement of Comprehensive Net Income/(Expenditure) shows, amongst other things, the movements in the liability analysed between the pension cost and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme's financial statements should be read in conjunction with that Report.
- 1.4 The Schemes are mostly non-contributory defined benefit pension schemes, for colonial civil and military officers and their dependants, which are managed by OPD. A fuller description of the Schemes is in the Report of the Managers on pages 1 to 6.
- 1.5 The administration costs of OPD are part of those of DFID and are included in the DFID 2017-18 Annual Report and Accounts, as is the cost of audit of these statements by the Comptroller and Auditor General. The Report of the Managers includes information on administration and efficiency.

2 Statement of accounting policies

- 2.1 The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate in the public sector context.
- 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 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 Scheme's financial statements.
- 2.3 Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme's liabilities are measured on an actuarial basis using the projected unit method in accordance with IAS 19 *Employee Benefits* and are discounted at the real discount rate in excess of pension increases of 0.10 per cent (2016-17: 0.24 per cent). The discount rate is determined by HM Treasury who track changes in the real yield implied from high quality corporate bond rates.

2 Statement of accounting policies (continued)

- 2.4 Pension benefits payable are accounted for as a decrease in the Scheme's liabilities on an accruals basis.
- 2.5 Full actuarial valuations of the Scheme's liabilities are prepared every four years by the Government Actuary's Department. A full actuarial valuation, in accordance with IAS 19 *Employee Benefits*, was performed as at 31 December 2017 and it has been assumed that there have been no material changes to membership between 31 December 2017 and 31 March 2018. Further information on the valuation process can be found in the Report of the Actuary. Actuarial gains and losses arising from valuations (and the interim year reviews) are recognised in the Statement of Comprehensive Net Income/(Expenditure).
- 2.6 Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are stated at discounted amounts and the amount reported to Parliament separately noted.
- 2.7 IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*, will be adopted by the public sector from 1 April 2018. There are no material balances which will be impacted by this change.

3 Cash and cash equivalents

	2017-18 £000	2016-17 £000
Balance at 1 April	3,082	846
Net changes in cash balances	(2,999)	2,236
Balance at 31 March	83	3,082

The following balances at 31 March were held at:

	2017-18 £000	2016-17 £000
Government Banking Service	79	3,066
Commercial banks	4	16
Balance at 31 March	83	3,082

4 Payables – in respect of pensions

4.1 Analysis by type

	Note	2017-18 £000	2016-17 £000
Amounts falling due within one year			
Payables:			
HMRC (other central government)		(581)	(685)
Other payables (non-government)		(1)	(2)
		(582)	(687)
Consolidated Fund payable:			
Supply issued and not used	4.2	(83)	(3,082)
Total: Operating and Consolidated Fund		(665)	(3,769)

There are no payables falling due after more than one year (2016-17: £nil).

4.2 Consolidated Fund payable for unused supply

	Note	2017-18 £000	2016-17 £000
Supply drawn down		(57,580)	(69,140)
"Deemed" supply (retained from the previous year)		(3,082)	(846)
		(60,662)	(69,986)
Net cash requirement	SOPS2	60,579	66,904
Supply payable		(83)	(3,082)

5 Pension liability

5.1 Assumptions underpinning the Scheme liability

The Schemes included in these financial statements are unfunded defined benefit schemes. The Government Actuary's Department performed a full actuarial valuation of the Schemes in accordance with IAS 19 *Employee Benefits* as at 31 December 2017 and it has been assumed that there have been no material changes to membership between 31 December 2017 and 31 March 2018. The Report of the Actuary on pages 7 to 11 sets out the scope, methodology and results of the work the actuary has carried out.

The Scheme Manager together with the actuary has signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Scheme Manager 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 data, including age and gender profiles
- The benefit payable, including the member's pension and any spouse's pension
- The Scheme's income and expenditure
- 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 key financial assumptions used by the actuary were:

	At 31 March 2018	At 31 March 2017	At 31 March 2016	At 31 March 2015	At 31 March 2014
Rate of increase in salaries (%)	n/a	n/a	n/a	n/a	n/a
Rate of increase in pensions increases (%)	2.45	2.55	2.20	2.20	2.50
Real discount rate* in excess of pension increases (%)	0.10	0.24	1.37	1.30	1.80
Nominal discount rate* (%)	2.55	2.80	3.60	3.55	4.35
Expected return on assets	n/a	n/a	n/a	n/a	n/a

* Discount rates are determined by HM Treasury with reference to market yields on high quality corporate bonds.

Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the actuary must estimate the impact of several inherently uncertain variables into the future. These variables include not only the key financial assumptions noted in the table above, but also the changes that will occur in the future in the mortality rate.

5 Pension liability (continued)

5.1 Assumptions underpinning the Scheme liability (continued)

Current baseline mortality rates have been assumed to be in line with the S2 mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession), with the percentage adjustments to those tables derived from Scheme experience:

Males - S2NMA, 102%
Females - S2NFA, 100%

These rates are assumed to improve in future in line with the latest central projections for population mortality published by the Office for National Statistics (2016-based projections).

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of 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 valuation of the Scheme liabilities. However, the Scheme Manager 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. In reality, the complexity and range of assumptions underlying the calculation of the Scheme liabilities are such that a change in one assumption is likely to have a knock-on effect on other assumptions.

A sensitivity analysis for each significant assumption as at 31 March 2018 is included in the Report of the Actuary on pages 7 to 11.

In the opinion of the Scheme Manager, the actuary has used key assumptions that are the most appropriate for the Scheme in the light of current knowledge and in accordance with IAS 19 *Employee Benefits*.

The net decrease in future liability resulting from changes in assumptions is disclosed in Note 5.3. This also discloses net experience gains and losses, showing the decrease in the liability for 2017-18 due to events not coinciding with assumptions made for the last valuation. The full actuarial valuation has resulted in gains of £50.1 million from changes in mortality assumptions and also membership experience gains of £57.1 million, offset by £3.3 million of other experience losses and £5.7 million of losses from changes in financial assumptions.

The pension liability also includes an estimate for contingent spouses' pensions

5.2 Analysis of movements in the Scheme liability

	Note	2017-18 £000	2016-17 £000
Scheme liability at 1 April		(871,725)	(821,034)
Interest on Scheme liability		(23,561)	(28,354)
Benefits payable		60,530	66,866
Actuarial gain/(loss)	5.3	98,182	(89,202)
Past service cost		-	(1)
Scheme liability at 31 March		(736,574)	(871,725)

5 Pension liability (continued)

5.3 Analysis of actuarial gain/(loss)

	2017-18 £000	2016-17 £000
Experience gain/(loss) arising on Scheme liability (7.31% of year end liability; 2016-17: 1.81% of year end liability)	53,859	(15,747)
Gain due to change in mortality assumptions	50,053	-
Loss due to change in financial assumptions	(5,730)	(73,455)
Total actuarial gain/(loss) at 31 March	98,182	(89,202)

5.4 History of experience gains/(losses)

	2018	2017	2016	2015	2014
Experience gains/(losses) on the Scheme liability					
Amount	£54m	(£16m)	£44m	£65m	£31m
Percentage of the present value of the Scheme liability	7.31%	1.81%	5.39%	6.83%	3.08%
Total amount recognised in Statement of Changes in Taxpayers' Equity					
Amount	£54m	(£16m)	£44m	£65m	£31m
Percentage of the present value of the Scheme liability	7.31%	1.81%	5.39%	6.83%	3.08%

6 Notes to the cash flow statement

6.1 Cash flows from operating activities

	2017-18 £000	2016-17 £000
Net expenditure for the year	(23,561)	(28,355)
Increase in pension liability	23,561	28,355
Benefits paid and payable	(60,530)	(66,866)
Decrease in receivables	56	47
(Decrease)/increase in total payables	(3,104)	2,151
<i>less: movements in payables for items not passing through the revenue account</i>	2,999	(2,236)
Net cash outflow from operating activities	(60,579)	(66,904)

6 Notes to the cash flow statement (continued)

6.2 Cash flows from financing activities

	2017-18 £000	2016-17 £000
From the Consolidated Fund (supply) - current year	57,580	69,140
Net financing	57,580	69,140

6.3 Reconciliation of net cash requirement to (decrease)/increase in cash

	2017-18 £000	2016-17 £000
Net cash requirement	(60,579)	(66,904)
From the Consolidated Fund (supply) - current year	57,580	69,140
(Decrease)/increase in cash	(2,999)	2,236

7 Third party repayments

	2017-18 £000	2016-17 £000
Balance held as at 1 April	(20)	(20)
Received	(234)	(219)
Paid	234	219
Balance held as at 31 March	(20)	(20)

The balance held by OPD for third parties is funding for the cost of pensions in relation to the Kenya Asian Officers' Family Pension Fund, administered by Crown Agents, and the Pakistan High Commission.

The pension liability associated with the Kenya Asian Officers' Family Pension Fund is included in the pension liability balance in these accounts. Although the Scheme is liable to pay the pensions, the Kenya Asian Officers' Family Pensions Fund reimburses the Scheme with the amounts paid.

OPD acts solely as a paying agent for the Pakistan High Commission, holding no liability for these pensions.

8 Financial instruments

As the cash requirements of the Schemes 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. Some credit risk exists in relation to receivables, otherwise the Schemes are exposed to little credit, liquidity or market risk.

The carrying amounts of financial instruments as at 31 March were as follows:

	Note	2017-18 £000	2016-17 £000
Financial assets			
Receivables		174	230
Cash and cash equivalents	3	83	3,082
		257	3,312
Financial liabilities			
Financial liabilities at amortised cost	4.1	(665)	(3,769)
		(665)	(3,769)

9 Contingent liabilities

A contingent liability of £81.4 million (2016-17: £86.9 million) exists primarily relating to the Hong Kong (Overseas Public Servants) Act 1996, Sterling Safeguard Scheme for value of public service pensions. The safeguard is the amount by which a member's safeguard pension exceeds the UK base pension plus pension increases in relation to the Supplementary Pension for Overseas Service (SPOS). The member's safeguard increases in line with UK inflation. If the Hong Kong pension ceased (either because of default by the government of the Hong Kong Special Administrative Region or because of a fall in the value of the Hong Kong dollar), then DFID would be responsible for paying the full safeguard pension or the SPOS pension, whichever is greater. This is recognised as a contingent liability (net of the SPOS and the safeguard liability already recognised in the pension liability) and is valued assuming that members' Hong Kong pensions ceased on 1 April 2018.

10 Related party transactions

OPD costs for managing pensions are part of DFID administration expenditure and are included in DFID's 2017-18 Annual Report and Accounts. In 2017-18 administration costs were £405,016 (2016-17: £445,855).

No other transactions with the Schemes have been undertaken by the Manager of the Schemes, key managerial staff or other related parties during the year.

11 Events after the reporting period

In accordance with the requirements of IAS 10 *Events After the Reporting Period*, events after the reporting period are considered up to the date on which the Accounting Officer authorises the accounts for issue. The Accounting Officer authorised these financial statements for issue on 27 June 2018, the date of the Certificate and Report of the Comptroller and Auditor General.

No non-adjusting or adjusting events after the reporting date have been identified.

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