
NHS Pension Scheme

(Incorporating the NHS Compensation for
Premature Retirement Scheme)

Accounts
2011-12

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Accounts 2011-12

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

Annual Report presented to the House of Commons by Command of Her Majesty

*Annual Report and Accounts presented to the House of Lords by Command of Her
Majesty*

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REPORT OF THE MANAGERS

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

BACKGROUND TO THE SCHEME

Statutory basis for the Scheme

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

Scheme provisions are governed by the following sets of Regulations:

- The NHS Pensions Scheme Regulations 1995 and 2008, as amended;
- The NHS (Compensation for premature retirement) Regulations 2002 Consolidated;
- The Pensions (Increase) Act 1971;
- NHS AVC Regulations; and
- NHS Gratuitous Expectations Regulations.

On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. Most members of the Pension Scheme prior to 1 April 2008 are in the 1995 Section. New joiners on, or after, 1 April 2008 are members of the 2008 section. The changes introduced new rules for NHS employees joining from 1 April 2008 and modified the rules for those already in the pension scheme prior to this date. (Further details of these changes can be found on the NHS Pensions website <http://www.nhsbsa.nhs.uk/pensions>).

Eligibility to join the Scheme

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

As at 31 March 2012 there were 438 participating NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,394 participating GP Practice employers and 474 Direction Bodies.

Main features of the Scheme

The NHS Pension Scheme provides defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained.

The payments made to members are funded by income received. If payments exceed income within a financial year, the balance of the funding required to meet the payments is provided by Parliament through the annual Supply Estimates process. Income during 2011-12 exceeded payments made by the Scheme, so no additional funding was required. The balance of surplus cash is returned to HM Treasury.

Annual Pensions

The Scheme is a “final salary” scheme. Members in the 1995 Section receive a pension worth 1/80th of the best of the last three year's pensionable pay for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.4% of total pensionable earnings over the relevant pensionable service.

Members in the 2008 Section receive a pension worth 1/60th of the average of the best three consecutive years pensionable pay in the last ten; for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.87% of total pensionable earnings over the relevant pensionable service.

Pensions Indexation

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12 the Consumer Price Index (CPI) is used to replace the Retail Prices Index (RPI) in the calculation of awards to members. It is noted that the change of index was implemented in the valuation of the pension liability in 2010-11.

Lump Sum Allowance

A lump sum is payable on retirement. Members in the 1995 Section receive a lump sum which is normally three times the annual pension payment. Members in the 2008 Section receive a lump sum which may be a maximum of 25% of the value of their fund at retirement.

Ill-Health Retirement

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

Death Benefits

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

Added Years and Additional Pension purchase

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

Transfer between funds

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

Preserved benefits

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

Compensation for early retirement

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

MANAGEMENT OF THE SCHEME

Organisations responsible for managing the Scheme

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

The administration of the Scheme includes calculation of benefits, collection of contributions from employers, maintenance of member records and payment of benefits.

The costs of administering the Scheme are met by the NHSBSA, which is in turn funded by the Department of Health. The annual accounts of the NHSBSA can be found at http://www.nhsbsa.nhs.uk/annual_report.aspx

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

Corporate governance of the Scheme, including management team

Details of the management team responsible for the administration of the Scheme, including the governance arrangement, can be found in the Annual Governance Statement on page 16.

Arrangements governing determination of contribution rates and benefits

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that “the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years”.

The last formal actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2004 (published in December 2007). Consequently, a formal actuarial valuation would have been due to have been completed as at 31 March 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

The Valuation report undertaken as at 31 March 2004 was used to determine the contribution rates payable during 2011-12. This report considered the changes to the NHS Pension Scheme taking effect from 1 April 2008 and recommended that employer contributions could continue at the existing rate of 14% of pensionable pay from 1 April 2008. For employee contributions a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings was introduced from 1 April 2008.

The benefit structures of the Scheme are determined by the Secretary of State for Health.

Following the Budget announcement on 23 March 2011, Department of Health (DH) and Government Actuary's Department (GAD) confirmed a review of the factors used to calculate various case types would be undertaken. New factors have since been implemented in respect of redundancy, trivial commutations, actuarially reduced early retirement and transfers. The changes to the factors were also linked to HM Treasury's review of the discount rate which determines the basis for the calculation of Cash Equivalent Transfer Values (CETVs) payable from Public Service Schemes.

KEY DEVELOPMENTS IN YEAR

Changes in contributions

There were no changes to the contribution rates or tiers for employee contributions during 2011-12.

Changes in benefits

There were no changes to the benefit structure during 2011-12.

Membership statistics (movement in year)

Details of the current membership of the Scheme at 31 March 2012 are set out below:

Active Members

Active members at 1 April 2011	1,320,479
New entrants in the year (including deferred members who rejoin and transfers in)	55,117
Retirements in year	(35,668)
Members leaving the Scheme with deferred pension rights	(49,141)
Transfers out	(2,519)
Members leaving the Scheme and taking a refund of contributions	(26,505)
Deaths	(4,494)
Active members at 31 March 2012	1,257,269

Deferred members

Deferred members at 1 April 2011	560,332
Members leaving who have deferred pension rights, and members rejoining the Scheme	44,244
Members taking up deferred pension rights	(8,623)
Deferred members at 31 March 2012	595,953

Pensioners in payment (including Compensation payments)

	Members	Dependants	Total
Pensioners in payment at 1 April 2011			669,090
Members retiring	44,291		44,291
New Dependants		5,341	5,341
Cessations in year	(13,883)	(3,559)	(17,442)
Pensioners in payment at 31 March 2012			701,280

Financial position at 31 March 2012

As at 31 March 2012 the liabilities of the Scheme were valued at £247.0 billion. This is a reduction of £10.7 billion from the liabilities at 31 March 2011 of £257.7 billion, and is due to an actuarial gain of £28.1 billion, which exceeded current year net additions to the liability of £17.4 billion. The movement is detailed in Note 20.2 to the accounts. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer.

Results for the year

Resource Outturn to Supply Estimate

The Statement of Parliamentary Supply (page 24) provides information on how the Scheme has performed against Parliamentary Controls on resource and cash expended.

This shows that the Scheme has not breached any of the Parliamentary Controls.

The 2011-12 net resource outturn was £16.4 billion (2010-11: -£14.2 billion) which was within the voted estimate of £16.5 billion. Details can be found in the Statement of Parliamentary Supply contained within the accounts. The Outturn is less than the Estimate due primarily to current service cost and enhancements expenditure being lower than forecast by £84 million (less than 1 day's expenditure), and income being lower than forecast by £8 million (less than 1 day's income).

Net Cash Requirement

The NHS Pension Scheme is an unfunded pension scheme in which payments from the Scheme are funded by current employees and employers with the surplus paid over to HM Treasury.

In cash terms, the Scheme recorded cash received and surrenderable to the Consolidated Fund of £0.9 billion against an estimated surplus of £0.8 billion. The Outturn is less than the Estimate due to fewer than expected retirements in the final quarter. This resulted in pension payments and lump sum payments being lower than forecast.

The NHSBSA continued to work closely with the Government Actuary's Department (GAD), to refine the forecasts to take into account emerging trends and anticipated changes in behaviour as a result of perceived and actual changes to the Scheme.

Events after the reporting period (see note 25)

There were no events to disclose after the end of the reporting period.

Issues during 2011-12

Adoption of the Consumer Price Index (CPI) for the indexation of the Public Service pensions

The Government announced in the June 2010 Budget that its policy was to use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) to uprate many tax credits, benefits and pensions. A legal challenge was raised to the use of CPI in uprating public service pensions, and on 2 December 2011 the High Court found for the Government on all four grounds of challenge to the Secretary of State's CPI uprating decision applicable to social security pensions and benefits, and the effects on public service pensions. The High Court granted permission to the claimants to appeal on two grounds, and on 20 March 2012 the Court of Appeal unanimously found for the Government on those two grounds. The necessary changes have been made to all scheme literature, booklets and business processes to reflect the pension indexation changes.

NHS Pensions Choice

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

The delivery of statements to members to enable this choice to be made was successfully completed on 31 March 2012, with over 1.1 million statements being issued.

Statements will continue to be issued to all scheme members who become eligible upon re-joining the NHS Pension Scheme within 5 years of leaving the 1995 section. These are anticipated to be small in volume.

National Fraud Initiative

On a biennial basis, the NHS Pension Scheme takes part in the National Fraud Initiative, which commenced in 1998 and is co-ordinated by the Audit Commission. This initiative allows the Scheme to submit approved data to the Audit Commission who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The table below provides an update of the position for the

exercises conducted since 1998 (For the purposes of this report NFI1998, NFI2000, NFI2002 and NFI2004 have been consolidated), and lists the outstanding amounts, which are still being actively pursued.

NFI Exercise	Total Identified £000	Total Cases	Prior Years		2010-11		2011-12		Outstanding at 31/03/2012 £000
			Recovered £000	Written-off £000	Recovered £000	Written-off £000	Recovered £000	Written-off £000	
NFI 1998 - 2004	3,830	1,226	2,482	1,082	47	31	41	17	130
NFI 2006	1,573	522	1,117	188	95	34	60	8	71
NFI 2008	1,976	547	422	5	700	64	254	221	310
NFI 2010	1,504	400	-	-	15	-	813	23	653
Total	8,883	2,695	4,021	1,275	857	129	1,168	269	1,164

Part-time staff access to the NHS Pension Scheme

The Scheme has made further progress in clearing cases affected as a consequence of the Preston and Others v Wolverhampton Healthcare NHS Trust employment tribunal case (the Preston case) and the subsequent test cases, appeals and cross-appeals.

In total, 12,046 Employment Tribunal claims have been taken out against the Scheme, the vast majority of the claims have now been processed and judgments have been issued in all but 3 claims.

Whilst the numbers of claims received are quite small there is no cut off date for employees to take out an employment tribunal claim, and until all employees who worked part time during the period 08/04/1976 to 31/03/1991 have retired NHS Pensions will be named in all new NHS part time pensions employment tribunal claims.

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

As there are very few claims now being received, part-time access will not be reported within the 2012-13 pension accounts.

Interest on late payment of pension scheme benefits

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

All cases identified have now been processed and an interest payment made, apart from cases where the member retired between 1 April 2000 and 31 December 2002. Applications have been invited via inclusion in the 2011 Pensioners Newsletter despatched to every pensioner member, who think that their benefits were not paid on time between the above dates. As at 31 March 2012 we have received 46 valid applications from these pensioner members, and made payments amounting to £13,836. No valid applications have been received since January 2012.

As there are few claims now being received for the period 1 April to 31 December 2002, retrospective interest paid under the provision of Regulation T8 will not be reported within the 2012-13 pension accounts.

ISSUES FOR 2012-13

Changes to scheme contribution rates

Employee contribution rates will change from 1 April 2012 to the rates detailed below. The Government has given a commitment to review the long-term affordability and sustainability of public service pensions following a recent review by the Independent Public Service Pensions Commission chaired by Lord Hutton.

The Government accepted Lord Hutton's conclusion that reform was needed and has taken his recommendations as a basis for consultation with public sector workers and trade unions on long term reform of pension arrangements. These changes are expected in 2015 and further information on the scope and shape of the proposed scheme is currently being determined.

Ahead of this longer-term reform, the Commission made clear that there is a rationale for increasing pension scheme member contributions to ensure a fairer distribution of pension scheme costs between taxpayers and members. The changes to contributions have now been included in the Pension Scheme Regulations.

Scheme Year 2012-2013

<i>Pensionable Pay band</i>	<i>Contribution percentage rate</i>
Up to £15,000	5%
£15,001 to £21,175	5%
£21,176 to £26,557	6.5%
£26,558 to £48,982	8%
£48,983 to £69,931	8.9%
£69,932 to £110,273	9.9%
£110,274 to any higher amount	10.9%

Holistic data strategy (HDS) project

The aim of the Holistic Data Strategy (HDS) Project is to improve the overall data quality of all member data with particular emphasis on prevention, correction and thinking differently. The project will be looking at how, through preventative measures such as Employer education, NHS Pensions can work collaboratively with NHS organisations to increase the percentage of data processing successfully the first time, and as a result reduce the amount of corrective action that is currently required by administrators, and finally by 'thinking differently' look at how processes can be improved to support this.

The project is broken down into a number of key areas as follows:

- Staff focus and Business Process Improvements;
- System automation and Business rules;
- Electronic Staff Records (ESR) Reconciliation;
- User education and support; and
- Communication, engagement, roles and responsibilities and escalation.

Annual Benefit Statements

We have continued with the development of our business capabilities to allow the production of Annual Benefit Statements for members of the NHS Pensions Scheme. This development will form part of the strategic delivery of Total Rewards Statements that is due to go live from July 2013.

INFORMATION FOR MEMBERS

Pension Increase

The Pensions increase rate was 3.1% (2010-11 - 0.0%) with effect from 11 April 2011 (12 April 2010) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

Supplementary information available to members

Information regarding the provisions of the Scheme can be found on the website of the NHSBSA as well as copies of Pension Accounts and Actuarial Valuation Reports. The website address is as follows: <http://www.nhsbsa.nhs.uk/pensions>.

Information about FSAVCs and Stakeholder Pensions

The Pensions Scheme has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life. These contributions are not contained within the cash flows of the Scheme, but paid directly to the approved provider (please see note 14).

Nick Scholte
Chief Executive, NHS Business Services Authority
6 July 2012

Management structure and advisors

Accounting Officer:

Nick Scholte
NHS Business Services Authority
Stella House, Goldcrest Way
Newcastle upon Tyne NE15 8NY

Scheme Administrator:

NHS Business Services Authority Pensions
Hesketh House
200-220 Broadway
Fleetwood FY7 8LG

Actuary:

Government Actuary's Department
Finlaison House
15-17 Furnival Street
London EC4A 1AB

In-house AVC Providers:

Equitable Life Assurance Society
Walton Street
Aylesbury
Buckinghamshire HP21 7QW

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

Prudential PLC
250 Euston Road
London NW1 2PQ

Auditors:

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

Legal advisers:

DH Legal Services
5th Floor The Adelphi
Area 159 5th Floor
1-11 John Adam Street
London WC2N 6HT

Bankers:

Paymaster (1836) Ltd
Sutherland House
Russell Way
Crawley
West Sussex RH10 1UH

NatWest (England & Wales)
Government Banking Service
PO Box 64388
National Westminster Bank PLC
London Corporate Service Centre
3rd Floor
2 ½ Devonshire Square
London EC2P 2GR

Government Banking Service
c/o Citi
CitiGroup Centre
Canada Square
Canary Wharf
London E14 5LB

Further information

Any enquiries about the NHSPS should be addressed to:

Scheme Administrator
NHS Business Services Authority
Pensions, Hesketh House, 200-220 Broadway,
Fleetwood FY7 8LG

**REPORT OF THE ACTUARY FOR THE NHS PENSION SCHEME FOR
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012**

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the NHS Business Services Authority ('NHSBSA'). It summarises the pensions disclosures required for the 2011-12 Resource Accounts of the NHSPS ('the scheme').
2. The NHSPS is (for most members) a final salary defined benefit scheme, the rules of which are set out in the National Health Service Pension Scheme Regulations 1995 (SI 1995/300), the National Health Service Pension Scheme Regulations 2008 (SI 2008/653) and subsequent amendments to both. The scheme is 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).
3. The statement is based on an assessment of the liabilities as at 31 March 2010, with an approximate updating to 31 March 2012 to reflect known changes.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2010 and 31 March 2012 used to prepare this statement.

Table A – Active members

31 March 2010 membership data		Total accrued pensions (£ billion)	2010-11	2011-12
Number (thousands)	Total salaries (pa) (£ billion)		Total salaries implied by receipts (£ billion)	Total salaries implied by receipts (£ billion)
1,339	38.56	6.92	39.70	39.25

Table B – Deferred members

31 March 2010 membership data	
Number (thousands)	Total deferred pension (pa) (£ billion)
482	1.14

Table C – Pensions in payment

31 March 2010 membership data		2009-10 accounts	2010-11 accounts	2011-12 accounts
Number (thousands)	Total pension (pa) (£ billion)	Total pension (pa) (£ billion)	Total pension (pa) (£ billion)	Total pension (pa) (£ billion)
640	4.63	4.64	4.93	5.40

Methodology

5. The present value of the liabilities has been determined using the Projected Unit Credit Method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2011-12 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2012 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2010-11 Resource Accounts.
6. This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

7. The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2012, the assumed rate of return in excess of pension increases was reduced from 2.9% a year to 2.8% a year, and the assumed rate of return in excess of earnings was reduced from 0.7% a year to 0.6% a year. In addition, with effect from 31 March 2012, the assumed rate of future pension increases is 2.0% a year and the assumed nominal rate of salary growth is 4.25% a year (changed from 2.65% and 4.9% respectively as at 31 March 2011).

Table D – Principal financial assumptions

Assumption	31 March 2012	31 March 2011
Rate of return (discount rate)	4.85%	5.6%
Rate of return in excess of:		
Earnings increases (long term)*	0.6%	0.7%
Pension increases	2.8%	2.9%
Expected return on assets:	n/a	n/a

* short term adjustments have been made to this assumption for the period 2010 - 2014 inclusive

8. The pension increase assumption as at both 31 March 2011 and 31 March 2012 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

9. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
10. The standard mortality tables known as S1NXA are used but with the mortality rates applicable for one year of age younger than members' actual age (for members retiring in normal health). Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom.
11. The reforms to the scheme due to be implemented in April 2015 and the increased member contributions being phased in from April 2012 may affect the behaviour of members, eg members subject to a later normal pension age for accrual after 2015 might be expected to retire later. Given the uncertainty surrounding these changes and their potential impact on member behaviour, the NHSBSA has decided to make no allowance for them for the purposes of the 2011-12 Resource Accounts.

12. The contribution rate used to determine the accruing cost in 2011-12 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2010-11 Resource Accounts.

Liabilities

13. Table E summarises the assessed value as at 31 March 2012 of benefits accrued under the scheme prior to 31 March 2012 based on the data, methodology and assumptions described in paragraphs 3 to 11. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ Billion

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
Value of liabilities	247.0	257.7	287.6	199.5	212.5

Accruing costs

14. The cost of benefits accruing in the year ended 31 March 2012 (the Current Service Cost) is based on a standard contribution rate of 25.6%. Members contributed between 5.0% and 8.5% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 6.6%. The corresponding figures for 2010-11 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	2011-12	2010-11
Standard contribution rate	25.6%	29.1%
Members' estimated average contribution rate	6.6%	6.6%
Employers' estimated share of standard contribution rate	19.0%	22.5%

15. The actual rate of contributions payable by employers, currently 14.0% of pensionable pay, is not the same as the employers' share of the standard contribution rate as above. This is because the actual employer contribution rate was determined based on different methodology and different financial and demographic assumptions as adopted for the funding of the scheme. The most significant reason for the difference between the figures is that different discount rates are used. Contributions have been set by assuming a discount rate of 3.5% pa (net of pension increases) whereas the 2011-12 Current Service Cost assumes 2.9% pa. A higher discount rate results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. (The discount rate of 3.5% has recently been reviewed and reduced to 3% but this new rate has yet to affect the current rate of contributions). The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.
16. The pensionable payroll for the financial year 2011-12 was £39.25 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2011-12 (at 25.6% of pay) is assessed to be £10.0 billion.

Sensitivity analysis

17. 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 2012 of changes to the main actuarial assumptions.
18. The principal financial assumptions are the real rates of return in excess of pension increases and earnings growth. (The assumed nominal rate of return is less important although it does affect the past service liability in respect of Guaranteed Minimum Pensions (GMPs).) A key demographic assumption is pensioner mortality.
19. Table G shows the indicative effects on the total liability as at 31 March 2012 of changes to these assumptions.

Table G - Sensitivity to main assumptions

Change in assumption		Approximate effect on total liability	
Rate of return			
(i) nominal:	-½% a year	+ ½%	+ £1 billion
(ii) in excess of earnings:	-½% a year	+ 2%	+ £5 billion
(iii) in excess of pensions:	-½% a year	+ 7%	+ £18 billion
Pensioner mortality			
(iv) each pensioner subject to longevity of an individual 1 further year younger than assumed:		+ 2%	+ £5 billion

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

In variant (ii) of Table G, the assumed rate of return in excess of pension increases remains unchanged, and in variant (iii), the assumed rate of return in excess of earnings remains unchanged.

**Sue Vivian
Government Actuary's Department
June 2012**

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

The combined financial statements must give a true and fair view of the state of affairs of the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme at the year end and of the net resource outturn and cash flows for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them. In addition, the financial statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

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; and
- Prepare the financial statements on a going concern basis.

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

ANNUAL GOVERNANCE STATEMENT

Scope of responsibilities

The NHSBSA Board is responsible, amongst other things, for the administration of the NHS Pension Scheme and ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this responsibility the Board is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions. This includes ensuring that a sound system of internal control is maintained throughout the year, and up to the date of approval of the annual report and accounts, and that arrangements are in place for the management of risk.

The purpose of the Governance Framework

The Governance Framework comprises the systems, processes, culture and values by which the NHSBSA is directed and controlled and the activities through which it accounts to, and engages with, the Department of Health and the wider NHS Community.

A significant element of this framework is the system of internal control, which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

The system of internal control has been in place in the NHSBSA for the year ended 31 March 2012 and up to the date of the approval of the annual report and accounts.

Governance Framework of the NHSBSA

The NHSBSA Board has approved and adopted an overarching Corporate Governance Framework and this is reviewed on an annual basis. The framework incorporates the following areas:

- Statutory Instruments and Directions which describe and govern our core operations, processes and structure;
- Matters determined by the NHSBSA Board which ensure that the organisation has appropriate decision making process in place, including:
 - the protocol for meetings and reporting;
 - the delegation of decision making powers, not reserved for the Board, to Committees, Chief Executive and Executive Directors;
 - the Standing Financial Instructions; and
 - the establishment of standing committees;
- Other management information which supports effective governance and operation.

The Corporate Secretary ensures that all decisions made are legal and comply with the Corporate Governance Framework and the relevant aspects of the Corporate Governance Code.

NHSBSA Board

The NHSBSA Board is responsible for ensuring that the governance framework is designed appropriately and operating effectively across the Authority, including the NHS Pension Scheme. The Board comprises a Non-Executive Chair, five Non-Executive Directors, Chief Executive and four Executive Directors. The table below shows the number of meetings attended by Board members during the 2011-12 financial year and also highlights their declared business interests.

Board members:

Board Composition	Meetings Attended	Register of Interests
Non-Executive Chair: Paul Rich	8 out of 8	None declared
Non-Executive Directors: David Hulf	8 out of 8	<ul style="list-style-type: none"> • Non-Executive Director & Chair of Audit Committee at National Savings and Investments
Anne Galbraith	8 out of 8	<ul style="list-style-type: none"> • Member of Puffin Appeal (charity raising funds for cystic fibrosis) • Chair of Valuation Tribunal Service • Chair of Council for University of Durham • Health Consultant (self employed) – Chaired Mental Health Inquiries
Jeremy Strachan	8 out of 8	<ul style="list-style-type: none"> • Trustee of Drugscope (National Charitable Trust) • Company Secretary for Forensic Science Service Ltd (Government owned private company)
David Teale	8 out of 8	<ul style="list-style-type: none"> • Chair of Solutions SK (company wholly owned by Stockport MBC) • Chair of Individual Solutions SK • Member and Chair of Audit Committee for Parkway Green Housing Trust (charitable trust) • Chief Executive of North of England Excellence
Mike Harling	7 out of 8	<ul style="list-style-type: none"> • Shareholder in Deutsche Post • Partner is also declared as being a shareholder in Deutsche Post • Receives a pensions from the Steria Pension Plan (part of Groupe Steria SCA & known as Xansa Pension Plan until March 2011) • Board Member, Guinness South Ltd (a housing association)
Chief Executive: Nick Scholte	8 out of 8	<ul style="list-style-type: none"> • Nothing declared
Executive Directors: Alistair McDonald, Chief Operating Officer	8 out of 8	<ul style="list-style-type: none"> • Nothing declared
Michael Brodie, Director of Finance	8 out of 8	<ul style="list-style-type: none"> • Member of Durham University Audit Committee • Vice-Chair of the Chartered Institute of Public Finance and Accountancy (CIPFA) in the North East
Jim Orr, Commercial Director (until 31 December 2011)	5 out of 6	<ul style="list-style-type: none"> • Nothing declared
Roberta Barker, Director of People and Organisational Development	8 out of 8	<ul style="list-style-type: none"> • Trustee of Richmondshire Leisure Trust

Standing Committees

To help facilitate the effective discharge of its responsibilities, the NHSBSA has two standing committees; an Audit and Risk Management Committee and a Remuneration and Terms of Service Committee. The full terms of reference for both of these Committees can be found in the Corporate Governance Framework.

Performance of the Board and its Committees

To ensure ongoing efficacy the Board and its Standing Committees undertake annual effectiveness reviews. These reviews identified that the Board and its Standing Committees had operated effectively during the year and had provided an appropriate balance of strategic direction setting and supportive challenge.

NHS Pension Scheme sponsorship arrangements

The NHSBSA manages a complex range of business activities on behalf of the Department of Health. Accountability arrangements with the Department comprise an overall Senior Departmental Sponsor, with individual sponsors providing policy direction for each core service stream. Service sponsorship for the NHS Pension Scheme comes from the Department of Health's Workforce Department.

Management of the NHS Business Services Authority

Other than those Matters Reserved for the Board as set out in the Corporate Governance Framework, responsibility for the management of the NHSBSA is delegated to the Chief Executive who is the Accounting Officer. The Chief Executive is supported by a Leadership Team of Executive Directors. The operation of the NHS Pension Scheme is managed within Operational Services which reports to the Chief Operating Officer.

Elements of the governance, assurance risk and control framework

Risk

During 2011-12 the policy and procedures for the management of risk were reviewed and an enhanced Risk Management Framework was implemented. The framework built upon existing risk management practices to further strengthen the process providing a more robust and consistent approach across the NHSBSA. The framework includes guidance on the classification, management and escalation process for identifying risks. The framework also provides guidance for capturing and escalating issues across the business. The framework was approved and adopted by the Leadership Team and the Audit and Risk Management Committee on behalf of the Board.

The framework has been fully rolled out across the business, including the NHS Pension Scheme during the year and is fully embedded into day to day operations. The NHS Pension Scheme risk and issue register is reviewed and submitted on a quarterly basis. A summary of this register is prepared for consideration by the Leadership Team. This escalation process demonstrates the robust risk and issue management in place across the Authority.

The Leadership Team owns the Corporate Risk Register which highlights the key risks to the Authority as a whole and reviews this register on a quarterly basis. At this meeting a report is considered which provides a summary of risk profile, details of any extreme risks and an indication of any emerging risks from across the Authority including the NHS Pension Scheme risks. The meeting also tracks movement in risk ratings and whether any emerging risks need to be included on the register.

There are a number of significant risks facing the operation of the NHS Pension Scheme which, should action not be taken to mitigate these risks, could have a major impact on the Scheme Accounts. These include:

- Changes to the contribution rates;
- The transformation of the wider NHS (ie abolition of PCTs and SHAs); and

- Broader changes to public sector pension schemes.

By working closely with all stakeholders, including the DH, employing authorities and third party service providers we are confident that these risks are being managed appropriately.

Assurance

At the end of 2010-11 an overarching assurance map was developed using the industry best practice three lines of defence model to identify the assurances in place over each of the NHSBSA's core business processes. The three lines of defence model highlights where assurance can be taken from management control and reporting; functional oversight and governance systems; and independent review and regulatory oversight. It also provides a basis on which the leadership of the NHSBSA can determine the focus of assurance effort, assess the outcome of existing assurance activity and determine its assurance appetite. The assurance map is fully integrated with the risk management process.

The overarching assurance map continues to be regularly reviewed and updated to reflect the changing nature of the NHSBSA and during 2011-12 further work was undertaken to refine and develop it. The concept has been rolled out across each area of the Authority including the NHS Pension Scheme to develop individual service assurance maps which feed into the overarching map and the annual governance process. The Audit and Risk Management Committee has scheduled a review of the NHS Pension Scheme assurance maps to provide appropriate assurances to the Board.

A significant part of the pensions administration and payments service is provided by a third party. One of the key sources of assurance to the NHSBSA on the service provided is an independent assurance report prepared under International Standards on Assurance Engagements. This assurance statement sets out the key controls and key controls objectives operated by the service provider and the effectiveness of these controls.

Audit and Risk Management Committee Assurance

One of the key sources of assurance provision for the NHSBSA's Board is from the Audit and Risk Management Committee. It provides an independent and objective review of the adequacy and effectiveness of the NHSBSA's approach to risk management and the overall assurance framework. The Committee has responsibility for reviewing:

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

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

- quarterly risk management updates setting out and assessing the major risks facing the organisation, aligned with the key areas of focus set out in our Business Plan. These reports set out the key movements in risks between reporting periods and identify emerging risks and the mitigating actions which have been taken or are planned to mitigate them;
- an annual risk management report outlining how the NHSBSA's risk management arrangements have continued to operate effectively during the year and how they have been reviewed and strengthened;
- an annual review of the overarching NHSBSA Assurance Map;

- an annual local counter fraud specialist report detailing the work undertaken during the year mapped against the agreed workplan.; and
- the Whistleblowing Policy which encourages staff to raise any serious concerns regarding the practice of the NHS Pension Scheme. The Committee receives six-monthly updates on whistleblowing activity across the business.

Information Governance

During 2011-12 we have continued to improve our approach to handling information efficiently and securely. Each year, we undertake a detailed self assessment using the NHS-wide Information Governance toolkit. Using this toolkit, our rating for 2011-12 was a satisfactory rating with a total compliance level of 80%.

We did not have any security incidents classified as serious untoward incidents by the Department of Health. However, there was one incident classed as minor to report during the year.

In the course of our business, we hold and use information about members of the public and NHS colleagues. Some of this information is of a personal and sensitive nature and as a consequence we have stringent controls in place to ensure the security of this information.

Issues relating to information governance within the NHSBSA including the NHS Pension Scheme are co-ordinated by the Information Governance and Security Group which is chaired by the Director of Finance who holds the position of both Caldicott Guardian and Senior Information Risk Owner (SIRO). The remit of the Caldicott Guardian is to ensure that any person identifiable information we hold is held and used properly. The remit of the SIRO is to take ownership of the our information risk policy, act as advocate for information risk to the Board and provide written advice to the accounting officer on the content of their Governance Statement with regard to information risk.

Complaints

We take complaints seriously and believe in the value of learning from the complaints which are made about our staff and services to make improvements for our customers.

During 2011-12, we made further improvements to our complaints handling processes. We handled an increased number of issues through our customer contact centre which helped our customers to have their concerns dealt with quickly and effectively.

The total number of complaints received during 2011–12 was 321 of which 126 (39%) were found to be justified (this compares with a total of 436 of which 200 (45%) were found to be justified in 2010-11).

The total number of complaints received during 2011-12 represented around 0.0007% of the total number of transactions we handled during the year.

Other Aspect of the Governance, Assurance, Risk and Control Environment

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

- regular quarterly reviews of the Corporate Risk Register by the Leadership Team, as a precursor to the Audit and Risk Management Committee review;
- maintenance and quarterly review of the risk registers for each service area;
- a Risk Management Group, chaired by the Director of Finance, with representation from all business areas. The Group reviews each business area risk register providing a forum for debate and challenge ensuring a consistent and harmonised approach. The Group meets prior to the Leadership Team review of the Corporate Risk Register to ensure that the latest position regarding risk is reported;
- all information risks are reviewed by the Information Governance and Security Group (IGSG) on a regular basis. This Group is also responsible for ensuring that the Authority

complies with information governance and security best practice and performs a self assessment against a nationally developed toolkit;

- a performance management framework which highlights performance against key performance indicators for each service area. A narrative on our performance for 2011-12 is provided in a separate section earlier in this Annual Report; and
- as an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the risk based internal audit work. For 2011-12 the Head of Internal Audit Opinion concluded that based on the work completed to date **significant assurance** can be given that there is a generally sound system of internal control, designed to meet the Authority's objectives, and that controls are generally being applied consistently. Some weaknesses in the design and/or inconsistent application of controls puts the achievement of particular objectives at risk. These weaknesses have been raised in relevant Internal Audit reports and recommendations agreed with the Senior Management Team.

The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the Authority achieving its principal objectives have been reviewed. My review is also informed by:

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

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

Significant Governance Issues

There were no significant governance issues experienced during 2011-12 relating to the NHS Pension Scheme.

Conclusion

My review confirms that the NHSBSA has a generally sound system of internal control that supports the administration of the NHS Pension Scheme and the achievement of its policies, aims and objectives.

Nick Scholte
Chief Executive
NHS Business Services Authority
6 July 2012

**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 the NHS Pension Scheme and the NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Resource Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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.

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 2012 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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2012 and of its net operating cost 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 other matters

In my opinion:

- 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 are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

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

Date 11 July 2012

Statement of Parliamentary Supply
Summary of Resource Outturn 2011-12

£000								2011-12	2010-11
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		
Departmental Expenditure Limit									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
Annually Managed Expenditure									
- Resource	3	16,465,269	-	16,465,269	16,388,595		16,388,595	76,674	(14,182,439)
- Capital		-	-	-	-	-	-	-	-
Total Budget	3	16,465,269	-	16,465,269	16,388,595		16,388,595	76,674	(14,182,439)
Non-Budget									
- Resource									
Total		16,465,269	-	16,465,269	16,388,595		16,388,595	76,674	(14,182,439)

Total Resource		16,465,269	-	16,465,269	16,388,595		16,388,595	76,674	(14,182,439)
Total Capital									
Total		16,465,269	-	16,465,269	16,388,595		16,388,595	76,674	(14,182,439)

Net Cash Requirement 2011-12

£000	Note	2011-12	2011-12		2010-11
		Estimate	Outturn	Outturn compared with Estimate savings/ (excess)	Restated Outturn
	5	(786,457)	(929,196)	142,739	(1,742,481)

Administration Costs 2011-12

£000	2011-12 Estimate	2011-12 Outturn	2010-11 Outturn
Administration Costs	-	-	-

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

Explanations of variances between Estimate and outturn are given in Note 3 and in the Management commentary.

The notes on pages 29 to 46 form part of these accounts

**Combined Statement of Comprehensive Net Expenditure
for the year ended 31 March 2012**

	Note	<u>2011-12</u> £000	<u>2010-11</u> Restated £000
Income			
Contributions receivable	7	(8,289,016)	(8,398,336)
Transfers in	8	(95,454)	(167,409)
Other pension income	9	(146,192)	(130,912)
		<u>(8,530,662)</u>	<u>(8,696,657)</u>
Expenditure			
Pension cost	10	10,000,000	(18,300,000)
Enhancements	11	323,803	346,809
Transfers in	12	95,454	167,409
Interest on Scheme liabilities	13	14,500,000	12,300,000
		<u>24,919,257</u>	<u>(5,485,782)</u>
Net Expenditure/(Income)		<u>16,388,595</u>	<u>(14,182,439)</u>
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year:			
Revaluation cost of estimated discount future cash flows in respect of early retirement charges	17	32,557	18,797
Actuarial (gain)	20.5	(28,146,406)	(17,483,690)
Total Comprehensive Net Income for the year ended 31 March 2012		<u>(11,725,254)</u>	<u>(31,647,332)</u>

The notes on pages 29 to 46 form part of these accounts.

**Combined Statement of Financial Position
as at 31 March 2012**

		<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
			Restated	Restated
	Note	£000	£000	£000
Current assets:				
Receivables	15.1	593,104	647,469	591,325
Cash and cash equivalents	16	778,787	692,390	781,703
Prepayments – Prepaid pension benefits	18	190,558	-	-
Total current assets		<u>1,562,449</u>	<u>1,339,859</u>	<u>1,373,028</u>
Current liabilities:				
Payables (within 12 months)	19.1	<u>(1,060,915)</u>	<u>(966,940)</u>	<u>(1,023,757)</u>
Net current assets, excluding pension liability		<u>501,534</u>	<u>372,919</u>	<u>349,271</u>
Estimated discounted future cashflows in respect of premature retirement recharges	17	701,202	733,759	752,556
Pension liability	20.2	(247,000,000)	(257,700,000)	(287,600,000)
Net liabilities, including pension liability		<u>(245,797,264)</u>	<u>(256,593,322)</u>	<u>(286,498,173)</u>
Taxpayers' equity:				
General fund		(245,797,264)	(256,593,322)	(286,498,173)
		<u>(245,797,264)</u>	<u>(256,593,322)</u>	<u>(286,498,173)</u>

Nick Scholte
Chief Executive
NHS Business Services Authority
6 July 2012

The notes on pages 29 to 46 form part of these accounts.

**Combined Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2012**

		2011-12	2010-11
		<u>£000</u>	<u>Restated £000</u>
Balance at 1 April	Note	(256,593,322)	(286,847,444)
Prior period adjustment		-	349,271
Restated Balance at 1 April		(256,593,322)	(286,498,173)
Net Parliamentary Funding – draw down		-	-
Net Parliamentary Funding - deemed		-	-
Consolidated Fund Standing Services		-	-
Supply payable/(receivable) adjustment		-	-
Excess Vote – Prior Year		-	-
Excess Vote – Appropriations-in-Aid		-	-
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	17	(32,557)	(18,797)
Current year supply	5	(929,196)	(1,742,481)
Comprehensive Net (Expenditure)/Income for the Year	4.1	(16,388,595)	14,182,439
Actuarial gain – NHS Pension Scheme	20.5	28,146,406	17,483,690
		<u>10,796,058</u>	<u>29,904,851</u>
Net change in Taxpayers' Equity			
Balance at 31 March		<u>(245,797,264)</u>	<u>(256,593,322)</u>

The notes on pages 29 to 46 form part of these accounts.

**Combined Statement of Cash Flows
for the year ended 31 March 2012**

		2011-12	2010-11
	Note	£000	Restated £000
Cash flows from operating activities			
Net (expenditure)/income for the year	4.1	(16,388,595)	14,182,439
Adjustments for non-cash transactions:			
Decrease/(Increase) in receivables		54,365	(56,143)
Increase in payables		7,578	32,495
Increase/(Decrease) in pension provision	20.2	24,500,000	(6,000,000)
Increase in pension provision – enhancements and transfers in	20.2	419,257	514,218
Increase in Pre-paid pension benefits	18	(190,558)	-
Use of provisions – pension liability	20.3	(7,249,857)	(6,662,225)
Use of provisions – refunds, transfers and death in service	20.4	(222,994)	(268,303)
		929,196	1,742,481
Net cash outflows from operating activities			
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		-	-
From the Consolidated Fund (Supply) – prior year		-	-
From the Consolidated Fund (non-Supply)		-	-
Net Parliamentary financing		-	-
Adjustments for payments and receipts not related to Supply		-	-
Net financing		-	-
Net Increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		929,196	1,742,481
Receipts due to the Consolidated Fund which are outside the Scope of the Scheme's activities			
		-	-
Payments of amounts to the Consolidated Fund		(842,799)	(1,831,794)
Net Increase /(Decrease) in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund	16	86,397	(89,313)
Cash and cash equivalents at the beginning of the period	16	692,390	781,703
Cash and cash equivalents at the end of the period	16	778,787	692,390

The notes on pages 29 to 46 form part of these accounts.

Notes to the Financial Statements

1. Basis of preparation of the Scheme financial statements

The financial statements of the combined NHS Pension Scheme and NHS Pension for Premature Retirement Scheme have been prepared in accordance with the relevant provisions of the 2011-12 *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 Employee benefits and IAS 26 Accounting and Reporting by Retirement Benefits Plans are of particular relevance to these statements.

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

1.1 NHS Pension Scheme

The NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the NHSBSA on behalf of the Secretary of State for Health on behalf of members of the National Health Service who satisfy membership criteria.

Contributions to the Scheme by employers and employees were set at rates determined by the Scheme's Actuary and approved by the Secretary of State for Health for 2011-12. The income received currently exceeds payments made by the Scheme, the balance of surplus cash being returned to HM Treasury. If payments exceed income, the balance of the funding would need to be provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the NHSBSA and reported in their financial statements.

The financial statements of the Scheme show the combined financial position of the NHS Pension Scheme and NHS Pension for Premature Retirement Schemes at the year end and the income and expenditure during the year. The Combined Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Combined Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, 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 financial statements should be read in conjunction with that Report.

1.2 NHS Compensation for Premature Retirement Scheme

The NHS Pension Scheme acts as a principal for employers in the payment of compensation benefits arising under the NHS Compensation for Premature Retirement Scheme. Employers now only have the option of discharging their liability by way of payment of a capital sum. Previously employers could pay for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. This arrangement ceased for employers from 1 October 2011 but the costs for historic cases are still being met by employers. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding receivable within the Combined Statement of Financial Position).

2. Statement of accounting policies

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

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

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Accounting policies for the NHS Pension Scheme

Contributions receivable

- Employers' normal pension contributions are accounted for on an accruals basis.
- Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.
- Employees' pension contributions which include amounts in respect of added years are accounted for on an accruals basis.
- Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. Employees' contributions paid in respect of the purchase of additional pension entitlement are accounted for on a cash basis. The associated increase in the scheme liability is recognised as expenditure. Where Scheme members make additional voluntary contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 14 to the financial statements. Please refer to Note 14 for further information on Scheme AVC providers.

Transfers in and out

Transfers in are normally accounted for on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

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

Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a real discount rate of 2.9% (2010-11 1.8% up to 22 June 2010 and 2.5% thereafter) and 5.6% including inflation (2010-11 4.6%). These assumptions are used to calculate the in year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability (Note 10).

Past service cost

Past service costs are increases/decreases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change, or improvement to retirement benefits and is recognised in the Combined Statement of Comprehensive Net Expenditure.

Interest on Scheme Liabilities

The interest cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a gross discount rate 5.6% (2010-11 4.6%).

Scheme Liabilities

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit method and as at 31 March 2011 was discounted at a real discount rate of 2.9% (i.e. 5.6% including inflation). The discount rate changed on 31 March 2012 to 2.8% and the Scheme was discounted at that rate. Further details of the financial assumptions used are set out at Note 20.1.1 to these accounts and in the Report of the Actuary on pages 11 to 14. For the purposes of IAS26 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years, with approximate assessments in intervening years. The actuary reviews the most recent actuarial valuation at the Combined Statement of Financial Position date and updates it to reflect current conditions.

The last formal actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2004 (published in December 2007). Consequently, a formal actuarial valuation would have been due to have been completed as at 31 March 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Pension benefits payable

Pension benefits payable due to age, ill health retirements, and voluntary early retirement are accounted for as a decrease in the scheme liability on an accrual basis

Refund of contributions paid to and on account of members leaving the Scheme

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

Lump sums payable on death in service

Where a member dies in service a lump sum death in service payment may be due, the payments are accounted for as a decrease in the scheme liability on a cash basis.

Actuarial gains / losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Combined Statement of Financial Position date are recognised in the Combined Statement of Comprehensive Net Expenditure for the year.

Additional Voluntary Contributions

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

Other Income

Other income, including overpayments recovered other than by deduction from future benefits and miscellaneous income are accounted for on an accruals basis. To the extent that this income also represents an increase in the Scheme liability, it is also reflected in expenditure.

Administration expenses

The administrative expenses (staff, office facilities, etc.) associated with the operation of the Scheme are borne by the NHSBSA and are reported in the Department of Health's Consolidated Statement of Comprehensive Net Expenditure.

2.3 Accounting policies for the NHS Compensation for Premature Retirement Scheme

Compensation payments or the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, benefits are paid initially by the NHS Pension Scheme throughout the month and recovered from employers on a quarterly basis (this method is referred to as "quarterly recharging"). This arrangement ceased for employers from 1 October 2011 but the costs for historic cases are still being met by employers. Employers are able to discharge their liability for these historic cases by a lump sum payment, and are then accounted for as pre-funded early retirements.

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

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

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

Where the employer chooses to pay by one-off lump sum, this amount is recognised as income at the point the employee's pension becomes payable. Where the employer chooses to pay by instalments, income is recognised when the instalment becomes due each year. Due to the value of annual instalments, they are no longer disclosed within the receivable note.

Any amounts receivable in respect of an employer's decision to allow an employee's early departure, where the employer has discharged their liability by way of a capitalised payment, are accounted for as "Other Income (see note 9). All amounts received are appropriated-in-aid of Scheme expenditure.

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

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

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

Where the employer chooses to pay quarterly, income is recognised as invoices are raised. Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as “Other Income” (see note 9) to the pension scheme and are appropriated-in-aid.

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

The above asset will be revalued on an annual basis and any net increases or decreases will be debited/credited to the General Fund, and disclosed within the Combined Statement of Changes in Taxpayers’ Equity.

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

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

2.4 Changes to International Financial Reporting Standards

The Scheme has carried out a review of IFRSs in issue but not yet effective to assess their impact on its accounting policies and treatment.

The only IFRS found which may have an impact on the Scheme is IAS 19 Employee Benefits, which was issued in June 2011 and is effective from 1 January 2013. IAS 19 is currently the subject of a consultation on how it should be implemented in the public sector, and the exact impact on the Scheme accounts has yet to be determined.

2.5 Changes to the Financial Reporting Manual (FReM)

Chapter 12 of the FReM is applicable to Pension Scheme accounting and encompasses IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans.

The following significant FReM changes took place for 2011-12:
Parliamentary accountability – the structure of the Estimates from 2011-12 should reflect the split between the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME), with consequential adjustments to the Statement of Parliamentary Supply.

The funding for the Scheme all falls within Annually Managed Expenditure (AME).

See also Note 26 on prior period adjustments to these accounts arising from the Alignment Project

3. NET OUTTURN

3.1 Analysis of net resource outturn by section

2011-12								2010-11	
Outturn £000							Estimate £000		Outturn £000
Administration			Programme			Total	Net Total	Net total compared to Estimate	Total
Gross	Income	Net	Gross	Income	Net				

Spending in Departmental Expenditure Limit

Voted:	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-

Annually Managed Expenditure

Voted:										
A Pensions	-	-	-	24,919,217	(8,530,622)	16,388,595	16,388,595	16,465,269	76,674	(14,182,439)
Non Voted	-	-	-	-	-	-	-	-	-	-
Non-budget	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	24,919,217	(8,530,622)	16,388,595	16,388,595	16,465,269	76,674	(14,182,439)

Explanation of the variation between Resource Estimate and Outturn

The Outturn is less than the Estimate due primarily to current service cost and enhancements expenditure being lower than forecast by £84 million (less than 1 day's expenditure), and income being lower than forecast by £8 million (less than 1 day's income).

Explanation of the variation between Net Cash Requirement Estimate and Outturn

The Outturn is less than the Estimate due to fewer than expected retirements in the final quarter. This resulted in pension payments and lump sum payments being lower than forecast.

3.2 Analysis of net capital outturn by section

The Scheme had no capital expenditure during the year (2010-11: Nil) and the Estimate was also Nil (2010-11: Nil).

**4. Reconciliation of net resource outturn to net expenditure and against
Administration Budget**

4.1 Reconciliation of net resource outturn to net expenditure

		2011-12	2010-11
		Outturn	Outturn
		£000	£000
Total resource outturn in Statement of Parliamentary Supply	Budget	16,388,595	(14,182,439)
	Non-Budget	-	-
	Net Resource Outturn	16,388,595	(14,182,439)
Add:	Non-Supply Expenditure	-	-
	Prior Period Adjustments	-	-
		-	-
Less:	Income Payable to the Consolidated Fund	-	-
	Prior Period Adjustments	-	-
		-	-
	Net Expenditure in Combined Statement of Comprehensive Net Expenditure	16,388,595	(14,182,439)

4.2 Outturn against final Administration Budget

The Scheme had no administration expenditure during the year (2010-11: Nil) and the Estimate was also Nil (2010-11: Nil).

5. Reconciliation of Net Cash Requirement to increase/(decrease) in cash

		2011-12	2010-11
		Outturn	Restated Outturn
		£000	£000
Net cash requirement		(929,196)	(1,742,481)
Due to the Consolidated Fund (Supply) – current year		929,196	1,742,481
Due the Consolidated Fund (Supply) – prior year		-	-
Amounts due to the Consolidated Fund received and not paid over		778,787	692,390
Amounts due to the Consolidated Fund received in prior year and paid over		(692,390)	(781,703)
	Net increase/(decrease) in cash held by Scheme	86,397	(89,313)

6. Income payable to the Consolidated Fund

6.1 Analysis of income payable to the Consolidated Fund

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

	Outturn 2011-12		Outturn 2010-11 Restated	
	<u>Income</u> £000	<u>Receipts</u> £000	<u>Income</u> £000	<u>Receipts</u> £000
Operating income outside the ambit of the Estimate	-	-	-	-
Non-operating income (outside the ambit of the Estimate)	-	-	-	-
Excess cash receipts surrenderable to the Consolidated Fund – current year supply	-	<i>778,787</i>	-	<i>692,390</i>
Total income payable to the Consolidated Fund	-	<i>778,787</i>	-	<i>693,390</i>

6.2 Analysis of cash paid to the Consolidated Fund

	<u>2011-12</u> £000	<u>2010-11</u> Restated £000
Payments of amounts due to the:		
Consolidated Fund – Realisation of prior year net debtors and creditors	150,409	350,091
Consolidated Fund – Surplus cash relating to current year Supply	-	700,000
Excess cash surrendered to the:		
Consolidated Fund relating to the prior year	692,390	781,703
	<u>842,799</u>	<u>1,831,794</u>

COMBINED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

7. Contributions receivable

	<u>2011-12</u> £000	<u>2010-11</u> £000
Employers	(5,495,177)	(5,553,234)
Employees:		
Normal	(2,567,425)	(2,578,265)
Purchase of added years and additional pensions	<i>(226,414)</i>	<i>(266,837)</i>
	<u>(8,289,016)</u>	<u>(8,398,336)</u>

£8,716 million of contributions are expected to be payable to the Scheme in 2012-13.

8. Transfers in

	<u>2011-12</u> £000	<u>2010-11</u> £000
Group transfers in from other schemes	(10,624)	(33,395)
Individual transfers in from other schemes	<i>(84,830)</i>	<i>(134,014)</i>
	<u>(95,454)</u>	<u>(167,409)</u>

9. Other pension income

	<u>2011-12</u>	<u>2010-11</u>
	£000	£000
Pre funded premature retirement contributions	(97,389)	(79,972)
Re-chargeable premature retirement contributions	(48,803)	(50,940)
	<u>(146,192)</u>	<u>(130,912)</u>

10. Pension cost

	<u>2011-12</u>	<u>2010-11</u>
	£000	£000
Current service cost	10,000,000	11,600,000
Past service cost	-	(29,900,000)
	<u>10,000,000</u>	<u>(18,300,000)</u>

11. Enhancements (see notes 7 and 9)

	<u>2011-12</u>	<u>2010-11</u>
	£000	£000
Employees: Purchase of added years and additional pension	226,414	266,837
Employers: Pre-funded premature retirement contributions	97,389	79,972
	<u>323,803</u>	<u>346,809</u>

12. Transfers in – additional liability (see note 8)

	<u>2011-12</u>	<u>2010-11</u>
	£000	£000
Group transfers in from other schemes	10,624	33,395
Individual transfers in from other Schemes	84,830	134,014
	<u>95,454</u>	<u>167,409</u>

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Combined Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

13. Interest on Scheme liabilities

	<u>2011-12</u>	<u>2010-11</u>
	£000	£000
Interest charge for the year	<u>14,500,000</u>	<u>12,300,000</u>

14. Additional Voluntary Contributions

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

	2011-12	2010-11
	£000	£000
The Equitable Life Assurance Society (ELAS)		
Movements in the year were as follows:		
Balance at 1 April	114,742	115,015
New investments	1,569	1,902
Sale of investments to provide pension benefits	(7,803)	(7,722)
Changes in market value of investments	1,465	5,547
Balance at 31 March	<u>109,973</u>	<u>114,742</u>
Contributions received to provide life cover	35	44
Benefits paid on death	193	258
	2011-12	2010-11
	£000	£000
Standard Life Assurance Company		
Movements in the year were as follows:		
Balance at 1 April	118,966	112,492
New investments	4,079	4,922
Sale of investments to provide pension benefits	(9,574)	(6,654)
Changes in market value of investments	2,360	8,206
Balance at 31 March	<u>115,831</u>	<u>118,966</u>
Contributions received to provide life cover	-	1
Benefits paid on death	-	2
	2011-12	2010-11
	£000	(Re-stated) £000
Prudential Plc		
Movements in the year were as follows:		
Balance at 1 April	49,755	46,632
New investments	2,982	3,204
Sale of investments to provide pension benefits and switches to new funds	(5,219)	(3,396)
Changes in market value of investments	1,823	3,315
Balance at 31 March	<u>49,341</u>	<u>49,755</u>
Contributions received to provide life cover	9	7
Benefits paid on death	1,729	2,048

Revised figures were provided by Prudential Plc as the original figures provided for 2010-11 were prior to the final audit.

STATEMENT OF FINANCIAL POSITION

15. Receivables – contributions due in respect of pensions

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

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

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

15.1 Analysis by type

	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
	£000	£000	£000
Amounts falling due within one year:			
Pension contributions due from employers	384,553	412,651	380,954
Employees' normal contributions	179,281	186,497	178,309
Added years and additional pensions	14,421	24,804	17,049
Invoiced pre-funded premature retirement contributions	3,895	11,829	1,759
Invoiced re-chargeable premature retirement contributions	10,954	11,688	13,254
Total due within one year	<u>593,104</u>	<u>647,469</u>	<u>591,325</u>
Amounts falling due after more than one year	-	-	-
Total receivables	<u>593,104</u>	<u>647,469</u>	<u>591,325</u>

15.2 Analysis by organisation

	Amounts falling due within one year		
	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
	£000	£000	£000
Balances with other central government bodies	83,436	169,567	113,092
Balances with local authorities	330	184	78
Balances with NHS Bodies	472,303	441,143	379,752
Balances with public corporations and trading funds	97	4	3,951
Balances with public sector organisations	<u>556,166</u>	<u>610,898</u>	<u>496,873</u>
Balances with bodies external to government	36,938	36,571	94,452
Total receivables	<u>593,104</u>	<u>647,469</u>	<u>591,325</u>

16. Cash and cash equivalents

	<u>2011-12</u>	<u>2010-11</u>
	£000	£000
Balance at 1 April	692,390	781,703
Net change in cash balances	86,397	(89,313)
Balance at 31 March	<u>778,787</u>	<u>692,390</u>
The following balances at 31 March were held at:		
Government Banking Services	773,393	686,251
Commercial banks and cash in hand	5,394	6,139
Balance at 31 March	<u>778,787</u>	<u>692,390</u>

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

Where the employer chooses to pay the costs for premature retirements on a quarterly recharge basis, income is recognised as the invoices are raised. Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, is classified as "Other Income" to the pension scheme and is appropriated-in-aid.

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

	<u>2011-12</u>	<u>2010-11</u>
	£000	£000
Balance at 1 April	733,759	752,556
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(32,557)	(18,797)
Balance at 31 March	<u>701,202</u>	<u>733,759</u>

18. Prepayments – prepaid pension benefits

To ensure members receive their benefits on their due date, and where the due date falls on a weekend or bank holiday, the payment is made on the nearest preceding working day. The prepaid benefits relate to amounts paid on 30 March where the due date was the 1 April.

	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
	£000	£000	£000
Prepaid pension benefits	190,558	-	-
Total	<u>190,558</u>	<u>-</u>	<u>-</u>

19. Payables – in respect of pensions

19.1 Analysis by type

	2011-12	2010-11	2009-10
	<u>£000</u>	<u>Restated</u>	<u>Restated</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:			
Pensions	(219,592)	(219,615)	(194,042)
HMRC	(62,199)	(54,148)	(47,741)
Voluntary deductions	(219)	(230)	(249)
Amounts due to employers:			
Initial Widows Claims	(56)	(540)	(12)
Employee and employer contributions	(30)	(1)	(1)
Prefunded premature retirements	(3)	(6)	(9)
Rechargeable premature retirements	(29)	(10)	(1)
	<u>(282,128)</u>	<u>(274,550)</u>	<u>(242,055)</u>
Receipts due to be paid to the Consolidated Fund	(778,787)	(692,390)	(781,702)
	<u>(1,060,915)</u>	<u>(966,940)</u>	<u>(1,023,757)</u>
Amounts falling due after more than one year	-	-	-
Total receivable	<u>(1,060,915)</u>	<u>(966,940)</u>	<u>(1,023,757)</u>

19.2 Analysis by organisation

	2011-12	2010-11	2009-10
	<u>£000</u>	<u>Restated</u>	<u>Restated</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts falling due within one year			
Balances with other central government bodies	(841,015)	(746,547)	(829,443)
Balances with local authorities	(56)	-	-
Balances with NHS Bodies	(4)	(3)	(2)
Balances with public corporations and trading funds	-	-	-
Balances with public sector organisations	<u>(841,075)</u>	<u>(746,550)</u>	<u>(829,445)</u>
Balances with bodies external to government	(219,840)	(220,390)	(194,312)
Total payables	<u>(1,060,915)</u>	<u>(966,940)</u>	<u>(1,023,757)</u>

20. Provisions for pension liabilities

20.1 Assumptions underpinning the provision for pension liability

The NHS Pension Scheme is an unfunded defined benefit Scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2012. The Report of the Actuary on pages 11 to 14 sets out the scope, methodology and results of the work the actuary has carried out.

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

- Scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;

- income and expenditure, including details of expected bulk transfers into or out of the Scheme; and,
- following consultation with the Actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The membership data used was based on the position as at 31 March 2010, and the results rolled forward to 31 March 2012 to estimate the position in 2011-12.

20.1.1 The major assumptions used by the Actuary were:

At 31 March	2012	2011	2010	2009	2008
Rate of increase in salaries	4.25%	4.90%	4.29%	4.29%	4.29%
Rate of increase in pensions in payment and deferred pensions	5.2%	3.1%	0.0%	5.0%	3.9%
Inflation assumption	2.00%	2.65%	2.75%	2.75%	2.75%
Nominal discount rate	4.85%	5.60%	4.60%	6.04%	5.32%
Discount rate net of price inflation	2.80%	2.90%	1.80%	3.20%	2.50%
Life expectancy in years (Note 1)					
Current pensioners					
Males (age 60)	29.0	29.1	29.1	28.6	28.5
Males (age 65)	24.1	24.2	23.9	23.5	23.4
Females (age 60)	31.6	31.6	32.3	31.8	31.7
Females (age 65)	26.6	26.6	27.1	26.7	26.6
Future pensioners					
Males (age 60)	30.8	30.7	30.6	30.2	30.1
Males (age 65)	26.4	26.2	26.0	25.6	25.5
Females (age 60)	33.3	33.1	33.8	33.3	33.2
Females (age 65)	28.8	28.5	29.1	28.6	28.6

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

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

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

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

20.1.2 Analysis of the provision for pension liability

At 31 March	2012	2011	2010	2009	2008
Active members (past service)	143.5	156.4	177.1	116.1	129.2
Deferred Pensions	20.4	24.7	28.8	20.3	22.5
Pensions in payment	83.1	76.6	81.7	63.1	60.8
Total liability	247.0	257.7	287.6	199.5	212.5

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

20.1.4 The value of the liability included on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, then the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 20.5. The note also discloses 'experience' gains or losses for the year showing the amounts charged or credited for the year because events have not coincided with assumptions made for the last valuation.

20.2 Analysis of movements in the Scheme liability

		2011-12	2010-11
	Note	£000	Restated £000
Scheme liability as at 1 April		(257,700,000)	(287,600,000)
Current Service Cost	10	(10,000,000)	(11,600,000)
Past service cost	10	-	29,900,000
Interest on pension Scheme liability	13	(14,500,000)	(12,300,000)
		(24,500,000)	6,000,000
Enhancements	11	(323,803)	(346,809)
Pension transfers in	12	(95,454)	(167,409)
		(419,257)	(514,218)
Benefits payable	20.3	7,249,857	6,662,225
Pension payments to and on account of leavers	20.4	222,994	268,303
		7,472,851	6,930,528
Actuarial gain	20.5	28,146,406	17,483,690
Scheme liability as at 31 March		(247,000,000)	(257,700,000)

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

During the year ended 31 March 2012, contributions represented an average of 21.5% (2010-11: 20.6%) of pensionable pay (excluding purchase of added years and additional pension contributions).

20.3 Analysis of benefits paid

	2011-12	2010-11
	£000	Restated £000
Pensions to retired employees and dependants (net of recoveries of overpayments)	5,292,528	4,851,212
Commutations and lump sum benefits on retirement	1,957,329	1,811,013
Per Combined Statement of cash flows	7,249,857	6,662,225

20.4 Analysis of payments to and on account of leavers

	2011-12	2010-11
	£000	£000
Death in service	56,845	60,929
Individual transfers to other schemes	138,004	173,102
Group transfers to other schemes	2,220	3,321
Payment to State Scheme	6,566	10,895
Refunds to members leaving service	19,359	20,056
Per Combined Statement of Cashflows	222,994	268,303

20.5 Analysis of actuarial gain / (loss)

	2011-12	2010-11
	£000	Restated £000
Experience gain / (loss) arising on Scheme liabilities	17,546,406	(3,416,310)
Changes in assumptions underlying the present value of Scheme liabilities	10,600,000	20,900,000
Per Combined Statement of Comprehensive Net Expenditure	28,146,406	17,483,690

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

20.6 History of experience gains/(losses)

	2011-12	2010-11	2009-10	2008-09	2007-08
		Restated			
Experience gains/(losses) on the scheme liabilities:					
Amount (£000) (see note below)	17,546,406	(3,416,310)	(2,159,855)	(850,445)	252,990
Percentage of the present value of the scheme liabilities	7.10%	1.33%	0.75%	0.40%	0.12%
Total amount recognised in Statement of Other Comprehensive Net Expenditure					
Amount (£000)	28,146,406	17,483,690	(73,459,855)	28,549,555	17,822,990
Percentage of the present value of the scheme liabilities	11.40%	6.78%	25.54%	13.47%	8.41%

21. Financial Instruments

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

22. Contingent liabilities disclosed under IAS 37

The Scheme only has the contingent liability as disclosed below.

Additional Voluntary Contributions

The NHS Pension Scheme guarantees to meet the pension payments in the event of a default by one or more of the NHS Pension Scheme's approved Additional Voluntary Contributions (AVC) providers. Therefore there is a maximum contingent liability of the full balance of the AVC investments as at 31 March 2012, which are disclosed at note 14. The scheme does not however guarantee pension payments from the other free-standing AVC providers.

23. Losses and Special Payments

During the year, losses arose in 5,688 cases (2010-11; 8,177 cases). The total loss was £1,498,024 (2010-11; £656,991). The losses all fall within the claims abandoned category and relate to the write-off of pension overpayments. There were no special payments during the year.

24. Related-party transactions

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

25. Events after the reporting Period

There were no events after the end of the reporting period.

Date of authorisation for issue. The accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

26. Prior Period Adjustments

In previous years, the accounts were prepared on the basis that all income is surrenderable to the Consolidated Fund. With the changes brought about by the Alignment Project, this is no longer the case. The Scheme collects income and incurs expenditure during the year and any excess cash received is then surrenderable to the Consolidated Fund. This is not a Consolidated Fund Extra Receipt (CFER) but a reflection of the Net Cash Requirement of the Scheme being negative. Therefore, receivable balances previously recognised as CFER payables have been removed, and the balance payable to the Consolidated Fund restated.

The impact of this restatement is to reduce the payables balance in the 31 March 2011 Combined Statement of Financial Position (and in Notes 19.1 and 19.2) by £372,919,000 (2010 - £349,270,000) with consequential amendments to the Combined Statement of Changes in Taxpayers Equity, the Statement of Parliamentary Supply and Notes 5 and 6.1.

A further adjustment has been made in respect of cheques issued but not cashed. These were previously treated as non-supply income but have now been written back against the expenditure line to which they were originally charged.

The impact of this restatement is to amend the 2010-11 Combined Statement of Comprehensive Net Expenditure, the Combined Statement of Changes in Taxpayers' Equity and the Combined Statement of Cash Flows by £821,000, and consequential amendments to notes 6.2, 20.2, 20.3, 20.5 and 20.6.



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