

The Pension Service

Annual Report and Accounts 2006/07



Part of the Department for Work and Pensions

The Pension Service

Annual Report and Accounts 2006/07

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Section One Report

About Us

The Pension Service was launched in April 2002 as an executive agency of the Department for Work and Pensions. Its purpose is to be a modern service, which understands and meets the needs of both today's and future pensioners.

The Pension Service is responsible for delivering benefits, entitlements and other services to nearly 12 million customers in Great Britain and abroad.

The Pension Service delivers the following benefits and associated services:

- State Pension
- State Second Pension
- Over 80 Pension
- Pension Credit
- Winter Fuel Payments
- Graduated Retirement Pension
- State Earnings-Related Pension
- Christmas Bonus Payments
- State Pension Forecasts
- Occupational Pension Tracing

The Pension Service also provides information and guidance about pensions and acts as a gateway to other Department for Work and Pensions benefits.

More information about The Pension Service is available on our website at: www.thepensionsservice.gov.uk

Chief Executive's Report

Welcome to The Pension Service Annual Report and Accounts for 2006/07.

The report sets out a balanced and objective assessment of our performance over the past twelve months against the aims and objectives in our business plan, together with our annual accounts, in accordance with the requirements placed on Government agencies.

In the past year we have made a number of exciting advances in the service we provide to the older people in Great Britain; and State Pension residents overseas.

In October 2006, we completed the national roll out of our first wave of transformation and established a service whereby customers are able to complete the combined State Pension and Pension Credit application process for both entitlements in a single telephone call, while those entitled to Pension Credit can also apply for Housing Benefit and Council Tax Benefit during the same call.

Applications for State Pension and Pension Credit are now much quicker and more straightforward, and as they can be made over the telephone, there is no need to complete a form and our customers will usually be told their State Pension award at the end of the call.

Our Local Service teams are able to provide a more holistic service, considering older people's needs as a whole. For example, Local Service are offering full 'benefit health checks' when visiting customers in their homes as well as assessing other needs, such as help with the garden or having a smoke alarm fitted.

Over the last year Local Service carried out almost one million home visits, which resulted in 477,000 applications for a range of benefits including Pension Credit, Housing Benefit and Council Tax

Benefit, Attendance Allowance and Disability Living Allowance. This resulted in over £500 million a year in additional value delivered to pensioners, in terms of the annual value of entitlements, identified and taken up.

In continuing our transformation journey and delivering this improved service for new customers, I am enormously proud and grateful for the hard work and dedication of staff, which has enabled us to maintain a high standard of service to all our customers. I was thrilled, but not surprised, that The Pension Service was 'Recognised for Excellence' with a four star rating by the British Quality Foundation. Pension Service people, won two of the twelve categories in the Whitehall and Westminster awards – those for Joined Up Government, and the Cabinet Secretary's Individual Award for Outstanding Achievement.

Five years on as an agency we are now able to deliver a hugely improved service to a larger population with fewer staff and at a much lower cost to the taxpayer. We still have some way to go to complete our transformation, and the year ahead will be particularly difficult and challenging, as we roll out the next phase of our programme, to cover the bulk of our services to all existing pensioners and complete our planned staffing reductions. With the ability and determination of our staff, I am confident that we will continue to build on our success.



Alexis Cleveland
Chief Executive
2 July 2007



Management Commentary

The Pension Service progress against its key objectives

This report outlines the progress we have made between April 2006 and March 2007 in continuing the Department's fight against pensioner poverty and ensuring security in retirement.

The principal activities of The Pension Service for 2006/07 were set out in The Pension Service's Business Plan, published in March 2006.

The Pension Service provides a unified modern service for today's pensioners. It calculates entitlement to, and administers payment of, State Pension and Pension Credit for its customers. It also explains how to access other pension-related entitlements and services, in accordance with the current law and directions from the Secretary of State for Work and Pensions.

The Pension Service also provides information for future pensioners, to help them make decisions about their pension provision. It plays a crucial role in tackling pensioner poverty and encouraging saving. It operates through a network of pension centres, providing a telephone-based service, and specialist centres delivering services such as Winter Fuel Payments and overseas pensions. This is complemented by a local service network, operating in partnership with Local Authorities and voluntary organisations that engages with vulnerable customers, offering home visits or appointments at a location convenient to them.

The Pension Service's strategic objectives for 2006/07 as reported in its business plan were:

- For today's pensioners, to reduce poverty and ensure they benefit from having saved.
- For future pensioners, to deliver products and services that encourage them to save for their later life retirement, through the private sector where possible.

- To deliver a more efficient, effective and customer driven service.
- For our staff, to achieve high levels of satisfaction and provide opportunities that enable them to continuously develop our service to meet our customers' expectations, our business goals and their personal development aspirations.

We achieved these objectives by:

- providing a dedicated, technology-enabled, service for today's pensioners, whether they contact us by telephone, the internet, by post, or face-to-face; and
- improving services for future pensioners, by providing information to help them make decisions about saving for retirement.

Our Role within the Department for Work and Pensions

The Department for Work and Pensions exists to promote opportunity and independence for all. It provides help to individuals and supports the country's economic growth and social cohesion. The Department sets out what it expects The Pension Service to deliver in return for the funding which is provided. The Pension Service makes a significant contribution to supporting the Department in delivering its Public Service Agreement objectives and targets, which are set by the Secretary of State on advice from the Strategy and Pensions Director General. These targets help The Pension Service focus on key priorities and assess progress towards achieving its stated objectives. The Pension Service, and its Chief Executive, also play a major role in the corporate management and leadership of the Department as a whole.

The Department has a number of strategic objectives to which it is committed:

- to ensure the best start for all children and end child poverty by 2020;

- to promote work as the best form of welfare for people of working age¹;
- to combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners;
- to improve rights and opportunities for disabled people in a fair and inclusive society; and
- to ensure customers receive a high quality service, including high levels of accuracy.

Our Values

Achieving the Best

Learning and continuously improving in order to provide the best service to customers, actively seeking the best solutions for our business and our customers, and getting the best from our resources.

Respecting People

Building effective working relationships with each other and with our customers, valuing diversity and learning from each other's different skills and experiences.

1. The Department's employment programmes and many of its initiatives do not have specific upper age eligibility limits. This recognises that people will increasingly wish to work up to age 65 and beyond.

The Department has a number of associated Public Service Agreement (PSA) targets for which it is responsible, The Pension Service takes the lead on two:

- By 2008, to be paying Pension Credit to at least 3.2 million pensioner households, while maintaining a focus on the most disadvantaged by ensuring that at least 2.2 million of these households are in receipt of the Guarantee Credit.
- To improve working age individuals' awareness of their retirement provision such that, by 2007/08 15.4 million individuals are regularly issued a pension forecast and 60,000 successful pension traces are undertaken a year.

Looking Outwards

Understanding the needs of all our customers and partners, learning about how other organisations deliver excellent service and being open to ideas and learning how to get better at what we do.

Making a Difference

Delivering products and services in a flexible and responsive way to improve today's and future pensioners' lives. Knowing our customers and their needs accurately so we can deliver a streamlined service and by going the extra mile for our customers.

The Pension Service Management Board



Alexis Cleveland
Chief Executive



Chairperson
John de Trafford
Non-Executive Director



Jane E Tozer MBE
Non-Executive Director



Mike Sommers
Non-Executive Director



Nigel Richardson
Customer and Acquisition
Director



Sarah Scullion
Human Resources Director



Jason Feeney
Business Design Director



Martin Bellamy
Information Systems Director



Janet Grossman
Centre Operations Director



Simon Furse
Finance Director



Charlie MacKinnon CB
Transformation Director

The Pension Service Management Board has a decision-making role in support of the Chief Executive.

It is responsible for:

- Setting the strategic direction of the organisation.
- Providing leadership and making decisions on the deployment of resources.
- The determination and control of investment decisions.
- Ensuring The Pension Service complies with corporate governance standards.
- Setting performance management and assurance standards.
- Deciding current and future business initiatives.

Non-executive directors are independent members of the board whose objectivity, coupled with knowledge and experience gained from senior roles in a wide range of private sector organisations, complements the executive directors. Mike Sommers is a non-executive director of the Departmental Board who also attends The Pension Service Management Board, and Jane E Tozer MBE chairs The Pension Service Audit Committee.

An invitation to attend The Pension Service Management Board meeting is extended to the Pensions Client Directorate.

The Pension Service Audit Committee

The Pension Service Audit Committee supports the Chief Executive by scrutinising, challenging and providing advice on delivery strategies, plans and programmes, performance and governance arrangements.

The committee has a responsibility to monitor, assess, review, challenge and advise on the adequacy, appropriateness and overall value for money of policies, processes, work programmes and implementation arrangements relating to the five areas of effective assurance:

- Corporate Governance
- Risk Management
- Audit
- Accounting and Reporting
- Security

Non-executive directors are independently appointed to The Pension Service Audit Committee whose objectivity, coupled with knowledge and experience gained from senior roles in a wide range of private sector organisations, complements the executive directors. One will take the Chair and, where possible, one the Vice Chair. The Chairman will also be a member of the Departmental Audit Committee.

The Pension Service Audit Committee Members are –

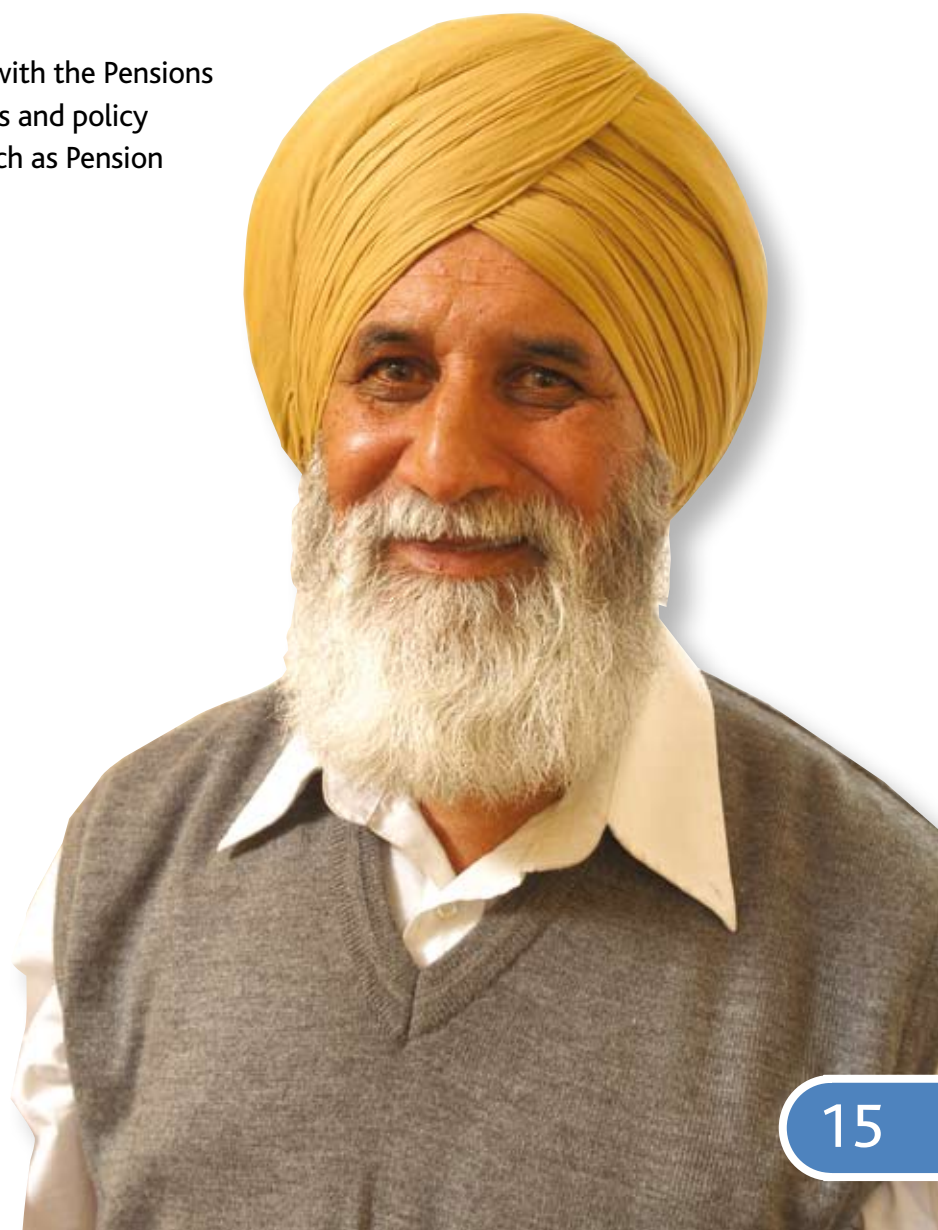
- Jane E Tozer MBE – Non-Executive Director (Chair)
- George McCorkell – Non-Executive Director (Vice-Chair)
- Helen John – Pensions Client Directorate's Finance Director

The Pensions Client Directorate

The Pensions Client Directorate is another, closely linked, part of the Department. It focuses on delivering an improved, reformed pension system – both state and private for today's and tomorrow's older people by introducing new policies and strategies, and monitoring and assuring the efficiency of the ongoing delivery mechanisms.

Pensions Client Directorate supports Ministers in delivering their policy objectives of combating poverty and promoting security, savings and independence for today's and tomorrow's older people. It also supports Ministers in driving forward their cross-Government agenda on active ageing which is a range of measures aimed to help older people participate in society, unhindered by unnecessary barriers.

The Pension Service is working closely with the Pensions Client Directorate delivering the policies and policy changes resulting from programmes such as Pension Reform and Benefit Simplification.



Delivery and Performance of the Business

This section reviews The Pension Service's products, delivery and performance over the 2006/07 period, and looks forward to the modernisation and policy reform projects that are in place for 2007/08.

Products

State Pension

During 2006/07, over 11.7 million customers received the basic State Pension and in total £43.5 billion in State Pension was paid. The total number of pensioners receiving State Pension (who reside overseas) was over 1 million.

Our performance against agreed targets was as follows:

- 95.5 per cent of non-complex State Pension claims were cleared within 60 days against a target of 95 per cent.
- 95.7 per cent of complex² State Pension claims were cleared within 85 days against a target of 91 per cent.

2. Complex claims are claims to State Pension from customers who have been widowed or divorced and the spouse's National Insurance contributions are taken into consideration. Complex claims were historically dealt with by our National Pension Centre, but through the Transformation Programme, these claims will be dealt with by pension centres.

Throughout 2006/07, the State Pension claims process has undergone significant transformation with the tele-claims service offered to pensioners allowing for more of their business to be conducted in a single contact over the telephone. Of the 95 per cent of claims that were cleared within 60 days, 40 per cent were cleared on the day of the single contact from the pensioner.

State Pension Accuracy

Through the transformation of the new claim process, an intensive programme has been followed to ensure that staff are fully trained on the new process and that attention is paid to ensuring accurate payments are made.



Interim figures for State Pension accuracy at the time of publication show a rate of 96.29 per cent against a target of 98 per cent. Final figures will be available in autumn 2007.

State Second Pension

Since the State Second Pension was introduced in April 2002, more than 14 million people have started to build up bigger pension entitlements compared to those under the State Earnings-Related Pension Scheme.

Individuals entitled to Carer's Allowance, Income Support as a carer, or Child Benefit for a child under six will build up entitlement to State Second Pension automatically. However, carers not in receipt of one of these benefits may need to apply for Home Responsibilities Protection to build up entitlement to the State Second Pension. Since 2002, applications must be made within three years of the end of the tax year in which caring took place.

Pension Credit

Pension Credit is key to tackling poverty amongst today's pensioners. Pension Credit ensures a minimum guaranteed income for those aged 60 and over so they need not live on less than £119.05³ a week (£181.70³ a week for couples). Those with severe disability, caring responsibilities and/or qualifying housing costs may be entitled to extra amounts. Pension Credit also rewards those aged 65 or over that have made modest provision

3. Pension Credit rates effective from 9 April 2007.

for their retirement. This 'savings credit' for retirement provision can be as much as £19.05³ a week (£25.26³ for couples).

Since its introduction over 3.66 million customer households have received Pension Credit. Some 2.74 million customer households (3.3 million customers) are currently receiving Pension Credit. We have been particularly successful in reaching those customers with the largest entitlements, with over 2.14 million customer households in receipt of the Guarantee element of Pension Credit.

The Pension Service is committed to increasing the take-up of Pension Credit and has been focussing on the needs of potential applicants, undertaking nearly 1 million successful home visits during 2006/07. The Pension Service has also issued over 2 million mailings to customers it believes may have an entitlement to Pension Credit, supported by national press advertising, local marketing and media activity. Throughout this period we also made 225,000 calls to customers to encourage them to apply for Pension Credit and other associated benefits.

Our most recent marketing campaign invited customers to '*Take a fresh look at your local Pension Services*', while we have also targeted family and friends of potentially eligible non-recipients to raise awareness amongst them of the benefits and services to which they may be entitled.

Pension Credit Accuracy

To improve performance our approach has been to tighten up accuracy on new claims, whilst addressing the error inherent in the historical caseload. Accuracy improvements are to be achieved by a range of initiatives including:

- Embedding a new checking regime, cross-product processes and system controls through transformation of the Pension Credit claims process.



At the time of publication the latest interim position stands at 87.4 per cent, falling short of the 96 per cent target.

3. Pension Credit rates effective from 9 April 2007.

- Throughout transformation, training on the new claims process for Pension Credit will focus on the top error types, with the aim of significantly reducing these in the future.
- A more focused application of cross-system data matching techniques to identify potential error cases for correction.
- A case cleansing exercise is to be undertaken during 2007/08 to target historical error in the caseload.

It is expected that improvements in Pension Credit accuracy will become apparent in 2007/08 as a result of the initiatives, which are overseen by the National Programme Protection Team, a team dedicated to driving through improvements in payment accuracy.

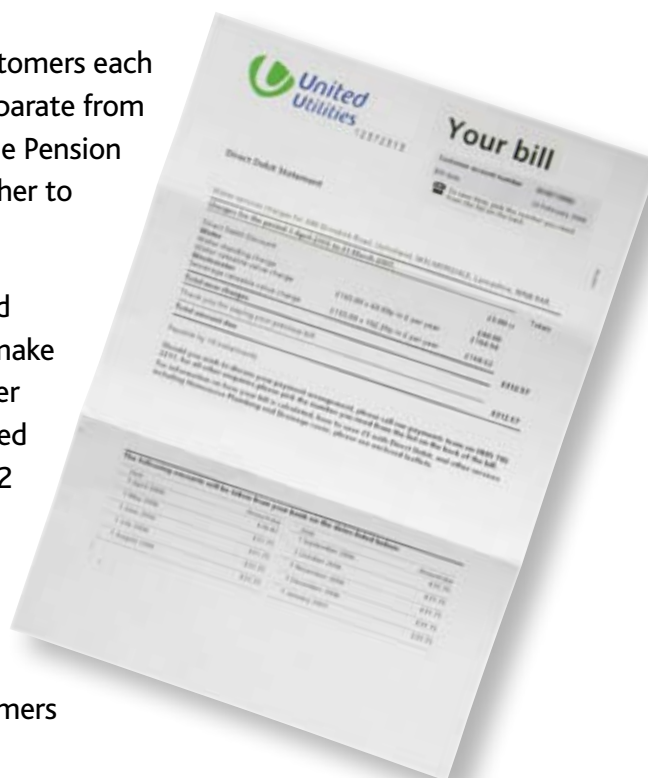
Winter Fuel Payments

Winter Fuel Payments are made to eligible customers each year to provide help with fuel bills. They are separate from Cold Weather Payments which are paid to some Pension Credit customers for periods of very cold weather to help with additional heating costs.

Where Winter Fuel Payments were being issued automatically or where customers needed to make a claim and did so successfully by 22 September 2006, all payments and notifications were issued before Christmas 2006. In total we paid over £2 billion in Winter Fuel Payments consisting of:

- over £1.8 billion in Winter Fuel Payments to 11.7 million customers; and
- an additional £0.2 billion to 2.2 million customers aged 80 and over.

The Pension Service continued to deliver an additional £100 Winter Fuel Payment to eligible customers aged 80 or over, meaning that eligible pensioner households with someone aged 80 and over were entitled to receive up to £300 in 2006/07.



Fuel Poverty Campaign Pilot

The Pension Service worked with the Department for Trade and Industry, Ofgem and the major energy suppliers to help older people as fuel prices rose during 2006/07 and the proportion of income they needed to spend on heating their homes increased. During November 2006, The Pension Service mailed leaflets out to 100,000 customers in England as part of a pilot to help reduce fuel poverty. A helpline number (0800 027 7688) was made available to take calls from customers offering advice on energy tariffs and suppliers, helping customers apply for a grant to insulate their home for free and to provide basic advice on benefits. Around 2,300 customers who asked for more information about other benefit entitlements were referred to The Pension Service Local Service in their area. This has resulted in the take up of additional benefits including Attendance Allowance, Pension Credit, Carer's Allowance, Council Tax Benefit and Housing Benefit.



State Pension Deferral

Customers are able to defer taking up their State Pension entitlement when reaching State Pension age.

The State Pension Deferral Project was established to manage changes introduced by the Pensions Act 2004. These changes were introduced in two stages, from April 2005 and from April 2006.

From 6 April 2005, the extra weekly State Pension accrued due to deferral increased from 7.5 per cent to approximately 10.4 per cent for each year of State Pension deferral. In addition, a new option has been introduced from April 2006, which allows customers who have deferred their State Pension for at least 12 consecutive months to choose to receive a one-off taxable lump-sum payment rather than extra weekly State Pension.

The lump-sum payment is made up of the deferred State Pension, plus interest added each week. The rate of return is broadly equivalent to a yearly interest rate of 2 per cent above the Bank of England base rate.

Figures for the first five months of operation show that over £8.5 million has been paid on lump-sum payments with the average payment being £4,773.

Pension Forecasting

Many people say that they want to plan for their later life but do not know where to start. The Pension Service is helping its customers plan for later life by providing the basic information they need to make informed choices.

Combined pension forecasts bring together State Pension forecast information with a forecast of an individual's current occupational or private pension. Research shows that combined pension forecasts are valued by employers, pension providers and individuals and 2,880 organisations have either provided or agreed to provide pension forecast details to allow this type of forecast to be issued.

Between April 2005 and March 2007 over 18.5 million individuals were issued with a pension forecast against the Public Service Agreement commitment to ensure 15.4 million individuals are regularly issued with a forecast.

Pension Forecasting Performance During 2006/07:

- over 5 million individuals were issued with a State Pension forecast automatically;
- over 700,000 State Pension forecasts were issued to individuals on request;
- over 4 million individuals were issued with a combined state and current private pension forecast issued by the employer or pension provider; and
- over 50,000 individuals requested a forecast over the Internet using the Real-Time Pension forecasting service.



Pension Tracing

Customers who have lost details of their personal pension can request a pension trace.

This service was previously offered by the Occupational Pensions Regulatory Authority, an organisation which was replaced by the Pensions Regulator from 6 April 2005. At that time the Pension Tracing Service was moved over to The Pension Service.

During our second year of operating the Pension Tracing Service achieved over 40,000 successful pension traces.

Telephony

During 2006/07, The Pension Service focused on 2 key measures of telephony performance.

The first measure was to ensure that our customer advisors answered 95 per cent of telephone calls received by The Pension Service.

- We achieved a performance level of 96.28 per cent, exceeding the target set.

The second measure was to ensure that less than 1 per cent of telephone calls received the engaged tone or a recorded message because our customer advisors are unable to take these calls.

- The Pension Service achieved a performance level of 0.14 per cent, well within the target set.

During 2006/07, based on the Customer Charter, The Pension Service's aim was that its trained customer advisors would answer 80 per cent of calls received within 30 seconds.

- A performance level of 78.48 per cent was achieved.



Ministerial Correspondence

The Cabinet Office reporting period for Parliamentary correspondence is the calendar year January 2006 – December 2006. During this period, The Pension Service maintained its strong levels of performance against Cabinet Office targets.

MP letters to Minister – Delegated to Chief Executive for reply:

- 669 letters received. 684⁴ replies issued with 97 per cent cleared in 20 days. (The Cabinet Office target is 90 per cent cleared in 20 days)

MP letters direct to Chief Executive:

- 767 letters received. 778⁴ replies issued, with 96 per cent cleared in 15 days. (The Cabinet Office target is 90 per cent cleared in 15 days)

4. The number of replies issued include responses to those letters that were outstanding at the end of the previous reporting year and were carried forward into the current reporting period.



Delivery and Performance

Efficiency and Productivity

On the 29 June 2004, the Secretary of State announced plans to address the Department for Work and Pensions efficiency challenge and an overall departmental workforce reduction of 30,000 by 2008.

The aim is to deliver reductions in our headcount whilst, at the same time, generating substantial improvements in customer service and creating more fulfilling jobs for our staff.

Throughout this period we have met our commitment to try to redeploy people where their current job role has ceased to exist and worked with our trade unions in seeking to avoid compulsory redundancies through other voluntary measures.

The Pension Service has a specialist Redeployment Unit that has a responsibility for managing surplus staff with clear targets to redeploy people as quickly as possible and minimise the length of time people are in surplus status. The unit works closely with the Department for Work and Pensions Human Resources and Regional Change Implementation Programme Executives to redeploy staff or put exit arrangements in place where redeployment is not possible.

The Department has developed a measure of overall productivity based on the methodology recommended by the Atkinson review into the measurement of Government Output.

The Pension Service has adopted this methodology and reports a productivity index, which measures changes in the total output produced by the resources used. The measure can be based on headcount or administrative expenditure and allows managers to investigate unexpected changes in productivity and take remedial action where necessary. Over the two year period to March 2007 The Pension Service has planned to steadily reduce its headcount and with workloads expected to remain stable, productivity was forecasted to increase. In the event headcount has reduced by 19.3 per cent and outputs have decreased by 1 per cent resulting

in productivity increasing by 22.7 per cent over the 2 years. Measured in year, productivity increased by 12.6 per cent in 2005/06 and by 9.3 per cent in 2006/07.

Local Service and Joint Working Partnerships

Local Service engage directly with vulnerable, 'harder to reach' customers, through appointments at more convenient locations and face-to-face home visits. Local Service is seeing more customers who need support most and who may not be able to access our services through telephone or post.

In the last financial year our Local Service teams visited almost 1 million customers, generating applications to Pension Credit and other benefits, such as Attendance Allowance and Disability Living Allowance, and made approximately 365,000 referrals to Local Authority and other voluntary and public sector partners to access services such as Home Help and Meals on Wheels for our customers.

Fraud and Error

The Pension Service is committed to reducing losses from fraud and error, with this reduction measured against the March 2002 baseline of 4.6 per cent of benefit paid.

The Pension Service strategy for reducing fraud and error has achieved significant success to date against a backdrop of considerable change. The introduction of Pension Credit and, the associated take up challenge, together with ongoing business change activity have, however, had a temporary impact in this area of our performance.

A high proportion of errors in the live caseload are known to be historical. In the latest sampling exercise undertaken over 70 per cent of the errors found were attributable to the period October 2003 to September 2004, when Pension Credit was new to staff and the major focus was on the initial take-up campaign.



Across the UK, The Pension Service is working with Local Authorities and voluntary organisations to deliver the best possible customer service. Our strong partnership with West Lothian Council has contributed to the Local Authority, for example, being recognised as the council of the year at a national awards ceremony. This was the first time that a Scottish council had won the 'Local Government Chronicle Awards' and the relationship that the council has with The Pension Service secured over £3.8 million for customers that would otherwise have gone unclaimed.

It is against this backdrop that The Pension Service recognises the need to undertake a cleanse of the existing caseload, whilst still focusing attention on ensuring new claims are dealt with accurately at the outset using data matching techniques to identify errors at an early stage.

During 2006/07, The Pension Service put in place measures to continue to reduce losses from fraud and error in Pension Credit, including:

- using all data matching facilities available;
- undertaking focused scans;
- providing effective feedback on performance, providing suitable training and support;
- focused gateway intervention checks on applications known to be prone to error;
- specific training on areas of weakness;
- introducing an 'Excellence Process' to benchmark good performance; and
- an enhanced accuracy checking process which reinforces individual agent accountability.

The latest available statistical information up to March 2006 was published in April 2007 and reported performance at 4.1 per cent.

Modernisation and Policy Reform

Pensions Transformation

In January 2005, the Secretary of State announced plans for a significant investment in The Pension Service aimed at transforming the organisation, enabling the delivery of improved services, greater efficiency and more fulfilling jobs for our people. The transformation of The Pension Service forms part of the

overall modernisation of Government. Its aim is to deliver a business fully supported by modern technology that is comparable to the best in the public and private sectors. Changes to processes, technology and organisational structure introduced in a phased approach will enable The Pension Service to improve service to all its customers. We have already taken a significant step towards delivering the level of customer service expected from a modern government department.

Redesigned business processes and job roles, supported by enabling technology now allow customers to conduct more of their business in a single contact over the telephone, eliminating the need to provide the same information more than once. Since July 2006, customers have been able to make a combined claim to State Pension, Pension Credit, Housing Benefit and Council Tax Benefit, giving them access potentially to four benefits in a single telephone call.

At the start of the transformation in 2004, The Pension Service had 29 pension centres. Business processes and information technology systems were fragmented, largely paper based, designed around individual benefits and susceptible to fraud and error. In line with our transformation plans, we have reduced the number of our pension centres to 18 and will be actively seeking further divestment opportunities.

The overall objective is to change The Pension Service into an organisation that has the customer at the forefront of everything we do, ensuring we are better focused on their needs and providing an all round improved service.

Pension Reform

The White Paper, '*Security in retirement: towards a new pensions system*', published in May 2006, set out a number of proposals for changing the State Pension system for people who reach State Pension age on or after 6 April 2010.

The Government consulted widely on the package of reform measures and a full summary and analysis of the consultation responses was published in October 2006.

In November 2006, the first Pensions Reform Bill was published, containing measures to reform State Pensions, establish a delivery authority for personal accounts, and make some simplifications to private pension's provision.

The Pension Service has initiated a programme to coordinate, manage and deliver the changes to State Pensions for which it is responsible, and to make any necessary changes to its products and services to reflect other reform measures. This programme will also encompass activity to deliver the changes required to introduce the equalisation of State Pension age.

The delivery programme has provided staff with timely briefing to enable them to deal with customer enquiries resulting from publication of the White Paper, publication of the Bill, publicity surrounding key stages during the passage of the bill, and following the publication of the White Paper, *'Personal accounts: a new way to save'* published in December 2006. Subject to the will of Parliament, further legislation is intended to cover the detail of personal accounts.

Further details on the Pensions Reform Bill can be obtained by visiting the House of Commons website: <http://www.publications.parliament.uk/pa/pabills/200607/pensions.htm>



Managing our Business

The Pension Service operates within the framework of strategies, policies and corporate standards determined by the Department for Work and Pensions as a whole.

The Pension Service also benefits from the provision of cross-department support services. These include the provision of corporate financial, human resources and information technology support, administration of major contracts and provision of pensions policy and strategy. These services are reported in the Department for Work and Pensions' Departmental Report.

The annual report is limited to an explanation of our administrative expenditure, and how we have utilised resources, in this financial year.

The Pension Service's primary focus in all of its external reporting is to demonstrate the added value it brings in reducing poverty among older people and enhancing the security and independence of both today's and future pensioners. The focus of our business is, and will continue to be, our customers.



Running costs 2006/07

Actual Spend

To deliver benefits
and services

£370 million



Modernisation and
service improvement
(Investment cost)

£138 million



Administrative
and central services

£33 million



Notes

- 1 Costs relating to Administration and Central Services include marketing, human resource and financial services.
- 2 Costs relating to modernisation and service improvement include projects and associated capital costs.
- 3 The figures above represent only the expenditure directly incurred by The Pension Service. Total expenditure attributable to The Pension Service, including overheads and costs borne by the Department that relate to The Pension Service, is shown in the Annual Accounts section of this report.

Risk

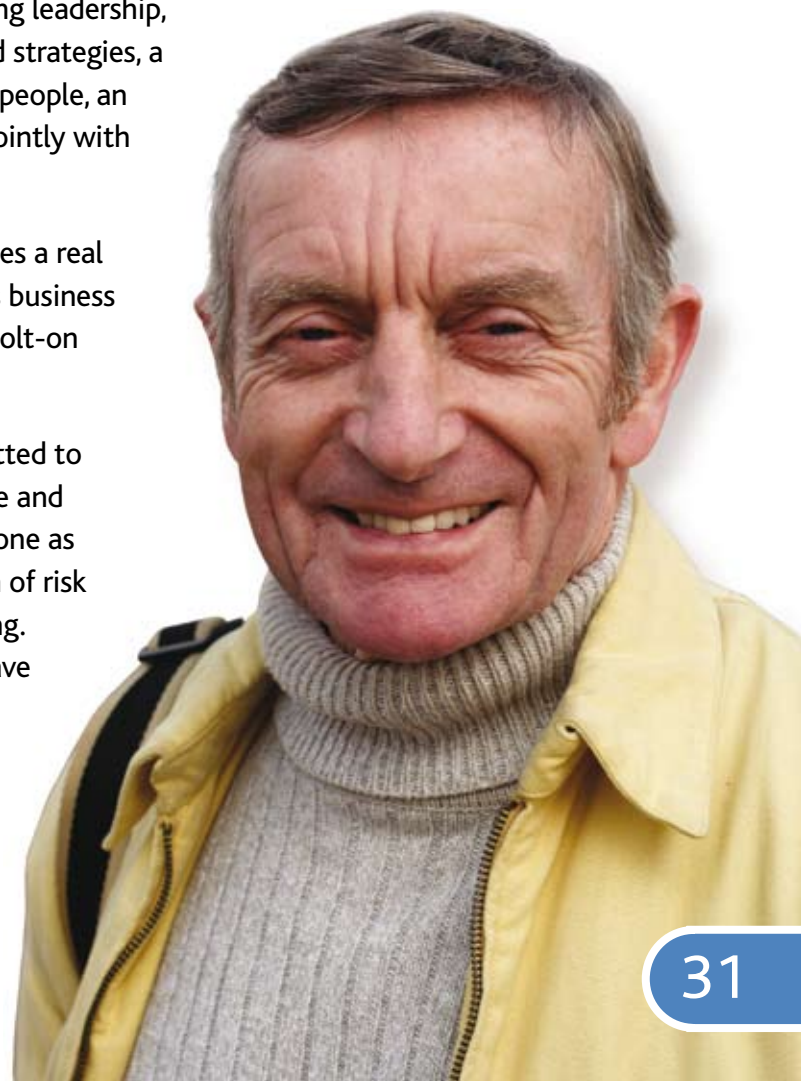
Proper governance is fundamental to The Pension Service system of internal control, arrangements for governance and risk management are designed to identify and prioritise the risks to the achievement of The Pension Service's policies, aims and objectives. Our system has been designed to manage the key risks efficiently, effectively and economically.

Risk management is integrated within all of the key business processes. The Pension Service Business Plan identifies the organisation's strategy and key deliverables, together with the associated resource implications and assumptions. Throughout the year the Planning and Performance Framework is used as a basis for a continuous cycle of strategic planning and the review of the management of risks, capacity and change.

In their review of risk management arrangements in The Pension Service, Internal Audit concluded that overall, The Pension Service is developing a mature risk culture built upon strong leadership, effective implementation of corporate policies and strategies, a focus on training, education and awareness for its people, an increasing awareness of the need to manage risk jointly with partner organisations, and robust processes.

As a large Agency, The Pension Service demonstrates a real desire and capability to place risk at the core of its business processes and move away from treating risk as a bolt-on process.

The Pension Service Management Board is committed to actively promoting an open and honest risk culture and believes risk management is the business of everyone as it is the shared understanding and communication of risk information that leads to informed decision making. Our risk based processes and business practices have allowed The Pension Service to be flexible and responsive, contributing to its achievement in delivering key business objectives.



Our People

The Customer and Acquisition Directorate were winners of the 'Joined Up Government Award'. This award recognises activity which has looked beyond institutional barriers to clearly identify and communicate cross-cutting objectives, establish effective joint working arrangements and have a coordinated strategy for implementation and delivery.

Sorwar Ahmed won 'The Cabinet Secretary's Individual Award for Outstanding Achievement'. This award highlights the work of a team or an individual who has demonstrated pride, passion, pace and professionalism in the way they work. Sorwar, who is a call centre agent for the Future Pension Centre won the award for his passion to succeed and his determination to help all his customers as well as a willingness to share ideas and good practice with his colleagues.



Staff from The Pension Service triumphed at the inaugural Whitehall & Westminster World Civil Service awards in November winning two of the twelve awards available. The awards honour leading examples of projects, initiatives and teamwork championed by Government.

Diversity and Equality

The Pension Service is making real progress in demonstrating its commitment to becoming an inclusive organisation where the principles of diversity and equality are fully embedded. We believe that this is vital to enable us to deliver the state of the art public services that we aspire to give our customers, partners and colleagues.

The Chief Executive has appointed senior/executive champions and each has responsibility for promoting the diversity goals which have been linked to our business objectives. We have a network of Diversity Advisors and representatives at the Department's Diversity Staff Network Groups who help take forward local diversity and equality initiatives.



We want to create an inclusive culture where diversity is valued and where people are encouraged to maximise their potential by using their knowledge and experience to deliver a first-class service. Results of the Department for Work and Pensions Staff Survey in November 2006 show that 70 per cent of The Pension Service staff experience inclusive practices, demonstrating that the organisation respects individual differences such as cultures, working styles, backgrounds and ideas. This compares with 66 per cent in 2005.

We continue to review the diversity profile of our staff and as at January 2007, The Pension Service included 66.2 per cent females, 6.1 per cent ethnic minority groups, and 3.2 per cent staff with disabilities. We provide reasonable adjustments to staff who require them and have reviewed future job roles in transformation pension centres to address barriers to staff with disabilities. A Childcare Salary Sacrifice Scheme was launched in February 2007, which allows staff to use an amount of their salary, tax free, to assist with childcare costs.

We promote training and awareness of diversity and equality through our 'All Inclusive' strategy and the Department's Diversity Toolkit. We have delivered awareness to staff on gender, disability, race and sexual orientation. We revised our guidance on Equality Impact Assessment and up-skilled HR Business Partners to assess planned changes which affect staff.

Sickness Absence Management

We continue to work within the Department's attendance management policy to provide fair and consistent procedures for all our people. Sickness absence overall has fallen in the past three years, with the average working days lost as of December 2006 (against the Cabinet Office Departmental target of 8 days by December 2006) standing at 9.4 days (this figure is subject to validation and is based on information from The Pension Service Business Information Portal). This compares with the 2003/04 figures of 12.8 days against an in-year standard of 8.5 days.



The Pension Service launched its Disability and Gender Equality Schemes and Race Equality Scheme Progress Report in December 2006. The schemes and associated action plans are aimed at promoting inclusion for staff and customers and for addressing discrimination. We involved our customers and our staff, including the Disabled Staff User Group, in developing the schemes and will continue to do so in testing our approaches on the areas for improvement.

Business Excellence and Continuous Improvement

British Quality Foundation

The Pension Service is driving continuous improvement forward by using the European Framework of Quality Management as a means of bringing all our activities in this area together. This provides an independent assessment of how well improvements and business objectives are being delivered and where we need to focus our efforts to do better.

External validation through the British Quality Foundation ensures that we continually benchmark ourselves against other public and private organisations in the pursuit of excellence.

In September 2006, external assessors from the British Quality Foundation assessed The Pension Service, meeting with each of The Pension Service Directors to understand the challenges facing them. They interviewed senior managers, held focus groups with staff and visited pension centres to see the business in operation and were impressed with what they saw and heard across the organisation. The hard work and commitment of The Pension Service was officially acknowledged with the award of 'Recognised for Excellence' status at four star level. The Pension Service is the largest public sector organisation to achieve this award.



Investors in People

Investor in People is about supporting and developing people to enable them to deliver better products and services. Investing in development is the pathway to a successful business. The best way to improve any organisation's performance is through the development of its staff. Under Investors in People, development is more than training; it is any activity that improves skills and knowledge from formal training courses, to coaching or job shadowing.



Our business success depends on our staff and their dedication, skills, focus on outcomes and ensuring that their skills and capabilities are continually developed and deployed effectively. The Pension Service has used the Investors in People framework to ensure that it continues to maintain good management practices and having initially achieved recognition as an Investor in People in November 2003, was re-recognised as an Investor in People in November 2006 as part of the overall Department for Work and Pensions recognition.

The Government's Sustainable Development Agenda

The Pension Service continues to actively support the Government's sustainable development agenda by managing our business processes to produce a positive impact on society and the environment. It receives some 50 million sheets of paper every year from its customers, Department for Work and Pensions colleagues and other Government departments. As we progress to a more telephony based business we are reviewing our existing processes and exploring opportunities for reducing paper-based transactions.

The Pension Service is rationalising its estate in line with transformation plans and subsequent workforce reductions.

The emerging estate will support and reflect a streamlined business and will deliver efficiencies in line with Sustainable Development and Departmental policies.

We continue to take practical measures to reduce our impact on the environment in pension centres by Duplex printing, recycling initiatives and the centralised storage of leaflets to better manage stocks and avoid over supply. We are also minimising our energy usage through renewable sources and reducing our water consumption.



The Pension Service Website

Over 1.5 million people visited The Pension Service website (www.thepensionservice.gov.uk) during 2006/07 to access state and private pension information. In an independent customer survey, the website received a 75 per cent satisfaction rating.

The website offers information on all state entitlements for retired people, for those planning ahead, and information for employers and advisers. Benefits information, application forms and guides are available to read, print or order online and the site posts regular news stories on pensions, savings and retirement.

The website acts as a gateway to claiming State Pension, forecasting e-services and hosts the online Pension Tracing form, which provides the Pension Tracing Service with its largest number of contacts. The site also provides online calculators to work out their State Pension age and an estimate of their Pension Credit.

Users can find contact information for all the local pension centres, International Pension Centre, National Pension Centre and the Future Pension Centre.

The site was refreshed in April 2006 and will continue to develop its customer focus to help meet our targets for uptake of entitlements and information provision and conforms to level Double-A of the W3C Web Content Accessibility Guidelines 1.0.



Customer Service

Customer Charter

The Pension Service Customer Charter sets out the service standards that all of our customers can expect and tells them what to do if things go wrong. We will ensure that the Charter is relevant to customers and that standards are regularly reviewed; a new version of the Charter was published in May 2007.



Customer Feedback

Views are welcomed from customers on our service, on how we can make improvements, and details on how to do this is contained within the Customer Charter publication.

The Pension Service continues to work hard to promote the capture, recording, and positive use of customer feedback. Our database categorises and reports customer feedback to clearly identify and address areas of concern, enabling us to make improvements to the services we provide to our customers.

The key messages from the Annual Customer Feedback Report were:

- The national figure for capture of feedback for the year to date is 20,347.
- 87 per cent of issues cleared within the national standard of 7 working days.
- 7,444 compliments were recorded in pension centres in this period.

The top five areas of reported negative feedback (complaints) for 2006/07 were:

- Payment not received.
- Delay in payment.



- Decision taken too long.
- Information provided not used.
- Failed to reply.

The top five areas of reported positive feedback (compliments) for 2006/07 are:

- The staff.
- The benefit process.
- Advice and information given.
- Telephone access.
- Home visits/outreach.

Customer Survey

The next Pension Service Customer Survey will take place during the summer of 2007. The survey measures our customer's experience of, attitudes towards and satisfaction with, our service. It will be based on a representative sample of customers who contact The Pension Service by telephone, 'face to face' and post in a given period. Analysis will be provided at a national level. The full survey report will be published in early 2008. The results from the survey will play an important role in improving the service delivered to customers and will assist in the future development of our services.



Quality and Accuracy of Communications

We perform a series of internal checks to assure the quality and accuracy of advice and information provided to customers during face-to-face interviews and through correspondence. The quality of telephone communication is monitored through our Mystery Shopping Programme.

Mystery Shopping

Mystery shopping provides an independent assessment of the quality of service we provide to our customers. Mystery shoppers telephone The Pension Service to ask questions using a series of scenarios, which are based on actual customer enquiries. The Mystery Shopping Programme assesses different parts of the service we provide to customers including telephone calls, other language calls, textphone calls and leaflet requests. The outcome of their experience is recorded against set questionnaires from which the standard of service can be evaluated.

The programme tests the service delivery from all pension centres, including our specialist centres (Future Pension Centre and International Pension Centre).

Results highlight areas where we can improve our service delivery and also help to assess how well we are meeting the published standards of customer service in our Customer Charter.

The key messages from the 2006/07 Mystery Shopping Programme exercise are:

- Our staff treat customers professionally and were described as helpful, polite and easy to talk to.
- Customers still find it easy to contact The Pension Service with 99 per cent of mystery shopping calls answered at the first attempt.
- There has been a continued improvement in the quality and accuracy of information with 78 per cent of mystery shoppers receiving the correct information, compared to 65 per cent in 2005/06 (despite the improvement, this aspect of service delivery is receiving further attention).



Charter Mark

The Charter Mark is the Government's national standard for excellence in customer service. It is a positive force for change and customer service improvement and we will ensure that, as we transform the service, our pension centres achieve and maintain the Charter Mark standard. During 2006/07, all our transformation sites were successful in their applications.



Royal National Institute for the Deaf

The Pension Service is also working towards achieving the Royal National Institute for the Deaf 'Louder than Words' charter, a nationally recognised charter that shows deaf and hard of hearing people that organisations offer a fully deaf aware service. During 2006/07, eight pension centres were successful in their applications – Seaham, Swansea, Future Pension Centre, Motherwell, Cwmbran, Burnley, National Pension Centre and the International Pension Centre.

Feedback

The Pension Service welcomes feedback on this document. Please send any comments to:

Strategic Reporting Team
The Pension Service
Room 4C06
Quarry House
Leeds
LS2 7UA





Appendices

Appendix 1

Table 1 – Public Service Agreement Targets and Service Delivery Agreement Targets

| Target | Actual Performance April 2005 to March 2006 | Actual Performance April 2006 to March 2007 | Key Outcomes 2006/07 |
|--------|---|---|----------------------|
|--------|---|---|----------------------|

PSA 6 (SR04) – By 2008, be paying Pension Credit to at least 3.2 million pensioner households, whilst maintaining a focus on the most disadvantaged by ensuring that at least 2.2 million of the households are in receipt of the Guarantee Credit.

| | | | |
|--|---|---|---|
| <p>By 2008, be paying Pension Credit to at least 3.2 million pensioner households, whilst maintaining a focus on the most disadvantaged by ensuring that at least 2.2 million of the households are in receipt of the Guarantee Credit.</p> <p>See note (i).</p> | <p>Over 2.72 million¹</p> <p>Over 2.1 million Guarantee Credit²</p> | <p>2.739 million</p> <p>2.124 million</p> | <p>This Public Service Agreement is unlikely to be achieved. It has once again proved challenging to reach potential customers entitled to smaller amounts while the number of customers leaving the caseload has been a contributing factor.</p> |
|--|---|---|---|

PSA 7 (SR04) – Improve working age individuals' awareness of their retirement provision such that by 2007/08 15.4 million individuals' are regularly issued a pension forecast and 60,000 successful pension traces are undertaken a year.

| | | | |
|---|--|---|--|
| <p>By 2007/08, 15.4 million individuals are regularly issued a pension forecast.</p> | <p>Over 12.2 million pension forecasts had been issued to individuals by March 2006.</p> | <p>Over 18.86 million pension forecasts had been issued to individuals by March 2007.</p> | <p>Since April 2005, over 18.86 million individuals have been issued with a pension forecast representing the achievement (20 months early) of the Public Service Agreement.</p> <p>It is judged to be met if 15.4 million individuals are issued with at least one of the four types of pension forecast in the three year period from 1 April 2005 to 31 March 2008.</p> |
| <p>By 2007/08, undertake 60,000 successful pension traces each year.</p> <p>See note (ii)</p> | <p>Over 30,000 successful traces were achieved.</p> | <p>Over 40,000 successful traces were achieved.</p> | <p>We have made good progress and increased demand expected during 2007/08 should result in this target being met.</p> |

Where applicable all performance has been shown to 2 decimal places where a percentage is appropriate.

Note (i) – This reflects actual performance as at November 2006 as reported in the Work and Pensions Longitudinal Study.

Note (ii) – For our first year of operating the Pension Tracing Service we set ourselves the internal target of bedding in the service and achieving over 30,000 successful traces. During 2006/07, we have set ourselves an internal target of 40,000 successful traces.

1. PSA 6 (SR02) – By 2006, be paying Pension Credit to at least 3 million pensioner households.

2. SR02 SDA – By 2006 be paying the Guarantee element of Pension Credit to at least 2.1 million pensioner households.

Appendix 2

Table 2 – Secretary of State Agreed Standards for 2006/07

| Standard | Actual Performance April 2005 to March 2006 | Actual Performance April 2006 to March 2007 | Key Outcomes 2006/07 |
|---|---|---|---|
| Accuracy | | | |
| Achieve a State Pension claims accuracy rate of at least 98%. | 96.97% | 96.29% ¹ | The year to date summary figure is being used for reporting purposes with final figures not expected until later in the year. There has been a slight deterioration in performance in this area over the past year. |
| Achieve a Pension Credit claims accuracy rate of at least 96% See note (i) | 87.93% SDA (SR02) – By 2006, ensure that on average 96% of Pension Credit applications are paid accurately, and that all regions achieve at least 94% accuracy. No regions achieved 94% accuracy | 87.44% ¹ | The year to date summary figure is being used for reporting purposes with final figures not expected until later in the year. There has been a slight deterioration in performance in this area over the past year. |
| Telephony | | | |
| Ensure that 95% of telephone calls received by The Pension Service centres are answered by customer advisors and less than 1% of attempted telephone calls receive the engaged tone or message. | 93.98% 0.55% SDA (SR02) – By 2006 ensure that 92% of telephone calls to The Pension Service centres are answered by customer advisors and less than 1% of attempted calls receive the engaged tone or message | 96.28% 0.14% | These targets have been met. |

Winter Fuel Payments

| | | | |
|--|---|---|--|
| Issue Winter Fuel Payments for 2006/07 (all automatic payments and successful claims received before 23 September 2006) by Christmas 2006. | Over 11.6 million payments were made in November 2005 | Over 11.7 million payments were made in November 2006 | The Department has validated that at least 99.9% of customers paid automatically or who applied successfully before 23 September 2006 were paid by Christmas 2006. |
|--|---|---|--|

Workforce Numbers

| | | | |
|---|--|--------|--|
| To reduce The Pension Service workforce to 13,814 whole time equivalents by March 2007. | | 12,701 | The March 2007 headcount target of 13,814 was met in May 2006. |
|---|--|--------|--|

Sickness Absence Management

| | | | |
|--|---|---|--|
| Reduce sick absence rates to 8 days per capita by December 2006. | 9.4 days (Against an in-year standard of 8 days) | 9.4 days ² (Against an in-year standard of 8 days by December 2006) | This standard is unlikely to be achieved following final validation. |
|--|---|---|--|

Where sections are not completed, there is no comparable data from the previous year.

Where applicable, all 2006/07 performance has been shown to 2 decimal places where a percentage is appropriate.

Note (i) – As we removed the Government Office Region structure during the Spending Review period we retained the ability to report performance by Government Office Region.

1. These figures have not yet been independently validated.

2. Validation is still ongoing.

Appendix 3

Scope of Products and Services

Product/Service

Information

The Pension Service directly administered the following products and services between April 2006 and March 2007. (Customers numbers included where figures are available.)

| | |
|---|--|
| Basic State Pension | We paid £43.5 billion in State Pension payments to over 11.7 million customers, of whom 1 million reside overseas. |
| Over 80 State Pension | Over £36.7 million has been paid out in Over 80 State Pension to 2.8 million customers. |
| State Second Pension | £248.5 million has been paid out in State Second Pension. |
| Pension Credit | £6.9 billion has been paid out in Pension Credit payments. |
| Pension Credit Guarantee element | £5.7 billion has been paid out in Guarantee element of Pension Credit. |
| Winter Fuel Payments (Customers aged 60 and over) | Nearly £1.8 billion has been paid out in Winter Fuel Payments to 11.7 million customers. |
| 80+ Annual Payments (Customers over 80) | Over £0.22 billion has been paid out in 80+ Annual Payments to 2.2 million customers. This was in addition to the Winter Fuel Payment. |
| Graduated Retirement Benefit | £1.5 billion has been paid out in Graduated Retirement Pension. |
| State Earnings-Related Pension Scheme | £8.4 billion has been paid out in State Earnings-Related Pension Scheme. |
| Christmas Bonus | £113 million has been paid out in Christmas Bonus payments. |
| Pension Forecasting Information | Over 9 million customers received pension forecasting information. |

These figures are provisional. They are not included in the ambit of The Pension Service Accounts but are included in the Departmental Resource Account to be published later this year.

The following products and services, administered by other authorities on behalf of The Pension Service were delivered to pensioner households between April 2006 and March 2007. The Pension Service works closely with other agencies such as Jobcentre Plus and local authorities, to provide the following benefits:

| | |
|-----------------------------------|---|
| Housing Benefit | An estimated £4.8 billion in Housing Benefit was paid to around 1.5 million households classed as elderly (single people aged 60+ or couples where at least one partner is aged 60+). |
| Social Fund Budgeting Loans | £31.9 million in Social Fund Budgeting Loans was paid to 103,000 pensioner households. |
| Social Fund Crisis Loans | £1.5 million in Social Fund Crisis Loans was paid to 21,000 pensioner households. |
| Social Fund Community Care Grants | £13.8 million in Social Fund Community Care Grants was paid to 28,000 pensioner households. |
| Social Fund Funeral Payments | £22.5 million in Social Fund Funeral Payments was paid to 43,000 pensioner households. |
| Disability Living Allowance | £3.5 billion of Disability Living Allowance was paid to over 1.1 million pensioner households. |
| Widows/Bereavement Benefits | £64.1 million of Widows/Bereavement Benefits was paid to 16,000 pensioner households. |
| Widows/Bereavement Payments | £86.9 million of Widows/Bereavement Payments was paid to 21,000 pensioner households. |
| Attendance Allowance | £4.2 billion of Attendance Allowance was paid to 1.7 million customers. |
| Carer's Allowance | £60.4 million of Carers Allowance was paid to 45,000 pensioner households. |
| Cold Weather Payments | £2.2 million in Cold Weather Payments was paid to 250,000 pensioner households. |
| Maternity Payments/Grants | £0.2 million in Maternity Payments and Grants was paid. |

These figures are provisional; the final programme expenditure figures will be published in the Departmental Resource Account later this year.

Appendix 4

Remuneration Report

Remuneration Policy

The remuneration of The Pension Service Management Board members, who are Senior Civil Servants, is determined by the Department for Work and Pensions Senior Civil Service Pay Committee. The committee is chaired by the Department's Permanent Secretary, and also comprises the Department's Human Resources Director, the Chief Executive of Jobcentre Plus and a Non-Executive Director of the Department. The committee follows independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.co.uk

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated on page 50 the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Salary and Pension Entitlements (Audited Information)

The following sections provide details of the remuneration and pension interests of the most senior officials of The Pension Service.

Table 4 – Remuneration

| | 2006/07 | | 2005/06 | |
|--|------------------|--|------------------|--|
| | Salary* £'000 | Benefits in kind (to nearest £100) £ | Salary* £'000 | Benefits in kind (to nearest £100) £ |
| Alexis Cleveland Chief Executive | 165–170 | 0 | 160–165 | 0 |
| Janet Grossman Centre Operation Director | 110–115 | 0 | 105–110 | 0 |
| Charlie MacKinnon CB Transformation Director | 120–125 | 0 | 110–115 | 0 |
| Nigel Richardson Customer and Acquisition Director | 100–105 | 0 | 105–110 | 0 |
| Martin Bellamy Information Systems Director | 135–140 | 0 | 125–130 | 0 |
| Jason Feeny ¹ Business Design Director | 65–70 | 0 | N/A | 0 |
| Simon Furse Finance Director | 110–115 | 0 | 110–115 | 0 |
| Sarah Scullion ² Human Resources and Customer Services Director | 60–65 | 0 | N/A | N/A |
| Phil Bartlett ³ Business Design Director | 15–20 | 0 | 75–80 | 0 |
| Lee Brown ⁴ Interim Human Resources Director | 35–40 | 800 | 10–15 | 1,900 |

*Salary includes gross salary, performance pay and bonuses.

1. Figure quoted is for the period from 12 June 2006 to 31 March 2007. The full year equivalent is £80–85K.

2. Figure quoted is for the period from 4 September 2006 to 31 March 2007. The full year equivalent is £105–110K.

3. Figure quoted is for the period from 1 April 2006 to 2 July 2006.

4. Figure quoted is for the period from 1 April 2006 to 4 September 2006.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

The salaries quoted relate solely to the period during the year when the individuals concerned served on The Pension Service Management Board.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Table 5 – Pension Benefits

| | Accrued pension at age 60 as at 31/03/07 and related lump sum | Real increase in pension and related lump sum at age 60 | Cash Equivalent Transfer Value at 31/03/07 | Cash Equivalent Transfer Value at 31/03/06 | Real increase in Cash Equivalent Transfer Value |
|--|---|---|--|--|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Alexis Cleveland Chief Executive | 45–50 plus 140–145 lump sum | 0–2.5 plus 5–7.5 lump sum | 928 | 874 | 32 |
| Janet Grossman Centre Operation Director | 5–10 | 0–2.5 | 79 | 57 | 19 |
| Charlie MacKinnon CB Transformation Director | 50–55 plus 150–155 lump sum | 0–2.5 plus 2.5–5 lump sum | 1,087 | 1,031 | 26 |
| Nigel Richardson Customer and Acquisition Director | 0–5 | 0–2.5 | 58 | 32 | 22 |
| Martin Bellamy Information Systems Director | 5–10 | 0–2.5 | 102 | 77 | 20 |
| Jason Feeny Business Design Director | 20–25 plus 70–75 lump sum | 2.5–5 plus 12.5–15 lump sum | 350 | 256 | 62 |
| Simon Furse Finance Director | 5–10 | 0–2.5 | 121 | 92 | 24 |
| Sarah Scullion Human Resources and Customer Services Director | 0–5 | 0–2.5 | 14 | Nil | 7 |
| Phil Bartlett ¹ Business Design Director | 25–30 plus 85–90 lump sum | 0–2.5 plus 0–2.5 lump sum | 443 | 487 | 5 |
| Lee Brown ² Interim Human Resources Director | 25–30 plus 85–90 lump sum | 0–2.5 plus 2.5–5 lump sum | 595 | 550 | 31 |

1. Classed as 'in post' until 2 July 2006.

2. Classed as 'in post' until 4 September 2006.

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement). None of the directors of The Pension Service currently holds a partnership pension account.

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Further details about the Civil Service Pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A Cash Equivalent Transfer Value is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The Cash Equivalent Transfer Value figures, and from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Cabinet Office's Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. Cash Equivalent Transfer Values are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in Cash Equivalent Transfer Values

This reflects the increase in Cash Equivalent Transfer Values effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Non-executive Board Members

Fees and expenses were paid to the following non-executive Board members:

Table 6 – Pension Benefits

| | 2006/07 Total Fees and Expenses | 2005/06 Total Fees and Expenses |
|------------------|------------------------------------|------------------------------------|
| | £'000 | £'000 |
| Jane E Tozer MBE | 33 | 25 |
| John de Trafford | 22 | 20 |
| Mike Sommers | 25 | 23 |

Signed



Chief Executive
2 July 2007

Appendix 5

Other Information

Statutory Background

The Pension Service presents its Annual Report and Accounts for the financial year ended 31 March 2007. The accounts have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 7(2) of the Government Resources and Accounts Act 2000.

The principal activities of The Pension Service are set out in the Departmental Framework, published in March 2002.

The financial statements contained in this document relate solely to The Pension Service's administrative expenditure, derived from the Department's Vote, supplemented by additional information to conform with the accruals concept and to give a true and fair view of The Pension Service's affairs.

Parliamentary Funding

The Pension Service is a supply financed Executive Agency of the Department for Work and Pensions and, as such, remains subject to gross expenditure control under the Parliamentary Vote system. The net cash cost of The Pension Service's operations, along with the rest of the Department, will be accounted for within the Department's Resource Account.

The Pension Service's work programme and expenditure plans for the year were published in The Pension Service's Business Plan for 2006/07.

The National Insurance Fund

The National Insurance Fund is the responsibility of HM Revenue and Customs. However, the contributory benefits funded from the National Insurance Fund are administered by the Department on behalf of HM Revenue and Customs. The Pension Service incurs costs associated with the administration of these benefits. The Pension Service receives income from the National Insurance Fund to recover these costs and these recoveries are recorded in the General Fund as Financing from the National Insurance Fund. (See Note 14 of the accounts)

Public Interest and Other

Employment of disabled persons

People with disabilities account for 3.2 per cent of our staff numbers and are employed across all grades within the Agency. The Department played a major role in the 2003 European Year of Disabled People and ran a substantial disability awareness programme from May 2003 onwards. This was aimed at improving the level of knowledge and understanding throughout the Department in order to improve services for disabled staff and customers.

Commitment to equality and valuing diversity

The Agency is committed to providing services which embrace diversity and promote equality of opportunity. As an employer, The Pension Service is also committed to equality and valuing diversity within our workforce as set out in its 'Strategy for Diversity, Equality and Inclusion'. Our goal is to ensure that these commitments, reinforced by our values are embedded in our day-to-day working practices with all our customers, colleagues, and partners.

Employee involvement

The Pension Service respects its staff as people and values their contribution. There is a strong internal communications network in place. Staff are encouraged to share information, and contribute news, views and feedback. Regular news and information is provided to staff through The Pension Service and the Department for Work and Pensions' communication sites on the intranet, as well as through regular bulletins and messages cascaded down through team meetings.

Staff have access to an Employee Assistance Programme; which supports staff and managers and promotes well-being in the workplace.

Staff also have access to trade union membership. The Pension Service has procedures for consulting its trade unions and supports staff representation in the workforce by trade union representatives.

The Pension Service is committed to ensuring that staff at all levels can contribute towards decisions affecting the day-to-day business of The Pension Service.

Payments to suppliers

The Pension Service is committed to the prompt payment of bills for goods and services received. Eighty-three per cent of payments were made during 2006/07 as specified in the suppliers' contract and no interest was paid as a result of late payments. If there is no contractual provision or other understanding, payments should be made within 30 days of receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later.

Details of company directorships and other significant interests held by board members

A register of Directors' Business Interests and related party transactions is held by The Pension Service Office of The Chief Executive:

Room 204
Richmond House
79 Whitehall
London SW1A 2NS

External audit

The accounts in Section 2 have been audited by the Comptroller and Auditor General whose certificate and report appears on pages 72–75.

The Pension Service's principal auditor for the 2006/07 accounts was the Comptroller and Auditor General, the fee for their services being £69,000. The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work during 2006/07.

Post balance sheet events

I will shortly be leaving the Agency to take up a position within the Cabinet Office. Terry Moran will be appointed as acting Chief Executive of The Pension Service.

There are no further material post balance sheet events that require disclosure in these accounts.

As Accounting Officer I confirm that:

- There is no relevant audit information of which the auditors to The Pension Service are unaware.
- I have undertaken all the steps I ought to ensure that the said auditors are aware of relevant audit information, and
- I have taken all the steps I ought to establish that the said auditors are aware of such information.

Signed



Alexis Cleveland
Chief Executive
2 July 2007



Section Two Accounts

Statement of The Pension Service's and Chief Executive's Responsibilities

Under the Government Resources and Accounts Act 2000 section 7 (2), HM Treasury has directed The Pension Service to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction detailing the resources acquired, held, or disposed of during the year and the use of resources by The Pension Service during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of The Pension Service, of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts The Pension Service is required to comply with the Government Financial Reporting Manual prepared by HM Treasury, and in particular to:

- 1 observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- 2 make judgements and estimates on a reasonable basis;
- 3 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 accounts; and
- 4 prepare the accounts on a going concern basis, unless it is inappropriate to presume that The Pension Service will continue in operation.

The Principal Accounting Officer of the Department for Work and Pensions has appointed me as the Accounting Officer for The Pension Service. My relevant responsibilities as Accounting Officer,

including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding The Pension Service's assets are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in *Government Accounting*.

Additionally, I can confirm that, so far as I am aware, there is no information relevant to the audit of the accounts of which the auditors are unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Signed

A handwritten signature in black ink that reads "Alexis Cleveland". The signature is written in a cursive style with a long, sweeping underline.

Alexis Cleveland
Chief Executive
2 July 2007

Statement on Internal Control

The Pension Service

1. Scope of responsibility

2. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of The Pension Service's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

3. I act as principal adviser on operational matters, supporting Ministers and involving them in the development and provision of the Agency's services. I also actively support the delivery of Ministerial commitments and performance against Public Service Agreement and other published targets.

4. As a member of the Departmental Executive Team, I am jointly responsible for agreeing the operational priorities of the Department and its Executive Agencies. I am also responsible, as Departmental Business Continuity Director, for ensuring effective Business Continuity arrangements are in place across the entire Department.

5. My Management Board supports me in the management of strategic risks. Any critical risk that cannot be controlled within the Agency is escalated to the Departmental Executive Team. In turn, if the Executive Team is unable to manage the risk, it will be brought to the attention of Ministers.

6. The purpose of the system of internal control

7. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide

reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, The Pension Service's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in The Pension Service for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

8. Capacity to handle risk

9. My Management Board considered the strategic risks to delivering the organisation's business objectives and these were recorded on The Pension Service Strategic Risk Register. Departmental methodology was used to identify and assess the risks. Individual Board members were assigned responsibility for managing each risk, ensuring mitigation plans were in place and these plans were communicated throughout the business. On a monthly basis the Board reviewed a risk summary contained within the Board Business Report. Risk owners provided a detailed analysis of their risks on a priority basis.

10. Key staff are equipped to manage risk appropriately in the areas in which they work. There is an e-learning risk management package that can be supplemented by a specific two-day training course. The Pension Service has a range of guidance and awareness products relating to risk, which are widely available, particularly in the project environment. The Pension Service Risk Management Team and nominated Risk Managers promote awareness and sharing of best practice throughout the business ensuring staff are equipped and informed to manage risks efficiently and effectively.

11. The Pension Service had Business Continuity arrangements in place at all agreed levels. My Business Continuity Teams approach is aligned to the Business Continuity Institute Good Practice Guidelines and Publicly Available Specification 56. All Business Continuity arrangements proved effective in maintaining delivery

of critical business activities to an agreed and acceptable level. My central Business Continuity Team ensures all Business Continuity Managers complete a Business Continuity Assurance Certificate on an annual basis. Internal Audit provided a Substantial Assurance as a result of an in-year audit of Business Continuity and Disaster Recovery in The Pension Service.

12. My Centre of Excellence Business Analysts ensured corporate and external projects/programmes were subject to adequate risk management process in line with Departmental Risk Management Framework.

13. The risk and control framework

14. The Pension Service adheres to the Departmental Risk Management Framework. Our risk strategy is set out in The Pension Service Risk Management Guide and is updated regularly and reviewed annually. All Directorates adhere to the strategy, which is aligned to the Department's risk strategy.

15. My Management Board contributes to the maintenance of the system of internal control. Executive Directors, their direct line reports, Pension Centre Managers and Local Service Group Managers produce annual and mid year certificates of assurance, reporting on their systems of internal control.

16. Each Directorate maintains a risk register, with clearly defined escalation routes to The Pension Service Management Board. Key Performance Indicators for the business have agreed tolerance levels that demonstrate The Pension Service's risk appetite. The Pension Service Finance Director is a member of the Departmental Planning Performance and Risk Review Committee and attends quarterly meetings to identify and review any cross-cutting risks and recommend escalation of risks to the Department for Work and Pensions Executive Team where appropriate.

17. All senior governance forums include independent governance members. These forums monitor key issues such as risks and performance. These arrangements provide the necessary assurance that the appropriate business controls and checks are embedded in the development of new systems.

18. Risk is an integral part of the planning process, with risks being identified throughout the planning cycle. The Business Delivery Plan was developed and agreed via the Senior Planning and Performance Group and the Performance and Analysis Team. All critical milestones within the Business Delivery Plan were monitored on a quarterly basis. If a risk to service delivery is identified, an assessment of cross-business impact is made. If necessary re-planning activities were identified and escalated to the senior management team via the monthly Performance Summary Report.

19. I have received assurances from those other Government departments who provide services on behalf of The Pension Service that they have taken appropriate action and have effective controls in place to manage the risks associated with the provision of those services. Whilst no significant control weaknesses were identified, technical difficulties with Her Majesty's Revenue and Customs National Insurance Records System (NIRS) meant that this system was not available for significant periods.

20. Review of effectiveness

21. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors' and the Executive Managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and The Pension Service Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

22. The Pension Service Audit Committee is in place to plan, monitor, assess, review, challenge and advise on the adequacy, appropriateness and overall value for money of policies, processes, work programmes and implementation arrangements relating to five areas: Corporate Governance; Risk Management and

Operational Control; Audit; Accounting and Reporting; and Security. The Committee provides independent assurance to The Pension Service Management Board and the Departmental Audit Committee as to the appropriateness, adequacy and overall value for money of the governance, risk, control and associated assurance process that are in place in The Pension Service covering, but not limited to, the above five areas.

23. Control risks highlighted in Internal Audit's quarterly reports were monitored throughout the year by The Pension Service Audit Committee and my Finance Directorate has tracked progress through a database. The Internal Audit undertakes a risk-based work programme, taking account of the business requirements identified by senior management, and provides quarterly assurance reports to The Pension Service Audit Committee.

24. Significant internal control problems

25. Significant control weaknesses identified in the 2006/07 Annual Assurance Report were:

- Protection of Customer Information
- Accuracy of Information
- Fraud and Error
- Debt

26. We have worked with determination to improve the control weaknesses identified in the 2005/06 Statement on Internal Control.

27. In 2005/06 we identified the Resource Management System as a significant control problem. Initial issues concerning non-compliance with controls and weaknesses in audit trails have been addressed and therefore the Resource Management System no longer features as a significant internal control problem.

28. Protection of Customer Information

29. Protection of customer data remains a control weakness.

30. The 2005/06 position has improved based upon our analysis of the remaining Departmental Central Index checks. However, since the move to Customer Information System a problem has been identified on some cases where multiple checks were being generated. A temporary solution has been put in place and security checking guidance is being reviewed. My Security and Assurance Manager is working with Internal Audit and the Customer Information System project to ensure that we have correct levels of checking through the Customer Information System when the Departmental Central Index is decommissioned.

31. The recording of bogus calls continues to improve with greater consistency of reporting between pension centres resulting from awareness initiatives (national and local) for staff. However, we expect that numbers of bogus calls reported will fall in some pension centres, coinciding with the transfer of their work to other centres. We will work to ensure that during the transfer staff remain vigilant. Work is also being carried out to improve the Security Questions both in terms of quantity and quality of questions asked by our staff during conversations with customers.

32. Despite our efforts to protect customer information, an incident occurred towards the end of the year with the issue of uprating notifications. 26,000 customers received two notifications, their own and one relating to another customer. The notifications contained confidential customer information. Remedial activity included identifying the cause of the error and where each notification was sent. I issued a letter of apology to all affected customers and I provided details to the Association of Payment Clearing Services (APACS) to highlight customer accounts that could have been potentially compromised. I appeared on television and radio programmes to apologise for the error and to emphasise the actions that we were taking. I also informed the Information Commissioner. Senior management have initiated a review of the personal information recorded on customer notifications. In consultation with the Department's

Programme and Systems Delivery Group, activity has been initiated with the supplier involved with this incident (EDS) to apply the remedies available to the Department under the terms of the relevant service contracts and UK law. EDS has co-operated fully in this activity and is taking remedial action in respect of their own internal processes to avoid a future occurrence.

33. Accuracy of information

34. Further work needs to be done to minimise the risk of giving out inaccurate information to the public.

35. The Pension Service Mystery Shopping programme continues to provide evidence that improvements have been made on the accuracy and completeness of information provided to customers. Mystery shopping results have improved since last year from 81 per cent to 88 per cent, and product quality has improved, from 65 per cent to 78 per cent. Performance varies between different pension centres (69 per cent to 92 per cent). Work is being undertaken to ensure there is improved performance and consistency.

36. The change in arrangements for issuing leaflets from pension centres led to an improvement in the provision of leaflets to customers as measured by Mystery Shopping. Work continues to improve the leaflet process including minimising risks of multiple distribution points. Internal Audit have reported another year on year improvement with the currency of leaflet stocks held by pension centres visited.

37. The Internal Audit reports also indicate that the level of Call Recording and Quality Monitoring (CRQM) checks has shown signs of improvement. However, levels of telephone related feedback remain significantly under-recorded, which risks masking customer dissatisfaction with the accuracy and completeness of information given. With regard to written correspondence, there have been no substantial concerns raised regarding the content, however further work is being undertaken to improve the level of team leader assurance checking.

38. Fraud and Error

39. Despite our efforts in developing a Programme Protection Strategy, designed to drive out inaccuracies from State Pension and Pension Credit, fraud and error continue to be an area of control weakness.

40. A great deal of work has been undertaken in relation to reducing fraud and error in the system. There is however a high level of error in the live load, which can only be removed through a case cleansing exercise. I have directed that during 2007/08 the necessary resource be provided to reduce this error substantially. The Programme Protection Strategy that commenced in 2005/06 continues to focus on targeted checking of new applications to address the areas of the greatest risk of error including data matching to identify potential incorrect cases, training which is focused on the top error categories, specialist teams in the pension centres to address areas relating to quality and accuracy and ensuring that new processes reduce the opportunity for error to get into the system. Pension centres have also undertaken two special scans on notional State Pension and Assessed Income Period with a view to conducting a full case check. Once benefit is in payment we have developed a sophisticated data matching strategy, which can pinpoint cases that have fallen into error. Additionally, the Generalised Matching Service can identify about 35 per cent of cases that are incorrect in the caseload.

41. Debt

This is a new significant control weakness for The Pension Service in 2006/07.

42. Issues on debt have arisen from a range of areas. In relation to Pension Credit, sample testing identified several causes of overpayment. These were poor Management Information on debt referral, low priority for actioning system generated 'change' reports that resulted in delayed identification and referral of potential overpayments. For State Pension notification of customer death dominated the cause of overpayments.

43. My management team have raised the profile of Debt at a senior level by adding a debt risk to the National Operations Risk Register and establishing a Pensions Debt taskforce. Senior managers are introducing a number of measures to address the issue of reports on potential overpayments not being given priority. The National Programme Protection Team are also working with Learning and Development to ensure adequate debt referral training is provided to staff.

44. The case cleanse exercise taking place during 2007/08 will identify any unreferral debt cases. New systems and processes implemented through the Pensions Transformation Programme will alleviate many of the problems identified.

45. Overall Assurance

46. The overall level of assurance provided by Internal Audit as a result of their work programme to examine the control systems and operations in The Pension Service in 2006/07 was a **Substantial Assurance**. A substantial assurance is defined as 'Basically sound risk management, governance arrangements or control systems established, but they are not fully developed or consistently applied'.

47. I confirm that the key areas for improvement will be regularly monitored during the year to ensure that progress is made.

Signed



Alexis Cleveland
Accounting Officer
2 July 2007

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 Pension Service for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given

in the Annual Report which comprises the Chief Executive's Report, the Management Commentary, Delivery and Performance of the Business, Managing our Business, Appendices 1, 2, 3 and 5 and the unaudited part of the Remuneration Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether

the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report which comprises the Chief Executive's Report, the Management Commentary, Delivery and Performance of the Business, Managing our Business, Appendices 1, 2, 3 and 5 and the unaudited part of the Remuneration Report is consistent with the financial statements.

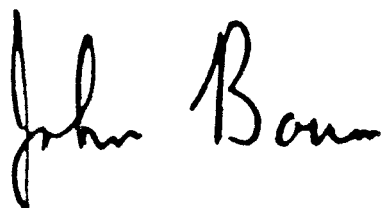
Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Signed

A handwritten signature in black ink that reads "John Bourn". The signature is written in a cursive style with a large initial 'J' and 'B'.

John Bourn
Comptroller and Auditor General
6 July 2007

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

Accounts

Operating Cost Statement

for the year ended 31 March 2007

| | | | |
|--|--|---------|---------------------|
| | | 2006/07 | 2005/06 Restated |
|--|--|---------|---------------------|

| | Note | £'000 | £'000 |
|-----------------------------------|------|----------------|----------------|
| Administration Costs | | | |
| Staff costs | 3 | 327,024 | 333,056 |
| Non-staff administration costs | 4 | 465,770 | 527,378 |
| Gross Administration Costs | | 792,794 | 860,434 |
| Operating Income | 7 | (5,353) | (2,418) |
| Net Operating Cost | | 787,441 | 858,016 |

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

| | | | |
|--|--|---------|---------------------|
| | | 2006/07 | 2005/06 Restated |
|--|--|---------|---------------------|

| | Note | £'000 | £'000 |
|--|------|-----------|-----------|
| Net gain on revaluation of tangible fixed assets | 15 | 67 | 27 |
| Total | | 67 | 27 |

The notes on pages 78 to 104 form part of the accounts.

Balance Sheet

as at 31 March 2007

31 March 2007

31 March 2006
Restated

| | Note | £'000 | £'000 | £'000 | £'000 |
|---|------|----------|----------|----------|----------|
| Fixed assets | | | | | |
| Tangible assets | 8 | 166,521 | | 113,708 | |
| Intangible assets | 9 | 4,124 | | 4,110 | |
| | | | 170,645 | | 117,818 |
| Debtors falling due after more than one year | 10 | | 7,347 | | 7,624 |
| Current assets | | | | | |
| Debtors falling due within one year | 10 | 3,029 | | 3,789 | |
| Cash at bank and in hand | 11 | 25 | | 11 | |
| | | 3,054 | | 3,800 | |
| Current liabilities | | | | | |
| Creditors falling due within one year | 12 | (58,132) | | (45,691) | |
| Net Current Liabilities | | | (55,078) | | (41,891) |
| Total assets less current liabilities | | | 122,914 | | 83,551 |
| Provisions for liabilities and charges | 13 | (1,260) | | (938) | |
| | | | (1,260) | | (938) |
| | | | 121,654 | | 82,613 |
| Taxpayers' Equity | | | | | |
| General fund | 14 | | 121,489 | | 82,509 |
| Revaluation reserve | 15 | | 165 | | 104 |
| | | | 121,654 | | 82,613 |

The notes on pages 78 to 104 form part of the accounts.

Signed



Alexis Cleveland
Chief Executive
2 July 2007

Cash Flow Statement

for the year ended 31 March 2007

2006/07

2005/06
Restated

| | Note | £'000 | £'000 |
|--|---------|-----------|-----------|
| Net cash outflow from operating activities | 16(i) | (455,311) | (593,615) |
| Capital expenditure and financial investment | 16(ii) | (45,729) | (1,056) |
| Net Financing from the Consolidated Fund | 16(iii) | 135,915 | 136,930 |
| Financing from the National Insurance Fund | 16(iii) | 365,139 | 457,748 |
| Increase/(Decrease) in cash in the period | | 14 | 7 |

The notes on pages 78 to 104 form part of the accounts.

Notes to the accounts for the year ended 31 March 2007

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2006/07 Financial Reporting Manual issued by HM Treasury. The accounting policies contained in the Financial Reporting Manual follow UK Generally Accepted Accounting Practice for companies to the extent that it is meaningful and appropriate to the Public Sector. Where the Financial Reporting Manual permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of The Pension Service for the purpose of giving a true and fair view has been selected. The Pension Service's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount.

Tangible assets costing more than the prescribed capitalisation limit of £5,000, are treated as capital assets. Where an item costs less than the capitalisation level but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is treated as a capital asset. On initial recognition they are measured at cost, including any costs, such as installation, directly attributable to bringing them into working condition.

For furniture and fittings, the total cost of maintaining a record of relatively low value individual items is considered to be prohibitive and therefore these items are recorded on a pooled basis.

'Off the shelf' software packages are capitalised as tangible fixed assets. Software development is capitalised where agreed criteria are met.

All fixed assets except software are revalued by reference to appropriate HM Treasury approved indices. Increases in value are credited to the revaluation reserve whilst decreases in value are debited to the revaluation reserve up to the level of depreciated historical cost for any asset previously revalued. Any excess devaluation is charged to the Operating Cost Statement along with devaluation on assets (such as computers) not previously revalued.

Each year, the realised element of the reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the Revaluation Reserve to the General Fund.

On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset becomes fully realised and is transferred to the General Fund.

1.3 Intangible fixed assets

Expenditure on purchased computer software licences, covering a period of more than one year, is capitalised at cost as intangible fixed assets. Expenditure on annual software licences is charged to the Operating Cost Statement. Should The Pension Service purchase licences in advance they are only subject to amortisation once they are brought into use.

In view of the large number of software licences purchased across The Pension Service, those capitalised are accounted for on a pooled basis with any items/pools amounting to over £100,000 identified individually. The licences are amortised, on a straight-line basis, over the shorter of the licence period or 5 years. Software licences are not revalued.

1.4 Land and buildings

The Pension Service does not include in its Balance Sheet capital values for the freehold and leasehold land and buildings which it occupies under the Private Sector Resource Initiative for Management of the Estate and Newcastle Estates Development contracts. In accordance with Financial Reporting Standard 5 the contracts have been treated as an operating sale and leaseback, as the risks and rewards of ownership have been substantially transferred to the contractor.

The Pension Service has accounted for the deferred benefit which will result from reduced accommodation charges from the Newcastle Estates Development contract by establishing a prepayment which will be released annually, over the 30 year period of the contract, to the Operating Cost Statement on a straight line basis (see Note 10).

1.5 Depreciation

Depreciation is provided on all tangible fixed assets, using the straight line method, at rates calculated to write off, in equal instalments, the current replacement cost (less any estimated residual value) of each asset over its expected useful life. Fixed assets are depreciated from the month following acquisition. No depreciation is charged in the month of disposal.

Tangible fixed assets are depreciated over the following estimated useful lives:

| | |
|--------------------------------------|-------------------------------------|
| Information Technology | 3 to 5 years |
| Plant and Machinery | 5 to 10 years |
| Furniture and fittings | 7 to 10 years |
| Motor vehicles | 4 to 7 years |
| Purchased Software packages | 5 years |
| Internally developed software | 5 years or life of software if less |

1.6 Stocks

The Pension Service holds stocks of stationery, computer spares and similar consumable materials. Due to the nature of these items, The Pension Service does not consider it appropriate to reflect their value in the Balance Sheet. Accordingly, The Pension Service has charged all expenditure on consumable items to the Operating Cost Statement.

1.7 Administration expenditure

Administration costs reflect the costs of running The Pension Service. These include both administration costs and associated income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

1.8 Operating Income

Operating income is income which relates directly to the operating activities of The Pension Service. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated in aid of the Estimate but also income to be surrendered to the Consolidated Fund which, in accordance with the Financial Reporting Manual, is treated as operating income (see Note 7). Operating income is stated net of VAT.

1.9 Capital charge

A charge, reflecting the cost of capital utilised by The Pension Service, is included in operating costs (see Note 6). The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent (2005/06 3.5 per cent)) on the average carrying amount of all assets less liabilities, except for:

- a intra departmental balances,
- b cash balances with the Office of HM Paymaster General, where the charge is nil, and
- c assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund where the charge will be at a nil rate.

1.10 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme, details of which are described in Note 3. The defined benefit scheme is unfunded and is non-contributory except in respect of dependant's benefits. The Pension Service recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Scheme of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Principal Civil Service Pension Scheme. Departments meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. In respect of the defined Contribution Schemes, The Pension Service recognises the contributions payable for the year. There is a separate scheme statement for the Principal Civil Service Pension Scheme as a whole. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk)

1.11 Early departure costs

The Pension Service meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme benefits in respect of employees who retire early by paying the required amounts annually to the Principal Civil Service Pension Scheme

over the period between early departure and normal retirement date. The Pension Service provides for this in full when the early retirement programme becomes binding on the department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

1.12 Operating leases

Operating lease rentals are charged to the Operating Cost Statement in equal amounts over the term of the lease on a straight line basis.

1.13 Private Finance Initiative transactions

Private Finance Initiative transactions have been accounted for in accordance with Technical Note No.1 (Revised) entitled 'How to account for Private Finance Initiative transactions' as required by the Government Financial Reporting Manual. Where the balance of the risks and rewards of ownership of the Private Finance Initiative asset are borne by the Private Finance Initiative operator, the Private Finance Initiative payments are recorded as an operating cost. Where The Pension Service has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the Private Finance Initiative contract.

1.14 Value Added Tax (VAT)

Most of the activities of The Pension Service are outside of the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT. The outstanding balance of net VAT recoverable is reported as a debtor in the accounts of the Department for Work and Pensions, where the Department's VAT is accounted for.

1.15 Provisions

The Pensions Service provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by Treasury (currently 2.2 per cent).

2. Transfer of Functions and Restatements

Restatement of Balance Sheet and Operating Cost Statement at 31 March 2006

Published accounts at 31 March 2006

Analytical Restatement

Pensions Projects

Restated at 31 March 2006

Balance Sheet

| | £'000 | £'000 | £'000 | £'000 |
|--|----------------|----------|---------------|---------------|
| Fixed Assets | | | | |
| Tangible assets | 11,314 | 0 | 102,394 | 113,708 |
| Intangible assets | 0 | 0 | 4,110 | 4,110 |
| Investments | 0 | 0 | 0 | 0 |
| Debtors falling due after more than one year | 7,624 | 0 | 0 | 7,624 |
| Current assets | | | | |
| Debtors | 3,802 | (13) | 0 | 3,789 |
| Cash at bank and in hand | 9 | 2 | 0 | 11 |
| Creditors falling due within one year | (25,473) | 11 | (20,229) | (45,691) |
| Provisions for liabilities and charges | (938) | 0 | 0 | (938) |
| Net Assets | (3,662) | 0 | 86,275 | 82,613 |
| Taxpayers Equity | | | | |
| General Fund | (3,762) | (1) | 86,272 | 82,509 |
| Revaluation Reserve | 100 | 1 | 3 | 104 |
| Government Grant reserve | 0 | 0 | 0 | 0 |
| | (3,662) | 0 | 86,275 | 82,613 |

Operating Cost Statement

| | | | | |
|-----------------------------------|----------------|------------|----------------|----------------|
| Administration costs | | | | |
| Staff costs | 333,389 | (15,093) | 14,760 | 333,056 |
| Other administration costs | 417,491 | 15,210 | 94,677 | 527,378 |
| Gross Administration costs | 750,880 | 117 | 109,437 | 860,434 |
| Operating income | (2,296) | (117) | (5) | (2,418) |
| Net Administration costs | 748,584 | 0 | 109,432 | 858,016 |
| Programme costs | | | | |
| Grant-in-Aid payments | 0 | 0 | 0 | 0 |
| Net Programme costs | 0 | 0 | 0 | 0 |
| Net Operating cost | 748,584 | 0 | 109,432 | 858,016 |

The 2005/06 accounts have been restated due to a restructuring of The Pension Service chart of Accounts within 2006/07. The restatement has resulted in £15 million moving from Staff costs to Other administration costs.

The Department transferred responsibility for the operation of three projects – the Pensions Transformation Project, the Customer Information System and Civil Partnerships – to The Pension Service in 2006/07. The projects were previously accounted for in the Departmental Resource Accounts in 2005/06. These projects have been counted for within The Pension Service Accounts in 2006/07 and, consistent with the requirements of merger accounting, the 2005/06 Operating Cost Statement, Balance Sheet and Cash Flow Statement have been restated to reflect the prior year costs, cash flows and the 2005/06 year end balances relevant to these projects.

3. Staff numbers and related costs

(a) Staff costs consist of:

| | Permanently employed staff | Others | Ministers | Special Advisors | 2006/07 | 2005/06 Restated |
|----------------------------------|----------------------------|--------------|-----------|------------------|----------------|------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Wages and salaries | 254,052 | 5,974 | 0 | 0 | 260,026 | 256,206 |
| Employers National Insurance | 17,368 | 109 | 0 | 0 | 17,477 | 18,256 |
| Superannuation and Pension costs | 49,504 | (1) | 0 | 0 | 49,503 | 58,594 |
| Sub Total | 320,924 | 6,082 | 0 | 0 | 327,006 | 333,056 |
| Inward Secondments | 18 | 0 | 0 | 0 | 18 | 0 |
| Total Staff Costs | 320,942 | 6,082 | 0 | 0 | 327,024 | 333,056 |

The Principal Civil Service Pension Schemes are unfunded multi-employer defined benefit schemes, but The Pension Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2004 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For the year to March 2007, normal employer contributions of £49.5 million (2005/06 £58.6m) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 17.1–25.5 per cent (2005/06 16.2–24.6 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/08, the salary bands will be revised, but the rates will remain the same. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred and reflect past experience of the scheme.

Outstanding contributions amounting to £4.6 million (2005/06 £4.7 million) were payable to the Civil Superannuation Vote at 31 March 2007 and are included in creditors (See Note 12).

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £113k (2005/06 £110k) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2005/06 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay were payable to the Principal Civil Service Pension Schemes to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

24 persons (2005/06 9 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £38k (2005/06 £53k). These liabilities are not the responsibility of The Pension Service but are to be paid by the Civil Superannuation Vote.

(b) Average number of persons employed

The average number of whole-time equivalent persons employed during the year (excluding staff on secondment to other organisations) is shown in the table below.

2006/07 Number

| | Permanently employed staff | Others | Total |
|--|----------------------------|------------|---------------|
| Objective 3 | | | |
| To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners. | 13,143 | 219 | 13,362 |
| Total | 13,143 | 219 | 13,362 |

2005/06 Number

| | Permanently employed staff | Others | Total |
|--|----------------------------|------------|---------------|
| Objective 3 | | | |
| To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners. | 14,288 | 239 | 14,527 |
| Total | 14,288 | 239 | 14,527 |

4. Non-staff administration costs

| | | 2006/07 | 2005/06 Restated |
|---|------|---------|---------------------|
| | Note | £'000 | £'000 |
| Goods and services | 4a | 52,414 | 65,978 |
| Staff Related | 4b | 16,167 | 11,595 |
| Bad Debt Written Off | | 70 | 110 |
| Accommodation costs | | 15,200 | 36,486 |
| Rentals under operating leases: | | | |
| Hire of Plant and Machinery | | 156 | 3 |
| Other operating leases | | 222 | 351 |
| Non-cash items | 5 | 310,143 | 268,522 |
| Compensation to customers | 4c | 4,189 | 7,419 |
| PFI service charges – Off Balance Sheet contracts | | 17,960 | 18,488 |
| IT services | | 49,249 | 118,426 |
| | 4d | 465,770 | 527,378 |

- a** Goods and services expenditure is mainly in respect of contracted out office services, telephone costs, general postage, professional services and printing and stationery.
- b** Staff Related expenditure is mainly in respect of travel and subsistence and staff training.
- c** The Pension Service compensates those customers whose cases have been badly handled. The Pension Service has extended its policy on redress and will, exceptionally, consider making consolatory payments for worry and distress caused by serious official error, or by the mishandling of a complaint.
- d** Following a re-classification of costs in 2006/07, the comparative figures for 2005/06 have been restated under the provisions of Financial Reporting Standard No 28 *Corresponding Amounts*. The net impact of this has been a transfer of £15 million from Staff Costs to Other Administration Costs.

5. Non-staff administration costs: Non-cash items

| | | 2006/07 | | 2005/06 Restated | |
|---|-------|---------|----------------|---------------------|----------------|
| | Note | £'000 | £'000 | £'000 | £'000 |
| Notional costs | 6 | | 275,505 | | 254,537 |
| Depreciation of fixed assets | 8 | | 33,195 | | 18,127 |
| (Profit)/Loss on disposal of fixed assets | 8 | | 0 | | 2 |
| Impairment of fixed assets | 8 | | 328 | | (5,165) |
| Amortisation of prepayments | 10 | | 363 | | 363 |
| Movement In Year on Bad Debt Provision | | | 1 | | 0 |
| Provisions: | | | | | |
| Movement in year | 13 | 731 | | 641 | |
| Unwinding of discount | 13/5a | 20 | 751 | 17 | 658 |
| | | | 310,143 | | 268,522 |

- a The unwinding of the discount represents the effect of recalculating the present value of the provision before the impact of the uplift has been taken into account.

6. Notional administration costs

Certain services are provided and received by The Pension Service without the transfer of cash. Amounts are included in the net operating cost of £275.5 million (2005/06 £284.6 million) to reflect these costs and are comprised as follows:

| | | 2006/07 | | 2005/06 Restated | |
|--|-------|---------|----------------|---------------------|----------------|
| | Note | £'000 | £'000 | £'000 | £'000 |
| Cost of Capital charge | | | 1,458 | | 81 |
| Auditors remuneration and expenses | 6a | | 69 | | 69 |
| Inter Business Unit Charges: | | | | | |
| Services provided and costs incurred by other Departmental business units on behalf of The Pension Service | 6b/6c | 275,193 | | 258,468 | |
| Less: | | | | | |
| The Pension Service on behalf of other Departmental business units | | (1,215) | | (4,081) | |
| | | | 273,978 | | 254,387 |
| | | | 275,505 | | 254,537 |

- a The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work during 2006/07 (2005/06 nil).
- b Services provided by other business units on behalf of The Pension Service include:
 - £154.8 million (2005/06 £221.1 million) corporate recharges from the Department for Work and Pensions for encashment services provided by Post Office Counters Ltd and Girobank plc, finance, personnel and assurance.
- c During 2005/06 new IT contracts came into effect, namely TREDSS and ICONS. Prior to this, the Agency had held its own IT cash costs budget and been invoiced directly, accounting for these costs as IT cash costs (See Note 4). As a result of the new contracts, IT costs budgets were transferred from the Agency to a corporate services department in the Department's HOCSS. In 2006/07 the IT costs have been notionally recharged to the Agency from HOCSS, as reflected in the notional costs note (See Note 6).

7. Income



| | Note | £'000 | £'000 |
|--|------|----------------|----------------|
| Administration income | | | |
| Income from Other Government Departments | 7a | (4,599) | (1,879) |
| Other income from external customers | 7b | (754) | (539) |
| | | (5,353) | (2,418) |

- a Income from Other Government Departments includes of £1.5 million (2005/06 £1.6 million) from the Department of Health in respect of medical benefits paid and receipts of £1.8 million which relate to work carried out by the Customer Information

System project on behalf of HM Revenue & Customs, Identity Passport Scheme, Driver and Vehicle Licensing Agency and The Court Service.

- b Other income includes £500k (2005/06 £500k) from mortgage lenders in respect of service charges for mortgage interest settled by The Pension Service.

An analysis of income from services provided to external and public sector customers is as follows:

| | 2006/07 | | | 2005/06 Restated | | |
|---|----------------|--------------|-----------------------|---------------------|--------------|-----------------------|
| | Income | Full cost | (Surplus)/ deficit | Income | Full cost | (Surplus)/ deficit |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fees and charges to external customers | | | | | | |
| Income from mortgage lenders | (482) | 482 | 0 | (521) | 521 | 0 |
| Sundry income | (272) | 272 | 0 | (18) | 18 | 0 |
| Fees and charges to other departments | | | | | | |
| Department of Health | (1,520) | 1,520 | 0 | (1,556) | 1,556 | 0 |
| Other Government Departments | (2,873) | 2,873 | 0 | (206) | 206 | 0 |
| Secondments | (206) | 206 | 0 | (117) | 117 | 0 |
| | (5,353) | 5,353 | 0 | (2,418) | 2,418 | 0 |

Income information is provided to meet HM Treasury's Fees and Charges requirements and not for SSAP 25 purposes.

8. Tangible fixed assets

 Information
Technology

 Purchased
Software

 Plant and
Machinery

 Furniture
and
Fittings

 Motor
Vehicles

 Developed
Software

 Assets Under
Construction

Total

| | Note | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
|---|------|---------------|------------|------------|--------------|--------------|----------------|---------------|----------------|
| Cost or valuation | | | | | | | | | |
| At 1 April 2006 | | 24,716 | 244 | 773 | 2,059 | 2,254 | 68,110 | 41,855 | 140,011 |
| Prior year additions | 8a | (2) | 4 | (6) | 0 | 0 | 0 | 0 | (4) |
| In year additions | 8a | (9) | 0 | 13 | 179 | 0 | 0 | 55,197 | 55,380 |
| Transfers in | 8b | 2,447 | 0 | 0 | 0 | 394 | 33,973 | 0 | 36,814 |
| Disposals | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out | 8b | (8,105) | 0 | (317) | 0 | (433) | 0 | 0 | (8,855) |
| Revaluations | 8d | 43 | 0 | (4) | 42 | 23 | 0 | 0 | 104 |
| Impairments | 8d | (1,238) | 0 | (8) | 0 | 0 | 0 | 0 | (1,246) |
| Reclassification | | 0 | 0 | 0 | 0 | 0 | 50,979 | (50,979) | 0 |
| As at 31 March 2007 | | 17,852 | 248 | 451 | 2,280 | 2,238 | 153,062 | 46,073 | 222,204 |
| Depreciation | | | | | | | | | |
| At 1 April 2006 | | 16,023 | 93 | 663 | 543 | 1,035 | 7,946 | 0 | 26,303 |
| Prior year depreciation | 8c | 5 | 0 | (5) | 0 | 0 | 0 | 0 | 0 |
| Charged in year | 8c | 4,298 | 50 | 32 | 213 | 410 | 26,930 | 0 | 31,933 |
| Transfers in | 8b | 1,671 | 0 | 0 | 0 | 19 | 3,567 | 0 | 5,257 |
| Disposals | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out | 8b | (6,306) | 0 | (317) | 0 | (306) | 0 | 0 | (6,929) |
| Backlog Depreciation | 8d | 15 | 0 | (3) | 14 | 11 | 0 | 0 | 37 |
| Impairments | 8d | (914) | 0 | (4) | 0 | 0 | 0 | 0 | (918) |
| As at 31 March 2007 | | 14,792 | 143 | 366 | 770 | 1,169 | 38,443 | 0 | 55,683 |
| Net book value 31 March 2007 | | 3,060 | 105 | 85 | 1,510 | 1,069 | 114,619 | 46,073 | 166,521 |
| Net book value 1 April 2006 | | 8,693 | 151 | 110 | 1,516 | 1,219 | 60,164 | 41,855 | 113,708 |
| Asset Financing | | | | | | | | | |
| Owned | | 3,060 | 105 | 85 | 1,510 | 1,069 | 114,619 | 46,073 | 166,521 |
| Finance leased | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| On-balance-sheet | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Private Finance Initiative residual interests | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net book value 31 March 2007 | | 3,060 | 105 | 85 | 1,510 | 1,069 | 114,619 | 46,073 | 166,521 |

- a Total additions in the year were £55.4 million (2005/06 £1.0 million).
- b The transfers in of assets with a net book value of £31.6 million (2005/06 £5.6 million) relates, in the main, to assets which were purchased by Pensions projects during 2006/07. Transfers out with a net book value of £1.9 million (2005/06 £1.1 million) include transfers to other departmental agencies or core departments which are made on a gross basis i.e. at depreciated replacement cost together with any related balance on the revaluation reserve.
- c Total depreciation in the year was £31.9 million (2005/06 £5.3 million). This consisted of £31.9 million (2005/06 £5.5 million) charged to the Operating Cost Statement and £0 million (2005/06 £–0.2 million) relating to restated assets charged to the General Fund.
- d The net increase in asset values arising from the revaluation of fixed assets of £67k (2005/06 £26k) has been transferred to the Revaluation Reserve. The impairment in fixed assets arising from the permanent decrease in value of £0.3 million (2005/06 £2.2 million) in excess of previous revaluation has been charged to the Operating Cost Statement (see Note 5).

e Cash Flow Reconciliation

2006/07

2005/06
Restated

| | Note | £'000 | £'000 |
|---|------|---------------|--------------|
| Capital Creditor and Accruals at 1 April | 12 | 0 | 19 |
| Capital additions | | 55,380 | 1,037 |
| Capital Creditor and Accruals at 31 March | 12 | (10,927) | 0 |
| Purchases of Tangible fixed assets per Cash Flow Statement | | 44,453 | 1,056 |

9. Intangible fixed assets

Software Licences

| | Note | £'000 |
|-------------------------------------|------|--------------|
| Cost or valuation | | |
| At 1 April 2006 | | 5,487 |
| Additions | 9a | 1,276 |
| Transfers in | | 0 |
| Disposals | | 0 |
| Transfers out | | 0 |
| Revaluations | | 0 |
| Impairments | | 0 |
| As at 31 March 2007 | | 6,763 |
| Depreciation | | |
| At 1 April 2006 | | 1,377 |
| Charged in year | 9b | 1,262 |
| Transfers in | | 0 |
| Disposals | | 0 |
| Transfers out | | 0 |
| Backlog Depreciation | | 0 |
| Impairments | | 0 |
| As at 31 March 2007 | | 2,639 |
| Net book value 31 March 2007 | | 4,124 |
| Net book value 1 April 2006 | | 4,110 |

- a Total additions in the year were £1.3 million (2005/06 £0 million).
- b Total depreciation in the year was £1.3 million (2005/06 £0 million).

c Cash Flow Reconciliation

2006/07

2005/06
Restated

| | Note | £'000 | £'000 |
|---|------|--------------|----------|
| Capital Creditor and Accruals at 1 April | 12 | 0 | 0 |
| In Year Capital additions | | 1,276 | 0 |
| Capital Creditor and Accruals at 31 March | 12 | 0 | 0 |
| Purchases of Intangible fixed assets per Cash Flow Statement | | 1,276 | 0 |

10. Debtors

31 March 2007

31 March 2006
Restated

| | Note | £'000 | £'000 |
|--|------|--------------|--------------|
| Amounts falling due within one year | | | |
| Deposits and advances | | 142 | 111 |
| Other Government debtors | | 1,395 | 25 |
| Intra Department for Work and Pensions | | 317 | 0 |
| Other debtors | | 199 | 467 |
| Trade debtors | | 312 | 0 |
| Provision for Bad and Doubtful Debts | | (1) | 0 |
| Prepayments and accrued income | | 302 | 2,823 |
| Accommodation prepayment | | 363 | 363 |
| | | 3,029 | 3,789 |
| Amounts falling due after more than one year: | | | |
| Deposits and advances | | 86 | 0 |
| Accommodation prepayment | 10a | 7,261 | 7,624 |
| | | 7,347 | 7,624 |

Intra-Government Balances

The following table analyses total creditor balances across the categories shown:

| | Amounts falling due within one year | | Amounts falling due after more than one year | |
|---|-------------------------------------|--------------|--|--------------|
| | 2006/07 | 2005/06 | 2006/07 | 2005/06 |
| | £'000 | £'000 | £'000 | £'000 |
| Balances with intra Departmental bodies | 317 | 0 | 0 | 0 |
| Balances with other central Government bodies | 1,395 | 25 | 0 | 0 |
| Balances with Local Authorities | 0 | 0 | 0 | 0 |
| Balances with NHS Trusts | 0 | 0 | 0 | 0 |
| Balances with public corporations and trading funds | 0 | 0 | 0 | 0 |
| Balances with bodies external to Government | 1,317 | 3,764 | 7,347 | 7,624 |
| | 3,029 | 3,789 | 7,347 | 7,624 |

a The reduction in accommodation prepayment is due to amortisation.

11. Cash at bank and in hand

| | 31 March 2007 | 31 March 2006 Restated |
|--|---------------|------------------------|
| | £'000 | £'000 |
| Balance at 1 April | 11 | 3 |
| Change in cash balances | 14 | 8 |
| Balance at 31 March | 25 | 11 |
| The following balances at 31 March are held at: | | |
| Office of HM Paymaster General | 0 | 0 |
| Commercial banks and cash in hand | 25 | 11 |
| | 25 | 11 |

a The Office of HM Paymaster General provides a current account banking service.

b The current Departmental policy is to hold all operational bank accounts centrally due to Vote funding requirements. The Corporate Centre is the custodian of the Department's bank accounts and, as such, holds balances on behalf of The Pension Service.

12. Creditors

31 March 2007

31 March 2006
Restated

| | Note | £'000 | £'000 |
|---|------|-----------------|-----------------|
| Amounts falling due within one year: | | | |
| Taxation and social security | | (5,937) | (5,685) |
| Superannuation | | (4,553) | (4,688) |
| Trade creditors – non capital | | (7,794) | (5,959) |
| Trade creditors – capital | | 0 | 0 |
| Amounts due to Other Government Departments | | (123) | 0 |
| Intra Departmental | | 0 | (78) |
| Other creditors | | (549) | (782) |
| Accruals and deferred income – non capital | | (28,249) | (28,499) |
| Accruals and deferred income – capital | | (10,927) | 0 |
| | | (58,132) | (45,691) |

Intra-Government Balances

The following table analyses total creditor balances across the categories shown:

Amounts falling due
within one yearAmounts falling due
after more than one year

| | Note | 2006/07 | 2005/06 | 2006/07 | 2005/06 |
|---|------|-----------------|-----------------|----------|----------|
| | | £'000 | £'000 | £'000 | £'000 |
| Balances with intra Departmental bodies | | 0 | (78) | 0 | 0 |
| Balances with other Central Government bodies | | (10,613) | (10,373) | 0 | 0 |
| Balances with Local Authorities | | 0 | 0 | 0 | 0 |
| Balances with NHS Trusts | | 0 | 0 | 0 | 0 |
| Balances with public corporations and trading funds | | 0 | 0 | 0 | 0 |
| Balances with bodies external to Government | | (47,519) | (35,240) | 0 | 0 |
| | | (58,132) | (45,691) | 0 | 0 |

13. Provision for liabilities and charges

2006/07

 2005/06
Restated

| | Note | Gross Provision | | Gross Provision | |
|--|------|-----------------|--------------|-----------------|------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Early departure and pension commitments | | | | | |
| Balance at 1 April | | | 811 | | 415 |
| Amounts utilised in year | | | (423) | | (227) |
| Increase in provision: | | | | | |
| New entrants | | 663 | | 628 | |
| Uplift | | 57 | | 14 | |
| Unwinding of the discount | | 11 | | 14 | |
| Other | | 7 | | (33) | |
| | | | 738 | | 623 |
| Balance at 31 March | | | 1,126 | | 811 |
| Payable within one year | | | 811 | | 415 |
| Payable after more than one year | | | 315 | | 396 |
| | | | 1,126 | | 811 |
| Other Provisions – Industrial Injuries | | | | | |
| Balance at 1 April | | | 127 | | 98 |
| Amounts utilised in year | | | (6) | | (6) |
| Increase in provision: | | | | | |
| New entrants | | 0 | | 0 | |
| Uplift | | 4 | | 2 | |
| Unwinding of the discount | | 9 | | 3 | |
| Other | | 0 | | 30 | |
| | | | 13 | | 35 |
| Balance at 31 March | | | 134 | | 127 |
| Payable within one year | | | 7 | | 6 |
| Payable after more than one year | | | 127 | | 121 |
| | | | 134 | | 127 |
| Total Provisions at 31 March | | | 1,260 | | 938 |

14. Reconciliation of net operating cost to changes in General Fund

| | | 2006/07 | | 2005/06 Restated | |
|---|------|------------------|----------------|---------------------|----------------|
| | Note | £'000 | £'000 | £'000 | £'000 |
| Net operating cost for the year | | (787,441) | | (858,016) | |
| Income not appropriated in aid payable to Consolidated Fund – CFERs | | 0 | | 0 | |
| | | | (787,441) | | (858,016) |
| Parliamentary funding: Financing from Consolidated Fund – current year | | | 135,915 | | 136,930 |
| Financing from National Insurance Fund | | | 365,139 | | 457,748 |
| Non-cash charges: Non-cash capital adjustments | | | 49,859 | | (111) |
| Notional Charges | 6 | | 275,505 | | 259,799 |
| Transferred to General Fund in respect of realised element of revaluation reserve | 15 | | 3 | | 21 |
| Net movement in General Fund | | | 38,980 | | (3,629) |
| General Fund at 1 April | | | 82,509 | | (134) |
| Prior year adjustment | | | | | 86,272 |
| General Fund at 31 March | | | 121,489 | | 82,509 |

The General Fund represents the historical cost of the assets less liabilities employed by the Department in its operations. Following changes to the apportionment of the National Insurance Fund allocated to the Department for Works and Pensions, The Pension Service has funded most of its operations in 2005/06 from this source rather than the Consolidated Fund.

15. Reserves

| | | 2006/07 | 2005/06 Restated |
|---|------|------------|---------------------|
| | Note | £'000 | £'000 |
| Revaluation Reserve | | | |
| Balance at 1 April | | 104 | 95 |
| Arising on revaluation during the year (net) | | 67 | 27 |
| Transfer in from other Business Unit | | (3) | 3 |
| Transferred to General Fund in respect of realised element of revaluation reserve | 14 | (3) | (21) |
| Balance at 31 March | | 165 | 104 |

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

16. Notes to the Cash Flow Statement

| | | 2006/07 | 2005/06 Restated |
|--|------|------------------|---------------------|
| | Note | £'000 | £'000 |
| (i) Reconciliation of operating cost to operating cash flows | | | |
| Net operating cost | | (787,441) | (858,016) |
| Adjustment for non-cash transactions | 5 | 310,143 | 268,522 |
| (Increase)/Decrease in Debtors | 10 | 1,037 | (2,235) |
| <i>Less movements in debtors relating to items not passing through the OCS</i> | 10 | (364) | (363) |
| Increase/(Decrease) in Creditors | 12 | 32,670 | (1,290) |
| <i>Less movements in creditors relating to items not passing through the OCS</i> | | (10,927) | 0 |
| Use of provisions | 13 | (429) | (233) |
| Net cash outflow from operating activities | | (455,311) | (593,615) |

continued over

2006/07

2005/06
Restated

| | Note | £'000 | £'000 |
|---|------|-----------------|----------------|
| (ii) Analysis of capital expenditure and financial investment | | | |
| Purchases of tangible fixed assets | 8 | (44,453) | (1,056) |
| Purchases of intangible fixed assets | | (1,276) | 0 |
| Proceeds from disposal of fixed assets | | 0 | 0 |
| Net cash outflow from investing activities | | (45,729) | (1,056) |
| (iii) Analysis of financing | | | |
| Financing from the Consolidated Fund | 14 | 135,915 | 136,930 |
| Financing from the National Insurance Fund | 14 | 365,139 | 457,748 |
| Net financing | | 501,054 | 594,678 |
| (iv) Reconciliation of net cash requirement to increase/(decrease) in cash | | | |
| Net cash requirement | | (135,901) | (136,923) |
| From the Consolidated Fund – Current Year | 14 | 135,915 | 136,930 |
| Increase/(Decrease) in Cash | | 14 | 7 |

17. Capital commitments

Contracted capital commitments at 31 March 2007 – £633,394
(31 March 2006 – £Nil).

18. Commitments under non-Private Finance Initiative leases

31 March 2007

31 March 2006
Restated

| Operating Leases | Land & Buildings | | Other | |
|--|------------------|------------|----------|------------|
| | £'000 | £'000 | £'000 | £'000 |
| At 31 March The Pension Service was committed to making the following payments during the next year, analysed according to the period in which the lease expires: | | | | |
| Expiry within 1 year | 0 | 27 | 0 | 38 |
| Expiry after 1 year but not more than 5 years | 0 | 246 | 0 | 189 |
| Expiry thereafter | 0 | 0 | 0 | 0 |
| | 0 | 273 | 0 | 227 |

19. Commitments under Private Finance Initiative (PFI) contracts

Charge to the Operating Cost Statement and future PFI commitments

In 1998, the Department entered into a PFI Partnership Agreement (PRIME) under which the former Department of Social Security transferred ownership and management of its Estate to a private sector partner, in exchange for the provision of fully serviced accommodation. This continues to be classed as a Private Finance Initiative arrangement and details are disclosed within the Department for Work and Pensions Corporate Accounts.

20. Other financial commitments

The Pension Service has not entered into any non-cancelable contracts which are not leases or Private Finance Initiative contracts.

21. Contingent liabilities disclosed under Financial Reporting Standard 12

At 31 March there were no contingent liabilities of The Pension Service.

22. Related party transactions

The Pension Service is an Executive Agency of the Department for Work and Pensions (the Department).

The Department is regarded as a related party. During the year, The Pension Service has had a significant number of material transactions with the Department and with other entities for which the Department is regarded as the parent department, viz. Jobcentre Plus, the Child Support Agency and the Disability and Carers Service.

In addition, The Pension Service has had a significant number of material transactions with other Government Departments and

other central Government bodies. Most of these transactions have been with Her Majesty's Revenue and Customs (formerly the Inland Revenue).

23. Financial instruments

Financial Reporting Standard 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way Government Agencies are financed, The Pension Service is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which Financial Reporting Standard 13 mainly applies. The Pension Service has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

As permitted by Financial Reporting Standard 13, debtors and creditors which mature or become payable within 12 months from the Balance Sheet date have been omitted from the disclosures below.

Liquidity risk

The Pension Service's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure and by recoveries from the National Insurance Fund. The Pension Service is not, therefore, exposed to significant liquidity risks.

Foreign currency risk

The Pension Service does not carry out transactions in foreign currencies and all material assets and liabilities are denominated in sterling, so it is not exposed to currency risk.

Interest rate risk

All of The Pension Service's financial liabilities carry nil or fixed rates of interest and are not, therefore, exposed to significant interest rate risk.

Fair values

Fair values of financial assets and liabilities are not significantly different from the book values since, in the calculation of book values, the expected cash flows have been discounted by the real rate set by Treasury of 2.2 per cent (2005/06 2.2 per cent).

24. Post Balance Sheet Events

The Pension Service's financial statements are laid before the House of Commons by the Secretary of State of the Department for Work and Pensions. Financial Reporting Standard 21 requires The Pension Service to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by The Pension Service's management to the Secretary of State of the Department for Work and Pensions.

The authorised date for issue is 6 July 2007.

In July, Alexis Cleveland is leaving the Agency to take up a position within the Cabinet Office. Terry Moran will be appointed as acting Chief Executive of The Pension Service.

www.thepensionservice.gov.uk

Want to know more? Then take a look at our website
www.thepensionservice.gov.uk

We welcome your feedback. Please send any comments,
questions or views about anything in our Annual Report
and Accounts by post to:

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