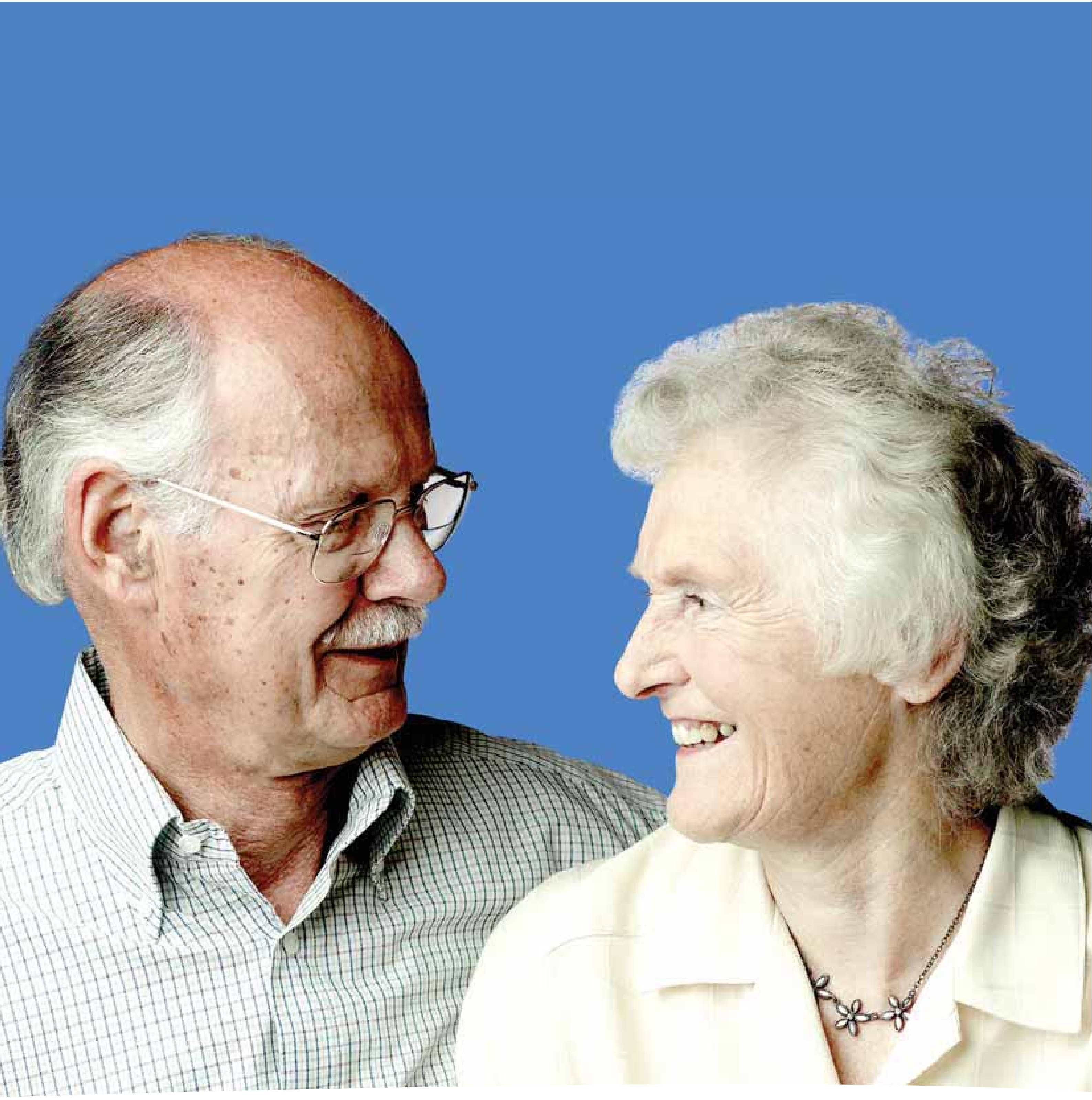

The Pension Service

Annual Report and Accounts 2005–06

The Pension Service

Part of the Department for Work and Pensions

Annual Report and Accounts

2005/06

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The Pension Service

Part of the Department for Work and Pensions

Contents

Section One – Report

Appendices

Section Two – Accounts

Chief Executive's Report

Welcome to The Pension Service Annual Report and Accounts for 2005/06.

At the beginning of the year we set out in our business plan the key challenges for The Pension Service. Our overarching aim remained that of combating poverty and promoting security and independence for today's and future pensioners. At the end of this our fourth year, I am delighted that we can look back on another twelve months of further progress towards achieving this ambitious goal.

The annual report provides a description of our business, including our aims and objectives, and our strategy for achieving them. It reviews performance over the past year, including performance against our agreed targets. It also provides information, where necessary, on how we intend to improve our performance.

The take up of Pension Credit has been a key priority for The Pension Service, and throughout 2005/06 we have continued a wide range of activities to identify people who are likely to be entitled to Pension Credit but have not yet applied. We have made a lot of progress in reaching the poorest pensioners with the largest entitlements. We have also continued to work towards delivering our face to face Local Service as part of an integrated service developed jointly with our partners both national and local, statutory and voluntary, and built around the needs of older people.

Other significant achievements for The Pension Service this year have included implementation of the first wave of change in our transformation programme. New services were introduced from London Pension Centre (Newcastle) in August 2005 and went live in Swansea and Dundee Pension Centres in November 2005. The changes introduce real benefits for our customers, simplifying the process of applying for their State Pension to a single telephone call at the end of which a customer advisor will, wherever possible, confirm the rate of State Pension payable. In addition, since December 2005, customers who contact the Pension Credit Application Line to apply for Pension Credit have been able to claim Housing Benefit and Council Tax Benefit during the same phone call.

We continue to address the efficiency challenge and the workforce reduction target. Our aim is to deliver substantial improvements for customers, enabling us to tackle poverty more effectively, and deliver efficiency for taxpayers while creating more fulfilling jobs for our people. Pensions transformation represents an ambitious change to our whole business. This change is being phased in over the coming years and will support the Government's commitment to the delivery of efficient, high quality public services.

The successes we have already achieved through the hard work and commitment of our people and our business partners gives us the confidence to meet these future challenges.

Alexis Cleveland

Alexis Cleveland
Chief Executive
11 July 2006

Operating and Financial Review

Our Organisation and Objectives

The Pension Service is an executive agency of the Department for Work and Pensions. The Department is responsible for the delivery of work and benefit related services, with the aim of promoting opportunity and independence for all.

The Department's objectives are to:

- Ensure the best start for all children and end child poverty by 2020.
- Promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need.
- Combat poverty and promote security and independence in retirement for today's and future pensioners.
- Improve rights and opportunities for disabled people in a fair and inclusive society.
- Ensure customers receive a high quality service, including high levels of accuracy.

The Pension Service plays a crucial role in tackling pensioner poverty and encouraging saving. It operates through a network of pension centres providing a telephone-based service, supported by locally-based services that are delivered in partnership with other organisations.

During 2005/06 we delivered the following benefits and entitlements to our customers:

- Pension Credit
- State Pension
- Over 80 Pension
- Graduated Retirement Benefit
- State Earnings-Related Pension
- State Second Pension
- Winter Fuel Payments
- One-off payment of up to £200 for help with Council Tax
- One-off 70+ payment
- Christmas Bonus Payments

Further details on our products and services are listed at Appendix 3.

In line with our Departmental goals, our objectives for 2005/06 as reported in our business plan were:

- To combat poverty amongst today's pensioners.
- To encourage future pensioners to save for their retirement through the private sector, and to provide security for those likely to rely on state provision.
- To further improve and modernise our services for today's and future pensioners.
- For our staff, high levels of job satisfaction – based on continuous learning and achievement.

We achieved these objectives by:

- providing a dedicated, technology enabled, service for today's pensioners, whether they contact us by telephone or through 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 their retirement.

The Government agrees targets to help focus and evaluate our work towards achieving our objectives. These targets are defined in the Departmental Public Service Agreement and described further in the Service Delivery Agreement. Further details can be found in the section 'Delivery and Performance of the Business'.

The Pension Service is responsible for delivering benefits, entitlements and other services to over 12 million pensioners in Great Britain and abroad. These include State Pension, Pension Credit, Winter Fuel Payments, while the provision of State Pension Forecasts provide our customers with a clear and personalised estimate of their future State Pension entitlement.


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The
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Service

The Pension Service Management Board

Janet Grossman
Centre Operations Director

Martin Bellamy
Information Systems Director

Simon Furse
Finance Director

Phil Bartlett
Business Design Director

Charlie MacKinnon CB
Transformation Director

Alexis Cleveland
Chief Executive

Lee Brown
Interim Human Resources Director

Mike Sommers
Non-Executive Director

Nigel Richardson
Customer and Acquisition Director

CHAIR
John de Trafford
Non-Executive Director

Jane E Tozer MBE
Non-Executive Director

The Pension Service Management Board has a decision-making role in support of the Chief Executive. It is responsible for the design, delivery, performance and change management of a dedicated service to both today's and future pensioners.

During 2005/06 Lee Brown was appointed interim Human Resources Director following the departure of Indi Seehra, Human Resources Director in November 2005.

Non-executive directors are independent members of the board who are not affiliated with the business in any other capacity. Their independence, coupled with the knowledge and experience they have gained from senior roles in a wide range of private sector organisations, complements the daily business focus of the executive directors. Mike Sommers is a non-executive director of the Departmental Board who also attends The Pension Service Management Board.

The Pension Service Management Board have approved the accounts for the year ended 31 March 2006 and have confirmed that they give a true and fair view of the state of the affairs of the Agency and of the results of The Pension Service for the year. In the preparation of the accounts, The Pension Service Management Board have selected suitable accounting policies and applied them consistently; made judgements and estimates that are reasonable and prudent; and have prepared the accounts on the going concern basis.

Delivery and Performance of the Business

State Pension

During 2005/06 The Pension Service paid Basic State Pension to over 11.5 million customers valued at over £42.1 billion. The total number of pensioners receiving State Pension and residing overseas was over 1 million.

State Pension Performance 2005/06

- Over 92 per cent of complex[1] State Pension claims were cleared within 85 days against a target of 91 per cent.
- Over 97 per cent of non-complex State Pension claims were cleared within 60 days against a target of 95 per cent.
- Interim figures for State Pension accuracy at the time of publication were just under 97 per cent against a target of 98 per cent. Final figures will be available in Autumn 2006.

Pension Credit

Since its introduction over 3.4 million customer households have received Pension Credit. Some 2.72 million customer households are currently receiving Pension Credit and we have been particularly successful in reaching those customers with the largest entitlements, with over 2.1 million customer households in receipt of the Guarantee element of Pension Credit.

Pension Credit is key to tackling poverty amongst today's pensioners whilst ensuring that it pays to have saved. Pension Credit ensures a minimum guaranteed income for those aged 60 and over so they need not live on less than £114.05[2] a week (£174.05[2] a week for couples). Those with severe disability, caring responsibilities and/or qualifying housing costs may be entitled to extra amounts. Pension

[1] 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. All complex claims are dealt with by our National Pension Centre.

[2] Pension Credit rates effective from 4 April 2006.

Credit also rewards those aged 65 or over who have made modest provision for their retirement, for example, by saving. This reward for retirement provision can be as much as £17.88[2] a week (£23.58[2] for couples).

During 2005/06, our Local Service teams visited over 1 million customers generating applications to Pension Credit and other benefits, such as Attendance Allowance and Disability Living Allowance.

In addition to this, they have made approximately 200,000 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.

The Pension Service is committed to increasing take-up of Pension Credit and is continually looking at further ways to identify those who may be entitled and encourage them to apply. Our Centre Operations and Customer and Acquisition teams have developed a number of products and processes to identify and encourage the 96,000 people who become newly eligible each year to claim Pension Credit. These products and processes signpost customers to Pension Credit and provide help for our people when talking to our customers. Over the six months from October 2005, a direct mail initiative 'You're Missing Out' was targeted at 1.5 million people who were most likely to be entitled to Pension Credit. The direct mail activity was supported by national and regional press activity.

Pension Credit Accuracy in 2005/06

At the time of publication the latest interim position stands at just under 88 per cent falling short of the 96 per cent target. This issue is receiving very high senior management attention and a number of important initiatives are being pursued that should bring future improvements to this area, with increased accuracy levels expected to become apparent during 2006/07.

Pension Credit Performance in 2005/06

- 2.72 million customer households (3.3 million customers) are receiving Pension Credit, valued at over £6 billion per annum.
- Over 2.1 million customer households are receiving the Guarantee element of Pension Credit.

- Over 1.8 million calls have been made to the Pension Credit Application Line following our media campaign and direct mailing activity this year.
- Over 0.4 million applications have been received and processed. Of these, 0.3 million have been successful applications for Pension Credit.
- The actual average clearance time for clearing Pension Credit was 8.74 days, comfortably within our target of 10 days.

State Second Pension

Since the State Second Pension was introduced in April 2002, more than 19 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. As a result, a national publicity campaign was run between January and March 2006 to raise awareness of the State Second Pension, inform carers of the timescale for applying for Home Responsibilities Protection, and encouraged eligible carers to submit an application by the 5 April 2006.

Our Pension Credit Application Line is for customers who wish to make a new application to Pension Credit:

Freephone
0800 99 1234

Textphone
0800 169 0133

Our State Pensions Claims Line is for customers wanting to claim State Pension:

Local Rate
0845 300 1084

Textphone
0845 300 2086

Winter Fuel Payments/Age Related Payments

Winter Fuel Performance in 2005/06

Over 99 per cent of customers, including those who applied before 24 September 2005, received their payment before Christmas 2005. We paid over £2 billion in Winter Fuel Payments and over £1.15 billion in Age Related Payments. A breakdown of payments is shown below:

- Nearly £1.8 billion in Winter Fuel Payments to 11.6 million customers.
- An additional £0.21 billion in Winter Fuel Payments to 2.3 million customers aged 80 and over.
- Over £1.08 billion in Age Related Payments to 8.6 million customers aged 65 and over, and not in receipt of the Pension Credit Guarantee element.
- Nearly £0.07 billion in Age Related Payments to 1.3 million customers aged 70 and over to help with living expenses.

In the Budget speech on 16 March 2005, the Chancellor of the Exchequer announced an Age Related Payment of up to £200. The Pension Service delivered this to eligible households with someone aged 65 or over who was not receiving the Guarantee element of Pension Credit. This payment was to help with council tax bills for those customers without the Guarantee element who do not have access to this benefit through their Local Authority.

An Age Related Payment of £50 was also made to 1.3 million eligible customers who were aged over 70 in the qualifying week and were in receipt of the Guarantee element of Pension Credit. This payment was to help with living expenses

During 2005/06 The Pension Service continued to deliver an additional £100 Winter Fuel Payment to eligible customers aged 80 or over.

Together with the Winter Fuel Payment, eligible pensioner households with someone aged 80 and over were entitled to receive up to £500 in 2005/06.

Winter Fuel Payments are tax-free lump sums that do not affect State Pension or other benefits customers receive, including Council Tax Benefit.

Our Winter Fuel Helpline is for information about Winter Fuel Payments for people aged 60 or over living in Great Britain or Northern Ireland:

Local Rate
0845 915 1515

Textphone
0845 601 5613

State Pension Deferral

From 6 April 2005, the extra 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. The 5-year upper limit was also removed, allowing customers to defer as long as they wish. In addition, a new option has been introduced which allows customers to choose to earn a one-off taxable lump-sum payment if they defer their State Pension for 12 consecutive months or more. The lump-sum payment is made up of the deferred State Pension, plus interest added each week. The rate of return is the Bank of England base rate, plus 2 per cent.

In order to implement these changes The Pension Service has:

- provided training and awareness sessions to The Pension Service and Her Majesty's Revenue and Customs staff to deal with customer queries about State Pension Deferral options;
- made information available to customers through leaflets and advertising to help them understand the changes to State Pension Deferral rules and make informed choices; and
- made changes to relevant computer systems to ensure that State Pension Deferral options can be accurately calculated and paid.

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

Pension Forecasting

The Pension Service is helping its customers plan for later life by providing the basic information they need to make informed choices. Many people say that they want to plan for their later life but do not know where to start. Decisions about retirement and financial provision for later life, such as how much to save and how long to work, are some of the most important in peoples' lives.

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 2,725 organisations have either provided or agreed to provide pension forecast details to allow this type of forecast to be issued.

During 2005/06 our intention was to issue pension forecasts to at least 8 million individuals, as progress towards our Public Service Agreement target of 15.4 million by March 2008. At the end of our first year within this target period, we issued over 12 million individuals with a pension forecast. It is likely that the rate of issue of forecasts to individuals will slow over the next two financial years, as more people will have already had a forecast.

During 2005/06:

- over 8.7 million individuals were issued with a State Pension forecast automatically;
- over 0.5 million State Pension forecasts were issued to individuals on request;
- over 2.8 million individuals were issued with a combined state and current private pension forecast issued by the employer or pension provider; and
- over 52,000 individuals requested a forecast over the Internet using the Real-Time pension forecasting service.

Our State Pension Forecasting Team can be contacted by:

Local Rate
0845 300 0168

Textphone
0845 300 0169

Pension Tracing

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

This pension tracing 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.

For our first year of operating the Pension Tracing Service we set ourselves the target of bedding in the service and achieving over 30,000 successful pension traces, which we successfully achieved.

Telephony

During 2005/06 The Pension Service had two telephony Service Delivery Agreement targets: to ensure that 92 per cent of telephone calls were answered by customer advisors, and that less than 1 per cent of telephone calls receive the engaged tone or a message when we are unable to take these calls. The Pension Service exceeded both of these targets, attaining 94 per cent of all calls being answered by customer advisors and only 0.6 per cent of calls receiving an engaged tone or recorded message.

Direct Payment

The overall move to paying all benefits direct into an account through Direct Payment originally began in April 2003 and, month on month, more of our customers have chosen Direct Payment.

Almost 98 per cent of our customers now receive their entitlements by Direct Payment into a range of bank and building society accounts, including the Post Office® Card Account available through the Post Office.

Fraud and Error

The Pension Service is committed to a reduction in losses from fraud and error with this reduction measured against the 2001/02 Minimum Income Guarantee baseline of 4.6 per cent of benefit paid.

The Pension Service put in place measures during 2005/06 to reduce losses from fraud and error in Pension Credit cases to no more than 3.68 per cent of benefit paid.

These included:

- a training package entitled "The Pension Credit Initiative", delivered to all pension centre staff and used as a tool to improve accuracy;
- the setting up of specialist teams in centres to address issues relating to the quality and accuracy of work; this is part of pension centre business plans and continues to be closely monitored; and
- the provision by Local Service of face-to-face assistance with form filling and the gathering of evidence to support customer applications.

The Pension Service also developed a Programme Protection Strategy, which focuses attention on:

- securing the gateway to financial services through specific interventions;
- undertaking data matching activities to identify potential cases of official and customer error; and
- undertaking specific system scans to target known causes of error and to prevent or correct errors in the system.

In addition:

- Network groups have been put in place to share good practice.
- A Technical Advisory Group has been set up to deal with issues raised by Operations in relation to technical process areas.
- The organisation is underpinning its drive to reduce error by establishing stricter controls on its Decision Making and Appeals process.

The latest available statistical information up to March 2005 was published in April 2006 and reported performance at 4.3 per cent.

Unit Costs

The Pension Service unit cost target for 2005/06 was one of a number of targets forming part of a broad Public Service Agreement. It measures overall staff costs against the Agency's customer base. The target was £25.50 and the final unit cost achieved was £26.07, an adverse variance of 2.2 per cent.

This target was set early in the year before staff budget allocations were finalised and as a result, the staff costs baseline was understated. Use of final staff budget allocations for the target customer base gives a unit cost target of £26.23, which the Agency would have achieved, better reflecting the strong performance in overachieving against its staff workforce target for March 2006.

There is no Public Service Agreement target set for unit costs during 2006/07 but more refined unit costs will be available and reported through the new Activity Based Management system, planned to go live for The Pension Service in February 2007. Activity Based Management will provide a more comprehensive and meaningful set of unit costs and the information it provides should significantly enhance the Agency's decision making capabilities.

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, efficiencies and more fulfilling jobs for our people. This investment is focussed on those pension centres in:

- Cwmbran
- Dundee
- Leicester
- Motherwell
- Seaham
- Swansea
- Stockport
- Warrington
- International Pension Centre (Newcastle)
- Future Pension Centre (Newcastle)
- London Pension Centre (Newcastle)
- Burnley

In August 2005, we began to transform three of our pension centres, using a phased approach, starting with London Pension Centre (Newcastle) and then in November 2005, Dundee and Swansea. The majority of our customers using the transformed service will experience considerable improvements in the speed and convenience of applying for their State Pension. They will be able to do so in one call, at the end of which they will know their entitlement and when they will receive their payments.

So far, we have handled 18,000 applications in this way and received extremely encouraging customer feedback from our customer telephone surveys, with 99 per cent of customers being completely satisfied with the new service.

As we progress further with our transformation, we will be able to 'join up' our service by informing customers of how they can access other related entitlements and services and to establish, during the call, the amount of State Pension and Pension Credit to which they may be entitled.

Another example of how we are 'joining up' our service to customers is that since December 2005, customers who contact the Pension Credit Application Line to make an application for Pension Credit have also been able to apply for Housing Benefit and Council Tax Benefit during the one phone call. This simplified process means that new customers only need to provide their details once to claim these entitlements. A completed application form is sent to the customer to confirm their details and forward it to their Local Authority that can then process the application more quickly and accurately.

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.

For The Pension Service, our contribution to this challenge represents a reduction of over 10,000, more than halving our workforce over the four financial years to 2007/08. We aim to deliver this whilst, at the same time, generating substantial improvements in customer service and creating more fulfilling jobs for our people.

The Pension Service workforce target for the year 2005/06 was achieved in December 2005, and further reductions mean that at the end of the year we had a workforce of 13,887 whole time equivalents against a target of 14,663. We plan to further reduce our headcount over the next two years to meet our March 2008 target of 9,622 whole time equivalents.

Throughout this period we have met our commitment to try to redeploy people where their current job role has ceased to exist. Since July 2004 over 3,000 staff have found opportunities elsewhere in the department or in other government departments. Throughout this process we have worked with our trade unions on seeking to avoid compulsory redundancies through redeployment and other voluntary measures.

Managing our Business

The Pension Service operates within the framework of strategies, policies and corporate standards determined for the Department for Work and Pensions as a whole. The Pension Service also receives material benefits from the provision of centrally administered support services from the Department for Work and Pensions. 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 are reported in the Department for Work and Pensions Departmental Report.

The annual accounts are 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 show clearly the added value it brings, as an instrument of central Government, 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 on our customers.

Resources

The Agency's spending plans were revised during the course of the year to take into account funding adjustments for Estates, transfer of business from Programme Systems Delivery and restoration of End Year Flexibility funding. The Agency's final budget agreed by the Department for planning and control purposes, was £743m and our expenditure against this budget was £714m, an underspend of £29m (3.9%). The table and chart below shows how this money was spent.

This underspend includes a provision of £22m for award payments that are not part of the Agency's running costs. Excluding this element, the Agency underspent by £7m (0.9%) against the final allocation.

Running Costs 2005/06

	Planned	Actual	Variance from plan
	£ millions	£ millions	£ millions
To deliver benefits and services	447	440	7
Administrative and central services	29	35	(6)
Total operating costs	**476**	**475**	**1**
To make appropriate investment in modernisation and service improvement.	266	239	28
Total running costs	**743**	**714**	**29**

Notes

1 Investment plan and costs include capital and relate mainly to Pensions projects, as well as business design and marketing costs.

2 The figures above represent only the expenditure directly incurred by The Pension Service.

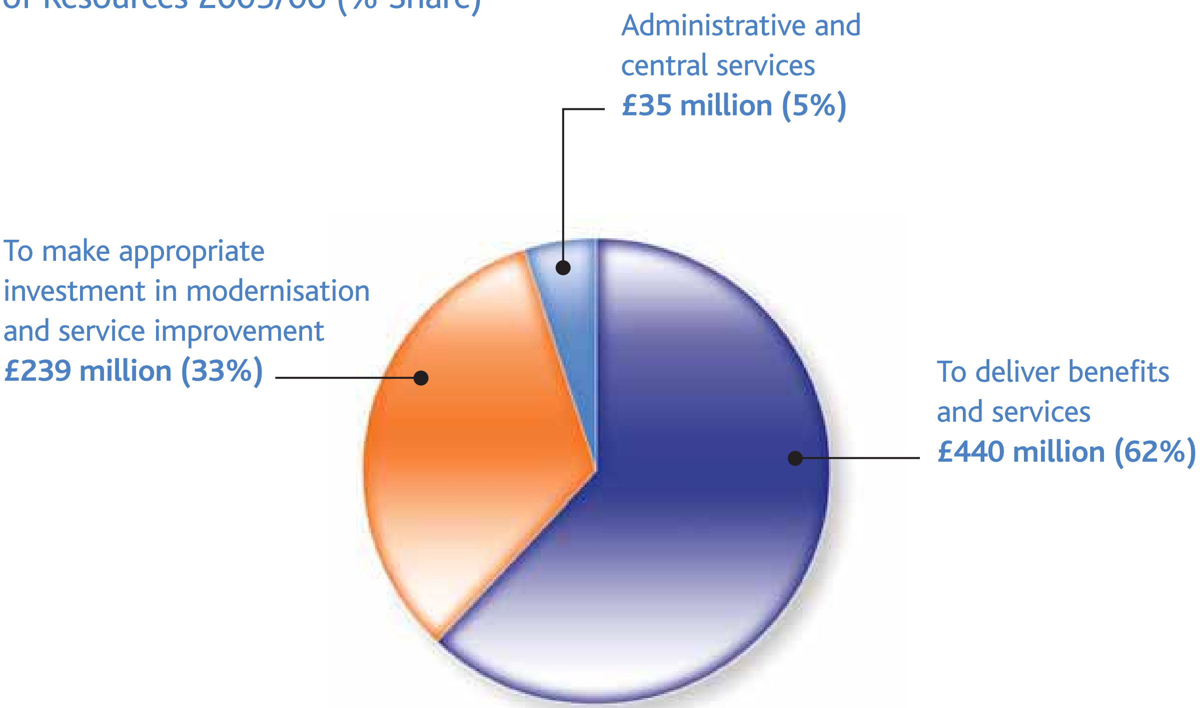
3 The figures above have been subject to rounding in particular the total running cost figure.

4 The figure quoted as the actual spend (£714 million) is the reported level of expenditure prior to year-end adjustments being made. The figures shown in the Accounts (page 68) also exclude investment in modernisation and service improvement costs.

The overall final position for operating costs was slightly below budget. Within that overall achievement, the main causes of variance of actual expenditure from allocated funding are:

- *Delivery of benefits and services:* the underspend is due to a re-assessment of the IT work programme and telephony savings from the accelerated closure or transfer of pension centres.
- *Administrative and Central Services:* the overspend largely represents the costs of redeployment of displaced staff identified for retraining or transfer to other Agencies and Departments, offset by savings elsewhere.
- *Investment:* the underspend is mainly due to a lower than anticipated expenditure requirement on the Pension Transformation Project.

Use of Resources 2005/06 (% Share)



Our use of resources has been focused mainly on enabling access to, and the payment of financial entitlements to older people and the provision of guidance and information. The major improvement initiatives our resources have supported this year are described elsewhere in this report.

Risk

The Pension Service has a system of internal control designed to identify and prioritise the risks to the achievement of The Pension Service's policies, aims and objectives. The system has been designed to manage the key risks efficiently, effectively and economically.

Risk management forms a fundamental part of business delivery and 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.

As evidence of the increasing effectiveness of our risk management processes, The Pension Service has been provided with an overall Substantial Assurance assessment for 2005/06 by the Department's

Risk and Assurance Division. This illustrates the progress made through the efforts of our people in strengthening the control environment, resulting in good risk management across our organisation.

The Pension Service believes risk management is the business of everyone and helps drive continuous improvement as part of our everyday thinking and behaviours. Our risk based processes and business practices have allowed The Pension Service to be flexible and responsive, contributing to the success in delivering our key business objectives.

Our People

Our Values

All business units within the Department for Work and Pensions abide by four values, each carrying equal importance. The Pension Service demonstrated its commitment to these values by:

- **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.
- **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.
- **Respecting People –** take responsibility for building effective working relationships with each other and with our customers and value diversity and to be willing to learn from each other's different skills and experiences.
- **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.

Diversity and Equality

The Pension Service fully embraces the Department's policies on diversity and equality. We are committed to building an organisational culture in which diversity and equality are fully embraced.

The principles of diversity, equality and inclusion are key to developing and delivering the state of the art public services that we aspire to give our customers, partners and colleagues.

During 2005 we published our evaluation of the 'Race to Improve' project and began to implement findings, which should support our staff in improving the customer experience for ethnic minority customers.

Indications are that staff are more aware of our diverse customer base, with Diversity Champions now in place to help us achieve our strategy goals.

The Pension Service was awarded a Champion Gold Standard Award at the annual British Diversity Awards in June 2005, with the Ealing and Hounslow Customer Service Team receiving this award for its work and efforts in reaching out to the local community, which includes London's largest Sikh population.

In June 2005 the 'Race to Improve' project achieved the Diversity Innovation Silver standard at the annual British Diversity Awards.

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 has fallen considerably, with the average working days lost for 2005/06 standing at 9.4 days compared to the 2004/05 figures of 12.8 days, against an in-year standard of 8 days. We will continue to improve attendance in the new operational year as part of our challenge to increase capacity and improve productivity. We are on course to achieve our target of 8 days by December 2006. Pension centre managers will continue to fully support our people, making provision for them to return to work as soon as they are able to do so.

Business Excellence and Continuous Improvement

The Pension Service is driving continuous improvement forward by using the European Framework of Quality Management as a framework to bring all our activities in this area together, to judge 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.

The British Quality Foundation, our assessment body, has agreed that the work already underway demonstrates that we have exceeded the Committed to Excellence award (a national kite mark to both customers and staff achieved in April 2006) and are well placed in 2006 to move towards the next formal level, Recognised for Excellence.

Investors in People

People are our greatest asset and our business success depends on ensuring that their skills and capabilities are continually developed and deployed effectively. During 2005/06 we ensured that key staff in every pension centre and directorate were trained to conduct annual internal reviews to measure how well we were managing our people through the business transformation and efficiency challenges. The external assessor commented positively on the robust and professional structure we had created and that The Pension Service continued to maintain many of the principles as well as the spirit of Investors in People.

The Government's Sustainable Development Agenda

We actively support the Government's sustainable development agenda by managing our business processes to produce an overall positive impact on society.

We work closely with our suppliers to improve the sustainability of our estate, installing and using environmentally efficient equipment and products and specifying the purchase of sustainable goods and services.

We continue to take practical measures to reduce our impact on the environment by reducing waste through recycling and the simplification of forms and leaflets, making greater use of electronic and telephony based claims through our transformation programme, minimising our energy usage through renewable sources and reducing our water consumption.

The implementation of Environmental Audits across our pension centre estate enables us to assess where we are doing well and where we need to improve in this important aspect of our business.

Local Service and Joint Teams

The Pension Service has continued to support our customers through the Local Service, an integrated service developed jointly with our partners, both national and local, statutory and voluntary, and built around the needs of older people.

Local Service continues to engage directly with vulnerable, 'harder to reach' customers, but has refocused activity from drop-in surgeries to home visits and appointments at information points. Local Service is seeing more customers at booked information points and home visits than ever before, offering an improved service to those customers who need it most and who may not access our service through telephone or post.

During 2005/06 Local Service and Joint Teams:

- Conducted over 1 million face-to-face customer contacts.
- Increased customer contacts by 70 per cent compared to last year.

The Pension Service is committed to promoting benefit take-up in the most effective and accessible way for older people. This will continue during 2006/07 through more joined up working with partners.

Local Service continues to develop Joint Teams with local community partners. Joint Teams are built around our staff and our partners – working together as a multi-skilled team. 43 per cent of the rollout of the Joint Teams is complete, in line with the Link-Age document published in 2004, which outlines the Government's plans for developing networks of services for older people.

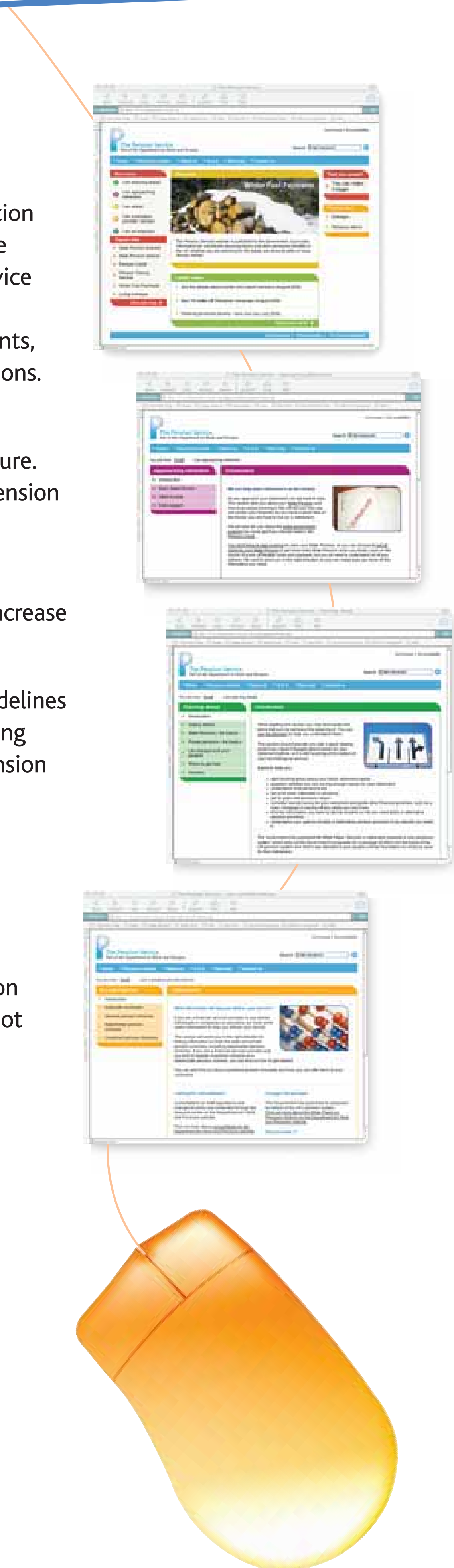
The Pension Service Website

The Pension Service website (www.thepensionservice.gov.uk) is the first port of call for State Pension applications and information on the web. The website provides information for those who are planning ahead for retirement or about to retire. It provides advice on what to consider, and how and where to get information, including information about Pension Credit, Age Related Payments, stakeholder pensions, occupational pensions and personal pensions.

The website provides information from across central and local government, ranging from health and learning to travel and leisure. It has sections on Winter Fuel Payments, Direct Payment and Pension Credit. Benefits information, application forms and guides are available to read, print, or order on-line.

Over 1.3 million users visited the website during 2005/06, an increase of over 48 per cent on the previous year.

The site complies with Royal National Institute of the Blind guidelines for people who are blind or partially sighted and we will be taking steps to ensure we retain this accreditation in 2006/07. The Pension Service website also provides a comprehensive pension centre contact section.



New On-Line Services

The Pension Service introduced a new on-line service in March 2006, enabling customers to complete and submit an application for their State Pension over the Internet. The application does not require a customer signature and goes directly to the National Pension Centre for processing.

The launch of the State Pension forecast e-service has given customers the option to receive an on-line forecast of how much State Pension they will receive when they retire.

Customer Service

Customer Charter

The Pension Service Customer Charter sets out the service standards that pensioners and customers can expect and tells them what to do if things go wrong. We are committed to ensuring this is relevant to customers and have reviewed our Charter standards; a new version of the Charter was published in April 2006. We want to ensure that our service standards continue to meet our customers' priorities and expectations and consulted our customers and customer representative groups prior to publication.

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 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 the Pension Credit Application Line and International Pension Centre.

Results highlight areas where we can improve our service delivery and also help to assess how well we meet the published standards of customer service in our Customer Charter providing a proactive management tool, which highlights areas for improvement and potential learning and development needs.

The key messages from the 2005/06 mystery shopping programme exercise are:

- Our people continue to treat customers very professionally and were described as helpful and polite.
- Customers find it easy to contact The Pension Service with virtually 100 per cent of mystery shopping calls answered at the first attempt and 81 per cent answered within 45 seconds.
- While there have been significant improvements in the quality and accuracy of information given to customers compared to 2004/05, this aspect of service delivery still requires improvement.

The Pension Service is actively taking forward the areas for improvement that our Mystery Shopping programme has identified.

Customer Survey

The second Pension Service customer survey took place during the spring/summer of 2005. The survey measured our customer's experience of, attitudes towards and satisfaction with our service. It is based on a representative sample of customers who contact The Pension Service by telephone, face to face and post in a given period. Analysis was at national level. The full survey report was published in early 2006.

Main Findings

Overall satisfaction and satisfaction with the most recent enquiry, have both increased significantly since 2003.

- In 2005, 84 per cent of respondents said they were very or fairly satisfied with The Pension Service overall. This is an increase from 80 per cent in 2003.
- The quality of our people was mentioned by the highest proportion of customers as the best thing about The Pension Service. This was the highest rated aspect in 2003 and has further increased since from 22 per cent to 28 per cent of our customers in 2005.
- Awareness of The Pension Service has improved. The proportion of customers who identified The Pension Service as the organisation they would turn to about State Pension and related benefits has increased significantly from 25 per cent in 2003 to 38 per cent in 2005.
- The proportion of customers who would prefer to use the telephone to contact The Pension Service has also increased across all types of enquiry since 2003, and there has also been a significant fall in the proportion of those who called more than once for their enquiry.

We will use our Mystery Shopping Programme and wider customer measurement to provide ongoing assessment of key customer satisfaction issues and to drive improvements in customer service, as highlighted in the survey.

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.

Customer Feedback

The Pension Service welcomes feedback on the service it provides. The Customer Charter describes how customers may make comments on the service they receive and a leaflet *'GL22 Tell us how to improve our service'* gives further information about giving feedback.

We 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 an overall improvement to the service we provide our customers.

- The National figure for capture of feedback for the year to date is over 21,000 with over 20,000 (93 per cent) of these issues cleared within the national standard of 7 working days. Over 8,000 specific positive compliments from customers were recorded in pension centres in this period.

Ministerial Correspondence

The Cabinet Office reporting period for Parliamentary correspondence is the calendar year January 2006–December 2006. The Pension Service continued to improve its performance against Cabinet Office targets during 2005. Annual performance for 2005 was:

MP letters to Minister – Delegated to Chief Executive for reply:
- Over 700 letters received. 98 per cent cleared in target. (target – 90 per cent in 20 days)

MP letters direct to Chief Executive:
- Over 1000 letters received. 98 per cent cleared in target. (target – 90 per cent in 15 days)

Performance improvements compared to the 2004 reporting period are 4 per cent and 9 per cent respectively.

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 the Charter Mark standard.

During 2005/06 three of our pension centres worked with Charter Mark assessors and achieved Charter Mark status. These are Cwmbran, Future Pension Centre and National Pension Centre.

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 2005/06, National Pension Centre and Seaham Pension Centre were both successful in their applications.

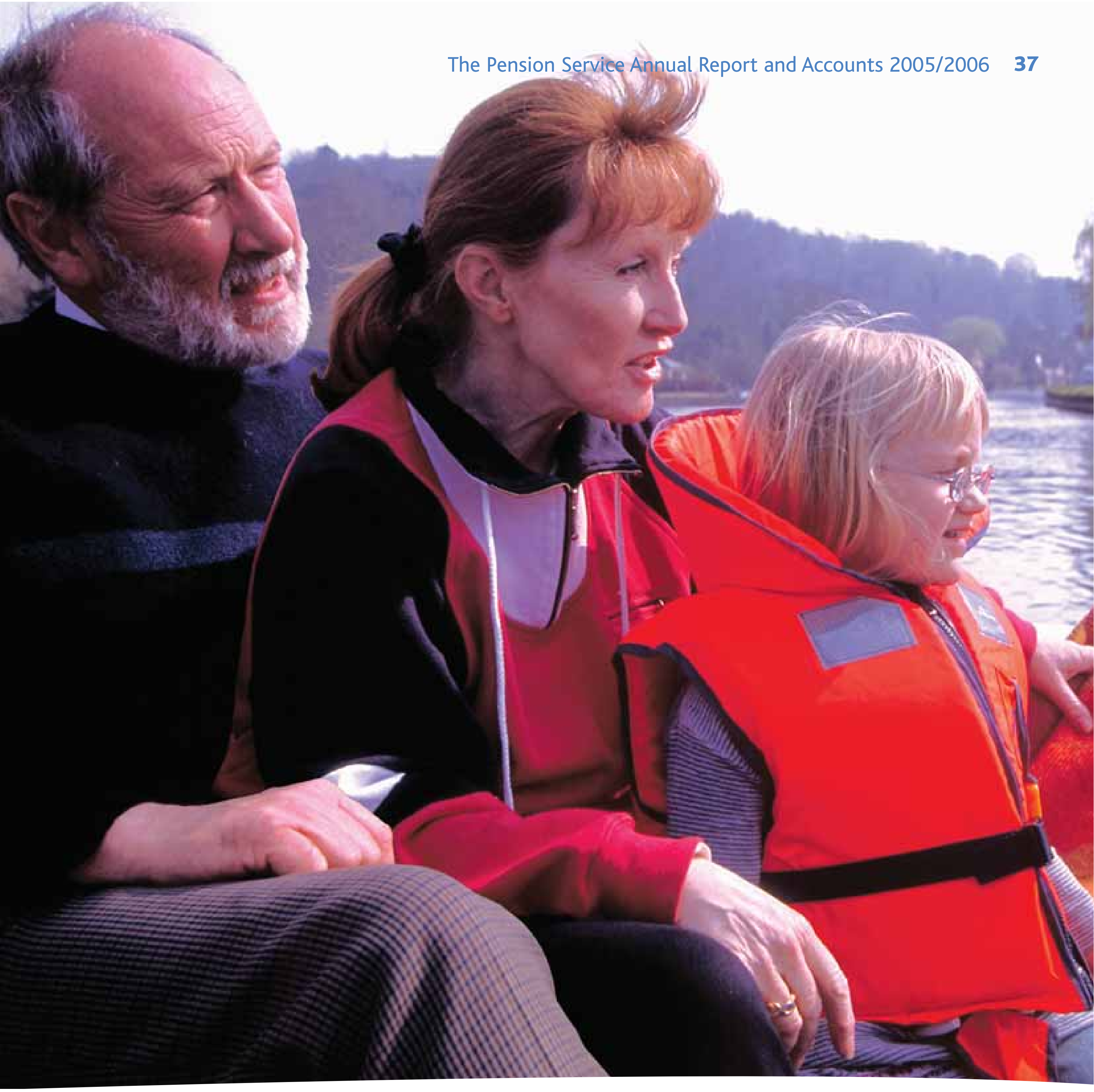
The Pension Service Business Plan 2006/07

The Pension Service published its business plan in March 2006. The document details our main objectives and activities for the forthcoming year.

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 2003 to March 2004	Actual Performance April 2004 to March 2005	Actual Performance April 2005 to March 2006	Key Outcomes 2005/06
PSA 6 (SR02) – By 2006, be paying Pension Credit to at least 3 million pensioner households. 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.				
By 2006, be paying Pension Credit to at least 3 million pensioner households. See note (i).	Over 2.4 million	Over 2.7 million	Over 2.72 million	This target has not been met. It has proved more challenging to reach those entitled to smaller amounts, while customers leaving the caseload has been a contributing factor.
SDA (SR02) – Pay the Guarantee element of Pension Credit to at least 2.1m pensioner households.	Over 1.9 million	Over 2.1 million	Over 2.1 million	This target was met a year ahead of schedule and performance is being maintained.
Fraud and Error				
SDA (SR02) – Reduce losses from fraud and error in Pension Credit, with a 20% reduction by 2006 against the 2001/02 Minimum Income Guarantee baseline. See note (ii)	5.4% (Against an in-year standard of no more than 4%)	5.4% (Against an in-year standard of no more than 4%)	4.3% (Against an in-year standard of 3.68%)	Although this target has not been met to March 2005 there has been a substantial reduction in this area and when figures are available for March 2006 we expect this trend to continue. For further details, refer to page 20.
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.				
In 2005/06, we intend to issue pension forecasts to 8 million individuals, as progress towards the Public Service Agreement target of regularly issuing pension forecasts to 15.4 million individuals by 2007/08.	2.5 million forecasts in total of which 1.6 million were issued to self-employed people (Against an in-year standard to issue 1.3 million State Pension forecasts to self-employed people)	Over 2.7 million State Pension forecasts issued automatically and over 1.3 million issued on request. (Against an in-year standard to issue approximately 2 million State Pension forecasts, and a further 1.3 million on request)	Over 12.2 million pension forecasts were issued to individuals.	We have made good progress and are on course to meet this target.

PSA8 (SR02) – To make significant progress towards modernising welfare delivery so that by 2005, 85% of customers have their pension entitlements paid into their bank accounts.				
By 2005, 85% of customers to have their pension entitlements paid by direct payment into their bank accounts. See note (iii)	56.9%	94.6%	97.78%	We achieved our target of 85% a year ahead of schedule and have continued to exceed our planned performance in this area.
PSA9 (SR02) – To improve delivery of services by setting published annual targets addressing accuracy, unit costs and customer service, becoming progressively more demanding over the three financial years 2003/04 to 2005/06				
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 telephone calls receive the engaged tone or message.	91.1% 7.3% (Against an in-year standard of 88% and do not exceed 1%)	90.4% 2.0% (Against an in-year standard of 90% and no more than 1%)	93.98%[1] 0.55%[1] (Against an in-year standard of 92% and less than 1%)	These targets have been met.
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. See note (iv)	90.9% (Against an in-year standard of 94%)	88.5% (Against an in-year standard of 94%)	87.93%[2] (Against an in-year standard of 96%) No regions achieved 94% accuracy	Overall the year to date summary position stands at 88.9% falling short of the 96% target. Initiatives are being pursued that will bring future improvements to this area, and increased accuracy achievements will become apparent during 2006/07.
SDA (SR02) – By 2006 ensure Pension Credit applications are processed on average within 10 days.	12.3 days	10.3 days	8.74 days[2]	This target has been met.

Where applicable all 2005/06 performance has been shown to 2 decimal places where a percentage is appropriate.

[1] These figures have not been subject to independent or Department for Work and Pensions Risk Assurance Division validation.

[2] These figures have not yet been independently validated.

Note (i) – Until September 2005, progress against PSA target 6 was measured using information from the Pension Credit Quarterly Statistical Enquiry, which held information on the numbers and characteristics of Pension Credit recipients. From October 2005 the Quarterly Statistical Enquiry was replaced by a 100 per cent data source which now forms the basis of the majority of the Department's National Statistics. This data is subject to validation by the National Audit Office.

Note (ii) – Overall in 2005/06 we are looking to reduce losses in this area to 3.68 per cent of benefit paid.

Note (iii) – The target date for this Public Service Agreement was 31 December 2005.

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

Appendix 2

Table 2 – Secretary of State Agreed Standards for 2005/06

Standard	Actual Performance April 2003 to March 2004	Actual Performance April 2004 to March 2005	Actual Performance April 2005 to March 2006	Key Outcomes 2005/06
Accuracy				
Achieve a State Pension claims accuracy rate of 98%.	98.6%	97.6%	96.97%[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 reduction in performance in this area over the past year, however this target is achievable and the National Pension Centre has produced an accuracy plan relating to best practice that will be deployed across all pension centres.
Clearance claims				
Clear 95% of State Pension claims in 60 days (non-complex cases).	95%	95%	97.35%[2]	The standard has been met.
Clear 91% of State Pension claims in 85 days (complex cases).			92.11%[2]	The standard has been met.
Pension Forecasting				
Deal with State Pension forecast requests in an average of 15 days.		12.85 days (Against an in-year standard of 20 days)	8.4 days[1]	This target has been met.
Winter Fuel Payments				
Issue Winter Fuel Payments for 2005/06 (all automatic payments, and successful claims received before 24 September 2005) by Christmas 2005.	Over 11.5 million payments were made in November 2003	Over 11.5 million payments were made in November 2004.	Over 11.6 million payments were made in November 2005	The Department has validated that at least 99% of customers paid automatically or who applied successfully before 24 September 2005 were paid by Christmas 2005.

Sickness Absence Management				
Reduce sick absence rates to 8 days per capita.	12.1 days (Against an in-year standard of 8.5 days)	12.8 days (Against an in-year standard of 8.5 days)	9.4 days[1] (Against an in-year standard of 8 days)	This standard has not been met, however we are making huge progress in this area with a number of managing attendance initiatives. Figures are based on a 12-month average and we are on course to achieve a target of 8 days by December 2006.
Unit Costs				
Achieve a total staff cost per customer of £25.50	£24.98 (Against an in-year standard of £25.00)	£25.02 (Against an in-year standard of £24.00)	£26.07[1] (Against an in-year standard of £25.50)	This target was set early in the year before staff budget allocations were finalised and as a result, the staff costs baseline was understated. Use of final staff budget allocations for the target customer base gives a unit cost target of £26.23, which the Agency would have achieved, better reflecting the strong performance in overachieving against its staff workforce target for March 2006.

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

Where applicable all 2005/06 performance has been shown to 2 decimal places where a percentage is appropriate.

[1] These figures have not yet been independently validated.
[2] Validation is still ongoing.

Appendix 3

Scope of Products and Services

The Pension Service directly administered the following products and services between April 2005 and March 2006	
Pension Credit	We paid £6.4 billion in Pension Credit payments to over 2.72 million customer households (3.3 million individuals).
Pension Credit Guarantee element	We paid £5.4 billion in Guarantee element of Pension Credit to 2.1 million pensioner households (2.5 million individuals).
Basic State Pension	We paid £42.1 billion in State Pension payments to over 11.5 million customers, of whom 1 million reside overseas.
Over 80 State Pension	Over £35.8 million has been paid out in Over 80 State Pension to 2.7 million customers.
State Second Pension	£137 million has been paid out in State Second Pension.
Graduated Retirement Benefit	£1.5 billion has been paid out in Graduated Retirement Benefit.
State Earnings-Related Pension Scheme	£7.7 billion has been paid out in State Earnings-Related Pension Scheme.
Winter Fuel Payments (Customers aged 60 and over)	Nearly £1.8 billion has been paid out in Winter Fuel Payments to 11.6 million customers.
80+ Annual Payments (Customers over 80)	Over £0.2 billion has been paid out in 80+ Annual Payments to 2.3 million customers. This was in addition to the Winter Fuel Payment.
One-off £200 Winter Fuel Payment for customers over 65 not in receipt of Pension Credit (Guarantee element)	Nearly £1.1 billion was paid to over 8.6 million customers
One-off £50 Winter Fuel Payment for customers over 70 in receipt of Pension Credit Guarantee element	£66 million was paid to over 1.3 million customers
Christmas Bonus	£111 million has been paid out in Christmas Bonus payments.
Pension forecasting information	Over 12.2 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.

Scope of Products and Services continued

The following products and services administered by other authorities on behalf of The Pension Service were delivered to pensioner households between April 2005 and March 2006. 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 over 1.6 million customer households
Social Fund Budgeting Loans	£32.2 million in Social Fund Budgeting Loans was paid to 76,000 customer households
Social Fund Crisis Loans	£1.3 million in Social Fund Crisis loans was paid to 15,800 customer households
Social Fund Community Care Grants	£15.7 million in Social Fund Community Care Grants was paid to 38,500 customer households
Social Fund Funeral Payments	£21.8 million in Social Fund Funeral Payments was paid to 19,900 customer households
Disability Living Allowance	£3.2 billion of Disability Living Allowance was paid to over 1 million customer households
Widows/Bereavement Benefits	£115.7 million of Widows/Bereavement Benefits was paid to 26,200 customer households
Widows/Bereavement Payments	£11.6 million of Widows/Bereavement Payments was paid to 5,800 customer households
Attendance Allowance	£3.9 billion of Attendance Allowance was paid to 1.4 million customers
Carer's Allowance	£111.1 million of Carers Allowance was paid to 42,500 customer households
Cold Weather Payments	£5.6 million in Cold Weather Payments was paid to 664,000 customer households
Maternity Payments/Grants	£124,500 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 a Pay Strategy Committee chaired by the Department's Permanent Secretary, and also comprising 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 has given 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;
- 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, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. 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

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

Remuneration

	2005/06		2004/05		
	Salary	Benefits in kind (to nearest £100)	Salary	Full year equivalent salary	Benefits in kind (to nearest £100)
	£'000	£	£'000	£'000	£
Alexis Cleveland Chief Executive	160–165	0	165–170	165–170	0
Phil Bartlett Business Design Director	75–80	0	75–80	75–80	0
Martin Bellamy Information Systems Director	125–130	0	115–120	115–120	0
Lee Brown[1] Interim Human Resources Director	10–15	1,900	N/A	N/A	N/A
Simon Furse Finance Director	110–115	0	100–105	100–105	0
Janet Grossman Centre Operation Director	105–110	0	90–95	90–95	0
Charlie Mackinnon CB Transformation Director	110–115	0	105–110	105–110	0
Nigel Richardson Customer and Acquisition Director	105–110	0	20–25	95–100	0
Indi Seehra[2] Human Resources and Customer Services Director	90–95	0	100–105	100–105	0

[1] Figure quoted is for the period from 1 February 2006 to 31 March 2006. The full year equivalent is £80–85k.

[2] Figures quoted are for the period from 1 April 2005 to 31 January 2006.

Salary

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

"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 allowances to the extent that it is subject to UK taxation.

Benefits in Kind

The estimated monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. The reported benefits in kind relate to the private use of allocated cars provided under the Department's Private User Scheme.

Pension Benefits

	Accrued pension at age 60 as at 31/03/06 and related lump sum	Real increase in pension and related lump sum at age 60	Cash Equivalent Transfer Value at 31/03/06	Cash Equivalent Transfer Value at 31/03/05	Real increase in Cash Equivalent Transfer Value	Employer's contributions to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Alexis Cleveland Chief Executive	45–50 plus 135–140 lump sum	0–2.5 plus 5–7.5 lump sum	882	648	44	–
Phil Bartlett Business Design Director	25–30 plus 80–85 lump sum	0–2.5 plus 5–7.5 lump sum	495	351	37	–
Martin Bellamy Information Systems Director	5–10 plus 0–5 lump sum	0–2.5 plus 0–2.5 lump sum	77	40	21	–
Lee Brown Interim Human Resources Director	25–30 plus 80–85 lump sum	0–2.5 plus 2.5–5 lump sum	546	524	9	–
Simon Furse Finance Director	5–10 plus 0–5 lump sum	0–2.5 plus 0–2.5 lump sum	92	50	25	–
Janet Grossman Centre Operation Director	0–5 plus 0–5 lump sum	0–2.5 plus 0–2.5 lump sum	57	24	21	–
Charlie Mackinnon CB Transformation Director	45–50 plus 140–145 lump sum	2.5–5 plus 7.5–10 lump sum	1,022	784	54	–
Nigel Richardson Customer and Acquisition Director	0–5 plus 0–5 lump sum	0–2.5 plus 2–2.5 lump sum	32	5	23	–
Indi Seehra Human Resources and Customer Services Director	5–10 plus 20–25 lump sum	0–2.5 plus 0–2.5 lump sum	113	93	15	–

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.

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 (CETV) 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 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 costs. Cash Equivalent Transfer Values are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the Cash Equivalent Transfer Value were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the Cash Equivalent Transfer Value figure for 31 March 2006.

Real increase in CETV

This reflects the increase in Cash Equivalent Transfer Value effectively funded by the employer. It takes account of 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:

	2005/06 Total Fees and Expenses	2004/05 Total Fees and Expenses
	£'000	£'000
Jane E Tozer MBE	25	25
John de Trafford	20	20
Mike Sommers	23	0

Signed

Alexis Cleveland

Alexis Cleveland
Chief Executive
11 July 2006

Appendix 5 Other Information

Statutory Background

The Pension Service presents its Annual Report and Accounts for the financial year ended 31 March 2006. 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 2005/06.

Taxpayers' Equity

Within the accounts the balance sheet at 31 March 2006 shows negative Taxpayers' Equity of £3.7 million. This reflects the inclusion of liabilities falling due in future years, which are financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet Net Cash Requirements of the Department for Work and Pensions of which The Pension Service is part. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund by the Department, other than required for the service of the specified year or retained in excess of that need.

In common with Government departments, the future financing of The Pension Service liabilities is accordingly to be met by future grants of Supply to the Department for Work and Pensions and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

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 13 of the accounts)

Public Interest and Other

Employment of disabled persons

People with disabilities are employed across all grades within the Department. 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 Department is committed to providing services which embrace diversity and which 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 held on the intranet, as well as through regular bulletins and messages cascaded down through team meetings.

Staff have access to an employee assistance programme; this is a service, which supports staff and managers and promotes well-being in the workplace.

Staff have also 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. Payments are normally made as specified in the suppliers' contract. If there is no contractual provision or other understanding, they should be paid 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:

Office of The Chief Executive
Trevelyan House
30 Great Peter Street
London
SW1P 2BY

External audit

The accounts in section 2 have been audited by the Comptroller and Auditor General whose certificate and report appears on page 65.

The Pension Service principal auditor for the 2005/06 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 2005/06.

Post balance sheet events

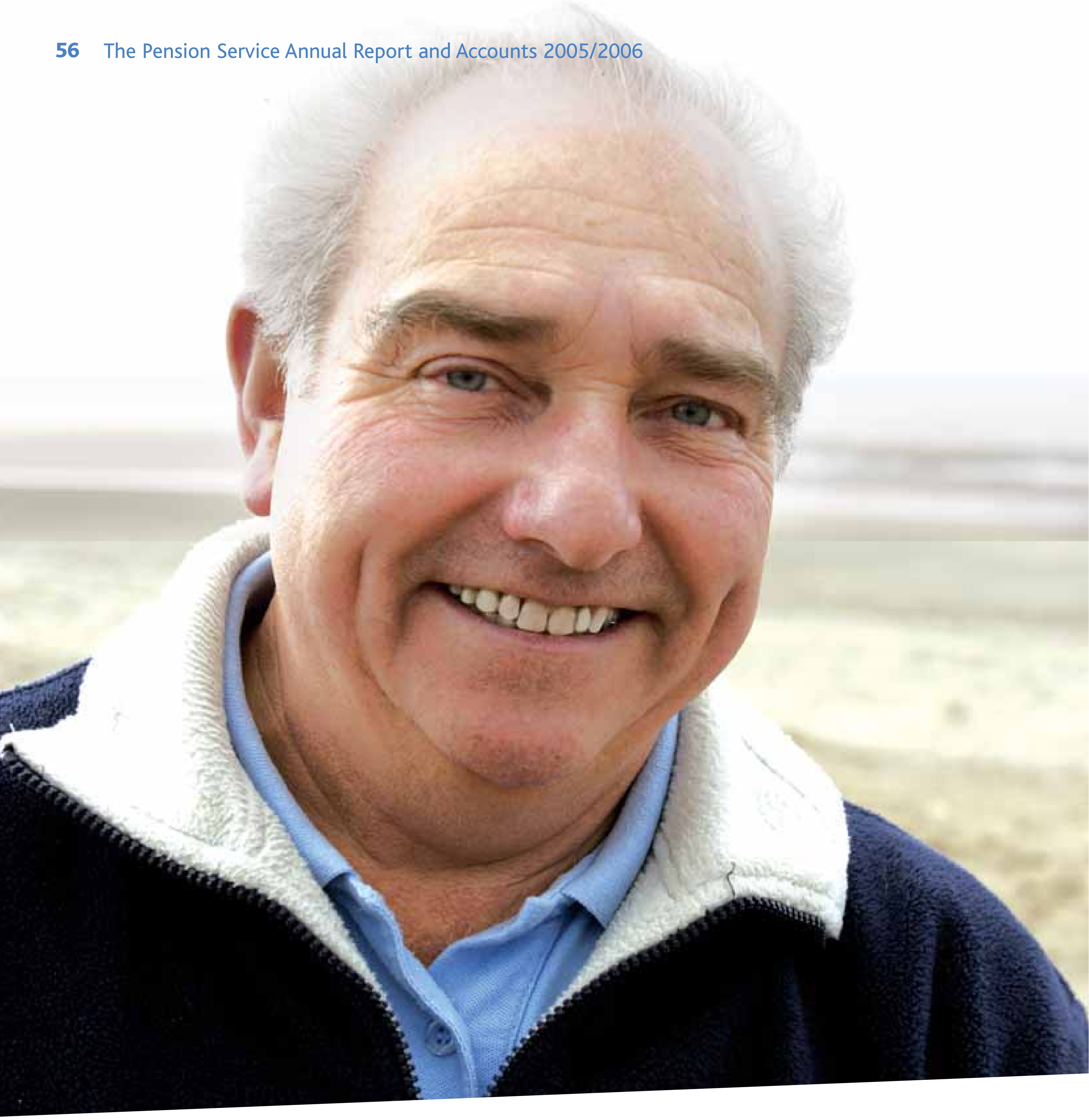
There have been no material post balance sheet events that require disclosure in these accounts.

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
11 July 2006



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

Alexis Cleveland

Alexis Cleveland
Chief Executive
11 July 2006

Statement on Internal Control

1. Scope of responsibility

1.1 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*.

1.2 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.

1.3 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.

1.4 The Pension Service Management Board manages 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.

2. The purpose of the system of internal control

2.1 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 2006 and up to the date of approval of the annual report and accounts, and accords with HM Treasury Guidance.

3. Capacity to handle risk

3.1 The Management Board has 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, on a cyclical basis risk owners provided a detailed analysis of their risks.

3.2 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. The National Operations Risk Forum is used to coach inexperienced staff in risk management principles and processes. A series of Business Continuity awareness workshops were provided for new Continuity Managers at regular intervals throughout the year.

4. The risk and control framework

4.1 The Pension Service adheres to the Corporate 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 for Work and Pensions risk strategy.

4.2 The Pension Service Management Board contributes to the maintenance of the system of internal control through their review of internal audit reports and input to the risk management process. Executive Directors, their direct line reports, Pension Centre Managers and Local Service Group Managers produce annual and bi-annual certificates of assurance, reporting on their systems of internal controls.

4.3 Each Directorate maintains a risk register, with clearly defined escalation routes to The Pension Service Management Board, or Change Delivery Committee where appropriate. Key Performance Indicators for the business have agreed tolerance levels that demonstrate The Pension Service risk appetite. The Pension Service Finance Director is a member of the 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.

4.4 All governance arrangements include an independent governance manager who sits on the formal Steering Committees and Boards which are held regularly. They monitor key issues such as risks, financial controls and also provide advice and resolve specific escalations. These arrangements provide the necessary assurance that the appropriate business controls and checks are embedded in the development of new systems.

4.5 Risk is an integral part of the planning process, with risks being identified at the outset of the planning cycle. Risks identified by the Senior Planning and Performance Group are considered in conjunction with The Pension Service Integrated Plan to mitigate and manage risks to safeguard delivery of the overall plan.

4.6 A 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 are monitored on a monthly basis. If a risk to service delivery is identified, an assessment of cross business impact is made. If possible re-planning activities are identified and escalated to The Pension Service Management Board via the monthly Board Business Report. A monthly report is also produced for The Pension Service Management Team showing progress of milestones against the Business Delivery Plan.

4.7 The Pension Service had Business Continuity arrangements in place at all agreed levels throughout 2005/06. All Business Continuity arrangements proved effective in maintaining delivery of critical business activities to an agreed and acceptable level. The central Business Continuity Team ensures all Business Continuity Managers complete a Business Continuity Assurance Certificate on an annual basis.

4.8 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. No significant control weaknesses were identified.

5. Review of effectiveness

5.1 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. A plan to address weaknesses and ensure continuous improvement of the system is in place.

5.2 To provide stronger leadership focus, embed risk management in business process design and support deployment and compliance more effectively, I appointed a Risk Management and Security Manager. He reported progress throughout the year to my Management Board and The Pension Service Audit Committee.

5.3 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.

5.4 Significant control risks highlighted in Risk Assurance Division quarterly reports were monitored throughout the year by The Pension Service Audit Committee and progress has been tracked through a database by my Finance Directorate. Recommendations made in the National Audit Office Management Letter were also tracked through a database and progress updates presented quarterly to The Pension Service Audit Committee. The Departmental Risk Assurance Division 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.

6. Significant internal control problems

6.1 Significant control weaknesses identified in the 2005/06 Annual Assurance Report were:

Protection of Customer Information

Accuracy of Information

Fraud and Error

Resource Management System

We have worked with determination to improve the control weaknesses identified in the 2004/05 Statement on Internal Control and as a result The Pension Service has received an overall Substantial Assurance from the Department's Risk Assurance Division. In particular, systems of internal control have significantly improved and widespread non compliance is no longer a problem.

Missing case papers were identified as a significant control problem in 2004/05. Considerable effort has been put in to improve the situation in 2005/06, and missing case papers no longer feature as a significant control weakness. This is due in particular to the newly appointed file storage contractor which has resulted in improvements in the levels of file retrieval success. For the first six months of 2005/06 96 per cent of case papers were retrieved compared to 67per cent with the previous contractor. A new file tracking system 'File and Retrieval Information Online' (FARIO) was fully rolled-out across all pension centres by October 2005. This has been viewed as a big improvement, as missing case papers have reduced from 33 per cent to 2 per cent since the new system has been in place. The Pension Service will continue to monitor the situation, particularly the reliance of The Pension Service on effective management at Departmental level of corporate contracts, in this case the Departmental Storage and Retrieval contract.

6.2 **Protection of Customer Information** – The Risk Assurance Division found overall poor standards of control in frontline offices during 2005/06.

6.3 The Risk Assurance Division found poor control of Departmental Central Index (DCI) processes during 2005/06, although there are new systems in many offices. We are now working to achieve consistency across all delivery sites. The Pension Service also commissioned the Risk Assurance Division to undertake a review of DCI checks. The review resulted in a system fix, which reduced the volume of two DCI checks, 'Date of Death' and 'over 82', to enable The Pension Service to concentrate on improving the quality and accuracy of checking in pension centres.

6.4 **Accuracy of information** – The Risk Assurance Division consider that more work needs to be done to minimise the risk of giving out inaccurate information to the public.

6.5 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 overall results have improved from 72.7 per cent to 80.5 per cent since last year and Product Quality has improved from 56.1 per cent to 65.1 per cent. There has been a significant move from incomplete information being given, to correct and complete information being given to customers. Mystery Shopping leaflet checks have been introduced, and results show significant improvements, although continued vigilance is needed to improve and maintain standards.

6.6 Pension Service leaflets are an important source of information for our customers. We now work closely with the Information Education Unit to review the standard and content of leaflets. We have introduced centralised stores within pension centres to improve the overall accuracy of information held. We have introduced a central point in Local Service, to manage orders from partners, ensure all leaflets at Information Points are checked quarterly and all areas are instructed to destroy out of date copies. The Customer and Acquisition Director continues to act as the Leaflet Champion for The Pension Service reminding all staff of the importance of keeping an up-to-date stock of leaflets.

6.7 Despite these improvements, the Risk Assurance Division reported limited assurance on the quality of checks undertaken in general and in relation to correspondence, call recording and quality monitoring, under-recording of customer telephony feedback and complaints clearance. To improve call recording and quality we are developing a call recording and quality monitoring approach, which will be piloted in 2006/07. This pilot is designed to deliver significant improvements in this area and form part of the Pensions Transformation.

6.8 **Fraud and Error** – Despite our efforts in developing a Programme Protection Strategy, designed to drive out inaccuracies from State Pension and Pension Credit, Fraud and Error continues to be an area of control weakness. The Programme Protection strategy focused on: targeted checking of new applications in areas of the greatest error, data matching to identify potential incorrect cases, training which is focused on the top error categories, specialist teams in 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. During the reporting year pension centres have also undertaken specific scans, to improve accuracy and reduce official error. But it remains the case that a large proportion of incorrectness arise from errors in the existing caseload. We are developing a business case to allocate additional resource to cleaning the existing caseload, should funding and headcount become available.

6.9 **Resource Management** – During 2005/06 we commenced roll out of the Resource Management System and this will continue through 2006/07. Resource Management is a Department for Work and Pensions wide system, which provides the opportunity for us to deliver our business more efficiently and to improve the effectiveness of the framework of financial control within The Pension Service. A number of issues have emerged during the roll out specifically relating to non-compliance and weaknesses around audit trails. My finance team has been working closely with Department for Work and Pensions Financial Services Directorate to ensure that plans have been developed and implemented to address these issues and to ensure that risks to our business are effectively managed.

6.10 **Overall Assurance** – The overall level of assurance provided by the Risk Assurance Division as a result of their work programme to examine the control systems and operations in The Pension Service in 2005/06 was Substantial. 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'.

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
11 July 2006

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 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of The Pension Service, the Chief Executive and auditor

The Pension Service and Chief Executive are responsible for preparing the Annual 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 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if The Pension Service 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 58 to 64 reflects The Pension Service's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of The Pension Service'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. This other information comprises only the Chief Executive's Report, the Operating and Financial Review, the Delivery and Performance of the Business, Managing our Business, Appendices 1, 2, 3 and 5 and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

The maintenance and integrity of The Pension Service website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Basis of audit opinion

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 judgements made by The Pension Service and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to The Pension Service'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 have 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

In my opinion:

1 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 Pension Service's affairs as at 31 March 2006 and of its net operating cost, recognised gains and losses and cashflows for the year then ended;

2 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

3 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.

I have no observations to make on these financial statements.

Signed

John Bourn
Comptroller and Auditor General
18 July 2006

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

Accounts

Operating Cost Statement

for the year ended 31 March 2006

	Note	2005/06	2004/05
		£'000	£'000
Administration Costs			
Staff costs	2	333,389	352,907
Non-staff administration costs	3	417,491	479,940
Gross Administration Costs		**750,880**	**832,847**
Operating Income	6	(2,296)	(2,295)
Net Operating Cost		**748,584**	**830,552**

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

	Note	2005/06	2004/05
		£'000	£'000
Net gain on revaluation of tangible fixed assets	14	26	111
Total		**26**	**111**

The notes on pages 70 to 93 form part of the accounts.

Balance Sheet

As at 31 March 2006

	Note	31 March 2006		31 March 2005 Restated	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	7		11,314		18,063
Debtors falling due after more than one year	8		7,624		7,987
Current assets					
Debtors falling due within one year	8	3,802		1,121	
Cash at bank and in hand	9	9		4	
		3,811		1,125	
Current liabilities					
Creditors falling due within one year	10	(25,473)		(26,701)	
Net Current Liabilities			(21,662)		(25,576)
Total assets less current liabilities			(2,724)		474
Creditors falling due after more than one year		0		0	
Provisions for liabilities and charges	12	(938)		(513)	
			(938)		(513)
			(3,662)		(39)
Taxpayers' Equity					
General fund	13		(3,762)		(134)
Revaluation reserve	14		100		95
			(3,662)		(39)

The notes on pages 70 to 93 form part of the accounts.

Signed

Alexis Cleveland

Alexis Cleveland
Chief Executive
11 July 2006

Cash Flow Statement

for the year ended 31 March 2006

	Note	2005/06	2004/05
		£'000	£'000
Net cash outflow from operating activities	15(i)	(471,124)	(485,608)
Capital expenditure and financial investment	15(ii)	(1,047)	(1,160)
Net Financing from the Consolidated Fund	15(iii)	14,428	299,833
Financing from the National Insurance Fund	15(iii)	457,748	186,933
Increase/(Decrease) in cash in the period		**5**	**(2)**

The notes on pages 70 to 93 form part of the accounts.

Notes to the accounts

for the year ended 31 March 2006

1. Statement of accounting policies

The financial statements have been prepared in accordance with the Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies to the extent that it is meaningful and appropriate to the Public Sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be 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.

All computers, together with other 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

The Department for Work and Pensions reviewed its accounting policy in 2004/05 in respect of capitalisation of expenditure on software licences in accordance with FRS10.

As a result of that review, expenditure on purchased computer software licences covering a period of more than one year is capitalised as intangible fixed assets. Capitalised software licences are amortised over the shorter of the licence period or five years. Expenditure on annual software licences is charged to the Operating Cost Statement.

In implementing this policy, only purchases in excess of £100,000 have been capitalised.

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 8).

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 FReM, is treated as operating income (see Note 6). 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 5). The charge is calculated at the real rate set by HM Treasury at 3.5 per cent (2004/05 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 2. 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

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. From 2005/06, the outstanding balance of net VAT recoverable is reported as a debtor in the accounts of the Department for Work and Pensions. This is deemed more appropriate as the Department processes VAT centrally.

1.15 Provisions

The Pension 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. Staff numbers and related costs

(a) Staff costs

Staff costs consist of:

	Permanently employed staff £'000	Others £'000	Ministers £'000	Special Advisors £'000	2005/06 £'000	2004/05 £'000
Wages and salaries	258,313	602	0	0	258,915	297,015
Employers National Insurance	17,176	0	0	0	17,176	19,727
Superannuation and Pension costs	57,437	0	0	0	57,437	36,331
Sub Total	332,926	602	0	0	333,528	353,073
Inward Secondments	0	0	0	0	0	3
Total	**332,926**	**602**	**0**	**0**	**333,528**	**353,076**
Less recoveries in respect of Outward Secondments	(139)	0	0	0	(139)	(169)
Total Net Costs	**332,787**	**602**	**0**	**0**	**333,389**	**352,907**

The Principal Civil Service Pension Schemes (PCSPS) 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 2005/06 employers' contributions of £43.6 million (2004/05 £35.1m) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 16.2–24.6 per cent (2004/05 12–18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005/06 and will remain unchanged until 2008/09. 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 £4.7 million (2004/05 £1.2 million) were payable to the Civil Superannuation Vote at 31 March 2006 and are included in creditors (See Note 10).

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £110k (2004/05 £122k) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3–12.5 per cent (2004/05 3–12.5 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 PCSPS 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.

9 persons (2004/05 5 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £53k (2004/05 £91k). 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.

	2005/06 Number		
	Permanently employed staff	Others	Total
Objective 3:			
To combat poverty and promote security and independence in retirement for today's and future pensioners	15,035	24	15,059
Total	**15,035**	**24**	**15,059**
	2004/05 Number		
Objective 3:			
To combat poverty and promote security and independence in retirement for today's and future pensioners	15,346	8	15,354
Objective 5:			
To modernise welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers.	839	0	839
Total	**16,185**	**8**	**16,193**

3. Non-staff administration costs

	Note	2005/06	2004/05 Restated
		£'000	£'000
Goods and services	3a/3c	60,801	54,985
Accommodation costs		453	495
Rentals under operating leases: Other operating leases		328	260
Non-cash items	4	281,592	337,969
Compensation to customers	3b	7,419	2,752
Private Finance Initiative service charges – Off Balance Sheet contracts	18	18,488	24,600
IT services	3c	48,410	58,879
		417,491	**479,940**

a Goods and services expenditure is mainly in respect of travel and subsistence, contracted out office services, staff training, telephone costs, general postage, professional services and printing and stationery.

b 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. The increase in compensation payments in 2005/06 relates principally to payments to customers that, due to administrative error, did not receive the Severe Disability Premium to which they were entitled with their Pension Credit payments.

c Following a re-classification of costs in 2005/06, the comparative figures for 2004/05 have been restated under the provisions of Financial Reporting Standard No 28 *Corresponding Amounts*. The net impact of this has been a transfer of £28 million from Goods and Services to IT Services.

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

	Note	2005/06		2004/05	
		£'000	£'000	£'000	£'000
Notional costs	5		272,870		328,581
Depreciation of fixed assets	7c		5,539		6,353
(Profit)/Loss on disposal of fixed assets	7c		0		1,087
Impairment of fixed assets	7d		2,162		1,174
Amortisation of prepayments	8b		363		363
Provisions:					
Movement in year	12	641		387	
Unwinding of discount	4a/12	17	658	24	411
			281,592		**337,969**

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.

5. 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 £272.9 million (2004/05 £328.6 million) to reflect these costs and are comprised as follows:

	Note	2005/06		2004/05	
		£'000	£'000	£'000	£'000
Cost of Capital charge			81		380
Auditors remuneration and expenses	5a		69		58
Inter Business Unit Charges:					
Information Technology Services Group	5b	26,701		29,197	
Services provided and costs incurred by other Departmental business units on behalf of The Pension Service	5c	263,751		320,308	
Less: Services provided and costs incurred by The Pension Service on behalf of other Departmental business units	5d	(17,732)	272,720	(21,362)	328,143
			272,870		**328,581**

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 2005/06 (2004/05 nil)

b All fixed price IT services were reported in the accounts of the Department for Work and Pensions Corporate Centre and recharged to other Agencies on a non-cash basis.

c Services provided by other business units on behalf of The Pension Service include:

- £221.1 million (2004/05 £260.9 million) corporate recharges from Department for Work and Pensions for encashment services provided by Post Office Counters Ltd and Girobank plc, finance, personnel, assurance and medical services costs.
- £26.9 million (2004/05 £43.4 million) accommodation costs provided by Department for Work and Pensions Corporate Centre

d Costs incurred by The Pension Service on behalf of other business units include £15.8 million (2004/05 £19.4 million) of modernisation costs which have been funded by Corporate Centre.

6. Income

	Note	2005/06	2004/05
		£'000	£'000
Administration income			
Income from Other Government Departments	6a	(1,763)	(1,466)
Other income from external customers	6b	(533)	(829)
		(2,296)	**(2,295)**

a Income from Other Government Departments consists mainly of £1.6 million (2004/05 £1.5 million) from the Department of Health in respect of medical benefits paid.

b Other income consists mainly of £500k (2004/05 £800k) from mortgage lenders in respect of service charges for mortgage interest settled by The Pension Service.

7. Tangible fixed assets

Cost or valuation	Note	Information Technology £'000	Purchased Software £'000	Plant and Machinery £'000	Furniture and Fittings £'000	Motor Vehicles £'000	Total £'000
At 1 April 2005		29,281	244	873	1,942	1,776	34,116
Additions	7a	936	1	1	98	0	1,036
Transfers in	7b	491	0	0	0	512	1,003
Disposals		0	0	0	0	0	0
Transfers out	7b	(2,224)	0	(105)	0	(125)	(2,454)
Revaluations	7d	0	0	5	19	19	43
Impairments	7d	(4,445)	0	(1)	0	0	(4,446)
As at 31 March 2006		**24,039**	**245**	**773**	**2,059**	**2,182**	**29,298**
Depreciation							
At 1 April 2005		14,351	45	667	339	651	16,053
Charged in year	7c	4,603	49	43	200	370	5,265
Transfers in	7b	290	0	0	0	39	329
Disposals		0	0	0	0	0	0
Transfers out	7b	(1,283)	0	(51)	0	(62)	(1,396)
Revaluations	7d	0	0	5	4	8	17
Impairments	7d	(2,283)	0	(1)	0	0	(2,284)
As at 31 March 2006		**15,678**	**94**	**663**	**543**	**1,006**	**17,984**
Net book value 31 March 2006		**8,361**	**151**	**110**	**1,516**	**1,176**	**11,314**
Net book value 31 March 2005		14,930	199	206	1,603	1,125	18,063
Asset Financing:							
Owned		8,361	151	110	1,516	1,176	11,314
Finance leased		0	0	0	0	0	0
On-balance-sheet Private Finance Initiative contracts		0	0	0	0	0	0
Private Finance Initiative residual interests		0	0	0	0	0	0
Net book value 31 March 2006		**8,361**	**151**	**110**	**1,516**	**1,176**	**11,314**

a Total additions in the year were £1 million (2004/05 £0.9 million). This consisted of £1 million (2004/05 £0.7 million) of capital expenditure and £Nil million (2004/05 £0.2 million) of adjustments.

b The transfers in of assets with a net book value of £0.7 million (2004/05 £5.6 million) relates, in the main, to the acquisition of motor vehicles. Transfers out with a net book value of £1.1 million (2004/05 £3.5 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 £5.3 million (2004/05 £6.4 million). This consisted of £5.5 million (2004/05 £6.4 million) charged to the Operating Cost Statement and £-0.2 million (2004/05 £0 million) relating to restated assets charged to the General Fund. The loss on sale of fixed assets charged to the Operating Cost Statement in the year is £0 million (2004/05 £1.1 million) (see Note 4).

d The net increase in asset values arising from the revaluation of fixed assets of £26k (2004/05 £111k) has been transferred to the Revaluation Reserve. The impairment in fixed assets arising from the permanent decrease in value of £2.2 million (2004/05 £1.2 million) in excess of previous revaluation has been charged to the Operating Cost Statement (see Note 4).

e Cash Flow Reconciliation

	Note	2005/06	2004/05
		£'000	£'000
Capital Creditor and Accruals at 1 April	10	20	525
Capital additions	7a	1,036	654
Capital Creditor and Accruals at 31 March	10	(9)	(19)
Purchases of Tangible fixed assets per Cash Flow Statement		**1,047**	**1,160**

8. Debtors

	Note	31 March 2006	31 March 2005 Restated
		£'000	£'000
Amounts falling due within one year:			
Deposits and advances		139	160
Other government debtors		0	0
Other debtors		478	454
Prepayments and accrued income	8a	2,822	144
Accommodation prepayment		363	363
		3,802	**1,121**
Amounts falling due after more than one year:			
Accommodation prepayment	8b	7,624	7,987
		7,624	**7,987**

a £1.6 million accrued revenue relating to the Department of Health is incorporated in this value (2004/05 nil).

b The reduction in accommodation prepayment is due to amortisation.

9. Cash at bank and in hand

	31 March 2006	31 March 2005
	£'000	£'000
Balance at 1 April	4	6
Change in cash balances	5	(2)
Balance at 31 March	**9**	**4**
The following balances at 31 March are held at:		
Office of HM Paymaster General	0	0
Commercial banks and cash in hand	9	4
	9	**4**

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 Financial Services Division of the Corporate Centre is the custodian of the Department's bank accounts and, as such, holds balances on behalf of The Pension Service.

10. Creditors

	31 March 2006	31 March 2005
	£'000	£'000
Amounts falling due within one year:		
Taxation and social security	(5,685)	(10,458)
Superannuation	(4,688)	(1,157)
Trade creditors		
– non capital	(5,957)	(6,903)
– capital	0	(20)
Amounts due to other Government Departments	0	(879)
Intra departmental	(808)	(923)
Other creditors	(417)	(498)
Accruals and deferred income		
– non capital	(7,909)	(5,863)
– capital	(9)	0
	(25,473)	**(26,701)**

11. Intra-government balances

	Debtors		Creditors	
	Amounts falling due within one year £'000	Amounts falling due after more than one year £'000	Amounts falling due within one year £'000	Amounts falling due after more than one year £'000
Balances with intra Departmental bodies	0	0	(808)	0
Balances with other central government bodies	0	0	(10,373)	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	3,802	7,624	(14,292)	0
At 31 March 2006	**3,802**	**7,624**	**(25,473)**	**0**
Balances with intra Departmental bodies	0	0	(923)	0
Balances with other central government bodies	0	0	(11,615)	0
Balances with local authorities	0	0	(1)	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	1,121	7,987	(14,162)	0
At 31 March 2005	**1,121**	**7,987**	**(26,701)**	**0**

12. Provision for liabilities and charges

	Note	2005/06		2004/05	
		Gross Provision		Gross Provision	
Early departure and pension commitments		£'000	£'000	£'000	£'000
Balance at 1 April			415		100
Amounts utilised in year			(227)		(81)
Increase in provision:					
New entrants		628		384	
Uplift		14		3	
Unwinding of the discount		14		9	
Other		(33)		0	
	4		623		396
Balance at 31 March			**811**		**415**
Payable within one year			415		127
Payable after more than one year			396		288
			811		**415**
Other Provisions – Industrial Injuries		£'000	£'000	£'000	£'000
Balance at 1 April			98		103
Amounts utilised in year			(6)		(20)
Increase in provision:					
New entrants		0		0	
Uplift		2		0	
Unwinding of the discount		3		15	
Other		30		0	
	4		35		15
Balance at 31 March			**127**		**98**
Payable within one year			6		5
Payable after more than one year			121		93
			127		**98**
Total Provisions at 31 March			**938**		**513**

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

	Note	2005/06		2004/05 Restated	
		£'000	£'000	£'000	£'000
Net operating cost for the year		**(748,584)**		**(830,552)**	
Income not appropriated in aid payable to Consolidated Fund – CFERs		0		0	
			(748,584)		(830,552)
Parliamentary funding: Financing from Consolidated Fund – current year			14,428		299,833
Financing from National Insurance Fund			457,748		186,933
Non-cash charges:					
Non-cash capital adjustments			(111)		2,326
Notional Charges	5		272,870		328,581
Transferred to General Fund in respect of realised element of revaluation reserve			21		53
Net movement in General Fund			**(3,628)**		**(12,826)**
General Fund at 1 April			(134)		14,426
Prior year adjustment					(1,734)
General Fund at 31 March			**(3,762)**		**(134)**

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 Work and Pensions, The Pension Service has funded most of its operations in 2005/06 from this source rather than the Consolidated Fund.

The prior year adjustment relates to a change in accounting policy for VAT as described in note 1.14.

14. Reserves

	2005/06	2004/05
	£'000	£'000
Revaluation Reserve		
Balance at 1 April	95	37
Arising on revaluation during the year (net)	26	111
Transferred to General Fund in respect of realised element of revaluation reserve	(21)	(53)
Balance at 31 March	**100**	**95**

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

15. Notes to the Cash Flow Statement

	Note	2005/06	2004/05
		£'000	£'000
(i) Reconciliation of operating cost to operating cash flows			
Net operating cost		(748,584)	(830,552)
Adjustment for non-cash transactions	4	281,592	337,969
(Increase)/Decrease in Debtors	8	(2,318)	(980)
Less movements in debtors relating to items not passing through the OCS		(363)	(363)
Increase/(Decrease) in Creditors	10	(1,228)	7,914
Less movements in creditors relating to items not passing through the OCS		10	505
Use of provisions	12	(233)	(101)
Net cash outflow from operating activities		**(471,124)**	**(485,608)**
(ii) Analysis of capital expenditure and financial investment			
Purchases of tangible fixed assets	7e	(1,047)	(1,160)
Proceeds from disposal of fixed assets		0	0
Net cash outflow from investing activities		**(1,047)**	**(1,160)**

Table continues on page 89

continued	Note	2005/06	2004/05
		£'000	£'000
(iii) Analysis of financing			
Financing from the Consolidated Fund	13	14,428	299,833
Financing from the National Insurance Fund	13	457,748	186,933
Net financing		**472,176**	**486,766**
(iv) Reconciliation of net cash requirement to increase/(decrease) in cash			
Net cash requirement		(14,423)	(299,835)
From the Consolidated Fund – Current Year	13	14,428	299,833
Increase/(Decrease) in Cash		**5**	**(2)**

16. Capital commitments

Contracted capital commitments at 31 March 2006 for which no provision has been made is nil.

17. Commitments under non-Private Finance Initiative leases

Operating Leases

	31 March 2006		31 March 2005	
	Land & Buildings £'000	Other £'000	Land & Buildings £'000	Other £'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	38	0	84
Expiry after 1 year but not more than 5 years	0	189	0	127
Expiry thereafter	0	0	0	0
	0	**227**	**0**	**211**

18. Commitments under Private Finance Initiative contracts

Off Balance Sheet

Prior to 2005/06, the Department had entered into two contracts which had been assessed under Financial Reporting Standards as being off The Pension Service's Balance Sheet, as the majority of risks had been transferred to the suppliers.

The Department has undertaken a major exercise in 2005/06 to consolidate existing contracts to deliver greater flexibility and improve both quality and the value for money delivered. Last year's accounts for The Pension Service detailed two off-balance sheet Private Finance Initiative contracts that the Department had entered into. The impact of the restructure of Department for Work and Pensions contractual arrangements on these are detailed below.

(1) The Pensions Forecasting System was a contract awarded to the Affinity (EDS) consortium, and had been due to run from June 2002 to December 2006. The estimated capital value of this contract was nil.

As of 14 August 2005, the Pensions Forecasting System contract was subsumed into Transformation of EDS Services (TREDSS) via a Standard Services Business Allocation. The Department and National Audit Office have agreed that TREDSS should not be treated as a Private Finance Initiative contract. Expenditure relating to TREDSS and future Private Finance Initiative commitments under this contract will be disclosed under "Other Financial Commitments" and declared in the Department for Work and Pensions Corporate Centre Accounts.

As the contract has been subsumed into TREDSS, there are no future Private Finance Initiative commitments under this contract.

(2) The Advanced Telephony Business Allocation was a contract awarded to the Arcway (BT Syntegra) consortium, and originally scheduled to run from April 2003 to March 2008. The estimated capital value of this contract was £43 million. The capital value is the value of any hardware and software purchased and capitalised by the service provider specifically in connection with the services detailed in the contract.

With effect from 1 October 2005, the Advanced Telephony Business allocation was subsumed into Integrated Communication and Network Services (ICONS), a contract with BT Syntegra.

National Audit Office and the Department have agreed that ICONS should not be treated as a PFI contract. Expenditure relating to ICONS and future Private Finance Initiative commitments under this contract will be disclosed under "Other Financial Commitments" and declared in the DWP Corporate Centre Account.

As the contract has been subsumed into ICONS, there are no future Private Finance Initiative commitments under this contract.

The total amount charged to the Operating Cost Statement in 2005/06 in respect of off balance sheet Private Finance Initiative contracts was £18.49 million (2004/05 £24.6 million).

Charge to the Operating Cost Statement in 2005/06 and future Private Finance Initiative commitments

	2006/07	2005/06
	£'000	£'000
Expiry after 1 year but not more than 5 years	0	£36,000
	0	**£36,000**

The Department has entered into a Private Finance Initiative Partnership Agreement 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 Centre Accounts.

The Department for Work and Pensions had entered into the following Private Finance Initiative agreements, which had provided services to The Pension Service and which have now been renegotiated.

The Strategic Outsourcing Business Allocation (SOBA) was a contract awarded to Affinity consortium (EDS, IBM and PriceWaterhouseCoopers). On 14 August 2005, this contract was subsumed into the TREDSS contract via a Standard Services Business Allocation, details of which are given in the Department for Work and Pensions Corporate Centre Accounts under 'Other Financial Commitments'.

The Business Allocation for the provision of Wide Area Network Services (WAN) was a contract awarded to the Arcway consortium. On 1 October 2006, this contract was subsumed into the ICONS contract, details of which are given in the DWP Corporate Centre Accounts under 'Other Financial Commitments'.

19. Other financial commitments

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

20. Contingent liabilities disclosed under Financial Reporting Standard 12

Deficiency notices were not sent out for the tax years 1996/97 to 2001/02. Her Majesty's Revenue and Customs (formerly Inland Revenue) has contacted those customers of working age. Between September 2004 and September 2005 The Pension Service contacted 414,427 pensioner customers affected by the suspension of deficiency notices. Customers who reached State Pension age between 6 April 1998 and 24 October 2004 (inclusive) were invited to consider paying voluntary contributions to provide them with the opportunity to improve their basic State Pension or qualify for one for the first time.

As at March 2006, State Pension arrears of £76.2 million had been paid out in relation to the pensioner exercise, plus interest of £3 million. The administrative cost of the project to this date has been £31.3 million.

The estimated further cost of State Pension arrears to be paid during the remainder of the exercise is £8.5 million plus interest of £0.6 million, with a further administrative cost estimated at around £1.9 million, contingent upon contact from customers.

21. 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, the Appeals Service 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 Inland Revenue).

22. 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

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 (2004/05 3.5 per cent).

Notes

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