# Judicial Pensions Scheme Accounts 2010-11

HC 987

Price: £10.25

# Judicial Pensions Scheme

# Accounts

# 2010 - 11

**(For the year ended 31 March 2011)**

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

**Ordered by the House of Commons to be printed on 7 July 2011**

HC 987 LONDON: The Stationery Office Price: £10.25

Any enquiries regarding this publication should be sent to us at Ministry of Justice, 102 Petty France, London SW1H 9AJ.

This publication is available for download at www.official-documents.gov.uk.
This document is also available from our website at **http://www.official-documents.gov.uk/**

ISBN: 9780102973587

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2438063 07/11 13988 19585

Printed on paper containing 75% recycled fibre content minimum.

## Contents

## REPORT OF THE MANAGERS

### Introduction

These Accounts relate to the financial year ending 31 March 2011.

The Judicial Reward and Pensions Team, formerly part of the Judicial Appointments and Human Resources Division (JAHRD), and now within the Judicial Section of the Corporate Performance Group of the Ministry of Justice, are the administrators of the Judicial Pensions Scheme (JPS).

There are currently various judicial pension arrangements, all contracted out of the State Second Pension, that are known collectively as the JPS. The JPS comprises unfunded, salary-related, occupational pension schemes open to most members of the Judiciary under the provisions of two Acts: the Judicial Pensions Act 1981 and the Judicial Pensions & Retirement Act 1993 (JUPRA). In addition, these Accounts include pensions paid to former Lord Chancellors under the Lord Chancellor's Pension Act 1832, as amended.

Judicial pension benefits are paid from two sources. Under statute, certain judicial post-holders' basic pension benefits (but not the annual pension increase) can only be paid out of the Consolidated Fund (CF). For the rest, the pension benefits are paid from Judicial Pensions Scheme Estimates voted by Parliament.

The boundary of these Scheme Accounts is inclusive of all relevant expenditure and income relating to the payment of judicial pension benefits irrespective of the source of the funds.

### Pension Benefits of the Scheme

The following paragraphs summarise the arrangements operating in 2010-11.

The JPS is a defined benefit scheme. Judges appointed for the first time on or after 31 March 1995 belong to the scheme under the 1993 Act. Those appointed prior to that date generally belong to a scheme under the 1981 Act. There is a right of election to transfer from the 1981 Act to the 1993 Act at any time up to a date 6 months after retirement.

The 1993 Act provides a lump sum of 2.25 times the member's annual pension. The annual pension is calculated at 1/40th of the highest of the last three years pensionable pay, up to a level reflecting the former HMRC earnings cap, multiplied by the number of years of reckonable service, up to a maximum of 20. Pension benefits are payable from age 65 subject to 5 years service.

A top up scheme operates to provide pension benefits for 1993 Act members in respect of salaries above the HMRC earnings cap. The 2010-11 earnings cap was £123,600 (2009-10: £123,600).

There are different arrangements for different Judicial Offices under the 1981 Act; in some cases maximum benefits accrue over 15 years, in others the period is 20 years. The qualifying conditions for pension benefits vary according to age and length of service requirements. Here, the lump sum is twice the annual pension.

The Judicial Pensions Scheme is not a registered scheme for the purposes of the Finance Act 2004. As a result lump sum benefits payable from, and members' contributions payable to, the schemes do not attract income tax relief. Judges receive a service award which becomes payable when they near retirement. The level of the award, which is a proportion of the lump sum, reflects their years of service and their judicial grade and ensures their net position is maintained. The service awards are accounted for in the Ministry of Justice's Resource Accounts.

Spouses' pension benefits, payable on the death of a member, are paid at the rate of half that of the member's annual pension entitlements under both the 1993 and 1981 Acts. Provision is also made for surviving civil partner benefits.

The JPS also provides death benefits on death in service and death in early retirement, the level of benefits depending on the appropriate Act (1993 or 1981 Acts), as well as early payment of pension benefits in the event of retirement on the grounds of ill health. There is also provision for leaving members who have completed 2 years service to preserve their accrued JPS benefits for payment when they reach normal pension age.

## Contributions into the Scheme

The cost of benefits accruing for each year of service is shared between the Appointing Bodies and the judicial office-holders. For the Appointing Bodies their contributions rate was 32.15% of pensionable pay for 2010-11 and 2009-10. For judicial office-holders their share was 1.8% or 2.4% of pensionable pay for 2010-11 and 2009-10.

Judicial office-holders in the 1981 scheme pay contributions of 2.4% for a maximum of 15 years or 1.8% for 20 years and those in the 1993 scheme pay contributions of 1.8% for a maximum of 20 years.

## Members' Additional Voluntary Contributions (AVCs)

Serving members are able to increase their personal pension benefits and/or dependants' entitlements by making additional voluntary contributions to one of three AVC facilities within the Scheme and also externally, to the AVC suppliers – The Equitable Life Assurance Society and Prudential plc. The three "in-house" AVC facilities were closed to new subscribers with effect from 6 April 2006. Making additional contributions to the external AVC scheme does not increase a member's pension benefits under the JPS.

## Pension Increases

Annual increases are applied to pension payments from the first Monday on or before 6 April, in line with the RPI all-items index, as at the previous 30 September, in accordance with the Pensions (Increase) Act 1971. The annual pension increase in April 2010 was 0% (2009: 5.0%).

From April 2011 the annual increases applied to pension payments will be in line with the CPI index.

## Review of the Year

Since 2006 the discount rate for pensions has been reviewed annually, using market conditions, on 31 January. However, on 13 December 2010 Her Majesty's Treasury advised that the discount rate for pension liabilities would change from 1.8 per cent real to 2.9 per cent real with effect from 31 March 2011. This, together with other changes to the financial assumptions, reduced liabilities by £119 m.

It was announced in the Budget on 22 June 2010 that the Government intended to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This change in indexation of retirement benefits is treated as a change in benefits. As a result the reduction in benefit for past service of £183 million has been reflected in the 2010-11 expenditure statements treated as a negative past service cost. Further details are set out in section 17(a) "Assumptions underpinning the provision for pension liability", including comment on the judicial review of the change to CPI. This has lead to significant under-spending against the 2010-11 Supply Estimate.

During 2010-11 the independent Public Service Pensions Commission, chaired by Lord Hutton, undertook a fundamental structural review of public service pension provision. The JPS was included in this review.

The Commission's interim report, published on 7 October 2010, made recommendations in relation to the contributions paid by active members of public service pension schemes. The Pensions Bill, currently before Parliament, includes a clause which will allow for personal pension contributions within the JPS (members currently contribute towards the pension provision for their dependants only).

As reported in the 2009-10 resource accounts (section 19. Contingent liabilities disclosed under IAS 37), the Ministry of Justice is involved in a number of cases involving fee paid judicial office holders claiming retrospective pension rights. The lead case went before the Supreme Court in June 2010 and has been referred to European Court of Justice.

During 2010-11 the Government Banking Service (GBS) took over the banking functions for the JPS, from the Office of HM Paymaster General.
During 2010-11 the Scheme was audited by the National Audit Office and by the MoJ's Internal Audit Division (IAD). Details of the recommendations by IAD are set out in the Statement on Internal Control on page 13.

The JPS Board, Managers, Advisers and Appointing Bodies for the scheme are as listed below:

**JPS Board**

Chairman – Chris Ball (until 1 April 2011); Steve Gillespie (from 1 April 2011)
Deputy Director Reward and ER - Ian Gray
Scheme Administrator - Shirley Hales
Corporate Finance - Vicky Creed
Internal Audit - Nadine Tigg
Senior Scheme Accountant - Heather Cullum
Scheme Accountant - Adrian Matthews
Board Secretary - Jane Storrar

**Managers**

*Scheme Manager and Accounting Officer:*
Sir Suma Chakrabarti, Permanent Secretary, Ministry of Justice, 102 Petty France, London, SW1H 9AJ

*Scheme Administrator:*
Mrs Shirley Hales, Head of Branch, Judicial Reward and Pensions, Ministry of Justice, 102 Petty France, London SW1H 9AJ.

**Advisers**

*Scheme Actuary:*
Government Actuary's Department, Finlaison House, 15-17 Furnival Street, London EC4A 1AB.

*Auditors:*
Comptroller and Auditor General, National Audit Office, 157-197 Buckingham Palace Road, London SW1W 9SP.

*Bankers:*
The Government Banking Service, Southern House, 7th Floor, Wellesley Grove, Croydon, CR9 1WW.

*Providers of external Additional Voluntary Contributions*:
The Equitable Life Assurance Company - Walton Street, Aylesbury, Bucks HP21 7QW.
Prudential Plc - Laurence Pountney Hill, London EC4R 0HH.

*Pension Payment Contractors*:
Xafinity Paymaster – Sutherland House, Russell Way, Crawley, West Sussex RH10 1UH.

## Appointing or Administering Bodies

As at 31 March 2011 the following bodies participated in the JPS:

- Her Majesty's Courts Service
- Tribunals Service
- Competition Commission
- Northern Ireland Court Service
- Scottish Executive
- Corporation of London
- Department for Communities and Local Government
- Welsh Assembly

## Disclosure of audit information to the auditors

As far as the Accounting Officer is aware, there is no relevant audit information of which the Scheme's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Scheme's auditors are aware of that information.

## Membership Statistics

A. Active members: office-holders who are in service.

B. Deferred members: former office-holders who are not currently in pensionable service but who are entitled to JPS benefits as a result of previous service, at some future date.

C. Pensioners in payment: former office-holders who are currently receiving JPS benefits, plus other JPS beneficiaries such as widow(er)s and other dependants of former office-holders.

Details of the current membership of the JPS is as follows:

| *A. Active members* | *2010-11* | *2009-10* |
|---|---|---|
| Active members B/F | 2,236 | 2,136 |
| Adjustment to opening figure | 0 | 4 |
| Add: New entrants in the year | 95 | 174 |
| Less: Retirements in the year | -115 | -75 |
| Deferred members | -2 | -1 |
| Deaths | -1 | -2 |
| **Active members at 31 March** | **2,213** | **2,236** |

| *B. Deferred members* | *2010-11* | *2009-10* |
|---|---|---|
| Deferred members B/F | 6 | 7 |
| Add: Members leaving who have deferred pension rights | 2 | 1 |
| Less: Members whose deferred pension rights have come into payment | 0 | -2 |
| **Deferred members at 31 March** | 8 | **6** |

| *C. Pensioners in payment* | *2010-11* *Members* | *2010-11* *Dependants* | *2010-11* *Total* | *2009-10* *Total* |
|---|---|---|---|---|
| Pensioners in payment B/F | 1,077 | 486 | 1,563 | 1,533 |
| Adjustment to opening figure | 0 | 0 | 0 | -3 |
| Members retiring in year at normal retirement age | 114 | 0 | 114 | 77 |
| New pensioners under a pension sharing on divorce order (1) | 4 | 0 | 4 | N/A |
| Members retiring in year, previously in receipt of Guaranteed Minimum Pension (GMP) | -13 | 0 | -13 | -19 |
| Members in receipt of GMP | 11 | 0 | 11 | 16 |
| New dependants | 0 | 31 | 31 | 41 |
| Deaths in year | -35 | -26 | -61 | -78 |
| Cessation of full time education | 0 | -2 | -2 | -2 |
| Suspension of pension (2) | -2 | 0 | 0 | -2 |
| **Pensioners in payment at 31 March** | **1,156** | **489** | **1,645** | **1,563** |

(1) Members under a pension sharing on divorce order are not part of retirements in the active membership table).
(2) Pensioners where contact has been lost but there is no evidence that they have died

## Further Information

Any enquiries about the JPS should be addressed to:

Judicial Pensions Scheme,
Judicial Reward and Pensions,
Ministry of Justice
102 Petty France
London SW1H 9AJ.

Resource Accounts from 2004-05 onwards can be found within the House of Commons Papers sections, or via the search function, at:
www.official-documents.gov.uk/menu/browseDocuments.htm

Sir Suma Chakrabarti    Date: 1 July 2011
Accounting Officer

## REPORT OF THE ACTUARY

### Introduction

This statement has been prepared by the Government Actuary's Department at the request of the Ministry of Justice ('the Department'). It summarises the pensions disclosures required for the 2010-11 Resource Accounts of the Judicial Pension Scheme ('the scheme').

The JPS is a final salary defined benefit scheme, the rules of which are set out in the Judicial Pensions Act 1981 (the 1981 Scheme) and the Judicial Pensions and Retirement Act 1993 (the 1993 Scheme) and subsequent amendments. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

The statement is based on an assessment of the liabilities as at 31 March 2009, with an approximate updating to 31 March 2011 to reflect known changes.

### Membership data

Tables A to C summarise the principal membership data as at 31 March 2009 and 31 March 2011 used to prepare this statement.

**Table A – Active members**

| 31 March 2009 | | | 2010-11 |
|---|---|---|---|
| Number | Total salaries in membership data (pa) (£ million) | Total accrued pensions (£ million) | Total salaries (£ million) |
| 2,135 | 254.5 | 57.7 | 266.6 |

**Table B – Deferred members**

| 31 March 2009 | |
|---|---|
| Number | Total deferred pension (pa) (£ million) |
| 5 | 0.1 |

**Table C – Pensions in payment**

| | 31 March 2009 | 31 March 2011 |
|---|---|---|
| Number | Total pension (pa) (£ million) | Total pension (pa) (£ million) |
| 1,544 | 61.5 | 68.6 |

## Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2010-11 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2011 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2009-10 Resource Accounts.

This statement takes into account the benefits normally provided under the scheme, including age retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

## Principal financial assumptions

The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2011, the assumed rate of return in excess of pension increases was increased from 1.8% a year to 2.9% a year, and the assumed rate of return in excess of earnings was increased from 0.3% a year to 0.7% a year. In addition, with effect from 31 March 2011, the assumed rate of future pension increases is 2.65% a year and the assumed nominal rate of salary growth is 4.87% a year (changed from 2.75% and 4.29% respectively as at 31 March 2010).

**Table D – Principal financial assumptions**

| Assumption | 31 March 2011 | 31 March 2010 |
|---|---|---|
| Rate of return (discount rate) | 5.6% | 4.6% |
| Rate of return in excess of: | | |
| Earnings increases | 0.7% | 0.3% |
| Pension increases | 2.9% | 1.8% |
| Expected return on assets: | n/a | n/a |

The pension increase assumption as at 31 March 2011 is based on the Consumer Price Index (CPI) expectation of inflation rather than the Retail Prices Index (RPI). This is a consequence of the Government's announcement that CPI is to be used for the indexation of public service pensions from April 2011.

## Demographic assumptions

The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2011 are based on those adopted for the 2009 funding valuation of the JPS.

The standard mortality tables known as PNXA00 are used. Mortality improvements are in accordance with those incorporated in the 2008-based principal population projections for the United Kingdom.

The contribution rate used to determine the accruing cost in 2010-11 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2009-10 Resource Accounts.

## Liabilities

Table E summarises the assessed value as at 31 March 2011 of benefits accrued under the scheme prior to 31 March 2011 based on the data, methodology and assumptions described in paragraphs 3 to 11. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

**£ million**

| | 31 March 2011 | 31 March 2010 | 31 March 2009 | 31 March 2008 | 31 March 2007 |
|---|---|---|---|---|---|
| **Total market value of assets** | nil | nil | nil | nil | nil |
| **Value of liabilities** | 2,183 | 2,392 | 1,774 | 1,829 | 1,627 |
| **Surplus/(Deficit)** | (2,183) | (2,392) | (1,774) | (1,829) | (1,627) |
| **of which recoverable by employers** | n/a | n/a | n/a | n/a | n/a |

## Accruing costs

The cost of benefits accruing in the year ended 31 March 2011 (the Current Service Cost) is based on a standard contribution rate of 46.7%, as determined at the start of the year. Members contributed either 1.8% or 2.4% of pensionable pay, depending on which scheme they are in. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 1.9%. The corresponding figures for 2009-10 are also included in the table.

**Table F – Contribution rate**

| | Percentage of pensionable pay | |
|---|---|---|
| | **2010-11** | **2009-10** |
| **Standard contribution rate** | 46.7% | 40.7% |
| **Members' estimated average contribution rate** | 1.9% | 1.9% |
| **Employers' estimated share of standard contribution rate** | 44.8% | 38.8% |

For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 32.15%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 1.8% pa for the 2010-11 Current Service Cost (3.2% pa for 2009-10) compared with 3.5% pa for scheme funding. The higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and although expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government, is currently subject to review. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

The pensionable payroll for the financial year 2010-11 was £266.6 million. Based on this information, the accruing cost of pensions in 2010-11 (at 46.7% of pay) is assessed to be £124.4 million.

Government Actuary's Department

15 June 2011

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Judicial Pensions Scheme (JPS) to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis) the financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the Scheme during the year and the disposition, at the end of the financial year, of the net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the net liabilities at the year end.

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

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual (FReM), have been followed and disclose and explain any material departures in the financial statements; and

- prepare the financial statements on a going concern basis.

HM Treasury has appointed the Permanent Secretary of the Ministry of Justice as Accounting Officer for the JPS. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in Chapter Three of Managing Public Money, published by HM Treasury.

## STATEMENT ON INTERNAL CONTROL

### Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Ministry of Justice's (MoJ) 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 Managing Public Money.

MoJ, as lead department for judicial pensions within the UK, has full responsibility for the central administration of the Judicial Pensions Scheme (JPS). The JPS Estimate covers the payment of pensions and other related benefits normally paid out of funds voted by Parliament. It also appropriates in aid pension contributions from bodies with judicial appointments, in the form of accrued superannuation liability charges, and members' contributions.

The JPS Estimate excludes the payment of pension benefits met directly from the Consolidated Fund (CF), which are authorised by the Exchequer Fund Account Team (EFA) of HM Treasury.

As Accounting Officer, I work with Ministers and senior MoJ Management through the Departmental Board and other meetings and correspondence to implement the MoJ's plans, allocate resources and delegate financial authority to senior staff. The administration of the JPS has been delegated to the Judicial Reward and Pensions Team (JRP Team). From 1 June 2010 to 31 March 2011 the JRP Team (formerly known as Judicial Pay and Pensions) was part of the Judicial Appointments and HR Division (JAHRD) within the Law, Rights and International Group. I therefore place reliance upon the annual statement of assurance from JAHRD.

As part of the departmental re-structuring programme, the JRP Team became part of the Corporate Performance Group from 1 April 2011.

### The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of JPS 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. In particular, the system of internal control is designed to safeguard against fraud and minimise omissions and material errors in the payment of pensions and receipt of contributions from Appointing Bodies and JPS members.

The system of internal control has been in place in the MoJ for the year ended 31 March 2011 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

## Capacity to Handle Risk

The department's Risk Management Strategy, Policy and Framework document, approved and endorsed by the Corporate Management Board (now the Departmental Board) was initially published in July 2008, with an updated version published in April 2010. The document is available to all staff on the MoJ's intranet. This, in conjunction with the guidance on the Quarterly Risk Reporting process sets out the department's attitude to risk in the achievement of its policies and objectives, and provides guidance on the process of identifying, assessing and managing risk.

The JPS Board oversees the financial, accounting and administrative functions of the Scheme. It is a requirement that the Board is chaired by an independent chairperson, outside of the scheme's administration structure. The Board was chaired by the HR Director (Access to Justice) until April 2011, when the JRP Team came within his line management chain. From April 2011 the JPS Board will be chaired by the Head of Finance, Her Majesty's Courts and Tribunals Service. The MoJ's Internal Audit Division is also represented on the Board. The JPS Board meet approximately 4 times a year.

## The Risk and Control Framework

Risks that threaten the JPS's objectives are identified and analysed in terms of impact, materiality and probability, assigned to an individual owner and reported regularly at JPS Board level.

The JRP Team (previously as part of JAHRD and now as part of Corporate Performance Group) is represented on the Knowledge and Information Liaison Officers network which provides a structured and co-ordinated approach throughout the department for Freedom of Information and Data Protection/Handling matters. JAHRD continued to work successfully with the MoJ's Data Access and Compliance Unit (DACU) to improve and strengthen its information handling processes against departmental guidance.

All members of the JRP Team have successfully completed the "Protecting Information" training programme required of all MoJ staff and the JRP Team's procedures and processes comply with MoJ policies, for example the "clear desk" policy.

The other key elements in the JPS's control system are regular financial and management information. This includes management reports by the Scheme Administrator to the JPS Board, together with financial reports, on an exception basis, and the position on any business risk – financial, accounting and operational. The JPS Board also regularly reviews the Scheme Risk Register and Issues Log.

## Pensioner Payroll

Xafinity Paymaster Limited (Paymaster) is contracted to provide payroll services for the payment of base pensions and pension increases paid from the Consolidated Fund and the JPS Estimate. Paymaster operates appropriate corporate governance and internal control arrangements and their operations are audited. JAHRD (now the

JRP Team) actively manages and monitors the performance of Paymaster under the contract.

**Financial and accounting support**

Liberata UK Limited (Liberata) maintains and manages the JPS accounts at the Government Banking Service. Liberata also provides and maintains the accounting system that supports the JPS accounts. These services are provided under the terms of the company's contract with the MoJ. Liberata provides assurance that the services provided by them have been delivered in compliance with the assurance and control requirements of that contract.

**Review of Effectiveness**

As Accounting Officer, I have responsibly 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 administrators of the JPS, 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.

The key elements of the system of internal control are set out above and contribute to my review of the system's effectiveness. In addition, the following bodies inform my review of the JPS's system of internal control.

The Departmental Board (formerly the Corporate Management Board): this Board approved the department's Framework and Policy Document and have been involved in the development of the Corporate Risk Register. The Board meet regularly to consider and discuss the quarterly risk reports which would include any significant JPS risks and any issues arising.

The Corporate Audit Committee: The Committee meets a minimum of four times each year and the Chair is a non-executive member of the Departmental Board. The Committee would receive updates on any material weakness in the administration of the JPS as identified. The Committee advises on reports made by Internal Audit and the National Audit Office.

Internal Audit Division (IAD): The MoJ's IAD operates to the Government Internal Audit Standards. It submits reports on the adequacy and effectiveness of the JPS's administrative processes and makes recommendations for improvement.

**Significant Internal Control Issues**

A. In accordance with Risk and Control framework, the JPS's administrative processes are reviewed by Internal Audit Division (IAD) annually. Their review for 2010-11 focused upon the governance arrangements within the JPS. Their report gave an amber/red audit rating and made the following four priority 2 recommendations (a priority 2 recommendation relates to a significant weakness in control where remedial action should be taken at the earliest opportunity):

1. The provision of guidance by the Director of Finance to the Scheme Administrator and the JPS Board on the need for and form of the delegated authority from the Accounting Officer.
2. A senior finance representative to join the JPS Board.
3. The development of a service level agreement (SLA) setting out the respective roles and responsibilities for administering the JPS between JRP Team and Corporate Finance.
4. The Small Accounts Team to develop process documents for the activities they undertake for the JPS.

The second of these points has now been addressed with Victoria Creed, MoJ Financial Controller, having joined the Board. The third point should be taken forward once the 2010-11 year end processes have been completed for small accounts. The intention is to produce a SLA, or equivalent documentation, by the end of September 2011. The first and fourth points will be addressed through the 2011-12 accounts cycle.

B. Following the introduction of service awards in April 2006, the Scheme received legal advice that there was no tax liability where a death in service lump sum was paid to the deceased's estate. When the position was queried by HMRC, the Scheme Administrator wrote to HMRC setting out the legal advice and requesting their clarification of issues.

Following lengthy and detailed correspondence, HMRC confirmed that the legal advice was correct. However, the legislation upon which this was predicated had been repealed and so there was a tax liability on all the relevant awards made since 2007-08.

The total tax liability of £1.25 million has been paid together with interest of £59,000. As these payments fall within the arrangements for service awards, they were not paid from the JPS but are accounted for in the Ministry of Justice's Resource Accounts.

HMRC recognised that the Scheme had acted in good faith and so waived any penalty for the underpayment of tax.

There are no other significant internal control issues for the JPS.

This statement applies to the JPS. The Statement on Internal Control for the Ministry of Justice as a whole will be available from the Stationery Office when the MoJ's 2010-11 Resource Accounts are published.

Sir Suma Chakrabarti
Accounting Officer                                        Dated: 1 July 2011

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

I certify that I have audited the financial statements of the Judicial Pensions Scheme for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayer's Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

**Respective responsibilities of the Accounting Officer and auditor**

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

**Scope of the audit of the financial statements**

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

**Opinion on Regularity**

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

**Opinion on the financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Judicial Pension Scheme's affairs as at 31 March 2011, and of its net cash requirement, net resource outturn, and net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

**Opinion on other matters**

In my opinion, the information given in the Report of the Managers for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters for which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

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

Date: 4 July 2011

## Statement of Parliamentary Supply for the Year ended 31 March 2011

### Summary of Resource Outturn 2010-11

| | | 2010-11 Estimate | | | 2010-11 Outturn | | | 2010-11 Difference | 2009-10 Outturn |
|---|---|---|---|---|---|---|---|---|---|
| Request for Resources | Note | Gross Expenditure | *A-in-A* | *NET TOTAL* | *Gross Expenditure* | *A-in-A* | *NET TOTAL* | *Net total outturn compared with Estimate saving/ (excess)* | *NET TOTAL* |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Pensions | 3 | 169,900 | 90,390 | 79,510 | 81,800 | 81,800 | - | 79,510 | 63,836 |
| **Total resources** | | **169,900** | **90,390** | **79,510** | **81,800** | **81,800** | **-** | **79,510** | **63,836** |

### Summary of net cash requirement 2010-11

| | Note | 2010-11 Estimate | 2010-11 Outturn | 2010-11 Difference<br>Net Total outturn compared with Estimates saving/ (excess) | 2009-10 Outturn |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| **Net cash requirement** | 4 | **1** | **-** | **1** | **-** |

### Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in Italics).

| | | 2010-11 Forecast | | 2010-11 Outturn | |
|---|---|---|---|---|---|
| | Note | Income | *Receipts* | Income | *Receipts* |
| | | £'000 | £'000 | £'000 | £'000 |
| **Total** | 5 | **-** | ***57,253*** | **57,368** | ***57,368*** |

Estimate figures are from the Spring Supplementary Estimate.

The notes on pages 24 to 40 form part of these accounts

## Statement of Comprehensive Net Expenditure for the Year Ended 31 March 2011

| | Note | 2010-11 £'000 | 2010-11 £'000 | 2009-10 £'000 | 2009-10 £'000 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Contributions receivable | 7 | (89,930) | | (88,867) | |
| Other pension income | 8 | (667) | | (658) | |
| | | | (90,597) | | (89,525) |
| **Expenditure** | | | | | |
| Current service cost | 9 | 124,000 | | 107,000 | |
| Past service cost | 10 | (183,000) | | - | |
| Interest on scheme liabilities | 11 | 105,000 | | 108,000 | |
| Administration expenses | 12 | 400 | | 400 | |
| | | | 46,400 | | 215,400 |
| **Net expenditure** | | | **(44,197)** | | **125,875** |

## Other Comprehensive Net Expenditure

Recognised Gains and Losses for the year ended 31 March 2011

| | Note | 2010-11 £'000 | 2009-10 £'000 |
|---|---|---|---|
| Actuarial gains/(losses) | 17(e) | 175,000 | (479,000) |
| **Total Other Comprehensive Net Expenditure for the year ended 31 March 2011** | | **175,000** | **(479,000)** |

The notes on pages 24 to 40 form part of these accounts

## Statement of Financial Position
## as at 31 March 2011

| | | 31 March 2011 | | 31 March 2010 | |
|---|---|---|---|---|---|
| | Note | £'000 | £'000 | £'000 | £'000 |
| **Current assets:** | | | | | |
| Receivables | 14 | 7,531 | | 7,633 | |
| Cash and cash equivalents | 15 | 11,738 | | 11,757 | |
| **Total Assets** | | | 19,269 | | 19,390 |
| **Current Liabilities:** | | | | | |
| **Payables (within 12 months)** | 16 | (11,412) | | (11,866) | |
| | | | (11,412) | | (11,866) |
| **Net current assets, excluding pension liability** | | | 7,857 | | 7,524 |
| **Non current liabilities:** | | | | | |
| **Pension liability** | 17 | | (2,182,610) | | (2,391,539) |
| **Net liabilities, including pension liability** | | | **(2,174,753)** | | **(2,384,015)** |
| **Taxpayers' equity:** | | | | | |
| General fund | | | (2,174,753) | | (2,384,015) |
| | | | **(2,174,753)** | | **(2,384,015)** |

Sir Suma Chakrabarti Date: 1 July 2011

Accounting Officer

The notes on pages 24 to 40 form part of these accounts

## Statement of Changes in Taxpayers Equity for the Year Ended 31 March 2011

| | Note | 2010-11 | 2009-10 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Balance at 31 March** | | 2,384,015 | 1,768,321 |
| Changes in accounting policy – Xafinity Paymaster cash | | - | (1,346) |
| **Restated balance at 1 April** | | 2,384,015 | 1,766,975 |
| Consolidated Fund: | | | |
| Pension payable by the Consolidated Fund | 17(d) | (47,987) | (46,297) |
| Accruals adjustment for pension payable by the Consolidated Fund regarding other years | | - | (96) |
| Contributions receivable directly by the Consolidated Fund | 4 | 231 | 126 |
| Accruals adjustment for contributions receivable directly by the Consolidated Fund regarding other years | | 221 | - |
| Excess Appropriations-in-Aid | 6 | 8,797 | 2,161 |
| Extra receipts payable to the Consolidated Fund | 5 | 48,571 | 56,170 |
| Income attributable to the Judiciary at the Corporation of London | 4 | 102 | 101 |
| Comprehensive Net Expenditure for the year | 3 | (44,197) | 125,875 |
| Actuarial loss / (gain) | 17(e) | (175,000) | 479,000 |
| **Balance at 31 March** | | **2,174,753** | **2,384,015** |

During 2009-10 cash passed to Xafinity Paymaster for payment to pensioners and other agencies was included in the accounts for the first time. Prior to 2009-10 these payments were considered to be settled.

The notes on pages 24 to 40 form part of these accounts

## Statement of Cash Flows
## for the Year Ended 31 March 2011

| | Note | 2010-11<br>£'000 | 2009-10<br>£'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net outgoing for the year | 3 | 44,197 | (125,875) |
| Adjustments for non-cash transactions: | | | |
| Contributions receivable directly by the Consolidated Fund | 4 | (231) | (126) |
| Income attributable to Judiciary at the Corporation of London | 4 | (102) | (101) |
| (Increase) / decrease in cash receivables | | 102 | (537) |
| Increase / (decrease) in cash payables | | 1 | 718 |
| Increase in pension provision | 9, 10 & 11 | 46,000 | 215,000 |
| Use of provision - pension liability | 17(d) | (31,942) | (30,161) |
| **Net increase / (decrease) in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund** | | **58,025** | **58,918** |
| Payment of amounts due to the Consolidated Fund | | (58,044) | (58,327) |
| **Net increase / (decrease) in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund** | | **(19)** | **591** |
| Cash and cash equivalents at the beginning of the year | 15 | 11,757 | 11,166 |
| **Cash and cash equivalents at the end of the year** | 15 | **11,738** | **11,757** |

The notes on pages 24 to 40 form part of these accounts

**Notes to the Scheme Statements**
**for the year ended 31 March 2011**

## 1. Basis of preparation of the Scheme Statements

The 2010-11 Resource Accounts have been prepared in accordance with the relevant provisions of the International Financial Reporting Standards (IFRS) as recorded in the Government Financial Reporting Manual (FReM), issued by HM Treasury, which reflects the requirements of International Accounting Standards (IAS) 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans.

The major judgements and assumptions used in producing the accounts are dealt with in note 2. The major assumptions used by the actuary in calculating the pension liability can be found in note 17(a). These accounts show the unfunded pension liability and movements in that liability during the year.

These accounts also have regard to the Statement of Recommended Practice (SORP) entitled Financial Reports of Pension Schemes as adapted by the Treasury for public sector pension schemes. They have been laid in accordance with the Government Resources and Accounts Act 2000, chapter 20, Section 6 (4).

In addition to the primary statements prepared under IFRS, the FReM also requires the scheme to prepare an additional statement – *a Statement of Parliamentary Supply.* This and its supporting notes, show Outturn against Estimate in terms of the net resource requirement and the net cash requirement.

### 1.1 Judicial Pensions Scheme (JPS)

The Scheme Statements summarises the transactions of the JPS irrespective of whether the source is from funds voted by Parliament to Appointing Bodies or whether it is met directly from the Consolidated Fund. The Statement of Financial Position shows the deficit on the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things, the movements in the liability analysed between the current service costs (which are actuarially assessed), transfers in and out, as well as the interest on the scheme liability. The actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme Statements should be read in conjunction with that Report.

### 1.2 Going Concern

The Statement of Financial Position as at 31 March 2011 shows a net pension liability of £2,182,610,000 (2009-10: £2,391,539,000). This reflects the inclusion of liabilities falling due in the long-term, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be grants of Supply approved annually by Parliament to meet the Scheme's pension benefits, which come into payment each year.

Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than as required for the service of the specified year or retained in excess of that need. All monies, including those derived from pension contributions in excess of pensions benefits paid, are surrenderable to the Fund.

In common with other public sector pension schemes, the future financing of the JPS's liabilities is to be met by future grants of Supply and the application of future pension contributions, both to be approved annually by Parliament. Such approval for amounts required for 2011-12 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

## 2. Statement of accounting policies

The accounting policies contained in the FReM follow international generally accepted accounting practice for companies (IFRS) 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 that has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered in relation to the accounts.

### 2.1 Pension contributions receivable

Appointing Bodies' normal pension contributions are accounted for on an accruals basis.

WPS contributions under the 1993 Act are accounted for on an accruals basis. Under the 1981 Act, members could elect to pay WPS contributions either throughout their service or through a reduction in their lump sum upon retirement. Where members have elected to pay these contributions throughout their service, they are accounted for on an accruals basis. Where members have elected to pay through a reduction in their lump sum, the contributions are accounted for on a cash basis.

If a member has no dependants at retirement then they will receive a refund of all WPS contributions made throughout their service. These refunds are paid with the lump sum on retirement and are accounted for on a cash basis.

Members' contributions paid in respect of the purchase of added years, or any other benefits to be gained from the Scheme, are also recognised on an accruals basis. Any associated increase in the Scheme liability is recognised as expenditure.

### 2.2 Other pension income

The Ministry of Justice (MoJ) is the manager of the JPS. Within the 32.15% Accruing Superannuation Liability Charges (ASLCs) received from Appointing Bodies is a 0.25% administration fee recognised as other pension income in these accounts.

### 2.3 Transfers in and out

Transfers in or out of the Scheme in respect of individual members are accounted for on a cash basis. Transfer values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. The values have been included in the financial statements in the period in which the sums were paid to or received from another pension scheme.

### 2.4 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is based on the assumptions used by the Actuary.

### 2.5 Past service costs

Past service costs represent changes in the present value of the scheme liabilities related to member service in prior periods arising in the current period as a result of the introduction of, or changes to, retirement benefits. Past service costs are recognised in the Statement of Comprehensive Net Expenditure on a straight-line basis over the period in which the increase in benefit arises. The current year's accounts include a negative past service cost of £183m as a result of indexing public service retirement benefits using the Consumer Price Index rather than the Retail Price Index from April 2011.

### 2.6 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because accrued members' benefits are one year closer to settlement and this is recognised in the Revenue account. The gross discount rate of 5.6 per cent (2009-10 4.6 per cent) is consistent with the assumptions used for current service costs (2.4 above).

### 2.7 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and has been discounted at a real rate, as prescribed by HM Treasury, which for 2010-11 is 1.8 per cent per annum real (2009-10: 3.2 per cent). The valuation takes account of the overnight change in the Scheme's liabilities as a result of the change in the discount rate to 2.9 per cent real as at 31 March 2011. Such changes are recognised in the Statement of Comprehensive Net Expenditure for the year as advised by HM Treasury.

Full actuarial valuations by a professionally qualified Actuary are obtained at intervals not exceeding four years with interim valuations every two years. The full valuation was carried out as at 31 March 2009. GAD are currently working on the 2011 interim valuation and this should be completed later this year.

### 2.8 Pension benefits payable

Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

### 2.9 Pension payments to those retiring at their normal retirement age

Since a retiring member of the Scheme has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

### 2.10 Pension payments to and on account of leavers before their normal retirement age

Where a member of the Scheme is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

### 2.11 Lump sums payable on death in service (or death early in retirement)

Lump sum payments payable on death in service or in early retirement are accounted for on an accruals basis. They are a direct charge to the pension provision, as they are funded through the normal pension contributions.

### 2.12 Actuarial gains/losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Statement of Financial Position date are recognised in the Statement of Comprehensive Net Expenditure for the year. These gains and losses are based on the figures provided by the Actuary and the related assumptions, which have been deemed appropriate by GAD and Scheme Managers.

### 2.13 Administration fees

The JPS is authorised by HM Treasury to pay the Ministry up to £400,000 of the administration fees received, per annum. In 2010-11 the full £400,000 was passed over to the Ministry, deemed as the cost of administering the Scheme. This payment is reported in MoJ's accounts.

The administration of the scheme is carried out by staff from the Judicial Reward and Pensions Team, part of the Judicial Appointments Human Resources Division of the Ministry of Justice. The costs of the JRP team are paid by the MoJ.

### 2.14 Other expenses

Other pension related expenses to the Judiciary (such as payments for early retirement and ex-gratia payments) are borne by the relevant Appointing Body and reported in their Departmental Resource Accounts.

### 2.15 Consolidated Fund pension payments

Pension payments met directly from the Consolidated Fund and not from the funds held by the JPS are reflected in these accounts as notional expenditure. The JPS has no control over the issue of these payments.

The ultimate control for pensions paid out of the Consolidated Fund remains with the National Audit Office's Exchequer Section.

## 3. Reconciliation of net resource outturn to net outgoings

| | | 2010-11 | | | 2009-10 |
|---|---|---|---|---|---|
| | | Supply Estimate | Outturn | Outturn compared with Estimates | Outturn |
| | Note | £'000 | £'000 | £'000 | £'000 |
| Net resource outturn | 4 | 79,510 | - | 79,510 | 63,836 |
| Operating income & receipts – excess A-in-A | 6 | - | (8,797) | 8,797 | (2,161) |
| Non-supply expenditure | 9 | 85,500 | (35,400) | 120,900 | 64,200 |
| **Net expenditure for the year** | | **165,010** | **(44,197)** | **209,207** | **125,875** |

### Explanation of variation between Resource Estimate and Outturn:

The total variance during the year was an under-spend of £79.51m (100% of net estimate). The actual underspend was £88.1m giving a negative net resource outturn of £8,590k. However HM Treasury Estimates Manual does not permit a negative resource outturn to be recognised. This means that a further £8,590k excess A-in-A has been recognised in the accounts. The negative net resource outturn is accounted for by a £183m adjustment for past service costs and a downward revision of the Scheme's Current Service and Interest Costs as advised by the Government Actuary's Department.

## 4. Reconciliation of resources to cash requirement

| | | 2010-11 | | | 2009-10 |
|---|---|---|---|---|---|
| | | Estimate | Outturn | Net Total Outturn compared with estimate: saving/ (excess) | |
| | Note | £'000 | £'000 | £'000 | £'000 |
| Net resource outturn | 3 | 79,510 | - | 79,510 | 63,836 |
| Accruals adjustments | | | | | |
| Increase in provision | | (169,500) | (81,400) | (88,100) | (150,800) |
| Other non-cash items: | | | | | |
| Contributions receivable directly by the Consolidated Fund | | - | 231 | (231) | 126 |
| Notional income attributable to the Judiciary at the Corporation of London | | - | 102 | (102) | 101 |
| Changes in working capital other than cash | | - | 554 | (554) | 406 |
| Use of provision: | | | | | |
| Pensions | 17(d) | 32,738 | 31,942 | 796 | 30,161 |
| Excess cash receipts surrenderable to the Consolidated Fund | 5 | 57,253 | 48,571 | 8,682 | 56,170 |
| **Net cash requirement** | | **1** | **-** | **1** | **-** |

### Explanation of the variation between Estimate net cash requirement and Outturn net cash requirement:

The variation between Estimate and actual Net Cash Requirement is not considered to be significant under the rules currently laid down by Managing Public Money.

## 5. Analysis of income payable to the Consolidated Fund

In addition to Appropriations-in-Aid, the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts shown in italics)

| | | 2010-11 Forecast | | 2010-11 Outturn | |
|---|---|---|---|---|---|
| | | Income | *Receipts* | Income | *Receipts* |
| | Note | £'000 | *£'000* | £'000 | *£'000* |
| Operating income and receipts - excess A in A | 6 | - | - | 8,797 | *8,797* |
| Excess cash receipts surrenderable to the Consolidated Fund | | - | *57,253* | 48,571 | *48,571* |
| Total income payable to the Consolidated Fund | | **-** | *57,253* | **57,368** | *57,368* |

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

## 6. Reconciliation of income recorded within the SCNE to operating income payable to the Consolidated Fund

| | Note | 2010-11 £'000 | 2009-10 £'000 |
|---|---|---|---|
| Operating Income: | | | |
| Pension contributions receivable | 7 | 89,930 | 88,867 |
| Other pension income | 8 | 667 | 658 |
| Income authorised to be appropriated-in-aid | | (81,800) | (87,364) |
| Operating income payable to the Consolidated Fund - excess A in A | 5 | **8,797** | **2,161** |

## 7. Pension contributions receivable

| | 2010-11 £'000 | 2009-10 £'000 |
|---|---|---|
| Employers; appointing bodies: | | |
| Accruing Superannuation Liability Charges (ASLCs) | 85,100 | 83,941 |
| Employees; Judicial Office-holders: | | |
| Normal contributions: Widow(er)s' Pension Scheme (WPS) | 4,302 | 4,315 |
| Purchase of Added Years: internal JPS AVC's only | 528 | 611 |
| | **89,930** | **88,867** |

Judicial Office-holders' contributions may fluctuate from year to year as members can elect to change their rates of contributions and elect to defer their contribution payments until they receive their lump sums.

## 8. Other pension income

| | 2010-11 £'000 | 2009-10 £'000 |
|---|---|---|
| Administration fees receivable from appointing bodies | 667 | 658 |
| | **667** | **658** |

## 9. Current Service Cost

| | 2010-11 £'000 | 2009-10 £'000 |
|---|---|---|
| Current service cost: (see note 17c) | | |
| Judiciary paid from the JPS Estimate and pension increases for all Judiciary | 49,600 | 42,800 |
| Judiciary paid from the Consolidated Fund (notional expenditure) | 74,400 | 64,200 |
| | **124,000** | **107,000** |

The pension cost is apportioned between Vote and non-Vote expenditure based on a percentage split provided by the Government Actuary's Department. The 2010-11 pension cost has been allocated at 40% Vote and 60% non-Vote (2009-10: 40% Vote and 60% non-Vote).

## 10. Past Service Cost

| | 2010-11 | 2009-10 |
|---|---|---|
| | £'000 | £'000 |
| Judiciary paid from the JPS Estimate and pension increases for all Judiciary | 73,200 | - |
| Judiciary paid from the Consolidated Fund (notional expenditure) | 109,800 | - |
| | **183,000** | **-** |

The past service cost in 2010-11 is the result of changing the indexation of retirement benefits from the Retail Price Index to the Consumer Price Index. The percentage split is as current service costs (40% Vote, 60% non-Vote).

## 11. Interest on scheme liabilities

| | 2010-11 | 2009-10 |
|---|---|---|
| | £'000 | £'000 |
| Interest charge for the year (see note 17c) | 105,000 | 108,000 |
| | **105,000** | **108,000** |

## 12. Administration Expenses

| | 2010-11 | 2009-10 |
|---|---|---|
| | £'000 | £'000 |
| Administration expenses paid to the Ministry | 400 | 400 |
| | **400** | **400** |

## 13.1 Additional Voluntary Contributions to External Approved Providers

The JPS provides for members to make additional voluntary contributions (AVCs) to increase their pension entitlements. Members may arrange to have agreed sums deducted from their salaries, for onward payment to the approved providers; the Equitable Life Assurance Company and Prudential plc. The managers of the JPS have responsibility only for the onward payment, by Appointing Bodies, of members' contributions to the provider. These AVC's are not reflected in the primary financial statements. Members of the Scheme participating in this arrangement receive an annual statement from the provider confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

| | Equitable Life | | Prudential | |
|---|---|---|---|---|
| | **2010-11** | **2009-10** | **2010-11** | **2009-10** |
| | £'000 | £'000 | £'000 | £'000 |
| **Movements in the year** | | | | |
| Balance at 1 April | 570 | 601 | 1,078 | 570 |
| New investments | 24 | 39 | 467 | 367 |
| Sales of investments to provide pension benefits | (156) | (208) | (185) | - |
| Changes in market value of investments | 25 | 138 | 83 | 141 |
| **Balance at 31 March** | **463** | **570** | **1,443** | **1,078** |
| Contributions received to provide life cover | 3 | 4 | 1 | 1 |
| Benefits paid on death | - | - | - | - |

## 13.2 Additional Voluntary Contributions – historic internal arrangements

Historically there have been three AVC arrangements within the JPS provided for under the Judicial Pensions and Retirement Act 1993 ("the 1993 Act") and the Judicial Pensions Act 1981 ("the 1981 Act") as amended by the 1993 Act. The arrangements are as follows:

- The Judicial Added Benefit Scheme (JABS) (for 1981 Act members only). JABS enables members to increase the level of benefits payable from their main Judicial Pension Scheme.

- The Judicial Added Years Scheme (JAYS) (for 1993 Act members only). JAYS enables members of the 1993 Scheme to increase the length of service and the benefits at retirement.

- The Judicial Added Surviving Spouse's Pension Scheme (JASSPS) (for 1993 Act members only). JASSPS enables members to make contributions that will increase only the level of the contingent surviving spouse's or civil partner's pension.

All three of these AVC facilities were closed to new subscribers with effect from 6 April 2006.

# 14. Receivables – contributions due in respect of pensions

## 14 (a) Analysis by type

**Amounts falling due within one year**

| | **2010-11** | **2009-10** |
|---|---|---|
| | £'000 | £'000 |
| Pension contributions due from appointing bodies: | | |
| Accruing Superannuation Liability Charges (ASLCs), | | |
| including administration fees | 7,145 | 7,238 |
| Pension contributions due from Judicial Office-holders: | | |
| Normal contributions - Widow(er)s' Pension Scheme (WPS) | 343 | 343 |
| Purchase of Added Years: internal JPS AVC's only | 41 | 48 |
| Overpaid pensions to be returned | 2 | 4 |
| | **7,531** | **7,633** |

## 14 (b) Intra-Government balances

| | **2010-11** | **2009-10** |
|---|---|---|
| | £'000 | £'000 |
| Balances with other central government bodies | 7,145 | 7,238 |
| Balances with bodies external to government | 386 | 395 |
| | **7,531** | **7,633** |

## 14 (c) Parliamentary Estimate balances

| | **2010-11** | **2009-10** |
|---|---|---|
| | £'000 | £'000 |
| Balances within the Parliamentary Estimate | 7,529 | 7,630 |
| Balances outside of the Parliamentary Estimate | 2 | 3 |
| | **7,531** | **7,633** |

## 15. Cash and cash equivalents

| | 2010-11<br>£'000 | 2009-10<br>£'000 |
|---|---|---|
| Balances as at 1 April | 11,757 | 11,166 |
| Net change in cash balances | (19) | 591 |
| **Balance due to Consolidated Fund at 31 March** | **11,738** | **11,757** |
| The following balances at 31 March were held at: | | |
| Government Banking Service | 9,191 | - |
| Office of HM Paymaster General | - | 9,867 |
| Xafinity Paymaster | 2,547 | 1,890 |
| | **11,738** | **11,757** |

Cash held Xafinity Paymaster is due to pensioners and other counterparties. It is mainly tax due to HMRC.

## 16. Payables – in respect of pensions

### 16 (a) Analysis by type

| | 2010-11<br>£'000 | 2009-10<br>£'000 |
|---|---|---|
| Pension benefits payable – lump sums due on retirement | 220 | 295 |
| Contributions received in advance | 26 | 29 |
| Tax due to HM Revenue and Customs | 1,942 | 1,642 |
| Administration charges due to Ministry of Justice | 33 | 33 |
| Extra receipts due to the Consolidated Fund | 9,191 | 9,867 |
| **Total Creditors** | **11,412** | **11,866** |

### 16 (b) Intra-Government balances

| | 2010-11<br>£'000 | 2009-10<br>£'000 |
|---|---|---|
| Balances with other central government bodies | 11,192 | 11,571 |
| Balances with bodies external to government | 220 | 295 |
| **Total Creditors** | **11,412** | **11,866** |

## 16 (c) Parliamentary Estimate balances

| | 2010-11 | 2009-10 |
|---|---|---|
| | £'000 | £'000 |
| Balances within the Parliamentary Estimate | 35 | 229 |
| Balances outside of the Parliamentary Estimate | 2,186 | 1,770 |
| | 2,221 | 1,999 |
| Consolidated Fund Extra Receipts | 9,191 | 9,867 |
| | **11,412** | **11,866** |

## 17. Provisions for pension liability

## 17 (a) Assumptions underpinning the provision for pension liability

The Judicial Pensions Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out a full actuarial valuation as at 31 March 2009. The Report of the Actuary, on pages 8 to 11, sets out the scope, methodology and results of the work the Actuary has carried out.

In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension.

The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits, quantified for JPS by the Government Actuary's Department at £183m, has been recognised as a negative past service cost in accordance with IAS 19. This accounting treatment has been adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

The question of whether, as regards the main public service pensions schemes, there is a legitimate expectation that RPI will be used for inflation indexing is currently before the courts in judicial review proceedings. The Government case is that no legitimate expectation exists and that, in any event, even if there was a legitimate expectation this was overridden by the clear public interest in making very substantial savings at a time when the Government had adjudged that deficit reduction was a fundamental objective for the country. If the Government's case is proven, there would be no change to the accounting treatment adopted in these accounts.

The Scheme Manager is responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;

- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;

- income and expenditure, including details of expected bulk transfers into or out of the Scheme; and

- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and – with the exception of the discount rate (see note 2.8) - reflect a best estimate of future experience.

The major assumptions used by the Actuary were:

| | March 2011 | March 2010 | March 2009 |
|---|---|---|---|
| Rate of notional investment return in excess of salaries | 0.7% | 0.3% | 1.7% |
| Rate of notional investment return in excess of prices | 2.9% | 1.8% | 3.2% |
| Gross discount rate | 5.6% | 4.6% | 6.04% |
| Mortality rate tables – active and deferred members | PNXA 00 C=2051 | PNXA 00 C= 2050 | PXA 92 C= 2049 |
| Mortality rate tables – pensioners | PNXA 00 C=2026 | PNXA 00 C= 2025 | PXA 92 C= 2024 |

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

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

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

### 17 (b) Analysis of the provision for pension liability

| | March 2011 | March 2010 | March 2009 |
|---|---|---|---|
| | £m | £m | £m |
| Liability relating to active members | 1,278 | 1,461 | 1,049 |
| Liability relating to deferred pensioners | 3 | 3 | 3 |
| Liability relating to pensioners in payment | 902 | 928 | 722 |
| **Scheme liability at 31 March** | **2,183** | **2,392** | **1,774** |

The scheme liability as assessed by the Actuary is based on a roll forward of the last full valuation as at 31 March 2009. This is the professional judgement of the Actuary based on the information provided by the Scheme Administrator (see the Report of the Actuary pages 8-11).

Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse, civil partner or dependants survive the pensioner. In valuing the scheme liability, the Actuary must estimate the impact of several inherently uncertain variables far into the future. The variables include not only the key assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable. Membership numbers in the years between full actuarial valuations are assumed to be stable.

The value of the liability on the statement of financial position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The Scheme Manager accepts that, as a consequence, the valuation provided by the Actuary is inherently uncertain.

The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 17(e). The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

## (c) Analysis of movement in scheme liability

| | Note | 2010-11 £'000 | 2009-10 £'000 |
|---|---|---|---|
| Scheme liability at 1 April | | 2,391,539 | 1,773,997 |
| Current service cost | 9 | 124,000 | 107,000 |
| Past service cost | | (183,000) | - |
| Interest on pension scheme liability | 10 | 105,000 | 108,000 |
| Pension benefits payable | 16(d) | (79,929) | (76,458) |
| Actuarial (gains)/losses | 16(e) | (175,000) | 479,000 |
| **Scheme liability at 31 March** | | **2,182,610** | **2,391,539** |

During the years ended 31 March 2011 and 31 March 2010, employer's contributions represented 32.15 per cent of pensionable pay. Employees' contributions were 2.4 or 1.8 per cent of earnings. For members in the 1993 Scheme, contributions are taken from salary up to a level reflecting the former Inland Revenue earnings cap, while members of the 1981 Scheme pay contributions based on the whole salary.

## 17 (d) Analysis of benefits payable

| | 2010-11 | | 2009-10 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Members – Base pensions | 12,939 | | 11,771 | |
| Members – Pensions increase | 9,752 | | 10,206 | |
| Members – Lump sum on retirement | 3,978 | | 2,953 | |
| Dependants – Base pensions | 1,669 | | 1,564 | |
| Dependants – Pensions increase | 3,604 | | 3,667 | |
| **Pension benefits payable from Supply** | | **31,942** | | **30,161** |
| Members – Base pensions | 35,453 | | 32,986 | |
| Members – Lump sum on retirement | 7,282 | | 7,767 | |
| Dependants – Base pensions | 5,224 | | 4,859 | |
| Dependants – Lump sum on death of member | 28 | | 685 | |
| **Pension benefits payable from Consolidated Fund** | | **47,987** | | **46,297** |
| **Total pension benefits payable charged against provision** | | **79,929** | | **76,458** |

## 17 (e) Analysis of actuarial gains and losses

| | 2010-11 £'000 | 2009-10 £'000 |
|---|---|---|
| Experience gains/(losses) arising on the scheme liabilities | 78,000 | 33,000 |
| Gains/(losses) resulting from changes in assumptions underlying the present value of scheme liabilities | 97,000 | (512,000) |
| **Per Statement of Recognised Gains / (Losses)** | **175,000** | **(479,000)** |

## 17 (f) History of experience gains and losses

| | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 |
|---|---|---|---|---|---|
| | | | | | As restated |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| *Experience gains/(losses) on scheme liabilities:* | | | | | |
| Amount | 78,000 | 33,000 | 22,000 | (117,000) | 60,000 |
| Percentage of the present value of the scheme liabilities at the balance sheet date | (3.57%) | (1.38%) | 1.24% | 6.40% | 3.69% |
| *Total actuarial gains/(losses):* | | | | | |
| Amount | 175,000 | (479,000) | 197,000 | (82,000) | (175,000) |
| Percentage of the present value of the scheme liabilities at the balance sheet date | (8.02%) | 20.03% | 11.10% | 4.48% | 10.75% |

The 2006-07 gains and losses figures were restated in the 2007-08 financial statements. There has been no restatement during the current year.

## 18. Financial Instruments

The Scheme has financial instruments under the definition of IAS 32 "Financial instruments: Presentation". IFRS 7 "Financial instruments: Disclosure" requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. Because of the non-trading nature of its activities and the way in which government departments are financed, the Judicial Pensions Scheme is exposed to little credit, liquidity or market risk. Consequently, in line with FReM, IFRS 7 disclosures are not required.

## 19. Contingent liabilities disclosed under IAS 37

The Ministry of Justice is involved in a number of cases before employment tribunals. They involve fee paid judicial office holders claiming retrospective pension rights. The initial case was withdrawn but several new cases were brought before the Tribunal in the years 2006-07 to 2010-11. As at 31 March 2011, forty two individual claims and a group claim for eight people were outstanding.

It is not possible to calculate the potential liability to the Scheme of a negative judgement, as a precedent might be set up for up to 5,000 other office holders with potential claims dating back twenty years.

## 20. Related-party transactions

The Judicial Pensions Scheme does not fall within the ambit of the Ministry of Justice, as it obtains Parliamentary approval for its resources under a separate Supply Estimate. The Ministry of Justice is the Lead Appointing Body for most Judiciary within the Scheme, and also the Scheme Manager. The Permanent Secretary to the Ministry of Justice has been appointed as Accounting Officer for the Scheme. The Ministry of Justice is regarded as a related party.

The Scheme has not had unusual material transactions with the Ministry of Justice and other participating Government Departments who appoint Judicial Office Holders that are members of the Scheme.

The Scheme Manager, key managerial staff or other related parties have not undertaken any material transactions with the Scheme during the year.

## 21. Events after the reporting period

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the Comptroller and Auditor General certifies the accounts.

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ISBN 978-0-10-297358-7

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