Presented pursuant to the Government Resources Act 2000 c.20. s.6(4)

NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme

Resource Accounts 2006-07

LONDON: The Stationery Office
HC 1007

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(For the year ended 31 March 2007)

Ordered by the House of Commons to be printed 22 October 2007

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Contents

INTRODUCTION

The NHS Pension Scheme provides pensions in varying circumstances for employees of participating employers. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits.

REPORT OF THE MANAGER

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

NHS BUSINESS SERVICES AUTHORITY

Prior to 1st April 2006, the NHS Pensions Agency Special Health Authority (the Agency) was the body responsible for the administration of the NHS Pension Scheme for England and Wales.

In October 2003 the Secretary of State announced the intention to review the Department of Health's Arms Length Bodies, of which the Agency was one. Subsequently, a report "Reconfiguring the Department of Health's Arms Length Bodies" was published which detailed the bodies that would merge, be abolished, or see their functions transferred. This was followed in November 2004 by the publication of "An Implementation Framework for reconfiguring the Department of Health's Arms Length Bodies", setting out the principles, processes and timescales by which the change programme would be implemented. As a result the Agency was dissolved on 31 March 2006 and with effect from 1 April 2006, its functions were transferred to the NHS Business Services Authority (the Authority), a Special Health Authority created on 1 October 2005.

As a consequence of this change, the senior management team within the NHS Business Services Authority Pensions Division (the Division) was reviewed and a temporary management team was appointed. By June 2007 a number of the senior positions in the management team have been made permanent.

The key tasks for the forthcoming year are:

- The appointment of a permanent Divisional management team;
- Implementation of the new NHS Pension Scheme;
- Continuation of the project to improve the quality of member data provided by employers and held by the Division;
- Liaison with the Scheme Actuary to revalue the liability of the Scheme based on membership data as at 31 March 2006 adjusted for changes in membership levels. The liability in the 2006-07 resource accounts is based on membership data as at 31 March 2004 adjusted for changes in membership levels.
- Improvements in the forecasting methodologies by working closely with the Scheme Actuary.

A full report of the activities, governance and performance of the Authority in 2006-07 can be found in the Authority's annual report and accounts, which are published in the Reference Suite of the Library at www.nhspa.gov.uk.

HOW THE SCHEME WORKS

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

Scheme provisions are governed by the following sets of Regulations:

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

During the financial year 2006-07, the Authority undertook the day-to-day administration of the Scheme, including calculation of benefits, maintenance of member records and payment of benefits.

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

As at 31 March 2007 there were 462 participating NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,510 participating GP Practice employers and 360 Direction Bodies.

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

NHS PENSION SCHEME BENEFITS

Contributions

In order to defray the costs of benefits, employers and members pay contributions. Most employees pay 6% of pensionable pay but manual staff pay 5%. The Government Actuary conducts actuarial reviews every five years and recommends an employer contributions rate in his Valuation report. In 2002-03 employers paid 7% but the rate did not include the cost of pension indexation funded directly by Treasury. In November 2002 Ministers announced the transfer of indexation costs to the Scheme costs with a commensurate increase in the Department of Health's baseline. The employer contribution rate increased to 14% from April 2003.

Benefits

The NHS Pension Scheme provides defined benefits, which are summarised below:

Annual Pensions

The Scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

Pensions Indexation

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year.

Lump Sum Allowance

A lump sum is payable on retirement which is normally three times the annual pension payment.

Ill-Health Retirement

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

Death Benefits

A death gratuity of twice their final year's pensionable pay for death in service, and five times their annual pension for death after retirement is payable.

Additional Voluntary Contributions (AVCs)

Members can purchase additional service in the NHS Scheme and contribute to money purchase AVC's run by the Scheme's approved providers or by other FSAVC providers.

Transfer between Funds

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

Preserved Benefits

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

Compensation for Early Retirement

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

This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained.

A REVIEW OF THE YEAR

Part-time staff access to the NHS Pension Scheme

During the year, the Division has continued to work with Employment Tribunals to identify which cases appear to be "must win", "must fail" or "may succeed in part" as a consequence of the Preston and Others v Wolverhampton Healthcare NHS Trust employment tribunal case (the Preston case) and the subsequent test cases, appeals and cross-appeals.

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

The total cost to employees of reinstatement is estimated to be around £5 million. The Scheme actuary has advised that the cost to the scheme cannot be accurately assessed without full member data, but is unlikely to exceed 3 times the employee reinstatement cost.

Interest on late payment of pension scheme benefits

From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, the Scheme has never implemented this regulation in full and has only paid interest on request by the member.

The Scheme is now reviewing all cases where benefits have been paid late since April 2001 and intends to make good the missing interest payments. The costs are expected to be between £20 million to £25 million for this one-off back payment exercise.

Change in the NHS Pension Scheme discount rate

In June 2006 the Financial Reporting Advisory Board (FRAB) decided that the discount rate for pension schemes should, in accordance with FRS17, be based on the AA corporate bond rate. Consequently, the discount rate has been changed with effect from 31 March 2007 from a real rate of 2.8% to a real rate of 1.8% (5.37% to 4.6%). As a result the pension scheme liability as at 31 March 2007 increased by £40.6 billion (Note 21.5 to the Scheme accounts that follow this report refers).

National Fraud Initiative

On a bi-annual basis, the NHS Pension Scheme takes part in the National Fraud Initiative, which commenced in 1998 and is co-ordinated by the Audit Commission. This initiative allows the Scheme to submit approved data to the Audit Commission who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The table below provides an update of the position for all 4 exercises conducted since 1998, and lists the outstanding amounts, which are still being actively pursued.

	Total Identified £'s	Total Cases	Prior Years		2005-06		2006-07		Amount Outstanding at 31.3.2007
			Recovered	Written off	Recovered	Written off	Recovered	Written off	
NFI 98	1,739,000	308	1,044,800	563,500	7,700	800	32,100	–	90,100
NFI 2000	544,300	292	419,400	74,800	3,800	–	2,200	8,000	36,100
NFI 2002	792,800	373	555,400	87,000	12,000	33,500	6,200	43,600	55,100
NFI 2004	648,600	190	–	–	97,800	7,000	125,500	98,900	319,400
Total	**3,724,700**	**1,163**	**2,019,600**	**725,300**	**121,300**	**41,300**	**166,000**	**150,500**	**500,700**

A further exercise has been commenced during 2006, however cases identified continue to be investigated and no data are currently available on overpayments identified. An update on the progress of all the exercises will be noted in next year's report.

Pension Increase

The annual pension increase applied for payments after 10 April 2006 was 2.7% (2005-06: 3.1%). Pensions increase is based upon the rise in the retail price index (RPI) in the 12-month period up to the 30 September preceding the April uprating date.

In-house money purchase AVC provision

The Pensions Division has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life.

Scheme Funding and Liabilities

As at 31 March 2007 the liabilities of the pension scheme were valued at £218.0 billion (31 March 2006 £165.4 billion). As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer, which also funds the year on year difference between the scheme's contribution income and the actuarially assessed growth in scheme liability, interest charges and other in-year increases in liability. In 2006-07 this net deficiency was £10,226,125,000 (2005-06 £9,280,631,000) and is detailed in the Combined Revenue Account of the following scheme accounts.

Financial Management

In 2005-06 an Excess Vote of £788.2 million was incurred by the Scheme, and explanations of the causes were set out in the Resource Accounts for 2005-06. During 2006-07 the Authority has conducted a full review of the budget setting process for the Scheme, and implemented high level reviews of the Spring Supplementary Estimate prior to its submission, and received updates on the outturn position against budget. In 2006-07 the Scheme has reported a £62.8 million underspend.

During 2006-07 the Authority has undertaken a review of the methods used to obtain assurance that employer and employee Pension Scheme contributions income are correctly calculated and complete. A number of amendments to the process for 2006-07 have been implemented following consultation with the Department of Health and the Scheme Auditors, including:

- A requirement for the Accounting/Accountable Officers of all NHS main employers to make a statement within their annual accounts that all relevant NHS Pension Scheme Regulations have been applied correctly by their organisations;
- A requirement for the annual assurance statements to be certified by either the Director of Finance or Chief Executive of the organisation, therefore ensuring that there is a high level ownership of the information supplied;
- Collection of the information on the assurance statements of outstanding audit recommendations relating to NHS Pension Scheme administration by individual organisation.

A further review of the assurance process will be required in 2007-08 to improve the level of assurance within the course of the year in addition to the annual certification process.

FUTURE DEVELOPMENTS

Pension Scheme Review

The Review Partners developed proposals for a new pension scheme for new entrants and changes to the current scheme for existing members. The resultant consultation document was the result of three years of partnership working and recommended the retention of a final salary scheme for new entrants. This consultation document was published on 1 August 2006.

During September 2007, final agreement was reached, and it is planned to introduce the new Scheme for new entrants and changes to the existing scheme by April 2008. Details of the agreement can be found at www.nhsemployers.org.

ADMINISTRATION EXPENSES

In 2006-07 the costs of administering the NHS Pension Scheme were met by NHS Business Service Authority (NHSBSA), which was in turn funded by the Department of Health. The annual accounts of the NHSBSA can be found at www.nhsbsa.nhs.uk.

MEMBERSHIP STATISTICS

Details of the current membership of the Scheme at 31 March 2007 are set out below:

Active Members

Active members at 1 April 2006	1,320,415
New entrants in the year	86,213
Transfers in	4,835
Retirements in year	(32,991)
Transfers out	(3,724)
Members leaving the Scheme with deferred pension rights	(42,977)
Members leaving the Scheme and taking a refund of contributions	(38,537)
Deaths	(1,382)
Active members at 31 March 2007	1,291,852

Deferred members

Deferred members at 1 April 2006	364,150
Members leaving who have deferred pension rights	42,977
Members taking up deferred pension rights	(7,975)
Deferred members at 31 March 2007	399,152

Pensioners in payment (including Compensation payments)

	Members	Dependants	Total
Pensioners in payment at 1 April 2006	–	–	535,407
Members retiring	32,991	–	32,991
New Dependants	–	5,714	5,714
Cessations in year	(12,704)	(3,329)	(16,033)
Pensioners in payment at 31 March 2007	–	–	558,079

Nick Scholte
Chief Executive, NHS Business Services Authority
17 October 2007

MANAGEMENT STRUCTURE AND ADVISERS

Accounting Officer:
Nick Scholte
NHS Business Services Authority
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Scheme Administrator:
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Standard Life Assurance Company
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Auditors:
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National Audit Office
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Russell Way
Crawley
West Sussex RH10 1UH

NHS PENSION SCHEME
REPORT OF THE ACTUARY FOR THE ACCOUNTING YEAR ENDED 31 MARCH 2007 for the purposes of FRS17 (Resource Accounting)

The report of the Actuary sets out the liabilities and accruing costs of the NHS Pension Scheme for the purposes of Resource Accounting.

1. Liabilities

The capitalised value as at 31 March 2007 of expected future benefit payments under the NHS Pension Scheme, for benefits accrued in respect of employment or former employment prior to 31 March 2007, has been assessed using the methodology and assumptions set out in sections 3 and 4 below. The results are as follows:

Value of Liabilities	£ billion
Pensions in Payment	54.7
Deferred Pensions	18.6
Active Members (Past Service)	144.7
Total	**218.0**

2. Accruing Costs

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the balance of the cost of the benefits being met by the employers. The total cost of benefits accruing in the year 2006-07 has been assessed, using the methodology and assumptions set out in sections 3 and 4 below, as follows:

	% of Pensionable Pay
Current Service Cost	24%
Members' Average Contribution Rate	5.95%
Employers' share of Current Service Cost	18.05%
Actual rate charged to employers for current year	14.0%

The Current Service Cost disclosed in the scheme accounts was £7.84 billion. This was based on an estimated average payroll over the year of £32.646 billion.

3. Methodology

The value of liabilities has been obtained using the projected unit method with a one year control period, which allows for expected future pay increases in respect of active members. The liabilities and standard contribution rate include pension increases awarded since leaving service for pensioners and deferred pensioners, plus allowance for future pension increases for all categories of member.

4. Assumptions

The principal financial assumptions adopted for the calculation of the liabilities as at 31 March 2007 are an investment return in excess of price increases of 1.8% a year (most pension benefits under the scheme are increased in line with prices), and an investment return in excess of earnings of 0.3% a year. The gross rate of return is assumed to be 4.6% a year, although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 4.3% a year and an allowance for price inflation of 2.75% a year. The demographic assumptions adopted for the assessments are derived from the specific experience of the membership of the scheme to 31 March 2003, and other similar large public service pension schemes where some aspect of the experience is not readily available. Allowance has been made for the expected impact of Agenda for Change and the capped dynamisation factors which the Secretary of State for Health has specified should be used to revalue General Medical Practitioners' accrued benefits up to the period ending 31 March 2008.

The principal financial assumptions adopted for calculation of the Current Service Cost for the year ending 31 March 2007 are an investment return in excess of price increases of 2.8% a year and an investment return in excess of earnings increases of 1.3% a year.

5. Notes

(i) Sections 1 and 2 of this statement are based on actuarial assessment carried out as at 31 March 2004 for the purposes of FRS17 (Resource Accounting), with an approximate updating for the subsequent financial years to reflect known changes that have occurred between 1 April 2004 and 31 March 2007, based on the available data. The method assumes that the profile of the membership has remained stable within the period, which may not necessarily be the case, and so the results should be viewed as an indication of the order of magnitude of the liabilities rather than a full actuarial assessment.

(ii) The actual rate charged to employers for 2006-07 at 14 per cent of pensionable pay follows the recommendations made at the 1999 funding valuation, with an additional allowance for the cost of pension increases, which are now met by the scheme. The next valuation to determine funding rates is due as at 31 March 2004.

(iii) The pension benefits taken into account in this assessment are those normally provided from the rules of the Scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessments include the cost of premature retirement benefits awarded on redundancy, and exclude the cost of Injury Benefits.

C D Daykin CB FIA
Government Actuary's Department

8 September 2007

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the combined scheme during the year and the disposition, at the end of the financial year, of the combined 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 combined 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* and in particular to:

- Observe the accounts direction issued by HM Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

The Department of Health has appointed Nick Scholte, Chief Executive of the NHS Business Services Authority as Accounting Officer for the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Annex 3 of the Government Financial Reporting Manual.

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 NHS Business Services Authority's (the Authority) policies, aims and objectives. I also have responsibility for safeguarding the public funds and the Authority's assets for which I am personally responsible, as set out in the Accounting Officer's Memorandum issued by the Department of Health.

The Authority was established to manage five very different NHS activities on behalf of the Department of Health (DH), of which the NHS Pension Scheme (the Scheme) is one. The functions of the former NHS Pensions Agency Special Health Authority, which was previously responsible for administration of the Scheme, were transferred to the Authority on 1 April 2006. Accountability arrangements with the DH comprise an overall sponsor and specialist sponsors linking with the Authority's business divisions. Comprehensive target setting, performance management and accountability arrangements are in place with the DH.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather that 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 principal risks to the achievement of Authority's policies, aims and objectives; and

- to evaluate the likelihood and impact of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Following the reconfiguration of the five former authorities into one, corporate arrangements to reflect the Authority's roles in target setting, performance management and overall harmonisation were not in place from day one. The NHSBSA's corporate system of internal control has been in development during the year ended 31 March 2007. Substantial progress has been made, although further development and embedment will be key elements of our work in 2007-08.

The system of internal control has been in place in the Authority for the year ended 31 March 2007 and up to the date of approval of these accounts. I acknowledge that there have been weaknesses during 2006-07, as reported in the paragraph "Significant Internal Control Issues" and that action is being taken to address these in 2007-08.

Capacity to handle risk

The Board is now well established and considers how the risks of the individual bodies (including the Scheme), and the corporate whole can be managed and mitigated. The directors reviewed the optimal method of managing risk across the Authority and identified the requirement for a Head of Internal Audit and Risk Management. This post was filled during 2006-7 and will be central to the internal control process for the Authority.

The Authority has developed a range of internal control and risk management processes, comprising:

- Clearly defined organisation structures and delegated authorities appropriate to the Authority's business Approval of the Authority's strategy and business plans by both the Authority and the DH;
- Regular internal review processes, supported by review with our DH sponsor branch;
- Authority wide standards, policies and processes on core business activities including risk management, health and safety, financial management, managers code of conduct and corporate governance framework.

The risk and control framework

The Board sets its objectives systematically through corporate strategy and business planning, and identifies the key risks to delivery of the plan. Risk management systems were well established at the former authorities from which the NHSBSA was formed, and locally these have remained in place. Corporate risk and control frameworks have been developing since the establishment of the Authority and a process of harmonisation started. These arrangements include:

- A corporate risk management strategy has been developed and approved by the Board covering both corporate and divisional requirements;
- A high level corporate risk register has been compiled, which is regularly considered by the Board;
- Existing divisional risk registers are being standardised and reported to the Authority regularly;
- The successful delivery of each business division's objectives is monitored closely by the Chief Operating Officer and the Executive Board using a suite of critical KPIs in the form of a balanced scorecard;
- A management assurance framework that maps out the policies and procedures through which the Authority's risks are managed has been developed;
- An Audit and Risk Management Committee has been established, which actively monitors developments in risk management:
  - the Head of Internal Audit and Risk Management reports on activity in this area as a standing item on the Committee's agenda;
  - the corporate risk register is reported to and considered regularly by the Committee;
  - the management assurance framework referred to above is also a regular item considered by the Committee.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit and Risk Management provides me with an opinion on the overall arrangements for gaining assurance and on the controls reviewed as part of the internal audit work. Executive Directors within the organisation who have responsibility for the development and maintenance of the system of internal control also provide me with assurance. To further corroborate management and accountability arrangements with the Pensions Division, the Divisional Managing Director has provided me with a letter of representation to the effect that:

- Internal controls have remained in place during the year.
- Financial information reported to the Authority is to the best of their knowledge correct.
- There is no material information of which he is aware that we have not also been made aware of.

The assurance framework in place contributes to the evidence, and my confidence, that appropriate internal controls are in place and risks are being managed to deliver the NHSBSA's principal objectives.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Management Committee. As weaknesses emerge, or are flushed out by audit reviews, plans are put in place to address them. Progress with action plans is monitored by internal audit and overseen by the Audit and Risk Management Committee.

Regular meetings have been held with DH sponsor of the Scheme that confirm the Authority's overall progress towards planned targets. I have clear performance management arrangements in place with directors at Executive Board level. They in turn have developed arrangements for managing responsibilities at divisional level – a balance between empowering experienced teams with detailed business knowledge whist making clear accountabilities for delivery of agreed objectives.

Internal audit arrangements have been strengthened and harmonised during the Authority's first year:

- A Head of Internal Audit and Risk Management has been appointed to standardise audit and risk management across the NHSBSA.
- Using existing providers a comprehensive programme of internal audit projects has been undertaken to give the Authority independent assurance that controls are in place and functioning.
- Going forward, the arrangements for internal audit have been rationalised considerably through the appointment of PwC as internal audit contractors to the Authority from 1 April 2007.

In summary, the review above has given me significant assurance that the Pensions Division was generally maintaining a good system of internal control that was previously in place as a statutory body. During 2006/07, the Authority has established itself, assumed responsibility for the Pensions Division, met all significant business objectives whilst the control environment has remained strong in most areas and been further developed at a corporate level.

Significant Internal Control Issues

There have been no new control issues identified in 2006-07. However the Authority has taken steps to address those internal control issues identified in the previous year, those being: –

Completeness of Membership data

During 2005-06, the Agency commissioned the Government Actuary's Department (GAD) to undertake a valuation of the Scheme as at 31 March 2004, and an actuarial assessment of the Scheme liability as at 31 March 2006 based on the valuation results. The information provided to the Actuary to enable them to conduct their valuation is based upon an extract of the scheme membership database. The extract of data provided was based on 75 per cent of all members data. As a result uprating factors have been used to extrapolate to 100 per cent. The use of uprating factors per se does not introduce material uncertainty to the valuation result, provided that the rating up factors for each group are valid and the membership profile of the membership that is excluded from the data extract is similar to the profile of the membership that the Actuary receives. The Authority has no reason to believe that the data for members excluded from the valuation exercise is not similar in terms of age/sex/salary/past service distribution than for those included.

As no new data is available since that used for the valuation of the Scheme liabilities in the 2005-06 Resource Accounts, valuation in these accounts is subject to the same limitations. However, the Authority has put in place measures to address this matter.

In order to improve the quality of member data provided by employers and that already held by the Authority, a Data Quality Strategy has been initiated which incorporates the data cleanse work undertaken previously. The aims of the strategy are to:

- Cleanse existing errors that are critical to business operations and customer service.
- Prevent new errors (wherever possible) from being accepted into the Pensions Division – moving responsibility for clean data to the supplier (Employing Authority's) and the customer (member).

- Educate staff and raise awareness and interest in Data Quality via the Data Quality Forum, intranet and other means.

- Put in place robust governance, including data standards, to ensure that accuracy is maintained, and increases, following completion of the project.

During 2007-08, the Authority will be required to provide the Government Actuary's Department (GAD) with Scheme membership data as at 31 March 2006 to enable them to undertake a revaluation of the Scheme liability for inclusion in the 2007-08 Resource Accounts. A Project Board has been created to manage the creation of the data extract to:

- Ensure the data extract provides the level of detail specified by GAD.

- Ensure the data extract is provided in a timely manner to allow GAD to undertake their valuation work and resolve any data queries which may arise.

- Review incomplete data which are rejected during the extraction process, and refer these to the Data Quality project for resolution where possible within the timeframe.

The Data Quality Strategy and the GAD Valuation Project together are aiming to achieve a substantial increase in the number of complete member records included within the valuation for 2007-08 onwards.

Contributions Income

The Scheme collects both employee and employer contributions from each employing authority and GP practice on a monthly basis. The Scheme does not currently receive independent certification of the amounts it receives. The absence of such independent certification is mitigated by the circularisation of all employing authorities at the year end requiring each organisation's Director of Finance to declare that the payments made are correct.

During 2006-07 developments have been made to the assurance process which have improved the level of assurance, including:

- A requirement for the Accounting/Accountable Officers of all main employers to make a statement within the Statement of Internal Control in their Statutory Accounts that NHS Pension Scheme Regulations have been applied where appropriate.

- Requiring the Director of Finance or Chief Executive of each employing authority to sign the assurance certificate.

- Increased scrutiny of returned assurance certificates and additional reconciliations.

However, in the absence of independent certification, there remains a residual risk that contributions income may be incomplete.

During 2007-08 consideration will be given, in conjunction with the Department of Health, National Audit Office and Audit Commission, to the options available to provide an appropriate level of independent assurance.

Erroneous implementation of Regulation T8 within the Pensions regulations

From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, the Scheme has never implemented this regulation in full and has only paid interest on request by the member.

The Scheme is now reviewing all cases where benefits have been paid late since April 2000 and intends to make good the missing interest payments. Costs are estimated to be £20 million to £25 million.

The Authority Board and Audit & Risk Management Committee are kept fully updated on issues and progress.

Nick Scholte
Chief Executive, NHS Business Services Authority
17 October 2007

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

I certify that I have audited the financial statements of the National Health Service Pension Scheme and National Health Service Compensation for Premature Retirement Scheme for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Combined Revenue Account, the Statement of Recognised Gains and Losses, the Combined Balance Sheet, the Cashflow Statement 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

The Accounting Officer is responsible for preparing the Report of the Manager 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. The Report of the Actuary is the responsibility of the Schemes' actuary.

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 have been properly prepared in accordance with the 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.

In addition, I also report to you if the Schemes have 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 other transactions is not disclosed.

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

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

Basis of audit 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. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Schemes' 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 are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Schemes' affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net outgoings, recognised gains and losses and cashflows for the year then ended; and

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

Audit Opinion on Regularity

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

Emphasis of matter: Scheme Liabilities

As described in note 21.2 to the accounts (page 38), the valuation of the Schemes' future pension liabilities requires the application of uprating factors to obtain a reliable estimate of the liability in respect of that percentage of total members whose records have not been updated and so are not suitable to be used as the basis of a pensions estimate. The data used to calculate the liability was based on the 75 per cent of member records which were updated and it has not been possible to confirm that the characteristics of the remaining 25 per cent is similar and therefore the uprating factors are valid. Any resulting misstatement of liabilities is unlikely to be material and I have therefore not qualified my opinion but draw this to your attention.

Emphasis of matter: Contribution Income

At the end of each financial year employers are required to confirm the level of employer and employee contributions paid over to the Scheme. As noted in the SIC (page 16), in the absence of independent certification, there remains a risk that contributions income is incomplete. Any resulting misstatement is unlikely to be material and I have therefore not qualified my opinion in this respect but draw it to your attention.

My report on pages 20 to 22 provides further detail on the two emphases of matter.

John Bourn
Comptroller and Auditor General
22 October 2007

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

Report Of The Comptroller And Auditor General On The NHS Pension Scheme And NHS Compensation For Premature Retirement Scheme Resource Accounts 2006-07

Executive Summary

My report on the 2005-06 financial statements detailed uncertainties remaining after taking account of the Scheme manager's arrangements for validating the assumptions on which the valuation of the Scheme's future pension liabilities are based and the controls over contributions paid over by employing authorities. I did not qualify my opinion in these respects.

This report details the actions taken during 2006-07 by the NHS Business Services Authority as the Scheme manager. The Authority has responded positively to the 2005-06 report and implemented improvements related to the valuation of liabilities which are expected to have an impact on the 2007-08 account and has also promoted enhanced controls to provide additional assurances over the completeness of income. However some uncertainties remain and although I have not qualified my opinion I again draw your attention to these matters.

Introduction

1. The NHS Pension Scheme is an unfunded occupational scheme supported by the Exchequer and is open to all NHS employees and employees of approved organisations. In order to defray the costs of benefits both employers and members pay contributions at rates determined by the Scheme Actuary.

2. At 31 March 2007 the employing organisations of members of the NHS Pension Scheme comprised 462 NHS Trusts, Primary Care Trusts, Local Health Boards and Health Authorities, 8,510 GP practices and 360 Directed Bodies (non-NHS employers meeting specific criteria) in England and Wales.

3. In accordance with the Treasury guidance the Scheme's long term liabilities to pay pensions are valued by the Scheme Actuary in accordance with Financial Reporting Standard (FRS) 17 – Retirement Benefits. The Combined Balance Sheet of the Resource Account (page 26) shows a liability of £218 billion at 31 March 2007 compared to £165.4 billion at 31 March 2006. At 31 March 2005 the liability stood at £130.6 billion.

4. The Scheme managers collect employer and employee contributions and use these to fund payments to existing pensioners with the excess receipts being paid into the Consolidated Fund. The Combined Revenue Account (page 25) shows that 2006-07 contribution income totalled £6.7 billion. Payment of pensions are shown as a movement on the Scheme liability provision in note 21.5 to the accounts (page 39) and totalled £4.3 billion in 2006-07 leaving £2.4 billion due to be paid over to the Consolidated Fund.

5. Whilst positive action has been taken by management to address many issues highlighted in my 2005-06 report, remaining uncertainties exist in the arrangements for:

   i) validating the assumptions on which the Scheme's future pension liabilities are based. I provide full details of the issues in paragraphs 6 to 11.

   ii) confirming completeness of contribution income. Details are provided in paragraphs 12 to 14.

Valuation of the Scheme's long term liabilities

6. The scheme is required to comply with the provisions of Financial Reporting Statement 17 – Retirement Benefits (FRS 17). FRS 17 requires that the financial statements reflect the actuarially calculated liabilities arising from an employer's retirement benefit obligations. The NHS Pension Scheme, like many similar public sector schemes is unfunded and the cash required to meet the payment of pensions is met from employer and employee contributions with any shortfall financed by the Exchequer.

7. FRS 17 requires a full actuarial valuation of scheme liabilities every three years, although Treasury require such a valuation only every four years to fit in with the Government spending review cycle. In addition to this liability valuation, the rules and regulations of the NHS Scheme require a funding valuation every five years in order to determine the contributions members and employers should make to the Scheme. The liability valuation must reflect the best estimate of the present value of the amounts that will actually be paid out taking into account all expected changes in factors affecting the payments. In between full valuations the Treasury, in line with FRS 17, require annual updates of the value of liabilities to reflect current conditions.

8. The scheme liability must be calculated by an actuary and reflect expected future benefit payments arising in respect of both current and deferred pensioners and currently active members of the scheme. The actuarial assumptions used in determining the cash flows arising from these future scheme obligations are fundamental to the valuation. Assumptions are required for numerous factors including salary growth rates and mortality rates. Changing the assumptions will generally have a material impact on the results of the valuation.

9. While all pension schemes have significant uncertainties over future liabilities, the NHS Scheme has a larger number of uncertainties due to the size and complexity of membership. This increases the importance of up to date membership data. At 31 March 2006 only 75 per cent of member records had been updated ie were suitable for a pensions estimate to be completed using information up to 31 March 2004. Within this overall total there are some membership groups where the updating is much lower. These percentages are significantly worse than for the other major public sector pension schemes.

10. In valuing the future pension liabilities of Scheme members the Government Actuary's Department apply uprating factors to obtain a reliable estimate of the liability in respect of that percentage of total members whose records have not been updated. However, the Scheme manager has not been able to provide for 2006-07 confirmation that the characteristics of the 25 per cent of records not suitable for a pensions estimate were consistent with the other 75 per cent of records, due to data retrieval problems. The Scheme managers believe that this deficiency does not materially affect the overall Scheme liability at 31 March 2007.

11. The Scheme managers have advised me that they plan to carry out a full validation of the uprating factors applied in the valuation at 31 March 2008 and I will review their work as part of my 2007-08 audit. This is discussed further in paragraph 16 of my report.

Completeness of Contribution Income

12. The Scheme collects on a monthly basis employee and employer contributions from each employing authority and GP practice. Each year the Scheme:

- provides GP practices with a statement of contributions made seeking confirmation of the accuracy of this; and
- circularises employing authorities at each year-end to confirm contributions receivable to salary payments.

13. To improve the links between Employing Authorities' Annual Accounts and these contribution statements, they are countersigned by Directors of Finance and for NHS Employing Authorities a requirement was introduced in 2006-07 that the Authorities' Statement on Internal Control included reference to the correct application of Pension Scheme Regulations by the Employing Authority. The NHS Business Services Authority also introduced a more rigorous process of review undertaking a detailed review of those Authorities where there was a discrepancy between the contribution statement and income actually received. This exercise was conducted to significantly tighter tolerances than in 2005-06.

14 This positive action has increased the accountability placed on Employing Authorities and enhanced controls within the NHS Business Services Authority. However it remains the case that, as referred to in the SIC, residual uncertainty remains over the completeness of income in the absence of an independent review of the accuracy of contributions paid over. The NHS Business Services Authority have identified further key action to both enhance internal control further and to identify potential action to remove this residual uncertainty. I will review this action in 2007-08 as detailed in paragraphs 17 of my report.

Future Plans

15. NHS Business Services Authority has informed me that it has put in place a comprehensive programme of actions to further reduce these uncertainties, as detailed in the Statement on Internal Control on pages 13 to 17.

Valuation of Liabilities

16. The NHS Business Services Authority recognises the need to increase the percentage of membership data which is up to date and hence included within future valuations. This will reduce the need for extrapolation and rating up. During 2007-08 GAD will be provided with scheme membership data as at 31 March 2006 to enable a revaluation to be undertaken of the scheme liability for 2007-08. This exercise is being managed through a project board and is supported by a data quality strategy building upon an existing data cleanse project implemented to identify anomalies, omissions and correct errors in member records and updates from employers. The exercise has targeted those employers with the lowest levels of usable data. In addition consultations are on-going with the Department of Health on measures to enforce NHS employers to comply with Scheme regulations and ensure the timely updating of membership records. NHSBSA's management will remain focused on ensuring that all membership data received by the Pensions Division is processed efficiently. Whilst the Data Cleanse project will produce improved membership data in the medium term, efforts will also be focused on providing a robust validation of up rating factors in the interim.

Completeness of Contribution Income

17. The Authority will consider the further actions to remove uncertainties around the completeness of income in conjunction with the Department of Health and other relevant parties. Internally, they will undertake a rigorous trend analysis on a monthly basis against budgets set for each employing authority to identify any potential anomalies in contributions paid. To obtain independent assurance over the completeness of contributions income a number of options will be further considered such as independent certification of employing authority returns or implementation of an audit of a sample of employing authorities.

John Bourn
Comptroller and Auditor General
22 October 2007

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Statement of Parliamentary Supply
Summary of Resource Outturn 2006-07

		Estimate			Outturn			2006-07 £000s Outturn	2005-06 £000s 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*
Pensions and associated payment		17,639,006	(7,350,000)	10,289,006	17,270,000	(7,043,875)	10,226,125	62,881	9,280,631
Pensions – Non budget		–	–	–		–		–	18,300,000
Total resources	4	**17,639,006**	**(7,350,000)**	**10,289,006**	**17,270,000**	**(7,043,875)**	**10,226,125**	**62,881**	**27,580,631**

Summary of net cash requirement 2006-07

		2006-07 £000s			2005-06 £000s
	Note	*Estimate*	*Outturn*	*Net Total outturn compared with Estimate: Saving/(excess)*	*Outturn*
Net cash requirement	5	1	0	1	0

Summary of income/cash payable to the Consolidated Fund

Expenditure for which resources are sought within the estimate are resource based and relate to increases to the Pension Scheme liability. Details of cash based expenditure can be found in notes 21.6 and 21.7, and are accounted for as a release of Pension Scheme liability. Surplus cash is surrendered to the Consolidated fund as cash income exceeds the cash benefits the Scheme currently pays out.

		2006-07 Forecast		2006-07 Outturn	
		Income	***Receipts***	**Income**	***Receipts***
	Note	£000	£000	£000	£000
Excess cash receipts to be surrendered to the Consolidated Fund collected in 2006-07 relating to 2005-06		–	–	–	*409,809*
Other amounts collectable on behalf of the Consolidated Fund		–	–	604	*604*
Excess cash receipts to be surrendered to the Consolidated Fund		–	*2,783,286*	2,582,084	*2,296,502*
Total	**6**		***2,783,286***	**2,582,688**	***2,706,915***

Explanation of the variation between estimate and outturn

Income

i. Contributions – The budget for contributions income was set in January 2007, and reflected income received and due for the payroll periods up to 30th November 2006 (the due date for payment by employing authorities being the 19th December 2006), plus an estimate of amounts receivable up to 31st March 2007. Income is directly related to levels of pensionable employment within the NHS, and the re-organisation of Strategic Health Authorities, Primary Care Trusts, and Ambulance Trusts, coupled with the Secretary of State for Health's directive for the NHS to return to financial balance during 2006-07 have creadted uncertainty in estimating income. The shortfall on income is 2.7 per cent of the contributions budget.

ii. Transfers In – The amount was less than forecast by £65 million. The continuing downward trend of transfer activity was again supported by the outturn for 2006-07. It is assumed that this is due to the reduction in movement of staff into the NHS as a result of tight financial constraints and new staff recruitment.

iii. Premature Retirements Prefunded by the employer – The amount was less than forecast by £37 million. The estimate provided for an increase in contributions above the previous year for enhanced premature retirements resulting mainly from the restructuring of Primary Care and Strategic Health Authority organisation numbers. No data was available on the volumes and grades of those to be made redundant or of the per cent of pensionable age. A further phase of redundancies due to these restructures has occurred in the early part of 2007-08.

iv. Premature Retirements Recharged to the employer – The amount was less than forecast by £15 million. The same explanation is relevant as for the explanation at iii above.

Expenditure

i. Interest – The amount was less than forecast by £9 million. This is attributable to the estimate of the interest charge on the movement in year of the Scheme liability.

ii. Current Service Cost – The amount was £234 million less than forecast with lower contributions the liability has increased less than planned as a consequence of the relationship with employer contribution income. The income figure is used to estimate the pensionable payroll figure on which the Current Service Cost is calculated. As the outturn figure for employer contributions was lower than forecast, there was a direct impact on the calculation of the Current Service Cost.

iii. Enhancements Added Years – The amount was less than forecast by £22 million. The added year figure is derived from a calculation based on employee contribution income. As the outturn figure for employee contributions was lower than forecast, there was a direct impact on the calculation of added years.

iv. Transfers In – There is a direct one for one relationship with the corresponding income stream detailed under point ii of the income variance explanations.

v. Premature Retirements Prefunded by the employer – There is a direct one for one relationship with the corresponding income stream detailed under point iii of the income variance explanations.

Combined Revenue Account
for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Income			
Contributions receivable	8	(6,706,920)	(6,296,404)
Special contributions – Prefunded premature retirement contributions	8	(162,578)	(51,609)
Other income – Premature retirement benefits paid and subsequently recharged to the employer	8	(64,742)	(64,235)
Transfers in	9	(109,635)	(157,121)
		(7,043,875)	**(6,569,369)**
Outgoings			
Pension Cost	10	7,840,000	7,370,000
Enhancements	11	177,787	171,270
Transfers in	12	109,635	157,121
Prefunded premature retirements	13	162,578	51,609
Interest on Scheme liabilities	14	8,980,000	8,100,000
		17,270,000	**15,850,000**
Net outgoings for the year		**10,226,125**	**9,280,631**

Statement of Recognised Gains and Losses
for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Prior year adjustment		–	2,700,000
Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	18	13,630	(85,729)
Actuarial loss/(gain) on Pension Scheme Liabilities	21.8	(808,209)	3,968,315
		(794,579)	**6,582,586**
Impact of change in discount rate at 31 March 2007		40,600,000	–
Total recognised losses for the financial year		**39,805,421**	**6,582,586**

The notes on pages 28 to 44 form part of these accounts.

Combined Balance Sheet
as at 31 March 2007

	Note	2006-07 £000	2005-06 £000
Current Assets and Liabilities			
Debtors	16a	447,331	514,200
Prepayments – Prepaid pension benefits	17	41,922	56,190
Cash at bank and in hand	19	711,915	999,166
		1,201,168	1,569,556
Creditors (amounts falling due within one year)		(1,201,168)	(1,569,556)
Net current assets, excluding pension liability		–	–
Estimated discounted future cash flows in respect of early retirement recharges	18	816,406	830,036
		816,406	**830,036**
Provisions for liabilities and charges:			
Pension Scheme Liability	21.5	(218,000,000)	(165,400,000)
Total net liabilities, including pension liabilities		(217,183,594)	(164,569,964)
Taxpayers' equity:			
General fund	22	(217,183,594)	(164,569,964)
		(217,183,594)	(164,569,964)

Nick Scholte
Chief Executive, NHS Business Services Authority
17 October 2007

The notes on pages 28 to 44 form part of these accounts.

Cash Flow Statement

For the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Net cash inflow from operating activities	23a	2,706,311	2,577,112
Payments of amounts due to the Consolidated Fund	26	(2,994,166)	(2,068,386)
Amounts not classified to be appropriated in aid, due to the Consolidated Fund		604	228
Increase/(decrease) in cash in the period		**(287,251)**	**508,954**

The notes on pages 28 to 44 form part of these accounts.

Notes to the Scheme Statements for the year ended 31 March 2007

Accounting Policies

1. Basis of Preparation of scheme statements

1.1 The combined scheme financial statements have been prepared in accordance with the relevant provisions of the Financial Reporting Manual (FReM) for 2006-07 issued by the Treasury, which reflect the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes* to the extent that these are appropriate.

1.2 The combined scheme financial statements summarise the transactions of the National Health Service Pension Scheme and the National Health Service (Compensation for premature retirement) Scheme. The balance sheet shows the deficit on the scheme; the Revenue Account shows, *inter alia*, the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the report of the Actuary, and the scheme statement should be read in conjunction with that Report.

1.3 The NHS Pension Scheme acts as a principal for employers in the payment of compensation benefits arising under the NHS Compensation for Premature Retirement Scheme. Employers have the option of discharging their liability by way of payment of a capital sum, or by paying for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding debtor within the balance sheet).

1.4 The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the combined financial statements.

---

2. Accounting policies for the NHS Pension Scheme

2.1 *Contributions receivable*

a. Employers' normal pension contributions are accounted for on an accruals basis.

b. Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.

c. Employees' pension contributions which include amounts in respect of added years (dealt with in (d) below) are accounted for on an accruals basis.

d. Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the scheme liability is recognised as expenditure. Where Scheme members make additional voluntary contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 15 to the financial statements. Please refer to Note 15 for further information on Scheme AVC providers. Where Scheme members make Free Standing AVC payments these are paid direct to the supplier by the member and are not included in these financial statements.

2.2 *Transfers in and out*

Transfers in are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.3 *Current service cost*

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue account. The cost is based on a discount rate of 2.8% (2005-06: 2.8 per cent) real (i.e. 5.37% including inflation [2005-06: 5.37%]).

2.4 *Past service cost*

Past service costs are increases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the revenue account on a straight line basis over the period in which increase in benefit vest.

2.5 *Interest on scheme liabilities*

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue account. The interest cost is based on a discount rate of 2.8% (2005-06: 2.8%) real (i.e. 5.37% including inflation [2005-06: 5.37%]).

2.6 *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 is discounted at 1.8% (2005-06: 2.8%) real (i.e. 4.6% including inflation [2005-06: 5.37%]).

For the purposes of FRS17 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. The most recent actuarial review took place as at 31 March 2004.

2.7 *Pension benefits payable*

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

2.8 *Pension payments to and on account of leavers before their normal retirement age.*

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

2.9 *Lump sums payable on death in service*

Lump sum payments on death in service are accounted for on an accruals basis. They are a direct charge to the pension scheme as they are not funded through the normal pension contributions.

2.10 *Actuarial gains/losses*

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

2.11 *Additional Voluntary Contributions*

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

3. Accounting policies for the NHS Compensation for Premature Retirement Scheme

3.1 Compensation payments or the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, benefits are paid initially by the NHS Pension Scheme throughout the month and recovered from employers on a quarterly basis (this method is referred to as "quarterly recharging").

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

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

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

3.2 Where the employer chooses to pay by one-off lump sum, this amount is recognised as income at the point the employee's pension becomes payable. Where the employer chooses to pay by instalments, income is recognised when the instalment becomes due, with the amounts due from the employer in respect of future uninvoiced instalments disclosed by way of a note to the debtors disclosure.

3.2.1 Any amounts receivable in respect of an employer's decision to allow an employee's early departure, where the employer has discharged their liability by way of a capitalised payment, are accounted for as special pension scheme contributions (see 2.1b). All amounts received are appropriated-in-aid of Scheme expenditure.

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

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

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

3.3 Where the employer chooses to pay quarterly, income is recognised as invoices are raised.

3.3.1 Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as "Other Income" to the pension scheme and are appropriated-in-aid.

3.3.2 In recognition of the fact that significant future cashflows will arise from these arrangements, the estimated future cashflows which may accrue to the Scheme after the balance sheet date, discounted to current values, are disclosed on the balance sheet.

3.3.3 The above asset will be revalued on an annual basis and any net increases or decreases will be debited/credited to the General Fund, and disclosed within the Statement of Recognised Gains and Losses.

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

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

3.4 None of the changes to the above accounting policies represents a departure from the Financial Reporting Manual (FReM).

4. Reconciliation of net resource outturn to net outgoings

				2006-07	2005-06
		Supply Estimate	Outturn	Outturn compared with Estimate	Outturn
	Note	£000	£000	£000	£000
Net Resource Outturn		10,289,006	10,226,125	62,881	27,580,631
Adjustment for Change in Discount Rate		–	–	–	(18,300,000)
Net Outgoings		**10,289,006**	**10,226,125**	**62,881**	**9,280,631**

5. Reconciliation of Resources to cash requirement

	Note	Supply Estimate	Outturn	Net total outturn compared with estimate: Savings/(excess)
		£000	£000	£000
Net Resource Outturn	4	10,289,006	10,226,125	62,320
Accruals adjustments				
Non-cash items	24	(17,639,006)	(17,270,000)	(369,006)
Use of pension provision	21.6/21.7	4,566,715	4,461,791	104,924
Excess cash receipts surrenderable to the Consolidated Fund	6	2,783,286	2,582,084	201,202
Net cash requirement		**1**	**0**	**1**

6. Analysis of income payable to the Consolidated Fund

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

		Forecast 2006-07		Outturn 2006-07	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	*£000*
Excess cash receipts to be surrendered to the Consolidated Fund collected in 2006-07 relating to 2005-06		–	–	–	*409,809*
Other amounts collectable on behalf of the Consolidated Fund		–	–	604	*604*
Excess cash surrenderable to the Consolidated Fund		–	*2,783,286*	2,582,084	*2,296,502*
Total income payable to the Consolidated Fund		**–**	***2,783,286***	**2,582,688**	***2,706,915***

7. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	2006-07	2005-06
	£000s	£000s
Operating Income	(7,043,875)	(6,569,369)
Gross income	(7,043,875)	(6,569,369)
Income authorised to be appropriated-in-aid	7,043,875	6,569,369
	–	–

8. Pension Contributions receivable

	2006-07	2005-06
	£000s	£000s
Employers		
Standard	(4,579,685)	(4,301,122)
Pre-funded premature retirement costs	(162,578)	(51,609)
Re-chargeable premature retirement costs	(64,742)	(64,235)
Employees		
Standard (including Added Years)	(2,127,235)	(1,995,282)
	(6,934,240)	**(6,412,248)**

9. Pension transfers in (see also note 12)

	2006-07	2005-06
	£000s	£000s
Individual transfers in from other schemes	(109,007)	(154,040)
Group transfers in from other schemes	(628)	(3,081)
	(109,635)	**(157,121)**

10. Pension Cost

	2006-07	2005-06
	£000s	£000s
Current service cost	7,840,000	7,370,000
	7,840,000	**7,370,000**

11. Enhancements

	2006-07	2005-06
	£000s	£000s
Enhancements	177,787	171,270
	177,787	**171,270**

12. Pension transfers in (see also note 9)

	2006-07	2005-06
	£000s	£000s
Pension transfers in	109,635	157,121
	109,635	**157,121**

13. Prefunded premature retirement contributions (see also note 8)

	2006-07	2005-06
	£000s	£000s
Prefunded premature retirement contributions	162,578	51,609
	162,578	**51,609**

14. Interest on Scheme liabilities

	2006-07	2005-06
	£000s	£000s
Interest charge for the year	8,980,000	8,100,000
	8,980,000	**8,100,000**

15. Additional Voluntary Contributions

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

Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments were as follows:

	2006-07	2005-06
	£000s	£000s
The Equitable Life Assurance Society (ELAS)		
Movements in the year were as follows:		
Balance at 6 April	121,484	113,441
New investments	2,574	2,764
Sale of investments to provide pension benefits	(8,778)	(6,675)
Changes in market value of investments	6,302	11,954
	121,582	**121,484**

	2006-07	2005-06
	£000s	£000s
Standard Life Assurance Company		
Movements in the year were as follows:		
Balance at 6 April	96,404	72,373
New investments	6,634	6,998
Sale of investments to provide pension benefits	(5,034)	(1,460)
Changes in market value of investments	9,010	18,493
	107,014	**96,404**

	2006-07	2005-06
	£000s	£000s
Prudential Plc		
Movements in the year were as follows:		
Balance at 1 April	37,347	27,836
New investments	33,997	6,729
Sale of investments to provide pension benefits and switches to new funds	(32,061)	(3,800)
Changes in market value of investments	1,144	6,579
Post audit adjustment	–	3
	40,426	**37,347**

The reason for the high level of new investments and for the high level of sale of investments in 2006-07 is that Prudential have restructured their funds as a result of the following:

- the introduction of the Forward Pricing method of valuing funds rather than the Previous Day Pricing method; and
- a reduction in the number of duplicated funds which previously existed, for example as a result of the acquisition of other companies.

These changes have resulted in a consistent method of pricing across all funds.
There was no cost or charge to investors as a result of these changes.

The 2005-06 closing balance has been restated due to a post-audit change to the closing balance previously advised by Prudential.

16a. Debtors – Contributions due in respect of pensions

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

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

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

Amounts due within One Year	**2006-07**	**2005-06**
	£000s	£000s
Employer Contributions	275,104	336,224
Employee Contributions	127,816	154,278
Invoiced pre-funded premature retirement contributions	28,284	6,120
Invoiced re-chargeable premature retirement contributions	16,127	17,578
	447,331	**514,200**
Un-invoiced future instalments due from NHS employers	10,819	11,148

Included within these figures is £285,582,111.01 (2005-06: £409,809,002.01) that will be due to the Consolidated Fund once the debts are collected.

16b. Intra-Government Balances

	Amounts falling due within one year 2006-07	**Amounts falling due within one year 2005-06**	**Amounts falling due after more than one year 2006-07**	**Amounts falling due after more than one year 2005-06**
Balances with other central government bodies	138,699	171,686	–	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	226,131	317,542	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	82,501	24,972	–	–
At 31 March	**447,331**	**514,200**	**–**	**–**

17. Prepayments – Prepaid Pension Benefits

	2006-07	**2005-06**
	£000s	£000s
Prepaid pension benefits	41,922	56,190
Total	**41,922**	**56,190**

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

Where the employer chooses to pay quarterly recharges, income is recognised as invoices are raised.

Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, are classified as "Other Income" to the pension scheme and are appropriated-in-aid.

In recognition of the fact that significant future cashflows will arise from these arrangements, the estimated future cashflows which may accrue to the Scheme after the balance sheet date, discounted to current values, are disclosed on the balance sheet.

	2006-07	**2005-06**
	£000s	£000s
Balance c/f 1 April	830,036	744,307
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(13,630)	85,729
Balance at 31 March	**816,406**	**830,036**

19. Cash at bank and in hand

	2006-07	**2005-06**
	£000s	£000s
Balance at 1 April	999,166	490,212
Net change in cash balances	(287,251)	508,954
Balance at 31 March	**711,915**	**999,166**
The following balances at 31 March were held at:		
Office of HM Paymaster General	705,061	994,899
Commercial banks and cash in hand	6,854	4,267
Balance at 31 March	**711,915**	**999,166**

20. Creditors – in respect of pensions

20a. Analysis by type

	2006-07	2005-06
	£000s	£000s
Amounts falling due within one year		
Pensions	(152,360)	(120,854)
HM Revenue & Customs	(40,551)	(38,358)
Voluntary deductions	(213)	(207)
Amounts due to Employers:		
Initial Widows Claims	(447)	(178)
Employee and employer contributions	(5,218)	–
Prefunded premature retirements	(4,814)	(611)
Rechargeable premature retirements	(68)	(373)
	(203,671)	(160,581)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	(711,915)	(999,166)
Receivable	(285,582)	(409,809)
	(997,497)	(1,408,975)
	(1,201,168)	**(1,569,556)**

20b. Intra-Government Balances

	Amounts falling due within one year 2006-07	Amounts falling due within one year 2005-06	Amounts falling due after more than one year 2006-07	Amounts falling due after more than one year 2005-06
Balances with other central government bodies	(1,002,329)	(1,448,026)	–	–
Balances with local authorities	–	–	–	–
Balances with NHS Trusts	(5,349)	(469)	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	(152,939)	(121,061)	–	–
At 31 March	**(1,201,168)**	**(1,569,556)**	**–**	**–**

21. Provisions for pension liabilities

21.1 The NHS Pension Scheme is an unfunded defined benefit scheme. An actuarial valuation was carried out as at 31 March 2004. The major assumptions used by the Actuary were:

	At 31 March 2007	**At 31 March 2006**
	%per annum	%per annum
Rate of notional investment return in excess of prices	1.8%	2.8%
Rate of notional investment return in excess of salaries	0.3%	1.3%

For the year ending 31 March 2007, the price inflation used was 2.75%, in line with HM Treasury's long-term future inflation assumption.

21.2 The scheme managers are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. The information includes, but is not limited to, details of:

- Scheme membership, including age and gender profile, active membership, deferred pensions and pensioners;
- Benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- Income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- Following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The information provided to the Actuary to enable them to conduct their valuation is based upon an extract of the scheme membership database. The extract of data provided was based upon 75% of all members data. Uprating factors have therefore been used to extrapolate to 100%. The use of uprating factors per se does not introduce additional material uncertainty to the valuation result, provided that the rating up factors for each group are valid and the membership profile of the membership that is excluded from the data extract is similar to the profile of membership that the Actuary receives. The Division has no reason to believe that the data for members excluded from the valuation exercise is not similar in terms of age/sex/salary/past service distribution than for those included. However, this has not been validated.

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

21.4 The value of the liability included on the balance sheet may be significantly affected by small changes in assumptions. For example, if at a subsequent valuation it is considered appropriate to reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. The managers of the scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 21.1 and 21.5. 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.

21.5 Analysis of movement in scheme liability

	Note	2006-07 £000s	2005-06 £000s
Scheme liability at 1 April		(165,400,000)	(131,344,307)
Impact of overnight change in discount rate		–	(18,300,000)
Revised Scheme Liability		(165,400,000)	(149,644,307)
Current service cost	10	(7,840,000)	(7,370,000)
Enhancements	11	(177,787)	(171,270)
Transfers in	12	(109,635)	(157,121)
Prefunded premature retirements	8	(162,578)	(51,609)
Interest on pension scheme liability	14	(8,980,000)	(8,100,000)
Benefits payable	21.6	4,294,797	3,777,414
Pension payments to and on account of leavers	21.7	166,994	165,658
Adjustment relating to prior year pension payments		–	119,550
Actuarial gain/(loss)	21.8	808,209	(3,968,315)
		(177,400,000)	(165,400,000)
Impact of change in discount rate at 31 March 2007		(40,600,000)	–
Scheme liability at 31 March		**(218,000,000)**	**(165,400,000)**

Within the closing Scheme liability it is estimated by the GAD that there is £2¼ billion that relates to employer funded enhanced premature retirement costs, which equates to 1 per cent of the total Scheme liability.

During the year ended March 2007, contributions represented an average of 19.95 per cent percent of pensionable pay.

21.6 Analysis of benefits paid

	2006-07 £000s	2005-06 £000s
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	3,481,162	3,251,685
Commutations and lump sum benefits on retirement	813,635	525,729
Per cash flow statement	**4,294,797**	**3,777,414**

21.7 Analysis of payments to and on account of leavers

	2006-07 £000s	2005-06 £000s
Refunds to members leaving service	25,650	16,848
Group transfers to other schemes	2,874	5,441
Payment to State Scheme	4,261	6,302
Individual transfers to other schemes	134,209	137,067
Per cash flow statement	**166,994**	**165,658**

21.8 Analysis of actuarial losses

	2006-07	2005-06
	£000s	£000s
Experience losses arising on the scheme liabilities	–	–
Changes in assumptions underlying the present value of scheme liabilities	808,209	(3,968,315)
Per Statement of Recognised Gains and Losses	**808,209**	**(3,968,315)**

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

21.9 History of Experience losses

	2006-07	2005-06	2004-05	2003-04
	£000s	£000s	£000s	£000s
Experience and losses on the scheme liabilities:				
Amount	–	–	(13,598,832)	(1,445,137)
Percentage of the present value of the scheme liabilities	–	–	10.4%	1.4%
Total amount recognised in Statement of Recognised Gains and (Losses)				
Amount	808,209	(3,968,315)	(17,598,832)	(1,445,137)
Percentage of the present value of the scheme liabilities	0.4%	2.4%	13.4%	1.4%

22. General Fund

	2006-07	2005-06
	£000s	£000s
Balance at 1 April	(164,569,964)	(127,900,000)
Prior year adjustment	–	(2,700,000)
Restated Balance at 1 April	(164,569,964)	(130,600,000)
Net Parliamentary Funding	–	–
Overnight Increase in Scheme liabilities	(40,600,000)	(18,300,000)
Net Transfer from Operating Activities		
Combined Net Outgoings	(10,226,125)	(9,280,631)
CFERS repayable to the Consolidated Fund	(996,893)	(1,408,747)
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	(13,630)	85,729
Payment to the Consolidated Fund	(1,585,191)	(1,098,000)
Actuarial gains and losses (SRGL)	808,209	(3,968,315)
Balance at 31 March	**(217,183,594)**	**(164,569,964)**

23. Notes to the Cash Flow Statement

23a. Reconciliation of net outgoings to operating cash flows

	Note	2006-07 £000s	2005-06 £000s
Net outgoings for the year		(10,226,125)	(9,280,631)
Adjustments for non-cash transactions:			
Movement in working capital other than cash	25	124,227	(49,185)
Increase in pension provision	24	17,270,000	15,850,000
Use of provisions – pension liability	21.6	(4,294,797)	(3,777,414)
Use of provisions – refunds and transfers	21.7	(166,994)	(165,658)
Net cash inflow from operating activities		**2,706,311**	**2,577,112**

23b. Reconciliation of Net Cash Requirement to increase in cash

	2006-07 £000s	2005-06 £000s
Net cash requirement	–	–
From the Consolidated Fund (Supply) – current year	–	–
Due to the Consolidated Fund (non-Supply) – received in a prior year and paid over	(999,166)	(490,212)
Amounts due to the Consolidated fund received and not paid	711,915	999,166
Increase/(decrease) in cash	**(287,251)**	**508,954**

24. Non-cash items

	2006-07 £000s	2005-06 £000s
Increase in pension provision:		
Current service cost	7,840,000	7,370,000
Enhancements	177,787	171,270
Transfers	109,635	157,121
Prefunded premature retirements	162,578	51,609
Interest on pension scheme liability	8,980,000	8,100,000
	17,270,000	**15,850,000**

25. Movements in working capital, other than cash

	2006-07 £000s	2005-06 £000s
Movement in debtors – Pension contributions	66,869	6,968
Movement in creditors – falling due within 12 months – Pensions	43,090	119,587
Adjustment for change in pension creditor estimation methodology	–	(119,550)
Movement in prepaid pension benefits	14,268	(56,190)
	(124,227)	**(49,185)**

26. Payments to the Consolidated Fund

	Note	2006-07 £000s	2005-06 £000s
Payments of amounts due to the:			
Consolidated fund – Realisation of prior years net debtors and creditors		409,809	480,174
Consolidated Fund – Surplus cash relating to current year		1,585,191	1,098,000
Surplus cash surrendered to the:			
Consolidated Fund relating to the prior year		999,166	370,662
Adjustment relating to change in methodology of the estimated pension creditor		–	119,550
		2,994,166	**2,068,386**
Amounts not classified to be appropriated in aid, due to the Consolidated Fund		604	228
		2,994,770	**2,068,614**

27. Contingent liabilities disclosed under FRS 12

27.1 The NHS Pension Scheme guarantees to meet the pension payments in the event of a default by one or more of the NHS Pension Scheme's approved Additional Voluntary Contributions (AVC) providers. Therefore there is a maximum contingent liability of the full balance of the AVC investments as at 31 March 2007, which are disclosed at note 15. The scheme does not however guarantee pension payments from the other free-standing AVC providers.

27.2 The contingent liabilities noted in previous years in respect of the outcome of the Preston and Others Vs Wolverhampton Healthcare NHS Trust employment tribunal, and in respect of part-time NHS employees denied access to the pension scheme, are now estimated by the scheme actuary to be around £15 million, which is 3 times the employee reinstatement cost.

27.3 From April 2000, under the provisions of Regulation T8 to the NHS Pension Scheme regulations, the Scheme has been required to pay interest automatically to members who suffer delay in receiving their pension scheme benefits. However, the Scheme has never implemented this regulation in full and has only paid interest on request by the member.

The Scheme is now reviewing all cases where benefits have been paid late since April 2000 and intends to make good the missing interest payments. Costs are estimated to be £20-£25 million.

28. Losses

During the year, losses arose in 7,162 cases as a result of overpaid pension scheme benefits (2005-06: 5,153 cases). The total loss was £684,543 (2005-06: £445,302). These figures include write-offs in respect of the cases highlighted in the review of the year, and all relate to claims abandoned.

29. Financial Instruments

FRS13 *Derivatives and Other Financial Instruments* 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. Because of the non-trading nature of its activities and the way in which government departments are financed, the NHS Pension Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies.

29.1 Liquidity risk

Resources voted by Parliament finance the NHS Pension Scheme's net revenue resource requirements. The NHS Pension Scheme is not therefore exposed to significant liquidity risks.

29.2 Interest rate risk

All of the NHS Pension Scheme's financial assets and liabilities carry nil or fixed rates of interest. The Scheme is not therefore exposed to an interest rate risk.

30. Related Party Transactions

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

31. Post balance sheet events

New Pension Scheme

On 21 September 2007, it was announced that final agreement had been reached on changes to the NHS Pension Scheme to deliver a Scheme that meets the needs of a modern NHS and its staff, and is sustainable in the longer term. The key changes are as follows :

- There will be two Schemes – an updated NHS Pension Scheme is being introduced for existing members and a New NHS Pension Scheme for new members.
- Both Schemes will come into effect on 1 April 2008 – active members of the current Scheme will automatically move to the updated NHS Pension Scheme, with a one-off choice to move to the New NHS Pension Scheme, currently planned for 1 July 2009 to 30 June 2010.
- The updated NHS Pension Scheme is still a final salary Scheme with the same Normal Pension Age (NPA) of 60 years (55 for special classes), but with new benefits like the option to take more pension as a tax free lump sum.
- The new NHS Pension Scheme for new members is a final salary Scheme with an NPA of 65 and more flexibilities particularly in the run-up to retirement, like the option for staff to step down to a less demanding role and take part of their pension.
- Both Schemes will have identical, new tiered contribution rates. Individual rates will be directly linked to individual earnings for a fairer way to fund new benefits and future costs.

Accounts Authorisation

The National Health Service Pension Scheme and the National Health Service (Compensation for Premature Retirement) Scheme's financial statements are laid before the Houses of Parliament by HM Treasury. FRS21 requires NHS Business Services Authority to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by NHS Business Services Authority to HM Treasury.

The authorised date for issue is 22 October 2007.

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