Presented pursuant to Government Resources and Accounts Act 2000 c20. s.6

# Cabinet Office: Civil Superannuation

# Resource Accounts 2005-06

## (For the year ended 31 March 2006)

**being the accounts of the Principal Civil Service Pension Scheme, compensation agency arrangements and other minor agency and principal pension scheme arrangements**

LONDON: The Stationery Office
HC 1493

20 July 2006
£8.00

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## Contents

# Report of the Managers

## Introduction

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, defined benefit, contributory, public service occupational pension scheme. The PCSPS covers three pension schemes known as **premium** (for new members), **classic** and **classic plus**, the details of which have been explained in previous reports. Membership of the Scheme is voluntary. Money purchase pensions known as **partnership** are available as an alternative for employees joining on or after 1 October 2002. **Partnership** is delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

## Roles and responsibilities

*Employers*
Cabinet Office as managers of the scheme (see below) have formally delegated responsibility for pensions administration to employers. Employers are responsible for:

- maintaining pay and service records;
- arranging with their Authorised Pension Administration Centre for the calculation of pension benefits for their employees;
- paying employers' and employees' pension contributions to the schemes.

*Authorised Pension Administration Centres (APACs)*
Employers use one of nine APACs to calculate pension awards on their behalf. All APACs use PenServer, pension administration software, to calculate the awards.

*Capita Hartshead*
APACs send awards to Capita Hartshead to pay benefits. Capita Hartshead is responsible for pensions administration for pensioners and deferred pensioners including paying pensions, maintaining accurate and secure records and maintaining a proper audit trail of all transactions, calculating and paying annual pensions increases, deducting and paying over tax to HMRC, operating a payroll bank account, producing financial and management reports, responding to pensioners' enquiries and taking action on death.

*Civil Service Pensions Division (CSP), Cabinet Office*
CSP are managers of the Scheme. They are responsible for:

- admission of employers to the PCSPS;
- development of policy and maintenance of scheme rules;
- maintenance and development of pensions administration software (PenServer);
- provision of advice and guidance to employers, APACs and scheme members;
- provision of second tier internal dispute resolution procedures;
- scheme finances, including production of annual resource accounts;
- management of the Capita Hartshead, pensioner payroll contract.

CSP also act as agent for employers in the payment of compensation benefits arising under the Civil Service Compensation Scheme (CSCS). These benefits are calculated by APACs and paid by Capita but are subsequently recovered from employers. These flows are not brought to account in these financial statements.

The financial statements also include pensions and pensions increases payable under a number of other schemes, the majority of which are closed small schemes. Expenditure on all these schemes is less than one per cent of the total expenditure. This report makes no further reference to them. Money invested in the stakeholder pension option is not under the control of the Cabinet Office and is not shown in these statements although employer contributions will be reflected in individual departmental resource accounts.

The statements also include transactions and balances in respect of the Security Service and Secret Intelligence Service pension schemes, which are managed under separate arrangements.

The managers and advisers for the Civil Service schemes are listed below:

**Managers**

| | |
|---|---|
| Scheme Managers: | Civil Service Pensions Division, Cabinet Office, 8th Floor, Grosvenor House, Basing View, Basingstoke, RG21 4HG |

**Advisers**

| | |
|---|---|
| Scheme Actuary: | Hewitt Bacon & Woodrow Ltd, Parkside House, Epsom, KT18 5BS |
| Legal Advisers: | The Treasury Advisory Division, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ |
| Medical Advisers: | Capita Health Services, Greyfriars, 10 Queen Victoria Road, Coventry, CV1 3PJ who took over BMI from 11 July 2005 |
| Money Purchase Scheme Advisors: | Hewitt Associates Financial Services Ltd, 6 More London Place, London, SE1 2DA |
| Auditors: | Comptroller and Auditor General, 157-197 Buckingham Palace Road, London SW1W 9SP |
| Bankers: | Office of HM Paymaster General, Sutherland House, Russell Way, Crawley, RH10 1UH |

**Legislative changes**

The introduction of civil partnership registration from 5 December 2005 and the new tax regime for pension schemes which came into effect from 6 April 2006 resulted in a number of amendment schemes.

The following schemes were laid before Parliament on 11 November 2005 and apart from where specifically mentioned, came into effect from that date.

PCSPS (Amendment) Scheme – the changes related to:

- death benefit nominations in **classic;**
- the provisions of the Gender Recognition Act 2004 and the introduction of civil partnership registration;
- aggregation including a one off exercise for **classic** members.

CSCS (Amendment) Scheme – the changes related to:

- service transferred in on or after 1 April 1997;
- reckonable service for staff transferring from NATO and co-ordinated organisations.

CSIBS (Amendment) Scheme – the changes related to:

- benefits payable where the individual returns to work part time on medical grounds;
- the introduction of civil partnership registration.

CSAVC (Amendment) Scheme and Partnership Pension Account Death Benefit (Amendment) Scheme – to reflect the introduction of civil partnership registration.

The following schemes were laid before Parliament on 28 March 2006 and came into effect from 6 April 2006. The majority of the changes related to the requirements imposed by the new tax regime for pension schemes.

PCSPS (Amendment) Scheme – the changes related to:

- members who continue in employment beyond age 75;
- minimum pension age for members who join the scheme on or after 6 April 2006
- allocation;
- payment of pension credit benefits following a pension sharing order on divorce;
- transfers in from non occupational pension schemes;
- reducing members' benefits to recover Lifetime Allowance tax charges paid on their behalf;
- introduction of an "inactive" membership status for members registering for Enhanced Protection under the provisions of Finance Act 2004;
- age limits for the payment of pensions for children;
- retention of the earnings limit.

CSCS (Amendment) Scheme – options available to **classic** members on Compulsory Early Retirement and Flexible Early Retirement.

CSAVC (Amendment) Scheme- the changes related to:

- contribution limits;
- availability of a lump sum;
- extending transfer out arrangements for serving civil servants.

Partnership Pension Account Death Benefit (Amendment) Scheme-limits on benefits.

Partnership Pension Account Ill Health Benefit (Amendment) Scheme-retention of the earnings limit.

**Review of the Year**

*Proposals for reform of Civil Service pension arrangements*
Consultation on proposals for the reform of the Civil Service pension arrangements (contained in the Cabinet Office paper, *Building a sustainable future*) ended in March 2005. The key consultation proposals were a shift from a final salary model to a “whole career” or “career average” model with pensions based on earnings throughout a member’s career, and an increase in pension age from 60 to 65 (in line with Government policy for public service schemes).

In March 2005, the Prime Minister asked the Right Honourable Alan Johnson MP to lead in taking forward high-level discussions with the trade unions on pension reform across the public services. Scheme-specific negotiations stopped while the principles upon which reform should be taken forward were discussed at a series of meetings of the Public Services Forum (PSF).

Principles were agreed between the Government and the TUC at a PSF meeting in October 2005 which provided for:

- a pension age of 65 for new entrants to new schemes. Detailed provisions of the new schemes to be agreed by the unions;
- existing members to retain their existing pension provision (including a pension age of 60) unless changes are collectively or individually agreed;
- reforms to be within a cost envelope agreed by the Treasury (so that reforms achieve the savings originally planned) and pension arrangements generally to be sustainable.

The Cabinet Office’s negotiations with the Civil Service unions resumed in December 2005 and focussed on agreeing a new pension scheme for new entrants by summer 2006 in line with the PSF principles, with implementation following as soon as practicable thereafter.

*Tax simplification*
On 6 April 2006, the Government brought in, via the Finance Act 2004, a new regime for the taxation of pension saving. This includes, among other things, the introduction of a new tax where pension saving exceeds the “Lifetime Allowance”.

The PCSPS is not taking immediate advantage of most of the flexibilities offered by the new tax regime. The scheme has, therefore, retained the earnings cap (which limits the amount of pay that can be pensioned for those who have joined the scheme since June 1989) and will not be allowing members to take a greater proportion of their pension saving as a tax-free lump sum. Those with Additional Voluntary Contribution investments to take up to 25% of their fund as a lump sum if they so desire.

Changes to the schemes to reflect the new tax regime have nevertheless imposed a heavy workload, requiring changes to systems and processes, new scheme leaflets and booklets and amendments to scheme rules. CSP have also run a communication programme targeted at those likely to be most affected by the new Lifetime Allowance tax. Further details can be found on our website www.civilservice-pensions.gov.uk/LTA.

*Civil Partnership*
The Civil Partnership Act 2004 came into force from 5 December 2005 enabling couples of the same sex to enter into a civil partnership which will have a similar status to marriage. CSP amended the scheme rules, guidance material and member literature to provide a new category of beneficiary, the surviving civil partner, who receives the same benefits as a surviving spouse, except that in most cases their benefits are based on the member’s service from 6 April 1988 only. For members of **classic** and **classic plus**, this also required consequential changes to the circumstances where employee pension contributions are due, and where refunds can be paid.

*Civil Service Additional Voluntary Contribution Scheme (CSAVC)*
CSP continues to exercise its duty of care towards members by monitoring the position of Equitable Life carefully, and keeping in close contact with the CSAVC Scheme's advisers, Hewitt Associates Financial Services Ltd. As a result of advice received CSP wrote to all members who have a CSAVC with Equitable Life, including deferred and retired members who have not yet taken their AVC annuity, with an update on developments. CSP again asked all unit linked and building society investors to consider whether to transfer their unit linked and building society assets to an alternative provider.

*Ill-health Retirement Review*
CSP continues to seek to deliver against the Civil Service Action Plan for reducing medical retirements. CSP's target is, for most Civil Service employers, to have no more than 3.72 per 1,000 staff every year. A higher figure of 4.84 per 1,000 applies to designated risk employments such as prison officer. In 2004-05 the Civil Service average (excluding the prison services) was 2.06 per 1,000. This is a slight increase on the previous year, although still well below the target of 3.72 per 1,000. For the prison services, the numbers being medically retired was 3.58 per 1,000 – a significant drop from the previous year. Figures for 2005-06 will be available soon and CSP will continue to monitor the situation.

*Communications*
CSP continues to lead the Pensions Communication Network of representatives from employing departments to deliver our 3-year pensions communication strategy to raise members' awareness and appreciation of their Civil Service pension provision. Among other initiatives, over 60% of scheme members can now see on their payslip how much their employer is contributing to their pension each month.

*Complaints under the Internal Dispute Resolution Procedures*
Members and beneficiaries of the Civil Service pension arrangements who have a complaint can raise this through the Internal Dispute Resolution (IDR) procedure. At the first stage of the procedure the complaint is reviewed and a decision made by the administrator concerned (either the APAC or Capita). In the event of an appeal against the first stage decision the complainant can request that a further review be undertaken by CSP. Finally, members who remain dissatisfied after completing the IDR process can ask the Pensions Ombudsman to investigate their complaints. His decisions are binding on all parties, subject only to an appeal to the High Court on a point of law.

During the year the APACs and Capita completed 274 first stage decisions, upholding 50 of the complaints that they investigated. In the same period CSP completed 148 investigations at the second stage of the IDR process. In 107 cases CSP found in favour of the administrators. In the remaining 41 cases, CSP upheld in full or in part the complaints made by the scheme members and, where appropriate ordered remedial action.

The Pensions Ombudsman completed investigations into 20 of CSP's cases during the year and upheld its decision, in full or part, in 17 of them. In the three other cases, the Pensions Ombudsman's decision did not lead to a payment of benefit to the member of staff.

*National Fraud Initiative (NFI)*
CSP participated in NFI 2004. NFI is a biennial IT data matching exercise co-ordinated by the Audit Commission involving organisations within central and local government working together to identify and eliminate frauds and overpayments. Data on PCSPS pensions in payment are compared against data on recorded deaths to identify cases where pensions might remain in payment to deceased persons. PCSPS data are also matched against housing benefits so that local authorities can identify claimants who have failed to declare receipt of an occupational pension. NFI 2004 was the fourth exercise CSP had participated in. CSP identified about 500 potential overpayments of roughly £1 million in total. Half the cases have been investigated leading to recovery of almost £300,000. Investigation and recovery of the remaining overpayments is being actively pursued. CSP will participate in NFI 2006. This exercise is still at the planning stage.

*Transfers in to the PCSPS*
The Unified Courts Administration and the Wales Audit Office joined the PCSPS.

*Pensions increase*
Pension payments were increased by 3.1% from 11 April 2005, in line with the movement in the RPI All-items index from September 2003 to September 2004.

**Membership statistics**

Details of the membership of the PCSPS at 31 March 2006 were as follows:

| | |
|---|---|
| Active members* | 603,000 |
| Deferred members | 306,000 |
| Pensions in payment<br>Officers | 427,000 |
| Dependants of deceased members | 131,000 |
| Annual compensation payments (and other on-going payments) for which employers are responsible | 13,000 |
| Staff opting for **partnership** pension arrangements | 5,500 |

*The approximate split of active membership is 70% **classic,** 3% **classic plus** and 27% **premium.**

**Employers**

At 31 March 2006 pension administration had been delegated to 216 employers.

**Further information**

Any enquiries about Civil Service pension arrangements should be addressed:

Civil Service Pensions Division
Cabinet Office
8th Floor
Grosvenor House
Basing View
Basingstoke
RG21 4HG

Gus O'Donnell
Accounting Officer
6 July 2006

# Report of the Actuary

### Accounts for the year ended 31 March 2006

**A.** The Principal Civil Service Pension Scheme (PCSPS) is an unfunded public service scheme made under the Superannuation Act 1972. All payments of benefits and other liabilities from the scheme are met from the Civil Superannuation Request for Resources (RfR). Participating employers make contributions known as accruing superannuation liability charges (ASLCs), which are treated as Appropriations in Aid on the RfR. ASLCs are regularly assessed by the Scheme Actuary and are consistent with those that might have applied had the scheme been funded, making allowance for amortised surpluses or deficits that would have arisen in a funded scheme based on an assumed notional investment return. The most recent ASLC assessment was carried out by Hewitt Bacon & Woodrow Limited as at 31 March 2003 and included recommendations for the contribution rates applicable from 1 April 2005.

**B.** This Report relates solely to the liabilities of the Principal Civil Service Pension Scheme. Liabilities relating to payments made before normal retirement age as compensation for early retirement under the terms of the Civil Service Compensation Scheme fall to employers and are excluded.

### C. Liabilities

We have assessed the value of the expected benefit entitlements under the Principal Civil Service Pension Scheme built up during periods of employment (or former employment) prior to 31 March 2006. The capitalised value as at 31 March 2006 has been assessed using the methodology and assumptions set out in Sections E and F below. The results are as follows:

| **Value of Liabilities** | **£ billion** |
|---|---|
| Current pensions & associated contingent pensions | 37.9 |
| Deferred pensions, including contingent pensions, for those no longer contributing | 18.3 |
| Accrued benefits available to members contributing to the scheme | 45.1 |
| **Total** | **101.3** |

### D. Accruing Costs

The cost of benefits accruing for each year of service is shared between members and employers. Employees in the Classic section make contributions of 1.5% of pensionable pay. Employees in the Classic Plus and Premium sections, which came into effect as from 1 October 2002, make contributions of 3.5% of pensionable pay. Employers meet the balance of the cost. The employers' contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates which were assessed under the ASLC mechanism as required to meet the cost of benefits accruing in the year 2005-06 were as follows:

### Employer's Share of Contribution Rate

| **Pay band from April 2005** | **% of Pensionable Pay Standard Rate** | **% of Pensionable Pay Rate charged** |
|---|---|---|
| £18,000 and under | 17.1% | 16.2% |
| £18,001 to £37,000 | 19.5% | 18.6% |
| £37,001 to £63,500 | 23.2% | 22.3% |
| £63,501 and above | 25.5% | 24.6% |
| **Estimated average rate charged to Employers for current year** | | **18.5%** |
| Rate payable by the Prison Service for prison officers employed before September 1987 and entitled to enhanced benefits | | **25.6%** |

The employers' contributions receivable are assessed as £2.4 billion for financial year 2005-06. It was agreed by the Cabinet Office that increases in employers' contributions arising with effect from 1 April 2005 would be phased in. Therefore, the rates charged, averaging 18.5%, are less than the standard charges due in 2006-07 and subsequent years, averaging 19.4%. The next quadrennial ASLC assessment will be carried out as at 31 March 2007.

**E. Methodology**

The value of the liabilities has been obtained by using the projected accrued benefits method. Expected future pay increases made to employed members are allowed for. The standard contribution rate for accruing costs has been determined under the ASLC assessment using the projected unit method, with a control period of 1 year.

**F. Assumptions**

The principal financial assumptions adopted for the pension assessments made in relation to this statement are an investment return in excess of price increases of 2.8% p.a. (pension benefits under the scheme are generally increased in line with prices), and an investment return in excess of earnings increases of 1.4% p.a. The gross rate of return is assumed to be 5.37% p.a. 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 3.9% p.a. and an allowance for price inflation of 2.5% p.a. The demographic assumptions are those adopted for the most recent ASLC assessment, and were derived from the specific experience of the membership of this scheme.

**G. Notes**

Our calculation of the liabilities as at 31 March 2006 has been based on a detailed but approximate update of a full actuarial valuation of the scheme as at 31 March 2003. For this purpose we have used data supplied by the Scheme administrators as at 31 December 2005. Our calculations take account of the 2.7% pension increase granted in April 2006.

The pension benefits taken into account in this assessment are those normally provided under the rules of the pension scheme. These include those paid on retirement, ill-health retirement, and following the death of a member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits) or redundancy benefits which might arise in respect of current employees.

**Statement**

We have prepared this Report for the Cabinet Office as managers of the Principal Civil Service Pension Scheme. In our opinion the assessment of the liabilities of the scheme as at 31 March 2006 and of the accruing cost of benefits set out above comply with the requirements of Chapter 8 of the Financial Reporting Manual for the financial year 2005-06.

for Hewitt Bacon & Woodrow Limited 26 June 2006
R K Mulcahy
Fellow of the Institute of Actuaries

## Statement of Accounting Officer's Responsibilities

Under Government Resources & Accounts Act 2000, HM Treasury has directed the Principal Civil Service Pension 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 accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Principal Civil Service Scheme and its net resource outturn, income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

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

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and

- Prepare the accounts on a going concern basis.

HM Treasury has appointed Sir Gus O'Donnell from 1 March 2006 as Accounting Officer for the Principal Civil Service Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Scheme's assets, are set out in the Accounting Officer's 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 Civil Superannuation's policies, aims and objectives, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

I have delegated to the Head of Civil Service Pensions Division (CSP), responsibilities for the management of the Civil Superannuation Resources. This delegation is contained in a Memorandum of Understanding (MOU) which forms part of a wider delegation and control framework designed to ensure that Civil Superannuation receives all monies properly due, and to safeguard the regularity and propriety of expenditure. The MOU sets out those responsibilities which co-exist with, and are additional to, the Head of CSP's normal duties as a Cabinet Office official.

Responsibility for pensions administration is delegated to employers under the Superannuation Act 1972. This means that Accounting Officers in departments are responsible for all aspects of pensions administration including the calculation of pension benefits for their employees and for ensuring that appropriate systems of internal control are in place. All employers have engaged one of nine APACs to calculate pension awards on their behalf. These APACs operate to a developed control framework standard. All APACs have been reminded of their corporate governance responsibilities during the year and have accepted these responsibilities. Under an agreed protocol Accounting Officers provide me with annual letters of assurance regarding the administration of the PCSPS for their staff. I, personally, write to Accounting Officers if they do not provide their assurance statements to me on time.

Responsibility for the administration of the Security Service and Secret Intelligence Service pension schemes included in these financial statements rests with the relevant agencies. The Accounting Officer for these agencies provides me with an annual assurance statement that he is satisfied that there are suitable controls in operation.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the aims and objectives of Civil Superannuation, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Civil Superannuation for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

CSP is a small organisation with some 50 staff. Management of risk is embedded in policymaking, planning and delivery. Comprehensive guidance on risk management is available on the departmental intranet and CSP's risk management approach is raised with all new staff as part of the induction process. In CSP the main processes for identifying, evaluating, managing risk and changes to risks are conducted at Branch level. In accordance with the MOU, risk registers are maintained by each branch of CSP and are reviewed regularly by the branches and by the CSP risk manager. Corporate governance is also a standing agenda item at each monthly CSP management team meeting. Business priorities are set out in the CSP business plan and all risks which could have a major impact on the Cabinet Office are communicated to the Senior Management Team of the Corporate Development Group (to which the Head of CSP reports), and to me. They would also be reported to the Cabinet Office Audit and Risk Committee who advise me on the effectiveness of the systems of internal control.

**The risk and control framework**

The respective roles and responsibilities of employers and APACs are documented and are kept under review by CSP. Responsibilities for maintenance of sound corporate governance arrangements form part of that documentation. Periodic audit is a condition of the Employer delegation and both employers and APACs report on the date of their last internal audit, whether recommendations have been implemented, and audit plans. CSP strategically monitors the operation of APACs who provide quarterly compliance statements, six monthly corporate governance statements and an annual assurance report. CSP hold bilateral meetings at each APAC site on an approximate 6 monthly cycle at which a range of issues including corporate governance and the management of risks are discussed. CSP maintains joint risk registers with APACs. CSP also chairs meetings of the APAC Board and the PenServer (scheme software) User Group and attends and contributes to meetings of the APAC Best Practice Club.

The pensioner payroll service is operated under contract by Capita Hartshead. Their contractual responsibilities include paying pensioners and processing new awards received from APACs on behalf of employers. In 2005-06 they operated appropriate corporate governance and internal control arrangements and their operations were audited. Capita's directors and Head of Internal Audit provide assurance statements, six monthly and annually respectively, on the adequacy and effectiveness of their system of internal control. CSP manages the contract, monitors performance and operates a joint risk register with Capita.

**Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within CSP who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Committee.

Civil Superannuation is a standing agenda item at all Audit and Risk Committee meetings and CSP provide the Committee with updates, as necessary, on accounting and risk/control issues. Cabinet Office Internal Audit's view is that the corporate governance arrangements in CSP are sound, though CSP necessarily has to rely on organisations outside of its direct control.

**Planned improvements**

CSP regularly review the effectiveness of the system of internal control and seek to make improvements. A Business Continuity Plan is being prepared for CSP. Plans already exist at all APACs and Capita.

During 2005-06 CSP brought to the attention of the Committee the issue of the lack of engagement at employer level to manage interface developments robustly. The Committee were advised of the steps being taken by CSP to address this issue.

No significant internal control issues arose during the year.

Gus O'Donnell
Accounting Officer
6 July 2006

# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

### Cabinet Office: Civil Superannuation

I certify that I have audited the financial statements of Cabinet Office: Civil Superannuation for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Revenue Account and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and auditor

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

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland). I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Report of the Managers is not consistent with the financial statements, the Report of the Managers is not consistent with the Report of the Actuary, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 12 and 13 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

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

### 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 the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements 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**

In my opinion:

- the financial statements give a true and fair view of the Scheme for the year ending 31 March 2006, the net resources, the net outgoings, recognised gains and losses and the cash requirement for the year and the amount and disposition at that date of its assets and liabilities, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury;

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

I have no observations to make on these financial statements.

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

11 July 2006

# Statement of Parliamentary Supply

## Summary of Resource Outturn 2005-06

| | | 2005-06 £000 | | | | | | | 2004-05 £000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | | 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 Total |
| Civil superannuation | | 9,366,751 | 3,443,700 | 5,923,051 | 9,300,971 | 3,443,700 | 5,857,271 | 65,780 | 5,526,019 |
| Non-budget | | 10,753,889 | - | 10,753,889 | 10,753,889 | - | 10,753,889 | - | - |
| Total Resources | | 20,120,640 | 3,443,700 | 16,676,940 | 20,054,860 | 3,443,700 | 16,611,160 | 65,780 | 5,526,019 |

## Summary of net cash requirement 2005-06

| | | | | 2005-06 £000 Net Total Outturn Compared with Estimate: | 2004-05 £000 |
|---|---|---|---|---|---|
| | Note | Estimate | Outturn | saving/ (excess) | |
| Net cash requirement | 38 | 835,000 | 639,721 | 195,279 | 1,193,265 |

## Summary of income payable to the Consolidated Fund

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

| | | | Forecast 2005-06 £000 | | Outturn 2005-06 £000 |
|---|---|---|---|---|---|
| | Note | Income | Receipts | Income | Receipts |
| Operating income & receipts – excess AinA | 26 | 100,000 | *100,000* | 132,381 | *156,023* |
| Non-opearting income & receipts – excess AinA | | - | - | 5 | 5 |
| **Total** | | **100,000** | ***100,000*** | **132,386** | ***156,028*** |

**Explanation of the variation between Estimate Request for Resources and Outturn Request for Resources.**
The outturn is within 0.4% of the Estimate.

**Explanation of the variation between estimate net cash requrement and outturn net cash requirement.**
The use of provisions for pensions was less than expected due to the timing of the settlement of bulk transfers.

The notes on pages 20 to 39 form part of these accounts.

# Combined Revenue Account for the year ended 31 March 2006

| Principal arrangements | Note | 2005-06 (£000) | 2004-05 (£000) |
|---|---|---|---|
| **PCSPS** | | | |
| **Contributions:** | | | |
| Contributions receivable | 9 | (2,830,219) | (2,067,110) |
| Transfers in | 10 | (612,851) | (176,594) |
| Other pension income | 11 | (90,241) | (45,992) |
| | | (3,533,311) | (2,289,696) |
| **Charged to provisions** | | | |
| Pension cost | 12 | 3,437,913 | 2,677,762 |
| Enhancements | 13 | 122,172 | 76,476 |
| Transfers-in | 14 | 516,836 | 139,585 |
| Interest on scheme liabilities | 15 | 5,100,079 | 4,703,119 |
| | | 9,177,000 | 7,596,942 |
| **Group transfer provisions** | | | |
| Movements | 16 | - | (3,734) |
| **Not charged to provisions** | | | |
| Benefits payable | 17 | 7,060 | 7,242 |
| **Net outgoings for the year** | | **5,650,749** | **5,310,754** |
| **Compensation agency arrangements** | | | |
| **CSCS** | | | |
| **Charged to provisions** | | | |
| Revaluation of central funding provisions | 18 | - | 3,000 |
| **Not charged to provisions** | | | |
| Benefits payable | 19 | 1,869 | 3,420 |
| | | 1,869 | 6,420 |
| **Net outgoings for the year** | | **1,869** | **6,420** |
| **Other minor agency and principal pension scheme arrangements** | | | |
| **Other pension schemes** | | | |
| **Contributions** | | | |
| Contributions receivable | | (42,770) | (28,213) |
| **Charged to provisions** | | | |
| Total charge to provisions | | 113,896 | 88,248 |
| **Not charged to provisions** | | | |
| Benefits payable | 20 | 1,146 | 1,207 |
| **Net outgoings for the year** | | **72,272** | **61,242** |
| **COMBINED NET OUTGOINGS FOR THE YEAR** | | **5,724,890** | **5,378,416** |

## Consolidated Statement of Recognised Gains and Losses for the year ended 31 March 2006

| | 2005-06 | 2004-05 |
|---|---|---|
| Actuarial loss | 885,062 | 1,271,505 |
| **Total recognised losses for the financial year** | 885,062 | 1,271,505 |
| Transfer in of inherited liabilities | - | 935,000 |
| **Total losses recognised since last annual report** | **885,062** | **2,206,505** |

The notes on pages 20 to 39 form part of these accounts.

# Combined Balance Sheet as at 31 March 2006

| | | 2005-06 | 2004-05 |
|---|---|---|---|
| **Principal arrangements** | Note | **£000** | **£000** |
| **PCSPS** | | | |
| **Current assets:** | | | |
| Debtors | 23 | 340,258 | 222,919 |
| Cash at bank | 24 | 90,509 | 28,344 |
| Balance with Government Departments | 24 | 310 | 330 |
| | | 431,077 | 251,593 |
| **Current liabilities:** | | | |
| Creditors due within one year | 25 | (138,338) | (128,017) |
| Consolidated Fund – Excess AinA current year | 26 | (132,381) | (107,603) |
| Consolidated Fund – Excess AinA prior year | 26 | - | (43,085) |
| Consolidated Fund – unspent supply | 27 | (95,279) | (37,067) |
| | | (365,998) | (315,772) |
| **Net current assets/liabilities** | | **65,079** | **(64,179)** |
| Debtors: amounts receivable after more than one year | 23 | 335,000 | - |
| **Provision for liabilities and charges:** | | | |
| Pensions | 28 | (101,336,313) | (84,111,573) |
| Group transfers | 29 | - | (87,141) |
| **Net liabilities** | | **(100,936,234)** | **(84,262,893)** |
| **Compensation agency arrangements** | | | |
| **CSCS** | | | |
| **Current assets and liabilities:** | | | |
| Debtors | 30 | 4,455 | 2,120 |
| Creditors due within one year | 31 | (3,938) | (7,277) |
| **Net current liabilities** | | **517** | **(5,157)** |
| Creditors due after one year | 31 | (1,669) | (5,607) |
| Provisions for liabilities and charges | 33 | (4,500) | (17,000) |
| **Net liabilities** | | **(5,652)** | **(27,764)** |
| **Other minor agency and principal pension scheme arrangements** | | | |
| **Other pension schemes** | | | |
| **Current assets and liabilities** | | | |
| Debtors | 34 | 2,900 | 1,887 |
| Creditors due within one year | 35 | (18) | (68) |
| **Net current liabilities** | | **2,882** | **1,819** |
| Provisions for liabilities and charges | | | |
| Pensions | 36 | (1,226,400) | (1,021,000) |
| **Net liabilities** | | **(1,223,518)** | **(1,019,181)** |
| **Combined Scheme Net Liabilities** | | **(102,165,404)** | **(85,309,838)** |
| **Taxpayers' equity:** | | | |
| General Fund | 37 | **(102,165,404)** | **(85,309,838)** |

Accounting Officer
6 July 2006

The notes on pages 20 to 39 form part of these accounts.

# Consolidated Cash Flow Statement for the year ended 31 March 2006

| | | 2005-06 | 2004-05 |
|---|---|---|---|
| | | £000 | £000 |
| Net cash outflow from operating activities | 38.1 | (486,034) | (1,093,396) |
| Receipts due to the Consolidated Fund which are outside the scope of Civil Superannuation's activities | | - | - |
| Payments of amounts due to the Consolidated Fund | | (149,754) | (108,040) |
| Financing | 38.2 | 697,933 | 1,235,996 |
| Increase in cash in the period | 38.2 | **62,145** | **34,560** |

The notes on pages 20 to 39 form part of these accounts.

# Notes to the Accounts

**1. Basis of preparation of the scheme statement**

1.1 The combined scheme statements have been prepared in accordance with the relevant provisions of the 2005-06 *Government Financial Reporting Manual (FReM)* issued by the Treasury which reflect the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits.* These accounts show the unfunded pension liabilities and movements in those liabilities 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.

**PCSPS principal arrangements**

1.2 The statement summarises the transactions of the PCSPS where Civil Service Pensions Division acts as a principal. The balance sheet shows the deficit on the scheme. The revenue account shows, amongst other things, the movements in liabilities analysed between the current service cost, enhancements and transfers in, and the interest on the scheme liabilities. The actuarial position of the PCSPS is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

**CSCS agency arrangements**

1.3 CSP acts as agent for employers in the payment of compensation benefits arising under the CSCS. Compensation benefits paid out in the course of the month are generally recovered from employers at month-end. These financial flows are not brought to account in the financial statements. However, the financial statements recognise the liabilities arising from the central funding of compensation payments (see note 33) and any amounts that have been pre-funded or pre-paid by employers (see note 31). These liabilities comprise some £4.5 million (2004-05: £17 million) in relation to centrally funded elements of the compensation scheme and £6 million (2004-05: £13 million) in relation to prefunding of compensation liabilities by employers. The accumulated value of the future funding to be reimbursed from the Consolidated Fund as and when payments are made to beneficiaries is not reflected as an asset of the CSCS in these accounts as the sums payable are subject to annual approval by Parliament through the supply procedure.

**Other minor agency and principal pension scheme arrangements**

1.4 In addition, the financial statement includes transactions relating to other minor pension schemes, a number of which are closed schemes. CSP acts as principal in respect of pensions paid to the widows of former members of the Royal Irish Constabulary, and a pension paid to the Governor of an overseas colony, awarded prior to the introduction of a new scheme on 30 September 1978. CSP acts as principal in respect of the Security Service and Secret Intelligence Service pension schemes on the basis of audited information supplied by the agencies. CSP acts an agent for the following schemes:

- Pension increases to former Prime Ministers, former Speakers, various former public service appointees and former MEPs and their widow(er)s;
- Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service;
- Payments to Post Office Staff Superannuation Scheme for pensions paid in respect of periods in the Civil Service;
- Pension increases in respect of insurance based pensions to former staff of the Wheat Commission;
- Pension increases in respect of pensions paid to former staff of the Raw Cotton Commission;
- Pension increases in respect of pensions paid to former staff of the Sugar Board;

- Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seamans' National Insurance Society);
- Federated Superannuation Scheme for Universities.

1.5 The accounting policies adopted are described below. They have been consistently applied in dealing with items that are considered material in relation to the scheme statement.

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**2. Accounting policies for PCSPS principal arrangements**

2.1 The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

2.3 These accounts have been prepared under the historical cost convention.

*2.4 Contributions receivable*

2.4.1 Employers' normal pension contributions are accounted for on an accruals basis. There are no employers' special pension and compensation contributions.

2.4.2 Employees' pension contributions which exclude amounts received in respect of the purchase of added years service (dealt with in 2.4.3 below) and Additional Voluntary Contributions (dealt with in 2.16 below) are accounted for on an accruals basis.

2.4.3 Employees' pension contributions paid in respect of the purchase of added years service are accounted for on an accruals basis. The associated increase in the PCSPS pension liabilities is recognised as expenditure.

*2.5 Transfers in*

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

*2.6 Income received from departments in respect of enhancements*

2.6.1 Amounts receivable from employers in respect of bringing forward the payment of accrued superannuation lump sums, and in respect of the capitalised costs of pension enhancement either at early departure or normal retirement age, are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on an accruals basis.

*2.7 Other pension income*

2.7.1 The remaining element of "other income" including repayment of gratuities and overpayments recovered other than by deduction from future benefits, are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on an accruals basis.

*2.8 Pension cost*

2.8.1 The current service cost is the increase in the present value of the PCSPS pension liabilities arising from members' service in the current period and is recognised in the revenue account. It is calculated by adding the employers' contributions, factored up from the rates charged, averaging 18.5%, to the standard charge, averaging 23.2%, to the employees' normal contributions.

2.8.2 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, or improvement to, retirement benefits.

*2.9 Interest on scheme liabilities*

2.9.1 The interest cost is the increase during the period in the present value of the PCSPS pension liabilities because benefits are one year closer to settlement and is recognised in the revenue account. The interest cost is based on a nominal rate of 5.37% (discount 2.8% real and assumed inflation rate of 2.5%). The nominal rate is applied to the value of the PCSPS pension liabilities at the beginning of the accounting period, and to one half of the movement in the value of the liabilities during the year, excluding the interest charge itself and any actuarial gain or loss, assuming that the movement accrues evenly throughout the year.

*2.10 Injury benefits*

2.10.1 Injury benefits are accounted for on an accruals basis. They are not funded through the employers' pension contributions and the amounts payable in respect of injuries sustained before 1 April 1998 are a charge on the PCSPS and are shown in the revenue account. Those benefits paid in respect of injuries sustained on or after 1 April 1998 are recoverable from employers each month.

*2.11 Scheme liabilities*

2.11.1 Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at 2.8% real (5.37% after inflation). 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.

*2.12 Pension benefits payable*

2.12.1 Pension benefits payable, including lump sums, are accounted for on an accruals basis as a decrease in the PCSPS pension liabilities.

*2.13 Payments to and on account of leavers*

2.13.1 Refunds of employees' contributions are accounted for on an accruals basis and as a decrease in the PCSPS pension liabilities. Refunds include amounts payable both at time of leaving or at normal retirement age (or earlier death).

*2.14 Transfers out*

2.14.1 Transfers out are accounted for on a cash basis. They are accounted for as a decrease in the PCSPS pension liabilities.

*2.15 Actuarial gains/losses*

2.15.1 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.

*2.16 Additional Voluntary Contributions*

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

*2.17 Central management administrative expenses*

Employers are responsible for the day to day administration of the PCSPS/CSCS and meet the associated costs from their running cost provision. An element of the accruing superannuation liability charge, paid by employers, is appropriated in aid of the Cabinet Office to offset central management costs. These include the costs associated with the management and development of Civil Service pension arrangements, the procurement of pension payroll and other services, maintenance and development of pension software used by scheme administrators and the publication of explanatory scheme material. In 2005-06 these costs amounted to £10.1 million (2004-05: £9.8 million).

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**3. Accounting policies for CSCS agency arrangements**

*3.1 Benefits payable*

3.1.1 Compensation benefits for staff leaving before normal retirement age are met by employing departments. For administrative convenience and value for money considerations, compensation benefits are paid initially by CSP, throughout the month, but then recovered from employers at month-end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2005-06 are shown at note 19.

*3.2 Central funding of early departures*

3.2.1 Some employers receive central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support will continue until their former employees reach normal retirement age, usually 60. At that stage compensation payments will be replaced by pension payments payable under the rules of the PCSPS.

3.2.2 See note 32 for the disclosures required in FRS 12, *"Provisions, contingent liabilities and assets"*.

3.2.3 The liabilities for central funding are recognised in the combined balance sheet as a provision that shows the net present value of the estimated cash flows relating to the stream of payments that will arise until the central funding arrangements have run their course; likely to be March 2007. Compensation benefits payable are accounted for on an accruals basis.

*3.3 Pre-funding of early retirements*

3.3.1 Under arrangements that were discontinued with effect from 1 April 2000, some employers were able to make cash payments to CSP to pre-fund compensation payments that will be paid to their former employees in the forthcoming years. Employers have allocated these amounts, subsequently surrendered to the Consolidated Fund, for use in each financial year, up to and including 2009-10. Cash received, but not yet utilised, is recognised as a liability in the combined balance sheet. Transactions that clear these liabilities are recorded as balance sheet items only.

3.3.2 The cash pre-funded by employers reduces their liabilities for compensation benefits by a greater amount and the discount, the difference between the cash pre-funded and the offset allowed in the year, is charged to the combined revenue account, see note 19.

*3.4 Pre-payment of early retirement costs*

3.4.1 Prior to the privatisation of Her Majesty's Stationary Office (HMSO) in September 1996, a cash payment was made to CSP, subsequently surrendered to the Consolidated Fund, to extinguish liabilities for compensation benefits in respect of their former employees. The cash payment has been fully utilised. Compensation benefits payable in respect of former HMSO employees are charged to the combined revenue account, see note 19. These compensation payments will be replaced by pension payments payable under the rules of the PCSPS when former HMSO employees reach age 60.

## 4. Accounting policies for other minor agency and principal pension scheme arrangements

4.1 The policies applied to the PCSPS principal arrangements also apply to the transactions and balances of the Security Service and Secret Intelligence Service pension schemes included within these financial statements, with the exception that current service costs are calculated using rates specific to the agencies.

## 5. Reconciliation of Estimates, accounts and budgets

5.1 The adjustment of £10.8 billion reflects the difference between the Estimate and accounting treatment of the change in the discount rate from 3.5% real to 2.8% real with effect from 1 April 2005. Parliamentary approval was given for the necessary resources, and was reflected as a non-budget item in the Estimates and in the Statement of Parliamentary Supply.

For accounting purposes, the effects of the change in the discount rate are reflected through reserves and not recognised in the Revenue account. There is thus a difference between the bases on which the Statement of Parliamentary Supply and the Revenue account have been prepared. For 2006-07, the Estimates and the accounting treatment will be brought into line.

*5.2 Reconciliation of net resource outturn to combined net outgoings*

| | | | | 2005-06 | 2004-05 |
|---|---|---|---|---|---|
| | | | | **£000** | **£000** |
| | **Note** | **Outturn** | **Supply Estimate** | **Outturn compared with Estimate** | **Outturn** |
| Net Resource Outturn | | 16,611,160 | 16,676,940 | 65,780 | 5,526,019 |
| Non-supply income (CFERs) | 26 | (132,381) | (100,000) | 32,381 | (147,603) |
| Adjustment for effects of change in the discount rate | 28 | (10,753,889) | (10,753,889) | - | - |
| Combined Net Outgoings | | **5,724,890** | **5,823,051** | **98,161** | **5,378,416** |

## 6. Reconciliation of resources to cash requirement

| | Note | Estimate | Outturn | Net total outturn compared with estimate: Saving/ (excess) |
|---|---|---|---|---|
| | | £000 | £000 | £000 |
| Net Resource Outturn | | 5,923,051 | 5,857,271 | 65,780 |
| Accruals adjustments: | | | | |
| Non-cash items | 39 | (9,356,751) | (9,290,896) | (65,855) |
| Changes in working capital other than cash | 40 | 333,000 | 135,060 | 197,940 |
| Changes in creditors/debtors falling due after more than one year | 42 | 342,277 | 338,938 | 3,339 |
| Use of provision: | | | | |
| Pension | 28 | 3,580,923 | 3,582,374 | (1,451) |
| Central funding | 33 | 12,500 | 12,500 | - |
| Old group transfers | 29 | - | 4,474 | (4,474) |
| Net Cash Requirement | | **835,000** | **639,721** | **195,279** |

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

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

| | | Forecast 2005-06 | | Outturn 2005-06 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| | Note | Income | Receipts | Income | Receipts |
| Operating income and receipts – Excess A in A | 26 | 100,000 | *100,000* | 132,381 | *156,024* |
| Other operating income and receipts not classified as A in A | | - | - | 5 | *5* |
| | | 100,000 | *100,000* | 132,386 | *156,029* |
| Other non-operating income and receipts not classified as A in A | | | | | |
| Other amounts collectable on behalf of the Consolidated Fund | | - | - | - | - |
| Excess cash surrenderable to the Consolidated Fund | | - | - | - | - |
| Total income payable to the Consolidated Fund | | **100,000** | ***100,000*** | **132,386** | ***156,029*** |

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

| | Note | 2005-06 | 2004-05 |
|---|---|---|---|
| | | £000 | £000 |
| Operating income | 9-11 | 3,576,081 | 2,317,909 |
| Adjustments for transactions between RfRs | | - | - |
| Gross income | | 3,576,081 | 2,317,909 |
| Income authorised to be Appropriated in Aid | | (3,443,700) | (2,170,306) |
| Operating income payable to the Consolidated Fund | | **132,381** | **147,603** |

## Revenue account – PCSPS principal arrangements

### 9. Pension contributions receivable

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Employers' | (2,518,792) | (1,780,579) |
| Employees': | | |
| Normal | (279,496) | (256,047) |
| Purchase of added years | (31,931) | (30,484) |
| | **(2,830,219)** | **(2,067,110)** |

### 10. Pension transfers-in

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Group transfers from other schemes | (484,408) | (47,314) |
| Individual transfers in from other schemes | (128,443) | (129,280) |
| | **(612,851)** | **(176,594)** |

### 11. Other pension income

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Refund of gratuities received | (19) | (56) |
| Amounts receivable in respect of: | | |
| bringing forward the payment of accrued superannuation lump sums | (24,710) | (10,854) |
| capitalised cost of enhancement to pensions, payable on departure | (54,202) | (27,427) |
| capitalised cost of enhancement to pensions, payable at age 60 | (11,310) | (7,655) |
| | **(90,241)** | **(45,992)** |

### 12. Pension Cost – charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Current service cost | 3,436,793 | 2,676,662 |
| Past service costs | 1,120 | 1,100 |
| | **3,437,913** | **2,677,762** |

### 13. Enhancements – charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Employees: | | |
| Purchase of added years | 31,931 | 30,484 |
| Refund of gratuities received | 19 | 56 |
| Amounts receivable in respect of: | | |
| bringing forward the payment of accrued superannuation lump sums | 24,710 | 10,854 |
| capitalised cost of enhancement to pensions, payable on departure | 54,202 | 27,427 |
| capitalised cost of enhancement to pensions, payable at age 60 | 11,310 | 7,655 |
| | **122,172** | **76,476** |

### 14. Pension transfers-in – charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Group transfers from other schemes | 388,393 | 10,305 |
| Individual transfers in from other schemes | 128,443 | 129,280 |
| | **516,836** | **139,585** |

### 15. Interest charge – charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Interest charge for the year | 5,100,079 | 4,703,119 |
| | **5,100,079** | **4,703,119** |

15.1 The interest charge has been determined by taking 5.37% of the opening scheme liabilities balance plus 5.37% of one half of the movement in the value of scheme liabilities during the year, deemed to accrue evenly through the year. The movements exclude the interest charge and actuarial gains or losses.

### 16. Benefits payable – group transfer provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Revaluations (see note 29) | - | (3,734) |
| | - | (3,734) |

### 17. Benefits payable – not charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Injury benefits payable | 10,442 | 9,414 |
| Less recoverable from employers | (3,382) | (2,736) |
| Old group transfers out | - | 564 |
| | **7,060** | **7,242** |

### Revenue account – CSCS compensation agency arrangements

The following represent annual compensation payments payable, not recoverable from employers, brought to account in the combined revenue account.

### 18. Benefits payable – charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Revaluation of central funding provisions at year-end in respect of annual pensions increase and discounted amount arising from passage of time (interest expense) | - | 3,000 |
| | - | **3,000** |

## 19. Benefits payable – not charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Difference between provision for current year and outturn expenditure | 297 | 641 |
| Discounts allowed on pre-funded annual compensation payments | 1,320 | 2,332 |
| Discounts allowed on pre-paid annual compensation payments | 252 | 447 |
| | **1,869** | **3,420** |

The following represent the total annual compensation payments and compensation lump sums payable:

| | | |
|---|---|---|
| Recoverable from employers | 149,708 | 122,827 |
| Pre-funded by employers | 7,277 | 11,451 |
| Discounts allowed on pre-funding | 1,320 | 2,332 |
| Discounts allowed on pre-payments | 252 | 447 |
| Met by central funding | 12,797 | 23,641 |
| **Total annual compensation payable** | **171,354** | **160,698** |
| Lump sum payments | | |
| Recoverable from employers | 197,125 | 114,324 |
| **Total lump sums payable** | **197,125** | **114,324** |

## Revenue account – Other minor agency and principal pension scheme arrangements

## 20. Benefits payable – not charged to provisions

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Royal Irish Constabulary dependents | 2 | 3 |
| Pensions increase for ex-PMs/Speakers | 50 | 61 |
| Pensions increase for Public Service Appointments | 115 | 126 |
| Pensions increase ex for MEPs/widow(er)s | 152 | 124 |
| Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service | 58 | 57 |
| Payments to Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service | 404 | 456 |
| Pensions increases in respect of insurance based pensions to former staff of the Wheat Commission | 1 | 5 |
| Pensions increases in respect of pensions paid to former staff of the Raw Cotton Commission | 3 | 6 |
| Pensions increases in respect of pensions paid to former staff of the Sugar Board | 21 | 21 |
| Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seamans' National Insurance Society) | 4 | 4 |
| Pensions to Governors of overseas colonies awarded prior to the introduction of a new scheme in 1978 | 1 | 1 |
| Federated Superannuation Scheme for Universities | 335 | 343 |
| | **1,146** | **1,207** |

## 21. Additional Voluntary Contributions

21.1 The Civil Service Additional Voluntary Contribution Scheme (CSAVCS) provides for employees to make AVCs to increase their pension entitlements or to increase life cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment by their employers to one of the three appointed providers (Equitable Life Assurance Society, Scottish Widows' Fund and Standard Life Assurance Society), or may chose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution Schemes (FSAVCs). The Managers of the CSAVCS are only responsible for payments made to the Scheme's appointed providers. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the appointed provider at 31 March each year (5 April for Equitable Life) confirming the amounts held to their account and the movements in year.

*21.2 The aggregate amounts of AVC investments are as follows:*

| | | 2005-06 | | | 2004-05 | |
|---|---|---|---|---|---|---|
| | **Standard Life** | **Equitable Life**[1] | **Scottish Widows** | **SL** | **EL**[1] | **SW** |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Movements in the year were as follows:** | | | | | | |
| Balance at 1 April | 33,008 | 24,648 | 126,091 | 17,855 | 44,410 | 110,443 |
| Adjustment for schemes not included in prior year statement | - | 1,452 | - | - | - | - |
| New investments | 3,559 | 555 | 23,471 | 13,486 | (19,029) | 20,331 |
| Sales of investments to provide pension benefits | (875) | (3,349) | (6,489) | (1,441) | (2,863) | (7,225) |
| Changes in market value of investments | 8,043 | 2,810 | 7,702 | 3,108 | 2,130 | 2,542 |
| **Balance at 31 March** | **43,735** | **26,116** | **150,775** | **33,008** | **24,648** | **126,091** |
| Contributions to provide life cover | n/a | 179 | n/a | n/a | 168 | n/a |
| Benefits paid on death | n/a | 311 | n/a | n/a | 277 | n/a |

[1] data as at 5 April

## 22. Contingent liabilities

In the unlikely event of default by an appointed AVC provider, pension payments are guaranteed by the scheme. This guarantee does not apply to members who make payments to institutions offering FSAVCs nor where members exercise the open market option and purchase their annuity elsewhere.

## Balance sheet – PCSPS principal arrangements

### 23. Debtors

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| **Amounts falling due within one year:** | | |
| Employers' contributions | 163,794 | 89,180 |
| Employees' normal contributions | 16,881 | 11,314 |
| Employees' added years | 2,804 | 2,274 |
| Bringing forward the payment of accrued superannuation lump sums | 75 | 92 |
| Capitalised cost of enhancement to pensions payable on departure | 507 | 268 |
| Capitalised cost of enhancement to pensions payable at age 60 | 84 | 47 |
| Group transfers | 153,721 | 117,417 |
| **Sub Total** | **337,866** | **220,592** |
| Overpayment debtors | 2,387 | 2,324 |
| Injury benefit debtors | 5 | 3 |
| **Balance at 31 March** | **340,258** | **222,919** |
| **Amounts falling due after more than one year:** | | |
| Group transfers | 335,000 | - |
| | **335,000** | **-** |

Included within these figures is £132.381 million (2004-05: £150.688 million) that will be due to the Consolidated Fund once these debts are collected.

### 24. Cash analysis

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Cash at bank | 90,509 | 28,344 |
| Balance with Government Departments | 310 | 330 |
| Non-Supply debtors for CSCS payments | 4,455 | 2,120 |
| Non-Supply debtors for injury benefit payments | 5 | 3 |
| Amounts undrawn from the Consolidated Fund in respect of Supply | 100,000 | 100,000 |
| | **195,279** | **130,797** |
| Consolidated Fund Supply unspent at year-end | 195,279 | 137,067 |
| Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund | - | (6,270) |
| | **195,279** | **130,797** |

### 25. Creditors – amounts falling due within one year

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Pensions | (103,403) | (98,229) |
| Inland Revenue | (34,935) | (29,788) |
| **Balance at 31 March** | **(138,338)** | **(128,017)** |

## 26. Creditors – amounts falling due within one year for Consolidated Fund excess appropriations in aid

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Appropriations in Aid realised | (3,576,081) | (2,317,909) |
| Less: Appropriations in Aid authorised | 3,443,700 | 2,170,306 |
| Sub Total | (132,381) | (147,603) |
| Less: Appropriations in Aid received and surrendered to the Consolidated Fund | - | 40,000 |
| **Income not appropriated in aid, payable to the Consolidated Fund – Current year** | **(132,381)** | **(107,603)** |

## 27. Creditors – amounts falling due within one year: unspent Supply

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Net Cash Requirement | 639,721 | 1,193,265 |
| Parliamentary Funding | (735,000) | (1,230,332) |
| **Amounts issued from the Consolidated Fund for Supply but not spent** | **(95,279)** | **(37,067)** |

## 28. Provision for pension liability

28.1.1 The PCSPS is an unfunded defined benefit scheme. Hewitt, Bacon and Woodrow Ltd carried out a full actuarial valuation as at 31 March 2003. The major assumptions used by the Actuary were:

| | At 31 March 2006 | At 31 March 2005 |
|---|---|---|
| Rate of increase in salaries | 3.9% | 3.9% |
| Inflation assumption | 2.5% | 2.4% |
| Discount rate | 2.8% | 3.5% |

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

- scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the PCSPS;
- income and expenditure, including details of expected bulk transfers in or out of the PCSPS; and
- following consultation with the actuary, the key assumptions that should be used to value the scheme liabilities, ensuring the assumptions are mutually compatible and reflect a best estimate of future experience.

28.1.3 Pension scheme liabilities accrue over the employees' period 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 liabilities, 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.

28.1.4 The value of the liability included on the balance sheet may be affected by even small changes in assumptions. For example, if at a subsequent revaluation, it is considered appropriate to reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the PCSPS liabilities will decrease, other things being equal. Conversely, if the assumed rates are increased, the scheme liabilities will increase. CSP accepts that, as a consequence, the valuation provided by the actuary is uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 28.1.1 above. 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.

*28.2 Analysis of movement in scheme liability*

| | **2005-06** | **2004-05** |
|---|---|---|
| | **£000** | **£000** |
| Scheme liability at 1 April | (84,111,573) | (78,577,532) |
| Overnight increase due to discount rate change | (10,593,889) | - |
| Current service cost | (3,436,793) | (2,676,662) |
| Past service costs | (1,120) | (1,100) |
| Enhancements | (122,172) | (76,476) |
| Pension transfers-in | (516,836) | (139,585) |
| Interest on pension scheme liability | (5,100,079) | (4,703,119) |
| Benefits payable | 3,416,300 | 3,177,853 |
| Pension payments to and on account of leavers | 124,477 | 100,395 |
| Transfer to/from provisions for group transfers | (82,667) | 16,777 |
| Actuarial gain/(loss) | (911,961) | (1,232,124) |
| **Scheme liability at 31 March** | **(101,336,313)** | **(84,111,573)** |

During the year ended 31 March 2006, contributions represented an average of 18.5% of pensionable pay. Contributions will increase in 2006-07 to represent 19.4% of pensionable pay.

*28.3 Analysis of benefits paid*

| | **2005-06** | **2004-05** |
|---|---|---|
| Pensions to: | **£000** | **£000** |
| Retired employees | 2,563,516 | 2,445,369 |
| Widow(er)s* | 352,239 | 339,618 |
| Dependants | 6,264 | 5,919 |
| Lump sum benefits paid: | | |
| on retirement (including early retirement) | 455,582 | 352,759 |
| on death | 38,699 | 34,188 |
| | **3,416,300** | **3,177,853** |

* includes partners (Classic Plus/Premium members) and civil partners

*28.4 Analysis of payments to and on account of leavers*

| | **2005-06** | **2004-05** |
|---|---|---|
| | **£000** | **£000** |
| Refunds to members leaving the service | 16,721 | 14,806 |
| Payments for members joining State scheme | 3,359 | 76 |
| Group transfers to other schemes | 2,087 | 5,047 |
| Individual transfers to other schemes | 102,310 | 80,466 |
| | **124,477** | **100,395** |

*28.5 Analysis of actuarial gain/(loss)*

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Experience gains/(losses) arising on the scheme liabilities | (911,961) | (1,232,124) |
| Changes in assumptions underlying the present value of scheme liabilities | - | - |
| **Per Statement of Recognised Gains and Losses** | **(911,961)** | **(1,232,124)** |

*28.6 History of Experience gains and losses*

| | 2005-06 | 2004-05 |
|---|---|---|
| Experience gains/(losses) on the scheme liabilities: | | |
| Amount (£000) | (911,961) | (1,232,124) |
| Percentage of the present value of the scheme liabilities | (0.9%) | (1.5%) |
| Total actuarial gain/(loss) | | |
| Amount (£000) | (911,961) | (1,232,124) |
| Percentage of the present value of the scheme liabilities | (0.9%) | (1.5%) |

## 29. Provisions for liabilities and charges

29.1 Prior to 2005-06 provision was made to recognise that PCSPS had a liability to make payments to other schemes following the transfer of employment of groups of staff. These liabilities are now included within the main pension provision, (see note 28).

*29.2 Group transfers*

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | (87,141) | (78,195) |
| Cash paid out during year | 4,474 | 4,097 |
| Moved from group transfer provision to pension provision | 82,667 | - |
| Provision for new transfers in-year | - | (16,777) |
| Revaluations (see note 16) | - | 3,734 |
| **Balance at 31 March** | **-** | **(87,141)** |

## Balance sheet – CSCS compensation agency arrangements

### 30. Debtors – Non-Supply

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Recoverable annual compensation payments | 1,035 | 1,052 |
| Recoverable lump sums | 3,420 | 1,068 |
| **Balance at 31 March** | **4,455** | **2,120** |

### 31. Annual compensation payments pre-funded by employers

Employing departments were, until March 2000, able to use current-year underspends on running costs to reduce or extinguish their existing liabilities in respect of future annual compensation payments arising from the early retirement of their employees. Details of departments' pre-funding are as follows:

| **Pre-funding** | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | (12,884) | (24,335) |
| Used in year: compensation paid | 7,277 | 11,451 |
| **Balance at 31 March** | **(5,607)** | **(12,884)** |
| To be used in next 12 months | (3,938) | (7,277) |
| To be used after more than 12 months | (1,669) | (5,607) |

### 32. Provisions for liabilities and charges – central funding of early retirement benefits

Provision has been made to recognise that the CSCS has a liability to make payments to employers in respect of centrally funded elements of the compensation scheme. Some employers receive central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support will continue until their employees reach normal retirement age, usually 60. It is expected that central funding will cease in the financial year 2006-07.

### 33. Central funding of annual compensation payments

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | (17,000) | (37,000) |
| Used in year: compensation paid | 12,500 | 23,000 |
| Revaluation at year-end | - | (3,000) |
| **Balance at 31 March** | **(4,500)** | **(17,000)** |

## Balance sheet – Other minor agency and principal pension scheme arrangements

### 34. Debtors

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Contributions | 2,900 | 1,887 |
| **Balance at 31 March** | **2,900** | **1,887** |

### 35. Creditors payable within 12 months

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Pensions | (18) | (68) |
| **Balance at 31 March** | **(18)** | **(68)** |

### 36. Provision for pension liability

*36.1 Analysis of movement in scheme liability*

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Opening scheme liability at 1 April | 1,021,000 | - |
| Transfer of inherited liabilities | - | 935,000 |
| Net movement in year (including actuarial gain/loss) | 205,400 | 86,000 |
| **Scheme liability at 31 March** | **1,226,400** | **1,021,000** |

The Government Actuary provides an annual valuation of the Security Service and Secret Intelligence Service pension schemes included within these financial statements. The assumptions underlying the valuation are disclosed in his Report, which is examined by the Comptroller and Auditor General as part of his audit of information supplied by the agencies for inclusion in these financial statements.

## 37. General Fund

The General Fund represents the total assets less liabilities of the pension schemes, to the extent that the total is not represented by other reserves and financing items.

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Balance brought forward | (85,309,838) | (78,771,016) |
| Transfer in of inherited liabilities | - | (935,000) |
| Overnight increase in scheme liabilities | (10,753,889) | - |
| Combined net outgoings for year | (5,724,890) | (5,378,416) |
| Financing from Consolidated Fund | 639,721 | 1,235,996 |
| Excess Appropriations in Aid for current year | (132,381) | (147,603) |
| Actuarial gain (loss) | (885,062) | (1,271,505) |
| Other adjustments to Consolidated Fund | 935 | (42,294) |
| **Balance carried forward** | **(102,165,404)** | **(85,309,838)** |

## 38. Notes to the Cash Flow Statement

*38.1 Reconciliation of combined net outgoings to operating cash flows*

| | | 2005-06 | 2004-05 |
|---|---|---|---|
| | Notes | £000 | £000 |
| Net outgoings for the year | | (5,724,890) | (5,378,416) |
| Adjustments for movements in working capital other than cash | 40 | (113,755) | (45,183) |
| Adjustments for creditors/debtors falling due after more than one year | 42 | (338,938) | (7,277) |
| Increase in PCSPS pension provision | 12-15 | 9,177,000 | 7,596,942 |
| Movement in transfer provisions | 29.2 | (4,474) | (7,831) |
| Increase in central funding provisions | 33 | - | 3,000 |
| Increase in other schemes pension provision | | 113,896 | 88,248 |
| Use of PCSPS provisions | 28 | (3,540,777) | (3,278,248) |
| Use of CSCS provisions | 33 | (12,500) | (23,000) |
| Use of other schemes provisions | | (41,596) | (41,631) |
| **Net cash outflow from operating activities** | | **(486,034)** | **(1,093,396)** |

*38.2 Analysis of financing, and reconciliation to the net cash requirement*

| | | 2005-06 | 2004-05 |
|---|---|---|---|
| | Notes | £000 | £000 |
| From the Consolidated Fund (Supply) current year | | 735,000 | 1,230,332 |
| From the Consolidated Fund (Supply) prior year | | (37,067) | 5,664 |
| **Net Financing** | | **697,933** | **1,235,996** |
| Increase in cash | | (62,145) | (34,560) |
| **Net cash flows other than financing** | | **635,788** | **1,201,436** |
| Compensation agency payments made on behalf of employers | 19 | (149,708) | (122,827) |
| Reimbursement of compensation payments by employers | | 149,725 | 122,624 |
| Lump sum payments made on behalf of employers | 19 | (197,125) | (114,324) |
| Reimbursement of lump sums by employers | | 194,773 | 114,366 |
| Injury benefit payments made on behalf of employers | 17 | (3,382) | (2,736) |
| Reimbursement of injury benefit payments by employers | | 3,380 | 2,742 |
| Amounts overpaid to the Consolidated Fund | | 6,270 | (6,270) |
| Amounts paid to the Consolidated Fund for prior year excess AinA | | - | (1,746) |
| **Net Cash Requirement** | | **639,721** | **1,193,265** |

## 39. Non-cash items

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Current service cost | 3,436,793 | 2,676,662 |
| Past service costs | 1,120 | 1,100 |
| Enhancements | 122,172 | 76,476 |
| Pension transfers-in | 516,836 | 139,585 |
| Interest on pension scheme liability | 5,100,079 | 4,703,119 |
| Revaluation of provisions for group transfers | - | (3,734) |
| Revaluation of central funding provisions | - | 3,000 |
| Total charge to provisions – other schemes | 113,896 | 88,248 |
| **Non cash items** | **9,290,896** | **7,684,456** |

## 40. Movements in working capital other than cash

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Movement in debtors related to supply – PCSPS | 117,337 | 50,474 |
| Movement in debtors related to supply – Other schemes | 1,013 | 1,887 |
| Movement in creditors due within 1 year – PCSPS | (10,321) | (11,442) |
| Movement in creditors due within 1 year – CSCS | 3,338 | 4,174 |
| Movement in creditors due within 1 year – Other schemes | 51 | (65) |
| Movement in debtors not related to supply – injury benefit | 2 | (6) |
| Movement in debtors not related to supply – ACPs | (16) | 203 |
| Movement in debtors not related to supply – lump sums | 2,351 | (42) |
| | **113,755** | **45,183** |
| Movement in Consolidated Fund creditors | (935) | - |
| Movement in debtors related to excess A in A in respect of income received after 31 March | 6,270 | (6,270) |
| Movement in Consolidated Fund | 18,307 | (41,309) |
| Adjustment for movement in non-supply debtors | (2,337) | (155) |
| | **135,060** | **(2,551)** |

**41.** The net liabilities of the PCSPS, CSCS and other pension schemes, shown in the Combined Balance Sheet, will be met by the Consolidated Fund, subject to annual approval by Parliament through the supply procedure.

## 42. Movements in creditors/debtors falling due after more than one year

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Movement in creditors due after 1 year – CSCS (note 31) | 3,938 | 7,277 |
| Movement in debtors due after 1 year – PCSPS (note 23) | 335,000 | - |
| | **338,938** | **7,277** |

## 43. Adjustments re Consolidated Fund

| | 2005-06 | 2004-05 |
|---|---|---|
| | £000 | £000 |
| Prior year Consolidated Fund Supply unspent at year-end | 37,067 | (5,664) |
| Consolidated Fund Supply creditor | (95,279) | (37,067) |
| Adjustment to prior year creditor | 935 | 437 |
| | **(57,277)** | **(42,294)** |

## 44. Intra-Government Balances

| Balances with: | Debtors: Amounts falling due within one year £000 | Debtors: Amounts falling due after one year £000 |
|---|---|---|
| Other central government bodies | 206,222 | 288,000 |
| Local authorities | 8,219 | - |
| NHS Trusts | - | - |
| Balances with public corporations and trading funds | 10,138 | - |
| Bodies external to government | 123,034 | 47,000 |
| **At 31 March 2006** | **347,613** | **335,000** |
| Other central government bodies | 89,576 | - |
| Local authorities | 5,556 | - |
| NHS Trusts | - | - |
| Balances with public corporations and trading funds | 8,310 | - |
| Bodies external to government | 123,484 | - |
| **At 31 March 2005** | **226,926** | **-** |

| Balances with: | Creditors: Amounts falling due within one year £000 | Creditors: Amounts falling due after one year £000 |
|---|---|---|
| Other central government bodies | 266,808 | 1,669 |
| Local authorities | - | - |
| NHS Trusts | - | - |
| Balances with public corporations and trading funds | - | - |
| Bodies external to government | 103,146 | - |
| **At 31 March 2006** | **369,954** | **1,669** |
| Other central government bodies | 225,239 | 5,607 |
| Local authorities | - | - |
| NHS Trusts | - | - |
| Balances with public corporations and trading funds | - | - |
| Bodies external to government | 97,878 | - |
| **At 31 March 2005** | **323,117** | **5,607** |

## 45. 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.

CSP has no borrowings and relies solely on resources voted by Parliament to finance the PCSPS's net revenue resource requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

## 46. Losses

During the year 2,348 losses of £136,443 were written off (2004-05: 2,629 – £179,811).

**47. Related Party Transactions**

The PCSPS, CSCS and the Security Service and Secret Intelligence Service schemes fall within the ambit of the Cabinet Office, which is regarded as a related party. During the year, the Schemes have had material transactions with the Cabinet Office and other departments, executive agencies and trading funds whose employees are members of the Schemes. None of the Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions during the year.

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