Cabinet Office

Royal Mail Statutory Pension Scheme

Annual Report and Account 2017–18

HC 1246

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Annual Report and Account 2017–18

(For the year ended 31 March 2018)

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Report of the manager

1. Introduction

This report provides key information on the Royal Mail Statutory Pension Scheme (RMSPS) ("the Scheme") including ongoing developments and other information for members.

2. The Scheme, its objectives and strategy

With effect from 1 April 2012 and under the provisions of the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012, which received Royal Assent on 13 June 2011, the Government assumed responsibility for both the Royal Mail Pension Plan (RMPP) deficit and the majority of the plan's liabilities. Following this transfer of responsibility, the RMSPS was established to provide for pensions or other benefits to be payable to, or in respect of, persons who are, or have been, qualifying members of the RMPP.

The RMSPS is a statutory scheme as defined under Section 26(1) of the Finance Act 1970 and is a registered scheme under the Finance Act 2004.

There are no investment arrangements within the RMSPS to meet the liabilities of the Scheme. Future benefits will be paid out of the consolidated fund, to the extent that Parliament votes the necessary funds as requested by the Cabinet Office.

3. Main features of the Scheme

The RMSPS is an unfunded, defined benefit scheme providing pension and lump sum benefits on retirement and death to members and former members of the RMPP and their dependants, in respect of their service up to 31 March 2012. The Scheme is closed to new members and the accrual of new benefits so consequently there are no employer or employee contributions.

There are two primary benefit structures within the RMSPS which are set out in Schedule 1 of the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012:

- Section A and B members are entitled to a pension and an automatic lump sum on retirement (with the option to exchange their pension for an additional lump sum or vice versa, subject to Her Majesty's Revenue and Customs (HMRC) limits); and
- Section C members are entitled to a pension on retirement, with the option to exchange their pension for a lump sum up to HMRC limits.

The Scheme has three main categories of membership:

- pensioners (those members who are receiving a pension);
- deferred members (those members who have left pensionable service in the RMPP but are not yet receiving their pension); and
- active deferred members (those members who remain in pensionable service within the RMPP).

The Scheme has some dual members i.e. members with two benefits entitlements. This arose when the rules on normal retirement age (NRA) changed from 60 to 65, known as NRA60 & NRA65. Some dual members may already be in receipt of some of their NRA60 benefits.

4. Changes in benefits

Active deferred members differ from deferred members in that their pension entitlements receive revaluation based on the Retail Price Index (RPI) while they are still employed by the Royal Mail or Post Office. Once they leave RMPP service and become deferred members, revaluation for section A and B members is based on the Consumer Prices Index (CPI). Section C members continue to receive revaluation based on the RPI.

For section A and B members, in accordance with scheme regulations, eligible pensions in payment and deferred benefits were increased in April 2017, reflecting the 1.0% increase in the CPI for the year ended September 2016. No discretionary increases were awarded.

For section C members, in accordance with scheme regulations, eligible pensions in payment and deferred benefits were increased by 2.0% in April 2017, reflecting the change in the RPI for the year ended September 2016 (capped at 5.0%). No discretionary increases were awarded.

5. Management of the Scheme

Under the Postal Services Act 2011, the Minister for the Civil Service (currently the Prime Minister) is the Scheme Manager. In practice, this responsibility is delegated to the Minister for the Cabinet Office, and the Permanent Secretary for the Cabinet Office is the Accounting Officer of the Scheme.

The Cabinet Office is ultimately responsible for ensuring that the Scheme operates effectively. The day to day administration is mainly carried out by the Pensions Service Centre (PSC), part of Royal Mail Group (RMG) under a contract managed by Cabinet Office.

Capita Employee Benefits Ltd were awarded the contract for the administration from 1 October 2018. Further details are provided in note 17 of the report of the manager.

The Cabinet Office retains direct management of:

- maintenance of scheme rules;
- complaints made under the second stage of the internal dispute resolution procedures and responses to referrals from the Pensions Ombudsman;
- ensuring appropriate audit programmes and risk frameworks are in place;
- certain discretionary decisions on behalf of the Minister for the Civil Service; and
- scheme finances, including the production of the annual accounts.

6. Cabinet Office and the Royal Mail Group

The Cabinet Office oversees the delivery of Scheme administration by the RMG through a formal contract that came into force in May 2012.

Under the contract, the RMG is responsible for:

- providing administration for deferred and pensioner scheme members, including paying pensions;
- maintaining accurate and secure records and a proper audit trail of all transactions;
- investigating and responding to complaints made by scheme members, including any made under the first stage of the internal dispute resolution procedures;
- pursuing and reclaiming any overpayments of benefits;
- handling transfers out of the Scheme;
- calculating and paying annual pension increases;
- deducting and paying over tax to HMRC;
- operating a payroll bank account; and
- producing financial and management reports.

In addition the PSC completed reconciliation work on Guaranteed Minimum Pension records held for members against those held by HMRC.

7. Financial review

The total pension liability at 31 March 2018 was £46.39 billion (31 March 2017: £46.81 billion). This relates to benefits accrued for qualifying members of the RMPP as at 31 March 2018. The decrease in liability has been driven by changes in assumptions underlying the present value of the Scheme liabilities.

The net expenditure for the year was £1.33 billion (2016–17: £1.36 billion) and almost entirely consists of the pension financing cost. The slight reduction in the net expenditure is attributable to the way this cost is calculated; the increase in the starting liability being offset by a decrease in the discount rate used.

Total benefits of £1.35 billion (2016–17: £1.31 billion) were payable in the year in respect of pensions or annuities, commutations, lump sums and death benefits payable. Total transfers out of £7.64 million (2016–17: £6.31 million) were payable in the year due to an increase in pension sharing orders.

During the year a net actuarial gain of £0.39 billion (2016–17: £8.48 billion actuarial loss) was incurred and has been included within Other Comprehensive Net Expenditure.

The notional cost of the audit is £40,000 (31 March 2017: £50,000). This fee reflects only those costs that are directly associated with the audit of these financial statements and is incorporated in the Cabinet Office Financial Statements.

The total number of Scheme members decreased from 395,473 at 31 March 2017 to 388,648 at 31 March 2018.

The financial statements and accompanying notes set out the Scheme's expenditure for the year ended 31 March 2018 and its financial position and cash flows.

8. Reconciliation of net cash requirement to estimate

There was a £44.77 million variance between the estimated cash requirement of £1,400 million and the outturn of £1,355 million. The estimate included an allowance to cover the risk that members of the RMSPS, who are still in employment with the Post Office and therefore members of the RMPP, would take early retirement because of the closure of the RMPP. This would lead to a crystallisation of benefits including lump sum payments.

9. Membership statistics

Deferred pensioners (including active deferred – single status only)	**31 March 2018**	**31 March 2017**
At 1 April	191,697	200,975
Full retirements*	(6,312)	(5,685)
Deaths	(335)	(340)
Transfers	(81)	(319)
Partial retirements (i.e. from single to dual status)	(3,129)	(2,934)
At 31 March	**181,840**	**191,697**

Dual status pensioners (deferred members with part benefits in payment)	**31 March 2018**	**31 March 2017**
At 1 April	13,019	11,884
Full retirements*	(2,076)	(1,747)
Deaths	(46)	(52)
Partial retirements (i.e. from single to dual status)	3,129	2,934
At 31 March	**14,026**	**13,019**

Pensioners	**31 March 2018**	**31 March 2017**
At 1 April	190,757	188,906
Full retirements	8,144	7,432
New dependants	1,965	2,505
Pensioner payment ceased	(231)	(280)
Deaths	(7,853)	(7,806)
At 31 March	**192,782**	**190,757**
Total	**388,648**	**395,473**

*Full retirements from deferred & dual status pensioners include 244 members who took trivial commutations.

10. Scheme records

Records are maintained by the Royal Mail Pensions Service Centre.

11. Additional voluntary contributions (AVCs)

There are no additional voluntary contributions allowed within the RMSPS.

12. Rule amendments

There were no changes to the Scheme rules during the year.

13. Scheme developments

In July 2017, The Trustees of the Post Office Ltd (POL) Section of the Royal Mail Pension Plan (RMPP) entered into two bulk purchase annuity insurance contracts (buy-in policies) with an insurer, Rothesay Life. This has been established to cover the liabilities of the POL section. As a result the majority of the risk falls away from the Trustees of the Scheme to the insurer, and the security for joint RMSPS and RMPP members has improved. However, these policies are purely for investment purposes and no changes have been made to the members benefits.

14. Reporting of personal data related incidents

There have been no instances of loss of protected personal data reported to the Information Commissioner's Officer in 2017–18.

15. Actuarial position

The Scheme's liabilities as at 31 March 2018 were calculated by the Government Actuary's Department (the appointed actuary to the Scheme) in accordance with 'International Accounting Standard 19 Employee Benefits (IAS 19)'. This assessment was completed using full scheme data as at 31 March 2015, updated on an approximate basis by the Government Actuary's Department to reflect changes that have occurred from 1 April 2015 to 31 March 2018.

16. Events after the reporting period

There have been no material events between the Statement of Financial Position date and the date the account was authorised for issue.

The Accounting Officer of the Scheme has authorised these financial statements to be issued on the date that the Comptroller and Auditor General certifies the account.

17. Future contract for scheme administration

During 2017 the Cabinet Office ran a procurement exercise for the contract to administer the Scheme. The procurement was published in the official Journal of the European Union and following a robust and open process Capita Employee Benefits was awarded the contract in October 2017 to come into effect on 1 October for 7 years. Cabinet Office, Capita and RMG are now working together to facilitate a smooth transition of services.

18. Auditor

These financial statements have been audited by the Comptroller and Auditor General (C&AG), whose opinion is expressed in the certificate and report of the Comptroller and Auditor General to the House of Commons.

19. Managers, advisers and employers

Managers	
Accounting Officer of the Scheme	John Manzoni
Scheme manager at the Cabinet Office	Debra Soper
Address for correspondence with the Scheme manager and principal Accounting Officer	Cabinet Office, 1 Horse Guards Road, London SW1A 2HO
Royal Mail responsible officer at the Royal Mail Pensions Service Centre	Michael Mayall
Address for correspondence	Pensions Service Centre, PO Box 5863, Sheffield S98 6AB
Advisers	
Scheme Actuary	Government Actuary's Department, Finlaison House, 15–17 Furnival Street, London EC4A 1AB
Principal bankers	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh EH2 2YB
Legal advisers	Government Legal Department, 1 Kemble Street, London WC2B 4TS
Auditor	Comptroller and Auditor General, National Audit Office, 157–197 Buckingham Palace Road, London SW1W 9SP

Employers

The following employers participated in the Scheme:

- Royal Mail Group; and
- Post Office Limited.

20. Disclosure of audit information

As Accounting Officer, as far as I am aware there is no relevant audit information of which the Scheme’s auditor is unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Scheme’s auditor is aware of that information.

As Accounting Officer, I confirm that the annual report and account as a whole are fair, balanced and understandable, and that I take personal responsibility for them and for the judgements required for determining that they are fair, balanced and understandable.

John Manzoni
Principal Accounting Officer and Permanent Secretary

4 July 2018

Report of the actuary

Royal Mail Statutory Pension Scheme

Accounts for the year ended 31 March 2018

Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Cabinet Office (CO). It provides a summary of GAD's assessment of the Scheme liability in respect of the Royal Mail Statutory Pension Scheme (RMSPS) as at 31 March 2018, and the movement in the Scheme liability over the year 2017/18, prepared in accordance with the requirements of Chapter 9 of the 2017/18 version of the Financial Reporting Manual.

2. The RMSPS is a closed defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation, the rules of which are set out in the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012 (SI 2012/687). The Scheme is wholly unfunded. I am not aware of any informal practices operated within the Scheme which lead to a constructive obligation.

3. The assessment has been carried out by calculating the liability as at 31 March 2015 based on the data provided as at 31 March 2015 and rolling forward that liability to 31 March 2018.

Membership data

4. Table A summarises the principal membership data as at 31 March 2015 used to prepare this statement.

Table A - Membership summary

Category	Number of members (single + dual)	Total pension as at 31 March 2015 (£ million) (including supplement)
Active Deferred	103,215	597
Deferred Pensioner	117,835	379
Pensioner	194,468	1,036

Methodology

5. The present value of the liabilities as at 31 March 2018 has been determined using the Projected Unit Credit Method (PUCM), based on the demographic and financial assumptions applying as at 31 March 2018.

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

Principal financial assumptions

7. The principal financial assumptions adopted to prepare this statement are shown in Table B

Table B - Principal financial assumptions

Assumption	31 March 2018	31 March 2017
Rate of return (discount rate)	2.55%	2.80%
Rate of future pension increases (CPI)	2.45%	2.55%
Rate of future pension increases (RPI)	3.45%	3.55%
Rate of return in excess of:		
Pension increases (CPI)	0.10%	0.24%
Pension increases (RPI)	(0.87%)	(0.72%)
Expected return on assets:	n/a	n/a

8. The assessment of the liabilities allows for the known pension increases up to and including April 2018.

Demographic assumptions

9. Table C summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the Scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the ‘S2 tables’ with the percentage adjustments to those tables derived from scheme experience.

Table C – Post-retirement mortality assumptions

Baseline mortality	Standard table*	Adjustment
Males		
Retirements in normal health	S2PMA	105%
Current ill-health pensioners	S2PMA	105%
Future ill-health pensioners	S2PMA	105%
Dependants	S2PMA	125%
Females		
Retirements in normal health	S2PFA	100%
Current ill-health pensioners	S2PFA	100%
Future ill-health pensioners	S2PFA	100%
Dependants	S2DFA	110%

*From the ‘S2’ series of standard tables published by the CMI and based on the experience of self-administered pension schemes. Separate tables are available based on experience of members retiring in normal and ill-health and for dependants

10. These assumptions are the same as those used for the account as at 31 March 2017. Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017. Note that the account as at 31 March 2017 was based on the previous 2014-based projections.

Liabilities

11. Table D summarises the assessed value as at 31 March 2018 of benefits accrued under the Scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 10. The corresponding figures for the previous year are shown for comparison.

Table D – Statement of Financial Position

£ million

	31 March 2018 £ m	31 March 2017 £ m	31 March 2016 £ m	31 March 2015 £ m	31 March 2014 £ m
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	46,390	46,814	38,302	40,274	36,805
Surplus/(Deficit)	(46,390)	(46,814)	(38,302)	(40,274)	(36,805)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

12. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018. This resulted in a past service cost in respect of these members of £33 million. I am not aware of any other events that have led to a material past service cost over 2017/18.

13. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2017/18.

Sensitivity analysis

14. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2018 of changes to the most significant actuarial assumptions.

15. The most significant financial assumptions are the discount rate and pension increases (based on either RPI or CPI). A key demographic assumption is pensioner mortality.

16. Table E shows the indicative effects on the total liability as at 31 March 2018 of changes to the net discount rate assumption and the mortality assumption (rounded to the nearest 0.5%).

Table E - Sensitivity to significant assumptions

Change in assumption*	Approximate effect on total liability	
Rate of return in excess of pension increases	**%**	**£ bn**
(i) net discount rate increase of ½% a year	- 13.0	- £6.0
Demographic assumptions		
(ii) additional 1 year increase in life expectancy at retirement	+ 3.5	+ £1.6

*Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

Jan Claisse FIA
Actuary
Government Actuary's Department
14 June 2018

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Cabinet Office to prepare for each financial year a statement of accounts for the Royal Mail Statutory Pension Scheme in the form and on the basis set out in the Accounts Direction.

The financial statements are prepared on an accruals basis and must give a true and fair view of state of affairs of the Scheme at the year end and of the net resource outturn, changes in taxpayers' equity and cash flows for the year then ended. The account is required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

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

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the 'Government Financial Reporting Manual' have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

HM Treasury has appointed the Permanent Secretary of Cabinet Office as Accounting Officer for the Royal Mail Statutory Pension 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 Accounting Officers' Memorandum issued by HM Treasury and published in 'Managing Public Money'.

Governance Statement

Scope of responsibility

As the Accounting Officer for the RMSPS during 2017–18, I have responsibility for maintaining a sound system of governance, risk and internal control that supports the achievement of the RMSPS's policies, aims, and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible in accordance with the responsibilities assigned to me in "Managing Public Money".

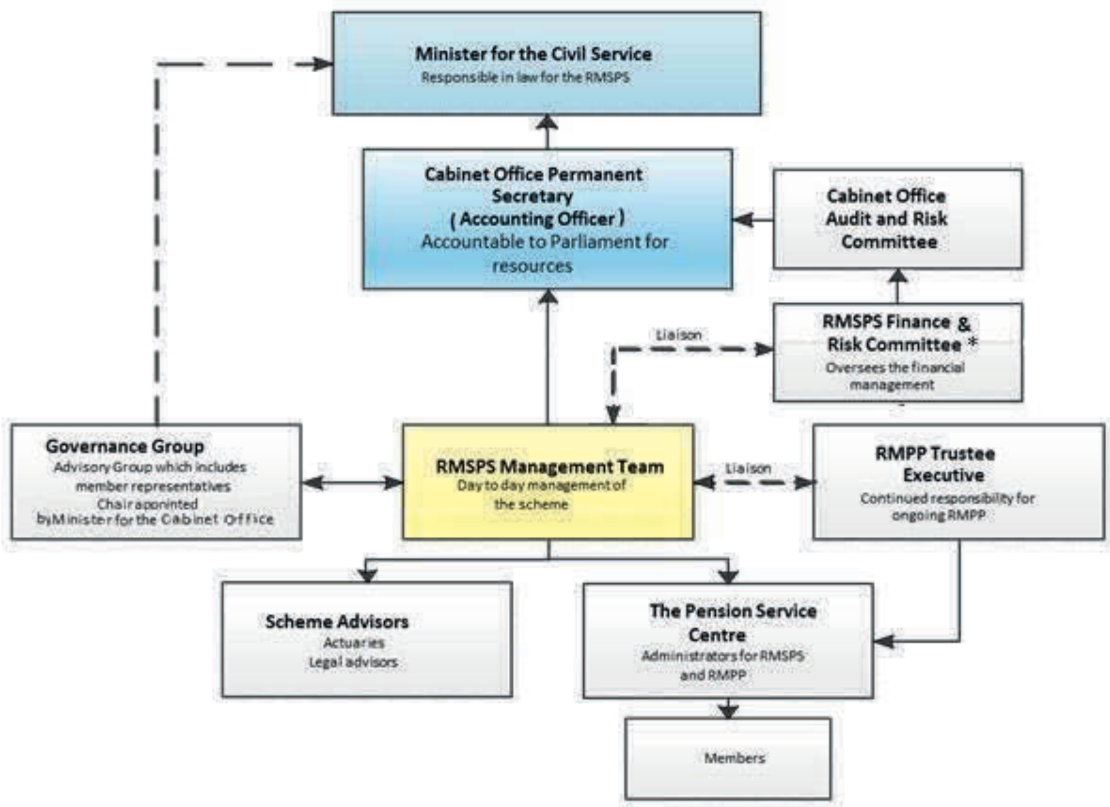
Scheme governance

The governance arrangements of RMSPS are designed to achieve the following objectives:

- be efficient and cost effective with clear separation from the existing Royal Mail Pension Plan;
- be based on a transparent and robust structure which is compliant with legislative provisions in the Postal Services Act ('the Act'); and
- be compliant with relevant good practice and policy for public service schemes across Government.

Structure of the RMSPS scheme governance

The governance arrangements are summarised in the diagram below:



* Disbanded and replaced by Pensions Finance Governance Group during the year

The main features of the RMSPS governance arrangements are as follows:

- ultimate responsibility for RMSPS rests with the Minister for the Civil Service (the Prime Minister);
- the Accounting Officer for the RMSPS is the Permanent Secretary of the Cabinet Office;
- the Accounting Officer is supported in his role by the Cabinet Office Audit & Risk Committee;
- management of the Scheme sits with the Civil Service Pensions Directorate which is part of Civil Service Human Resources within the Cabinet Office;
- an advisory Governance Group, a Finance and Risk Committee and the Pensions Finance Governance Group have oversight of operational and financial matters; and
- the administration of RMSPS is carried out by the Royal Mail Pensions Service Centre under an agreement between the Royal Mail Group Ltd and the Cabinet Office.

The Cabinet Office Audit and Risk Committee (COARC)

COARC is a sub-committee of the Cabinet Office Board which supports me as the Accounting Officer on all relevant matters concerning audit and risk.

COARC was chaired by Amy Stirling, an independent non-executive member of the Cabinet Office Board, to 27 November 2017. From December Catherine Brown has been acting chair. All meetings were attended by at least one other non-executive director, the Cabinet Office Finance Director and me, with the exception of a closed session.

The Scheme was discussed at one meeting, with reports and updates provided by Civil Service Pensions, the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA).

The Governance Group

The RMSPS Governance Group is an advisory group established as part of the RMSPS governance. Its chair is appointed by the Secretary of State for the Department of Business, Energy and Industrial Strategy (BEIS; formerly the Department of Business Innovation and Skills). Its membership is based on nominations from a range of stakeholders including HM Treasury, the Royal Mail Group plc, Post Office Limited, the Postal Unions, the National Federation of Occupational Pensioners, the Cabinet Office and a representative of the Secretary of State for the BEIS.

The primary functions of the governance group are as follows:

- oversee and input into communications with the Scheme's membership and other stakeholders;
- monitor cross-scheme issues to ensure consistency; and
- develop co-operative working relationships with all of the stakeholders of the RMSPS and provide feedback to them on the operation of the Scheme.

The governance group met 4 times in the year to 31 March 2018 and was presented with reports highlighting the activities of the preceding three months. These reports include:

- actual pension payments made against forecasts;
- a scheme report highlighting significant activity in the reporting period;
- the number of overpayments made;
- the performance of the Royal Mail Pensions Service Centre against agreed targets; and
- transition to the new administration contract.

These reports and data presented to the Governance Group is produced and reviewed by the RSMPS management team, and provide the level of detail needed for effective oversight.

Finance and Risk Committee

The Finance and Risk committee reviewed the financial activities of the RMSPS. It sought to ensure compliance with good financial management and that adequate internal controls and risk management procedures were in place.

The membership of the RMSPS Finance and Risk committee consisted of the following:

Members

- Helen Gibson (Deputy Director Finance, Cabinet Office);
- Alan Dorn (Government Actuary's Department);
- David Marshall (Finance, Cabinet Office); and
- Other attendees include representatives from the Pensions Directorate, Her Majesty's Treasury, National Audit Office, Internal Audit and the Pensions Service Centre.

The committee met twice in the year to 31 March 2018. During the year it was disbanded as part of a change in the governance arrangements within Civil Service Pensions. Its functions have been taken forward principally by the Pensions Finance Governance Group.

Pensions Finance Governance Group

The Pensions Finance Governance Group was formed during the year to provide proper oversight of financial management within Civil Service Pensions which includes the RMSPS. It will, inter alia, provide COARC with additional assurance on the financial management of the Scheme and the quality of its financial reporting.

The group met once during the year with representatives from Her Majesty's Treasury, National Audit Office, Government Actuary's Department and the Cabinet Office central finance team where it discussed the work of the group going forward.

Risk management

The RMSPS has a risk management framework in place to ensure key risks are monitored and effective measures are in place to mitigate them. The risk framework was reviewed in November 2017. The main risks identified and monitored on an ongoing basis are:

- failure of the Royal Mail Pensions Service Centre to process pension payments and lump sums on time;
- insufficient funds to meet liabilities as they fall due; and
- inability to keep service going because of loss of office, system or key members of staff.

Additional risks identified and reviewed during the year relate to the transition of the scheme administration, data quality and changes within the RMPP.

Following the announcement of the award of the contract for scheme administration to Capita we have put in place additional processes to manage this transition. This includes the appointment of a transition manager and the creation of a transition project board.

There is a risk that joint members of the RMSPS and RMPP will not receive the same seamless service once RMG, currently the administrator for both schemes, is no longer the administrator. Cabinet Office is working with the Trustees and both administrators to ensure a seamless service will continue to be delivered.

GIAA was commissioned to undertake a Scheme data quality audit which assessed the controls that are in place surrounding scheme data. The GIAA report did not identify any problems with the data itself but gave a 'moderate' opinion, highlighting certain areas where there is opportunity to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

In line with the General Data Protection Regulations and Data Protection Act 2018 the scheme has ensured that:

- contracts with suppliers are amended to ensure that data is processed, by data processors, in accordance with the legislation;
- robust reporting mechanisms are in place; and
- a scheme data management policy and privacy notices are in place.

RMG has reformed it's pension scheme and members will build up benefits in a Defined Benefit Cash Balance Scheme (DBCBS) with effect from 1 April 2018. This is not expected to have an impact on RMSPS.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance structures, risk management and system of internal control. My review of the effectiveness of the system of internal control is informed by the work of Civil Service Pensions who are managers of the RMSPS within the Cabinet Office and who have responsibility for the development and maintenance of the internal control framework, and also by comments made by the external auditors in their management letter and other reports.

In 2014 a full internal audit reported that all internal controls were in place (status: green) and since then these controls have been kept under review by the Cabinet Office. Monthly dashboards, quarterly reports and the risk register are received from the Royal Mail Pensions Service Centre and meetings are held regularly to monitor compliance, delivery and risks. Any issues are reported to the Governance Group and the Finance and Risk Committee where appropriate. Management are satisfied that the controls remain appropriate.

Following the award of a new contract for pension administration services to Capita, transitional governance arrangements have been put in place, including weekly working groups, a monthly steering group and a monthly transition board, to ensure the transition is managed effectively.

John Manzoni
Principal Accounting Officer and Permanent Secretary

4 July 2018

Parliamentary accountability and audit report

Statement of Parliamentary Supply – (Subject to Audit)

In addition to the primary statements prepared under International Financial Reporting Standards, the FReM also requires the Scheme to prepare an additional statement – a Statement of Parliamentary Supply. This statement, and its supporting notes, show outturn against estimate in terms of the net resource requirement and the net cash requirement.

Summary of resource and capital outturn 2017–18

								2017–18 £000	2016–17 £000
		Estimate			Outturn				
	SOPS Note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
Annually managed expenditure									
- Resource	SOPS 1.1	1,333,000	-	1,333,000	1,325,000	-	1,325,000	8,000	1,355,000
- Capital		-	-	-	-	-	-	-	-
Total budget		1,333,000	-	1,333,000	1,325,000	-	1,325,000	8,000	1,355,000
Non-budget									
- Resource		-	-	-	-	-	-	-	-
Total		1,333,000	-	1,333,000	1,325,000	-	1,325,000	8,000	1,355,000

				2017–18 £000	2016–17 £000
	Note	Estimate	Outturn	Outturn compared with estimate: saving	Outturn
Net cash requirement	SOPS2	1,400,000	1,355,232	44,768	1,316,073
Administration costs 2017–18		-	-		-

Figures in the area outlined in bold are voted totals subject to Parliamentary control.

All outturn figures are classified as voted annually managed expenditure (AME) items.

Explanations of variances between Estimate and outturn are given in SoPS Note 2.

SOPS1 Net outturn

SOPS1.1 Analysis of net resource outturn by section

Subject to Audit

										2017–18	2016–17
										£000	£000
	Outturn						Total Outturn	Estimate		Outturn	Outturn
	Administration			Programme			Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net					
Spending in Departmental expenditure limit Voted: - RMSPS	-	-	-	-	-	-	-	-	-	-	-
Non Voted	-	-	-	-	-	-	-	-	-	-	-
Annually managed expenditure Voted: - RMSPS	-	-	-	1,325,000	-	1,325,000	1,325,000	1,333,000	8,000	8,000	1,355,000
Total budget	-	-	-	1,325,000	-	1,325,000	1,325,000	1,333,000	8,000	8,000	1,355,000
Non Voted - RMSPS	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	1,325,000	-	1,325,000	1,325,000	1,333,000	8,000	8,000	1,355,000

SOPS 2 Reconciliation of net resource outturn to net cash requirement
Subject to Audit

	Note	Estimate	Outturn	2017–18 Net total outturn compared with estimate: saving	2016–17 Outturn
		£000	£000	£000	£000
Net resource outturn		1,333,000	1,325,000	8,000	1,355,000
Accruals adjustments:					
– Non-cash item – pension financing cost	8.4	(1,333,000)	(1,292,000)	(41,000)	(1,355,000)
– Non-cash item – past service cost	8.4	-	(33,000)	33,000	-
Changes in working capital other than cash:					
– Increase/(decrease) in receivables		-	(407)	407	(36)
– (Increase)/decrease in payables (within 12 months)		-	(6,499)	6,499	26,768
Less movements consolidated fund and scheme manager payables		-	4,480	(4,480)	(30,080)
Use of provision:					
Pension		1,400,000	1,357,658	42,342	1,319,421
Net cash requirement		**1,400,000**	**1,355,232**	**44,768**	**1,316,073**

There is a £44.8 million variance from the estimated cash requirement of £1,400.0 million to the outturn of £1,355.2 m. This is primarily due to the estimate incorporating cover for the risk of an increase in the proportion of employees with long service taking their benefits early, which includes a right to an automatic lump sum, as a result of closing the Royal Mail Pension Plan. The financial risks did not fully materialise.

The £8.0 million variance in the net resource outturn of £1,325.0 million is as a result of the final actuarial liability being lower than estimated, resulting in a lower interest cost than expected.

The notional audit cost of £40,000 (2016–17: £50,000), in respect of the C&AG’s audit of the Scheme’s financial statements for the year ended 31 March 2018, is borne by the Vote of the Cabinet Office and is therefore not a reconciling item in the note above.

Losses and special payments
Subject to Audit

There are no losses or special payments, individually or in aggregate in excess of £300,000 which would require disclosure during the year to 31 March 2018 (2016–17: none), or that have been recognised since that date.

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

Opinion on financial statements

I certify that I have audited the financial statements of the Royal Mail Statutory Pension Scheme, for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Losses and Special Payments Disclosures that is described in those disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2018 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Royal Mail Statutory Pension Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Royal Mail Pension Scheme's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Royal Mail Statutory Pension Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are, Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Accountability Report, other than the parts of the Parliamentary Accountability and Audit Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the Losses and Special Payments Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Royal Mail Statutory Pension Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the Accountability Report; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Parliamentary Accountability and Audit Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **Date 10 July 2018**

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Financial Statements

Statement of Comprehensive Net Expenditure
for the year ended 31 March 2018

	Note	2017–18 £000	2016–17 £000
Principal Arrangements – Royal Mail Statutory Pension Scheme			
Expenditure			
Pension financing cost	3	1,292,000	1,355,000
Past service cost	4	33,000	-
Net Expenditure		**1,325,000**	**1,355,000**
Other Comprehensive Net Expenditure			
Net actuarial (gain)/loss	8.7	(391,342)	8,476,421
Total Comprehensive Net Expenditure/(income) for the year ended 31 March		**933,658**	**9,831,421**

The notes on pages 30 to 36 form part of these financial statements.

Statement of Financial Position
as at 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Principal Arrangements – Royal Mail Statutory Pension Scheme			
Current assets:			
Receivables	5	1,499	1,906
Cash and cash equivalents	6	20,970	16,490
Total current assets		**22,469**	**18,396**
Current liabilities:			
Payables (within 12 months)	7	(56,662)	(50,163)
Total current liabilities		**(56,662)**	**(50,163)**
Net current liabilities, excluding pension liability		**(34,193)**	**(31,767)**
Pension liability	8.2	(46,390,000)	(46,814,000)
Net liabilities, including pension liabilities		**(46,424,193)**	**(46,845,767)**
Taxpayers' equity:			
General fund		(46,424,193)	(46,845,767)
		(46,424,193)	**(46,845,767)**

John Manzoni
Principal Accounting Officer and Permanent Secretary

4 July 2018

The notes on pages 30 to 36 form part of these financial statements.

Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Balance as at 1 April		(46,845,767)	(38,330,419)
Net Parliamentary funding – drawn down		1,352,574	1,286,000
Net Parliamentary funding – deemed		16,487	46,560
Supply – prior year		7,134	-
Supply payable – current year adjustment	7	(20,963)	(16,487)
Net expenditure for the year		(1,325,000)	(1,355,000)
Net actuarial gain/(loss)	8.7	391,342	(8,476,421)
Balance as at 31 March		**(46,424,193)**	**(46,845,767)**

The notes on pages 30 to 36 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 March 2018

	Note	2017–18 £000	2016–17 £000
Cash flows from operating activities			
Net expenditure for the year		(1,325,000)	(1,355,000)
Adjustments for non-cash transactions – pension financing cost	3	1,292,000	1,355,000
Adjustments for non-cash transactions – past service cost	4	33,000	-
Decrease in receivables	5	407	36
Increase/(decrease) in payables – pensions	7	6,499	(26,768)
less movements in consolidated fund and scheme manager payables	7	(4,480)	30,080
Use of provisions – pensions or annuities to retired employees and dependants	8.5	(1,103,497)	(1,077,705)
Use of provisions – commutations and lump-sum payments	8.5	(228,887)	(215,860)
Use of provisions – death benefits payable	8.5	(17,631)	(19,108)
Use of provisions – refunds and transfers	8.6	(7,643)	(6,748)
Net cash outflow from operating activities		**(1,355,232)**	**(1,316,073)**
Cash flows from financing activities			
From the consolidated fund (supply) – current year		1,352,574	1,286,000
From the consolidated fund (supply) – prior year		7,134	-
Net Parliamentary financing		**1,359,708**	**1,286,000**
Adjustments for payments and receipts not related to supply		-	-
Net financing		**1,359,708**	**1,286,000**
Net increase/(decrease) in cash and cash equivalents in the year before adjustment for receipts and payments to the consolidated fund		**4,476**	**(30,073)**
Increase/(decrease) of monies that are payable to the Scheme manager as they are outside the scope of the Scheme's activities		4	(7)
Net increase/(decrease) in cash and cash equivalents in the year after adjustment for receipts and payments to the consolidated fund		**4,480**	**(30,080)**
Cash and cash equivalents at 1 April	6	16,490	46,570
Cash and cash equivalents at 31 March	6	20,970	16,490
Net increase/(decrease) in cash and cash equivalents		**4,480**	**(30,080)**

The notes on pages 30 to 36 form part of these financial statements.

Notes to the Scheme financial statements

1 Basis of preparation of the Scheme financial statements

The financial statements of the Scheme have been prepared in accordance with the relevant provisions of the 2017–18 ‘Government Financial Reporting Manual (FReM)’ issued by HM Treasury. The accounting policies contained in the ‘FReM’ apply to International Financial Reporting Standards as adapted or interpreted for the public sector. ‘IAS 19 Employee Benefits’ and ‘IAS 26 Accounting and Reporting by Retirement Benefit Plans’ are of particular relevance to these statements.

These financial statements set out the RMSPS’s transactions and balances relating to scheme members, all of whom transferred into the Scheme as at 1 April 2012. As this is a closed scheme, there are no employer or employee contributions, the ongoing pension and other payments are funded from the consolidated fund. The administrative expenses associated with the operation of the Scheme are borne by Cabinet Office and reported in the Cabinet Office departmental accounts.

The Statement of Comprehensive Net Expenditure shows income and expenditure during the year. The only expenditure items are the actuary’s estimates of the interest on the Scheme’s ongoing liabilities and actuarial loss for the year, and the past service cost. The Statement of Financial Position includes the actuary’s estimate of the unfunded future pension costs of scheme members. These financial statements should be read in conjunction with the actuary’s report.

2 Statement of accounting policies

The accounting policies contained in the ‘FReM’ follow International Financial Reporting Standards to the extent that they are meaningful and appropriate in the public sector context.

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 Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the Scheme’s financial statements. Where transactions are accounted for on a cash basis this is specifically stated in the notes below.

An assessment of International Financial Reporting Standards (IFRS) issued but not yet effective, considered ‘IFRS 9 Financial Instruments’, and determined no material transactions or balances were affected. ‘IFRS 15 Revenue from Contracts with Customers’ and ‘IFRS 16 Leases’ are not applicable to the Scheme.

2.1 Accounting convention

2.1.1 These financial statements have been prepared under the historical cost convention.

2.2 Pension contributions receivable

2.2.1 There are no employees’ or employers’ contributions made into this scheme.

2.3 Transfers in

2.3.1 There are no transfers in as the Scheme is closed to new members.

2.4 Transfers out

2.4.1 Transfers out represent capital sums paid to other pension schemes for members who have left the Scheme. Transfers out are normally accounted for on a cash basis as use of provision, whereby payments in relation to transfers out decrease the total pension scheme’s liability.

2.5 Past Service cost

2.5.1 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 Combined Statement of Comprehensive Net Expenditure on a straight-line basis over the period in which increases in benefits vest.

2.6 Pension financing cost

2.6.1 The interest cost is the increase during the period in the present value of the Scheme's liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on the discount rate (including inflation) at the start of the year, i.e. 2.80% for 2017–18 (3.60% for 2016–17).

2.7 Scheme liability

2.7.1 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 the assumptions set out in note 8.1 below.

2.7.2 Full actuarial assessments by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent full actuarial assessment at the Statement of Financial Position date and updates it to reflect current conditions and significant recent developments. The most recent full actuarial valuation was as at 31 March 2015.

2.8 Pension benefits payable

2.8.1 Pension benefits payable are accounted for as a charge to the Scheme liability on an accruals basis. These include pensions, lump sums and death in service payments.

2.9 Injury benefits

2.9.1 There are no injury benefits payable by the Scheme.

2.10 Actuarial gains and losses

2.10.1 Actuarial gains or losses arising are recognised in the Statement of Comprehensive Net Expenditure.

2.11 Additional voluntary contributions

2.11.1 There are no additional voluntary contributions (AVCs) directly within the Scheme. AVC funds were not transferred into the RMSPS as part of the transfer of liabilities from the RMPP to the RMSPS. Any AVC contracts entered into with third party financial institutions in respect of AVCs are by the RMPP. However, when the Scheme is obliged to do so, it pays certain benefits arising from the disinvestment of AVCs to the relevant scheme members. The Scheme then recovers all payments, in respect of any AVC benefit payments, from the RMPP. Where AVCs are still to be recovered at the year end this is included as a receivable balance.

2.12 Significant estimates and judgements

2.12.1 The key estimates and judgements relate to the valuation of the pensions liability set out in note 8 below.

3 Pension financing cost (see also Note 8)

	2017–18	2016–17
	£000	£000
Net interest on defined-benefit liabilities	1,292,000	1,355,000
	1,292,000	**1,355,000**

4 Past service cost

	2017–18	2016–17
	£000	£000
Past service costs	33,000	-
	33,000	**-**

5 Receivables

	2017–18	2016–17
	£000	£000
Amounts falling due within one year:		
Amounts due from RMPP	791	1,015
Amounts due from repayment from pensioners	613	817
Amounts due from Cabinet Office	95	74
Balance at 31 March	**1,499**	**1,906**

6 Cash and cash equivalents

	2017–18	2016–17
	£000	£000
Balance at 1 April	16,490	46,570
Net change in cash balances	4,480	(30,080)
Balance at 31 March	**20,970**	**16,490**

The following balances at 31 March were held at:

	2017–18	2016–17
Government Banking Service (GBS)	20,969	16,490
Commercial banks and cash in hand	1	-
Balance at 31 March	**20,970**	**16,490**

7 Payables – in respect of pensions

	2017–18	2016–17
	£000	£000
Amounts falling due within one year:		
Pensions payable	(17,652)	(14,033)
Lump sums payable	(7,603)	(9,378)
Tax deductions payable	(10,436)	(10,261)
Amounts issued from the consolidated fund for supply but not spent at year end	(20,963)	(16,487)
Amounts payable to the Scheme manager	(7)	(3)
Other payables	(1)	(1)
Balance at 31 March	**(56,662)**	**(50,163)**

8 Provision for pension liabilities

8.1 Assumptions underlying the pension liability

The RMSPS is a closed, defined benefit scheme and is wholly unfunded. Pensions liabilities are accrued up to 31 March 2012, as explained in more detail in the Report of the Manager. The calculation of the pension liability is based on a full actuarial assessment of the Scheme carried out as at 31 March 2015, updated annually by the Government Actuary's Department to reflect changes that have occurred from 1 April 2015 to 31 March 2018. The report of the actuary in these financial statements sets out the scope, methodology and results of the work the actuary has carried out.

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

- scheme membership, including age and gender profiles, active and deferred members 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's liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The major assumptions used by the actuary, including mortality assumptions, are described in the report of the actuary; the primary financial assumptions are set out below. Since the Scheme is closed to future accrual there are no assumptions about potential pay increases.

	At 31 March 2018	At 31 March 2017
	%	%
Nominal rate of return (discount rate)	2.55	2.80
Nominal pension increases (RPI)	3.45	3.55
Nominal pension increases (CPI)	2.45	2.55
Discount rate net of inflation (RPI)	(0.87)	(0.72)
Discount rate net of inflation (CPI)	0.10	0.24

The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the Scheme liabilities. However, the Scheme manager acknowledges that the valuation is inherently uncertain, since a change in any one of these assumptions will either increase or reduce the liability.

The assumption with the biggest impact on the reported liability is the discount rate net of price inflation. As required by 'IAS 19', this is based on yields on high quality corporate bonds. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

8.2 Analysis of the pension liability

Present value of the actuarial liability in respect of	31 March 2018 £ million	31 March 2017 £ million
Pensions in payment	18,450	18,467
Deferred members	27,940	28,348
Total liabilities	**46,390**	**46,814**

8.3 Sensitivity Analysis

In accordance with 'IAS 19', the Scheme manager is required to undertake a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation at the end of the reporting period would have been affected by changes in the relevant actuarial assumption.

A sensitivity analysis for each significant actuarial assumption as at the end of the accounting year is detailed below. The assumptions regarding the CPI and the RPI do not have a significant impact.

Sensitivity to significant assumptions

Change in assumption*	Approximate effect on total liability	
Rate of return in excess of pension increases	**%**	**£ bn**
(i) net discount rate increase of ½% a year	(13.0)	(6.0)
Pensioner mortality		
(ii) additional one year increase in life expectancy at retirement	3.5	1.6

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

8.4 Analysis of movements in the Scheme liability

	Note	2017–18 £000	2016–17 £000
Scheme liability as at 1 April		(46,814,000)	(38,302,000)
Past service cost		(33,000)	-
Pension financing cost	3	(1,292,000)	(1,355,000)
Benefits payable	8.5	1,350,015	1,312,673
Pension payments to and on account of leavers	8.6	7,643	6,748
Net actuarial gains/(losses)	8.7	391,342	(8,476,421)
Scheme liability at 31 March		**(46,390,000)**	**(46,814,000)**

8.5 Analysis of benefits paid

	2017–18 £000	2016–17 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	1,103,497	1,077,705
Commutations and lump sum benefits on retirement	228,887	215,860
Death benefits payable	17,631	19,108
Per Statement of Cash Flows	**1,350,015**	**1,312,673**

8.6 Analysis of payments to and on account of leavers

	2017–18 £000	2016–17 £000
Payments to members joining State scheme	-	442
Individual transfers to other schemes	7,643	6,306
Total payments to and on account of leavers	**7,643**	**6,748**

8.7 Analysis of actuarial gain/(loss)

	2017–18 £000	2016–17 £000
Experience gains and losses arising on the pension liabilities	(202,658)	719,579
Changes to assumptions	594,000	(9,196,000)
Total actuarial gain/(loss)	**391,342**	**(8,476,421)**

8.8 History of Experience gains/(losses)

	2017–18	2016–17	2015–16	2014–15	2013–14
Experience gains and (losses) on scheme liabilities:					
Amount (£'000)	(202,658)	719,579	643,037	451,293	(252,454)
Percentage of the present value of the Scheme liabilities	0.44%	(1.54%)	(1.68%)	(1.12%)	0.69%
Total amount recognised in Statement of Changes in Taxpayers' Equity:					
Amount (£'000)	391,342	(8,476,421)	2,075,037	(3,184,707)	(3,321,454)
Percentage of the present value of the Scheme liabilities	(0.84%)	18.11%	(5.42%)	7.91%	9.02%

9 Financial Instruments

The Scheme's financial instruments comprise of cash, receivables, and payables. Details of these can be found in the relevant notes.

Resources, voted annually by Parliament, finance the pension scheme's net revenue resource requirements, there is, therefore, no exposure to significant liquidity risks. The pension scheme does not access funds from commercial sources and so is not exposed to interest rate risk.

The Scheme has no significant exposure to foreign exchange rate risk. The foreign exchange rate risk falls on the recipient of the payment made by the Scheme. Any increase or decrease in the amounts receivable, in respect of overseas payments liable to foreign exchange rate risk, is borne by the individual member.

There is no material difference between the fair values and carrying values of the pension scheme's financial instruments.

10 Related-party transactions

The RMSPS falls within the ambit of the Cabinet Office, which is regarded as a related party with which the RMSPS has had various material transactions during the year. None of the managers of the Scheme, key managerial staff, members of the Finance and Risk Committee or other related parties have undertaken any material transactions with the Scheme during the year (2016/17: none).

11 Events after the reporting period

The Accounting Officer of the department has authorised these financial statements to be issued on the date the Comptroller and Auditor General certifies the account. There have been no events after the reporting date.

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