



Cabinet Office

Royal Mail Statutory Pension Scheme Annual Report and Account 2019–20

HC 551



Cabinet Office

Royal Mail Statutory Pension Scheme

Annual Report and Account 2019–20

(For the year ended 31 March 2020)

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

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HC 551



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Accountability Report

Corporate Governance Report

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 RMPP’s liabilities. Following this transfer of responsibility, the RMSPS was established to provide retirement and death benefits to former members of the RMPP and their dependants, in respect of their service up to 31 March 2012.

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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. The Scheme is closed to new members and the accrual of new benefits, 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 members (those who joined the Scheme before 1 December 1971) and section B members (those who joined between 1 December 1971 and 31 March 1987) 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

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- Section C members (those who joined after 31 March 1987) 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 prior to 31 March 2012 but are not yet receiving their pension); and
- active deferred members (joint members) (those members who were in RMPP pensionable service as at 31 March 2012 and continued in RMPP pensionable service).

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.

4. Changes in benefits

Active deferred members differ from deferred members in that their deferred pension entitlements held in RMSPS receives revaluation based on the Retail Price Index (RPI) while they are still employed by the Royal Mail or Post Office.

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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 on 8 April 2019, reflecting the 2.4% increase in the CPI for the year ended September 2018. No discretionary increases were awarded.

For section C members, in accordance with scheme regulations, eligible pensions in payment and deferred benefits were increased by 3.3% in April 2019, reflecting the change in the RPI for the year ended September 2018 (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 carried out by Capita Employee Benefits Ltd, under a contract managed by the Cabinet Office.

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 management 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 account.

6. Cabinet Office and the administrator

The Cabinet Office oversees the delivery of scheme administration through a formal contract.

Under the contract, the administrator is responsible for:

- providing administration for deferred, active deferred and pensioner scheme members, including paying pensions and death benefits;

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- 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.

7. Financial review

The total pension liability at 31 March 2020 is £49.0 billion (31 March 2019: £44.0 billion). This relates to benefits accrued before 2012 for qualifying members and their beneficiaries of the RMPP as at 31 March 2020. The increase in liability has been driven by the fall in the nominal discount rate from 2.9% to 1.8%, partially offset by a decrease in the assumed rate of pension increases from 2.6% to 2.35%.

The net expenditure for the year was £1.6 billion (2018–19: £1.2 billion) and consists of the pension financing cost and a past service cost. The interest cost has increased by £0.1 billion due to increases in the starting liability and the nominal discount rate used

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increasing the interest cost. The past service cost is in respect of the additional liabilities for the indexation and equalisation of Guaranteed Minimum Pensions (GMP) in public service pension schemes for members reaching State Pension age after 6 April 2021. Further detail is provided in Note 9.

Total benefits of £1.4 billion (2018–19: £1.4 billion) were payable in the year in respect of pensions, commutations, lump sums and death benefits payable. Total transfers out of £4.7 million (2018–19: £4.8 million) were payable in the year.

During the year a net actuarial loss of £4.9 billion (2018–19: £2.2 billion actuarial gain) was incurred and has been included within Other Comprehensive Net Expenditure. The notional cost of the audit is £50,000 (31 March 2019: £68,000). 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 384,528 at 31 March 2019 to 378,769 at 31 March 2020.

The financial statements and accompanying notes set out the Scheme's expenditure for the year ended 31 March 2020 and its financial position and cash flows.

8. Reconciliation of net cash requirement to estimate

There was a £47.6 million variance between the estimated cash requirement of £1,469.0 million and the outturn of £1,421.4 million. This is primarily due to the estimate incorporating cover for the risk of a small fluctuation in the incidence of retirements from month to month.

9. Guaranteed Minimum Pension equalisation and indexation

The Government announced its response to the consultation on GMP indexation and equalisation in public service pension schemes in January 2018.

This consultation was about how government should continue to meet its obligations to index (price protect) and equalise (make equal payments to men and women) the pension entitlements of public servants in employment between 1978 and 1997 with a GMP entitlement.

In 2016, the Government introduced the new State Pension, which simplified the pension system but removed the mechanism whereby public service schemes could continue to equalise and index pension payments.

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The Government has been implementing an ‘interim solution’, and the outcome of the consultation is that this solution was extended to 5 April 2021. A past service cost for the interim solution was included in the 2018-19 accounts.

In October 2018, the High Court published its judgment in the Lloyds Banking Group case on the equalisation of GMP and found that pensions must be equalised for the effects of unequal GMP.

Given that the government has committed to addressing GMP equalisation either through provision of full indexation of pensions or conversion of GMPs, the additional liability will need to be reflected in the Scheme’s finances. A past service cost of £300 million has therefore been determined in respect of the additional liabilities for members reaching State Pension age after 6 April 2021 and this amount has been recognised in these financial statements. No further past service costs to the Scheme in relation to GMP equalisation and indexation are expected.

10. Membership statistics

Deferred pensioners (including active deferred – single status only)	31 March 2020	31 March 2019
At 1 April	173,324	181,840
Adjustment*	(253)	(178)
Full retirements**	(5,327)	(5,351)
Deaths	(137)	(286)
Transfers	(12)	(18)
Partial retirements (i.e. from single to dual status)	(2,856)	(2,683)
At 31 March	164,739	173,324
Dual status pensioners (deferred members with part benefits in payment)	31 March 2020	31 March 2019
At 1 April	14,702	14,026
Adjustment*	(69)	-
Full retirements**	(1,693)	(1,948)
Deaths	(26)	(59)
Partial retirements (i.e. from single to dual status)	2,856	2,683
At 31 March	15,770	14,702

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	31	31
Pensioners	March	March
	2020	2019
At 1 April	196,502	192,782
Adjustment*	(312)	786
Full retirements	6,754	7,127
New dependants	2,580	1,423
Pensioner payment ceased	(12)	(92)
Deaths	(7,252)	(5,524)
At 31 March	198,260	196,502
Total	378,769	384,528

* Adjustments are needed to the membership movement to reflect differences in reporting following the administration transition and late notifications to the administrator

**Full retirements from deferred and dual status pensioners include 241 members who took trivial commutations

11. Scheme records

Records in respect of active deferred members were maintained by the Royal Mail Pensions Service Centre until 8 November 2019, and then by Capita from 11 November 2019.

12. Additional voluntary contributions (AVCs)

There are no additional voluntary contributions allowed within the RMSPS. AVC Funds are retained in the RMPP but active deferred members are allowed to spread their AVC benefit entitlement across both schemes.

13. Scheme developments

As previously reported the administration of the Scheme was transferred from the Pension Service Centre (PSC) to Capita in 2018. During 2019-20 a dedicated project team of Capita, the PSC and Cabinet Office worked together to provide a solution for processing retirements and other benefits for the active deferred members. An interface solution was implemented to allow the flow of member data between Capita and PSC to facilitate this case processing, enabling Capita to take on the full administration of active deferred members from November 2019.

There is a data sharing agreement in place with Royal Mail Pension Trustees Ltd which will provide a basis for the sharing of data and maintain a service for active deferred members that is focused on a positive member experience. The transition project board held its last meeting in March 2020 and the transition project has now been formally closed.

A self- service member portal went live on 16 September 2019 which allows members to access information about their benefits online and update personal details.

There were no changes to the Scheme rules during the year. There were no developments within the RMPP that would have a significant impact on the Scheme.

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 2019–20.

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.

Any breaches of General Data Protection Regulations are monitored by the Cabinet Office, and there have been no reportable breaches during the year.

15. Actuarial position

The Scheme's liabilities as at 31 March 2020 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)' and the requirements of Chapter 9 of the 2019-20 version of the 'Government Financial Reporting Manual (FReM)'. This assessment was completed using full scheme data as at 31 March 2018, updated on an approximate basis by the Government Actuary's Department to reflect changes that have occurred from 1 April 2019 to 31 March 2020.

16. Events after the reporting period

The full impact of the Covid-19 pandemic is not known and will remain uncertain until further evidence is available, and no adjustments have been made to the actuarial calculations.

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

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The Accounting Officer of the Scheme has authorised these financial statements to be issued on the date that the Comptroller & Auditor General (C&AG) certifies the account.

17. Auditor

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

18. Managers, advisers and employers

Managers

Accounting Officer of the Scheme

Alex Chisholm, 70 Whitehall, London SW1A 2AS

Scheme manager at the Cabinet Office

Dominic Arthur, Cabinet Office, 151 Buckingham Palace Road, London SW1W 9SZ

Address for correspondence with Capita Employee Benefits

Scheme administrator, Capita Employee Benefits, Hartshead House, 2 Cutlers Gate, Sheffield, S4 7TL

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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.

19. 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.



Alex Chisholm
Principal Accounting Officer and Permanent Secretary

13 November 2020

Report of the actuary

Royal Mail Statutory Pension Scheme

Account for the year ended 31 March 2020

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 2020, and the movement in the Scheme liability over the year 2019-20, prepared in accordance with the requirements of Chapter 9 of the 2019-20 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 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 2018 based on the data provided as at 31 March 2018 and rolling forward that liability to 31 March 2020.

Membership data

4. Table A summarises the principal membership data as at 31 March 2018 used to prepare this statement.

Table A – Membership summary

Category	Number of members (single + dual)	Total pension as at 31 March 2018 (£ million)*
Active Deferred	85,028	459
Deferred Pensioner	110,452	369
Pensioner	205,988	1,118

* Including pension increases awarded in April 2018. Does not include NPA65 pension that is not yet in payment for dual status members.

Methodology

5. The present value of the liabilities as at 31 March 2020 has been determined using the Projected Unit Credit Method (PUCM), based on the demographic and financial assumptions applying as at 31 March 2020.

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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 in respect of current active members, 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 2020 p.a.	31 March 2019 p.a.
Rate of return (discount rate)	1.80%	2.90%
Rate of future pension increases (CPI)	2.35%	2.60%
Rate of future pension increases* (RPI)	3.35%	3.60%
Real rate of return in excess of:		
Pension increases (CPI)	(0.5%)	0.29%
Pension increases (RPI)	(1.5%)	(0.68%)

8. The assessment of the liabilities allows for the known pension increases up to and including April 2020.

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 Adjustment table*	Adjustment
Males		
Normal and ill health retirements*	S2PMA	121%
Dependants	S2PMA	115%
Females		
Normal and ill health retirements*	S2PFA	118%
Dependants	S2DFA	111%

* No adjustment is made for pensioners who have already retired on ill-health grounds. Future ill health retirees are assumed to be subject to the above mortality on the basis that the members were born three years earlier than their actual date of birth.

10. The assumptions in Table C above are the same as those adopted for the 31 March 2018 funding valuation of the Scheme and the accounts as at 31 March 2019.

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11. For the 2018-19 accounts, future improvements in mortality were assumed to be in line with the 2016-based principal population projections published by the Office for National Statistics (ONS). Mortality improvements are now assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a reduction in life expectancies.

Liabilities

12. Table D summarises the assessed value as at 31 March 2020 of benefits accrued under the Scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 11. The corresponding figures for the previous year are shown for comparison.

Table D – Statement of Financial Position

	31 March 2020 £ m	31 March 2019 £ m	31 March 2018 £ m	31 March 2017 £ m	31 March 2016 £ m
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	49.0	44.0	46.4	46.8	38.3
Surplus/ (Deficit)	(49.0)	(44.0)	(46.4)	(46.8)	(38.3)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

13. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. A past service cost of £300 million has been determined in respect of the additional liabilities for the indexation and equalisation of GMP in public service pension schemes for members reaching State Pension age after 6 April 2021. This is broken down as follows:

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- GMP equalisation and indexation – Section A/B: £200m
 - GMP equalisation – Section C: £100m
14. I am not aware of any other events that have led to a material past service cost over 2019- 20.
 15. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2019-20.

Sensitivity analysis

16. 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 2020 of changes to the most significant actuarial assumptions.
17. The most significant financial assumptions are the discount rate and pension increases (based on either RPI or CPI). A key demographic assumption is mortality.
18. Table E shows the indicative effects on the total liability as at 31 March 2020 of changes to these assumptions (rounded to the nearest 0.5%).

Table E – Sensitivity to significant assumptions

Change in assumption*	Approximate effect on total liability	
Financial assumptions	%	£000
(i) net discount rate increase of ½% a year	(8.5)	(4,200,000)
(ii) pension increases of ½% a year	8.0	3,900,000
Demographic assumptions		
(ii) additional one-year increase in life expectancy at retirement	4.0	2,000,000

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

Covid-19 implications

- The 2019-20 Resource Accounts are being produced at a time when the UK is in the midst of dealing with the Covid-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.

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20. The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2019) 11 Revised, dated 6 December 2019. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.
21. The current population mortality projections make no specific allowance for the impact of Covid-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether Covid-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from Covid-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

Louise Doyle FIA

Actuary - Government Actuary's Department

7 May 2020

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 account 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

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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

1. Scope of responsibility

I was appointed as the Accounting Officer for the Royal Mail Statutory Pension Scheme on 14 April 2020.

My predecessor had responsibility for maintaining a sound system of governance, risk management and internal control.

I have now assumed this responsibility 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". I am also required to provide assurances about the stewardship of the RMSPS. These assurances are provided in this Governance Statement, in line with HM Treasury guidance.

2. Scheme governance

The governance arrangements of RMSPS are designed to:

- be efficient and cost effective;
- be based on a transparent and robust structure which is compliant with the Scheme rules; and

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- follow relevant good practice and policy for public service schemes across government.

3. **Governance: roles and responsibilities**

The bodies and individuals involved in Scheme governance are:

- 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 me, as the **Permanent Secretary for the Cabinet Office** and the Accounting Officer of the Scheme;
- the **Cabinet Office Audit and Risk Committee** supports and advises me, as the Accounting Officer, on all relevant matters concerning audit and risk;
- the **Civil Service & Royal Mail Pensions Directorate**, which is part of Civil Service Human Resources within the Cabinet Office, oversees the day-to-day management of the Scheme;
- the **Governance Group** is an advisory group which includes member representatives and the Chair is appointed by the Minister for the Cabinet Office;

- the **RMPP Trustee Executive** which has continued responsibility for the ongoing Royal Mail Pension Plan that holds pension benefits for active deferred members;
- the **Pensions Finance Governance Group** reviews the governance statement and provides a review of the Scheme report and account and other related issues; and
- the day-to-day administration of the Scheme is carried out by **Capita Employee Benefits Ltd** under a contract with the Cabinet Office operated in accordance with the Department's internal control framework.

4. **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 Mike Ashley, an independent non-executive member. All meetings were attended by at least one other non-executive director, the Cabinet Office Finance Director and my predecessor.

Scheme discussions included reports and updates provided by Civil Service & Royal Mail Pensions, the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA).

5. The Governance Group

The RMSPS Governance Group is an advisory group established as part of the RMSPS governance. 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 Department for Business, Energy & Industrial Strategy (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.

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The governance group met four times in the year to 31 March 2020 and was presented with reports highlighting the activities of the preceding three months. These reports included:

- actual pension payments made against forecasts;
- a scheme report highlighting significant activity in the reporting period;
- the number of overpayments made, recovery performance and causes; and
- the performance of Capita against agreed targets.

These reports and the data presented to the Governance Group are produced by the Scheme administrator and reviewed by the Scheme Manager to provide the level of detail needed for effective oversight.

6. Pensions Finance Governance Group

The Pensions Finance Governance Group provides proper oversight of financial management within Civil Service & Royal Mail Pensions and has responsibility for the RMSPS.

The Scheme was discussed at two meetings during the year, with representatives from National Audit Office, Government Actuary's Department and the Cabinet Office central finance team attending where appropriate.

The group discussed the content of the governance statement and report of the manager, and the progress of the audit.

7. 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 main risks kept under review and monitored on an ongoing basis are:

- failure of the administrator to process pension payments and lump sums on time;
- inability to maintain service because of loss of IT systems or insufficient resources;
- incorrect member data, data provided during the interface process and data security;
- lack of clarity around active deferred member current value statements or changes to the statements resulting in delays; and
- inability to effectively process active deferred members' benefits resulting in negative publicity and having an adverse effect on members.

All risks identified and reviewed during the year are recorded in a risk register which is reviewed and updated on a monthly basis. Where risks are outside

of tolerance levels, mitigating controls or action are implemented to address risks.

8. Coronavirus (Covid-19) Pandemic

The current novel coronavirus (Covid-19) outbreak, which began in December 2019, presented a potential challenge for the effective running of the Scheme. Covid-19 related risks were quickly identified, and plans to mitigate were immediately put in place. Key risks centred on changes to controls in critical processes and controls over key areas such as information technology and financial crime (payments) within the home working environment. Regular teleconference meetings were held between Capita and the Scheme Manager to continually assess the ongoing situation and to take action where necessary, and Business Continuity Plans were tested for resilience, ensuring they are up to date and flexible. As a result there was no significant impact on the quality of service.

During 2020-21, Capita internal audit team plans to review the response to Covid-19 to validate the operational changes made and assess the robustness of the new processes and controls introduced during the Covid-19 period.

9. Data security

A data privacy impact assessment was performed during the year by the Cabinet Office and cleared through the data protection officer.

In addition, the Capita information technology infrastructure was approved by the Cabinet Office accreditor, and the security working group meets monthly to discuss any security issues.

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 a number of parties. These included the Civil Service & Royal Mail Pensions directorate within the Cabinet Office; GIAA reporting into COARC; and the external scheme auditors.

I received an assurance letter from the previous Accounting Officer confirming the Cabinet Office has operated within effective governance, decision making and financial management arrangements throughout 2019-20. These arrangements have allowed me to meet the standards required of an Accounting Officer when considering and safeguarding regularity, propriety, affordability, feasibility, sustainability, risk and value for money.

There were challenges relating to the transition of active deferred members, and appropriate processes and controls were put in place to mitigate these risks. I will continue to keep this area under review in the coming months.

Royal Mail Statutory Pension Scheme 2019-20

Quarterly reports and the risk register are received from the administrator and meetings are held regularly to monitor compliance, delivery and risks. Any issues are reported to the Governance Group where appropriate.

In considering the effectiveness of the internal controls for the Scheme, I have taken into account the findings of the Reporting Accountants' assurance report for Capita Employee Benefits Ltd for the year ending December 2019. I have sought information from the administrator to aid consideration of the report's findings and concluded that risks are suitably mitigated by the control arrangements in place.

GIAA acts as the Scheme's overarching internal audit service. It develops an annual audit plan and provides me with an Annual Report and Opinion on the adequacy and effectiveness of risk management, governance and control for the Scheme as a whole. GIAA coordinates its work with Capita Group Internal Audit (Capita GIA) and places some reliance on the work of Capita GIA to inform its annual opinion.

The GIAA Head of Internal Audit provided me with his report on internal audit activity over the reporting period that contains his independent opinion on the adequacy and effectiveness of the Scheme's governance, risk management and internal control arrangements.

Royal Mail Statutory Pension Scheme 2019-20

For 2019-20 the Scheme received a 'moderate' opinion, with the GIAA noting the Scheme's priority of moving to a steady state of operational performance is yet to be achieved. The Scheme Manager, working with the administrator, understands the issues and has put in place risk mitigating activities, including a stabilisation plan in early 2020, and is working to address the issues.

Capita GIA developed an audit plan for 2019-20, designed so that Capita GIA delivers effective and efficient assurances to the Cabinet Office on the adequacy and effectiveness of the design and operation of Capita's governance, processes and controls. The plan was designed to focus on key areas of risk and the system of internal controls under a Business as Usual (BAU) scenario. Audits carried out during the year covered payment out controls, operational delivery key controls, member telephony experience and the cloud environment.

Royal Mail Statutory Pension Scheme 2019-20

Capita GIA issue an Annual Statement of Assurance each year on its opinion on the adequacy of risk, control and governance processes exercised by Capita management over the systems and processes used to administer the RMSPS contract. Capita GIA was satisfied that for the year 2019-20, the controls in place remain appropriate.



Alex Chisholm
Principal Accounting Officer and Permanent Secretary

13 November 2020

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 the estimate in terms of the net resource requirement and the net cash requirement.

Summary of resource and capital outturn 2019–20

	Estimate			Total
	SOPS Note	Voted	Non-voted	
Departmental expenditure limit				
- Resource		-	-	-
- Capital		-	-	-
Annually managed expenditure				
- Resource	SOPS 1.1	1,557,000	-	1,557,000
- Capital		-	-	-
Total budget		1,557,000	-	1,557,000
Non-budget				
- Resource		-	-	-
Total		1,557,000	-	1,557,000

Royal Mail Statutory Pension Scheme 2019-20

Outturn				2019–20 £000	2018–19 £000
	Voted	Non- voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit					
- Resource	-	-	-	-	-
- Capital	-	-	-	-	-
Annually managed expenditure					
- Resource	1,554,392	-	1,554,392	2,608	1,166,000
- Capital	-	-	-	-	-
Total budget	1,554,392	-	1,554,392	2,608	1,166,000
Non-budget					
- Resource	-	-	-	-	-
Total	1,554,392	-	1,554,392	2,608	1,166,000

Royal Mail Statutory Pension Scheme 2019-20

				2019–20	2018–19
				£000	£000
				Outturn compared with estimate: saving	Outturn
Note	Estimate	Outturn			
Net cash requirement	SOPS2	1,469,000	1,421,380	47,620	1,362,730
Administration costs 2019–20		-	-		-

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**

	Outturn					
	Administration			Programme		
	Gross	Income	Net	Gross	Income	Net
Spending in Departmental expenditure limit Voted:						
- RMSPS	-	-	-	-	-	-
Non Voted	-	-	-	-	-	-
Annually managed expenditure Voted:						
- RMSPS	-	-	-	1,554,392	-	1,554,392
Total budget	-	-	-	1,554,392	-	1,554,392
Non-voted						
- RMSPS	-	-	-	-	-	-
Total	-	-	-	1,554,392	-	1,554,392

				2019–20	2018–19
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Royal Mail Statutory Pension Scheme 2019-20

	Total			£000	£000
	Outturn	Estimate		Outturn	Outturn
	Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
Spending in Departmental expenditure limit Voted:					
RMSPS	-	-	-	-	-
Non Voted	-	-	-	-	-
Annually managed expenditure Voted:					
RMSPS	1,554,392	1,557,000	2,608	2,608	1,166,000
Total budget	1,554,392	1,557,000	2,608	2,608	1,166,000
Non-voted - RMSPS	-	-	-	-	-
Total	1,554,392	1,557,000	2,608	2,608	1,166,000

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

	Note	Estimate £000	Outturn £000
Net resource outturn		1,557,000	1,554,392
Accruals adjustments:			
– Non-cash item – pension financing cost	8.4	(1,557,000)	(1,254,392)
– Non-cash item – past service cost	8.4	-	(300,000)
Changes in working capital other than cash:			
– Increase/(decrease) in receivables		-	(520)
– (Increase)/decrease in payables (within 12 months)		-	(4,797)
<i>Less movements in the consolidated fund and scheme manager payables</i>		-	6,336
Use of provision:			
Pension		1,469,000	1,420,361
Net cash requirement		1,469,000	1,421,380

Royal Mail Statutory Pension Scheme 2019-20

	2019–20	2018–19
	Net total outturn compared with estimate: saving	Outturn
	£000	£000
Net resource outturn	2,608	1,166,000
Accruals adjustments:		
– Non-cash item – pension financing cost	(302,608)	(1,166,000)
– Non-cash item – past service cost	300,000	-
Changes in working capital other than cash:		
– Increase/(decrease) in receivables	520	1,602
– (Increase)/decrease in payables (within 12 months)	4,797	1,336
<i>Less movements in the consolidated fund and scheme manager payables</i>	(6,336)	(6,470)
Use of provision:		
Pension	48,639	1,366,262
Net cash requirement	47,620	1,362,730

There is a £47.6 million variance from the estimated cash requirement of £1,469.0 million to the outturn of £1,421.4 million. This is primarily due to the estimate incorporating cover for the risk of fluctuation in the incidence of retirements from month to month.

The £2.6 million variance in the net resource outturn of £1,554.4 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 £50,000 (2018–19: £68,000), in respect of the C&AG's audit of the Scheme's financial statements for the year ended 31 March 2020, 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 2020 (2018–19: none in excess of £300,000), 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 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Changes in Taxpayers' Equity, Cash Flows; 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 2020 and of its total comprehensive net expenditure for the year then ended; and

Royal Mail Statutory Pension Scheme 2019-20

- 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 2020 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), and Practice Note 15 – ‘The Audit of Occupational Pension Schemes in the United Kingdom’ and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in the United Kingdom’.

Royal Mail Statutory Pension Scheme 2019-20

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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Royal Mail Statutory Pension Scheme's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Royal Mail Statutory Pension Scheme 2019-20

- the Royal Mail Statutory Pension Scheme have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Royal Mail Statutory Pension Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

Royal Mail Statutory Pension Scheme 2019-20

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.

Royal Mail Statutory Pension Scheme 2019-20

- 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.
- 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.

Royal Mail Statutory Pension Scheme 2019-20

- conclude on the appropriateness of the Royal Mail Pension Scheme'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 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 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 report. However, future events or conditions may cause Royal Mail Pension Scheme to cease to continue as a going concern.

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

Royal Mail Statutory Pension Scheme 2019-20

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 but does not include the parts of the Accountability 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.

Royal Mail Statutory Pension Scheme 2019-20

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 parts of the Accountability Report 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 Annual 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 Accountability 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.

Gareth Davies 19 November 2020

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Royal Mail Statutory Pension Scheme 2019-20

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2020

	Note	2019–20 £000	2018–19 £000
Principal Arrangements – Royal Mail Statutory Pension Scheme			
Expenditure			
Pension financing cost	3	1,254,392	1,166,000
Past service cost	4	300,000	-
Net expenditure		1,554,392	1,166,000
Other comprehensive net expenditure			
Net actuarial loss/(gain)	8.7	4,899,946	(2,229,738)
Total Comprehensive net expenditure/(income) for the year ended 31 March		6,454,338	(1,063,738)

The notes on pages 76 to 96 form part of these financial statements.

**Statement of Financial Position
as at 31 March 2020**

		31 March 2020 £000	31 March 2019 £000
	Note		
Principal Arrangements – Royal Mail Statutory Pension Scheme			
Current assets:			
Receivables	5	2,581	3,101
Cash and cash equivalents	6	20,836	14,500
Total current assets		23,417	17,601
Current liabilities:			
Payables (within 12 months)	7	(60,123)	(55,326)
Total current liabilities		(60,123)	(55,326)
Net current liabilities, excluding pension liability		(36,706)	(37,725)
Pension liability	8.4	(48,993,977)	(43,960,000)

Royal Mail Statutory Pension Scheme 2019-20

	31 March 2020 £000	31 March 2019 £000
Note		
Net liabilities, including pension liabilities	<u>(49,030,683)</u>	<u>(43,997,725)</u>
Taxpayers' equity:		
General fund	<u>(49,030,683)</u>	<u>(43,997,725)</u>
	<u>(49,030,683)</u>	<u>(43,997,725)</u>



Alex Chisholm
**Principal Accounting Officer and Permanent
Secretary**

13 November 2020

The notes on pages 76 to 96 form part of these financial statements.

**Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2020**

	Note	31 March 2020 £000	31 March 2019 £000
Balance as at 1 April		(43,997,725)	(46,424,193)
Net Parliamentary funding – drawn down		1,427,454	1,356,267
Net Parliamentary funding – deemed		14,500	20,963
Supply payable – current year adjustment	7	(20,574)	(14,500)
Net expenditure for the year		(1,554,392)	(1,166,000)
Net actuarial (loss)/gain	8.7	<u>(4,899,946)</u>	<u>2,229,738</u>
Balance as at 31 March		<u>(49,030,683)</u>	<u>(43,997,725)</u>

The notes on pages 76 to 96 form part of these financial statements.

**Statement of Cash Flows
for the year ended 31 March 2020**

	Note	2019–20 £000	2018–19 £000
Cash flows from operating activities			
Net expenditure for the year		(1,554,392)	(1,166,000)
Adjustments for non-cash transactions – pension financing cost	3	1,254,392	1,166,000
Adjustments for non-cash transactions – past service cost	4	300,000	-
Decrease/(increase) in receivables	5	520	(1,602)
Increase/(decrease) in payables – pensions	7	4,797	(1,336)
<i>less movements in consolidated fund and scheme manager payables</i>	7	(6,336)	6,470

Royal Mail Statutory Pension Scheme 2019-20

Use of provisions – pensions to retired employees and dependants	8.5	(1,150,502)	(1,129,815)
Use of provisions – commutations and lump-sum payments	8.5	(250,377)	(211,558)
Use of provisions – death benefits payable	8.5	(14,773)	(20,136)
Use of provisions – refunds and transfers	8.6	(4,709)	(4,753)
Net cash outflow from operating activities		(1,421,380)	(1,362,730)
Cash flows from financing activities			
From the consolidated fund (supply)		1,427,454	1,356,267
Net Parliamentary financing		1,427,454	1,356,267
Adjustments for payments and receipts not related to supply		-	-
Net financing		1,427,454	1,356,267

Royal Mail Statutory Pension Scheme 2019-20

Net increase/(decrease) in cash and cash equivalents in the year before adjustment for receipts and payments to the consolidated fund	6,074	(6,463)
Increase/(decrease) of monies that are payable to the Scheme Manager as they are outside the scope of the Scheme's activities	262	(7)
Net increase/(decrease) in cash and cash equivalents in the year after adjustment for receipts and payments to the consolidated fund	6,336	(6,470)

Royal Mail Statutory Pension Scheme 2019-20

Cash and cash equivalents at 1 April	6	14,500	20,970
Cash and cash equivalents at 31 March	6	20,836	14,500
Net increase/(decrease) in cash and cash equivalents		6,336	(6,470)

The notes on pages 76 to 96 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 2019–20 ‘Government Financial Reporting Manual (FReM)’ issued by HM Treasury. The accounting policies contained in the ‘FReM’ apply 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 the Cabinet Office and reported in the Cabinet Office departmental account.

Royal Mail Statutory Pension Scheme 2019-20

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.

Royal Mail Statutory Pension Scheme 2019-20

An assessment of International Financial Reporting Standards (IFRS) implemented in the year considered 'IFRS 11 Joint Arrangements' and 'IFRS 3 Business Combinations' and determined they are not applicable as the Scheme has not entered into any such arrangements or transactions.

An assessment of International Financial Reporting Standards (IFRS) issued but not yet effective considered 'IFRS 16 Leases' and 'IFRS 17 Insurance Contracts' and determined they are not applicable and determined they are not applicable as the Scheme has not entered into any such arrangements.

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 scheme 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 year in the present value of the Scheme's liabilities because the benefits are one year closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure.

Royal Mail Statutory Pension Scheme 2019-20

The interest cost is based on the discount rate (including inflation) at the start of the year, i.e. 2.90% for 2019–20 (2.55% for 2018–19).

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 2018.

2.8 Pension benefits payable

2.8.1 Pension benefits payable are accounted for on an accruals basis as a decrease in the Scheme pension liabilities. 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 Credit losses

2.11.1 In accordance with 'IFRS 9 Financial Instruments' any expected credit losses are not considered to be material to the Scheme.

2.12 Additional voluntary contributions

2.12.1 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 managed 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 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.

2.13 Critical Accounting Judgements and key sources of estimation uncertainty

2.13.1 In accordance with IAS 1 – ‘Presentation of Financial Statements’, the preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on going basis. There have been no changes made to past assumptions. The key estimates and judgements relate to the valuation of the pensions liability set out in Note 8 below.

Royal Mail Statutory Pension Scheme 2019-20

3. Pension financing cost (see also Note 8)

	2019–20	2018–19
	£000	£000
Net interest on defined-benefit liabilities	1,254,392	1,166,000
	<u>1,254,392</u>	<u>1,166,000</u>

4. Past service cost

	2019–20	2018–19
	£000	£000
Past service costs	300,000	-
	<u>300,000</u>	<u>-</u>

The past service cost is in respect of the additional liabilities for the indexation and equalisation of Guaranteed Minimum Pensions (GMP) in public service pension schemes for members reaching State Pension age after 6 April 2021.

5. Receivables

Royal Mail Statutory Pension Scheme 2019-20

	2019–20	2018–19
	£000	£000
Amounts falling due within one year:		
RMPP	1,086	1,566
Repayment from pensioners	1,430	1,484
Cabinet Office	61	51
Administrator	4	-
Balance at 31 March	2,581	3,101

6. Cash and cash equivalents

	2019–20	2018–19
	£000	£000
Balance at 1 April	14,500	20,970
Net change in cash balances	6,336	(6,470)
Balance at 31 March	20,836	14,500

The following balances at 31 March were held at:

Government Banking Service (GBS)	20,829	14,268
Commercial banks and cash in hand	7	232
Balance at 31 March	20,836	14,500

7. Payables – in respect of pensions

Royal Mail Statutory Pension Scheme 2019-20

	2019–20	2018–19
	£000	£000
Amounts falling due within one year:		
Pensions payable	(18,471)	(20,405)
Lump sums payable	(10,180)	(9,715)
Tax deductions payable	(10,636)	(10,706)
Amounts issued from the consolidated fund for supply but not spent at year end	(20,574)	(14,500)
Amounts payable to the Cabinet Office	(262)	-
	(60,123	
Balance at 31 March)	(55,326)

8. Provision for pension liabilities

8.1 Assumptions underlying the pension liability

The RMSPS is a closed, defined benefit scheme and is wholly unfunded. Pension 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 2018, updated annually by the Government Actuary's Department to reflect changes that have occurred from 1 April 2018 to 31 March 2020.

Royal Mail Statutory Pension Scheme 2019-20

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 Manager 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 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, other than those financial assumptions prescribed by HM Treasury, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

Royal Mail Statutory Pension Scheme 2019-20

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 2020 %	At 31 March 2019 %
Nominal rate of return (discount rate)	1.80	2.90
Nominal pension increases (RPI)	3.35	3.60
Nominal pension increases (CPI)	2.35	2.60
Discount rate net of inflation (RPI)	(1.5)	(0.68)
Discount rate net of inflation (CPI)	(0.5)	0.29

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.

Royal Mail Statutory Pension Scheme 2019-20

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. However, unlike 'IAS 19', the yields are prescribed by HM Treasury and so not assessed at the reporting date, nor calibrated to the term of the RMSPS liabilities. 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 2020	31 March 2019
	£ million	£ million
Pensions in payment	21,409	20,410
Deferred members	27,585	23,550
Total liabilities	48,994	43,960

The duration of the scheme's liabilities is approximately 19 years.

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.

Sensitivity to significant assumptions

Change in assumption*	Approximate effect on total liability	
	%	£000
Financial assumptions		
(i) net discount rate increase of ½% a year	(8.5)	(4,200,000)
(ii) pension increases of ½% a year	8.0	3,900,000
Demographic assumptions		
(ii) additional one year increase in life expectancy at retirement	4.0	2,000,000

* 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	2019–20 £000	2018–19 £000
Scheme liability as at 1 April		(43,960,000)	(46,390,000)
Past service cost		(300,000)	-
Pension financing cost	3	(1,254,392)	(1,166,000)
Benefits payable	8.5	1,415,652	1,361,509
Pension payments to and on account of leavers	8.6	4,709	4,753
Net actuarial (losses)/gains	8.7	<u>(4,899,946)</u>	<u>2,229,738</u>
Scheme liability at 31 March		<u>(48,993,977)</u>	<u>(43,960,000)</u>

8.5 Analysis of benefits paid

	2019–20	2018–19
	£000	£000
Pensions to retired employees and dependants (net of recoveries or overpayments)	1,150,502	1,129,815
Commutations and lump sum benefits on retirement	250,377	211,558
Death benefits payable	14,773	20,136
Per Statement of Cash Flows	<u>1,415,652</u>	<u>1,361,509</u>

8.6 Analysis of payments to and on account of leavers

	2019–20	2018–19
	£000	£000
Payments to members joining State scheme	-	3
Individual transfers to other schemes	4,709	4,750
Total payments to and on account of leavers	<u>4,709</u>	<u>4,753</u>

8.7 Analysis of actuarial (loss)/gain

	2019–20 £000	2018–19 £000
Experience gains and losses arising on the pension liabilities	361,864	(1,378,262)
Changes to assumptions	<u>(5,261,810)</u>	<u>3,608,000</u>
Total actuarial (loss)/gain	<u>(4,899,946)</u>	<u>2,229,738</u>

8.8 History of Experience gains/(losses)

	2019–20	2018–19	2017–18
Experience gains (and losses) on scheme liabilities:			
Amount (£'000)	361,864	(1,378,262)	(202,658)
Percentage of the present value of the Scheme liabilities	(0.74%)	3.14 %	0.44%
Total amount recognised in Statement of Changes in Taxpayers' Equity:			
Amount (£'000)	(4,899,946)	2,229,738	391,342
Percentage of the present value of the Scheme liabilities	10.00 %	(5.07%)	(0.84%)

Royal Mail Statutory Pension Scheme 2019-20

2016–17 2015–16

Experience gains (and losses) on scheme liabilities:

Amount (£'000)	719,579	643,037
Percentage of the present value of the Scheme liabilities	(1.54%)	(1.68%)

Total amount recognised in Statement of Changes in Taxpayers' Equity:

Amount (£'000)	(8,476,421)	2,075,037
Percentage of the present value of the Scheme liabilities	18.11%	(5.42%)

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 Scheme's net revenue resource requirements, there is, therefore, no exposure to significant liquidity risks.

Royal Mail Statutory Pension Scheme 2019-20

The 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 Scheme's financial instruments.

10. Related-party transactions

The Scheme falls within the ambit of the Cabinet Office, which is regarded as a related party with which the Scheme has had various material transactions during the year in respect of commission income received payable to the Cabinet Office and administration fees paid to be reimbursed to the Scheme. None of the managers of the Scheme, key managerial staff or other related parties have undertaken any material transactions with the Scheme during the year (2018–19: none).

The RMPP has continued responsibility for the ongoing Royal Mail Pension Plan that holds pension

benefits for active deferred members. AVC Funds are retained in the RMPP and material transactions are completed during the year in relation to these funds.

11. Events after the reporting period

The full impact of the Covid-19 pandemic is not known and will remain uncertain until further evidence is available, and no adjustments have been made to the actuarial calculations.

There have been no other 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.

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