
NHS Pension Scheme

(Incorporating the NHS Compensation for Premature Retirement Scheme)

Annual Accounts

2015-16

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

Ordered by the House of Commons to be printed 19 July 2016

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Any enquiries related to this publication should be sent to Scheme Administrator, NHS Business Services Authority, Pensions, Hesketh House, 200-220 Broadway, Fleetwood, FY7 8LG.

This publication is available at <https://www.gov.uk/government/publications>

Print ISBN 9781474128674

Web ISBN 9781474128681

ID 15021607 07/16 56324

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Contents	Page
ACCOUNTABILITY	
CORPORATE GOVERNANCE REPORT	
Report of the Managers	3-14
Report of the Actuary	15-18
Statement of Accounting Officer's Responsibilities	19
Annual Governance Statement	20-32
PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT	
Statement of Parliamentary Supply	33-36
Parliamentary Accountability Disclosures	36
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	37-38
FINANCIAL STATEMENTS	
Combined Statement of Comprehensive Net Expenditure	39
Combined Statement of Financial Position	40
Combined Statement of Changes in Taxpayers' Equity	41
Combined Statement of Cash Flows	42
Notes to the Financial Statements	43-54

ACCOUNTABILITY

CORPORATE GOVERNANCE REPORT

Report of the Managers

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

1. Background to the Scheme

1.1 Statutory basis for the Scheme

The NHS Pensions Scheme is an unfunded occupational scheme backed by the Exchequer, which is open to all NHS employees and employees of other approved organisations. The Scheme provides pensions for officer members based on final salary for employees in the 1995 Scheme and 2008 Section; whilst in the 2015 Scheme they are calculated using a career average. A career average arrangement is in place for General Practitioners and General Dental Practitioners across all schemes/sections. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits.

Scheme provisions are governed by the following sets of Regulations:

- The NHS Pensions Scheme Regulations 1995, 2008 and 2015, as amended;
- The NHS (Compensation for Premature Retirement) Regulations 2002 (as amended);
- The Pensions (Increase) Act 1971;
- NHS Additional Voluntary Contributions (AVC) Regulations; and
- NHS Gratuitous Expectations Regulations (as amended).

On 1 April 2008 a new section of the NHS Pension Scheme was introduced for new members. New joiners on, or after, 1 April 2008 are members of the 2008 Section. These changes introduced new rules for NHS employees joining from 1 April 2008 and modified the rules for those already in the pension scheme prior to this date.

On 1 April 2015 a new Career Average Revalued Earnings (CARE) Scheme was introduced and the existing Scheme (1995 and 2008) was closed from that date, although certain 'protected' members dependant on their age at 1 April 2015, will remain until retirement. New joiners on, or after, 1 April 2015, and members who did not have protected rights will enter the 2015 Scheme. Further details of these changes can be found on the NHS Pensions website <http://www.nhsbsa.nhs.uk/pensions>.

1.2 Eligibility to join the Scheme

The employers of NHS Pension Scheme contributing members are classified as Employing Authorities. Employing Authorities are defined in the Regulations and their staff have automatic entry to the Scheme. Non-NHS employers can apply for Direction Body status in order that their staff may join the Scheme provided they meet specified criteria, whereas Independent Provider employers have the option to choose to enter their staff into the Scheme.

At 31st March 2016 there were 9,065 participating employers falling into the following categories:

Employer category	As at 31 March 2016	As at 31 March 2015
NHS Trusts and Local Health Boards (note1)	128	129
Foundation Trusts	153	151
GP practices	7,630	7,840
Arms length bodies	14	15
Direction bodies	564	546
Clinical Commissioning and Support Units	237	226
Local Authorities (PHT from 1 st April 2013)	142	142
New Fair Deal	132	89
Independent Providers (note 2)	65	30
Total	9,065	9,168

Note 1 – Local Health Boards are only applicable in Wales

Note 2 – Independent Provider employers are subject to a pensionable earnings ceiling of 75% of the total value of NHS contract value.

1.3 Main features of the Scheme

The NHS Pension Scheme provides defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained.

The Scheme is currently operating with a net cash inflow (negative Net Cash Requirement), due to income exceeding the payments made, and this surplus is returned to HM Treasury during the following financial year. If payments are forecast to exceed income within a financial year, or the scheme requires funds to maintain a level of cash flow to make payments, the balance of the funding required is requested from Parliament through the annual Supply Estimates process. The cash flows of the Scheme are classed as Annually Managed Expenditure (AME) for government accounting purposes. Further information regarding AME and all government accounting arrangements can be found in the HM Treasury Financial Reporting Manual.

1.4 Annual Pensions

Members in the 1995 Section receive a pension worth 1/80th of the best of the last three year's pensionable pay for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.4% of total pensionable earnings over the relevant pensionable service.

Members in the 2008 Section receive a pension worth 1/60th of the average of the best three consecutive year's pensionable pay in the last ten; for each year of membership. Members who are practitioners, as defined by the Scheme Regulations have their annual pensions based upon 1.87% of total pensionable earnings over the relevant pensionable service.

Members in the 2015 Scheme receive a pension worth 1/54th of each year's earnings. This is re-valued at the beginning of each following scheme year in line with a rate set by Treasury, plus 1.5% whilst in active membership.

1.5 Lump Sum Allowance

A lump sum is payable on retirement. Members in the 1995 Section receive a lump sum which is normally three times the annual pension payment.

Members in the 2008 Section and 2015 Scheme receive a lump sum which may be a maximum of 25% of the value of their pension fund at retirement, this will impact on the level of pension due dependant on the percentage chosen, and is based on a conversion rate of £1 of pension to £12 of lump sum.

1.6 Pensions Indexation

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

1.7 Ill-Health Retirement

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

1.8 Death Benefits

For members who die in service a lump sum is payable of twice annual pensionable pay, or average uprated earnings for practitioners. For members who die after retirement an amount is payable which is the lesser of 5 times annual pension less pension already paid, or twice reckonable pay less any retirement lump sum taken. Other death benefits are also payable for members who have a deferred pension.

1.9 Added Years and Additional Pension purchase

Members could purchase additional service (added years) in the NHS Scheme by paying an agreed percentage of salary over an agreed length of time, but this option ceased to be available on 31 March 2008. It was replaced on 1 April 2008 by the option to purchase extra annual pension amounts, by way of a lump sum value or instalments.

1.10 Early Retirement Reduction Buy Out (ERRBO)

From 1 April 2015 members have the option to purchase additional service to allow them to retire earlier than their normal pension age by paying a percentage of salary over an agreed length of time. The percentage applied is dependent on the age of the member when they apply and the number of years they plan to retire early.

1.11 Transfer between funds

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

1.12 Preserved benefits

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

1.13 Compensation for early retirement

Where a member of the Scheme is made redundant they may be entitled to early receipt of their pension plus enhancement, at the employer's cost. The employer cost is limited so that it cannot exceed an employee's redundancy payment. Charges that are met by the employer where their employee is a member of the Scheme are referred to as capitalisation costs.

2. Management of the scheme

2.1 Organisations responsible for managing the Scheme

The NHS Business Services Authority (NHSBSA) is the body responsible for the administration of the NHS Pension Scheme for England and Wales.

The administration of the Scheme includes calculation of benefits, collection of contributions from employers, maintenance of member records and payment of benefits.

The costs of administering the Scheme are met by the NHSBSA, which is in turn funded by the Department of Health. The annual accounts of the NHSBSA can be found at http://www.nhsbsa.nhs.uk/annual_report.aspx

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

2.2 Corporate governance of the Scheme

The governance arrangements of the NHSBSA, who are responsible for the administration of the Scheme, can be found in the Annual Governance Statement on pages 20 to 32.

In addition to the governance arrangements that exist within the NHSBSA, the Public Service Act 2013 required the establishment of a Pension Board with the responsibility for assisting the scheme Manager in securing compliance with all relevant pensions law, regulations, directions and the relevant Pensions Regulator's Code of Practice 14. The Board's role is one of assurance and governance of the scheme administration.

The Pensions Board has an Independent Chair, appointed by the Secretary of State for Health and six member and employer representatives respectively. NHSBSA and the Department of Health have 'observer' status on the Board, and NHSBSA provides comprehensive management information in order to facilitate the Board to carry out its functions.

2.3 Arrangements governing determination of contribution rates and benefits

The last published actuarial valuation undertaken for the NHS Pension Scheme was as at 31 March 2012 and published in June 2014. The primary purpose of the 2012 actuarial valuation was to set the employer contribution rate payable from April 2015, in light of the introduction of the new pension arrangements from 1 April 2015, and the initial employer cost cap (maximum employer contributions) which is required by the Public Service Pensions Act 2013. Both the employer contribution rate and employer cost cap have been included in Scheme Regulations.

The next actuarial valuation is expected to be carried out as at 31 March 2016. This will set the employer contribution rate payable from April 2019 and will consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the Scheme changes by more than 2% of pay. Subject to this 'employer cost cap' assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health after consultation with the relevant stakeholders.

3. Key developments in year

3.1 Changes to scheme contribution rates

Following discussions with Trade Unions and employer representatives on long term contribution rates to apply to all members following implementation of the new 2015 NHS Pension Scheme from 1 April 2015, the Department finalised a set of proposed long term member contribution rates. These will remain the same from 1 April 2015 to 31 March 2019.

The main features of the contribution rates structure are as follows:

- The headline contribution rates as set out in the Proposed Final Agreement published in March 2012 are retained;
- Rates will remain tiered according to whole time equivalent (WTE) pay or earnings;
- The rates are the same as the 2014-2015 scheme year contribution rates except for a small adjustment to the tier 4/5 boundary; and
- Both rates and tier boundaries will be fixed for four years from 1 April 2015 to 31 March 2019.

The rates and bandings are set for each of the next three scheme years and will be revised at the next scheme valuation. There are no plans to carry out any mid-year changes to account for any pay increases as the consequential movement of members across tiers has been factored into the rates shown. However, the scheme years will continue to operate independently, as they do now. As such, should a mid-year change be necessary, which is not planned, this would have a retrospective effect from the start of that Scheme year. The contribution rates will apply in both the 1995 and 2008 Sections, as well as the 2015 Scheme from 1 April 2015 until 31 March 2019.

The employer contribution rate increased from 14% to 14.3% from 1 April 2015 as advised by the Department of Health.

3.2 Changes in benefits

There have been no changes to benefits during 2015-16 except as disclosed for the introduction of the 2015 Scheme referred to in 1.1, 1.4 and 1.5 above.

3.3 Membership statistics (movement in year)

Details of the current membership of the Scheme at 31 March 2016 are set out below:

Active Members

Active members at 1 April 2015	1,428,050
Adjustment (see note 1)	(5,421)
Restated active members at 1 April 2015 (see note 2)	1,422,629
New entrants	162,458
Deferred members who rejoin in the year	55,030
Re-employed pensioners	415
Retirements	(32,874)
Leavers with deferred pension rights	(110,031)
Members who opt-out with deferred pension rights	(29,733)
Deaths	(792)
Active members at 31 March 2016	1,467,102

Deferred members

Deferred members at 1 April 2015	573,940
Adjustment (see note 1)	14,866
Restated deferred members at 1 April 2015 (see note 2)	588,806
Members leaving active membership with deferred pension rights	139,764
Members taking up deferred pension rights	(9,559)
Members who rejoin the scheme	(55,030)
Movement to unclaimed refund (see note 3)	(23,606)
Members taking a refund of contributions during year	(38,682)
Members with deferred pension rights in both sections of the scheme (see note 4)	(1,305)
Transfers out	(1,420)
Death of member	(268)
Deferred members at 31 March 2016	598,700

Pensioners in payment (including Compensation payments)

Pensions in payment at 1 April 2015	799,337
Adjustment (see note 1)	5,066
Restated pensions in payment at 1 April 2015 (see note 2)	804,403
Members retiring from active	
Members retiring from active	32,874
Members retiring from deferred	9,559
New widows and dependants	5,596
Deaths	(17,769)
Cessations (see note 5)	(528)
Child dependants leaving full time education	(508)
Pensions in payment at 31 March 2016	833,627

Note 1. Member records are updated retrospectively after the year end, after the membership statistics are prepared for the scheme accounts. This is due to the volume of data required to be uploaded onto the pension administration systems from employers, and the resolution of any subsequent data errors. An adjustment will be required each year to show a revised opening position to reconcile to the movements and closing position for the year.

Note 2. The membership data at 31 March 2015 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in November 2015, whereas these statistics were taken from a data extract provided in May 2016 and member data is continually updated after the year end.

Note 3. Where a period of membership is insufficient to qualify for pension entitlement and the only benefit due in respect of that membership is a refund of employee contributions paid into the scheme, it is classified as an unclaimed refund and does not appear in the membership statistics.

Note 4. A member may have deferred benefits in both sections or schemes. The adjustment has been made due to a number of members with service in both sections or schemes being duplicated relating to the movements in year.

Note 5. This figure includes cessations due to remarriage or co-habitation and due to commutation of pensions on grounds of trivial value.

3.4 Financial position at 31 March 2016

As at 31 March 2016 the pension liabilities of the Scheme were valued at £382 billion. This is a decrease of £8.6 billion from the liabilities at 31 March 2015 of £390.6 billion. This is due to an actuarial gain of £28.4 billion (£16.9 billion gain relating primarily to changes in the assumption on short-term pay restraint and £11.5 billion gain relating to changes in other assumptions and scheme experience) and current year net additions to the liability of £19.8 billion. The movement is detailed in note 15.4 to the accounts. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer.

3.5 Contingency Fund Drawdown

Although a negative cash requirement (surplus) was forecast for the financial year 2015-16, the amount of surplus has reduced significantly over the most recent financial year. The Scheme now has to surrender the end of year cash surplus to Treasury within the first quarter of the following financial year, whereas the Scheme had previously utilised the surplus within its cash flows until the surplus of receipts met the ongoing monthly cash flow requirement.

This combination of the two factors above has resulted in the Scheme requiring additional funds to ensure benefits are paid on their due date each month. The primary reason for this relates to the timing of the receipt for the majority of the contributions paid by employers being due by the 19th of the month, for the previous months payroll. The Scheme receives on average £800 million on this payment deadline date.

To meet the cash flow requirement to pay member benefits from the 1st to the 18th of the month, the Scheme submitted a request for £916 million to Treasury to draw money from the Contingencies Fund (under section 5.14e of the Supply and Estimates Guidance manual). The funds were repaid to the Contingencies Fund in full during 2015-16 with the final payment being made on the 21st March 2016.

The Scheme has requested to draw down £850 million from the Contingencies Fund in 2016-17, as the same scenario exists as described above.

3.6 Results for the year

The 2015-16 net resource outturn was £19.32 billion which was within the voted estimate of £19.54 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure (page 39) contained within the accounts.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of -£0.448 billion against the voted estimate of -£0.023 billion, this is surplus cash due to income exceeding pension benefit payments, and the £0.448 billion will be returned to Treasury during 2016-17.

4. Key activities during 2015-16

4.1 Implementation of the 2015 Scheme

As reported in the 2014-15 Scheme Accounts, the NHSBSA successfully implemented the 2015 Scheme by delivery of the 2015 Scheme Implementation Project. This included the implementation of the new Pension System platform, Compendia.

Throughout the financial year several releases have been delivered that introduced further functionality to the initial system release, prioritised in line with business needs. A series of business process reviews have also been undertaken to ascertain the optimum way to process some of the core pension administration processes utilising Compendia, and these standardised 'best practice' procedures continue to be introduced within the service delivery teams.

4.2 Pensions Service – Target Operating Model

The Target Operating Model (TOM) for the Pensions Service has been developed to ensure future compliance with changing Scheme Regulations and wider legislation, and to move towards a 'member self-serve' approach with the utilisation of the most suitable technology and digital services available, thus enhancing the customer experience. The key requirements of the TOM will be considered within the Pensions Service Re-procurement.

The first phase of this process was to introduce an Interim Operating Model (IOM) that primarily focused around staff engagement, strengthening of the compliance and governance framework and the restructure of the teams within pensions service delivery.

The key changes delivered in pension service delivery was to re-structure into multi skilled teams covering a number of processes that are logically grouped together, i.e. the Sensitive Life Events team looks after bereavements, ill health and injury benefits, rather than single transactional functions.

A Technical Consultancy Team and Compliance Team were introduced after a successful pilot in line with the re-organisation of the internal quality and governance structures. In the latter part of 2015-16 a Stakeholder Engagement Team was introduced that will concentrate primarily on supporting and interacting with NHS Employers. Their role will be that of education, engagement and escalation where employers fail to comply with the scheme regulations.

4.3 National Fraud Initiative (NFI)

On a regular basis, the NHS Pension Scheme takes part in the National Fraud Initiative (NFI), which commenced in 1998 and is co-ordinated by the Cabinet Office. This initiative allows the Scheme to submit approved data to the Cabinet Office who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The frequency of mortality matches has recently been increased to six monthly, though all other matches remain biennial.

The table below provides an update of the position for the NFI exercises conducted since 1998 and lists the outstanding amounts, which are still being actively pursued. Data from the 2015 data matching is being analysed and the results will be reported in the 2016-17 accounts.

NFI Exercise	Total Identified £000	Total Cases	Prior Years		2014-15		2015-16		Outstanding at 31/03/2016 £000
			Recovered £000	Written-off £000	Recovered £000	Written-off £000	Recovered £000	Written-off £000	
NFI 1998-2009	7,412	2,316	5,386	1,743	46	18	18	12	189
NFI 2011	2,754	682	1,923	145	85	296	20	92	193
NFI 2013	4,120	1,558	1,173	14	1,415	493	391	152	482
NFI 2014	1,424	727	-	-	-	-	896	21	507
Total	15,710	5,283	8,482	1,902	1,546	807	1,325	277	1,371

4.4 Tell Us Once

The Tell Us Once (TUO) service allows citizens to inform central and local government of bereavement in a single engagement. This can either be at the point of registering a death with a Registrar, by telephone or via the internet. The service is hosted by the Department for Work and Pensions (DWP) but is a cross government facility.

The Scheme joined this service in March 2016. The benefits of being part of TUO is the provision of a better service to the bereaved at a difficult time, and a reduction in the number of days between the death of a pensioner and the Scheme being informed. It is anticipated that this will reduce the number of instances of cases that are highlighted through the NFI exercise thus reducing the potential value of overpaid benefits and associated costs of recovery.

4.5 Administration of late paid contributions

On the 1 April 2014 Regulation T9 – Interest and Administration Charges: Late paid contributions, was introduced. Although most employers pay their contributions on time a number continue to pay their contributions late, and like other schemes, the Department of Health introduced this regulation to encourage prompt payment by employers for all contributions due to the Scheme.

During 2015-16 a total of 5,042 invoices were issued to employers with a total of £121,000 being charged in interest (see note 5 to the accounts).

4.6 Total Reward Statements (TRS)

In 2014 NHS Total Reward Statements (TRS) were launched which provided NHS employees with an overview of their employment benefit package including an Annual Benefit Statement (ABS) from the NHS Pension Scheme for scheme members. The NHSBSA worked in conjunction with NHS Electronic Staff Records (ESR) to deliver TRS for active and deferred members (excluding practitioner members).

In the first year approximately 80% of all active officer pension scheme members received the ABS element of their TRS. Following a review of validations within the process, and the inclusion of practitioner members during 2015-16, the success rate for all active members (officers and practitioners) increased to approximately 92%.

4.7 Customer satisfaction surveys

The NHS Pension Scheme completed Customer Satisfaction Surveys during the year with active and deferred pension scheme members, employers and retired pension members.

The overall satisfaction rating for both active and deferred pension members and retired pension members has decreased since 2014-15 as shown in the table below, whereas the satisfaction rating increased for pension employers over the comparable period. The survey was answered on a scale of 1 to 10 where 1 is not at all satisfied and 10 is completely satisfied.

	Active and deferred pension members		Retired pension members		Pension employers	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Total sample	2,084	1,194	594	411	1,146	983
Overall satisfaction	6.4	7.1	8.4	8.7	7.3	6.8

Potential causes for the decline in satisfaction for active and deferred pension members could include the overarching scheme changes implemented on 1 April 2015 and the introduction of the new pensions administration system Compendia. This combined change has put additional demands on staff in terms of the training and assimilation of the knowledge required to deal with queries efficiently.

Results for retired pension members were largely positive despite the slight downturn in results. However the survey did highlight the issues of website navigation and the quality of the website's automated greeting message as the main areas of dissatisfaction amongst retired members.

4.8 Events after the reporting period

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made. Sensitivity analysis around the key financial assumptions underpinning the actuarial valuation of the Scheme liabilities that may potentially be affected by this decision can be found on pages 18 and 52.

5 Key activities arising for 2016-17

5.1 Changes to Contracting Out Rules and Single Tier New State Pension

The Government announced the cessation of contracting-out for Defined Benefit (DB) occupational schemes in January 2013, with proposals for a Single Tier State Pension. Contracting-out for DB schemes will cease from April 2016, with the State Second Pension (S2P) no longer accruing.

The introduction of a new single-tier pension from 6 April 2016 will see the end of contracting-out. The liability for tracking and maintaining contracted out rights, known as Guaranteed Minimum Pension (GMP), will be passed across to individual pension schemes and support services from HMRC (NICO) and will be scaled down and eventually withdrawn in December 2018. This means that the NHSBSA needs to reconcile contracted-out data with HMRC's records prior to December 2018 to ensure that the scheme has full awareness of its liability at the point where the Scheme Reconciliation Service is withdrawn by HMRC.

The initial assessment provided by Treasury of the impact to the Scheme liability for the transitional indexation protection during 2016 to 2018 is £200 million, and has been treated as a Past Service Cost within this year's accounts (see note 6 to the accounts).

From December 2018, HMRC intend to issue individual statements to scheme members confirming the individual's contracted-out benefits and the relevant service dates and schemes under which these benefits are held. Thereafter, HMRC's contracted-out liability reconciliation service will cease.

There are a range of administrative requirements arising from the proposed changes which the NHSBSA is assessing and has set up a specific project to deal with this significant change.

Key activities identified are within the scope of the project are:

- Assess the scope of the validation task and determine the appropriate IT system infrastructure
- Identify the member population impacted to inform the optimum solution for the scheme to deliver the changes
- Implement the preferred option during 2016-17

5.2 Pension Service Re-procurement

The re-procurement of the Pensions Service administration is currently being progressed. The procurement aims to ensure full continuity of service following the expiry of the current Pensions Service administration contract in July 2017.

It is anticipated that the required procurement exercises will be initiated during 2016.

6 Information for members

6.1 Pension Increase

The Pensions increase rate was 1.2% (2014-15 2.7%) with effect from 6 April 2015 (7 April 2014) which applies to the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme.

6.2 Supplementary Information available to members

Information regarding the provisions of the Scheme can be found on the website of the NHSBSA as well as copies of Pension Accounts and Actuarial Valuation Reports. The website address is as follows: <http://www.nhsbsa.nhs.uk/pensions>

6.3 Information about Free Standing Additional Voluntary Contributions (AVC) and Stakeholder Pensions

The Pensions Scheme has continued to offer a broad range of in-house top up money purchase AVCs, including AVC and Stakeholder Pension facilities from Standard Life and Prudential and an AVC only facility from Equitable Life. These contributions are not contained within the cash flows of the Scheme, but paid directly to the approved provider (please see note 10 to the accounts).

6.4 Disclosure of audit information to the auditors

As far as I am aware, there is no relevant audit information of which the NHS Pension Scheme auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the NHS Pension Scheme auditors are aware of that information.

I take personal responsibility for the Report of the Manager and Financial Statements and the judgements required for determining that they are fair, balanced and understandable. I can confirm that the Report of the Manager and Financial Statements as a whole are fair, balanced and understandable.

6.5 Management structure and advisors

Accounting Officer:

Nick Scholte
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Hesketh House
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Nick Scholte
Chief Executive, NHS Business Services Authority
8 July 2016

Report of the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2016

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the NHSBSA. It summarises the pensions disclosures required for the 2015-16 Resource Accounts of the NHSPS ('the scheme').
2. The NHSPS is a defined benefit pension scheme with various different benefit structures. This scheme has two main sections (the 1995 section with normal pension age (NPA) 60 and the 2008 section with NPA 65), the rules of which are set out in the National Health Service Pension Scheme Regulations 1995 (SI 1995/300), the National Health Service Pension Scheme Regulations 2008 (SI 2008/653) and subsequent amendments to both. Both Sections provide benefits to practitioners on a career average, rather than final salary basis.

The NHSPS 2015 was introduced on 1 April 2015 and is a career average revalued earnings (CARE) scheme with NPA equal to State Pension Age, the rules of the scheme are set out in the National Health Service Pension Scheme Regulations 2015 (SI 2015/94). The schemes are wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

3. The statement is based on an assessment of the liabilities as at 31 March 2015, with an approximate updating to 31 March 2016 to reflect known changes.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2015 used to prepare this statement.

Table A – Active members

31 March 2015 membership data		2015-16 accounts	
Number (thousands)	Total salaries (pa) (£ billion)	Total accrued pensions (£ billion)	Total salaries implied by receipts (£ billion)
1,430	41.53	7.80	42.19

Table B – Deferred members

31 March 2015 membership data	
Number (thousands)	Total deferred pension (pa) (£ billion)
550	1.67

Table C – Pensions in payment

31 March 2015 membership data		2015-16 accounts
Number (thousands)	Total pension* (pa) (£ billion)	Total pension (pa) (£ billion)
802	6.91	7.40

*Pension amounts as at the assessment date and so excludes pension increase due in April 2015.

Methodology

5. The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2015-16 Pension Accounts. The contribution rate for accruing costs in the year ended 31 March 2016 was determined using the PUCM and the principal financial assumptions applying to the 2014-15 Resource Accounts.
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 D.

Table D – Principal financial assumptions

Assumption	31 March 2016	31 March 2015
Rate of return (discount rate)	3.60%	3.55%
Rate of earnings increases*	4.20%	4.20%
Rate of future pension increases	2.20%	2.20%
Rate of return in excess of:		
Pension increases	1.37%	1.30%
Earnings increases (long term)*	-0.60%	-0.65%
Expected return on assets:	n/a	n/a

* short term adjustments have been made to this assumption for the period to 2020

8. The pension increase assumption as at 31 March 2015 and 31 March 2016 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

9. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
10. The standard mortality tables known as S1NXA (for normal health pensioners and dependants) and S1IXA (for ill-health pensioners) are used but with mortality rates reduced to 80% (males) and 85% (females) of actual rates (100% for both male and female future ill-health pensioners). These assumptions are the same as those adopted for the 2014-15 Pension Accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption has been updated in line with the latest ONS projections. The 2014-15 Pension Accounts were based on the 2012-based projections.
11. The contribution rate used to determine the accruing cost in 2015-16 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2014-15 Pension Accounts.

Liabilities

12. Table E summarises the assessed value as at 31 March 2016 of benefits accrued under the scheme prior to 31 March 2016, based on the data, methodology and assumptions described in paragraphs 4 to 11. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ Billion

	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(382.0)	(390.6)	(337.2)	(284.2)	(247.0)
Surplus/(Deficit)	(382.0)	(390.6)	(337.2)	(284.2)	(247.0)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2016 (the Current Service Cost) is based on a standard contribution rate of 36.0%. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 9.5%. The corresponding figures for 2014-15 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	2015-16	2014-15
Standard contribution rate	36.0%	32.7%
Members' estimated average contribution rate	9.5%	9.5%
Employers' estimated share of standard contribution rate	26.5%	23.2%

14. For the avoidance of doubt, the actual rate of contributions payable by employers, 14.3% of pensionable pay for 2015-16, is not the same as the employers' share of the standard contribution rate as above (26.5% for 2015-16). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Pension Accounts is the discount rate. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of accounting standard IAS19.

15. The pensionable payroll for the financial year 2015-16 was £42.2 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2015-16 (at 36.0% of pay) is assessed to be £15.2 billion.

16. A past-service cost of £0.2 billion has been included for 2015-16 in recognition of the announced Government policy to provide full indexation on GMPs for the members who reach SPA between 6 April 2016 and 5 December 2018.

Sensitivity analysis

17. 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 2016 of changes to the main actuarial assumptions.

18. The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

19. There is significant uncertainty associated with how members will retire in the future, both for those remaining in the current scheme where recent patterns of retirement have been materially different to historic patterns, and as a result of the scheme reform, for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in the 1995 section and so I have included an indication of the approximate effect (on the total past service liability) of assuming all 1995 Section members retire at their Normal Pension Age (on average this equates to members retiring approximately 2 years earlier than assumed). The pattern of retirements from the 2008 Section doesn't have a significant impact on the liability as both early and late retirements are subject to actuarial adjustment.

20. Table G shows the indicative effects on the total liability as at 31 March 2016 of changes to these assumptions (rounded to the nearest 0.5 %).

Table G - Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability		
Financial assumptions				
(i)	discount rate*:	-0.5 % a year	+11.5%	+£44 billion
(ii)	(long term) earnings increase*:	-0.5 % a year	-1.5%	-£6 billion
(iii)	pension increases*:	-0.5 % a year	-7.5%	-£29 billion
Pensioner mortality				
(iv)	each pensioner subject to longevity of an individual 1 year younger than assumed:	further	+2.5%	+£10 billion
(v)	1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier)		+1.5%	+£6 billion

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

Sue Vivian
Government Actuary's Department
May 2016

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme to prepare, for each financial year, a statement of resource accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the combined schemes at the year end and of the net resource outturn and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting manual (FRoM) and in particular to:

- Observe the Accounts Direction issued by the 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 have been followed and disclosed and explained any material departures in the accounts
- Prepare the financial statements on a going concern basis
- The report of the manager and accounts as a whole is fair, balanced and understandable
- Take personal responsibility for the report of the manager and accounts and the judgements required for determining that this is fair, balanced and understandable.

HM Treasury has appointed Nick Scholte, Chief Executive of the NHSBSA as Accounting Officer for the NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in Managing Public Money published by HM Treasury, and as assigned within the Accounting Officer Memorandum.

Annual Governance Statement

Introduction

The Accounting Officer for the NHS Business Services Authority (NHSBSA) is the Accounting Officer for the NHS Pension Scheme and is required to provide assurances about the stewardship of the NHS Pension Scheme. These assurances are provided in this Governance Statement, in line with HM Treasury guidance.

The Accounting Officer for the NHSBSA and the NHS Pension Scheme is Nick Scholte, Chief Executive.

Scope of Responsibilities

The NHSBSA's Board is accountable for internal control of the administration of the NHS Pension Scheme, ensuring that its business is conducted in accordance with the law and proper standards. It also ensures that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively in accordance with HM Treasury's Managing Public Money. In discharging this responsibility the Board is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions. This includes ensuring that a sound system of internal control is maintained throughout the year which supports the achievement of the NHSBSA's policies, aims and objectives and arrangements are in place for the management of risk.

As Accounting Officer for the NHSBSA, the Chief Executive has overall responsibility for ensuring that contracted administrators for any outsourced activity manage risks effectively, and for reviewing the effectiveness of the administrator's systems of internal control.

The administration of the Scheme is currently delivered through a combination of NHSBSA employees and a contracted out third party provider, Equiniti. The arrangement for joint working with Equiniti is governed by commercial agreements and managed by regular meetings to review performance and escalate issues and concerns.

The responsibility for case administration remains in-house, but a range of services are partially contracted out to Equiniti. The contract with Equiniti can be split into a number of Service Streams outlined below:

- Estates
- Finance
- Communications Centre
- IT
- Pensioner payroll
- Medical Services
- Retained Services

A range of assurance mechanisms are in place to support the management of the contract, including monthly service stream meetings with individual stream managers, monthly reporting against SLA's, and a monthly management group meeting (called Service Review Group) at which important/topical issues emerging from each stream are discussed. Where required this is then escalated further to senior management within the NHSBSA and Equiniti. A risk register is in place across all the service streams, and where necessary these are also escalated via the Service Review Group. The NHSBSA Information Governance policies and procedures are shared with, and followed by Equiniti, who are also required to provide and demonstrate that business continuity plans for all services they provide to NHSBSA for the pensions service are in place.

The Purpose of the Governance Framework

The NHSBSA operates an integrated governance framework and this is in place for the NHS Pension Scheme, as the body responsible for the administration of the scheme. This framework comprises the systems and processes by which the NHSBSA leads, directs and controls its

functions and accounts to, and engages with, the Department of Health (DH) and the wider NHS community. The NHSBSA takes its responsibilities seriously, striving to be a good corporate citizen. In aiming to embed this, the corporate governance framework is underpinned by the culture, values and behaviours adopted across the NHSBSA.

A significant element of the framework is the system of internal control, which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to achieving our policies, aims and objectives.
- evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework and system of internal control have been in place in the NHSBSA for the year ended 31 March 2016 and up to the date of the approval of the annual report and accounts.

NHSBSA Governance Framework

The overarching Corporate Governance Framework has been approved and adopted by the Board and is subject to annual review. The framework incorporates the following elements:

- Statutory Instruments and Directions which describe and govern the NHSBSA's core operations, processes and structure.
- Code of Conduct and Accountability for NHS Boards, instilling a culture of accountability, probity and openness underpinning the work of the NHS.
- Matters determined by the Board which ensure that the NHSBSA has appropriate decision making processes in place, including:
 - Standing Orders
 - Standing Financial Instructions
 - Scheme of Delegation.
- Other management information which supports effective governance and operation, i.e. corporate policies and procedures.

The Corporate Secretary is responsible for ensuring that all decisions made are legal and comply with the NHSBSA's Corporate Governance Framework and the Corporate Governance Code.

Enhanced governance and assurance controls specific to NHS Pensions

In line with legal requirements effective from April 2015, the NHSBSA has robust governance arrangements in place to oversee the compliance of pension scheme administration.

Pensions Board

The Public Service Pensions Act 2013 requires the NHS Pensions Board to assist the Scheme Manager in securing compliance with all relevant pension law, regulations and directions. This role is one of assurance and governance of the scheme administration provided by the NHSBSA. The Pensions Board has been in operation since April 2015 (in shadow form since April 2014) and has held quarterly meetings at which the NHSBSA reports pension KPIs and other administrative performance.

Pensions Compliance Team

The newly formed Pensions Compliance Team became fully functional in time for the new NHS Pension Scheme 2015 Regulations becoming effective from 1 April 2015. During 2015-16 they

have embarked on a series of reviews covering all major aspects of the pensions administration service as follows;

- Ill health retirement
- New joiner process
- Refund of contribution
- Bereavement
- Transfers in
- Estimate of benefit
- Transfers out
- Pensions on divorce
- Benefit payments (ongoing into 2016-17)

Various recommendations resulted from the Compliance Reports, and have been used to form an action plan that the Pensions Senior Management Team are working through to ensure changes are made. Some examples of recommendations are to complete the production of Technical Guides on all processes, to make improvements to the Pensions Website, and to ensure all pro-formas and check sheets are completed by staff and electronically scanned to the members' pension record contained in Compendia.

There has been two 'unsatisfactory' Compliance Reports, which related to the bereavement process and pensions on divorce administration. The bereavement review highlighted a lack of process around payment of interest due on late payments for death lump sums. This has not been an issue prior to the 2015 scheme implementation as the service had not experienced a backlog in the bereavement process before. The pensions on divorce review highlighted some administrative inconsistencies and lack of system support for record keeping.

Both areas affected only a small number of cases but the introduction of the new Compliance Team, and its reviews, has meant the NHSBSA have been able to identify and remedy deficiencies in processes and systems.

The Pension Board discussed whether to report these breaches to The Pensions Regulator (TPR) but decided that as the number of affected cases was small it was not a material breach, and were also satisfied with the remedial action the NHSBSA had put in place.

In line with the approach taken by the NHSBSA, a compliance assurance map based on the three line of defence methodology is maintained by the Pension Compliance Manager. In April 2016 an Internal Audit report into Compliance Activity noted a number of positive findings relating to the approach and methodology adopted by the team, and no high risk findings were identified.

Referral to The Pensions Regulator (TPR)

In line with the TPR Code of Practice, the Compliance Manager has referred 3 Breaches of Law to the Pensions Regulator for the non-payment of employer and employee contributions. Responses from the Regulator on each case are awaited at the time of production of these accounts.

Fraud Error and Debt (FrED)

As part of the NHSBSA's ongoing Fraud Error and Debt (FrED) project initiated in 2013, a Strategy and Action Plan has been developed encompassing NHS Pensions administrative and payment activity. The strategy details the approach the NHSBSA takes in increasing the effectiveness of its management of fraud error and debt. In addition, it also details key risks and issues where fraud and error occur, or may occur, and explains the known types of fraud, error and debt levels that exist in the provision of pensions administration. It also assesses the potential financial loss to the Scheme as well as the impact on areas such as KPIs and reputational damage.

The FrED Action Plan details the financial impacts of fraud and error and a measurement of savings and preventions and a number of initiatives have now being implemented, including Tell Us Once. The plan will be annually developed and updated to measure the improvements made and to provide assurance that steps are being taken to reduce the potential for fraud and error, thus reducing debt.

NHSBSA Board

The Board is responsible for the strategic direction and integrated governance of the NHSBSA, including the stewardship of its finances, including the NHS Pension Scheme. In fulfilling these responsibilities the Board reserves certain decision making powers, including decisions on strategy and budgets, but other key duties have been delegated to the NHSBSA's two standing committees:

- Audit and Risk Management Committee
- Remuneration and Terms of Service Committee

The roles and responsibilities of the Audit and Risk Management Committee are described more fully below. All powers of the NHSBSA that have not been retained as reserved for the Board or otherwise delegated to a standing committee are exercised on behalf of the Board by the Chief Executive, unless otherwise specified in the NHSBSA's Standing Financial Instructions or Scheme of Delegation. The Chair is primarily responsible for leading the Board and ensuring its effectiveness with the Chief Executive responsible for day-to-day management. The documents which describe how the NHSBSA operates are included in the Corporate Governance Framework. This framework includes the Standing Financial Instructions and Scheme of Delegation which details which decisions the Board has reserved for itself and those which it has delegated and to whom.

Board Membership and Responsibilities

Membership of the Board is currently made up of a non-executive Chair, three non-executive directors, Chief Executive and up to three executive directors, one of which must be a finance director. The key roles and responsibilities of the board are:

- To set and oversee the strategic direction of the NHSBSA
- Continued appraisal of the financial and operational performance of the NHSBSA
- To discharge their duties of regulation and control
- To receive reports and updates from the Standing Committees
- To adopt the Annual Report and Accounts

The Board has met nine times during the financial year and is responsible for approving the business plan and budget in advance of the financial year. Subsequent reporting is based on an exception principle ensuring that the Board focuses on key issues and utilises its time effectively. The Board receives regular updates from its standing committees on the business covered, risks identified and actions taken. These updates are delivered by the non-executive Chair of the respective Committee.

At each meeting, the Board receives an integrated balanced scorecard which summarises:

- Performance against the identified key performance indicators
- The current financial position
- People related issues
- Customer satisfaction and complaints
- Client engagement
- Progress against key change projects

The data presented to the Board is produced and quality assured by the NHSBSA Information Services Team adopting the Audit Commission's six data quality dimensions approach.

The NHSBSA's Senior DH Sponsor is also invited to Board meetings to ensure members of the Board, in particular non-executive directors, are able to receive an understanding of the key stakeholders' views.

Board members must declare their interests to the Chair and Corporate Secretary in any matter relating to the NHSBSA's business at the time that they become aware of a potential conflict. Members will normally be excluded from the discussion after declaring an interest related to that issue. The minutes of the meeting will record the member's declaration.

The table below shows the number of meetings attended by Board members during the 2015-16 financial year and also highlights their declared business interests.

Board member	Meetings Attended	Register of interests
Non-executive Chair: Silla Maizey	9 out of 9	Chair and non-executive director Trustee, British Airways Retirement Plan Director and Company Secretary, Saffron Solutions Ltd Non-executive director, John Menzies plc Non-executive director, Crown Commercial Service
Non-executive, Chair of Remuneration and Terms of Service Committee, Senior Independent Director (from 1 December 2015): Mark Ellerby	8 out of 9	Independent industry advisor, Advent International Non-executive director, Leeds Teaching Hospitals Trust Non-executive director Trustee, Dementia Forward
Non-executive, Chair of Audit and Risk Management Committee (from 1 December 2015): Andrew Flanagan	8 out of 9	Commissioner, Civil Service Commission Member of Advisory Board, NHS NELCSU Non-executive director, CIPFA Business Services Ltd Non-executive director, Criminal Injuries Compensation Authority Chair, Scottish Police Authority
Non-executive: Malcolm Green	8 out of 9	Non-executive director, Thrive Homes
Tenure ended 30 November 2015 Non-executive, Chair of Audit and Risk Management Committee, Senior Independent Director: David Hulf	6 out of 6	Non-executive director and Chair of Audit and Risk Committee, NS&I
Chief Executive: Nick Scholte	9 out of 9	Nothing declared
Director of Service Delivery: Alistair McDonald	8 out of 9	Nothing declared
Director of Finance and Corporate Services: Patrick McGahon	8 out of 9	Nothing declared
Director of Change and Commercial Delivery: Steven Pink	9 out of 9	Nothing declared

NHSBSA Board review of effectiveness

The NHSBSA Board is required to consider its own effectiveness on a regular basis. In 2015-16, the Board engaged an independent and experienced assessor to undertake the review. The process involved a series of discussions and one-to-one interviews with all members of the Board and regular attendees i.e. Corporate Secretary and Senior Sponsors from the Department of Health. The review began in November 2015 and concluded with feedback to the Board at their meeting in March 2016. Areas highlighted for consideration by the Board included greater utilisation of the non-executive directors' experience, re-structuring of Board agendas and creation of a Nominations Committee function.

During 2015-16, the Board continued to operate within its governance framework and codes of conduct. Furthermore, the NHSBSA has:

- Achieved its financial targets
- Consistently delivered against its agreed key performance indicators
- Continued to strengthen its assurance process through the assurance map process
- Maintained its robust performance reporting mechanism using a dashboard style approach
- Maintained its risk management procedures using dashboard reporting giving an overview of the risk profile of the whole organisation yet focusing attention on relevant areas
- Maintained an effective, risk-based internal audit programme, ensuring internal audit recommendations are addressed appropriately.

Audit and Risk Management Committee

The Committee is chaired by a non-executive director and met six times during 2015-16. Membership of the Committee is made up of three non-executive directors including the Chair, one of whom is required to have recent and relevant financial experience. David Hulf provided this experience and also chaired the Committee up until the end of his tenure on 30 November 2015.

Andrew Flanagan has chaired the Committee since 1 December 2015, and now provides the relevant financial experience. At the time of writing, one non-executive director post was vacant, but with the committee being quorate with two.

There is also a requirement for regular attendance from the director of Finance and Corporate Services and representatives from both internal and external audit. Nick Scholte, Chief Executive and Accounting Officer, is invited to attend at least one meeting during the year to discuss the assurance processes which support the production of the Annual Report and Accounts for the NHSBSA and the Pension Scheme Accounts. Other staff are invited to attend meetings as appropriate.

Audit and Risk Management Committee	Meetings Attended
Non-executive Directors:	
David Hulf (Chair of Committee until 30 November 2015)	4 out of 4
Andrew Flanagan (Chair of Committee from 1 December 2015)	5 out of 6
Malcolm Green	6 out of 6
Executive Directors:	
Patrick McGahon (Director of Finance and Corporate Services)	6 out of 6
Executive Directors (Specific items):	
Nick Scholte (Chief Executive)	3 out of 6
Alistair McDonald (Director of Service Delivery)	1 out of 6
Steven Pink (Director of Change and Commercial Delivery)	3 out of 6

Our DH Senior Programme Manager, Nigel Zaman, has also attended all six Committee meetings during 2015-16.

The Committee is responsible for providing the Board with an independent and objective view of the adequacy and effectiveness of the NHSBSA's governance and assurance arrangements, including the governance framework, risk management, controls and related assurances. Updates are provided to the Board following each meeting and subsequent Board meetings receive copies of the confirmed minutes. An Annual Report is submitted to the Board following the completion of the Annual Accounts process which summarises the work undertaken by the Committee during the previous year. In addition, the Board receives an annual review of the NHSBSA Risk Management Framework. This was most recently undertaken in July 2015 and concluded that the framework was effective and fit-for-purpose.

The Audit and Risk Management Committee's key responsibilities are:

- Monitoring financial governance and reviewing the draft financial statements
- Reviewing the effectiveness of internal controls
- Monitoring the effectiveness of risk management controls
- Monitoring the effectiveness of fraud and security management
- Seeking assurance regarding the control environment
- Reviewing the effectiveness of internal audit arrangements

These standing items are complimented by a series of risk-based presentations on 'Areas of Focus' providing an opportunity for members to seek more detailed assurance from senior leaders (see Assurance Arrangements).

The Committee has reviewed the Pension Accounts which includes the Annual Governance Statement as required by HM Treasury's Managing Public Money Annex 3.1.

Audit and Risk Management Committee Review of Effectiveness

The Committee reviewed its effectiveness during March 2016 using an online survey. The questions were the same as those used in 2015 for comparison purposes. Overall, the results were positive with areas highlighted for consideration around members' training and skills required for the future.

NHSBSA Sponsorship Arrangements

The NHSBSA manages a complex range of business activities on behalf of the DH. Accountability arrangements with the Department comprise an overall Senior Departmental Sponsor, with individual sponsors providing policy direction for each core service stream.

A clear ongoing accountability framework is in operation, which includes formal reviews with Senior Sponsors. This will be consolidated via a formal framework agreement between the NHSBSA and DH. Strategic, policy and operational issues are reviewed alongside the corporate risk register, assurance arrangements and the latest financial position. Additionally, regular scheduled meetings are held with the individual service sponsors.

External Auditors

The National Audit Office (NAO) is appointed by Statute as external auditors for the NHS Pension Scheme accounts. The NAO do not undertake any non-audit services on behalf of the NHSBSA.

NHSBSA Management

Other than those matters reserved for the Board, responsibility for the day-to-day management of the NHSBSA is delegated to the Chief Executive, who is the Accounting Officer. The Chief Executive is supported by a Leadership Team of executive directors responsible for specific areas of the business. The operation of the NHS Pension Scheme is managed within Pension Services which reports to the Director of Service Delivery.

Further details of the Leadership Team responsibilities can be found in the main Annual Governance Statement published in the NHSBSA Annual Report and Accounts 2015-16 (www.nhsbsa.nhs.uk/about.aspx).

Key Governance Systems

The NHSBSA has identified the following areas which support the overarching governance arrangements:

- Risk management
- Assurance
- Managing information

The Audit and Risk Management Committee regularly review these areas to ensure that they remain robust and effective. This enables the committee to provide assurances to the Board that appropriate risk identification and management processes are taking place across the organisation.

Risk Management

Risk Appetite - Risk appetite can be defined as an organisation's unique attitude towards risk taking, which in turn dictates the amount of risk that it considers acceptable. The NHSBSA's aim is to ensure that its overall level of risk is balanced, sustainable and appropriate. The NHSBSA's risk appetite dictates that all risks classified as extreme, within our control, are mitigated until the residual risk rating falls to high, moderate or low. All other risks are mitigated to an acceptable level.

Process – The NHSBSA Risk Management Framework comprises:

- Risk management policy
- Risk management methodology
- Risk and Issue register

These are applied consistently across the NHSBSA, with risks and issues being escalated up the hierarchy as dictated by our policy. These tiers consist of:

- Operational / Corporate Teams – Risks and issues are managed on an ongoing basis as part of business-as-usual, with registers owned and managed by the Head of Service
- Project / Programme – Risks are reviewed and managed by Project Managers as part of the project governance process. Significant risks and issues are escalated to the Programme Manager and Change Team and these are also reported to the Leadership Team on a monthly basis
- Corporate – Each quarter the Leadership Team review the top-level Corporate Risk Register. This review is informed by collated versions of team and project risk registers, and a paper produced by the NHSBSA Risk Group. The Leadership Team is also free to identify further risks and issues at this meeting
- Audit and Risk Management Committee – The Committee receives updates on the work undertaken in the area of risk and issue management. The Committee also receives a copy of the Corporate Risk Register, and ‘Areas of Focus’ presentations on specific risk/issue areas. This process enables the committee to provide assurances to the Board that the appropriate risk management processes are in place and risk mitigation is taking place

Significant Risks and issues

In a dynamic and complex business environment significant risks can always be encountered.

Current Risks

The following summarises the ongoing significant risks that are specific to the NHS Pension Scheme at the end of 2015-16, focusing on the most highly rated and of significance for our stakeholders.

- **NHS Pensions service re-procurement**

Procurement approval requirements and the complexity of the service have created a risk that the NHSBSA will fail to award new contracts ahead of current contract expiry. The programme is being closely managed and monitored by the Leadership Team, who are working closely with our sponsors and approval stakeholders and gatekeepers.

- **Guaranteed Minimum Pension (GMP) requirements**

Changes in HMRC reporting of GMP data and a transfer of responsibility for calculation work post 2016 created a resource risk for the NHSBSA. Negotiations with our sponsors are ongoing to ensure the resources are available to deliver the new requirements.

Assurance arrangements

The NHSBSA uses an assurance map approach, using the best practice three lines of defence model, to identify the sources of assurance in place over each of the key functions and services delivered by the NHSBSA. The three lines of defence represent:

- First line: management control and reporting
- Second line: functional oversight and governance systems
- Third line: independent review and regulatory oversight

This model provides the basis upon which the leadership of the NHSBSA can determine the focus of assurance effort, assess the outcome of existing assurance activity and determine its assurance appetite. The assurance map is fully integrated with the risk management process with areas of concern being reflected in the relevant business area risk register and escalated to the Corporate Risk Register, where required.

A schedule of two reviews of the overarching assurance map each year, by the Leadership Team and Audit and Risk Management Committee, has been implemented to ensure that the NHSBSA is accurately represented and that areas of concern are being addressed. This provides challenge to the business and oversight of the process in terms of the assurances highlighted.

The Audit and Risk Management Committee has continued to a programme of 'Areas of Focus' exercises to assure itself on behalf of the Board regarding the robustness of the assurance maps and supporting evidence for each business area. During 2015-16 exercises were carried out in the following areas:

- Change Programme (resource risk)
- IT Resilience
- NHS Protect
- Contract Management
- HR Shared Service
- Data Governance
- Cyber Security (patching risk)

The Committee has gained an increased awareness over the assurances in place for each of the areas reviewed.

Managing Information

During 2015-16 the NHSBSA has continued to improve its approach to handling information efficiently and securely. Each year, the NHSBSA undertakes a detailed self-assessment using the NHS-wide Information Governance Toolkit. Using this toolkit, the NHSBSA's rating for 2015-16 is an overall 'satisfactory' rating with a compliance level of 84%.

The NHSBSA has not had any security incidents classified as level 2 serious untoward incidents by the DH. However, using the DH categorisation framework, there was one incident in relation to the Pension Scheme (classed as minor), to report during the year. As these were not level 2 or above, they were not reported to the DH.

In the course of the NHSBSA's business, information is held and used about members of the public and NHS colleagues. Some of this information is of a personal and sensitive nature and as a consequence stringent controls are in place to ensure the security of this information.

Issues relating to information governance within the NHSBSA are coordinated by the Information Governance and Security Group which is chaired by the Director of Service Delivery who holds the position of both Caldicott Guardian and Senior Information Risk Owner (SIRO). The remit of

the Caldicott Guardian is to ensure that any person identifiable information is held and used properly. The remit of the SIRO is to take ownership of the NHSBSA's information risk policy, act as advocate for information risk to the Board and provide written advice to the Accounting Officer on the content of the Annual Governance Statement with regard to information risk.

Data Protection and Freedom of Information

As a Special Health Authority, the NHSBSA is subject to the requirements of the Data Protection Act (DPA) 1998 and the appropriate notifications have been filed with the Information Commissioner's Office. This means that all Subject Access Requests (SAR) are responded to within the provisions of the Act, typically within 40 calendar days.

During 2015-16, we dealt with 138 DPA SARs relating to the NHS Pension Scheme, all but 14 were responded to within the required timeframe. The numbers of SARs have increased by 33% when compared to the previous year.

The NHSBSA is also subject to the requirements of the Freedom of Information Act (FOI) 2000. This means that all requests for information are responded to within the provisions of the Act, typically within 20 working days. During 2015-16, we dealt with 65 FOI requests relating to the NHS Pension Scheme, all but 3 were responded to within the required timeframe. The number of requests has increased by 66% when compared to last year.

As a public sector information holder, the NHSBSA complies with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. The NHSBSA can confirm that no charges were made for access to information during 2015-16.

Handling Complaints

The NHSBSA takes complaints seriously and believes in the value of learning from the complaints which are made about its staff and services, to make improvements for customers. During 2015-16, we have maintained our approach to handling complaints, learning lessons about our services and the way in which we respond to our customers.

The total number of formal complaints received during 2015-16 (classified as Internal Dispute Resolution (IDR) stage 1 cases), relating to the NHS Pension Scheme was 692, of which 214 were upheld (31%). This compares with 469 of which 176 were upheld (38%) in 2014-15.

Sources of Assurance

Audit and Risk Management Committee

One of the key sources of assurance provision for the NHSBSA's Board is from the Audit and Risk Management Committee. The key responsibilities are described in the Audit and Risk Management Committee section. The Committee meets these responsibilities by receiving regular reports on a range of audit and assurance topics. The following is a list of the key reports:

- Risk Management updates - setting out and assessing the major risks and issues that we face, aligned with key areas of focus set out in the Business Plan and Strategy. These reports detail the movements in risks and issues between reporting periods and identify emerging risks and issues, and actions which have been taken or are planned to mitigate them
- Annual Risk Management Report - outlining how our risk management arrangements have continued to operate effectively during the year and how they have been reviewed and strengthened

- Assurance Map Review – two reviews of the overarching NHSBSA Assurance Map each year
- Areas of Focus presentations – focusing on high-risk areas, or other topics highlighted, for example, through internal audits and the assurance maps
- Internal Audit progress report – regular progress reports on the work undertaken by Internal audit against agreed plan
- External Audit reports – regular progress reports on the work undertaken by External Audit
- Internal/External Audit Recommendations Tracker – updates on progress made across NHSBSA implementing audit recommendations
- Local Counter Fraud Specialist (LCFS) / Local Security Management Specialist (LSMS) Annual Reports - reports detailing the work undertaken during the year mapped against the agreed work plans
- Whistleblowing Update Report – updates on whistleblowing activity across the business each year

Other Sources of Assurance

Supporting the role of the Board and the Audit and Risk Management Committee, the NHSBSA's governance and control environment also includes the following elements:

- **Risk Management Process** – see Risk Management.
- **Enhanced Performance Management Framework** - reviewed by the Leadership Team on a monthly basis and by the Board at each meeting. The framework provides a balanced scorecard approach covering the key areas of performance.
- **Information Governance and Security Group (IGSG)** - all information risks are reviewed by the IGSG on a regular basis. The Group is also responsible for ensuring that the NHSBSA complies with information governance and security best practice and performs a self-assessment against a nationally developed toolkit.
- **Equality and Inclusion Committee** - controls are in place to ensure that all the NHSBSA's obligations under equality, diversity and human rights legislation are adhered to. The Equality and Inclusion Committee, which is chaired by the executive director equality champion, monitors performance against our Equality Strategy and achievement of our equality objectives.
- **Statutory Function Discharge Review** – a full review is undertaken at least annually to ensure correct arrangements are in place, and legally compliant. The process would identify any irregularities, and is in line with the recommendations of the Harris Review.
- **Community, Environment and Wellbeing (CEW)** – our strategies and action plans in relation to community, environment and wellbeing are monitored by the CEW Committee, which is chaired by the executive director of safety, health and environment. The NHSBSA must also deliver against the Greening Government Commitments, requiring regular performance updates provided to the DH, and subsequently central government.

Accounting Officer's Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit provides me with an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

The Head of Internal Audit's opinion was that, based on the work completed to date there is moderate assurance given to the Accounting Officer that the NHSBSA has had adequate and effective systems of control, governance and risk management in place for the reporting year 2015-16.

The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the NHSBSA achieving its principal objectives have been reviewed. My review is informed by:

- The work of the Audit and Risk Management Committee which informs the Board about the outcome of its activities through submission of its minutes and its Annual Report to the Board
- The findings of both the National Audit Office and the internal audit reviews. The Audit and Risk Management Committee oversees progress towards the implementation of all such recommendations
- The work of the LCFS to prevent, deter, investigate and report of fraud activity. The Audit and Risk Management Committee receive the annual work plan and annual report of the LCFS and provide updates to the Board as appropriate

A plan to ensure continuous improvement of the assurance system is in place and the Audit and Risk Management Committee will continue to monitor improvements in the overall corporate assurance framework.

Significant Governance Issues

There were no significant governance issues raised during 2015-16.

Conclusion

My review confirms that the NHSBSA has a moderate system of governance that supports the achievement of its policies, aims and objectives, and that of the NHS Pension Scheme, and that continuous improvement is ongoing.

Nick Scholte
Chief Executive
NHS Business Services Authority
8 July 2016

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Statement of Parliamentary Supply (subject to audit)

Summary of Resource and Capital Outturn 2015-16

£000								2015-16	2014-15
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn Total
	Note	Voted	Non- Voted	Total	Voted	Non- Voted	Total		
Departmental Expenditure Limit									
- Resource		-	-	-	-	-	-	-	
- Capital		-	-	-	-	-	-	-	
Annually Managed Expenditure									
- Resource	SoPS2	19,537,000	-	19,537,000	19,323,868	-	19,323,868	213,132	18,533,716
- Capital		-	-	-	-	-	-	-	-
Total		19,537,000	-	19,537,000	19,323,868	-	19,323,868	213,132	18,533,716

Total Resource		19,537,000	-	19,537,000	19,323,868	-	19,323,868	213,132	18,533,716
Total Capital		-	-	-	-	-	-	-	-
Total		19,537,000	-	19,537,000	19,323,868	-	19,323,868	213,132	18,533,716

Net Cash Requirement 2015-16

£000	Note	2015-16	2015-16		2014-15
		Estimate	Outturn	Outturn compared with Estimate saving/ (excess)	Outturn
	SoPS2	(23,295)	(448,244)	424,949	(576,331)

Administration Costs 2015-16

2015-16 Estimate	2015-16 Outturn	2014-15 Outturn
-	-	-

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

Explanations of variances between Estimate and outturn are given in SoPS2 and SoPS3

Notes to the Statement of Parliamentary Supply

SOPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2015-16 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with HM-Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but in certain circumstances differences may arise. There are no NHS Pension Scheme transactions that are treated differently in National Accounts and IFRS-based accounts. Therefore, there are no reconciling differences between net resource outturn and net expenditure.

SOPS2 Net outturn – analysis by section

£000	2015-16										2014-15
	Outturn						Estimate				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:	-	-	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-	-	-

Annually Managed Expenditure

Voted:												
A-Pensions	-	-	-	29,654,960	(10,331,092)	19,323,868	19,323,868	19,537,000	213,132	213,132	18,533,716	
Non Voted	-	-	-	-	-	-	-	-	-	-	-	
Non-budget	-	-	-	-	-	-	-	-	-	-	-	
Total	-	-	-	29,654,960	(10,331,092)	19,323,868	19,323,868	19,537,000	213,132	213,132	18,533,716	

Explanation of the variance between Resource Estimate and outturn:

The outturn is less than the Estimate due to:

- income received being £153 million higher than forecast, due primarily to increased contributions as a result of pensionable pay-bill growth being higher than forecast; and
- the final actuarial assessment of the current service cost being lower than the provisional assessment used in the Estimate.

SOPS3 Reconciliation of Net Resource Outturn to Net Cash Requirement

	2015-16	2015-16	2015-16
	Estimate	Outturn	Net total outturn compared with Estimate:
	£000	£000	saving/(excess)
SoPS Note	£000	£000	£000
Resource Outturn	19,537,000	19,323,868	213,132
Capital Outturn	-	-	-
Accruals to cash adjustment:			
Adjustments to remove non-cash items			
Non-cash items	(29,715,000)	(29,654,960)	(60,040)
Adjustments to reflect movements in working balances			
Changes in payables, receivables and prepaid pension benefits	34,705	43,243	(8,538)
Use of provision	10,120,000	9,839,605	280,395
Net cash requirement	(23,295)	(448,244)	424,949

Explanation of variance between Net Cash Requirement (NCR) Estimate and outturn:

The NCR for the NHS Pension Scheme currently refers to the amount of surplus cash the scheme generates each year as income exceeds pension benefits paid. The outturn surplus was more than the Estimate due to:

- pension benefit payments being £280 million less than forecast, primarily as a result of the volume of lump sums and transfers out being lower in the final quarter of year than the levels in the first three quarters which informed the Estimate; and
- contributions received being higher than forecast by £147 million

SOPS4 Analysis of income payable to the Consolidated Fund

The following income is payable to the Consolidated Fund (cash receipts being shown in italics).

	Outturn 2015-16		Outturn 2014-15	
	<u>Income</u> £000	<u>Receipts</u> £000	<u>Income</u> £000	<u>Receipts</u> £000
Income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	<i>448,244</i>	-	<i>576,331</i>
Total income payable to the Consolidated Fund	-	<i>448,244</i>	-	<i>576,331</i>

Parliamentary Accountability Disclosures

Losses and special payments (subject to audit)

Losses Statement

	2015-16	2014-15
Total number of losses	9,388	13,305
Total value of losses (000's)	1,341	2,530

There were no individual losses greater than £300,000 and no special payments.

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

I certify that I have audited the financial statements of the NHS Pension Scheme and the NHS Compensation for Premature Retirement Scheme for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and related notes and the information in the Parliamentary Accountability Disclosures that is described in those disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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.

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 2016 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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2016 and of its net operating cost 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 other matters

In my opinion:

- the parts of the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; 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 Disclosures 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
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Date: 14 July 2016

FINANCIAL STATEMENTS

Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

	Note	<u>2015-16</u> £000	<u>2014-15</u> £000
Income			
Contributions receivable	3	(10,186,949)	(9,891,986)
Transfers in	4	(81,380)	(71,928)
Other pension income	5	(62,763)	(81,870)
		<u>(10,331,092)</u>	<u>(10,045,784)</u>
Expenditure			
Service Cost	6	15,400,000	13,500,000
Enhancements	7	173,580	207,572
Transfers in – additional liability	8	81,380	71,928
Pension financing cost	9	14,000,000	14,800,000
		<u>29,654,960</u>	<u>28,579,500</u>
Net Expenditure		<u>19,323,868</u>	<u>18,533,716</u>
Other Comprehensive Net Expenditure			
Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	13	58,518	8,946
Pension re-measurements			
Actuarial (gain)/loss	15.7	(28,415,355)	34,286,895
Other remeasurements		-	-
Total Comprehensive Net (Income)/Expenditure for the year ended 31 March 2016		<u>(9,032,969)</u>	<u>52,829,557</u>

The notes on pages 43 to 54 form part of these accounts.

Combined Statement of Financial Position
as at 31 March 2016

		31 March 2016	31 March 2015
	Note	£000	£000
Current assets:			
Receivables	11	852,390	755,626
Cash and cash equivalents	12	448,244	576,331
Total current assets		1,300,634	1,331,957
Current liabilities:			
Payables (within one year)	14	(884,096)	(958,662)
Net assets, excluding pension liability		416,538	373,295
Estimated discounted future cashflows in respect of premature retirement recharges	13	555,314	613,832
Pension Scheme liability	15.4	(382,000,000)	(390,600,000)
Net liabilities, including pension liability		(381,028,148)	(389,612,873)
Taxpayers' equity:			
General fund		(381,028,148)	(389,612,873)
		(381,028,148)	(389,612,873)

Nick Scholte
Chief Executive
NHS Business Services Authority
8 July 2016

The notes on pages 43 to 54 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2016

	Note	<u>2015-16</u>	<u>2014-15</u>
		£000	£000
Balance at 1 April		(389,612,873)	(336,206,985)
Net Parliamentary Funding - draw down		-	-
Net Parliamentary Funding - deemed		-	-
Consolidated Fund Standing Services		-	-
Supply payable/(receivable) adjustment		-	-
Excess Vote – prior year		-	-
Revaluation cost of estimated discounted future cash flows in respect of early retirement recharges	13	(58,518)	(8,946)
Surplus cash payable to the Consolidated Fund	14	(448,244)	(576,331)
Comprehensive Net Expenditure for the year		(19,323,868)	(18,533,716)
Actuarial gain/(loss) – NHS Pension Scheme	15.7	28,415,355	(34,286,895)
Net change in Taxpayers' Equity		8,584,725	(53,405,888)
Balance at 31 March		(381,028,148)	(389,612,873)

The notes on pages 43 to 54 form part of these accounts.

Combined Statement of Cash Flows
for the year ended 31 March 2016

	2015-16	2014-15
Note	£000	£000
Cash flows from operating activities		
Net expenditure for the year	(19,323,868)	(18,533,716)
Adjustments for non-cash transactions:		
Increase in receivables	(96,764)	(10,706)
Increase in payables	53,521	7,648
Increase in pension provision	15.4 29,400,000	28,300,000
Increase in pension provision – enhancements and transfers in	15.4 254,960	279,500
Use of provisions – pension liability	15.5 (9,486,842)	(9,057,373)
Use of provisions – refunds and transfers	15.6 (352,763)	(409,022)
Net cash inflows from operating activities	448,244	576,331
Cash flows from financing activities		
From the Consolidated Fund (Supply) – current year	-	-
From the Consolidated Fund (Supply) – prior year	-	-
From the Contingencies Fund – current year	916,000	-
From the Consolidated Fund (non-Supply)	-	-
Net Parliamentary financing	916,000	-
Adjustments for payments and receipts not related to Supply	-	-
Repayment to the Contingencies Fund – current year	(916,000)	-
Net financing	-	-
Net Increase in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund	448,244	576,331
Receipts due to the Consolidated Fund which are outside the Scope of the Scheme's activities	-	-
Payments of amounts to the Consolidated Fund	(576,331)	(1,196,013)
Net decrease in cash and cash equivalents in the year after adjustments for receipts and payments to the Consolidated Fund	(128,087)	(619,682)
Cash and cash equivalents at the beginning of the year	576,331	1,196,013
Cash and cash equivalents at the end of the year	448,244	576,331

The notes on pages 43 to 54 form part of these accounts.

Notes to the Financial Statements

1. Basis of preparation of the Scheme financial statements

The financial statements of the combined NHS Pension Scheme and NHS Pension for Premature Retirement Scheme have been prepared in accordance with the relevant provisions of the 2015-16 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.

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.

1.1 NHS Pension Scheme

The NHS Pension Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the NHSBSA on behalf of the Secretary of State for Health on behalf of members of the National Health Service who satisfy membership criteria.

Contributions to the Scheme by employers and employees were set at rates determined by the Scheme's Actuary and approved by the Secretary of State for Health. The income received currently exceeds payments made by the Scheme, and the balance of surplus cash is returned to HM Treasury. If payments exceed income, the balance of the funding would need to be provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the NHSBSA and reported in their financial statements.

The financial statements of the Scheme show the combined financial position of the NHS Pension Scheme and NHS Compensation for Premature Retirement Schemes at the year end and the income and expenditure during the year. The Combined Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Combined Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme financial statements should be read in conjunction with that Report.

1.2 NHS Pension for Premature Retirement Scheme

The NHS Pension Scheme acts as a principal for employers in the payment of compensation benefits arising under the NHS Compensation for Premature Retirement Scheme. Employers now only have the option of discharging their liability by way of payment of a capital sum, previously employers could pay for the compensation benefits, which are paid out in the course of the month, on a quarterly basis. This arrangement ceased for employers from 1 October 2011 but the costs for historic cases are still being met by employers. The financial statements recognise the liabilities arising from cases charged to employers on an ongoing basis (and in addition a corresponding estimated Discounted Future Cash flow within Combined Statement of Financial Position).

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 to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the 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 accounts.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Accounting policies for the NHS Pension Scheme

2.2.1 Contributions receivable

- Employers' normal pension contributions are accounted for on an accruals basis.
- Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.
- Employees' normal pension contributions are accounted for on an accruals basis.
- Employees' contributions paid in respect of the purchase added years are accounted for on an accruals basis, and additional pension contributions are accounted for on a cash basis. The associated increase in the scheme liability is recognised as expenditure. Where Scheme members make Additional Voluntary Contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in Note 10 to the financial statements. Please refer to Note 10 for further information on Scheme AVC providers.

2.2.2 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a real discount rate of 1.30% (2014-15 1.80%) and 3.55% including inflation (2014-15 4.35%). These assumptions are used to calculate the in year increase in the Scheme liability, and differ to the assumptions used to assess the year end Scheme liability

2.2.3 Interest on Scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a gross discount rate of 3.55% (2014-15 4.35%).

2.2.4 Scheme Liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and as at 31 March 2015 was discounted at a real discount rate of 1.30% (i.e. 3.55% including inflation). The discount rate changed on 31 March 2016 to 1.37% and the Scheme was discounted at that rate. Further details of the financial assumptions used are set out at Note 15.1 to these accounts and in the Report of the Actuary on pages 15 to 18. For the purposes of IAS26 accounting, full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions. A full member data extract as at 31 March 2015 was provided to the GAD to facilitate a full actuarial valuation that has been used in the preparation of pension accounts for 2015-16.

2.2.5 Pension benefits payable

Pension benefits payable due to age, ill health retirements, and voluntary early retirement are accounted for as a decrease in the scheme liability on an accrual basis. Where benefits fall on a weekend or bank holiday benefits will be paid on the last working day before the benefits are due.

2.2.6 Actuarial gains / losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Combined Statement of Financial Position date are recognised in the Combined Statement of Comprehensive Net Expenditure for the year.

2.3 Accounting policies for the NHS Compensation for Premature Retirement Scheme

Compensation payments for the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative purposes, benefits are paid to the member and the employer is subsequently re-charged for the costs. Except where stated otherwise below, the accounting policies outlined at Note 2 above, apply.

Employers are invoiced on a quarterly basis in arrears for the costs incurred over the previous three month period. This arrangement ceased for employers from 1 October 2011 for new cases, but the costs for historic cases continue to be met by employers. An employer may also choose to settle their future liability by way of a capital sum. Both types of income are accounted for as Other Pension Income (see note 5).

In recognition of the fact that significant future cash flows will arise from these arrangements, the estimated future cash flows which may accrue to the Scheme after the Statement of Financial Position date, discounted to current values, are disclosed on the Statement of Financial Position.

This asset is revalued on an annual basis and any net increases or decreases will be accounted for through the General Fund, and disclosed within the Combined Statement of Changes in Taxpayer's Equity.

3. Contributions receivable

	2015-16	2014-15
	£000	£000
Employers	(6,032,475)	(5,795,564)
Employees:		
Normal	(4,005,608)	(3,929,896)
Purchase of added years	(134,249)	(150,229)
Purchase of additional pensions	(13,882)	(16,297)
Purchase of early retirement reduction buy out	(735)	-
	(10,186,949)	(9,891,986)

£10,448 million contributions are expected to be payable to the Scheme in 2016-17.

4. Transfers in (see also note 8)

	2015-16	2014-15
	£000	£000
Individual transfers in from other schemes	(66,051)	(70,235)
Group transfers in from other schemes	(15,329)	(1,693)
	(81,380)	(71,928)

5. Other pension income

	2015-16	2014-15
	£000	£000
Pre funded premature retirement contributions	(24,714)	(41,046)
Rechargeable premature retirement contributions	(37,835)	(38,615)
Capitalised rechargeable premature retirement contributions	-	(1,929)
Final pay control	(93)	(206)
Interest charged on contribution payments	(121)	(74)
	(62,763)	(81,870)

6. Service cost (see also note 15.4)

	2015-16	2014-15
	£000	£000
Current service cost	15,200,000	13,500,000
Past service cost	200,000	-
	15,400,000	13,500,000

7. Enhancements (see also notes 3 and 5)

	2015-16	2014-15
	£000	£000
Employees: Purchase of added years	134,249	150,229
Employees: Purchase of additional pension	13,882	16,297
Employees: Early retirement reduction buy out	735	-
Employers: Pre-funded premature retirement contributions	24,714	41,046
	173,580	207,572

8. Transfers in – additional liability (see also note 4)

	2015-16	2014-15
	£000	£000
Individual transfers in from other schemes	66,051	70,235
Group transfers in from other schemes	15,329	1,693
	81,380	71,928

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Combined Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

9. Pension financing cost (see also note 15.4)

	2015-16	2014-15
	£000	£000
Net interest on defined benefit liability	14,000,000	14,800,000

10. Additional Voluntary Contributions

The NHS Pension Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to increase their pension entitlement or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment direct to the approved provider, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contributions Schemes. The NHS employers are responsible for payments made to the Scheme's approved provider. Members participating in this arrangement receive an annual statement from the approved provider made up to 5 April each year confirming the amounts held in their account and the movements in the year. AVC contributions are not part of the Scheme account cash flows or financial statements. Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments were as follows:

	2015-16	2014-15
	£000	£000
The Equitable Life Assurance Society (ELAS)		
Movements in the year were as follows:		
Balance at 1 April	111,022	110,151
New investments	908	1,053
Sale of investments to provide pension benefits	(11,489)	(6,410)
Changes in market value of investments	(339)	6,228
Balance at 31 March	100,102	111,022
Contributions received to provide life cover	-	-
Benefits paid on death	295	121
Standard Life Assurance Company		
Movements in the year were as follows:		
Balance at 1 April	129,759	122,272
New investments	2,649	2,574
Sale of investments to provide pension benefits	(11,090)	(8,418)
Changes in market value of investments	(3,085)	13,331
Balance at 31 March	118,233	129,759

Contributions received to provide life cover	-	-
Benefits paid on death	-	-
	2015-16	2014-15
Prudential Plc	£000	£000
Movements in the year were as follows:		
Balance at 1 April	56,879	53,069
New investments	3,253	2,349
Sale of investments to provide pension benefits and switches to new funds	(4,856)	(3,788)
Changes in market value of investments	(393)	5,249
Balance at 31 March	54,883	56,879
Contributions received to provide life cover	-	-
Benefits paid on death	42	43

11. Receivables – contributions due in respect of pensions

Employers are responsible for the payment to the Pension Scheme of both Employer and Employee contributions. Contributions relating to one month should be paid over by the employer by the 19th of the following month. Employers are also responsible to pay contributions relating to premature retirements where the employer is responsible for any enhancement to the member pension. Where a member has been overpaid their pension benefits, the outstanding debtor is now disclosed within receivables. The total amount of debt written off during the year is shown within the Parliamentary Accountability and Audit Report.

Analysis by type

	<u>31 March 2016</u>	<u>31 March 2015</u>
	£000	£000
Amounts falling due within one year:		
Pension contributions due from employers	492,098	423,856
Employees' normal contributions	325,800	289,537
Purchase of added years	11,873	11,646
Purchase of additional pensions	1,228	2,337
Purchase of Errbo	50	-
Invoiced pre-funded premature retirement contributions	1,259	9,095
Invoiced re-chargeable premature retirement contributions	10,028	9,750
Invoiced final pay control income	128	184
Overpaid pension benefits	9,926	9,221
Total due within one year	852,390	755,626
Amounts falling due after more than one year	-	-
Total receivables	852,390	755,626

12. Cash and cash equivalents

	<u>2015-16</u>	<u>2014-15</u>
	£000	£000
Balance at 1 April	576,331	1,196,013
Net change in cash balances	(128,087)	(619,682)
Balance at 31 March	448,244	576,331
The following balances at 31 March were held at:		
Government Banking Service	448,211	576,284
Commercial banks and cash in hand	33	47
Balance at 31 March	448,244	576,331

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

Where the employer chose to pay the costs for premature retirements on a quarterly recharge basis, income is recognised as the invoices are raised. Amounts receivable in respect of the compensatory element of a premature retirement, where the employer pays for the case on an ongoing basis, is classified as "Other Pension Income" to the pension scheme.

In recognition of the value of the future cashflows arising from these arrangements, the estimated future cashflows which accrue to the Scheme, discounted to current values, are disclosed in the Combined Statement of Financial Position.

	<u>2015-16</u>	<u>2014-15</u>
	£000	£000
Balance at 1 April	613,832	622,778
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	(58,518)	(8,946)
Balance at 31 March	555,314	613,832

14. Payables – in respect of pensions

Analysis by type

	<u>31 March 2016</u>	<u>31 March 2015</u>
	£000	£000
Amounts falling due within one year:		
Pensions	(343,094)	(289,409)
HMRC	(87,592)	(87,740)
Voluntary deductions	(271)	(245)
Amounts due to employers:		
Initial widows claims	(114)	-
Employee and employer contributions	(4,780)	(4,937)
Pre funded premature retirements	(1)	-
	<u>(435,852)</u>	<u>(382,331)</u>
Amount due to be paid to the Consolidated Fund	(448,244)	(576,331)
	(884,096)	(958,662)
Amounts falling due after more than one year	-	-
Total payables	(884,096)	(958,662)

15. Provisions for pension liabilities

15.1 Assumptions underpinning the provision for pension liability

The NHS Pension Scheme is an unfunded defined benefit Scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2016. The Report of the Actuary on pages 15 to 18 sets out the scope, methodology and results of the work the actuary has carried out.

The Scheme managers together with the actuary and the auditor have signed 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 profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;
- income and expenditure, including details of expected bulk transfers into or out of the Scheme; and
- following consultation with the actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The membership data used was based on the position as at 31 March 2015, and the results rolled forward to 31 March 2016 to estimate the position in 2015-16.

The key assumptions used by the Actuary were:

At 31 March	2016	2015	2014	2013	2012
Rate of increase in salaries	4.20%	4.20%	4.50%	3.95%	4.25%
Inflation assumption	2.20%	2.20%	2.50%	1.70%	2.00%
Nominal discount rate	3.60%	3.55%	4.35%	4.10%	4.85%
Discount rate net of price inflation	1.37%	1.30%	1.80%	2.35%	2.80%
Pension Increase at 1 April of relevant calendar year	0.00%	1.20%	2.70%	2.20%	5.20%
Life expectancy in years (Note 1)					
Current pensioners					
Males (age 60)	30.2	30.5	30.4	29.1	29.0
Males (age 65)	25.2	25.5	25.4	24.3	24.1
Females (age 60)	31.8	32.5	32.4	31.7	31.6
Females (age 65)	26.8	27.5	27.3	26.7	26.6
Future pensioners (Note 2)					
Males (age 60)	31.9	32.3	32.1	30.9	30.8
Males (age 65)	27.4	27.7	27.6	26.5	26.4
Females (age 60)	33.4	34.2	34.1	33.4	33.3
Females (age 65)	28.9	29.6	29.5	28.9	28.8

Note 1 – Stated life expectancy assumptions are for members retiring on grounds other than ill health. Assumed life expectancy of ill-health pensioners is lower.

Note 2 – The life expectancy for future pensioners for both retirement ages shows the life expectancy for active members currently aged 45.

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

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

In accordance with IAS19 the Scheme managers are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analysis, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analysis, are included in the analysis of pension liabilities below.

15.2 Analysis of the provision for pension liability

At 31 March	2016	2015	2014	2013	2012
Active members (past service)	208.2	218.5	188.3	156.9	143.5
Deferred Pensions	40.7	39.9	33.8	26.8	20.4
Pensions in payment	133.1	132.2	115.1	100.5	83.1
Total liability	382.0	390.6	337.2	284.2	247.0

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

The value of the liability included on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, then the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 15.7. The notes also disclose 'experience' gains or losses for the year showing the amounts charged or credited for the year because events have not coincided with assumptions made for the last valuation.

15.3 Sensitivity analysis

A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is included below.

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i)	discount rate*: -0.5% a year	+11.5%	+£44 billion
(ii)	(long term) earnings increase*: -0.5% a year	-1.5%	-£6 billion
(iii)	pension increases*: -0.5% a year	-7.5%	-£29 billion
Pensioner mortality			
(iv)	each pensioner subject to longevity of an individual 1 further year younger than assumed:	+2.5%	+£10 billion
(v)	1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier)	+1.5%	+£6 billion

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

15.4 Analysis of movements in the Scheme liability

	Note	2015-16 £000	2014-15 £000
Scheme liability as at 1 April		(390,600,000)	(337,200,000)
Service cost	6	(15,400,000)	(13,500,000)
Pension financing cost	9	(14,000,000)	(14,800,000)
		(29,400,000)	(28,300,000)
Enhancements	7	(173,580)	(207,572)
Pension transfers in	8	(81,380)	(71,928)
		(254,960)	(279,500)
Benefits payable	15.5	9,486,842	9,057,373
Pension payments to and on account of leavers	15.6	352,763	409,022
		9,839,605	9,466,395
Actuarial gain/(loss)	15.7	28,415,355	(34,286,895)
Scheme liability as at 31 March		(382,000,000)	(390,600,000)

During the year ended 31 March 2016, contributions represented an average of 23.8% of pensionable pay (excluding purchase of added years and additional pension contributions).

15.5 Analysis of benefits paid

	2015-16 £000	2014-15 £000
Pensions to retired employees and dependants (net of recoveries of overpayments)	7,297,522	6,867,453
Commutations and lump sum benefits on retirement	2,189,320	2,189,920
Per Combined Statement of cash flows	9,486,842	9,057,373

15.6 Analysis of payments to and on account of leavers

	2015-16	2014-15
	£000	£000
Death in service	54,103	51,124
Individual transfers to other schemes	264,818	311,269
Group transfers to other schemes	687	1,768
Payment to State Scheme	4,882	11,199
Refunds to members leaving service	28,273	33,662
Per Combined Statement of Cashflows	352,763	409,022

15.7 Analysis of actuarial gain/(loss)

	2015-16	2014-15
	£000	£000
Experience gain arising on Scheme liabilities	3,815,355	1,713,105
Changes in assumptions underlying the present value of Scheme liabilities	24,600,000	(36,000,000)
Per Combined Statement of Comprehensive Net Expenditure	28,415,355	(34,286,895)

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

15.8 History of experience gains/(losses)

	2015-16	2014-15	2013-14	2012-13	2011-12
Experience gains/losses on the scheme liabilities:					
Amount (£000)	3,815,355	1,713,105	(2,216,825)	(4,068,055)	17,546,406
Percentage of the present value of the scheme liabilities	-1.00%	-0.44%	0.66%	1.43%	7.10%
Total amount recognised in Statement of Other Comprehensive Net Expenditure					
Amount (£000)	28,415,355	(34,286,895)	(38,016,125)	(22,968,055)	28,146,406
Percentage of the present value of the scheme liabilities	-7.44%	8.78%	11.27%	8.08%	11.40%

16. Financial Instruments

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Scheme's expected purchase and usage requirements and the Scheme is therefore exposed to little credit, liquidity or market risk.

17. Contingent liabilities disclosed under IAS 37

The Scheme only has the contingent liability as disclosed below.

Additional Voluntary Contributions

The NHS Pension Scheme guarantees to meet benefits due in the event that one or more of the NHS Pension Scheme's approved Additional Voluntary Contributions (AVC) providers fail to do so, once those benefits are in payment or become payable. However any losses due for example; to insolvency or poor investment performance prior to retirement are not covered.

The likelihood of such an occurrence is considered to be remote and no estimate of the contingent liability is provided until such circumstances give rise to do so. The Scheme does not however guarantee pension payments from the other free-standing AVC providers.

18. Related-party transactions

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

19. Events after the Reporting Period

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made. Sensitivity analysis around the key financial assumptions underpinning the actuarial valuation of the Scheme liabilities that may potentially be affected by this decision can be found on pages 18 and 52.

Date of authorisation for issue. The accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

ISBN 978-1-4741-2867-4



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