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# *NHS Pension Scheme*

(Incorporating the NHS Compensation for Premature Retirement Scheme)

## **Annual Accounts**

### **2016-17**

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

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## 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.

The Schemes provide a range of defined benefits as expected from a contributory occupational pension scheme such as lump sum, annual pension and widows and dependants benefits, and details of these along with the recent changes and other benefits 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 31<sup>st</sup> March 2017 there were 8,848 participating employers falling into the following categories:

Employer category	As at 31 March 2017	As at 31 March 2016	As at 31 March 2015
NHS Trusts and Local Health Boards <small>(note 1)</small>	115	128	129
Foundation Trusts	155	153	151
GP practices	7,361	7,630	7,840
Arm's length bodies	14	14	15
Direction bodies	564	564	546
Clinical Commissioning Groups and Support Units	239	237	226
Local Authorities (PHT from 1 <sup>st</sup> April 2013)	141	142	142
New Fair Deal	177	132	89
Independent Providers <small>(note 2)</small>	82	65	30
<b>Total</b>	<b>8,848</b>	<b>9,065</b>	<b>9,168</b>

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.

## 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 cost of administering the Scheme for 2016-17 were 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](http://www.nhsbsa.nhs.uk/annual_report.aspx). This arrangement changed from 2017-18 and details can be found at 4.10.1 of the report of the manager.

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 18-31.

### 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 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

There have been no changes to contribution rates during 2016-17.

#### 3.2 Changes in benefits

There have been no changes to benefits during 2016-17.

#### 3.3 Membership statistics (movement in year)

Details of the current membership of the Scheme at 31 March 2017 are set out below:

##### Active Members

Active members at 1 April 2016	<b>1,467,102</b>
Adjustment (see note 1)	(11,821)
Restated active members at 1 April 2016 (see note 2)	<b>1,455,281</b>
<b>Active members at 1 April 2016</b>	
New entrants	187,193
Deferred members who re-join in the year	54,799
Re-employed pensioners	648
Retirements	(32,211)
Leavers with deferred pension rights	(120,603)
Members who opt-out with deferred pension rights	(38,786)
Deaths	(827)
<b>Active members at 31 March 2017</b>	<b>1,505,494</b>

##### Deferred members

Deferred members at 1 April 2016	<b>598,700</b>
Adjustment (see note 1)	13,117
Restated deferred members at 1 April 2016 (see note 2)	<b>611,817</b>
<b>Deferred members at 1 April 2016</b>	
Members leaving active membership with deferred pension rights	159,389
Members taking up deferred pension rights	(10,177)
Members who re-join the scheme	(54,799)
Movement to unclaimed refund (see note 3)	(45,086)
Members taking a refund of contributions during year	(39,704)
Transfers out	(1,219)
Death of member	(566)
<b>Deferred members at 31 March 2017</b>	<b>619,655</b>

##### Pensioners in payment (including Compensation payments)

Pensions in payment at 1 April 2016	<b>833,627</b>
Adjustment (see note 1)	7,578
Restated pensions in payment at 1 April 2016 (see note 2)	<b>841,205</b>
<b>Pensions in payment at 1 April 2016</b>	
Members retiring from active	32,211
Members retiring from deferred	10,177
New widows and dependants	6,167
Deaths	(19,324)
Cessations (see note 4)	(806)
Child dependants leaving full time education	(555)
<b>Pensions in payment at 31 March 2017</b>	<b>869,075</b>

**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 2016 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was taken in December 2016, whereas these statistics were taken from a data extract provided in April 2017 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.** 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 2017

As at 31 March 2017 the pension liabilities of the Scheme were valued at £509.4 billion. This is an increase of £127.4 billion from the liabilities at 31 March 2016 of £382 billion. This is due to an actuarial loss of £109 billion (£117 billion loss relating to reduction of discount rate from 3.60% to 2.80% and an £8 billion gain relating to changes in other assumptions and scheme experience) and current year net additions to the liability of £19 billion. The movement is detailed in Note 16.4 to the accounts. As the NHS Pension Scheme is an unfunded scheme, these liabilities are underwritten by the Exchequer.

The Scheme is currently operating with a net cash inflow (negative Net Cash Requirement), due to receipts 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 which can be found at <https://www.gov.uk/government/publications/government-financial-reporting-manual-2016-to-2017>.

### 3.5 Contingency Fund Drawdown

Although a negative cash requirement (surplus) was forecast for the financial year 2016-17, the amount of surplus has reduced significantly over recent financial years. The Scheme also has to surrender the end of year cash surplus to Treasury, within the first quarter of the following financial year and this cannot be utilised in subsequent cash flow requirements.

This combination of factors 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 19<sup>th</sup> of the month, for the previous month's payroll. The Scheme receives on average over £800 million on this payment deadline date.

To meet the cash flow requirement to pay member benefits from the 1<sup>st</sup> to the 18<sup>th</sup> of the month, the Scheme submitted a request for £850 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 2016-17 with the final payment being made on the 21<sup>st</sup> March 2017.

The Scheme has requested to draw down £680 million from the Contingencies Fund in 2017-18, as the same scenario exists as described above. The reduction seen in the requirement for 2017-18 is attributed mainly to the pre-payment of lump sums as disclosed in Note 14 of the financial statements. The full amount will be repaid in 2017-18.

### 3.6 Results for the year

The 2016-17 net resource outturn was £18.3 billion which was within the voted estimate of £18.7 billion. Details can be found in the Combined Statement of Comprehensive Net Expenditure (page 37) contained within the accounts.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of -£0.31 billion against the voted estimate of £0.27 billion, this is surplus cash due to income exceeding pension benefit payments, and the £0.31 billion will be returned to Treasury during 2017-18.

## 4. Key activities during 2016-17

### 4.1 Pensions Service – continued journey to Target Operating Model

The original restructure of the pensions service operational structure moving towards the Target Operating Model (TOM) has been completely bedded in. The journey has continued over the last year with some changes in management structure and accountability and some adjustment of staff agenda for change banding to increase the number of administrators able to do complex manual calculations.

During 2017-18 priority will be given to the work coming back into the NHSBSA from Equiniti as part of the Pension Service Re-procurement Programme. These transitions commence in July 2017 and will continue through to 2018.

The implementation of a new Work Management Tool will improve planning and forecasting capability, so in turn should reduce turnaround times on work and increase customer satisfaction. Any productivity improvements realised by the introduction of this tool will mean that some staff are able to move onto new work coming back 'in-house'.

### 4.2 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 matching data to general mortality information has been performed six monthly from 2015, 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 2017-18 accounts.

NFI Exercise	Total Identified £000	Total Cases	Prior Years		2015-16		2016-17		Outstanding at 31/03/2017 £000
			Recovered £000	Written-off £000	Recovered £000	Written-off £000	Recovered £000	Written-off £000	
NFI 1998-2009	7,410	2,344	5,432	1,761	18	12	29	21	137
NFI 2011	2,749	684	2,008	441	20	92	34	14	140
NFI 2013	4,315	1,609	2,589	507	391	151	140	82	455
NFI 2014	2,027	848	0	0	896	22	709	91	309
<b>Total</b>	<b>16,501</b>	<b>5,485</b>	<b>10,029</b>	<b>2,709</b>	<b>1,325</b>	<b>277</b>	<b>912</b>	<b>208</b>	<b>1,041</b>

### 4.3 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, although this will not be known until the results of the 2016 and 2017 NFI exercises are known.

### 4.4 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 2016-17 a total of 4,485 invoices were issued to employers with a total of £116,000 being charged in interest (see note 5 to the accounts).

### 4.5 Total Reward Statements (TRS)

We are now in Year 3 of producing Total Reward Statements and there has been a steady rise in the number of employees accessing their statement. This year we have seen some large changes introduced following the introduction of the 2015 Scheme. The statements were enhanced to include for the first time a 2015 Pension Statement for those members in the 2015 Scheme, a breakdown of pensionable earnings for our officer membership and a breakdown of dynamised pay for our practitioner membership. Also this year for the first time we performed a mid-year refresh of statements to capture more successful statements. Over 360,000 NHS employees have viewed their statement during the financial year.

### 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 has remained consistent since 2015-16, whereas retired pension members and employers have marginally decreased. The survey was answered on a scale of 1 to 10 where 1 is not at all satisfied and 10 is completely satisfied. The overall satisfaction for retired pension members and pension employers is 8.2 and 7.1 respectively compared to 8.4 and 7.3 in 2015-16, the changes are not considered statistically significant, but will be closely monitored during 2017-18 if the results further decrease.

	Active and deferred pension members		Retired pension members		Pension employers	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Total sample	2,295	2,084	1,177	594	1,120	1,146
Overall satisfaction	6.4	6.4	8.2	8.4	7.1	7.3

#### **4.8 Changes to Contracting Out Rules and Single Tier New State Pension**

The key activities identified in the previous financial year have progressed with the 'Cessation of contracting out – GMP Reconciliation' project being initiated in April 2016. The purpose of the project is to carry out a reconciliation exercise between records held at NHS Pensions to those held at HMRC. A business case was prepared outlining a number of options and once a preferred option was determined work was commissioned with our IT supplier to ensure the right tools and support were in place to carry out the matching process. The requirement was also to split down any mismatched records into distinct query types, and to aid the manual activity to resolve the issues encountered.

From this process a clear understanding of the level of queries involved was achieved and we were able to provide the required resources and plan clearance.

#### **4.9 Pension Service Re-procurement Programme**

The primary objective of the programme is to maintain business continuity of services beyond the expiry of the current contract with our supplier Equiniti in July 2017.

Whilst maintaining service continuity, it was also considered of paramount importance that the programme also seeks to;

- Improve scheme member's experience, and streamline scheme administration, via the delivery of a series of new digital services
- Ensure that the resultant commercial and service delivery model is suitably flexible for future potential outsourcing of scheme administration
- Implement pension related components of the NHSBSA's organisation wide IT Infrastructure programme

To achieve this, the Programme has adopted a model that combines both the in-source and re-procurement of services as follows;

- Member administration to remain in-house
- Pensioner and Payroll Administration Services to be delivered in-house rather than via an out-sourced provider
- Facilities and Estates Management to be re-procured
- Medical Services to be re-procured

Key activities during the year were as follows;

- Pensioner Administration/Payroll system development and data migration onto Compendia Payroll commenced
- Facilities Management contract successfully let to two new providers, Compass and Kier
- Medical Services contract awarded to Medigold, with subsequent transition from incumbent supplier progressing to schedule into 2017-18
- Initial Employer Digitisation service to support Contribution Collection Information successfully passed Government Digital Services (GDS) Alpha Service Assessment
- Early options analysis to find a solution to enable non ESR users to continue to access the Total Reward Statements in anticipation of Government Gateway being decommissioned in February 2018
- Provision and consolidation of key infrastructure components to ensure ongoing Pensions service continuity

- Due diligence undertaken to support insourcing objectives

#### **4.10 Events after the reporting period**

##### **4.10.1 Introduction of Scheme administration levy**

Contributions made by employers and employees to the scheme meet the cost of the pension rights for members building up under the scheme but do not cover the cost of administering the scheme.

On 1 April 2017 the Department of Health introduced a levy to cover the cost of the administration of the Scheme. The DH has determined that participating employers will be required to pay 0.08% of pensionable pay for their staff who are members of the scheme.

A levy was proposed as a method for recouping pension scheme administration costs from participating employers. In doing so, it is anticipated that the relationship between employers and the scheme should become more client focussed, leading to an administration service that is more responsive to employer needs.

### **5. Key activities arising for 2017-18**

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

Following on from the initiation of the 'Cessation of contracting out – GMP Reconciliation' project in April 2016 the active (closure) scan was received in early April 2017. This data is currently in the process of being matched between Pension and HMRC records to provide a clear view for the first time of the full scale of the exercise.

Significant progress has been made with the correction of records for both our deferred and pensioner members with the support of HMRC automation and operational staff carrying out the manual clearance and this will continue during 2017-18 as the active data queries are added.

#### **5.2 Pension Service Re-procurement Programme**

The programme will continue to put in place, via in-sourcing or re-procurement, the required services to continue delivery of the Scheme beyond expiry of the current contract with our supplier Equiniti in July 2017, using Equiniti contract termination assistance.

Key activities are;

- Medical Services transition to Medigold from July 2017
- Mailroom and scanning facilities to be in-sourced from July 2017
- Financial Services including collection of contributions to be in-sourced from July 2017
- Continued system development and in-source of Pensioner Administration/Payroll
- Contribution Collection as part of Employer Digitisation to be progressed to Private Beta with on-boarding of employers to assist in further development of the service

### **6. Information for members**

#### **6.1 Pension Increase**

The Pensions increase rate was 0.0% (2015-16 1.2%) with effect from 6 April 2016 (6 April 2015) 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:

Alistair McDonald  
NHS Business Services Authority  
Stella House, Goldcrest Way  
Newcastle upon Tyne NE15 8NY

### Scheme Administrator:

NHS Business Services Authority Pensions  
Hesketh House  
200-220 Broadway  
Fleetwood FY7 8LG

### Actuary:

Government Actuary's Department  
Finlaison House  
15-17 Furnival Street  
London EC4A 1AB

### In-house AVC Providers:

Equitable Life Assurance Society  
Walton Street  
Aylesbury  
Buckinghamshire HP21 7QW

Standard Life Assurance Company  
Standard Life House  
30 Lothian House  
Edinburgh EH1 2DH

Prudential PLC  
250 Euston Road  
London NW1 2PQ

### Auditors:

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

### Legal advisers:

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Area 159 5<sup>th</sup> Floor  
1-11 John Adam Street  
London WC2N 6HT

### Bankers:

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Crawley  
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**Further information**

Any enquiries about the NHSPS should be addressed to:

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Fleetwood FY7 8LG

**Alistair McDonald**  
**Chief Executive, NHS Business Services Authority**  
**30 June 2017**

## Report of the Actuary for the NHS Pension Scheme for Accounts for the Year Ended 31 March 2017

### 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 2016-17 Annual 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 2016, with an approximate updating to 31 March 2017 to reflect known changes.

### Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2016 used to prepare this statement.

#### Table A – Active members

31 March 2016 membership data		2016-17 accounts
Number (thousands)	Total salaries (pa) (£ billion)	Total salaries implied by receipts (£ billion)
1,460	42.4	43.3

#### Table B – Deferred members

31 March 2016 membership data	
Number (thousands)	Total deferred pension (pa) (£ billion)
577	1,733

#### Table C – Pensions in payment

31 March 2016 membership data		2016-17 accounts
Number (thousands)	Total pension* (pa) (£ billion)	Total pension (pa) (£ billion)
837	7,331	7,616

\*Including April 2016 PI.

## 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 2016-17 Pension Accounts. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the 2015-16 Annual 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 2017	31 March 2016
Rate of return (discount rate)	2.80%	3.60%
Rate of earnings increases*	4.55%	4.20%
Rate of future pension increases	2.55%	2.20%
Rate of return in excess of:		
Pension increases	0.24%	1.37%
Earnings increases (long term)*	-1.70%	-0.60%
Expected return on assets:	n/a	n/a

\* Short term adjustments have been made to this assumption for the period to 2020 (pay increases of 1% pa assumed up to 2020)

8. The pension increase assumptions up to and including 31 March 2017 are based on the Consumer Price Index (CPI) expectation of inflation.

## Demographic assumptions

9. Table E summarises the demographic assumptions adopted to prepare this statement, were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables known as the 'S1 tables' with the percentage adjustments to those derived from scheme experience.

**Table E – Post-retirement mortality assumptions**

<b>Normal health</b>	
Males	80% of S1NMA mortality
Females	85% of S1NFA mortality
<b>Current ill-health pensioners</b>	
Males	80% of S1IMA mortality
Females	85% of S1IFA mortality
<b>Future ill-health pensioners</b>	
Males	100% of S1IMA mortality
Females	100% of S1IFA mortality
<b>Partners</b>	
Males	80% of S1NMA mortality
Females	85% of S1NFA mortality

10. These assumptions are the same as those adopted for the 2015-16 Annual accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption is in line with the latest ONS projections.
11. The contribution rate used to determine the accruing cost in 2016-17 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2015-16 Annual Accounts.

### Liabilities

12. Table F summarises the assessed value as at 31 March 2017 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 11. The corresponding figures for the previous four year ends are also included in the table.

### Table E – Statement of Financial Position

£ Billion

	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	509.4	382.0	390.6	337.2	284.2
Surplus/(Deficit)	(509.4)	(382.0)	(390.6)	(337.2)	(284.2)
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 2017 (the Current Service Cost) is based on a standard contribution rate of 34.3%. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. Table G 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 2015-16 are also included in the table.

### Table G – Contribution rate

	Percentage of pensionable pay	
	2016-17	2015-16
Standard contribution rate	34.3%	36.0%
Members' estimated average contribution rate	9.5%	9.5%
Employers' estimated share of standard contribution rate	24.8%	26.5%

14. For the avoidance of doubt, the actual rate of contributions payable by employers, 14.3% of pensionable pay for 2016-17, is not the same as the employers' share of the standard contribution rate as above (24.8% for 2016-17). 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 Annual Accounts is the discount rate. The discount rate for Annual Accounts is set each year by HM Treasury to reflect the requirements of accounting standard IAS19.
15. The pensionable payroll for the financial year 2016-17 was £43.3 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016-17 (at 34.3% of pay) is assessed to be £14.8 billion.
16. There have been no past service costs in the year 2016-17.

17. I am not aware of any events that have led to a material settlement or curtailment gain over 2016-17.

### Sensitivity analysis

18. 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 2017 of changes to the main actuarial assumptions.

19. 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.

20. 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 final salary scheme sections. As such I have included an indication of the approximate effect (on the total past service liability) of 1995 section members retiring at the Normal Pensions Age (approximately equivalent to assuming members retire around 2 years earlier).

21. Table H shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest 0.5 %).

**Table H - Sensitivity to significant assumptions**

Change in assumption*		Approximate effect on total liability		
<b>Financial assumptions</b>				
(i)	discount rate*:	-0.5 % a year	+13.0%	+£66 billion
(ii)	(long term) earnings increase*:	-0.5 % a year	-2.0%	-£10 billion
(iii)	pension increases*:	-0.5 % a year	-8.0%	-£41 billion
<b>Pensioner mortality</b>				
(iv)	each pensioner subject to longevity of an individual 1 year younger than assumed:		+2.5%	+£13 billion
(v)	1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier)		+1.5%	+£8 billion

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

**Sue Vivian**  
**Government Actuary's Department**  
**16 May 2017**

## 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 for the Scheme 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.

The Principal Accounting Officer for the DH has appointed the Chief Executive of the NHSBSA as the Accounting Officer, and the 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.

## 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 organisation and 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 Alistair McDonald, 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 continued to be partially contracted out to Equiniti during 2016-17. The contract with Equiniti can be split into a number of Service Streams outlined below:

- Estates (until July 2016, and re-let to Compass and Kier)
- 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, as the body responsible for the administration of the scheme, this incorporates the NHS Pension 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 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 2017 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 Corporate Governance Framework. The NHSBSA complies with the HM Treasury Corporate Governance Code where it applies to us.

### **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 holds quarterly meetings at which the NHSBSA reports pension KPIs, the results of Compliance reviews and other administrative performance such as outcomes of legal challenges, Pensions Ombudsman cases, Breaches of Law and Stakeholder engagement and communications activity.

### **Pensions Compliance Team**

The Pensions Compliance Team conducts reviews covering all major aspects of the pensions administration service. During 2016-17 they have reviewed the following areas;

- Transfers out
- Age awards payments

- Early payment of deferred benefits
- Redundancy award payments
- Early payment of actuarially reduced benefits
- Estimates of benefits
- Additional Pension
- Early Retirement Reduction Buy out
- Greenbury disclosure
- Record keeping
- Deferred benefits (ongoing into 2017-2018)
- Financial controls and assurance statements (ongoing into 2017-2018)
- Disclosure (ongoing into 2017-2018)

Following a review, the Compliance Team make various recommendations to the appropriate operational delivery area; Pensions Managers are then responsible for the implementation of any necessary changes. Some examples of recommendations are to complete the production of process guides for all administrative areas, 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' pensions record contained in Compendia.

There have been two 'unsatisfactory' Compliance Reports, which related to the Transfers Out process and Early Retirement Reduction Buy Out (ERRBO) administration. The Transfer Out review highlighted some systematic issues with the lack of adequate processes and documentation. The ERRBO review highlighted some regulatory deficiencies along with some systematic administrative failures.

Both areas affected only had a moderate number of cases but the Compliance Team reviews have 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 relatively moderate, the breach was not material and they were 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, in 2016-17 the Compliance Manager referred 2 Breaches of Law to the Pensions Regulator for the non-payment of employer and employee contributions and capitalised costs for early payment of benefits. The Regulator did not consider the capitalised cost issue to be one that they could consider. A response is awaited on the other Breach of Law report. However the Regulator is under no obligation to share results of their considerations or investigations with the Scheme and to date, has chosen not to disclose details of any remedial action taken.

Regular engagement with the Pensions regulator takes place and NHS Pensions provides a monthly report of employers who owe contributions in excess of 90 days late of the due date. In addition, regular updates are provided in respect of record keeping, annual benefit statement production and compliance.

### **Financial Management**

The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The Pensions Finance Team report to the Head of Service for Finance who in turn reports to the NHSBSA Director of Finance and Corporate Services who is the Senior Financial Officer for the Scheme and is a key member of the NHSBSA Leadership Team and Board.

This management arrangement covers such reports as the Scheme Main Estimate and Supplementary Estimates, as well as key financial forecasts required by HM Treasury and the Office of Budgetary Responsibility. The Pensions Finance Team, with input from the Government Actuary's Department and DH Workforce Planning prepare the twice yearly 6 year cash flow forecasts for the Scheme. The forecasts are subject to a robust challenge process from HM Treasury and the Office of Budget Responsibility, and are refined where appropriate.

### **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 Nominations 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, four non-executive directors, Chief Executive and three executive directors, one of which is 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 up to the end of March 2017 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 and strategic goals
- The current financial position
- People related issues
- Customer satisfaction and complaints
- Client engagement
- Progress against key change projects
- Corporate risks and issues.

The data presented to the Board is produced and quality assured by the NHSBSA Information Services Team adopting the six dimensions of data quality 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 get 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 financial year and also highlights their declared business interests.

Board member	Meetings Attended	Register of interests
<b>Non-executive Chair:</b> Silla Maizey	9 out of 9	Non-executive director, Network Rail Director and Company Secretary, Saffron Solutions Ltd Non-executive director, John Menzies plc Non-executive director, Crown Commercial Service
<b>Non-executive, Chair of Remuneration and Terms of Service Committee, Senior Independent Director:</b> Mark Ellerby	9 out of 9	Independent industry advisor, Advent International Non-executive director, Leeds Teaching Hospitals Trust Non-executive director Trustee, Dementia Forward
<b>Non-executive, Chair of Audit and Risk Management Committee:</b> Andrew Flanagan	8 out of 9	Commissioner, Civil Service Commission Member of Advisory Board, NHS NELCSU Non-executive director, Criminal Injuries Compensation Authority Chair, Scottish Police Authority Non-executive director, CIPFA Business Services Ltd
<b>Non-executive:</b> Malcolm Green	6 out of 9	Non-executive director, Thrive Homes
<b>Non-executive:</b> Debra Bailey	6 out of 9	Chief Information Officer, Nationwide Building Society
<b>Chief Executive (retired 7 May 2017):</b> Nick Scholte	9 out of 9	Nothing declared
<b>Chief Executive (from 8 May 2017), Director of Service Delivery (until 7 May 2017):</b> Alistair McDonald	9 out of 9	Nothing declared

<b>Director of Finance and Corporate Services:</b> Patrick McGahon	8 out of 9	Nothing declared
<b>Director of Change and Commercial Delivery:</b> 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. This in-depth review is scheduled to take place every three years, with an online review being completed in other years. This year's online review was completed during January 2017.

Areas highlighted for consideration by the Board included training for members, particularly members of the Audit and Risk Management Committee. Also, improving communications between the executives and non-executives between meetings, and considering the frequency of meetings. The recommendations were accepted by the Board and actions are being taken forward.

During 2016-17, 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 operate 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 has met seven times during 2016-17. 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. Andrew Flanagan provides this experience and also chairs the Committee.

One non-executive director post was vacant between April to June 2016, however the Committee remained quorate with at least two members present. Debra Bailey was appointed to this post on 1 June 2016.

There is also a requirement for regular attendance from the Director of Finance and Corporate Services and representatives from both internal and external audit. The 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
<b>Non-executive Directors:</b> Andrew Flanagan (Chair of Committee) Malcolm Green Debra Bailey	7 of 7 7 of 7 3 of 6
<b>Executive Directors:</b> Patrick McGahon (Director of Finance and Corporate Services)	7 of 7
<b>Non-Executive Directors (specific items/meetings):</b> Silla Maizey (Chair of Board)	1 of 7
<b>Executive Directors (specific items/meetings):</b> Nick Scholte (Chief Executive – retired 7 May 2017) Alistair McDonald (Chief Executive – from 8 May 2017, Director of Service Delivery until 7 May 2017) Steven Pink (Director of Change and Commercial Delivery)	3 of 7 3 of 7 2 of 7

Our DH Senior Programme Manager, Nigel Zaman, has also attended all seven Committee meetings during 2016-17.

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 Committee receives an annual review of the NHSBSA Risk Management Framework. This was most recently undertaken in June 2016 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 of the NHSBSA and Pension Scheme
- 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 January 2017 using an online survey. The questions were the same as those used in 2016 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

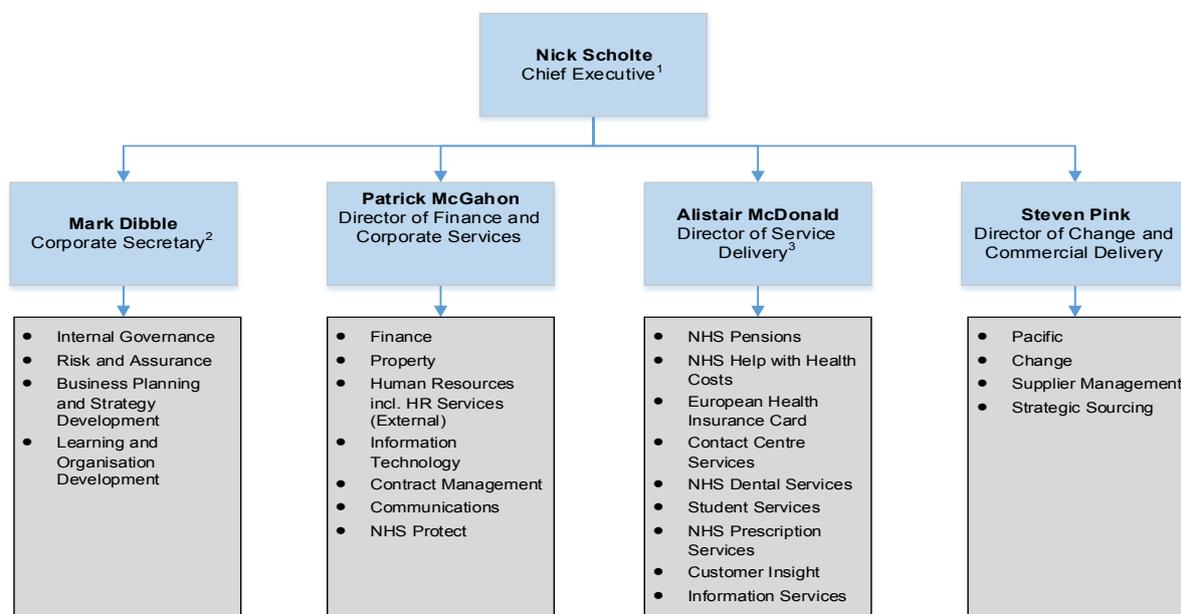
The National Audit Office (NAO) is appointed by Statute as external auditors for the NHS Pension Scheme accounts. The NAO do not undertake any non-audit services on behalf of the NHSBSA.

## 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 the areas shown below.

The operation of the NHS Pension Scheme is managed within Pension Services which reports to the Director of Service Delivery. The operation of the financial reporting and accounting for the Scheme is managed within Finance which reports to the Director of Finance and Corporate Services.

NHSBSA Leadership Team (<sup>1</sup> retired 7 May 2017, <sup>2</sup> not member of the Board, <sup>3</sup> Chief Executive from 8 May 2017).



## 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:

- Services / 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 Portfolio Board 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.

### Significant risks and issues managed and closed in year

**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.

*Mitigation details: Operational preparation was completed. One inclusive funding risk was created on the corporate risk register.*

### Current risks

The following summarises the ongoing significant risks that are specific to the NHS Pension Scheme at the end of 2016-17, focusing on the most highly rated and of significance for our stakeholders.

- **NHS Pensions service re-procurement – payment to pensioners**

With the current contractual arrangements coming to an end, there is a risk of service disruption if the re-procurement and insourcing project is not delivered to its timetable. Currently, the project is on target, with an agreed approach with the DH.

- **Funding**

The requirement from central government for ongoing cost reductions creates a risk that the NHSBSA is unable to maintain services and deliver required change projects. The ongoing delivery of our strategy, including service digitisation and growth, is a key mitigation – along with ongoing engagement with our sponsors.

- **Attraction and retention of specialist capability**

Our challenging strategic goals and the changing environment in which we are operating has created a risk around our ability to attract and also retain people with specific and in-demand skills. This could result in an inability to deliver our business objectives. Our HR and Organisational Development teams are taking forward a number of actions to address this risk, including implementation of a recruitment strategy, a talent-management framework, succession planning and the transfer of knowledge from short-term contractors to our teams.

- **IT infrastructure and systems**

As existing NHSBSA software and hardware is becoming unsupported and contracts and licenses are expiring, a risk has arisen around applications becoming unusable and/or difficult to fix in the event of a failure. This may result in service delivery failures. This risk has remained throughout the year, and continues to be addressed by our risk-based IT plan for end-of-life systems, and project to replace our current managed IT infrastructure contract.

### 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 we deliver. 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 NHSBSA leadership 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 a programme of 'Areas of Focus' exercises to assure itself on behalf of the Board regarding the robustness of controls. During 2016-17 several exercises were carried out including the following Pensions related areas:

- NHS Pension Service
  - Members received a presentation from senior management on the results of the Pensions assurance Health Check. This highlighted the successful track record of service delivery and the complexity brought about by the introduction of the 2015 Scheme.
- Contract management
- Information Security

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

### **Managing Information**

During 2016-17 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 2016-17 is an overall 'satisfactory' rating.

The NHSBSA has not had any security incidents classified as level 2 serious untoward incidents classified by the DH. However, using the DH categorisation framework, there were four incidents in relation to the Pension Scheme to report for the year. These were not level 2 or above, and so they are not required to be formally 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 are responded to within the provisions of the Act, typically within 40 calendar days.

During 2016-17, we dealt with 127 DPA requests relating to the NHS Pension Scheme. All but 13 were responded to within the required timeframe.

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 2016-17, we dealt with 57 FOI requests relating to the NHS Pension Scheme. All but 1 was responded to within the required timeframe.

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 for 2016-17 no charges were made for access to information under the Freedom of Information Act 2000, but that a £10 fee per request was charged for Subject Access Requests made under the provisions of the Data Protection Act 1998.

### **Whistleblowing**

The NHSBSA has in place appropriate effective whistleblowing arrangements (i.e. policy and procedure) which have been updated to take account of the recommendations from the recent Sir Robert Francis report. The overall effectiveness of these arrangements is reviewed by the Audit and Risk Management Committee on an annual basis. This includes having an identified non-executive director with specific accountability for these arrangements.

### **Handling Complaints**

At the NHSBSA we pride ourselves on the level of service that we provide to our customers and other service users. We aim to resolve all complaints fairly and promptly in accordance with our defined policy. During 2016-17 we have maintained our approach to handling complaints, learning lessons about our services, putting things right when things have gone wrong and apologising when we have let anyone down.

The total number of formal complaints received during 2016-17 (classified as Internal Dispute Resolution (IDR) stage 1 cases), relating to the NHS Pension Scheme was 671, of which 228 were upheld (34%). This compares with 692 of which 214 were upheld (31%) in 2015-16.

The introduction of the new NHS Pension Scheme and migration onto the new Pensions administration platform in 2015 also caused some small processing delays which have continued into this year. These have continued to affect the overall volume of complaints and we have continued to deal with each complaint appropriately and improve our services wherever possible. As processing times have improved, the volume of complaints has seen a corresponding decrease.

### **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, the actions which have been taken or are planned to mitigate them, estimated post-mitigation risk and the target date
- 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, assurance maps, etc
- 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 the NHSBSA in implementing audit recommendations
- Fraud / Local Security Management 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 section.
- **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.
- **Diversity 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 Diversity and Inclusion Committee, which is chaired by the executive director equality champion, monitors performance against our Diversity and Inclusion 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.
- **NHS Pension Scheme** – as an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme are in accordance with Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations. In addition, access restrictions to staff pension records exist with pension administration systems with limited authorised staff able to view or amend records directly.
- **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**

I was designated as Accounting Officer with effect from 8 May 2017. Nick Scholte was the Accounting Officer during 2016-17. I am satisfied that there was an appropriate handover between Accounting Officers, and, on the basis of evidence received from the executive directors, the non-executive chair of the Board and the non-executive director chairs of the sub-committees, particularly the Audit and Risk Management Committee, that I have the necessary level of assurance for the whole period covered by this Annual Governance Statement.

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 2016-17.

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 Fraud Specialists to prevent, deter, investigate and report of fraud activity. The Audit and Risk Management Committee receives the annual work plan and annual report of the Fraud Specialists and provides 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 2016-17.

### **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.

**Alistair McDonald**  
**Chief Executive**  
**NHS Business Services Authority**  
**30 June 2017**

**PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT**

**Statement of Parliamentary Supply**

**Summary of Resource and Capital Outturn 2016-17**

£000								2016-17	2015-16
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn  Total
	Note	Voted	Non- Voted	Total	Voted	Non- Voted	Total		
<b>Departmental Expenditure Limit</b>									
- Resource		-	-	-	-	-	-	-	
- Capital		-	-	-	-	-	-	-	
<b>Annually Managed Expenditure</b>									
- Resource	<b>SoPS1</b>	18,737,000	-	18,737,000	18,274,469	-	18,274,469	462,531	19,323,868
- Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>18,737,000</b>	<b>-</b>	<b>18,737,000</b>	<b>18,274,469</b>	<b>-</b>	<b>18,274,469</b>	<b>462,531</b>	<b>19,323,868</b>

Total Resource		18,737,000	-	18,737,000	18,274,469	-	18,274,469	462,531	19,323,868
Total Capital		-	-	-	-	-	-	-	-
<b>Total</b>		<b>18,737,000</b>	<b>-</b>	<b>18,737,000</b>	<b>18,274,469</b>	<b>-</b>	<b>18,274,469</b>	<b>462,531</b>	<b>19,323,868</b>

**Net Cash Requirement 2016-17**

£000	Note	2016-17	2016-17		2015-16
		Estimate	Outturn	Outturn compared with Estimate saving/ (excess)	Outturn
	<b>SoPS2</b>	<b>277,462</b>	<b>(306,581)</b>	<b>584,043</b>	<b>(448,244)</b>

**Administration Costs 2016-17**

2016-17 Estimate	2016-17 Outturn	2015-16 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 SoPS1 and SoPS2

## Notes to the Statement of Parliamentary Supply

### SOPS1 Net outturn – analysis by section

£000	2016-17										2015-16
	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	-	-	-	28,809,855	(10,535,386)	18,274,469	18,274,469	18,737,000	462,531	462,531	19,323,868
Non Voted	-	-	-	-	-	-	-	-	-	-	-
Non-budget	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	<b>28,809,855</b>	<b>(10,535,386)</b>	<b>18,274,469</b>	<b>18,274,469</b>	<b>18,737,000</b>	<b>462,531</b>	<b>462,531</b>	<b>19,323,868</b>

#### Explanation of the variance between Resource Estimate and outturn:

The outturn is less than the Estimate due to:

- income received being £171 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.

### SOPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

	2016-17	2016-17	2016-17
	Estimate	Outturn	Net total outturn compared with Estimate:
	£000	£000	saving/(excess)
SoPS Note	£000	£000	£000
<b>Resource Outturn</b>	18,737,000	18,274,469	462,531
<b>Capital Outturn</b>	-	-	-
<b>Accruals to cash adjustment:</b>			
Adjustments to remove non-cash items:			
Non-cash items	(29,101,000)	(28,809,855)	(291,145)
Adjustments to reflect movements in working balances:			
Changes in payables, receivables and prepaid pension benefits	312,462	150,675	161,787
Use of provision	10,329,000	10,078,130	250,870
<b>Net cash requirement</b>	<b>277,462</b>	<b>(306,581)</b>	<b>584,043</b>

#### 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 £251 million less than forecast, primarily as a result of lump sum payments being lower in the final quarter of the year compared to the levels in the first three quarters which informed the Estimate; and
- contributions received being higher than forecast by £166 million; and

- accruals adjustments being £161 million less than forecast, primarily due to the prepayment of lump sums being lower than the amount within the Estimate.

### SOPS3 Analysis of income payable to the Consolidated Fund

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

	Outturn 2016-17		Outturn 2015-16	
	<b>Income</b>	<b>Receipts</b>	<b>Income</b>	<b>Receipts</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	<i>306,581</i>	-	<i>448,244</i>
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b><i>306,581</i></b>	<b>-</b>	<b><i>448,244</i></b>

## Parliamentary Accountability Disclosures

### Losses and special payments

#### Losses Statement

	2016-17	2015-16
Total number of losses*	24,954	9,388
Total value of losses (000's)	1,706	1,341

\*The increase in cases during 2016-17 is related to the clearance of overpayments relating to Guaranteed Minimum Pension.

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 2017 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 the 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, the 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 2017 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 2017 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on 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: 12 July 2017**

## FINANCIAL STATEMENTS

### Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Note	<u>2016-17</u> £000	<u>2015-16</u> £000
<b>Income</b>			
Contributions receivable	3	(10,424,973)	(10,186,949)
Transfers in	4	(62,324)	(81,380)
Other pension income	5	(48,089)	(62,763)
		<u>(10,535,386)</u>	<u>(10,331,092)</u>
<b>Expenditure</b>			
Service Cost	6	14,800,000	15,400,000
Enhancements	7	147,531	173,580
Transfers in – additional liability	8	62,324	81,380
Pension financing cost	9	13,800,000	14,000,000
		<u>28,809,855</u>	<u>29,654,960</u>
<b>Net Expenditure</b>		<u>18,274,469</u>	<u>19,323,868</u>
<b>Other Comprehensive Net Expenditure</b>			
Revaluation cost of estimated discounted future cash flows in respect of early retirement charges	13	(28,393)	58,518
Pension re-measurements			
Actuarial (gain)/loss	16.7	108,668,275	(28,415,355)
Other remeasurements		-	-
<b>Total Comprehensive Net (Income)/Expenditure for the year ended 31 March 2017</b>		<u>126,914,351</u>	<u>(9,032,969)</u>

The notes on pages 41-52 form part of these accounts.

**Combined Statement of Financial Position**  
as at 31 March 2017

		<b>31 March 2017</b>	<b>31 March 2016</b>
	Note	£000	£000
<b>Current assets:</b>			
Receivables	11	854,174	852,390
Cash and cash equivalents	12	306,581	448,244
Prepayments	14	108,683	-
<b>Total current assets</b>		<b>1,269,438</b>	<b>1,300,634</b>
<b>Current liabilities:</b>			
Payables (within one year)	15	(702,225)	(884,096)
<b>Net assets, excluding pension liability</b>		<b>567,213</b>	<b>416,538</b>
Estimated discounted future cashflows in respect of premature retirement recharges	13	583,707	555,314
Pension Scheme liability	16.4	(509,400,000)	(382,000,000)
<b>Net liabilities, including pension liability</b>		<b>(508,249,080)</b>	<b>(381,028,148)</b>
<b>Taxpayers' equity:</b>			
General fund		(508,249,080)	(381,028,148)
		<b>(508,249,080)</b>	<b>(381,028,148)</b>

**Alistair McDonald**  
**Chief Executive**  
**NHS Business Services Authority**  
**27 June 2017**

The notes on pages 41-52 form part of these accounts.

**Combined Statement of Changes in Taxpayers' Equity**  
for the year ended 31 March 2017

	Note	<u>2016-17</u>	<u>2015-16</u>
		£000	£000
<b>Balance at 1 April</b>		<b><u>(381,028,148)</u></b>	<b><u>(389,612,873)</u></b>
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	28,393	(58,518)
Surplus cash payable to the Consolidated Fund	15	(306,581)	(448,244)
<b>Comprehensive Net Expenditure for the year</b>		<b><u>(18,274,469)</u></b>	<b><u>(19,323,868)</u></b>
Actuarial gain/(loss) – NHS Pension Scheme	16.7	(108,668,275)	28,415,355
<b>Net change in Taxpayers' Equity</b>		<b><u>(127,220,932)</u></b>	<b><u>8,584,725</u></b>
<b>Balance at 31 March</b>		<b><u>(508,249,080)</u></b>	<b><u>(381,028,148)</u></b>

The notes on pages 41-52 form part of these accounts.

**Combined Statement of Cash Flows**  
for the year ended 31 March 2017

	2016-17	2015-16
Note	£000	£000
<b>Cash flows from operating activities</b>		
Net expenditure for the year	(18,274,469)	(19,323,868)
Adjustments for non-cash transactions:		
Increase in receivables	(1,784)	(96,764)
Increase in payables	(40,208)	53,521
Increase in prepaid lump sum benefits	14 (108,683)	-
Increase in pension provision	16.4 28,600,000	29,400,000
Increase in pension provision – enhancements and transfers in	16.4 209,855	254,960
Use of provisions – pension liability	16.5 (9,886,973)	(9,486,842)
Use of provisions – refunds and transfers	16.6 (191,157)	(352,763)
<b>Net cash inflows from operating activities</b>	<b>306,581</b>	<b>448,244</b>
<b>Cash flows from financing activities</b>		
From the Consolidated Fund (Supply) – current year	-	-
From the Consolidated Fund (Supply) – prior year	-	-
From the Contingencies Fund – current year	850,000	916,000
From the Consolidated Fund (non-Supply)	-	-
<b>Net Parliamentary financing</b>	<b>850,000</b>	<b>916,000</b>
Adjustments for payments and receipts not related to Supply	-	-
Repayment to the Contingencies Fund – current year	(850,000)	(916,000)
<b>Net financing</b>	<b>-</b>	<b>-</b>
<b>Net Increase in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund</b>	<b>306,581</b>	<b>448,244</b>
Receipts due to the Consolidated Fund which are outside the Scope of the Scheme's activities	-	-
Payments of amounts to the Consolidated Fund	(448,244)	(576,331)
<b>Net decrease in cash and cash equivalents in the year after adjustments for receipts and payments to the Consolidated Fund</b>	<b>(141,663)</b>	<b>(128,087)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>448,244</b>	<b>576,331</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>306,581</b>	<b>448,244</b>

The notes on pages 41-52 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 2016-17 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 1.37% (2015-16 1.30%) and 3.60% including inflation (2015-16 3.55%). 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 3.60% (2015-16 3.55%).

#### **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 2016 was discounted at a real discount rate of 1.37% (i.e. 3.60% including inflation). The discount rate changed on 31 March 2017 to 0.24% and the Scheme was discounted at that rate. Further details of the financial assumptions used are set out at Note 16.1 to these accounts and in the Report of the Actuary on pages 13 to 16. 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 2016 was provided to GAD to facilitate a full actuarial valuation that has been used in the preparation of pension accounts for 2016-17.

#### **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**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Employers	(6,190,272)	(6,032,475)
Employees:		
Normal	(4,098,556)	(4,005,608)
Purchase of added years	(121,236)	(134,249)
Purchase of additional pensions	(13,933)	(13,882)
Purchase of early retirement reduction buy out	(976)	(735)
	<b>(10,424,973)</b>	<b>(10,186,949)</b>

£10,581 million in contributions are expected to be payable to the Scheme in 2017-18.

**4. Transfers in (see also note 8)**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Individual transfers in from other schemes	(60,123)	(66,051)
Group transfers in from other schemes	(2,201)	(15,329)
	<b>(62,324)</b>	<b>(81,380)</b>

**5. Other pension income**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Pre funded premature retirement contributions	(11,386)	(24,714)
Rechargeable premature retirement contributions	(36,641)	(37,835)
Final pay control	54	(93)
Interest charged on contribution payments	(116)	(121)
	<b>(48,089)</b>	<b>(62,763)</b>

**6. Service cost (see also note 16.4)**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Current service cost	14,800,000	15,200,000
Past service cost	-	200,000
	<b>14,800,000</b>	<b>15,400,000</b>

**7. Enhancements (see also note 16.4)**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Employees: Purchase of added years	121,236	134,249
Employees: Purchase of additional pension	13,933	13,882
Employees: Early retirement reduction buy out	976	735
Employers: Pre-funded premature retirement contributions	11,386	24,714
	<b>147,531</b>	<b>173,580</b>

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

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Individual transfers in from other schemes	60,123	66,051
Group transfers in from other schemes	2,201	15,329
	<b>62,324</b>	<b>81,380</b>

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 16.4)**

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
Net interest on defined benefit liability	<b>13,800,000</b>	<b>14,000,000</b>

**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:

	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
<b>The Equitable Life Assurance Society (ELAS)</b>		
Movements in the year were as follows:		
Balance at 1 April	100,102	111,022
New investments	667	908
Sale of investments to provide pension benefits	(11,502)	(11,489)
Changes in market value of investments	10,735	(339)
Balance at 31 March	<b>100,002</b>	<b>100,102</b>
Contributions received to provide life cover	-	-
Benefits paid on death	224	295
<b>Standard Life Assurance Company</b>		
Movements in the year were as follows:		
Balance at 1 April	118,233	129,759
New investments	1,997	2,649
Sale of investments to provide pension benefits	(11,149)	(11,090)
Changes in market value of investments	19,028	(3,085)
Balance at 31 March	<b>128,109</b>	<b>118,233</b>

Contributions received to provide life cover	-	-
Benefits paid on death	-	-
	<b>2016-17</b>	<b>2015-16</b>
	£000	£000
<b>Prudential Plc</b>		
Movements in the year were as follows:		
Balance at 1 April	54,883	56,879
New investments	3,073	3,253
Sale of investments to provide pension benefits and switches to new funds	(5,194)	(4,856)
Changes in market value of investments	10,181	(393)
Balance at 31 March	<b>62,943</b>	<b>54,883</b>
Contributions received to provide life cover	-	-
Benefits paid on death	38	42

## 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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	493,622	492,098
Employees' normal contributions	329,326	325,800
Purchase of added years	8,913	11,873
Purchase of additional pensions	1,492	1,228
Purchase of early retirement reduction buy out	89	50
Invoiced pre-funded premature retirement contributions	823	1,259
Invoiced re-chargeable premature retirement contributions	9,166	10,028
Invoiced final pay control income	69	128
Overpaid pension benefits	10,674	9,926
<b>Total due within one year</b>	<b>854,174</b>	<b>852,390</b>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total receivables</b>	<b>854,174</b>	<b>852,390</b>

## 12. Cash and cash equivalents

	<u>2016-17</u>	<u>2015-16</u>
	£000	£000
Balance at 1 April	448,244	576,331
Net change in cash balances	(141,663)	(128,087)
<b>Balance at 31 March</b>	<b>306,581</b>	<b>448,244</b>
The following balances at 31 March were held at:		
Government Banking Service	306,524	448,211
Commercial banks and cash in hand	57	33
<b>Balance at 31 March</b>	<b>306,581</b>	<b>448,244</b>

## 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>2016-17</u>	<u>2015-16</u>
	£000	£000
Balance at 1 April	555,314	613,832
Revaluation of estimated discounted future cash flows in respect of rechargeable premature retirements	28,393	(58,518)
<b>Balance at 31 March</b>	<b>583,707</b>	<b>555,314</b>

## 14. Prepayments – prepaid pension benefits

To ensure members receive their benefits on their due date, and where the due date falls on a weekend or bank holiday, the payment is made on the nearest preceding working day. The prepaid benefits relate to pension lump sum amounts paid at the end of March where the due date was the 1<sup>st</sup> and 2<sup>nd</sup> of April.

	<u>31 March 2017</u>	<u>31 March 2016</u>
	£000	£000
Prepaid pension benefits	108,683	-
	<b>108,683</b>	<b>-</b>

## 15. Payables – in respect of pensions

### Analysis by type

	<b>31 March 2017</b>	<b>31 March 2016</b>
	£000	£000
<b>Amounts falling due within one year:</b>		
Pensions	(294,985)	(343,094)
HMRC	(96,235)	(87,592)
Voluntary deductions	(264)	(271)
Amounts due to employers:		
Initial widows claims		(114)
Employee and employer contributions	(4,158)	(4,780)
Pre funded premature retirements	(1)	(1)
Rechargeable premature retirements	(1)	-
	<b>(395,644)</b>	<b>(435,852)</b>
Amount due to be paid to the Consolidated Fund	(306,581)	(448,244)
	<b>(702,225)</b>	<b>(884,096)</b>
<b>Amounts falling due after more than one year</b>	-	-
<b>Total payables</b>	<b>(702,225)</b>	<b>(884,096)</b>

## 16. Provisions for pension liabilities

### 16.1 Assumptions underpinning the provision for pension liability

The NHS Pension Scheme is an unfunded defined benefit Scheme. GAD carried out an assessment of the Scheme liabilities as at 31 March 2016. The Report of the Actuary on pages 13 to 16 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 2016, and the results rolled forward to 31 March 2017 to estimate the position in 2016-17.

**The key assumptions used by the Actuary were:**

At 31 March	2017	2016	2015	2014	2013
Rate of increase in salaries	4.55%	4.20%	4.20%	4.50%	3.95%
Inflation assumption	2.55%	2.20%	2.20%	2.50%	1.70%
Nominal discount rate	2.80%	3.60%	3.55%	4.35%	4.10%
Discount rate net of price inflation	0.24%	1.37%	1.30%	1.80%	2.35%
Pension Increase at 1 April of relevant calendar year	1.00%	0.00%	1.20%	2.70%	2.20%
Life expectancy in years (Note 1)					
Current pensioners					
Males (age 60)	30.4	30.2	30.5	30.4	29.1
Males (age 65)	25.3	25.2	25.5	25.4	24.3
Females (age 60)	31.9	31.8	32.5	32.4	31.7
Females (age 65)	26.9	26.8	27.5	27.3	26.7
Future pensioners (Note 2)					
Males (age 60)	32.0	31.9	32.3	32.1	30.9
Males (age 65)	27.5	27.4	27.7	27.6	26.5
Females (age 60)	33.5	33.4	34.2	34.1	33.4
Females (age 65)	29.0	28.9	29.6	29.5	28.9

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.

**16.2 Analysis of the provision for pension liability**

At 31 March	2017	2016	2015	2014	2013
Active members (past service)	274.0	208.2	218.5	188.3	156.9
Deferred Pensions	52.0	40.7	39.9	33.8	26.8
Pensions in payment	183.4	133.1	132.2	115.1	100.5
<b>Total liability</b>	<b>509.4</b>	<b>382.0</b>	<b>390.6</b>	<b>337.2</b>	<b>284.2</b>

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 16.7. 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.

### 16.3 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	
<b>Financial assumptions</b>			
(i)	discount rate*: -0.5% a year	+13.0%	+£66 billion
(ii)	(long term) earnings increase*: -0.5% a year	-2.0%	-£10 billion
(iii)	pension increases*: -0.5% a year	-8.0%	-£41 billion
<b>Pensioner mortality</b>			
(iv)	each pensioner subject to longevity of an individual 1 year younger than assumed:	+2.5%	+£13 billion
(v)	1995 section members retire at their Normal Pension Age (approximately equivalent to Assuming members retire 2 years earlier)	+1.5%	+£8 billion

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

### 16.4 Analysis of movements in the Scheme liability

	Note	2016-17 £000	2015-16 £000
<b>Scheme liability as at 1 April</b>		<b>(382,000,000)</b>	<b>(390,600,000)</b>
Service cost	6	(14,800,000)	(15,400,000)
Pension financing cost	9	(13,800,000)	(14,000,000)
		(28,600,000)	(29,400,000)
Enhancements	7	(147,531)	(173,580)
Pension transfers in	8	(62,324)	(81,380)
		(209,855)	(254,960)
Benefits payable	16.5	9,886,973	9,486,842
Pension payments to and on account of leavers	16.6	191,157	352,763
		10,078,130	9,839,605
Actuarial gain/(loss)	16.7	(108,668,275)	28,415,355
<b>Scheme liability as at 31 March</b>		<b>(509,400,000)</b>	<b>(382,000,000)</b>

During the year ended 31 March 2017, contributions represented an average of 23.8% of pensionable pay (excluding purchase of added years and additional pension contributions), and are anticipated to remain at this level in the immediate future years.

### 16.5 Analysis of benefits paid

	2016-17	2015-16
	£000	£000
Pensions to retired employees and dependants (net of recoveries of overpayments)	7,668,589	7,297,522
Commutations and lump sum benefits on retirement	2,218,384	2,189,320
<b>Per Combined Statement of cash flows</b>	<b>9,886,973</b>	<b>9,486,842</b>

### 16.6 Analysis of payments to and on account of leavers

	2016-17	2015-16
	£000	£000
Death in service	59,660	54,103
Individual transfers to other schemes	69,485	264,818
Group transfers to other schemes	7,044	687
Payment to State Scheme	16,346	4,882
Refunds to members leaving service	38,622	28,273
<b>Per Combined Statement of Cashflows</b>	<b>191,157</b>	<b>352,763</b>

### 16.7 Analysis of actuarial gain/(loss)

	2016-17	2015-16
	£000	£000
Experience gain arising on Scheme liabilities	8,031,725	3,815,355
Changes in assumptions underlying the present value of Scheme liabilities	(116,700,000)	24,600,000
<b>Per Combined Statement of Comprehensive Net Expenditure</b>	<b>(108,668,275)</b>	<b>28,415,355</b>

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.

### 16.8 History of experience gains/(losses)

	2016-17	2015-16	2014-15	2013-14	2012-13
<b>Experience gains/losses on the scheme liabilities:</b>					
Amount (£000)	8,031,725	3,815,355	1,713,105	(2,216,825)	(4,068,055)
Percentage of the present value of the scheme liabilities	-1.58%	-1.00%	-0.44%	0.66%	1.43%
<b>Total amount recognised in Statement of Other Comprehensive Net Expenditure</b>					
Amount (£000)	(108,668,275)	28,415,355	(34,286,895)	(38,016,125)	(22,968,055)
Percentage of the present value of the scheme liabilities	21.33%	-7.44%	8.78%	11.27%	8.08%

## **17. 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.

## **18. 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.

## **19. 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.

## **20. Events after the Reporting Period**

There were no events after the end of the reporting period.

**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.

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