Cabinet Office

Cabinet Office: Civil Superannuation Account 2017-18

HC1628

Cabinet Office

Civil Superannuation Account 2017-18

(For the year ended 31 March 2018)

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1. Report of the Manager

Introduction

1.1 This report provides key information on the Civil Service Pension arrangements comprising the Principal Civil Service Pension Scheme and the Civil Servants and Others Pension Scheme, including ongoing developments and other information for members. Both are unfunded, defined benefit, contributory, public service occupational pension schemes. In this document the term 'Scheme' covers both arrangements.

Main features of the Scheme

Principal Civil Service Pension Scheme (PCSPS)

1.2 The PCSPS was originally set up under the Superannuation Act 1972. It comprises four pension arrangements known as Classic, Classic Plus, Premium and Nuvos and is closed to new members.

1.3 Before 30 July 2007, anyone employed in an organisation covered by the PCSPS was eligible to participate in one of the final salary arrangements, (Classic, Classic Plus and Premium). From 1 October 2002, new entrants were generally only able to join Premium. All had a normal pension age of 60.

1.4 From 30 July 2007, new joiners were offered membership of Nuvos, a career average pension with a normal pension age of 65.

Arrangement	Open From – To	Accrual Rate
Classic	1 June 1972 – 30 September 2002	$1/80^{th}$ of final salary, plus lump sum of $3/80^{ths}$ of final salary
Classic Plus	1 October 2002 (Existing members only; never open to new members)	$1/80^{th}$ of final salary, plus lump sum of $3/80^{ths}$ of final salary (service to 30.09.02) $1/60^{th}$ of final salary (service from 01.10.02)
Premium	1 October 2002 – 29 July 2007	$1/60^{th}$ of final salary
Nuvos	30 July 2007 – 31 March 2015	2.3% of each year's pensionable earnings with the total amount adjusted in line with Orders made under the Pensions (Increase) Act 1971

1.5 Retirement and other pension benefits are set out in rules made under the Superannuation Act 1972 and regulations made under the Public Service Pensions Act 2013.

1.6 Pensions are increased in accordance with the Pensions (Increase) Act 1971 and the Social Security Pensions Act 1975, with annual increases being determined by the prevailing Pensions (Increase) Order. The increase is applied on the first Monday after 6 April each year. Since 2011, the increase has been based on the change in the Consumer Prices Index (CPI) in the 12 months to the end of the preceding September. As CPI at September 2016 was 1%, there was a 1% increase to pensions in April 2017.

1.7 Lump sum retirement benefits are payable automatically in Classic and also in Classic Plus (in respect of service up to 30 September 2002) and optional in other sections in return for commutation of pension at the rate of £12 of lump sum for every £1 of pension given up.

1.8 Members of the PCSPS who leave before the normal pension age are given a deferred award, provided they have at least two years' service (or had previously brought a transfer in from a personal pension arrangement). Deferred awards are uprated annually in line with the provisions of the Pensions (Increase) Act 1971.

1.9 From the minimum pension age, which is 50 for those whose service began before 6 April 2006, and 55 for all others, a deferred member may bring their pension into payment early, actuarially reduced to reflect the fact that it will be in payment for a longer period of time. Deferred members may also transfer their PCSPS benefits to another pension arrangement.

1.10 From 1 April 2015, most PCSPS members switched to the new Civil Servants and Others Pension Scheme, also known as Alpha. Those who were previously members of Classic, Classic Plus or Premium retained a final salary link in Alpha, i.e. their PCSPS service counts towards a pension in the PCSPS, but is based on their final salary when they leave Alpha.

1.11 Those who were within 10 years of their PCSPS normal pension age on 1 April 2012 are generally allowed to remain in the PCSPS until they leave employment covered by the Scheme. Those who were between 10 and 13.5 years from their PCSPS normal pension age on 1 April 2012 were given a 'tapered Alpha enrolment date' between 1 May 2015 and 1 September 2025, but could opt to forego their tapered protection and switch to Alpha on 1 April 2015.

Alpha – Civil Servants and Others Pension Scheme (CSOPS)

1.12 Alpha was introduced on 1 April 2015 under regulations set out in the Public Service Pensions Act 2013.

1.13 New entrants to the Civil Service from 1 April 2015 join the Alpha scheme. Existing members of PCSPS transferred to Alpha from 1 April 2015 unless they had transitional protection (see paragraph 1.11).

1.14 Alpha is a career average earnings scheme with an accrual rate of 2.32% of each year's pensionable earnings. The total amount accrued is adjusted annually in line with a rate set by HM Treasury (currently linked to annual movements in the Consumer Prices Index).

1.15 Members may commute some of their pension into a lump sum at the rate of £12 of lump sum for every £1 of pension given up.

1.16 Alpha's normal pension age is the greater of the member's state pension age or 65.

Other pension arrangements

1.17 Money purchase pensions known as 'partnership' are available as an alternative for employees joining on or after 1 October 2002. They are delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

1.18 The Employer makes an age-related contribution, and also matches the first three per cent of any contribution the member makes. The Employer also makes a small contribution to the Civil Superannuation Vote to provide for death in service and ill-health retirement lump sum benefits.

Other benefits

1.19 All sections of the Scheme have provision for death and medical retirement benefits.

1.20 Anyone entitled to be covered by the Scheme is also covered by the Civil Service Injury Benefit Scheme (CSIBS), which provides compensation in the event of someone sustaining an injury at work (or directly related to their work) resulting in a loss of earnings or loss of earnings capacity. The CSIBS is a scheme made under the Superannuation Act 1972. CSIBS benefits are paid from the Civil Superannuation Vote initially, with the relevant employer later reimbursing the Vote.

Eligibility to join the Scheme and the New Fair Deal

1.21 Normally, anyone employed in a public sector organisation covered by the Scheme can participate.

1.22 The New Fair Deal is a non-statutory policy that deals with staff who are compulsorily transferred from the public sector to independent providers delivering public services.

1.23 From October 2013, these independent providers can apply to join the Scheme under the New Fair Deal. The resulting employee members can remain in the Scheme while they continue to be principally employed on the work they carried out while in the public sector.

Funding

1.24 PCSPS and Alpha are unfunded schemes and the cash required to meet the payment of pension benefits is paid from public funds provided by Parliament. Members contribute on a ‘pay-as-you-go’ basis. These contributions (and those made by employers) are credited to the Exchequer under arrangements governed by the aforementioned Acts.

1.25 The contributions due from employers and employees to fund future service liabilities are set by the Actuary at the four-yearly Scheme valuation. These have been adjusted to take account of the move to Alpha.

1.26 Unlike many other schemes, the employer/employee split is not fixed. However, a cost-capping mechanism is in place to prevent the employer cost becoming disproportionate to the employee cost.

The current contribution rates are set in the table below and discussed further in the Report of the Actuary.

Annualised rate of pensionable earnings	Member contribution rate (%)	
	Members in Classic or moved into Alpha from Classic	All other members
£0 to £15,000	4.60	4.60
£15,001 to £21,422	4.60	4.60
£21,423 to £51,005	5.45	5.45
£51,006 to £150,000	7.35	7.35
£150,001 and above	8.05	8.05

Management of the Scheme

1.27 Under the Public Service Pensions Act 2013, the Minister for the Civil Service (currently the Prime Minister) is the Scheme Manager. In practice, this responsibility is delegated to the Minister for the Cabinet Office, and the Permanent Secretary for the Cabinet Office is the Accounting Officer of the Scheme.

1.28 Civil Service Pensions, a part of Civil Service Human Resources, based in the Cabinet Office, has operational responsibility for the management of the Scheme. Day-to-day administration is mainly carried out by MyCSP Ltd under a contract with the Cabinet Office. Other key responsibilities sit with member employers. These relationships are discussed in more detail below.

Cabinet Office

1.29 The Cabinet Office retains direct management of:

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

Cabinet Office and MyCSP

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

1.31 Under the contract, MyCSP is responsible for, but not limited to:

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

Cabinet Office and Scheme employers

1.32 The Cabinet Office has in place participation agreements with all public sector employers and contracts with private sector employers that have active members of the Scheme. Employers are responsible for:

- maintaining accurate and up-to-date pay and service records and providing these to MyCSP;
- informing new staff of their options for joining pension arrangements;
- keeping employees informed of pension issues; and
- paying the correct employers' and employees' pension contributions to the Cabinet Office.

Employers who participate in the Principal Civil Service Pension Scheme are made up of publicly funded bodies who are part of the Civil Service, bodies listed in Schedule 1 to the Superannuation Act 1972 and 'New Fair Deal' employers.

Civil Service Compensation Scheme (CSCS)

1.33 The Civil Service Compensation Scheme (CSCS) is a scheme made under the Superannuation Act 1972, providing compensation for the termination of employment in certain circumstances. CSCS benefits are paid out of the Civil Superannuation Vote initially, with the relevant employer later reimbursing the Vote.

1.34 MyCSP, under contract to the Cabinet Office, acts as an agent for employers in the calculation and payment of compensation benefits arising under the CSCS. Employers then reimburse the Civil Superannuation Vote. These cash flows are not brought to account in these financial statements but details of the amounts paid are disclosed in Note 13 of the account.

1.35 All exit schemes under the CSCS are approved by the Cabinet Office.

Other Payments

1.36 The Civil Superannuation Vote also funds the other pension schemes, which are brought to account in these financial statements; however, they are managed under separate arrangements.

1.37 The Vote also covers a small number of other pension-related payments, which are detailed in Note 14 to the Account. The amounts paid are not material.

1.38 Money invested in the stakeholder pension option detailed in Note 1.17 is not under the control of the Cabinet Office and is not shown in these statements. Employer contributions will be shown in the relevant individual employer accounts.

Governance

1.39 The governance arrangements for the Scheme are detailed in the accompanying Governance Statement beginning on page 21.

Scheme Data

Membership statistics

1.40 As at 31 March 2018, the Scheme had 357 employers: 239 public sector organisations (departments, non-departmental public bodies and government agencies) and 118 private sector employers.

1.41 Membership reporting by entitlement is set out in the table on the next page. Reporting by entitlement means that some individuals may be recorded twice in the membership numbers if they have an entitlement in more than one pension scheme arrangement. The membership numbers include an adjustment for late notifications due to timing differences between the receipt of information from employers and the publication of the Account.

1.42 Included within the pensioners figure at 31 March 2018 are 2,747 members in receipt of annual compensation payments made under CSCS arrangements (2017: 3,100).

Active members	
At 1 April 2017	475,000
Adjustment for late notifications	6,360
New members and re-joiners	65,307
Retirements	(13,916)
Deferred members	(14,299)
Transfers out	(456)
Refunds	(6,924)
Suspended	(10,970)
Deaths	(648)
Other leavers from active status*	(18,691)
At 31 March 2018	**480,763**
Deferred pensioners	
At 1 April 2017	339,000
Adjustment for late notifications	18,045
New deferred pensioners	16,014
Retirements	(10,725)
Partial retirements (from single to dual status)	(1,197)
Deaths	(459)
Transfers out	(451)
No benefits due	(800)
Deferred cases being processed	4,471
Updated records and other cessations	(2,676)
At 31 March 2018	**361,222**
Pensioners	
At 1 April 2017	662,000
Adjustment for late notifications	(158)
Retirements	24,322
New dependants	7,251
Deaths	(24,003)
At 31 March 2018	**669,412**
Dual status pensioners (deferred members with part benefits in payment)	
At 1 April 2017	959
Retirements	(407)
Partial retirements	1,197
Deaths	(9)
At 31 March 2018	**1,740**
Grand total	**1,513,137**

* Includes those opting out, joining partnership, leaving with less than 3 months service and cases reverted to active

Financial review

Resource outturn

1.43 Net expenditure in 2017-18 was £9,864.2 million (2016-17: £7,811.0 million). The increase was caused largely by an increase in the service cost to £6,680.0 million (2016-17 £4,435.0 million). This amount was calculated using the discount rate in place at the start of the reporting period (0.24%), which was lower than that used to calculate the previous year's (1.37%), leading to a significant increase in service cost. The Scheme outturn was £137.4 million lower than voted funds of £10,001.7 million due to an over projection of cash required and receipt of a bulk transfer.

Net cash requirement

1.44 The net cash requirement in 2017-18 was £2,135.4 million (2016-17: £2,277.8 million) but was £381.3 million less than the voted amount of £2,516.8 million.

1.45 This variance was caused by an over projection of the cash required in the January 2018 supplementary estimates. The Scheme received more income than estimated due to a small increase in employer and employee contributions from an increase in active members and a slight increase in salaries, and a large bulk transfer from Public Health England. In addition, payments of pensions were slightly lower than expected.

Scheme liability

1.46 At 31 March 2018 the total liability for future pension benefits was £237.0 billion, compared with £234.0 billion at 31 March 2017.

1.47 The increase of £3.0 billion is driven largely by the current service cost and pension financing cost, increasing the liability, offset by changes in the financial assumptions and benefits payable. Further details are given in the Report of the Actuary (page 16) and Note 19.4 to the Account.

1.48 The increase of £3.0 billion is significantly less than the prior year increase in the liability of £46.7 billion, which is due to the reduction in the discount rate being much smaller than in the prior year. The reduction in the discount rate from 2017 to 2018 was 0.25%, compared to the reduction from 2016 to 2017 by 0.8%. Discount rates are prone to year on year movements because they are linked to market conditions (see Note 19.1). These movements can materially alter the Scheme liability from one year to the next. Prior to 2012, real discount rates were often above 2.5% whereas this year's rate is 0.1%. As an illustration of the impact on the value of the Scheme liability, a 0.5% increase in the real discount rate would reduce the liability by approximately £26.6 billion (see Note 19.3).

1.49 The other factor contributing to the smaller increase in the liability this year is the offsetting actuarial gain relating to changes in the assumptions. This can be broken down into changes in financial assumptions resulting in an actuarial loss of £8.5 billion, offset by the impact of the changes in the demographic assumptions in mortality of £9.8 billion, reflecting a higher than expected number of deaths in the UK population since 2012, and changes in baseline mortality assumptions of £3.8 billion resulting in a net actuarial gain this year.

Administration charges

1.50 The cost of administering the Civil Service pension arrangements during 2017-18 was £43.1 million. This can be broken down as follows:

Central management and overhead	£2.8 m
Third party costs	£40.3 m
Total	£43.1 m

1.51 Of this, £29.9 million was met from a 'levy' on employer pension contributions, with employers meeting the balance of £13.2 million directly via an invoiced administration charge.

1.52 Civil Service Pensions commissioned a review of the way scheme administration is funded with a view to introducing a revised arrangement in April 2019, whereby the direct invoiced administration charge will be removed and the levy on employer pension contributions increased.

Key Developments

Amendments to the Civil Service Pension Scheme

1.53 There were no amendments to the Rules of the Scheme during the year. The Public Service (Civil Servants and Others) Pensions Regulations 2014 (the legal basis of the 'Alpha' scheme) were amended on 30 April 2018 to correct some drafting errors, resolve some anomalies that had come to light since the original regulations were laid and to bring the regulations in line with the latest legislation relating to certain types of leave associated with the birth or adoption of a child.

Annulment of Amendments to the Civil Service Compensation Scheme

1.54 Amendments to the CSCS came into effect on 9 November 2016. In July 2017 the High Court found that the changes were unlawful as it judged the Government not to have fully met the obligation to consult with a view to reaching agreement on the changes. The High Court ruling annulled the 2016 amendments, meaning the amendments effectively did not take place and the 2010 CSCS terms were reinstated. Between July 2017 and early 2018 all members who received payments under the 2016 terms were re-assessed under the 2010 terms and under-payments corrected.

Challenge against transitional protection provisions

1.55 When public service pension reforms were introduced in 2015, there were transitional protection provisions which permitted older members to remain members of their existing schemes (the PCSPS in the case of civil servants). This protected those closest to retirement from the reforms, as they would at least have time to adjust to any change in their retirement income.

1.56 Public service pension scheme members have made claims to Employment Tribunals that these provisions amount to unlawful discrimination on the grounds of age, race and sex. Following Employment Tribunal judgments in 2017, the Employment Appeal Tribunal (EAT) ruled in January 2018 that the transitional protection provisions in the Judicial Pension Scheme are unlawful, and ruled that the decision in respect of a similar claim against the Firefighters' Pension Scheme be remitted back to the Employment Tribunal. The EAT ruled that although the Government's aim of protecting older public sector workers was legitimate, the means by which it did so were disproportionate. The Government has appealed and the Court of Appeal hearing has been set for 5 November 2018.

1.57 Similar Employment Tribunal claims have been made by Police Officers, and by two groups of civil servants, Prison Officers and Ministry of Defence Police. The Employment Tribunal has agreed that these claims can be stayed until after the Court of Appeal hearing in November.

1.58 If the Government were to ultimately lose all appeals, and transitional protection was found to amount to unlawful discrimination, it is likely that HM Treasury would lead a consistent policy response across all the public service schemes. Though the implications of this are far from clear it would be likely to increase the costs of the Scheme and its liabilities.

Guaranteed Minimum Pension indexation

1.59 The Government announced its response to the consultation on Guaranteed Minimum Pension (GMP) indexation and equalisation in public service pension schemes in January 2018.

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

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

1.62 The Government has been implementing an 'interim solution' between 6 April 2016 and 5 December 2018. The outcome of the consultation is that this solution will be extended for a further two years and four months, and this resulted in a past service cost of £0.17 billion shown in Note 8 of the Account.

1.63 During this period, the Government will investigate the possibility of an alternative long-term methodology, known as 'conversion', which would convert the GMP into an alternative form of pension with the same expected value.

Appointment of a new Scheme Medical Adviser

1.64 Following transition to a new Scheme Medical Adviser (SMA), Health Management Limited (HML), from 1 July 2017, there have been some issues in clearing both outstanding transition cases from the previous provider and new cases in the interim period (1 July 2017 to 28 February 2018), before contractual service levels were fully implemented. This has resulted in some reputational risk, due to members' cases taking longer than normal to resolve. Although there are still some complex interim cases still outstanding, they are minimal and represent no real risk of complaint. Focus has now moved to managing the regular flow of cases and regular reviews on progress with HML management.

Looking forward

1.65 In addition to the indexation and equalisation GMP consultation, work on the GMP reconciliation exercise required as a result of the end of contracting-out in 2016 continues. MyCSP has raised over 300,000 queries with HMRC. The GMP reconciliation exercise is expected to conclude early in 2019.

1.66 A number of over and under-payments have been identified in the GMP reconciliation exercise and will be corrected as part of a GMP rectification exercise, which will start in mid-2018 and conclude in mid-2019. The total value of under-payments is estimated to be £200,000 and the total value of over-payments is estimated to be £22m. Under-payments will be corrected and paid to members and over-payments will be written-off, consistent with the approach across the rest of the public sector. In all cases, pensions going forward will be adjusted to the correct level.

Actuarial valuation

1.67 The quadrennial valuation of the Scheme as at 31 March 2016 is under way and is not expected to be completed by the time these accounts are published, for reasons disclosed in 4.61 in the governance statement. This includes a long-term financial projection for the Scheme and will influence the contributions needed to fund it. Changes arising from the valuation are expected to be implemented in April 2019.

National Fraud Initiative (NFI)

1.68 NFI is an IT data-matching exercise co-ordinated by the Cabinet Office, involving organisations within central and local government working together to identify and eliminate fraud and overpayments. From November 2017, it was introduced as a half-yearly exercise, having previously been biennial.

1.69 Work commenced on the NFI 2017 report and was the eleventh exercise in which the Cabinet Office had participated. As at 31 March 2018, a total of 49.9% of death matches have been processed, and 65.8% of re-employment matches have been completed. The total amount identified as overpaid stands at £2.1m, with £1.2m recovered to date.

Statement on responsibility for production of the Annual Report and Account

1.70 As Accounting Officer, I hereby confirm that the Annual Report and Account as a whole is fair, balanced and understandable and that I take personal responsibility for the Annual Report and Account and the judgements required for determining that it is fair, balanced and understandable.

Statement on the disclosure of relevant audit information

1.71 The accompanying account has been prepared on a statutory basis in accordance with the requirements of HM Treasury and is designed to comply with generic Accounts Directions issued to departments by HM Treasury under section 5 (2) of the Government Resources and Accounts Act 2000.

1.72 The financial statements are audited by the Comptroller and Auditor General, who is appointed under statute and reports to Parliament on the audit examination.

1.73 I confirm that so far as I am aware, there is no relevant audit information of which the Auditors are unaware and that I have taken all reasonable steps to ensure that I am aware of any relevant audit information and to establish that the Auditors are aware of that information.

Audit

1.74 These financial statements have been audited by the Comptroller and Auditor General (C&AG), whose opinion is expressed in the certificate and report of the Comptroller and Auditor General to the House of Commons. During the reporting year no payment was made to the Auditors for non-audit work (2016-17: £nil).

1.75 The notional cost for the audit of these financial statements in 2017-18 was £160,000 (2016-17: £160,000) and is recognised in the Cabinet Office departmental account.

Events after the reporting period

1.76 In accordance with the requirements of IAS 10 – 'Events after the Reporting Period', events after the statement of financial position date are considered up to the date on which the financial statements are authorised for issue. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General. The Accounting Officer of the department has authorised these financial statements to be issued on the date the Comptroller and Auditor General certifies the account. There have been no events after the reporting date.

Additional information for members

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

1.77 CSAVCS allows Scheme members to increase their benefits by contributing to defined contribution arrangements. Further details on this are provided in Note 15 of the Account.

1.78 Members who choose to contribute to CSAVCS build up a personal fund. The options offered to them at retirement depend on what each individual provider permits, and it may be necessary for members to transfer to alternative arrangements within the same provider or to another provider to access all types of flexibility.

1.79 Civil Service Pensions continues to exercise its duty of care towards members by monitoring the CSAVCS providers, working with the Scheme's professional advisers, Aon Hewitt Ltd and the Government Actuary's Department.

1.80 Last year I reported plans to procure a single provider for the CSAVCS. Legal & General have been appointed as the new provider with effect from September 2018 and the transition programme is now underway. Contributions for active scheme members will be redirected to Legal & General from the September payroll and an exercise to transfer scheme assets will then be undertaken and completed during the 2018-19 financial year. Members holding guarantees or special benefits under their policies are being exempted from the transition exercise either in full (Equitable Life members) or from the transfer of assets (Scottish Widows and Standard Life).

Managers, advisers, auditors and bankers

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

Accounting Officer: John Manzoni, 1 Horse Guards Road, London SW1A 2HQ

Director of Civil Service Pensions: Debra Soper, Cabinet Office, 1 Horse Guards Road, London SW1A 2HQ

Advisers

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

Legal Advisers: Treasury Advisory Division, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ

Medical Advisers: Health Management Ltd, Ash House, Ringmer, East Sussex BN8 5NN

Money Purchase: Aon Hewitt Financial Services Ltd, 10 Devonshire Square, London EC2 4YP

Auditors

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

Internal Auditors: Government Internal Audit Agency, 1 Horse Guards Road, London SW1A 2HQ

Bankers Royal Bank of Scotland, 36 St Andrew Square, Edinburgh EH2 2YB

Further information

Further information can be found at **www.civilservicepensionscheme.org.uk**. Please address any enquiries about Civil Service pension arrangements to:

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John Manzoni
Principal Accounting Officer and Permanent Secretary
Cabinet Office

6 December 2018

2. Report of the Actuary

Introduction

2.1 This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Cabinet Office. It provides a summary of GAD's assessment of the scheme liability in respect of the Civil Service Pension Scheme (CSPS) as at 31 March 2018, and the movement in the scheme liability over the year 2017-18, prepared in accordance with the requirements of Chapter 9 of the 2017-18 version of the Financial Reporting Manual.

2.2 The CSPS is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.

2.3 The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2018.

Membership data

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

Table A – Active members

	Number	Total pensionable pay* (pa) £m
Males	216,986	7,043
Females	247,017	7,036
Total	464,003	14,079

* pensionable pay is the FTE figure

Table B – Deferred members

	Number	Total deferred pension (pa) £m
Males	154,040	556
Females	205,941	611
Total	359,981	1,167

Table C – Pensions in payment

	Number	Annual pension (pa) £m
Males	284,794	3,146
Females	257,212	1,511
Spouses & dependants	107,332	472
Total	649,338	5,129

Methodology

2.5 The present value of the liabilities as at 31 March 2018 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2018. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2018 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2017 in the 2016-17 account.

2.6 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.

Financial assumptions

2.7 The principal financial assumptions adopted to prepare this statement are shown in Table D.

Table D – Principal financial assumptions

Assumption	31 March 2018	31 March 2017
Nominal discount rate	2.55%	2.80%
Rate of pension increases	2.45%	2.55%
Rate of general pay increases	3.95%	4.55% from 2020/21
Rate of short-term general pay increase	n/a	1.0% pa to 2019/20
Real discount rate in excess of:		
• Pension increases	0.1%	0.24%
• Long-term pay increases	(1.35%)	(1.67%)
Expected return on assets	n/a	n/a

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

Demographic assumptions

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

Table E – Post-retirement mortality assumptions

Baseline mortality	Standard table*	Adjustment
Males		
Retirements in normal and ill-health	S2NMA	104%
Dependants	S2NMA	117%
Females		
Retirements in normal and ill-health	S2NFA	104%
Dependants	S2DFA	100%

*From the ‘S2’ series of standard tables published by the CMI and based on the experience of self-administered pension schemes from 2004 to 2011. Separate tables are available based on experience of members retiring in normal and ill-health and for dependants.

2.10 These assumptions are the same as those recommended for the 31 March 2016 funding valuation of the scheme. Note that the account as at 31 March 2017 was based on the assumptions adopted for the 2012 valuation.

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

Liabilities

2.12 Table F summarises the assessed value as at 31 March 2018 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 2.4 to 2.11. The corresponding figures for the previous year are shown for comparison.

Table F – Statement of financial position (£ bn)

	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	237.02	234.0	187.3	194.8	175.7
Surplus/(Deficit)	(237.02)	(234.0)	(187.3)	(194.8)	(175.7)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

2.13 The cost of benefits accrued in the year ended 31 March 2018 (the current service cost) is assessed as 47.2% of pensionable pay.

2.14 For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the account. Members contributed between 4.6% and 8.1% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2017-18 as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2017-18 account.

Table G – Contribution rates

	pensionable pay	
	2017-18 %	**2016-17 %**
Employer contributions*	21.1	21.1
Employee contributions (average)	5.6	5.5
Total contributions	26.7	26.7
Current service cost (expressed as a % of pay)	47.2	33.3

* Under the current arrangements, the expenses of administering are borne by employers through an administration levy which is included in the contributions payable to the scheme (0.15% of pay).

2.15 The key difference between the assumptions used for funding valuations and the account is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for the account is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

2.16 The pensionable payroll for the financial year 2017-18 was £13.8 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2017-18 (at 47.2% of pay) is assessed to be £6.52 billion.

2.17 Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018**. This resulted in a past service cost in respect of these members of £0.17 billion. I am not aware of any other events that have led to a material past service cost over 2017-18.

2.18 A settlement loss of £0.052 billion has been recognised in relation to the transfer of pension benefits of employees transferred to Public Health England.

Sensitivity analysis

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

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

2.21 Table H shows the indicative effects on the total liability as at 31 March 2018 of changes to these assumptions (rounded to the nearest ½%).

Table H – Sensitivity to significant assumptions

Change in assumption	Approximate effect on total liability	
Financial assumptions		
(i) discount rate*: +½% a year	- 11.0%	- £26.6 bn
(ii) (long-term) earnings increase*: +½% a year	+ 1.5%	+ £3.6 bn
(iii) pension increases*: +½% a year	+ 7.0%	+ £16.9 bn
Demographic assumptions		
(iv) additional one year increase in life expectancy at retirement	+ 3.0%	+ £7.5 bn

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

Steve Lewis FIA
Actuary
Government Actuary's Department
21 September 2018

** https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

3. Statement of Accounting Officer's Responsibilities

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

3.2 The combined financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs at year end of the Civil Service Pension Schemes and certain other minor pension schemes and of the Net Resource Outturn, Changes in Taxpayers' Equity and cash flows for the financial year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purpose intended by Parliament or material transactions that have not conformed to the authorities which govern them. In addition, the financial statements must be prepared so far as to demonstrate that the contributions payable to the Schemes during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

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

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

3.4 HM Treasury has appointed the Permanent Secretary of Cabinet Office as Accounting Officer for the Civil Superannuation Account. 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.

4. Governance Statement

Scope of responsibility

4.1 I was the Accounting Officer for the Civil Superannuation Vote throughout 2017-18. My responsibilities included maintaining a sound system of internal control to support the achievement of government policies, aims and objectives, while safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money'.

4.2 The Civil Superannuation Vote covers the Civil Service pension arrangements, 'the Scheme', the Civil Service Compensation Scheme and some minor agency arrangements set out in statute.

4.3 The Vote and the Scheme are managed by Civil Service Pensions within the Cabinet Office, with much of the day-to-day administration contracted out to MyCSP, a private company part-owned by the Government.

Governance: roles and responsibilities

4.4 The bodies and individuals involved in Scheme governance are set out below:

- the **Minister for the Civil Service** (currently the Prime Minister) is the Scheme Manager. In practice, this responsibility is delegated to the **Minister for the Cabinet Office** and me, as the **Permanent Secretary for the Cabinet Office** and the Accounting Officer of the Scheme;
- the **Cabinet Office Audit and Risk Committee** supports and advises me, as the Accounting Officer, on all relevant matters concerning audit and risk. It receives regular reports from the Cabinet Office Performance and Risk Committee on pension scheme risk;
- the **Civil Service Pension Board** gained statutory footing under the Public Services Pensions Act 2013, 'the 2013 Act'. Its role is to support the Scheme Manager;
- the **Scheme Advisory Board** is also a requirement of the 2013 Act. Its role is to provide policy advice to the Minister, when requested. It was constituted in 2016-17 and held its first meeting in June 2017;
- the **Pensions Finance Governance Group** is part of Civil Service Pensions and reviews the governance statement and provides a review of the Scheme report and account and other related issues;
- the **Cabinet Office Finance Director** has functional oversight of the Scheme finance function. They are also a member of the Civil Service Pensions Board and attends the Cabinet Office Audit and Risk Committee;
- **Civil Service Pensions**, part of Civil Service Human Resources (CSHR) in the Cabinet Office, is responsible for leading on pension policy and managing the Scheme and the other agency arrangements; and
- **MyCSP** carries out most day-to-day administration of the Scheme under a contract with the Cabinet Office operated in accordance with the Department's internal control framework.

4.5 Other responsibilities sit with member employers, including a key role in ensuring that membership data is accurate and up to date.

Cabinet Office Audit and Risk Committee (COARC)

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

4.7 COARC was chaired by Amy Stirling, an independent non-executive member of the Cabinet Office Board, to 27 November 2017. From December 2017 Catherine Brown was acting chair, until Mike Ashley was appointed chair from 1 September 2018. All meetings were attended by at least one other non-executive director, the Cabinet Office Finance Director and me, with the exception of a closed session.

4.8 The Scheme was discussed at two meetings, with reports and updates provided by Civil Service Pensions, the Cabinet Office Performance and Risk Committee, the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA).

Civil Service Pension Board (CSPB)

4.9 The CSPB was the first pensions board to be set up for an unfunded public sector pension scheme. Its statutory role is to support the Scheme Manager, which it seeks to do by assisting and challenging those involved in scheme management.

4.10 During 2017-18 the CSPB had 12 members, including the Non-Executive Chair, with equal numbers of representatives from both employers and scheme members, plus two non-executive members drawn from the pensions industry. The Board has subsequently recruited two additional non-executive members. One non-executive member resigned in January 2018 and was not replaced.

4.11 The CSPB met on four occasions in 2017-18. It also has two sub-groups, which met on a quarterly basis and which report into the main board. A small secretariat based in the Cabinet Office supports the Board.

4.12 During 2017-18 the CSPB has focused on Scheme administration, compliance with regulations and legislation, reviewing the actions taken to address identified shortcomings and how to influence the behaviours of all parties, including employers and administrators, in pursuit of the successful delivery of the Scheme.

4.13 CSPB's key priority going forward is to support and challenge the Cabinet Office and ensure it has the capability and capacity to deliver its demanding workload and to manage change going forward. The Board and the Scheme Manager have committed to strengthening their relationship and ensuring the CSPB has oversight of key activities. The Director of Civil Service Pensions now attends CSPB meetings in full and the reports produced by Civil Service Pensions provide the level of detail needed for effective oversight. Further information can be found at www.civilservicepensionscheme.org.uk/about-us/civil-service-pensions-board/

Scheme Advisory Board (SAB)

4.14 The SAB provides strategic advice to the Minister of the Cabinet Office, including on the desirability of changes to the Scheme. The SAB is accountable to the Minister as Scheme Manager.

4.15 It is chaired by Rupert McNeil, the Government Chief People Officer, and attendees include a Cabinet Office non-executive director, the Chair of the CSPB, Civil Service Pensions and CSHR staff, trade union representatives and the Government Actuary's Department.

4.16 The SAB met six times during 2017-18 and discussed issues relating to the Scheme valuation including the cost cap mechanism.

Pensions Finance Governance Group

4.17 The Pensions Finance Governance Group is a new Cabinet Office group formed during the year to review finance related topics and reports, and provide recommendations to the Director of Civil Service Pensions.

4.18 The group met once during the year with representatives from HM Treasury, the National Audit Office, the Government Actuary's Department and Cabinet Office central finance. The group discussed its scope, the Comptroller and Auditor General's management letter for the 2016-17 annual report and account and overpayments recovery.

Civil Service Pensions

4.19 Civil Service Pensions, a dedicated directorate with approximately 46 staff, is responsible for the management of the Scheme. Their principal activities are provided in the Report of the Manager.

MyCSP

4.20 MyCSP has a contract with the Cabinet Office to administer the Scheme and I have explained the division of their responsibilities in the Report of the Manager. As Accounting Officer, I have responsibility for ensuring MyCSP is managing its risks effectively, and for reviewing the effectiveness of its system of internal control, an area I will discuss later in this report.

Overview of governance arrangements

4.21 Scheme governance has evolved over recent years in response to the 2013 Act and the needs of the Scheme. The CSPB and SAB have made significant steps to define their activities, strengthen their expertise and fulfil the roles envisaged by the 2013 Act. There have also been improvements in Scheme management which I shall set out in more detail later.

Corporate Governance Code

4.22 The Scheme complies with HM Treasury's Corporate Governance Code as far as it is applicable and achieves transparent and effective governance through the work of the bodies listed above.

Review of Internal Control

4.23 As part of my responsibilities as Accounting Officer, I have reviewed the effectiveness of the system of internal control, including risk management. My review is informed by regular reports from the Director of Civil Service Pensions and GIAA, which is the Scheme's internal audit service. I have been advised on the implications of the result of my review by COARC.

4.24 The key elements of my assurance are the regular reports provided by the Director of Civil Service Pensions covering a wide range of topics. She has also made regular reports to COARC.

4.25 The substantial progress made in Scheme risk management, which I noted last year, has continued despite the time spent during 2018-19 dealing with the findings of MyCSP's review of its internal control framework (ICFR). This will be discussed in more detail later but most rectification work has now been carried out and we have liaised closely with the Pensions Regulator to provide assurance that the issues identified have been addressed.

4.26 Direction and management of the Scheme continues to improve and progress has been made in improving data quality, financial management and employer engagement. Work has also begun on setting out and achieving the Scheme's long-term vision.

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

4.28 Previously the Scheme has received an 'unsatisfactory' opinion and I therefore welcome the 'limited' opinion given in 2017-18 as a sign of significant improvement. Areas where GIAA believed controls could be strengthened include;

- the anti-fraud environment;
- controls over the treatment of pensionable allowances; and
- data quality controls.

4.29 In conclusion, I believe the system of internal control is working well with problems brought to light and management actions taken to address them which are then reported back to me and other stakeholders. I am aware that some key Scheme risks sit largely with other parties such as MyCSP and participating employers. We continue to make efforts to encourage improvements in their controls and these are discussed in more detail below.

Achieving the long-term vision and direction

4.30 Last year I set out the five year vision for the Scheme to become the best managed, best administered and best value public sector scheme in the UK, underpinned by five strategic objectives:

- to provide a quality and value for money service for all members and employers;
- to invest and develop our people to be recognised across the Civil Service as pensions specialists;
- to ensure scheme members value and understand their benefits and are actively planning for retirement;
- to ensure employers value and understand the Scheme as part of the overall reward package and fulfil their obligations to support delivery of a quality service to members; and
- to ensure the Scheme is sustainable and supports the wider 'Brilliant Civil Service' agenda.

4.31 To help achieve these objectives, Civil Service Pensions has made further key appointments in the areas of finance, communications and project and contract management.

4.32 Civil Service Pensions has also started a project to develop and deliver a new future service model and has carried out discovery work with both employers and members to understand their needs. The project is monitored by a Future Service Programme Board comprised of interested parties which holds monthly meetings to discuss and review the work as well as provide strategic oversight on the project.

MyCSP Performance

4.33 We have continued to strengthen our contract management function with three staff now based in and around Liverpool, where MyCSP is headquartered. This combined with further changes in MyCSP personnel has led to improvements in MyCSP's overall performance.

4.34 We are close to completing negotiations for a contract extension with MyCSP for two years and eight months starting in April 2019. This will not be just business as usual but include up to £5 million of investment in a digital transformation programme to enhance member and employer experience.

4.35 MyCSP will look at providing online self-service functionality and retirement modellers for members and employers whilst upgrading parts of the current website to bring it in line with industry standards.

Employer responsibilities

4.36 The Scheme depends on participating employers to provide the right data and information to allow deductions and benefits to be accurately calculated. Due to the wide-ranging nature of this dependency, employer engagement continues to be a key part of the internal control framework. Activities include:

- the new employer Strategic Working Group (replacing the Intelligent Customer Forum) commenced in January 2018 to provide a forum where senior officials can contribute to the strategic direction and commercial structure of the Scheme;
- the Practitioner Group, which comprises working-level pension practitioners from a range of employers and is used as a forum to test new initiatives and canvass employer and member feedback;
- Regional Employer Forums, which take place regularly across the UK with over 200 employers attending in 2017-18;
- Employer Pensions Notices (EPNs), which are sent to employers to provide updates on scheme policy and processes as well as any changes to legislation that affect the management of the Scheme

4.37 There has also been a long-standing arrangement whereby, each year, employer Accounting Officers provide me with an Accounting Officer Certificate (AOC) reporting on the operation of their pension control framework and compliance with the terms of their Participation Agreement. The newly named Annual Assurance Statement asks a series of questions focused on the processes and procedures they have in place to ensure adherence with scheme rules and guidance. This was the first time MyCSP undertook the process of issuing the statements and collating the returns for analysis.

4.38 All employers have now returned their statements, with over 80% stating that they have adequate controls and processes in place. Of the 20% identifying some weaknesses, two thirds relate to data issues and the interfacing between their own payroll system and MyCSP, which ensures MyCSP holds correct and up to date information.

4.39 Civil Service Pensions is ensuring that remedial action is either on-going or being put in place to address the key areas identified. We have also worked with MyCSP to introduce a compliance model with performance targets, actions and escalations to address poor performance in relation to the quality of monthly interface submissions. Since the compliance model was introduced in January 2018, 93.2% of employers have met the designated targets. We aim to further tighten these targets from January 2019.

4.40 The 2017-18 AOC exercise has worked better than in previous years, but there are still areas where we believe assurance needs to be strengthened. Civil Service Pensions will be reviewing the results and improving the approach in time for the 2018-19 exercise.

Data quality

4.41 Good data is essential to the proper running of the Scheme but, as I have noted in previous years, there have been longstanding data problems which have also been highlighted by GIAA and the National Audit Office. In response we put in place a robust programme to identify and correct data failures. This has focused on identifying data validation failures (DVFs), which do not automatically signal actual errors but are an essential first step to cleansing the data.

4.42 The first phase of the programme focused on active members and applied bulk data fixes to reduce the baseline count of DVFs from 3.7 million to 1.2 million. The second phase of the programme to address the remaining DVFs was launched on 30 October 2017 and will run for two years.

4.43 Employer engagement has been extremely good and the Cabinet Office monitors project progress against the target via the Data Improvement Programme Board (DIPB). Month on month, more employers are subscribed to the data improvement project and clearance rates continue to increase as employers become more familiar with the process.

4.44 Phase three of the project to address potential DVFs with deferred and pensioner member data is scheduled to launch in Q2 of 2019.

Specific control issues in the reporting period

MyCSP Internal Control Framework Review (ICFR)

4.45 I reported last year on the outcome of MyCSP's ICFR, which concluded in early 2017, and obliged the Cabinet Office to report six legislative breaches to the Pensions Regulator (TPR).

4.46 I am pleased to report that MyCSP has made good progress in tackling all of the areas identified in the review. Breaches concerning duplicate payments, employer billing, short service refunds and transfers have been cleared. Breaches concerning Contribution Equivalent Premiums should be cleared by the end of 2018.

4.47 The largest issue centred on the revision of pension awards already made. Revisions were needed following the receipt of updated data from an employer or member, but testing indicated a large amount of updated data had been provided but no action had been taken. During the remedial work, MyCSP discovered a further 100,000 revisions that were not made in the period from 2004 to 30 April 2012. We decided to deal with all revisions, regardless of when they happened, as part of one exercise, with work due for completion by July 2019.

4.48 The formal Programme Board established to oversee the rectification work, continues to meet monthly and the Director of Civil Service Pensions meets with TPR on a monthly basis. In April 2018, TPR decided no justification existed for it to use its regulatory powers on the basis that MyCSP and the Cabinet Office were implementing a strong plan to achieve what was required.

Other MyCSP reporting

4.49 The quality of reporting from MyCSP has improved and in 2017-18 MyCSP prepared its first Annual Assurance Statement. However, GIAA has again raised concerns about the quality of the data underpinning the reporting of benefit accuracy and the Cabinet Office is working with MyCSP to improve this.

Data security

4.50 Employers are responsible for data held by themselves or their payroll provider. Civil Service Pensions has provided guidance to both employers and MyCSP on the security of data in transit and data storage. Employers are required to certify that they have a secure payroll interface with MyCSP's pension software (Compendia), or an alternative agreed with MyCSP which monitors the status of payroll interfaces.

4.51 A Security Working Group monitors all matters concerning information assurance and data security that may arise as MyCSP transforms its services. The group meets on a monthly basis.

4.52 During the reporting period, there was a single occurrence of a data security breach where data was disclosed to unintended recipients. Shared Services Connected Limited was advised and MyCSP concluded this was a 'Severity 3 Data Handling Event' and therefore not reportable to the Information Commissioner's Office. No personal data incident issues were reported to the Information Commissioner's office during the year.

The Home Office and pensionable allowances

4.53 It emerged in May 2017 that the Home Office had not been deducting Civil Service Pension Scheme contributions from members' salaries in respect of some pensionable allowances for a number of years, and that the allowances had not been feeding through to the calculation of pension benefits by MyCSP.

4.54 In December 2017, the Home Office wrote to The Pensions Regulator (TPR) to formally notify them of the breach in the Scheme rules, and to members who were currently in receipt of the allowances affected. The Home Office started collecting correct contributions from members in January 2018.

4.55 The Home Office is working with MyCSP to ensure that information about the pensionable allowances is being correctly interfaced from payroll to MyCSP's scheme administration software so that members' pension records are correct and they receive the correct pension benefits.

4.56 The Cabinet Office has taken steps to assure themselves that this issue is not more widespread by performing investigative work on deductions from employers and tightening controls. I have also asked GIAA to perform work in this area to provide independent assurance.

Financial management

4.57 The Cabinet Office continues to improve Scheme financial management following an internally commissioned review. Key leadership appointments have now been made and there has been good progress in accounts production and reporting to the Office of Budget Responsibility.

4.58 There has been a review of the process for recovering overpayments, which was historically split between MyCSP and the Cabinet Office and led to a backlog of cases and the potential for inconsistencies.

4.59 All overpayments case work will transition to MyCSP where there is now a dedicated overpayments team. New processes will focus on early intervention and increased communication so that cases do not remain unresolved. Plans are also in place to resolve a backlog of historic overpayments cases in 2018-19.

Fraud Environment

4.60 GIAA reported that the overall control framework around fraud could be improved by a clearer anti-fraud strategy and better reporting. Though it is important to note that no evidence of fraud has come to light, I am keen to ensure anti-fraud activities are given proper weight in Scheme management. Therefore, the Cabinet Office and MyCSP will work together in 2018-19 to consider appropriate improvements activities with the Cabinet Office also reviewing Scheme functions outside MyCSP's remit.

Scheme valuation

4.61 The quadrennial valuation of the Scheme as at 31 March 2016 was due to be finalised in 2018 with a view to implementing any required changes from 1 April 2019. There has been a significant delay to the publication and finalisation of HM Treasury valuation directions and so there is a risk that any changes that may be required following the valuation (changes to member benefits and/or contributions, and changes to employer contribution rates) are made after 1 April 2019. Therefore, they may need to be backdated. This could result in administration and communication challenges.

4.62 There were initially significant problems with the data extraction processes which resulted in inaccurate and incomplete data being supplied to GAD to support the 2016 Scheme Valuation. MyCSP did address this by bringing in better qualified staff which led to more robust data being produced, albeit later than desirable. The delay led to time pressures which reduced the period available for quality assurance work. Going forward to the 2020 Valuation, Civil Service Pensions will work with MyCSP and GAD to ensure a robust, adequately resourced plan is in place to ensure complete and accurate data is supplied to GAD promptly. It will also ensure there is sufficient time for MyCSP to review the quality of that data.

Complaints and the Internal Dispute Resolution (IDR) Procedures

4.63 During 2017-18, MyCSP received far fewer complaints than they did in 2016-17, and the number of complaints upheld has decreased over the year. However the number of appeals at both stages of the IDR process has remained static. Although the ultimate aim is to reduce the number of IDR investigations, both MyCSP and the Cabinet Office have focused on ensuring that the right outcome is achieved early in the process. There has been increased governance and clearer guidance on compensation and ensuring members are put in the right position. As a result, the number of cases where the outcome changes at Stage one and Stage two of the IDR process had decreased.

General Data Protection Regulations (GDPR)

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

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

4.65 GIAA assessed the preparation and processes for the Scheme's compliance against the key requirements of GDPR to identify any gaps and recommend remedial actions. The Scheme received a 'moderate' opinion, based on significant and effective work on implementing a GDPR-compliant environment, underpinned by a programme management approach by the Cabinet Office and MyCSP.

4.66 Risk exposure remains in respect of the quality of legacy scheme member data and the volume of data submitted by some employers. The Scheme Manager fully acknowledges this GDPR non-compliance risk and has developed a long-term strategy to address it.

Exiting the European Union

4.67 On 23 June 2016 the UK electorate voted to leave the European Union. Under the relevant legislation, the UK remains a member of the European Union until such time as this process is finalised. In the short term, this is expected to have little effect on the Scheme, which is not exposed to market volatility, but it may indirectly lead to changes in the make-up of the Civil Service and be impacted by future economic performance.

Other schemes

4.68 Responsibility for the governance and administration of the other pension schemes included in these financial statements rests with the relevant agencies. The National Security Adviser has provided me with an assurance statement that they are satisfied there are suitable controls in operation within the agencies.

John Manzoni
Principal Accounting Officer and Permanent Secretary
Cabinet Office

6 December 2018

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply – (Subject to Audit)

In addition to the primary statements prepared under International Financial Reporting Standards, the ‘FReM’ also requires the Scheme to prepare an additional statement – a Statement of Parliamentary Supply. This statement and supporting notes, show outturn against estimates in terms of the net resource requirement and the net cash requirement. The regularity of expenditure is subject to audit as per the requirements of the ‘FReM’.

Summary of resource and capital outturn 2017-18

		2017-18							2016-17
		Estimate			Outturn				Outturn
	Note	Voted £000	Non-Voted £000	Total £000	Voted £000	Non-Voted £000	Total £000	Voted outturn compared with Estimate: saving/ (excess) £000	Total £000
Departmental Expenditure Limit									
• **Resource**		-	-	-	-	-	-	-	-
• **Capital**		-	-	-	-	-	-	-	-
Annually Managed Expenditure									
• **Resource**	SOPS1	10,001,666	-	10,001,666	9,864,215	-	9,864,215	137,451	7,811,020
• **Capital**		-	-	-	-	-	-	-	-
Total Budget		10,001,666	-	10,001,666	9,864,215	-	9,864,215	137,451	7,811,020
Non-Budget									
• **Resource**		-	-	-	-	-	-	-	-
Total		**10,001,666**	**-**	**10,001,666**	**9,864,215**	**-**	**9,864,215**	**137,451**	**7,811,020**

Total Resource		10,001,666	-	10,001,666	9,864,215	-	9,864,215	137,451	7,811,020
Total Capital		-	-	-	-	-	-	-	-
Total		**10.001,666**	**-**	**10,001,666**	**9,864,215**	**-**	**9,864,215**	**137,451**	**7,811,020**

Net Cash Requirement 2017-18

	Note	2017-18 Estimate £000	2017-18 Outturn £000	2017-18 Outturn compared with Estimate: saving/ (excess) £000	2016-17 Outturn £000
	SOPS2	**2,516,768**	**2,135,442**	**381,326**	**2,277,769**

2017-18 Estimate £000	2017-18 Outturn £000	2016-17 Outturn £000
-	-	-

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

Supporting explanation for variance against outturn and the net cash requirement can be found under the financial review section of the Report of the Manager.

The notes below form part of these disclosures.

Notes to the Statement of Parliamentary Supply (subject to Audit)

SOPS1. Analysis of net resource outturn by section

	2017-18										2016-17
	Outturn £000							Estimate £000			Outturn £000
	Administration			Programme							Total
	Gross	Income	Net	Gross	Income	Net	**Total**	Net Total	Net compared to Estimate	Net total compared to Estimate, adjusted for virements	
Annually Managed Expenditure											
Voted:	-	-	-	13,880,039	(4,015,824)	9,864,215	9,864,215	10,001,666	137,451	137,451	7,811,020
Non-voted:	-	-	-	-	-	-	-	-	-	-	-
Non-budget:	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**13,880,039**	**(4,015,824)**	**9,864,215**	**9,864,215**	**10,001,666**	**137,451**	**137,451**	**7,811,020**

SOPS2. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net Total outturn compared with Estimate: Saving/(excess) £000
Net Resource Outturn	SOPS1	10,001,666	9,864,215	137,451
Accruals adjustments:				-
New provisions		(13,808,810)	(13,870,432)	61,622
Changes in payables		-	235,157	(235,157)
Changes in receivables		-	25,444	(25,444)
Changes in non-supply payables		-	(261,444)	261,444
Changes in non-supply receivables		-	(2,469)	2,469
Use of provision		6,323,912	6,144,971	178,941
Excess cash receipts surrenderable to the Consolidated Fund		-	-	-
Net Cash Requirement		2,516,768	2,135,442	381,326

Parliamentary Accountability Disclosures

Losses and Special Payments
(Subject to Audit)

During the year, 6,704 cases totalling £526,487 were written off (2016-17: 7,116 – £827,990).

The ongoing Guaranteed Minimum Pension reconciliation work identified historic overpayments of £22 million to existing pensioners. These pensions were corrected going forward and a decision was taken in October 2017 to write off the historic overpayments, which are classified as a loss.

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

Opinion on financial statements

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

In my opinion:

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

Opinion on regularity

In my opinion, in all material respects:

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

Basis of opinions

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

Responsibilities of the Accounting Officer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **10 December 2018**

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Financial Statements

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

	Note	2017-18	2016-17
Principal Scheme arrangements		**£000**	**£000**
Income			
Contributions receivable[1]	5	(3,692,931)	(3,566,974)
Transfers in	6	(213,764)	(105,565)
Other pension income	7	(4,780)	(6,508)
Expenditure			
Service cost	8	6,680,000	4,435,000
Enhancements	9	41,104	45,609
Transfers in	10	265,764	96,565
Injury benefits	11	8,599	8,963
Pension financing cost	12	6,565,000	6,719,000
Net Expenditure		**9,648,992**	**7,626,090**
Other minor agency/principal pension schemes			
Income			
Contributions receivable		(104,349)	(98,656)
Expenditure			
Total charge to provisions		318,564	282,515
Benefits payable	14	1,008	1,071
Net Expenditure for the year		**215,223**	**184,930**
Combined Net Expenditure for the year		**9,864,215**	**7,811,020**
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year			
Pension re-measurements:			
- Actuarial loss/(gain)	19.7	(4,470,538)	41,600,022
Total Comprehensive Net Expenditure		**5,393,677**	**49,411,042**

[1] A small element of employer contributions is paid in respect of the cost of administering the Scheme and has been deducted from the total shown here. Scheme administration costs are shown within the main Cabinet Office Account and details can also be found within the Report of the Manager on page 11.

The notes on pages 38 to 51 form part of these financial statements.

Combined Statement of Financial Position as at 31 March 2018

	Note	2017-18	2016-17
		£000	£000
Principal Scheme arrangements			
Current assets:			
Receivables (within 12 months)	16	314,773	296,406
Cash and cash equivalents	17	204,659	468,569
Total current assets		**519,432**	**764,975**
Current liabilities			
Payables (within 12 months)	18	(509,483)	(744,083)
Total current liabilities		**(509,483)**	**(744,083)**
Net current assets/(liabilities), excluding pension liability		**9,949**	**20,892**
Receivables (after 12 months)	16	53	53
Pension liability	19.4	(237,022,000)	(234,033,000)
Net liabilities, including pension liabilities		**(237,011,998)**	**(234,012,055)**
Compensation agency arrangements – CSCS			
Receivables (within 12 months)	22	9,875	7,539
Net current assets		**9,875**	**7,539**
Other pension schemes			
Receivables (within 12 months)	23	6,764	2,023
Payables (within 12 months)	24	-	(557)
Net current assets/(liabilities), excluding pension liability		**6,764**	**1,466**
Pension liability	25.2	(4,165,923)	(3,900,000)
Net liabilities, including pension liabilities		**(4,159,159)**	**(3,898,534)**
Combined Scheme – Total net liabilities		**(241,161,282)**	**(237,903,050)**
Taxpayers' equity:			
General Fund		(241,161,282)	(237,903,050)
		(241,161,282)	**(237,903,050)**

The notes on pages 38 to 51 form part of these financial statements.

John Manzoni
Principal Accounting Officer and Permanent Secretary
Cabinet Office

6 December 2018

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

	Note	2017-18 £000	2016-17 £000
Balance at 31 March		(237,903,050)	(190,769,777)
Net Parliamentary Funding – drawn down		1,874,001	2,466,409
Net Parliamentary Funding – deemed		476,995	288,355
Supply (payable)/receivable adjustment	18	(215,551)	(476,995)
Contingencies Fund Advance		-	250,000
Repayment of Contingencies Fund		-	(250,000)
Comprehensive net expenditure for the year	SOPS1	(9,864,215)	(7,811,020)
Actuarial gain/(loss)	19.7	4,470,538	(41,600,022)
Net change in taxpayers' equity		**(3,258,232)**	**(47,133,273)**
Balance at 31 March		**(241,161,282)**	**(237,903,050)**

The notes on pages 38 to 51 form part of these financial statements.

Combined Statement of Cash Flows for the year ended 31 March 2018

	Note	2017-18	2016-17
		£000	£000
Cash flows from operating activities			
Combined net (expenditure)/income for the year	SOPS1	(9,864,215)	(7,811,020)
Adjustments for non-cash transactions			
(Increase)/decrease in Scheme receivables (within 12 months)	16	(18,367)	6,337
Less movements in receivables relating to items not disclosed in the Combined Statement of Comprehensive Net Expenditure			
(Increase)/decrease in CSCS receivables	22	(2,336)	8,600
Less movement in non-supply receivables	16, 22	2,469	(8,279)
(Increase)/decrease in other schemes' receivables	23	(4,741)	(403)
Increase/(decrease) in Scheme payables	18	(234,600)	190,394
Increase/(decrease) in other schemes' payables	24	(557)	264
Movement in payables relating to items not disclosed in the Combined Statement of Comprehensive Net Expenditure			
Less movement in non-supply payables	18	261,444	(188,640)
Increase in Scheme pension provisions	19.4	13,245,000	11,154,000
Increase in Scheme pension provisions – enhancements and transfers in	19.4	306,868	142,174
Increase in other schemes' pension provisions		318,564	282,515
Use of Scheme provisions – benefits paid	19.4	(6,023,785)	(5,926,519)
Use of Scheme provisions – refunds and transfers out	19.4	(44,964)	(54,463)
Use of other schemes' provisions		(76,222)	(72,729)
Net cash outflow from operating activities		**(2,135,442)**	**(2,277,769)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		1,874,001	2,466,409
From the Contingencies Fund		-	250,000
Repayment to the Contingencies Fund		-	(250,000)
Adjustments for payments and receipts not related to Supply			
Compensation payments made on behalf of employers (including lump sum payments)	13	(185,273)	(478,973)
Reimbursement of compensation payments by employers (including lump sum payments)	13,22	182,937	487,573
Injury benefit payments made on behalf of employers	11	(10,252)	(10,306)
Reimbursement of injury benefit payments by employers	11,16	10,119	9,985
Net Financing		**1,871,532**	**2,474,688**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	17	(263,910)	196,919
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities		-	-
Payments of amounts due to the Consolidated Fund		-	-
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(263,910)**	**196,919**
Cash and cash equivalents at the beginning of the period	17	468,569	271,650
Cash and cash equivalents at the end of the period	17	**204,659**	**468,569**

The notes on pages 38 to 51 form part of these financial statements.

Notes to the Financial Statements

1. Basis of preparation of the Scheme financial statements

The financial statements of the Civil Superannuation Account have been prepared in accordance with the relevant provisions of the 2017-18 'Government Financial Reporting Manual (FReM)' issued by HM Treasury. The accounting policies contained in the 'FReM' apply 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 Principal Civil Service Pension Arrangements

1.1.1 The Scheme is an unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Civil Service Pensions (CSP) team on behalf of members of the Civil Service who satisfy the membership criteria. Before 1 April 2016, the Scheme was a contracted out pension scheme.

1.1.2 Contributions to the Scheme by employers and employees are set at rates determined by the Scheme's Actuary and approved by the Civil Service Pensions Board (CSPB). The contributions partially fund payments made by the Scheme, the balance of funding being provided by Parliament through the annual Supply Estimates process.

1.1.3 The financial statements of the Scheme show the financial position at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure shows, among 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 Civil Service Compensation Scheme

1.2.1 The Cabinet Office acts as agent for employers in the payment of compensation benefits arising under the Civil Service Compensation Scheme (CSCS). Compensation payments are generally recovered from employers on a monthly basis. The financial flows associated with these transactions are not brought to account in the financial statements. However, the financial statements recognise the liabilities arising from the central funding of compensation payments which amount to £185.3 million (2017: £479.0 million) (see Note 13).

1.3 Other minor agency and principal pension scheme arrangements

1.3.1 In addition, the financial statements include transactions relating to other minor pension schemes, a number of which are closed schemes. The Scheme acts as principal in respect of pension paid to the Governor of an overseas colony, awarded before the introduction of a new scheme on 30 September 1978. CSP acts as principal in respect of the other pension schemes on the basis of information supplied by the agencies.

1.3.2 CSP acts as an agent for the following schemes:

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

2. Statement of accounting policies

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

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

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

2.1 Accounting convention

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

2.2 Contributions receivable

2.2.1 Employers' normal pension contributions are accounted for on an accruals basis. There are also some employers' special pension enhancements, which are detailed in Note 9 of the financial statements.

2.2.2 Employees' pension contributions that exclude amounts received in respect of the purchase of added pension (dealt with below) and Additional Voluntary Contributions (dealt with below) are accounted for on an accruals basis.

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

2.2.4 Under the Scheme rules which came into effect in April 2010, those members who take early retirement and receive an Actuarially Reduced Pension can buy out the actuarial reduction and as a result receive a full pension. Income received from members in respect of this is shown in Note 5.

2.2.5 Effective Pension Age is where members can make additional contributions payments to buy EPA, which is a portion of pension paid early without reduction. These are accounted for on an accruals basis.

2.3 Transfers in

2.3.1 Individual transfers in are accounted for as income and expenditure (representing the associated increase in the Scheme pension liabilities) on a cash basis, although group transfers in are accounted for on an accruals basis when the Scheme has formally accepted liability and the relevant commitment forms are signed.

2.4 Other pension income

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

2.5 Additional Voluntary Contributions

2.5.1 Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the employing departments to one of three appointed AVC providers. Details of the three providers and the amounts of the AVC investments can be found in Note 15.

2.6 Current service cost

2.6.1 The current service cost is the increase in the present value of the Scheme pension liabilities arising from members' service in the current period and is recognised in the revenue account. It is determined by the Scheme Actuary based on a discount rate of 0.24% real (2.80% including inflation).

2.7 Past service costs

2.7.1 Past service costs are increases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the Combined Statement of Comprehensive Net Expenditure on a straight-line basis over the period in which increases in benefits vest.

2.8 Pension financing cost

2.8.1 The financing cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one year closer to settlement, and is recognised in the Statement of Comprehensive Net Expenditure. The financing cost is based on a discount rate of 0.24% real (2.80 % including inflation).

2.9 Injury benefits

2.9.1 Injury benefits are accounted for on an accruals basis. They are not funded through the Employers' pension contributions, and the amounts payable in respect of injuries sustained before 1 April 1998 are a charge on the Scheme and are shown in the Statement of Comprehensive Net Expenditure. Those benefits paid in respect of injuries sustained on or after 1 April 1998 are recoverable from employers each month.

2.10 Scheme liabilities

2.10.1 Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liabilities are measured on an actuarial basis using the Projected Unit Credit method and are discounted at 0.10% real (2.55% gross). The Actuary reviews the most recent actuarial valuation at the Statement of Financial Position date and updates it to reflect current conditions.

2.11 Pension benefits payable

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

2.12 Payments to and on account of leavers

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

2.13 Transfers out

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

2.14 Actuarial gains/losses

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

3. Accounting policies for CSCS agency arrangements

Compensation benefits for staff leaving before normal retirement age are met by employing departments. For administrative convenience and value-for-money considerations, compensation benefits are paid initially by CSP, throughout the month, but are then recovered from employers at month end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2017-18 are shown in Note 13.

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

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

5. Contributions receivable

	2017-18	2016-17
	£000	£000
Employers'	(2,877,942)	(2,778,466)
Employees':		
Normal	(778,665)	(749,407)
Purchase of added years	(30,188)	(33,362)
Actuarial Retirement Reduction Buy Out	(5,176)	(5,101)
Effective Pension Age	(960)	(638)
	(3,692,931)	**(3,566,974)**

Contributions of £3.56 billion are expected to be payable to the Scheme in 2018-19.

6. Transfers in (see also Note 10)

	2017-18	2016-17
	£000	£000
Group transfers from other schemes	(114,528)	(57,381)
Individual transfers in from other schemes	(99,236)	(48,184)
	(213,764)	**(105,565)**

7. Other pension income

	2017-18	2016-17
	£000	£000
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	-	68
capitalised cost of enhancement to pensions, payable at age 60	(4,742)	(6,468)
Effective Pension Age receivable from employer	(38)	(108)
	(4,780)	**(6,508)**

8. Service cost

	2017-18	2016-17
	£000	£000
Current service cost	6,515,000	4,435,000
Past service cost	165,000	-
	6,680,000	**4,435,000**

9. Enhancements (see also Note 19.4)

	2017-18	2016-17
	£000	£000
Employees':		
Purchase of added years	30,188	33,362
Actuarial Retirement Reduction Buy Out	5,176	5,101
Effective Pension Age	960	638
Employers':		
Effective Pension Age	38	108
Bringing forward the payment of accrued lump sums	-	(68)
Enhancements to pensions on retirement	4,742	6,468
	41,104	**45,609**

10. Transfers in – Additional liability

	2017-18	2016-17
	£000	**£000**
Group transfers in from other schemes	166,528	48,381
Individual transfers in from other schemes	99,236	48,184
	265,764	**96,565**

11. Injury benefits

	2017-18	2016-17
	£000	**£000**
Injury benefits payable	18,851	19,269
Less: recoverable from employers	(10,252)	(10,306)
Recognised in the Statement of Comprehensive Net Expenditure	**8,599**	**8,963**

12. Pension financing cost (see also Note 19.4)

	2017-18	2016-17
	£000	**£000**
Interest charge for the year	6,565,000	6,719,000
	6,565,000	**6,719,000**

Statement of Comprehensive Net Expenditure – CSCS compensation agency arrangements

13. Compensation benefits payable

	2017-18	2016-17
	£000	**£000**
Recoverable from employers	59,948	91,147
Total annual compensation payable	**59,948**	**91,147**
Lump sums payable recoverable from employers	125,325	387,826
Total lump sums payable	**125,325**	**387,826**

Statement of Comprehensive Net Expenditure – Other minor agency and principal pension scheme arrangements

14. Benefits payable – Not charged to provisions

	2017-18	2016-17
	£000	£000
George Cross (recoverable)	(3)	6
Pensions increase for ex-PMs/Speakers	90	84
Pensions increase for Public Service Appointments	132	127
Pensions increase for ex-MEPs/widow(er)s	607	605
Payments to the United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	15	15
Payments to the Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	33	52
Pensions increases in respect of pensions paid to former staff of the Sugar Board	16	16
Pensions to Governors of overseas colonies awarded before the introduction of a new scheme in 1978	-	1
Federated Superannuation System for Universities	118	165
	1,008	**1,071**

15. Additional Voluntary Contributions (AVCs)

The Civil Service Additional Voluntary Contribution Scheme (CSAVCS) provides for employees to make AVCs to increase their pension entitlements or to increase life cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment by their employers to one of the three appointed providers (Equitable Life Assurance Society, Scottish Widows' Fund and Standard Life Assurance Society), or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution Schemes (FSAVCs).

The Managers of the CSAVCS are only responsible for payments made to the Scheme's appointed providers. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the appointed provider at 31 March each year (5 April for Equitable Life) confirming the amounts held to their account and the movements in year.

The aggregate amounts of AVC investments are as follows:

			2017-18			2016-17
	Standard Life	Equitable Life[1]	Scottish Widows'	Standard Life	Equitable Life[1]	Scottish Widows'
	£000	£000	£000	£000	£000	£000
Movements in the year:						
Balance at 1 April	61,980	16,093	147,982	56,022	16,137	148,317
New investments	1,607	308	8,953	2,116	147	968
Sales of investments to provide pension benefits	(4,162)	(1,688)	(2,412)	(5,250)	(2,050)	(15,088)
Changes in market value of investments	1,403	384	6,625	9,092	1,859	13,785
Balance at 31 March	**60,828**	**15,097**	**161,148**	**61,980**	**16,093**	**147,982**
Contributions to provide life cover	n/a	25	n/a	n/a	32	n/a
Benefits paid on death	n/a	31	335	n/a	244	n/a

Note 1: Data as at 5 April

Statement of Financial Position: Principal arrangements

16. Receivables – Contributions due in respect of pensions

Analysis by type	**2017-18**	**2016-17**
	£000	**£000**
Amounts falling due within one year:		
Pension contributions due from employers	235,190	217,827
Employees' normal contributions	59,891	58,059
Employees' added pension	1,729	1,838
Early retirement employer costs	3,663	6,036
Overpayment receivables (net of provision for non-recovery)	13,280	11,759
Sub-total	**313,753**	**295,519**
Non-supply receivables:		
Injury benefit receivables	1,020	887
	314,773	**296,406**
Amounts falling due after more than one year:		
Long-term receivables	53	53
	53	**53**

17. Cash and cash equivalents

	2017-18	**2016-17**
	£000	**£000**
Balance at 1 April	468,569	271,650
Net change in cash balances	(263,910)	196,919
Balance at 31 March	**204,659**	**468,569**
The following balances at 31 March were held at:		
Government banking services	203,986	467,728
Balance with government departments	673	841
Balance at 31 March	**204,659**	**468,569**

18. Payables – In respect of pensions

Analysis by type

	2017-18	**2016-17**
	£000	**£000**
Amounts falling due within one year		
Pensions	(239,704)	(202,328)
HMRC and voluntary contributions	(50,994)	(57,438)
Other creditors	(3,234)	(7,322)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(215,551)	(476,995)
	(509,483)	**(744,083)**

19. Pension liabilities

19.1 Assumptions underpinning the pension liability

The Civil Service Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department (GAD) carried out an assessment of the Scheme liabilities as at 31 March 2018. The Report of the Actuary on pages 16 to 19 sets out the scope, methodology and results of the work the Actuary has carried out.

The Cabinet Office, the Actuary and the Auditors have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Cabinet Office should make available to the Actuary to meet the expected requirements of the Scheme auditors. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profiles, 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 in 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 major assumptions used by the Actuary were:

	At 31 March 2018	At 31 March 2017	At 31 March 2016	At 31 March 2015	At 31 March 2014
Rate of general pay increases[1]	3.95%	4.55%	4.2%	4.2%	4.5%
Rate of pension increases	2.45%	2.55%	2.2%	2.2%	2.5%
Nominal discount rate	2.55%	2.80%	3.60%	3.55%	4.35%
Real discount rate in excess of pension increases	0.10%	0.24%	1.37%	1.3%	1.8%
Life expectancy[2] (in years) at age 60					
Current retirements					
Females	29.2	30.8	30.7	31.3	31.2
Males	27.5	29.0	28.9	29.1	29.0
Retirements in 20 years' time					
Females	31.1	33.0	32.8	33.6	33.5
Males	29.5	31.2	31.1	31.4	31.3

[1] The assumptions shown are the nominal long-term increases in salaries and the nominal long-term inflation assumption.

[2] Stated life expectancy figures are for members retiring on grounds other than ill-health. Assumed life expectancy of ill-health pensioners is lower.

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 Cabinet Office acknowledges that the valuation reported in these report and account 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 – 'Employee Benefits', 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 price inflation leads to a significant increase in the reported liability.

In accordance with IAS 19 – 'Employee Benefits', the Scheme Manager is required to undertake a sensitivity analysis for each significant actuarial assumption at 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 analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

19.2 Analysis of the pension liability

	At 31 March 2018 £bn	At 31 March 2017 £bn	At 31 March 2016 £bn	At 31 March 2015 £bn	At 31 March 2014 £bn
Current pensions and associated contingent pensions	91.4	89.9	69.4	68.6	66.9
Deferred pensions, including contingent pensions, for members no longer contributing to the Scheme	36.47	36.9	30.2	35.2	30.9
Accrued benefits available to members contributing to the Scheme	109.15	107.2	87.7	91.0	77.9
Total	**237.02**	**234.0**	**187.3**	**194.8**	**175.7**

Pension scheme liabilities accrue over an employee's period of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables in the future. The 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, age of retirement and age from which a pension becomes payable.

The value of the liability on the 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 rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The Scheme Manager accepts 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 19.7. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

19.3 Sensitivity analysis

A sensitivity analysis for each significant actuarial assumption as at the end of the accounting year is shown below:

Change in assumption			**Approximate effect on total liability**	
Financial assumptions			**%**	**£bn**
(i)	discount rate*	+0.5% a year	(11.0)	(26.6)
(ii)	earnings increases*	+0.5% a year	1.5	3.6
(iii)	pension increases*	+0.5% a year	7.0	16.9
Demographic assumptions				
(iv)	additional one year increase to life expectancy at retirement		3.0	7.5

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

19.4 Analysis of movement in the Scheme liability

	2017-18	2016-17
	£000	£000
Scheme liability at 1 April	(234,033,000)	(187,329,000)
Service cost (Note 8)	(6,680,000)	(4,435,000)
Pension financing cost (Note 12)	(6,565,000)	(6,719,000)
Settlement cost	(52,000)	-
Enhancements (Note 9)	(41,104)	(45,609)
Pension transfers in	(213,764)	(96,565)
Benefits payable (Note 19.5)	6,023,785	5,926,519
Pension payments to and on account of leavers (Note 19.6)	44,964	54,463
Actuarial (loss)/gain (Note 19.7)	4,494,119	(41,388,808)
Scheme liability at 31 March	**(237,022,000)**	**(234,033,000)**

During the year ended 31 March 2018, employers' contributions represented an average of 21.1% of pensionable pay and it is forecast that this will stay the same during the Scheme year 2018–19. A valuation as at 31 March 2016 is currently under way which will determine the Employer contribution rates payable from 1 April 2019.

19.5 Analysis of benefits payable

	2017-18	2016-17
	£000	£000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	5,268,246	5,125,039
Commutations and lump sum benefits on retirement	755,539	801,480
Per Statement of Cash Flows	**6,023,785**	**5,926,519**

19.6 Analysis of payments to and on account of leavers

	2017-18	2016-17
	£000	£000
Refunds to members leaving the service	15,316	19,178
Payments for members joining state scheme	2	10
Group transfers to other schemes	285	170
Individual transfers to other schemes	29,361	35,105
Per Statement of Cash Flows	**44,964**	**54,463**

19.7 Analysis of actuarial gain/(loss)

	2017-18	2016-17
	£000	£000
Experience gains/(losses) arising on the Scheme liabilities	(1,998,881)	6,265,192
Changes in assumptions underlying the present value of Scheme liabilities	6,493,000	(47,654,000)
PCSPS	**4,494,119**	**(41,388,808)**
Other schemes	(23,581)	(211,214)
Per Statement of Changes in Taxpayers' Equity	**4,470,538**	**(41,600,022)**

19.8 History of Experience (gains)/losses

	2017-18	2016-17	2015-16	2014-15	2013-14
Experience (gains)/losses on the Scheme liabilities					
Amount (£000)	1,998,881	(6,265,192)	(6,863,977)	(294,352)	(4,946,649)
Percentage of the present value of the Scheme liabilities	0.8%	(2.7%)	(3.7%)	(0.2%)	(2.8%)
Total amount recognised in Statement of Changes in Taxpayers' Equity Amount (£000)	(4,494,119)	41,388,808	(13,183,977)	11,635,931	10,733,655
Percentage of the present value of the Scheme liabilities	(1.9%)	17.7%	(7.0%)	6.0%	6.1%

20. Financial instruments

The Scheme has no significant exposure to foreign exchange rate risk as the risk falls on the recipient of any payments made overseas to individual members. Any increase or decrease in the amounts receivable are borne by the individual member. The exception is when payments are made overseas to individual members from the Commission of Irish Lights. In these circumstances, the Scheme bears the foreign exchange liability as part of the transfer terms, but it is not seen to be a major financial risk.

The Scheme has no significant exposure to credit, liquidity or market risk. 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 private sector scheme of a similar size. The majority of the 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.

21. Contingent liabilities disclosed under IAS 37 – 'Provisions, Contingent Liabilities and Contingent Assets'

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

An ombudsman has ruled that the Civil Service Injury Benefits Scheme (CSIBS) does not allow the offsetting of Employment Support Allowance (ESA) against CSIBS benefits. This ruling could lead to some £13 million of (ESA) deductions being refunded to beneficiaries. The Scheme makes CSIBS payments but recovers any post 1998 payments from employers. Work is ongoing to assess the quantum of deductions that would be funded by the Vote (i.e. relate to pre-1998 cases). This is therefore being considered as a contingent liability because of the uncertainty of the amount.

Statement of Financial Position – CSCS compensation agency arrangements

22. Receivables – Non-supply

	2017-18	2016-17
	£000	£000
Recoverable annual compensation payments including lump sums	9,875	7,539
Balance at 31 March	**9,875**	**7,539**

Statement of Financial Position – Other minor agency and principal pension scheme arrangements

23. Receivables – Amounts falling due within one year

	2017-18	2016-17
	£000	£000
Contributions	2,368	2,023
Other debtors	4,396	-
Balance at 31 March	**6,764**	**2,023**

24. Payables – Amounts falling due within one year

	2017-18	2016-17
	£000	£000
Pensions	-	(557)
Balance at 31 March	**-**	**(557)**

25. Pension liability

25.1 The Actuary provides an annual valuation of the other pension schemes included within these financial statements.

25.2 Analysis of movement in scheme liability

	2017-18	2016-17
	£000	£000
Opening scheme liability at 1 April	(3,900,000)	(3,479,000)
Net movement in year (including actuarial gain/loss)	(265,923)	(421,000)
Scheme liability at 31 March	**(4,165,923)**	**(3,900,000)**

26. Related party transactions

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

MyCSP Ltd is an associate company of the Cabinet Office. The Cabinet Office incurred charges of £37.8m (2017: £39.1m) relating to pensions administration, which has been funded by a charge on Civil Superannuation employer pension contributions.

27. Events after the reporting period

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

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

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