
Cabinet Office: Civil Superannuation

Accounts 2010-11

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(For the year ended 31 March 2011)

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

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Report of the Manager

Introduction

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, defined benefit, contributory, public service occupational pension scheme. The PCSPS covers four pension arrangements. New entrants joining the Civil Service from 30 July 2007 are offered membership of **nuvos**, a whole career pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of **premium**, **classic** and **classic plus**. Money purchase pensions known as **partnership** are available as an alternative for employees joining on or after 1 October 2002. **Partnership** is delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

Sir Gus O'Donnell was the Accounting Officer in the period 1 April 2010 to 31 December 2011. I replaced Sir Gus as from 1 January 2012.

Roles and responsibilities

The Cabinet Office and the Scheme Management Board (SMB)

With effect from 1 April 2010 a Scheme Management Board has been put in place to strengthen the governance and management of the Civil Service pension arrangements. Sir Gus O'Donnell, as Accounting Officer for the year in question for Cabinet Office: Civil Superannuation formally delegated responsibility for managing the arrangements to the Chair of the Scheme Management Board. The Board draws most of its members from employers who participate in the PCSPS and from PCSPS members. HM Treasury also has a representative on the Board and there are two non-executive members from the private sector pensions industry. A Scheme Management Executive (SME), staffed by officials from the Cabinet Office, supports the Board and its activities.

The SMB's responsibilities are:

- Managing the PCSPS and associated schemes in accordance with their rules and relevant legislation.
- Developing and managing a risk management framework and system of internal controls for the PCSPS.
- Selection, appointment, re appointment and removal of the organisation that delivers PCSPS administration.

On behalf of the SMB, the SME manages the day-to-day delivery of administration by My Civil Service Pension (MyCSP) through a service agreement. In addition, the SME:

- Investigates complaints made under the second stage of the internal dispute resolution procedures and responds to referrals from the Pensions Ombudsman.
- Admits employers to the PCSPS.
- Ensures that appropriate audit programmes and risk frameworks are in place.
- Oversees the production of these Resource Accounts.
- Exercises certain discretionary decisions on behalf of the Minister for the Civil Service.

In exercising its responsibilities the SMB has put in place processes to monitor the cost of scheme administration. For the year ending 31 March 2011 the total cost of administration and management of the Civil Service pension arrangements was £38.6m. This can be broken down as follows:

Central management	£4.4m
Administration	£27.0m
MyCSP Transformation Programme	£7.2m

Of this, £23.9m has been met centrally from a 'levy' on employer pension contributions with employers meeting £14.2m, of the costs directly. This is a transitional arrangement and from a future point the intention is that all administration and management costs will be met centrally through the employer pension contributions. The balance of £0.5m comprises recoveries from scheme members for the administration of pension sharing on divorce and income for the operation of pension administration IT software.

Employers

The SMB has in place participation agreements with all employers who have staff that are active PCSPS members. The participation agreement contains a memorandum of understanding between the SMB and the employer setting out roles and responsibilities. Employers are responsible for:

- maintaining pay and service records and providing these accurately to MyCSP;
- ensuring they inform new staff of their options regarding which pension arrangement they can join
- keeping their employees informed on pension issues; and
- paying the correct amount of employers' and employees' pension contributions to the Cabinet Office.

MyCSP

With effect from 1 April 2010 MyCSP became responsible for the administration of the PCSPS and associated arrangements. Between 1 April 2010 and 31 January 2011 MyCSP was hosted by the Department for Work and Pensions (DWP). From 1 February 2011 responsibility for MyCSP transferred to the Cabinet Office although its staff remain employed by DWP. This is a transitional arrangement, and work is underway to move the administration of the Civil Service pension arrangements to a Mutual Joint Venture (MJV) organisation early in 2012.

MyCSP's administration is centred around the former Authorised Pensions Administration Centres (APACs). These are now called Pension Service Centres (PSCs). The private sector operated sites continue serving their pre-April 2010 Civil Service clients, with the intention being to transfer their work to the current public sector PSCs during the transition to a MJV.

In parallel with arrangements for the move to a MJV, MyCSP is working to standardise administration across the various sites, improve efficiencies and replace key technology to enable an improved and more cost effective service in the future.

Capita Hartshead

MyCSP's PSCs send awards to Capita Hartshead to pay benefits. Capita Hartshead is responsible for:

- pensions administration for pensioners and deferred pensioners including paying pensions;
- maintaining accurate and secure records and maintaining a proper audit trail of all transactions;
- calculating and paying annual pensions increases;
- deducting and paying over tax to HMRC;
- operating a payroll bank account;
- producing financial and management reports;

- responding to pensioners' enquiries; and
- taking action on death.

The contract with Capita Hartshead for the provision of services in respect of the Civil Service pension arrangements is managed by MyCSP.

Cabinet Office

Cabinet Office's Reward team is responsible for development of policy and maintenance of scheme rules. Its Finance and Estate Management team is responsible for the scheme finances, including production of annual accounts at the SMB's request.

The financial statements contained in these accounts include pensions and pensions increases payable under a number of other schemes, the majority of which are closed small schemes. Expenditure on all these schemes is less than one per cent of the total expenditure. This report makes no further reference to them. Money invested in the stakeholder pension option is not under the control of the Cabinet Office and is not shown in these statements although employer contributions will be reflected in individual departmental resource accounts.

The statements also include transactions and balances in respect of the Security Service and Secret Intelligence Service pension schemes, which are managed under separate arrangements.

Civil Service Compensation Scheme (CSCS)

MyCSP, on behalf of the SMB acts as agent for employers in the payment of compensation benefits arising under the CSCS. MyCSP calculate the benefits which Capita pay. Employers then reimburse the Cabinet Office: Civil Superannuation vote. These flows are not brought to account in these financial statements.

Managers

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

Accounting Officer: Sir Gus O'Donnell KCB, Cabinet Office, up to 31 December 2011, Ian Watmore from 1 January 2012, 70 Whitehall, London, SW1A 2AS..

Scheme Manager: Scheme Management Board, c/o Pensions Scheme Management Executive, Cabinet Office, Priestley House, Priestley Road, Basingstoke, RG24 9NW.

Advisers

Scheme Actuary: Aon Hewitt, Parkside House, Epsom, KT18 5BS.

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

Medical Advisers: Capita Health Services, Greyfriars, 10 Queen Victoria Road, Coventry, CV1 3PJ.

Money Purchase Scheme Advisers: Aon Hewitt Financial Services Ltd, 6 More London Place, London, SE1 2DA.

Auditors: Comptroller and Auditor General, 157-197 Buckingham Palace Road, London, SW1W 9SP.

Bankers: Government Banking Services, Southern House, Wellesley Grove, Croydon, CR9 1WW.

Rule changes

The CSCS rules were amended in December 2010 to give effect to changes in compensation terms. The new arrangements provide service-based redundancy payments of up to 21 months' pay. The CSCS amendments also introduced new Discretionary Exit terms which gave departments greater flexibility than before in determining the terms to offer for voluntary early departures. A further significant change is that the terms for voluntary departure are now more generous than those for compulsory dismissal.

The PCSPS rules were amended in March 2011 to remove the timeline requirements relating to the valuation of the scheme. This reflected the need to delay the valuation while consideration is given by HM Treasury to the discount rate.

The up-to-date scheme rules can be found on the Civil Service Pensions website www.civilservice.gov.uk/my-civil-service/pensions

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

SME continues to exercise its duty of care towards members by monitoring the CSAVC providers, working with the scheme's financial advisers, Hewitt Associates Financial Services Ltd (Aon Hewitt).

In July 2010, following a review of their AVC fund range, Standard Life announced a number of fund closures and this impacted on a small number of CSAVCS members holding investments within the affected funds. SME, on advice from Aon Hewitt, wrote to members to advise them of suitable replacements for the funds which were closed.

In the annual review report prepared by Scottish Widows for the scheme year ending 30 September 2010, a small number of members were identified as being invested in funds which had not been approved by the Scheme Managers. After taking advice from Aon Hewitt, SME instructed Scottish Widows to write to affected members to advise them of their options in selecting alternative funds.

In January 2011, the Government confirmed its commitment to make fair and transparent payments to eligible Equitable Life policyholders through an independently designed payment scheme for relative losses incurred as a result of regulatory failure. Proposals on how the payment system will operate are expected in the next financial year and SME will inform CSAVCS policy holders as appropriate.

Employer membership of the PCSPS

The undertaking given last year to regularise the position of certain employers whose funding arrangements had changed since admittance to the PCSPS to the extent that they should no longer remain in the scheme. This was put into effect by the passage of the Public Bodies Act 2011.

Complaints under the Internal Dispute Resolution (IDR) Procedures

Members and beneficiaries of the Civil Service pension arrangements who have a complaint can raise this through the IDR procedure. At the first stage of the procedure the complaint is reviewed and a decision made by the administrator concerned (either MyCSP or Capita). In the event of an appeal against the first stage decision the complainant can request that a further review be undertaken by SME. Finally, members who remain dissatisfied after completing the IDR process can ask the Pensions Ombudsman to investigate their complaints. His decisions are binding on all parties, subject only to an appeal to the High Court on a point of law.

During 2010-11 MyCSP and Capita completed 206 first stage decisions, upholding in full or part 33 of the complaints that they investigated. In the same period SME completed 100 investigations at the second stage of the IDR process. In 81 cases SME found in favour of the administrators. In the remaining 19 cases, SME upheld in full or in part the complaints made by the scheme members and, where appropriate ordered remedial action.

The Pensions Ombudsman completed investigations into 11 of SME's cases during the year and upheld SME's decision, in full or part, in 9 of them.

National Fraud Initiative (NFI)

NFI is a biennial IT data matching exercise co-ordinated by the Audit Commission involving organisations within central and local government working together to identify and eliminate frauds and overpayments. Data on PCSPS pensions in payment are compared against data on recorded deaths to identify cases where pensions might remain in payment to deceased persons. PCSPS data are also matched against housing benefits so that local authorities can identify claimants who have failed to declare receipt of an occupational pension. Work commenced on the NFI 2008 report in April 2009 and was the sixth exercise in which CSP had participated. CSP identified about 400 potential overpayments of around £1.5 million in total. Around 370 cases have been contacted and £570,000 recovered. Investigation and recovery of the remaining overpayments are being actively pursued. During 2010-11 outstanding debts arising from the NFI 2006 exercise were reduced to £300,000 which are being recovered. The NFI 2010 exercise has commenced

Pensions increase

Pension payments did not increase from 6 April 2010, as the movement in the RPI All-items index from September 2009 to September 2010 was negative.

Membership statistics			
Membership of the PCSPS at 31 March:			
	2011		2010
Active members*	564,000		574,000
Deferred members	352,000		345,000
Pensions in payment			
Officers	474,000		463,000
Dependants of deceased members	130,000		129,000
Annual compensation payments (and other on-going payments) for which employers are responsible	17,100		17,700
Staff opting for partnership pension arrangements	8,275		9,700

*The approximate split of active membership at 31 March 2011 was 57% **classic**, 2% **classic plus**, 26% **premium** and 15% **nuvos**.

Further information

Please address any enquiries about Civil Service pension arrangements to:
Pensions Scheme Management Executive
Cabinet Office
Priestley House
Priestley Road
Basingstoke
RG24 9NW

Ian Watmore

Permanent Secretary
Cabinet Office
24 January 2012

Report of the Actuary

Accounts for the year ended 31 March 2011

A. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded public service scheme made under the Superannuation Act 1972. All payments of benefits and other liabilities from the scheme are met from the Civil Superannuation Request for Resources (RfR). Participating employers make contributions known as accruing superannuation liability charges (ASLCs), which are treated as Appropriations in Aid on the RfR. ASLCs are regularly assessed by the Scheme Actuary and are consistent with those that might have applied had the scheme been funded, making allowance for amortised surpluses or deficits that would have arisen in a funded scheme based on an assumed notional investment return. The most recent ASLC assessment was carried out by Aon Hewitt Limited as at 31 March 2007 and included recommendations for the contribution rates applicable from 1 April 2009.

B. This Report relates solely to the liabilities of the Principal Civil Service Pension Scheme. Liabilities relating to payments made before normal retirement age as compensation for early retirement under the terms of the Civil Service Compensation Scheme fall to employers and are excluded.

C. Liabilities

We have assessed the value of the expected benefit entitlements under the Principal Civil Service Pension Scheme built up during periods of employment (or former employment) prior to 31 March 2011. The capitalised value as at 31 March 2011 has been assessed using the methodology and assumptions set out in Sections E and F below. The results are as follows:

Value of Liabilities	£ billion
Current pensions & associated contingent pensions	54.9
Deferred pensions, including contingent pensions, for those no longer contributing	21.9
Accrued benefits available to members contributing to the scheme	59.1
Total	135.9

D. Accruing Costs

The cost of benefits accruing for each year of service is shared between members and employers. Employees in the **classic** section make contributions of 1.5% of pensionable pay. Employees in the **classic plus** and **premium** sections, which came into effect as from 1 October 2002, make contributions of 3.5% of pensionable pay. Employees in the **nuvos** section, which came into effect as from 30 July 2007, also make contributions of 3.5% of pensionable pay. Employers meet the balance of the cost.

We have assessed the employers' share of the cost of benefits accruing in the year ended 31 March 2011 (the employers' share of the 'current service cost') to be 32.2% of pensionable pay from 1 April 2010 to 22 June 2010 and 28.8% of pensionable pay from 23 June 2010 to 31 March 2011.

To determine the amounts actually charged to employers under the ASLC mechanism the employers' contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates which were assessed under the ASLC mechanism as required to meet the cost of benefits accruing in the year 2010-11 were as follows:

Employer's Share of Contribution Rate	
Pay band from April 2010	% of Pensionable Pay Rate charged
£21,000 and under	16.7%
£21,001 to £43,000	18.8%
£43,001 to £74,000	21.8%
£74,001 and above	24.3%
Estimated average rate charged to Employers for current year	18.9%
Rate payable by the Prison Service for prison officers employed before September 1987 and entitled to enhanced benefits	25.8%

The employers' contributions receivable are assessed as £2.8 billion for financial year 2010-11. The next ASLC assessment is being carried out as at 31 March 2010.

E. Methodology

The value of the liabilities referred to in Section C has been obtained by using the projected accrued benefits method. Expected future pay increases made to employed members are allowed for. The current service cost calculation referred to in Section D has been determined using the projected unit method, with a control period of 1 year.

F. Assumptions

The principal financial assumptions adopted for the liability assessments referred to in Section C are an investment return in excess of price increases (based on CPI) of 2.90% p.a. (pension benefits under the Scheme are generally increased in line with prices), and an investment return in excess of earnings increases of 0.67% p.a.. The gross rate of return is assumed to be 5.60% p.a. although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 4.90% p.a. and an allowance for CPI price inflation of 2.65% p.a.

With the exception of the allowance for future improvements in post-retirement mortality, the demographic assumptions are those adopted for the most recent ASLC assessment, and were derived from the specific experience of the membership of this Scheme. Allowance has been made for future improvements in post-retirement mortality in line with the improvements underlying the ONS (2006-based) national population projections (principal).

As an illustration, the assumed life expectancy at age 60 for a member (in normal health) who is currently age 60 is 28.1 years for a man and 30.2 years for a woman. The assumed life expectancy at age 60 for a member (in normal health) who is currently aged 40 is 30.1 years for a man and 32.0 years for a woman.

For the current service cost calculation referred to in Section D, two rates were calculated to reflect the reduced cost of accrual from moving from an RPI based inflation measure to a CPI based inflation measure, as announced by the Chancellor of the Exchequer on 22 June 2010. For the cost of benefits accruing from 1 April 2010 to 22 June 2010, the principal financial assumptions were an investment return in excess of price increases (RPI) of 1.80% p.a. and an investment return in excess of earnings increases of 0.34% p.a. For the cost of benefits accruing from 23 June 2010 to 31 March 2011, the principal financial assumptions were an investment return in excess of price increases (CPI) of 2.55% p.a. and an investment return in excess of earnings increases of 0.34% p.a.

With the exception of the allowance for future improvements in post-retirement mortality (which were allowed for as described above), the demographic assumptions were those adopted for the most recent ASLC assessment.

G. Notes

Our calculation of the liabilities as at 31 March 2011 has been based on a detailed but approximate update of a full actuarial valuation of the Scheme as at 31 March 2007. For this purpose we have used data supplied by the Scheme administrators as at 31 December 2010. Our calculations take account of the 3.1% pension increase granted in April 2011.

The pension benefits taken into account in this assessment are those normally provided under the rules of the pension scheme. These include those paid on retirement, ill-health retirement, and following the death of a member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits) or redundancy benefits which might arise in respect of current employees.

H. Sensitivities of liabilities

We have estimated the sensitivity of the Scheme liabilities as at 31 March 2011 to individual changes in the underlying assumptions (with all other assumptions remaining unchanged). The table below shows the sensitivities we have tested along with the estimated revised Scheme liabilities.

Sensitivity	Estimated scheme liability as at 31 March 2011 £ billion
1.1 Decrease in the discount rate of 0.5% per annum	149
1.2 Increase in the discount rate of 0.5% per annum	124
2.1 Decrease in the assumed rate of inflation of 0.5% per annum	124
2.2 Increase in the assumed rate of inflation of 0.5% per annum	149
3.1 Decrease in the assumed earnings increase of 0.5% per annum	133
3.2 Increase in the assumed earnings increase of 0.5% per annum	140
4.1 Members live 1 year less than anticipated	133
4.2 Members live 1 year longer than anticipated	139

Statement

We have prepared this Report for the Cabinet Office as managers of the Principal Civil Service Pension Scheme. In our opinion the assessment of the liabilities of the Scheme as at 31 March 2011 and of the accruing cost of benefits set out above comply with the requirements of Chapter 12 of the Financial Reporting Manual for the financial year 2010-11.

For Aon Hewitt Limited
Jonathan Teasdale
Fellow of the Institute and Faculty of Actuaries

17 May 2011

Statement of Accounting Officer's Responsibilities

Under the Government Resources & Accounts Act 2000, HM Treasury has directed the Principal Civil Service Pension Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the Principal Civil Service Pension Scheme and certain other minor pension schemes during the year and the disposition, at the end of the financial year, of the combined net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the combined net liabilities at the year end.

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

- Observe the accounts direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

HM Treasury has appointed Ian Watmore as Accounting Officer for the Principal Civil Service Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Pension Scheme, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

Scope of responsibility

Sir Gus O'Donnell was the Accounting Officer during the year and for the period up to 31 December 2011. I took over as Accounting Officer with effect from 1 January 2012.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Civil Superannuation's policies, aims and objectives, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

For the year ending 31 March 2011 I delegated to the Chair of the Scheme Management Board (SMB), responsibilities for the management of the Civil Superannuation resources. This delegation was contained in a Memorandum of Understanding (MOU) which formed part of a wider delegation and control framework designed to ensure that Civil Superannuation receives all monies properly due, and to safeguard the regularity and propriety of expenditure. The MOU set out those responsibilities which co-existed with, and were additional to, the Chair of the SMB's normal Civil Service duties. The SMB comprises employer and union nominated members, an HMT representative, and two (non-voting) non-executive members.

The delegation to the Chair of SMB has remained in place since 1 April 2011.

The SMB were supported by the Scheme Management Executive (SME). SME is a division of the Cabinet Office with some 19 staff which, in addition to providing secretariat to the SMB, investigates complaints made under the internal dispute resolution procedures, provides technical support and advice to the scheme administrators and manages the contract with those administrators. From 1 April 2010 to 31 January 2011, SME reported to the Head of the Corporate Service Group (CSG), and from 1 February 2011 onward to the Head of the Civil Service Capability Group (CSCG). From 1 January 2011, the SME Finance Team was transferred to Cabinet Office Finance and Estates Management (FEM).

Pensions policy and scheme development was dealt with by Civil Service Reward – also a division of the Cabinet Office.

Since 1 April 2010, MyCSP has provided pension administration under a service agreement with SMB. From 1 April 2010 to 31 January 2011, MyCSP formed part of DWP's Shared Services and so responsibility for administration was delegated to DWP for that period. From 1 February 2011, MyCSP was transferred to the Cabinet Office, reporting to the Head of the Efficiency and Reform Group (ERG). The delegation to DWP was withdrawn and responsibility rested with Cabinet Office. MyCSP are responsible for all aspects of pensions administration through a number of Pensions Service Centres (PSCs), both public and private sector. The PSCs operate to a developed control framework standard which includes the appointment of a dedicated contract manager to manage the pensioner payroll contract with Capita Hartshead. This involves reviewing performance against service levels to ensure Capita are completing their tasks relating to scheme accounting to the required standard. MyCSP were reminded of their corporate governance responsibilities during the year and accepted these responsibilities. Robert Devereux, as Permanent Secretary of DWP has provided me with assurance for the period 1 April 2010 to 31 January 2011 that MyCSP met these responsibilities. Phil Bartlett as CEO of MyCSP has sent me similar assurances for the period from 1 February to 31 March 2011. I have sought further assurances from Phil Bartlett for the period from 1 April 2011.

All PCSPS employers have signed a Participation Agreement, primarily relating to the timely and accurate provision of scheme contributions and member data. Accounting Officers are responsible for reporting annually to me on compliance with the terms of the Participation Agreement through the Accounting Officer Certificate (AOC) and checklists.

Where completion of the checklist shows that a requirement has not been met, or a control is not operating effectively, Accounting Officers must qualify their AOCs stating the compliance issues and the remedial action being taken. For the financial year 2010-11 I have received 267 AOCs of which I have received 47 qualified certificates.

This is a slight decrease from the number of qualifications in 2009/10 and is evidence of the continuing engagement of employers in understanding their responsibilities in pensions administration. Although not material in the context of the whole scheme these qualifications do indicate a number of weaknesses in the delivery of pensions administration at a number of employers. The main issues concern data and payroll interfaces. The SME is investigating all qualifications with the employers concerned. They will ensure any remedial action is taken. SME will then provide me with assurance that employers are fulfilling their responsibilities and have taken adequate action to improve matters, in particular on the timely and efficient transfer of payroll data. Overall, I am satisfied that the qualifications are not material.

From 1 April 2010, the Civil Service Pensions Governance Group, which I introduced in October 2008, handed over responsibility for monitoring the service delivery of the Civil Service pension arrangements to the SMB.

Responsibility for the administration of the Security Service and Secret Intelligence Service pension schemes included in these financial statements rests with the relevant agencies. Peter Ricketts, National Security Adviser to the Prime Minister has provided me with an annual assurance statement that he is satisfied that there are suitable controls in operation within the agencies.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the aims and objectives of Civil Superannuation, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Civil Superannuation for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Management of risk was embedded in policymaking, planning and delivery and comprehensive guidance on risk management was available on the departmental intranet. In SME the main processes for identifying, evaluating, managing risk and changes to risks were conducted at team level. SME maintain a series of risk registers and an issues log, which formed the basis of monthly leadership team meetings. Following discussions at these meetings SME's risk manager made any necessary changes to these registers and issues log. SME also reported to the Cabinet Office Audit and Risk Committee (COARC) which advises me on the effectiveness of the systems of internal control. SME submitted details of its risk management processes and key risks to COARC as required for discussion.

The risk and control framework

The SMB's purpose includes developing and managing a risk management framework and system of internal control. The SMB operates a Risk Committee, chaired by one of its non-

executive members. The Risk Committee meets quarterly and examines the risk registers and approach to risk management of both SME and MyCSP.

The respective roles and responsibilities of employers and MyCSP were documented and kept under review by SME. Responsibilities for maintenance of sound corporate governance arrangements formed part of that documentation. Periodic audit by the employers' own internal auditors was a condition of the employer Participation Agreement. Both employers and MyCSP reported on the date of their last internal audit, whether recommendations have been implemented, and their intentions regarding future audits. SME monitored the operation of MyCSP through quarterly strategic meetings and monthly contract meetings. This has enabled SME to regularly assess MyCSP's performance against the pensions Service Agreement and report back to the SMB and its Committee on areas of concern or interest.

The pensioner payroll service is operated under contract by Capita Hartshead (CH) and has been managed by MyCSP since 1 April 2010. Their contractual responsibilities include paying pensioners and processing new awards received from MyCSP. CH internal auditors carry out an internal audit plan agreed under the terms of the contract held by the Cabinet Office. In 2010-11 CH operated appropriate corporate governance. CH's directors and Head of Internal Audit provided assurance statements, six monthly and annually respectively, on the adequacy and effectiveness of their system of internal control. As noted above, MyCSP managed the contract, monitored performance and operated a joint risk register with CH. CH also produce an annual AAF 01/06 report (Assurance Report on Internal Controls), detailing their control environment and control objectives for the administration on clients' pension schemes.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by COARC. My review is also informed by the work of those who have responsibility for the development and maintenance of the internal control framework, as well as comments made by both internal and external auditors in their management letter and other reports.

Since 1 April 2010, the administration of the scheme has been monitored and scrutinised by the SMB and its Committees (supported by SME). The fact that responsibility for administration now rests with a single body (MyCSP) as opposed to the multiple administrators of previous years, has improved the level of assurance that I have received. MyCSP are working to consolidate the separate administration sites under a common control framework.

The SMB draws on a wide range of expertise, with representatives from both employers and members, as well as two non-executive members with specialist knowledge in pensions risk and operations. The SMB is Chaired by a Permanent Secretary. The two non-executive members chair the SMB's Risk and Operations Committees. These Committees provide the detailed scrutiny of the scheme administration, and report back to the full SMB on a quarterly basis.

As noted in the 2009/10 Resource Accounts we had identified an issue relating to the ongoing eligibility of a small number of employers to remain in the Civil Service pension arrangements. The resolution of this problem will come through a clarifying amendment to the Superannuation Act 1972 contained in the Public Bodies Bill.

In 2010-11 SME was subject to assurance reviews by Cabinet Office internal audit, who also attend meetings of the SMB and its committees. Cabinet Office internal audit have conducted reviews evaluating the SME's effectiveness, the relationship between the SME and Civil Service Reward and governance arrangements of the MyCSP Transformation Programme.

During the year, SME initiated a programme of employer audits. This work will continue, and its scope is likely to broaden in 2011/12. The aim of the audits is to improve assurance with regard to the accuracy of the data supplied by employers to MyCSP and the pensions contributions paid to the Cabinet Office. It is too early to draw any overall conclusions about the effectiveness of employers' controls at this stage. However, it is clear from existing information that there are weaknesses in the effectiveness of record keeping in certain areas of the scheme. Tackling these concerns will be a key issue for the SME going forward.

Since 1 April 2011, Cabinet Office internal audit have carried out further reviews concerning how the PCSPS gains assurance that it receives all contributions that are due and the scheme's resilience and continuity of operations.

MyCSP's internal audit provider has been DWP's Risk Assurance Division, up to 1 Feb 2011 when responsibility for MyCSP transferred to Cabinet Office – at this point Cabinet Office internal audit took over responsibility for providing MyCSP with internal audit coverage. Whilst MyCSP was part of DWP, little internal audit work was undertaken to independently evaluate the entity's governance, risk and control environment. On MyCSP's transfer to Cabinet Office, the SMB specifically requested that DWP's Risk Assurance Division undertake a programme of visits to assess the adequacy of the internal control environment within Pension Service Centres. Although the audit fieldwork was performed by DWP Risk Assurance Division, the work was overseen and reported on by Cabinet Office internal audit, as at this time Cabinet Office was responsible for MyCSP.

Internal audit work undertaken during 2010-11 did not identify any material weaknesses in either the SME or MyCSP internal control framework in the areas audited, although individual audit reports have made recommendations to address areas for improvement.

The audit carried out by the National Audit Office (NAO) has identified a need to improve record keeping and the accessibility of data. It was apparent that there were difficulties in accessing data to support and reconcile the benefit calculations from either MyCSP as administrator or employers or both. Work is already underway to analyse the issues that NAO's audit has raised. This analysis will identify any weaknesses in record keeping and the processes in place to retrieve information. SME will put in a place a plan both to improve future record keeping and data accessibility as needed across the various parties involved and to remedy any existing problems. In addition, My CSP is currently carrying out a comprehensive review of the data, work which will continue under the terms of the commercial contract with MyCSP Ltd.

Data Security

Employers are responsible for pensions data held by themselves or by their payroll provider. However, SME provided guidance to both employers and MyCSP on the security of pensions data in transit and the secure storage of data by MyCSP. SME monitored compliance to that guidance. Employers are required to certify that they have a secure payroll interface with PenServer, or an alternative agreed with MyCSP, who monitor the status of payroll interfaces.

In order to facilitate the transfer of data between MyCSP and Capita, for example when an individual's benefits were paid, MyCSP provided Common Application Repository (CAR). CAR acts as a secure hub for data transfer using the Government Secure Intranet. At the time of its introduction the architecture and approach were approved by the Office of Government Commerce buying solutions, the Central Sponsor for Information Assurance, and the National Infrastructure Coordination Centre.

Capita's secure data handling was monitored by MyCSP under contract. Capita exchange data with HMRC, DWP, and their banking partners. Such exchanges were monitored by MyCSP under the contract with Capita.

Cabinet Office has a Senior Information Risk Owner (SIRO), whose role is to 'own' the Department's information risk policy and assessment and by so doing to ensure that it is embedded into the culture and work of the department. The SIRO is supported by a network of Information Asset Owners (IAOs). These staff oversee data handling in the management units for which they have responsibility. SME appointed an IAO.

Planned improvements

Whilst recognising the improvement in operational and risk management that the above governance framework has delivered the National Audit Office (NAO) has identified a need for further improvements, in particular in the ownership of financial matters and the accounts. I have commissioned a review of the governance arrangements to address the points raised by the NAO.

During 2011-12, MyCSP will become a mutual joint venture (MJV) with a private sector partner. The advantages of the move to a MJV are that it offers significant participation from Employees, Government and Private Sector partner alike and the combined skills to make MyCSP grow further. The mutual approach will aim to deliver greater flexibility in the face of significant change, including better access to capacity, capability, and business and IT systems and services; a means of addressing affordability issues; and opportunities to be more cost-effective than a conventional government body. It will also retain the government's key interest in the future success of the business.

The Cabinet Office has undertaken a process to identify potential private sector partners for MyCSP. This produced a shortlist of potential partners, from which a preferred bidder has been selected following evaluation of the bids. The planned vesting date for the MJV to become operative is 27 February 2012. At the point, certain contracts held by the Cabinet Office, such as the one with Capita Hartshead, will novate to MyCSP.

I have requested SME to ensure that MyCSP and employers place sufficient emphasis on having in place adequate and effective controls over record keeping. And the contract that is being put in place with MyCSP Ltd, once the MJV has vested, includes provisions for the review and improvement of data quality, in particular with reference to compliance with The Pensions Regulator's guidance on record keeping.

MyCSP will continue be faced with high volumes of early departures under the CSCS. This demand on their resources together with the radical change to the governance of the scheme brought about by the move to the MJV are issues that will receive close scrutiny from the SMB in the months ahead.

Ian Watmore
Accounting Officer
24 January 2012

Cabinet Office: Civil Superannuation 2010-11**THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Cabinet Office: Civil Superannuation for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Cabinet Office: Civil Superannuation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Cabinet Office and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Manager, the Report of the Actuary and the Statement on Internal Control to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis for qualified opinion on regularity and the financial statements

Under legislation and the governing rules of the PCSPS benefits are calculated with reference to an individual's qualifying service and their pensionable pay. The Cabinet Office was unable to provide me with evidence to support some service and salary records and therefore to validate the accuracy some benefits awarded. As a result I have concluded that there is an unsupported element of payments which is sufficiently material for me to limit the scope of my regularity opinion on benefit payments made in the year ended 31 March 2011.

The benefits awarded and membership records held by the scheme are used to calculate the liability for future benefits. Because of the limitation of scope on the accuracy of benefits awarded in the year to 31 March 2011 and a further limitation in the evidence provided to me to support some benefits accrued at the start of the financial year, I have limited the scope of my opinion on the pension liability.

Qualified opinion on regularity

In my opinion, except for the unsupported benefit payments noted above, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Qualified opinion on financial statements

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph:

- the financial statements give a true and fair view of the state of the scheme's affairs as at 31 March 2011, and of its net cash requirement, net resource outturn, and net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

In my opinion, the information given in the Report of the Manager and Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

In respect solely of the level of unsupported benefit payments described above:

- adequate accounting records have not been kept; and
- I have not received all of the information and explanations I require for my audit.

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

- the financial statements are not in agreement with the accounting records or returns; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

*Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
26 January 2012*

Cabinet Office: Civil Superannuation

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

Introduction

1. The Cabinet Office: Civil Superannuation Accounts 2010-11 report the financial results of the Principal Civil Service Pension Scheme (PCSPS) and a number of other small public sector pension schemes. I am appointed auditor of these Accounts under the Government Resources and Accounts Act 2000.
2. I have qualified my opinions in two respects.
 - A qualification of my opinion relating to the regularity of benefit payments. My audit sought assurance that benefit payments made by the PCSPS were in accordance with the Scheme rules. The Cabinet Office has not retained, or provided me with, sufficient records to give this assurance ahead of the statutory deadline for laying the accounts before Parliament. I am therefore limited in my ability to confirm that all pensioners, or other beneficiaries, have received their correct entitlements. Furthermore, I have found a small number of cases where incorrect payments were made.
 - A limitation in the scope of my opinion relating to the truth and fairness of the valuation of the pension liability. I sought assurance that the pension liability of £136 billion was a reasonable estimate based on the Scheme's membership records. The evidence presented to me was insufficient to support, in all material respects, this liability.

Background

3. The PCSPS is an occupational scheme which at 31 March 2011 had 564,000 active members, 352,000 deferred members and 604,000 individuals in receipt of benefits. In the year ended 31 March 2011 the Scheme received £3.4 billion of contributions and other income, and paid out £4.6 billion, with the balance being funded by Parliament.

Qualification relating to regularity of benefit payments

4. Pension awards under the PCSPS are linked to a member's length of qualifying service and salary. I tested whether the service history data used by the Cabinet Office to calculate benefits were accurate, and thus whether individuals had received their correct award.
5. I selected a sample of benefit payments and asked the Cabinet Office to provide employment or other primary records to support the awards. I was not able to confirm a quarter, by value, of the payments I tested. Of that quarter, the main elements related to:
 - cases where the Cabinet Office did not provide any evidence to support the award. A significant proportion of these were for members who had left the Scheme and deferred their award; and

- cases where primary records did not agree to, or were insufficient to support, the pension calculation. As the Cabinet Office did not explain these differences I could not establish whether they were due to:
 - inaccurate pensions data which had led to incorrect awards,
 - a failure to maintain records; or
 - a failure to locate, or provide records that had been retained.
6. In addition, there were a small number of cases where individuals had not received the correct award because there were inaccuracies in the data.
7. As the Cabinet Office has been unable to provide me with sufficient supporting information to fully validate the pension awards made in year, I have qualified my regularity opinion in this respect.

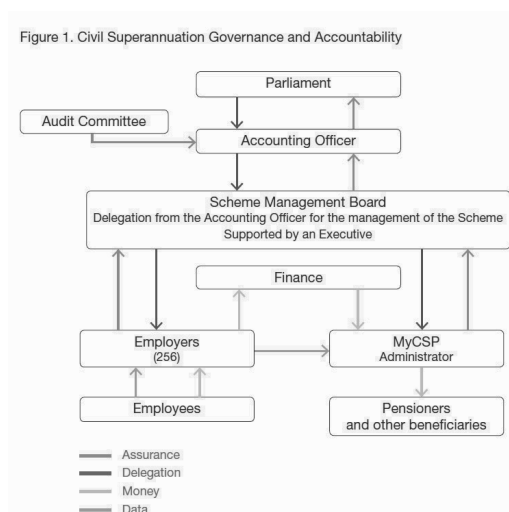
Limitation on scope relating to the pension liability

8. The Accounts show a liability of £136 billion which represents the amount that the Scheme estimates it will need to pay to current members in the future.
9. The Cabinet Office engaged an Actuary to provide a valuation of the liability as at 31 March 2011. I was able to satisfy myself that the assumptions made by the Cabinet Office and the Actuary, and the methodology for calculation, were reasonable. However, the Cabinet Office did not provide sufficient records to give me assurance over the quality of the membership data used to calculate the pension liability. As such the evidence presented to me was insufficient to support, in all material respects, this liability and I have limited my opinion on the financial statements in this respect.

Factors related to the qualifications

Governance and Accountability

10. From 1 April 2010 the Cabinet Office revised the governance framework and administration arrangements of the Civil Superannuation Estimate. The new structure is shown below (Fig 1).



11. The Cabinet Office Accounting Officer delegated responsibility for the management of the schemes to a Scheme Management Board. This delegation is wide and, although accountability cannot be delegated, the responsibilities broadly cover the Accounting Officer duties.
12. The Scheme Management Board has strengthened operational and risk management. In particular, the centralisation of the administration function under a Service Level Agreement with the Board is an improved structure. However, the Board's operational role does not give it the capacity to take full ownership of financial matters and the accounts. Capacity has been a particular issue over the last year due to the heavy demands of, and focus on, the planned mutualisation of MyCSP, as detailed below.
13. In addition, the Scheme Management Board, and therefore the Civil Superannuation Vote, sits outside the structures of the main Cabinet Office, including its Departmental Board. This has some implications for the Scheme Management Board's ability to exercise stewardship of resources:
 - the Scheme Management Board does not have a formal relationship with the Cabinet Office Finance Directorate which operates Civil Superannuation's financial systems. There is no Finance Director, or senior finance officer, directly responsible for Civil Superannuation.
 - the Scheme Management Board does not have an audit committee. The Cabinet Office Audit and Risk Committee covers the Civil Superannuation Estimate and is attended by the Head of the Scheme Executive. However, the Committee does not provide assurance to the Scheme Management Board and reports directly to the Accounting Officer.
14. For the year ended 31 March 2011, the Scheme Management Board was not asked to provide confirmation that the new arrangements were operating effectively in all respects.

Relationship with employers

15. Assurance over the quality of the Scheme's data has been limited to self-certification by employer Accounting Officers that they have provided accurate data and contributions. No independent validation has been undertaken.
16. The Scheme Management Board has commissioned the Cabinet Office internal audit function to undertake audits of employer systems and the reliability of data. Early pilots have now been completed. Going forward this will provide better evidence on data quality.

Change in delivery model

17. On the 1 April 2010, MyCSP was established as a single administrator for the Scheme. This moved the delivery of pension administration from an employer managed service, through which employers could engage one of seven authorised providers, to a centrally managed function governed by a Service Level Agreement with the Scheme Management Board.
18. The change in structure has loosened the links between the administrator and employers. Prior to April 2010, administration centres would liaise directly with employers to provide evidence for audit or other purposes. From 2010-11 MyCSP drew a firm line between

themselves and employers, making it harder to locate information and exposing the lack of a robust system of records management.

19. Employers maintain employment records for their staff. However, MyCSP, on behalf of the Cabinet Office, should hold current and historic records. It was apparent that MyCSP did not know what records it held and it, or its precursors, may have lost or destroyed some that should have been retained.

The future of MyCSP and Civil Service Pensions

20. The PCSPS is to undergo a period of significant change over the coming years, which may increase the risks identified by my audit.

- Plans are already well advanced to transfer the MyCSP administration function to a mutual joint venture. MyCSP will be contracted to provide services to the Cabinet Office, and this will require a greater clarity over responsibilities for records and data.
- The new arrangements include provision for the development of new IT infrastructure. This requires a complex data transfer operation which necessitates a data cleansing exercise.
- Scheme rules will be modified with all awards to be based on a career average salary. This increases the importance of the systematic retention and maintenance of staff records, which could be needed to be held over several decades.

21. The Cabinet Office and Scheme Management Board have agreed the need to take action to address the issues I have raised.

*Amyas C E Morse
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National Audit Office
157-197 Buckingham Palace Road
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London
SW1W 9SP*

26 January 2012

Statement of Parliamentary Supply for the year ended 31 March 2011

Summary of Resource Outturn 2010-11

	Estimate				Outturn			2010-11 £000	2009-10 £000
	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total Outturn Compared with Estimate: saving/ (excess)	Outturn
Request for resources									
Civil superannuation	5	12,784,000	3,351,000	9,443,000	(4,186,113)	3,351,000	(7,537,113)	16,970,113	7,437,877
Total Resources		12,784,000	3,351,000	9,443,000	(4,186,113)	3,351,000	(7,537,113)	16,970,113	7,437,877

Net cash requirement 2010-11

	Note	Estimate	Outturn	2010-11 £000	2009-10 £000
Net cash requirement	6	1,886,000	1,371,745	514,255	1,134,771

Summary of the Income Payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Pension Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	£000 Forecast		£000 Outturn	
		Income	Receipts	Income	Receipts
Total	7	-	-	36,041	12
		-	-	36,041	12

Explanation of the variation between Estimate and Outturn:

The Outturn is less than the Estimate due, in the main, to the adoption of the Consumer Price Index for the indexation of Public Service Pensions which has reduced the Schemes' liabilities through a negative past service cost of £15.540Bn for the PCSPS and £0.271Bn for the other schemes. This in turn reduced both the interest charge and current service cost. In addition, the valuation of the Principal Civil Service Pension Scheme, the Security Service and Secret Intelligence Service pension schemes liability was lower than expected due to a delay in the Boyce Review enactment date.

The notes on pages 29 to 45 form part of these accounts.

**Combined Statement of Comprehensive Net Expenditure
for the year ended 31 March 2011**

		2010-11	2009-10
	Note	£000	£000
Principal arrangements			
PCSPS			
Income			
Contributions receivable	9	(3,155,482)	(3,188,185)
Transfers in	10	(73,699)	(110,440)
Other pension income	11	(75,977)	(83,439)
Expenditure			
Past Service Cost		(15,540,000)	-
Pension cost	12	4,690,000	3,510,001
Enhancements	13	115,848	125,388
Transfers in	14	73,699	110,096
Injury Benefits	15	8,183	8,559
Interest on scheme liabilities	16	6,540,000	6,970,000
Net Expenditure		(7,417,428)	7,341,980
Compensation agency arrangements			
Expenditure			
CSCS			
Benefits payable	17.1	102	53
Net Expenditure		102	53
Other minor agency and principal pension scheme arrangements			
Other pension schemes			
Income			
Contributions receivable		(81,883)	(74,192)
Expenditure			
Total charge to provisions		(74,957)	168,837
Benefits payable	18	1,012	1,178
Net Expenditure for the year		(155,828)	95,823
Combined Net Expenditure for the year		(7,573,154)	7,437,856
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year			
Actuarial (gain) / loss		(8,493,976)	31,712,528
Total Comprehensive Net Expenditure for the year ended 31 March 2011		(16,067,130)	39,150,384

The notes on pages 29 to 45 form part of these financial statements.

**Combined Statement of Financial Position
as at 31 March 2011**

	Note	<u>2010-11</u> £000	<u>2009-10</u> £000
Principal arrangements			
PCSPS			
Current assets:			
Receivables (within 12 months)	21.1	252,267	271,018
Cash and cash equivalents	22	279,889	149,177
Payables (within 12 months)	23.1	<u>(551,678)</u>	<u>(320,794)</u>
Net current assets/liabilities, excluding pension liability		(19,522)	99,401
Receivables (after 12 months)	21.1	138,066	156,049
Pension liability	24.3	<u>(135,873,000)</u>	<u>(152,961,000)</u>
Net liabilities, including pension liabilities		(135,754,457)	(152,705,550)
Compensation agency arrangements			
CSCS			
Receivables (within 12 months)	25.1	33,835	1,619
Payables (within 12 months)		<u>-</u>	<u>-</u>
Net current assets		33,835	1,619
Payables (after 12 months)		<u>-</u>	<u>-</u>
Net assets		33,835	1,619
Other pension schemes			
Receivables (within 12 months)	27.1	7,643	2,683
Payables (within 12 months)	28.1	<u>(2,468)</u>	<u>(33)</u>
Net current liabilities, excluding pension liability		5,175	2,650
Pension liability	29.2	<u>(1,832,000)</u>	<u>(2,249,000)</u>
Net liabilities, including pension liabilities		(1,826,825)	(2,246,350)
Combined Scheme – Total net Liabilities		(137,547,446)	(154,950,281)
Taxpayers' equity:			
General Fund		<u>(137,547,446)</u>	<u>(154,950,281)</u>
		(137,547,446)	(154,950,281)

Ian Watmore
Accounting Officer

24 January 2012

The notes on pages 29 to 45 form part of these financial statements.

Combined Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2011

	Note	<u>2010-11</u>	<u>2009-10</u>
		<u>£000</u>	<u>£000</u>
Balance at 31 March		(154,950,281)	(116,934,647)
Changes in accounting policy		-	-
Restated balance at 1 April		(154,950,281)	(116,934,647)
Net Parliamentary Funding – drawn down		1,535,189	1,183,500
Net Parliamentary Funding – deemed		150,810	102,082
Consolidated Fund Standing Services		-	-
Supply payable / (receivable) adjustment		(314,254)	(150,811)
Excess Vote – Prior Year		-	-
Excess Appropriations-in-Aid	8	(36,029)	-
Extra receipts payable to the Consolidated Fund	11	(12)	(21)
Combined Net Expenditure for the Year		7,573,155	(7,437,856)
Actuarial (gain) / loss		8,493,976	(31,712,528)
Net change in Taxpayers' Equity		17,402,835	(38,015,634)
Balance at 31 March		(137,547,446)	(154,950,281)

The notes on pages 29 to 45 form part of these financial statements.

**Combined Statement of Cash Flows
for the year ended 31 March 2011**

	2010-11	2009-10
	£000	£000
Cash flows from operating activities		
Combined net expenditure for the year	7,573,154	(7,437,856)
Adjustments for non-cash transactions		
(Increase)/Decrease in PCSPS receivables (within 12 months)	18,751	45,676
(Increase)/Decrease in PCSPS receivables (after 12 months)	17,983	12,993
<i>Less movement in receivables relating to items not disclosed in the Combined Statement of Comprehensive Net Expenditure</i>	516	5
<i>Less movement in non-Supply receivables – ACPs inc Lump Sums</i>	(32,216)	(14)
<i>Less movement in non-Supply receivables</i>	32,216	14
<i>Less movement in receivables relating to items not passing through the revenue account</i>	(199,472)	-
(Increase)/Decrease in Other Schemes receivables	(4,960)	6,858
Increase/(Decrease) in PCSPS payables	230,884	8,392
Increase/(Decrease) in CSCS payables (within 12 months)	-	(23)
Increase/(Decrease) in CSCS payables (after 12 months)	-	-
Increase/(Decrease) in Other Schemes payables	2,435	(4,267)
Increase in PCSPS pension provisions	(4,310,000)	10,480,001
Increase in PCSPS pension provisions - enhancements and transfers in	189,547	235,484
Increase in Other Schemes pension provisions	(74,958)	168,837
Use of PCSPS provisions - pensions liability	(4,581,474)	(4,385,946)
Use of PCSPS provisions - refunds and transfers out	(126,810)	(169,380)
Use of PCSPS provisions – death in service	(42,196)	(42,727)
Use of Other Schemes provisions	(65,133)	(52,797)
Net cash outflow from Operating Activities	(1,371,733)	(1,134,750)
Cash flows from financing activities		
From the Consolidated Fund (Supply) - current year	1,685,999	1,285,582
From the Consolidated Fund (Supply) - prior year	(150,810)	(102,082)
Net Parliamentary financing	1,535,189	1,183,500
Adjustments for payments and receipts not related to Supply		
Compensation agency payments made on behalf of employers (including lump sums payments)	(545,487)	(421,347)
Reimbursement of compensation payments by employers (including lump sum payments)	513,271	421,332
Injury benefit payments made on behalf of employers	(6,210)	(6,648)
Reimbursement of injury benefit payments by employers	5,694	6,643
Net Financing	1,502,457	1,183,480

Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	130,724	48,730
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities	-	-
Payments of amounts due to the Consolidated Fund	(12)	(21)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	130,712	48,709
Cash and cash equivalents at the beginning of the period	149,177	100,468
Cash and cash equivalents at the end of the period	279,889	149,177

The notes on pages 29 to 45 form part of these financial statements.

Notes to the Accounts

1. Basis of preparation of the scheme statement

1.1 The combined scheme statements have been prepared in accordance with the relevant provisions of the 2010-11 *International Government Financial Reporting Manual (FReM)* issued by HM Treasury which reflect the requirements of IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefits Plans*. These accounts show the unfunded pension liabilities and movements in those liabilities during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes (Revised May 2007)* to the extent that these are appropriate.

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

PCSPS principal arrangements

1.2 The Principal Civil Service Pension Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Scheme Management Executive on behalf of members of the Civil Service who satisfy the membership criteria.

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

The financial statements of the Scheme show the financial position of the PCSPS 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, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme financial statements should be read in conjunction with that Report.

CSCS agency arrangements

1.3 SME acts as agent for employers in the payment of compensation benefits arising under the CSCS. Benefits paid out in the month are generally recovered from employers at month-end. These financial flows are not brought to account in the financial statements. However, the statements recognise the liabilities arising from any amounts that have been pre-funded by employers (see note 26). The liabilities in relation to prefunding of compensation liabilities by employers are now fully met. The accumulated value of the future funding which was reimbursed from the Consolidated Fund when payments were made to beneficiaries was not reflected as an asset of the CSCS in these accounts as the sums payable were subject to annual approval by Parliament through the supply procedure.

Other minor agency and principal pension scheme arrangements

1.4 In addition, the financial statement includes transactions relating to other minor pension schemes, a number of which are closed schemes. SME acts as principal in respect of pension paid to the Governor of an overseas colony, awarded prior to the introduction of a new scheme on 30 September 1978. SME acts as principal in respect of the Security

Service and Secret Intelligence Service pension schemes on the basis of audited information supplied by the agencies. SME 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 United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service;
- Payments to 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;
- Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seaman's National Insurance Society);
 - Federated Superannuation Scheme for Universities.

1.5 The accounting policies adopted are described below. They have been consistently applied in dealing with items that are considered material in relation to the scheme statement.

2. Accounting policies for PCSPS principal arrangements

2.1 The accounting policies contained in the FReM follow international generally accepted accounting practice for companies (International GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

2.1.3 These accounts 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 no employers' special pension and compensation contributions.

2.2.2 Employees' pension contributions which exclude amounts received in respect of the purchase of added pension (dealt with in 2.2.3 below) and Additional Voluntary Contributions (dealt with in 2.15 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 PCSPS pension liabilities is recognised as expenditure.

2.3 *Transfers in*

2.3.1 Transfers in are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on a cash basis, although group transfers in may be accounted for on an accruals basis where the PCSPS has formally accepted liability.

2.4 *Income received from departments in respect of enhancements*

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 PCSPS pension liabilities) on an accruals basis.

2.5 *Other pension income*

2.5.1 The remaining element of "other income" including repayment of gratuities and overpayments recovered other than by deduction from future benefits, are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on an accruals basis.

2.6 *Current service cost*

2.6.1 The current service cost is the increase in the present value of the PCSPS pension liabilities arising from members' service in the current period and is recognised in the revenue account. It is determined by the scheme actuary taking into account employer and employee contributions receivable in 2009-10 and based on a discount rate of 1.8% real (4.6% including inflation).

2.7 *Past service cost*

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 *Interest on scheme liabilities*

2.8.1 The interest cost is the increase during the period in the present value of the PCSPS pension liabilities because benefits are one year closer to settlement and is recognised in the revenue account. The interest cost is based on a nominal rate of 5.6% (discount 2.9% real and assumed inflation rate of 2.65%).

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 PCSPS and are shown in the revenue account. 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 method and are discounted at 2.9% real (5.6% after inflation). Full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the 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 PCSPS 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 PCSPS 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 PCSPS 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.

2.15 Additional Voluntary Contributions

2.15.1 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.

2.16 Central management administrative expenses

2.16.1 Employers are responsible for the day to day administration of the PCSPS/CSCS and meet the associated costs from their running cost provision. An element of the accruing superannuation liability charge, paid by employers, is appropriated in aid by the Cabinet Office to offset central management costs. These include the costs associated with the management and development of Civil Service pension arrangements, the procurement of pension payroll and other services, maintenance and development of pension software used by scheme administrators and the publication of explanatory scheme material. In 2010-11 these costs amounted to £23.9 million (2009-10: £15.1 million).

3. Accounting policies for CSCS agency arrangements

3.1 Benefits payable

3.1.1 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 SME, throughout the month, but then recovered from employers at month-end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2010-11 are shown at note 17.

3.2 Pre-funding of early retirements

3.2.1 Under arrangements that were discontinued with effect from 1 April 2000, some employers were able to make cash payments to SME to pre-fund compensation payments that will be paid to their former employees in the forthcoming years. Employers have allocated these amounts, subsequently surrendered to the Consolidated Fund, for use in each financial year, up to and including 2009-10. As this is the final year of these offset arrangements there are no balances to carry forward. For prior years cash received, but not yet utilised, was recognised as a liability in the combined Statement of Financial Position.

Transactions that cleared these liabilities were recorded as Statement of Financial Position items only.

3.2.2 The cash pre-funded by employers reduces their liabilities for compensation benefits by a greater amount and the discount, the difference between the cash pre-funded and the offset allowed in the year, is charged to the combined revenue account, see note 17.

Accounting policies for other minor agency and principal pension scheme arrangements

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

Reconciliation of Estimates, accounts and budgets**5. Reconciliation of net resource outturn to combined net expenditure**

	2010-11			2009-10
	£000			£000
	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	(7,537,113)	9,433,000	16,970,113	7,437,877
Non-supply income (CFERs)	(12)	-	12	(21)
Operation income and receipts – Excess A in A	(36,029)	-	36,029	-
Combined Net Expenditure	(7,573,154)	9,433,000	17,006,154	7,437,856

6. Reconciliation of resources to net cash requirement

	Note	Net total outturn compared with estimate: Saving/(excess)		
		Estimate	Outturn	£000
		£000	£000	£000
Net Resource Outturn	5	9,433,000	(7,537,113)	16,970,113
Accruals adjustments:				
Non-cash items		(12,775,000)	4,195,410	(16,970,410)
Changes in working capital other than cash		(45,000)	(84,181)	39,181
Changes in payables/receivables falling due after more than one year		-	(17,984)	17,984
Use of provision to pay pensions		5,273,000	4,815,613	457,387
Net Cash Requirement		1,886,000	1,371,745	514,255

7. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the schemes and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	Forecast 2010-11		Outturn 2010-11	
		£000	£000	£000	£000
		Income	Receipts	Income	Receipts
Operating income and receipts – Excess A in A	8	-	-	36,029	-
Other operating income and receipts not classified as A in A		-	-	-	-
Other non-operating income and receipts not classified as A in A		-	-	12	12
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
Excess cash surrenderable to the Consolidated Fund		-	-	-	-
Total income payable to the Consolidated Fund		-	-	36,041	12

8. Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Operating income	3,387,029	3,456,256
Gross income	3,387,029	3,456,256
Income authorised to be Appropriated in Aid	(3,351,000)	(3,458,700)
Operating income payable to the Consolidated Fund *	36,029	-

* income that has been received by the schemes which is in excess of the amount that had originally been expected during the year and reported to Parliament during the Estimate process.

Statement of Comprehensive Net Expenditure PCSPS principal arrangements

9. Pension contributions receivable

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Employers'	(2,770,888)	(2,803,070)
Employees':		
Normal	(344,737)	(343,145)
Purchase of added years	(39,857)	(41,970)
	(3,155,482)	(3,188,185)

10. Pension transfers-in

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Group transfers from other schemes	(4,532)	(7,430)
Individual transfers in from other schemes	(69,167)	(103,010)
	(73,699)	(110,440)

11. Other pension income

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Refund of gratuities received *	(1)	(2)
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	(26,068)	(20,079)
capitalised cost of enhancement to pensions, payable on departure	(33,525)	(46,142)
capitalised cost of enhancement to pensions, payable at age 60	(16,371)	(17,195)
Non-retainable income	(12)	(21)
	(75,977)	(83,439)

* repayments of contributions paid to members who leave the scheme within 2 years of joining.

12. Pension Cost

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Current service cost	4,690,000	3,510,001
Past service cost	(15,540,000)	-
	<u>(10,850,000)</u>	<u>3,510,001</u>

13. Enhancements (see also Note 24.3)

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Employees:		
Purchase of added years	39,857	41,970
Refund of gratuities received	1	2
Employers:		
Bringing forward the payment of accrued lump sums	26,094	20,079
Enhancements to pensions on departure	33,525	46,142
Enhancements to pensions on retirement	16,371	17,195
	<u>115,848</u>	<u>125,388</u>

14. Transfers in (see also Note 10)

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Group transfers in from other schemes	4,532	7,086
Individual transfers in from other schemes	69,167	103,010
	<u>73,699</u>	<u>110,096</u>

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

15. Injury Benefits

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Special Payments	-	77
Injury benefits payable	14,395	15,130
Less: recoverable from employers	(6,211)	(6,648)
	<u>8,183</u>	<u>8,559</u>

16. Interest on scheme liabilities

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Interest charge for the year	6,540,000	6,970,000
	<u>6,540,000</u>	<u>6,970,000</u>

Statement of Comprehensive Net Expenditure – CSCS compensation agency arrangements

17. Compensation benefits payable

17.1 The following amounts represent annual compensation payments payable to former employees, but which are not recoverable from employers. They are brought to account in the combined revenue account.

	2010-11	2009-10
	£000	£000
Discounts allowed on pre-funded annual compensation payments note (17.2)	-	1
End-year revaluation of central funding provision	-	-
Central funding – difference between provision for current year and outturn expenditure (note 17.2)	102	52
	<u>102</u>	<u>53</u>

17.2 The following represent the total annual compensation payments and compensation lump sums payable:

Recoverable from employers	238,678	233,380
Pre-funded by employers (note 26.1)	-	23
Discounts allowed on pre-funding (note 17.1)	-	1
Discounts allowed on pre-payments (note 17.1)	-	-
Amounts met from central funding (note 17.1)	102	52
Total annual compensation payable	<u>238,780</u>	<u>233,456</u>
Lump sum payable recoverable from employers	306,809	187,966
Total lump sums payable	<u>306,809</u>	<u>187,966</u>

Revenue account – Other minor agency and principal pension scheme arrangements

18. Benefits payable – not charged to provisions

	2010-11	2009-10
	£000	£000
Pensions increase for ex-PMs/Speakers	73	73
Pensions increase for Public Service Appointments	105	160
Pensions increase ex for MEPs/widow(er)s	331	349
Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	58	60
Payments to Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	180	242
Pensions increases in respect of pensions paid to former staff of the Raw Cotton Commission	1	2
Pensions increases in respect of pensions paid to former staff of the Sugar Board	24	24
Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seaman's National Insurance Society)	-	1
Pensions to Governors of overseas colonies awarded prior to the introduction of a new scheme in 1978	1	1
Federated Superannuation Scheme for Universities	239	266
	<u>1,012</u>	<u>1,178</u>

19. Additional Voluntary Contributions

19.1 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.

19.2 The aggregate amounts of AVC investments are as follows:

	2010-11			2009-10		
	Standard Life	Equitable Life ¹	Scottish Widows	SL	EL ¹	SW
	£000	£000	£000	£000	£000	£000
Movements in the year:						
Balance at 1 April	51,821	17,791	139,580	39,755	17,150	119,034
New investments	2,791	177	7,351	2,809	505	8,765
Sales of investments to provide pension benefits	(4,037)	(1,019)	(12,789)	12,209	(2,075)	(12,429)
Changes in market value of investments	3,735	935	5,371	(2,952)	2,211	24,210
Balance at 31 March	54,310	17,884	139,513	51,821	17,791	139,580
Contributions to provide life cover	n/a	95	n/a	n/a	105	n/a
Benefits paid on death	n/a	128	n/a	n/a	56	n/a

1 – data as at 5 April

20. Contingent liabilities disclosed under IAS 37

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.

Statement of Financial Position – PCSPS principal arrangements**21. Receivables – contributions due in respect of pensions *****21.1 Analysis by type**

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Pension contributions due from Employers	213,304	214,349
Employees' normal contributions	25,431	25,703
Employees' added pension	2,508	2,983
Early retirement Employer costs	4,857	252
Individual transfers	-	-
Group transfers	511	24,000
Sub Total	246,611	267,287
Overpayment receivables (Net of provision for non recovery)	5,126	3,717
Injury benefit receivables	530	14
Balance at 31 March	252,267	271,018
Amounts falling due after more than one year:		
Group transfers	138,013	155,994
Long term receivables	53	55
	138,066	156,049

* Included in the Receivables listed is £36 m classed as excess A in A

21.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2010-11	2009-10	2010-11	2009-10
	£000	£000	£000	£000
Balances with other central government bodies	221,964	239,588	138,013	155,994
Balances with Local authorities	10,985	11,030	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	13,415	13,610	-	-
Bodies external to government	5,903	6,790	53	55
At 31 March	252,267	271,018	138,066	156,049

22. Cash and cash equivalents

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	149,177	100,468
Net change in cash balances	130,712	48,709
Balance at 31 March	279,889	149,177
The following balances at 31 March were held at:		
Government Banking Services	279,683	148,971
Balance with Government departments	206	206
Balance at 31 March	279,889	149,177

23. Payables – in respect of pensions

23.1 Analysis by type

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Pensions	(162,546)	(132,207)
Injury benefits	(7)	-
Inland Revenue and voluntary contributions	(38,698)	(37,777)
Overpaid contributions: employers	(134)	-
Overpaid contributions: employees	-	-
Overpaid contributions: employees added years	(11)	-
Other creditors		
Amounts issued from the Consolidated Fund for supply but not spent at year end	(314,254)	(150,810)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	-	-
Receivable	(36,029)	-
Balance at 31 March	(551,679)	(320,794)

23.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2010-11	2009-10	2010-11	2009-10
	£000	£000	£000	£000
Balances with other central government bodies	(412,136)	(194,102)	-	-
Balances with Local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Bodies external to government	(139,543)	(126,692)	-	-
At 31 March	(551,679)	(320,794)	-	-

24. Provision for pension liability

24.1 Assumptions underpinning the provision for pension liability

24.1.1 The PCSPS is an unfunded defined benefit scheme. Hewitt Associates Limited carried out a full actuarial valuation of the scheme liabilities as at 31 March 2007 and has based their calculations on a detailed but approximate update. The Report of the Actuary on pages 10 to 12 sets out the scope, methodology and results of the work the actuary has carried out.

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

- scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;

- income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- following consultation with the actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

24.1.3 The major assumptions used by the actuary were:

At 31 March	2011	2010	2009	2008	2007
Rate of increase in salaries	2.25%	4.25%	4.25%	4.25%	4.25%
Inflation assumption	2.65%	2.75%	2.75%	2.75%	2.75%
Discount rate	2.9%	1.8%	3.2%	2.5%	1.8%

24.1.4 The actuary has looked into the mortality experience of the PCSPS within the past five years. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations at age 60 are:

	2011	2010	2009	2008	2007
Retiring at 31 March age 60					
Males	28.1	28.0	27.9	26.4	24.4
Females	30.2	30.0	29.9	28.1	27.4
Retiring in 20 years (a 40 year old)					
Males	30.1	30.0	29.9	29.0	26.8
Females	32.0	31.9	31.8	29.6	29.8

24.1.5 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, SME acknowledges that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

24.1.6 The assumption that has the biggest impact on the amount of the reported liability is the discount rate. As set out in the FReM, and as required by IAS 19, the PCSPS uses the AA corporate bond rate to discount the liabilities. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the Consumer Price Index (CPI) used in Treasury forecasting. The rates are set out in the above table at 24.1.3. Any decrease in the rate leads to a significant increase in the reported liability.

24.1.7 In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The PCSPS does not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the PCSPS, the actuary has

used key assumptions that are the most appropriate for the scheme in the light of current knowledge.

24.2 Analysis of the provision for pension liability

Value of liabilities (£ billion)						
At 31 March	2011	2010	2009	2008	2007	
Current pensions and associated contingent pensions	54.9	57.8	50.6	46.4	44.8	
Deferred pensions, including contingent pensions, for those no longer contributing to the scheme	21.9	24.8	19.0	21.0	25.1	
Accrued benefits available to members contributing to the PCSPS	59.1	70.4	46.1	52.0	58.9	
Total	135.9	153.0	115.7	119.4	128.8	

24.3 Analysis of movement in scheme liability

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Scheme liability at 1 April	(152,961,000)	(115,741,000)
Current service cost (note 12)	(4,690,000)	(3,510,001)
Past service cost (note 12)	15,540,000	-
Interest on pension scheme liability (note 16)	(6,540,000)	(6,970,000)
Enhancements (note 13)	(115,848)	(125,388)
Pension transfers-in (note 14)	(73,699)	(110,096)
Benefits paid (note 24.4)	4,623,670	4,428,673
Pension payments to and on account of leavers (note 24.5)	126,810	169,380
Actuarial gain/(loss) (note 24.6)	8,217,067	(31,102,568)
Scheme liability at 31 March	(135,873,000)	(152,961,000)

During the year ended 31 March 2011, contributions represented an average of 18.9% of pensionable pay.

24.4 Analysis of benefits paid

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	3,781,124	3,668,226
Commutations and lump sum benefits on retirement	842,546	760,447
Per Statement of Cash Flows	4,623,670	4,428,673

24.5 Analysis of payments to and on account of leavers

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Refunds to members leaving the service	31,887	29,033
Payments for members joining State scheme	5,141	3,672
Group transfers to other schemes	15,008	11,856
Individual transfers to other schemes	74,774	124,819
Per Statement of Cash Flows	126,810	169,380

24.6 Analysis of actuarial gain/(loss)

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Experience gains/(losses) arising on the scheme liabilities	(377,348)	3,899,568
Changes in assumptions underlying the present value of scheme liabilities*	8,594,415	(35,002,136)
PCSPS	8,217,067	(31,102,568)
Other Schemes	276,909	(609,960)
Per Statement of Changes in Taxpayers Equity	8,493,976	(31,712,528)

* This is almost exclusively attributable to the changes in the discount rate (note 24.1.3)

24.7 History of Experience gains / (losses)

	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
Experience (gains)/losses on the scheme liabilities					
Amount (£000)	377,348	(3,899,568)	740,822	(4,402,803)	1,359,719
Percentage of the present value of the scheme liabilities	0.3%	(2.5%)	0.6%	(3.7%)	1.0%
Total actuarial (gain)/loss					
Amount (£000)	(8,217,067)	31,102,568	(9,637,821)	(16,130,803)	22,007,192
Percentage of the present value of the scheme liabilities	(6.0%)	20.3%	(8.3%)	(13.5%)	17.0%

Statement of Financial Position – CSCS compensation agency arrangements**25.1 Receivables – Non-Supply**

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Recoverable annual compensation payments (inc lump sums)	33,835	1,619
Balance at 31 March	33,835	1,619

26 Payables – amounts falling due within one year**26.1 Annual compensation payments pre-funded by employers**

Employing departments were, until March 2000, able to use current-year underspends on running costs to reduce or extinguish their existing liabilities in respect of annual compensation payments arising from the early retirement of their employees. This scheme ran for 10 years with the remaining balance of the prefunding being offset against the 2009-10 bills.

Pre-funding

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	-	(23)
Used in year: compensation paid	-	23
Balance at 31 March	-	-

26.2 Central funding of early departures

Some employers received central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support continued until their former employees reached normal retirement age, which for most was 60. At that stage compensation payments were then replaced by pension payments payable under the rules of the PCSPS. There were a small number of cases where the former employee's normal retirement age was 65 and Central funding support continued for those members until they reached age 65. The last balance required to be shown was in the 2007-08 resource accounts.

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

27.1 Receivables – amounts falling due within one year

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Contributions	7,643	2,683
Balance at 31 March	7,643	2,683

28.1 Payables – amounts falling due within one year

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Pensions	(2,468)	(33)
Balance at 31 March	(2,468)	(33)

29. Provision for pension liability

29.1 The Government Actuary provides an annual valuation of the Security Service and Secret Intelligence Service pension schemes included within these financial statements. The assumptions underlying the valuation are disclosed in his Report, which is examined by the Comptroller and Auditor General as part of his audit of information supplied by the agencies for inclusion in these financial statements

29.2 Analysis of movement in scheme liability

	<u>2010-11</u>	<u>2009-10</u>
	<u>£000</u>	<u>£000</u>
Opening scheme liability at 1 April	(2,249,000)	(1,523,000)
Net movement in year (including actuarial gain/loss)	417,000	(726,000)
Scheme liability at 31 March	(1,832,000)	(2,249,000)

30. Events after the Reporting Period

Cabinet Office: Civil Superannuation's financial statements are laid before the Houses of Parliament by HM Treasury. IAS 10 requires Cabinet Office: Civil Superannuation to disclose the date on which the accounts are authorised for issue. This is the date of the Comptroller and Auditor General's audit certificate.

Several public sector unions, representative bodies and individuals applied for a judicial review of the Government's decision to use the Consumer Prices Index (CPI) to uprate

benefits and pensions including public service pensions. The High Court handed down its judgment on 2 December 2011, dismissing the claimants' application. The Court confirmed that the Government's decision to use the CPI was lawful and rejected all the grounds of challenge submitted by the claimants.

31. Financial Instruments

IAS 39, *Financial Instruments: Recognition and Measurement*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

SME has no borrowings and relies solely on resources voted by Parliament to finance the PCSPS's net revenue resource requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

32. Losses

During the year 1,518 losses of £24,599.18 were written off (2009-10: 1,531 - £19,595,215). The losses for 2009-10 included the GMP overpayments of £19.48 million which were authorised by HM Treasury

33. Related Party Transactions

The PCSPS, CSCS and the Security Service and Secret Intelligence Service 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 and trading funds whose employees are members of the Schemes. None of the Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions during the year.

MyCSP Ltd currently exists as a 'shell' company. When it becomes a Mutual Joint Venture the assets will vest with the company from that date. Currently the management structure is staffed by civil servants. From vesting day, those with control over MyCSP Ltd will become directors of the new company.

Annex to the Accounts

Data Reporting Tables

The Data Reporting Tables presented in this annex to the Accounts 2010-11 are unaudited.

They comprise:

- A. Cabinet Office: Civil Superannuation Total Departmental Spending

Cabinet Office: Civil Superannuation

Total departmental spending

£'000

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
Resource DEL								
Total Resource DEL	-	-	-	-	-	-	-	-
<i>Of which:</i>								
Pay	-	-	-	-	-	-	-	-
Net current procurement ¹	-	-	-	-	-	-	-	-
Current grants and subsidies to the private sector and abroad	-	-	-	-	-	-	-	-
Current grants to local government	-	-	-	-	-	-	-	-
Depreciation ²	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Resource AME								
Section A: Civil superannuation	5,857,271	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,151	8,685,000	9,600,299
Total Resource AME	5,857,271	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,151	8,685,000	9,600,299
<i>Of which:</i>								
Pay	12,500	4,500	-	-	-	-	-	-
Net current procurement ¹	-	-	-	-	-	-	-	-
Current grants and subsidies to the private sector and abroad	-	-	-	-	-	-	-	-
Current grants to local government	-	-	-	-	-	-	-	-
Net public service pensions ³	561,159	535,536	1,559,233	722,509	373,877	-14,207,647	1,036,000	1,778,799
Take up of provisions	-	-	-	-	-	-	-	-
Release of provisions	-12,500	-4,500	-	-	-	-	-	-
Depreciation ²	-	-	-	-	-	-	-	-
Other	5,296,112	5,507,731	6,036,887	6,434,000	7,064,000	6,634,496	7,649,000	7,821,500
Total Resource Budget	5,857,271	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,151	8,685,000	9,600,299
<i>Of which:</i>								
Depreciation ²	-	-	-	-	-	-	-	-
Capital DEL								
Total Capital DEL	-	-	-	-	-	-	-	-
<i>Of which:</i>								
Net capital procurement ⁴	-	-	-	-	-	-	-	-
Capital grants to the private sector and abroad	-	-	-	-	-	-	-	-
Capital support for local government	-	-	-	-	-	-	-	-
Capital support for public corporations	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Capital AME								
Total Capital AME	-	-	-	-	-	-	-	-
<i>Of which:</i>								
Capital grants to the private sector and abroad	-	-	-	-	-	-	-	-
Net lending to the private sector and abroad	-	-	-	-	-	-	-	-
Capital support for public corporations	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total Capital Budget	-	-	-	-	-	-	-	-
Total departmental spending⁵	5,857,271	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,151	8,685,000	9,600,299
<i>of which:</i>								
Total DEL	-	-	-	-	-	-	-	-
Total AME	5,857,271	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,151	8,685,000	9,600,299

¹ Net of income from sales of goods and services

² Includes impairments

³ Pension schemes report under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items

⁴ Expenditure on tangible and intangible fixed assets net of sales

⁵ Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.



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