



Cabinet Office

Civil Superannuation Account 2016 – 17

(For the year ended 31 March 2017)

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

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Contents

	Page
Accountability Report	
Corporate Governance Report	
Report of the Manager	6
Report of the Actuary	15
Statement of Accounting Officer's Responsibilities	19
Governance Statement	20
Parliamentary Accountability and Audit Report	
Statement of Parliamentary Supply	27
Losses and Special Payments	28
The Certificate of the Comptroller and Auditor General to the House of Commons	29
Financial Statements	
Combined Statement of Comprehensive Net Expenditure	31
Combined Statement of Financial Position	32
Combined Statement of Changes in Taxpayers' Equity	33
Combined Statement of Cash Flows	34
Notes to the Financial Statements	35

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

1. Report of the Manager

Introduction

- 1.1 The Civil Service Pension arrangements comprise the Principal Civil Service Pension Scheme and the Civil Servants and Others Pension Scheme. Both are unfunded, defined benefit, contributory, public service occupational pension schemes. In this document the term 'Scheme' covers both arrangements.

Scheme features and benefits

Principal Civil Service Pension Scheme (PCSPS)

- 1.2 The PCSPS was originally set up under the Superannuation Act 1972. It comprises four pension arrangements known as Classic, Classic plus, Premium and Nuvos and is closed to new members.
- 1.3 Before 30 July 2007, anyone employed in an organisation covered by the PCSPS would have been eligible to participate in one of the final salary arrangements, (Classic, Classic plus and Premium). From 1 October 2002, new entrants were generally only able to join Premium. All had a normal pension age of 60.
- 1.4 From 30 July 2007, new joiners were offered membership of Nuvos, a career average pension with a normal pension age of 65.

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

- 1.5 Retirement and other pension benefits are set out in rules made under the Superannuation Act 1972 and regulations made under the Public Service Pensions Act 2013.
- 1.6 Pensions are increased in accordance with the Pensions (Increase) Act 1971 and the Social Security Pensions Act 1975, with annual increases being determined by the prevailing Pensions (Increase) Order. The increase is applied on the first Monday after 6 April each year. Since 2011, the increase has been based on the change in the Consumer Prices Index in the 12 months to the end of the preceding September. The index being negative in September 2015 there was no increase to pensions in April 2016.
- 1.7 Lump sum retirement benefits are payable automatically in Classic and also in Classic Plus (in respect of service up to 30 September 2002) and optional in other sections in return for commutation of pension at the rate of £12 of lump sum for every £1 of pension given up.
- 1.8 Members of the PCSPS who leave before the normal pension age are given a deferred award, provided they have at least two years' service (or had previously brought a transfer in from a personal pension arrangement). Deferred awards are updated annually in line with the provisions of the Pensions (Increase) Act 1971.
- 1.9 From the minimum pension age, (which is 50 for those whose service began before 6 April 2006, and 55 for all others), a deferred member may bring their pension into payment early, actuarially reduced to reflect the fact that it will be in payment for a longer period of time. Deferred members may also transfer their PCSPS

benefits out to another pension arrangement.

- 1.10 From 1 April 2015, most PCSPS members switched to the new Civil Servants and Others Pension Scheme, also known as Alpha. Those who were previously members of Classic, Classic plus or Premium retained a final salary link in Alpha – i.e. their PCSPS service counts towards a pension in the PCSPS, but based on their final salary when they leave Alpha.
- 1.11 Those who were within 10 years of their PCSPS normal pension age on 1 April 2012 are generally allowed to remain in the PCSPS until they leave employment covered by the Scheme. Those who were between 10 and 13.5 years from their PCSPS normal pension age on 1 April 2012 were given a ‘tapered Alpha enrolment date’ between 1 May 2015 and 1 September 2025, but could opt to forego their tapered protection and switch to Alpha on 1 April 2015.

Alpha – Civil Servants and Others Pension Scheme (CSOPS)

- 1.12 Alpha was introduced on 1 April 2015 under regulations set out in the Public Service Pensions Act 2013.
- 1.13 New entrants from 1 April 2015 join the Alpha scheme. Existing members of PCSPS transferred to Alpha from 1 April 2015 unless they had transitional protection (see paragraph 1.11).
- 1.14 Alpha is a career average earnings scheme with an accrual rate of 2.32% of each year’s pensionable earnings. The total amount accrued is adjusted annually in line with a rate set by HM Treasury (currently linked to annual movements in the Consumer Prices Index).
- 1.15 Members may commute some of their pension into a lump sum at the rate of £12 of lump sum for every £1 of pension given up.
- 1.16 Alpha’s normal pension age is the greater of the member’s state pension age or 65.

Other pension arrangements

- 1.17 Money purchase pensions known as ‘partnership’ are available as an alternative for employees joining on or after 1 October 2002. They are delivered through employer-sponsored stakeholder pensions from a choice of pension providers.
- 1.18 The employer makes an age-related contribution, and also matches the first 3% of any contribution the member makes. The employer also makes a small contribution to the Civil Superannuation Vote to provide for death in service and ill-health retirement lump sum benefits.

Other benefits

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

Eligibility to join the Scheme and the New Fair Deal

- 1.21 Normally, anyone employed in a public sector organisation covered by the Scheme can participate.
- 1.22 The New Fair Deal is a non-statutory policy that deals with staff who are compulsorily transferred from the public sector to independent providers delivering public services.
- 1.23 From October 2013, these independent providers can apply to join the Scheme under the New Fair Deal. The resulting employee members can remain in the Scheme while they continue to be principally employed on the work they carried out while in the public sector.

Funding

- 1.24 PCSPS and Alpha are unfunded schemes and the cash required to meet the payment of pension benefits is paid from public funds provided by Parliament. Members contribute on a ‘pay-as-you-go’ basis, with these

contributions (along with those made by employers) being credited to the Exchequer under arrangements governed by the aforementioned Acts.

- 1.25 The contributions due from employers and employees to fund future service liabilities are set by the Actuary at the four-yearly Scheme valuation. These have been adjusted to take account of the move to Alpha.
- 1.26 Unlike many other schemes, the employer/employee split is not fixed. However, a cost-capping mechanism is in place to prevent the employer cost becoming disproportionate to the employee cost. Contribution rates are discussed in the Report of the Actuary.

Scheme Management

- 1.27 Under the Public Service Pensions Act 2013, the Minister for the Civil Service (currently the Prime Minister) is the Scheme Manager. In practice, this responsibility is delegated to the Minister for the Cabinet Office, and the Permanent Secretary for the Cabinet Office is the Accounting Officer of the Scheme.
- 1.28 Civil Service Pensions, a part of Civil Service Human Resources, based in the Cabinet Office, has operational responsibility for the management of the Scheme. Day-to-day administration is mainly carried out by MyCSP Ltd under a contract with the Cabinet Office. Other key responsibilities sit with member employers. These relationships are discussed in more detail below.

Cabinet Office

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

Cabinet Office and MyCSP

- 1.30 The Cabinet Office oversees the delivery of Scheme administration by MyCSP through a formal contract that came into force in May 2012.
- 1.31 Under the contract, MyCSP is responsible for, but not limited to:
- providing administration for active, deferred and pensioner Scheme members, including paying pensions
 - maintaining accurate and secure records on a single database and a proper audit trail of all transactions
 - investigating and responding to complaints made by Scheme members, including any made under the first stage of the internal dispute resolution procedures
 - maintaining and enhancing Scheme communications, including the Scheme website
 - initially pursuing and reclaiming any overpayments of benefits
 - handling transfers in and out of the Scheme
 - calculating and paying annual pension increases
 - deducting and paying over tax to HMRC
 - operating a payroll bank account
 - producing financial and management reports.

Cabinet Office and Scheme employers

- 1.32 The Cabinet Office has in place participation agreements with all public sector employers and contracts with private sector employers that have active members of the Scheme. Employers are responsible for:
- maintaining accurate and up-to-date pay and service records and providing these to MyCSP
 - informing new staff of their options for joining pension arrangements
 - keeping employees informed on pension issues
 - paying the correct employers' and employees' pension contributions to the Cabinet Office.

Civil Service Compensation Scheme (CSCS)

- 1.33 The Civil Service Compensation Scheme (CSCS) is a scheme made under the Superannuation Act 1972, providing compensation for the termination of employment in certain circumstances. CSCS benefits are paid out of the Civil Superannuation Vote initially, with the relevant employer later reimbursing the Vote.
- 1.34 MyCSP, under contract to the Cabinet Office, acts as an agent for employers in the calculation and payment of compensation benefits arising under the CSCS. Employers then reimburse the Civil Superannuation Vote. These cash flows are not brought to account in these financial statements but details of the amounts paid are disclosed in Note 13 of the account.
- 1.35 All exit schemes under the CSCS are approved by the Cabinet Office.

Other Payments

- 1.36 The Civil Superannuation Vote also funds the Grosvenor and Government Communications Bureau pension schemes, which are therefore brought to account in these financial statements; however, they are managed under separate arrangements.
- 1.37 The Vote also covers a small number of other pension-related payments which are detailed in Note 14 to the Account. The amounts paid are not material.
- 1.38 Money invested in the stakeholder pension option is not under the control of the Cabinet Office and is not shown in these statements. Employer contributions will be shown in the relevant individual accounts.

Governance

- 1.39 The governance arrangements for the Scheme are detailed in the accompanying Governance Statement beginning on page 20.

Scheme Data

Membership

- 1.40 As at 31 March 2017, the Scheme had 347 employers: 236 public sector organisations (departments, non-departmental public bodies and government agencies) and 111 private sector employers.
- 1.41 Membership reporting by status is set out below. Reporting by status means that active or pensioner members with a separate deferred entitlement are not included in the deferred status.

Membership by status at 31 March	2017	2016* (restated)	2016	Movements
Active members	475,000	477,000	480,000	- 2,000 (0.4%)
Deferred members	339,000	351,000	355,000	-12,000 (-3.4%)
Pensioner members	662,000**	653,000**	648,000	9,000 (1.4%)

* Membership numbers are restated due to timing differences between the receipt of information from employers and the publication of the Account and because MyCSP have carried out detailed work which has allowed a more accurate analysis of the 2016 position.

**Includes 3,100 pensioners in receipt of annual compensation payments (2016, 4,800)

- 1.42 Membership reporting by entitlement is set out below. Reporting by entitlement reflects each distinct benefit separately. An example would be a member who was in the Scheme in 1990–2000 and then re-joined in 2015. Under the by status approach the member would be counted as an active member, as that is their

current status, but by entitlement they would be counted as both an active and deferred entitlement.

Entitlements	31 March 2017
Members with an active benefit entitlement	475,000
Members with a deferred benefit entitlement	360,000
Members with a pension in payment	662,000

1.43 The number of members who appear in multiple statuses at 31 March 2017 is set out below.

Active and Deferred	Active and Pensioner	Deferred and Pensioner
19,000	26,000	1,000

1.44 The split of active entitlements across the various schemes is set out below.

Scheme	%
Alpha	69.0
Classic	21.0
Classic plus	1.0
Premium	6.0
Nuvos	2.0
Partnership	1.0
Total	100.0

Financial position

Resource outturn

1.45 Net expenditure in 2016–17 was £7,811 million (2015–16: £8,092 million). The fall was caused largely by a drop in the service cost to £4,435 million (2015–16 £4,530 million) and the interest charge to £6,719 million (2015–16 £6,830 million). These amounts are calculated using the discount rate in place at the start of the reporting period, which was slightly higher (0.05%) than that used to calculate the previous years, leading to a modest decrease in both costs. The Scheme outturn was £94 million lower than voted funds of £7,905 million.

Net cash requirement

1.46 The net cash requirement in 2016–17 was £2,278 million (2015–16: £2,245 million) but was £477 million less than the voted amount of £2,755 million.

1.47 This variance was caused by an over projection of the cash required in the January 2017 Supplementary Estimates. The Scheme pays out compensation payments on behalf of employers, which it then recovers from them. Compensation payments in the first half of 2016–17 used up enough cash to suggest a need for extra funds but failed to take account of the recovery of payments from employers later in the year.

Contingencies Fund Drawdown

1.48 The Scheme submitted two separate requests totalling £250 million to HM Treasury to draw money from the Contingencies Fund (under section 5.14d of the *Supply and Estimate Guidance manual*). The funds were required to address an expected shortfall in the net cash requirement amount.

- 1.49 The shortfall of £100 million in June 2016 was sought to cover higher than expected lump sum and Civil Service compensation payments in the first quarter of 2016–17 since the amount Voted on Account was forecast to be insufficient. The funds were repaid to the Contingencies Fund in full on 28 July 2016.
- 1.50 In February 2017 the Scheme submitted a further request for £150 million, to cover pension payments payable before the additional funds requested in the Supplementary Estimate 2016–17 became available. There was a concern at the time that the Scheme might not be sufficiently liquid but in the event the funds were repaid to the Contingencies Fund in full on 22 March 2017.

Scheme liability

- 1.51 At 31 March 2017 the total liability for future pension benefits was £234.03 billion compared with £187.33 billion at 31 March 2016.
- 1.52 The increase of £46.70 billion is driven largely by changes in the financial assumptions (an increase of £47.65 billion), the most significant of which is a fall in the discount rate used to calculate the present value of Scheme liabilities to 2.80% (31 March 2016 3.60%). This is offset slightly by experience gains of £6.27 billion. Further details are given in the Report of the Actuary (page 15) and note 19.4 to the Account.
- 1.53 Consequently the increase in the Scheme liability is not reflective of any fundamental change in the make-up of the pension scheme, for instance a rise in membership numbers or member benefits. The profile of expected cash payments from the Scheme has also not risen materially either but their present value has increased due to a fall in the discount rate used to calculate it - the lower the discount rate the higher the liability will be.
- 1.54 Discount rates are prone to year on year movements because they are linked to market conditions (see Note 19.1). These movements can materially alter the Scheme liability from one year to the next. Prior to 2012 real discount rates were often above 2.5% whereas this year's rate is 0.24%. As an illustration of the impact on the value of the Scheme liability, a 0.5% increase in the real discount rate would reduce the liability by approximately £23bn (see note 19.3) and the 1.13% fall in the real discount rate since 31 March 2016 has increased the liability by approximately £50bn.
- 1.55 The total amount of employee contributions received in 2016–17 was £788.5 million (2015–16: £781.3 million).

Administration charges

- 1.56 The cost of administering the Civil Service pension arrangements during 2016–17 was £44.3 million. This can be broken down as follows:

Central management and overhead	£3.1m
Third party costs	<u>£41.2m</u>
Total	<u>£44.3m</u>

- 1.57 Of this, £31.4 million was met from a 'levy' on employer pension contributions, with employers meeting the balance of £12.9 million directly via a directly invoiced administration charge.
- 1.58 This dual arrangement has been in place since 2010 and was only ever considered to be transitional. Civil Service Pensions has commissioned a review of the way scheme administration is funded, which is expected to complete in early 2018. Any changes are likely to be implemented in April 2019 alongside those arising from the 2016 Scheme quadrennial valuation.

Key Developments

Amendments to the Principal Civil Service Pension Scheme

- 1.59 As a consequence of amendments made to the Civil Service Compensation Scheme in November 2016, the PCSPS rules were amended to allow members to partially buy out the actuarial reduction that would apply if they drew the benefits early. (Previously members were only able to buy out the full actuarial reduction.) Opportunity was also taken to correct a few numbering errors that were introduced with the 2015 Amendment Scheme.

Amendments to the Civil Service Compensation Scheme

- 1.60 Amendments to the CSCS came into effect on 9 November 2016. In July 2017 the High Court found that the changes were unlawful as it judged the Government not to have fully met the obligation to consult with a view to reaching agreement on the changes.

Challenge against transitional protection provisions

- 1.61 When public service pension reforms were introduced in 2015, there were transitional protection provisions which permitted older members to remain members of their existing schemes (the PCSPS in the case of civil servants). This protected those closest to retirement from the reforms, as they would have least time to adjust to any change in their retirement income.
- 1.62 These provisions have been challenged on the grounds of direct age discrimination and indirect race and sex discrimination. The Government lost a case relating to the Judicial Pension Scheme but won one relating to the Firefighters' Scheme. The other cases, relating to the Police and Civil Service schemes have been stayed until after the Judicial and Firefighters' appeals have been heard in December, and may well be effectively decided by the outcome of those appeals. Assuming that the Civil Service cases then proceed, it is likely that the earliest they will be heard is summer 2018. If the cases then went to appeal at higher courts, it could take a couple of years to resolve.
- 1.63 If the Government were to ultimately lose all appeals, and transitional protection was found to amount to unlawful discrimination, it would mean placing everyone in the same scheme for the future. Though the implications of this are far from clear it would be likely to increase the costs of the Scheme and its liabilities.

Appointment of a new Scheme Medical Adviser

- 1.64 Health Management Ltd has been appointed as the new Scheme Medical Adviser from 1 July 2017.

Looking forward

- 1.65 Work on the Guaranteed Minimum Pension reconciliation exercise, required as a result of the end of Contracting Out in 2016, continues. MyCSP has raised almost 200,000 queries (out of a possible 360,000) with HMRC for pensioner and deferred members. The review concluded that an estimated £22 million of overpayments have been made; these will not be reclaimed, consistent with the approach across the rest of the public sector.
- 1.66 HMRC has provided the file for active members and MyCSP is now in the process of analysing and matching these members before commencing reconciliation. Preliminary work is under way to establish a process to correct member records using the results of the reconciliation exercise. This rectification exercise will commence in June 2018.
- 1.67 The quadrennial valuation of the Scheme as at 31 March 2016 is under way and is expected to be published in early 2018. This includes a long-term financial projection for the Scheme and will influence the contributions needed to fund it. Changes arising from the valuation are expected to be implemented in April 2019.

National Fraud Initiative (NFI)

- 1.68 NFI is a biennial IT data-matching exercise co-ordinated by the Cabinet Office involving organisations within central and local government working together to identify and eliminate fraud and overpayments.
- 1.69 Work commenced on the NFI 2016 report in April 2017 and was the tenth exercise in which the Cabinet Office had participated. As at 23 October, some 766 potential overpayments have been identified with a value of around £2 million of which £1.1 million have been recovered.
- 1.70 After completing a benchmark exercise looking at ways to improve the overpayments process, we have decided to undertake a half-yearly NFI review. Our pension administrator is now implementing this recommendation, which should reduce the value of overpayments by detecting them earlier.

Statement on responsibility for production of the Annual Report and Account

- 1.71 As Accounting Officer, I hereby confirm that the Annual Report and Account as a whole is fair, balanced and

- 1.72 understandable and that I take personal responsibility for the Annual Report and Account and the judgements required for determining that it is fair, balanced and understandable.

Statement on the disclosure of relevant audit information

- 1.73 The accompanying account has been prepared on a statutory basis in accordance with the requirements of HM Treasury and is designed to comply with generic Accounts Directions issued to departments by HM Treasury under section 5 (2) of the Government Resources and Accounts Act 2000.
- 1.74 The financial statements are audited by the Comptroller and Auditor General, who is appointed under statute and reports to Parliament on the audit examination.
- 1.75 I confirm that so far as I am aware, there is no relevant audit information of which the auditors are unaware and that I have taken all reasonable steps to ensure that I am aware of any relevant audit information and to establish that the auditors are aware of that information.

Audit

- 1.76 These financial statements have been audited by the Comptroller and Auditor General (C&AG), whose opinion is expressed in the certificate and report of the Comptroller and Auditor General to the House of Commons. During the reporting year no payment was made to the auditors for non-audit work (2015–16: £nil).
- 1.77 The notional cost for the audit of these financial statements in 2016–17: £160,000 (2015–16 £160,000) and is disclosed in the Cabinet Office departmental account.

Events after the reporting period

- 1.78 In accordance with the requirements of IAS 10 (Events after the reporting period), events after the statement of financial position date are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General. The accounting officer of the department has authorised these financial statements to be issued on the date the Comptroller and Auditor General certifies the accounts. There have been no events after the reporting date.

Additional information for members

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

- 1.79 CSAVCS allows Scheme members to increase their benefits by contributing to defined contribution arrangements. Further details on this are provided within Note 5 of the Accounts.
- 1.80 Civil Service Pensions continues to exercise its duty of care towards members by monitoring the CSAVCS providers, working with the Scheme's professional advisers, Aon Hewitt Ltd.
- 1.81 Members who choose to contribute to CSAVCS build up a personal fund. The options offered to them at retirement depend on what each individual provider permits, and it may be necessary for members to transfer to alternative arrangements within the same provider or to another provider to access all types of flexibility.
- 1.82 Last year I reported plans to procure a single provider for the Civil Service Additional Voluntary Contribution Scheme (CSAVCS). AON Hewitt were appointed as the preferred bidder and the decision subject to a member consultation which has just concluded. The results will be published in due course.

Managers, advisers, auditors and bankers

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

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

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

Advisers

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

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

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

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

Auditors:

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

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

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

Further information

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

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John Manzoni
Principal Accounting Officer and Permanent Secretary
Cabinet Office

15th December 2017

2. Report of the Actuary

Introduction

- 2.1 This statement has been prepared by the Government Actuary's Department at the request of Cabinet Office. It summarises the pensions disclosures required for the 2016–17 Annual Report and Accounts of Civil Superannuation.
- 2.2 The statement is based on an assessment of the liabilities as at 31 March 2015, with an approximate updating to 31 March 2017 to reflect known changes.

Membership data

- 2.3 Tables A to C summarise the principal membership data used to prepare this statement.

Table A – Active members

31 March 2015 membership data		2016–17 accounts
Number (000s)	Total salaries* (pa) (£ billion)	Total salaries implied by receipts (£ billion)
466	12.9	13.3

* pay shown is actual pay for the time worked

Table B – Deferred members

31 March 2015 membership data**	
Number (000s)	Total deferred pension* (pa) (£ billion)
364	1.2

* Pension amounts include the pension increase granted on 6 April 2015

** Data for around 6,600 members who may be on a career break was not included in the deferred data set out here. The actuarial liability as at 31 March 2017 has been rated-up using approximate methods to allow for these missing members.

Table C – Pensions in payment

31 March 2015 membership data		2016–17 accounts
Number (000's)	Total pension* (pa) (£ billion)	Total pension (pa) (£ billion)
641	5.1	5.1

* Pension amounts include the pension increase granted on 6 April 2015

Methodology

- 2.4 The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2016–17 Annual Report and Accounts. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the 2015–16 Annual Report and Accounts.
- 2.5 This statement takes into account the benefits normally provided under the Scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2017	31 March 2016
Rate of return (discount rate)	2.80%	3.60%
Rate of earnings increases*	4.55%	4.20%
Rate of future pension increases	2.55%	2.20%
Rate of return in excess of:		
Pension increases (CPI)	0.24%	1.37%
Earnings increases	(1.70)%	(0.60)%
Expected return on assets:	n/a	n/a

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

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

Demographic assumptions

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

Table E – Post-retirement mortality assumptions

Normal health	
Males	93% of S1NMA mortality
Females	96% of S1NFA mortality
Current ill-health pensioners	
Males	99% of S1IMA mortality
Females	105% of S1IFA mortality
Future ill-health pensioners	
Males	100% of S1IMA mortality
Females	100% of S1IFA mortality
Partners	
Males	111% of S1NMA mortality
Females	93% of S1DFA mortality

2.9 These assumptions are the same as those adopted for the 2015–16 Annual Report and Accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption is in line with the latest ONS projections.

2.10 The contribution rate used to determine the accruing cost in 2016–17 was based on the demographic and financial assumptions applicable at the start of the year, that is, those adopted for the 2015–16 Annual Report and Accounts.

Liabilities

2.11 Table F summarises the assessed value as at 31 March 2017 of benefits accrued under the Scheme prior

to this date based on the data, methodology and assumptions described in paragraphs 2.4 to 2.11. The corresponding figures for the previous four year ends are also included in the table.

Table F – Statement of Financial Position £ billion

	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	234.0	187.3	194.8	175.7	160.0
Surplus/(Deficit)	(234.0)	(187.3)	(194.8)	(175.7)	(160.0)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

- 2.12 The cost of benefits accrued in the year ended 31 March 2017 (the Current Service Cost) is based on a standard contribution rate of 33.3%. Members contributed between 3.8% and 8.05% of pensionable pay, depending on the level of their pay. Table G shows the employers' share of the contribution rate used to determine the Current Service Cost, taking into account an estimated average rate of contributions paid by members of 5.5%. The corresponding figures for 2015–16 are also included in the table.

Table G – Contribution rate

	Percentage of pensionable pay	
	2016–17	2015–16
Standard contribution rate	33.3%	34.2%
Members' estimated average contribution rate	5.5%	5.8%
Employers' estimated share of standard contribution rate	27.8%	28.4%

- 2.13 For the avoidance of doubt, the actual average rate of contributions payable by employers, 21.1% of pensionable pay for 2016–17, is not the same as the employers' share of the standard contribution rate as above (27.8% for 2016–17). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Annual Report and Accounts is the discount rate. The discount rate for Annual Report and Accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.
- 2.14 The pensionable payroll for the financial year 2016–17 was £13.3 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016–17 (at 33.3% of pay) is assessed to be £4.44 billion.
- 2.15 There have been no past service costs in the year 2016–17.
- 2.16 A settlement gain of £9 million has been allowed for in relation to the bulk transfer of staff to the Department for Work and Pensions in connection with the creation of the Single Fraud Investigation Service.

Sensitivity analysis

- 2.17 The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2017 of changes to the most significant actuarial assumptions.
- 2.18 The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

- 2.19 There is significant uncertainty associated with how members will retire in future, both for those remaining in the current scheme where recent patterns of retirement have been materially different to historic patterns, and as a result of the scheme reform for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in final salary scheme sections and so I have included an indication of the approximate effect (on the total past service liability) of all active members who move to Alpha retire on average 1 year later.
- 2.20 Table H shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest ½%).

Table H – Sensitivity to significant assumptions

Change in assumption	Approximate effect on total liability	
Financial assumptions		
(i) discount rate*: +½% a year	- 10.0%	- £23.0 billion
(ii) (long-term) earnings increase*: +½% a year	+ 1.5%	+ £3.5 billion
(iii) pension increases*: +½% a year	+ 9.0%	+ £21.0 billion
Demographic assumptions		
(iv) additional 1-year increase in life expectancy at retirement	+ 3.0%	+ £7.0 billion
(v) all active members who move to Alpha retire on average 1 year later**	-	-

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

** Impact is small at -0.2%, rounded down here to 0%

Steve Lewis
Government Actuary's Department

3. Statement of Accounting Officer's Responsibilities

- 3.1 Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Cabinet Office to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.
- 3.2 The combined financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs at year end of the Civil Service Pension Schemes and certain other minor pension schemes and of the net resource outturn, changes in taxpayers' equity and cash flows for the financial year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purpose intended by Parliament or material transaction that have not conformed to the authorities which govern them. In addition, the financial statements must be prepared so far as to demonstrate that the contributions payable to the schemes during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.
- 3.3 In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual (FReM)* and in particular to:
- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
 - make judgements and estimates on a reasonable basis
 - state whether applicable accounting standards, as set out in the *FReM* have been followed, and disclose and explain any material departures in the financial statements
 - prepare the financial statements on a going concern basis.
- 3.4 HM Treasury has appointed the Permanent Secretary of Cabinet Office as Accounting Officer for the Civil Superannuation Account. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in *Managing Public Money* published by HM Treasury.

4. Governance Statement

The Accounting Officer's responsibility

- 4.1 I was the Accounting Officer for the Civil Superannuation Vote throughout 2016–17. My responsibilities included maintaining a sound system of internal control to support the achievement of government policies, aims and objectives, while safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.
- 4.2 The Civil Superannuation Vote covers the civil service pension arrangements, 'the Scheme', the Civil Service Compensation Scheme and some minor agency arrangements set out in statute.
- 4.3 The Vote and the Scheme are managed by Civil Service Pensions within the Cabinet Office, with much of the day-to-day administration contracted out to MyCSP, a private company part owned by the Government.

Governance: Roles and Responsibilities

- 4.4 The bodies and individuals involved in Scheme governance are set out below:
- The **Minister for the Civil Service** (currently the Prime Minister) is the Scheme Manager. In practice, this responsibility is delegated to the **Minister for the Cabinet Office** and me, as the **Permanent Secretary for the Cabinet Office** and the Accounting Officer of the Scheme.
 - The **Cabinet Office Audit and Risk Committee** supports and advises me, as the Accounting Officer, on all relevant matters concerning audit and risk. It receives regular reports from the Cabinet Office Performance and Risk Committee.
 - The **Civil Service Pension Board** gained statutory footing under the Public Services Pensions Act 2013, 'the 2013 Act'. Its role is to support the Scheme Manager.
 - The **Scheme Advisory Board** is also a requirement of the 2013 Act. Its role is to provide policy advice to the Minister, when requested. It was constituted in 2016–17 and held its first meeting in June 2017.
 - The **Cabinet Office Finance Director** has functional oversight of the Scheme finance function. He is also a member of Civil Service Pensions Board and attends Cabinet Office Audit and Risk Committee.
 - **Civil Service Pensions**, part of Civil Service Human Resources (CSHR) in the Cabinet Office, is responsible for leading on pension policy and managing the Scheme and the other agency arrangements.
 - **MyCSP** carries out most day-to-day administration of the Scheme under a contract with the Cabinet Office operated in accordance with the Department's internal control framework.
- 4.5 Other responsibilities sit with member employers, including a key role in ensuring that membership data is accurate and up to date.

Cabinet Office Audit and Risk Committee (COARC)

- 4.6 COARC was chaired throughout 2016–17 by Amy Stirling, an independent non-executive member of the Cabinet Office Board. All meetings were attended by at least one other non-executive director, the Cabinet Office Finance Director and me.
- 4.7 The Scheme was discussed at five meetings, with reports and updates provided by Civil Service Pensions, the Cabinet Office Performance and Risk Committee, the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA). Aside from the 2015–16 financial statements and audit, COARC have considered the wider challenges to the Scheme and steps being put in place to address them.
- 4.8 In particular, COARC has taken an interest in many of the issues discussed in this Statement and has stressed the need to ensure the correct resources and expertise are in place to tackle them.

Civil Service Pension Board (CSPB)

- 4.9 The CSPB was the first Pensions Board to be set up for an unfunded Public Sector pension scheme. Its statutory role is to support the Scheme manager, which it seeks to do by assisting and challenging those involved in Scheme management.
- 4.10 Given its relatively new statutory footing, CSPB has reviewed in-depth its role and taken significant steps to improve its effectiveness. For instance, from 1 October 2016, Margaret Edwards was appointed as an independent non-executive chair, taking over from Philip Rutnam, the Permanent Secretary at the Department for Transport.
- 4.11 During 2016–17 CSPB had 13 members, including the Chair, with equal numbers of representatives from both employers and active members, plus two non-executive members drawn from the private sector pensions industry. It subsequently recruited two additional non-executive members with public/private sector pension industry experience. The Board has also undertaken a skills analysis and training day, assisted by Civil Service Pensions, and will continue to consider measures to improve its effectiveness.
- 4.12 The CSPB met four times in 2016–17. It has two sub-groups, which report into the main board. A small secretariat based in Cabinet Office supports the CSPB. The CSPB's main agenda items have been related to Scheme administration, compliance with regulations and other legislation, reviewing the actions taken to address identified shortcomings and how to influence the behaviours of all parties, including employers and administrators in pursuit of the successful delivery of the Scheme. CSPB's key priority going forward is to support and challenge Cabinet Office and ensure it has the capability and capacity to deliver its demanding workload and to manage change going forward.

Scheme Advisory Board (SAB)

- 4.13 The Public Service Pensions Act 2013 required the establishment of the SAB. Its role is to provide strategic advice to the Minister of the Cabinet Office, as Scheme Manager, including on the desirability of changes to the Scheme. The SAB is accountable to the Minister as Scheme Manager.
- 4.14 The SAB was constituted in 2016–17 and held its first meeting on 30 June 2017. It is chaired by Rupert McNeil (Government Chief People Officer) and attendees include a Cabinet Office non-executive director, the Chair of the CSPB, four Civil Service Pensions and CSHR staff, four trade union representatives and the Government Actuary's Department. A further three trade union representatives have been added to the attendee list effective from August 2017.

Civil Service Pensions

- 4.15 Civil Service Pensions, a dedicated directorate with approximately 40 staff, is responsible for the management of the Scheme. The principal activities it undertakes are:
- contract management (principally but not exclusively MyCSP);
 - operations, including admissions, casework, employer engagement, technical support, plus communications; and
 - finance, including accounts production, collection of employer/employee contributions, plus financial oversight of the Scheme and MyCSP.

MyCSP

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

Overview of governance arrangements

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

Corporate Governance Code

- 4.18 The Scheme complies with the Corporate Governance Code as far as it is applicable and achieves transparent and effective governance through the work of the bodies listed above.

Review of Internal Control

- 4.19 As part of my responsibilities as Accounting Officer, I have reviewed the effectiveness of the system of internal control, including risk management. My review is informed by regular reports from the Director of Civil Service Pensions and GIAA who are the Scheme's internal audit service. I have been advised on the implications of the result of my review by COARC.
- 4.20 GIAA has provided me with a report on internal audit activity over the course of 2016–17. This report contains GIAA's independent opinion on the adequacy and effectiveness of the Scheme's governance, risk management and internal control arrangements.
- 4.21 The report noted significant improvements over the last year but a number of the control weaknesses noted in 2015–16 were still in evidence over the course of this year and have contributed to GIAA providing an 'unsatisfactory' opinion for 2016–17.
- 4.22 As we are now addressing the Scheme's underlying problems, it is inevitable that new problems, hitherto undetected, will come to light – some of which are discussed below. This can give the appearance of a deteriorating situation but the direction of travel is a positive one and the foundations have been laid for significant improvements in the coming years.
- 4.23 The rest of this statement will therefore not just look at the specific issues arising and the actions being taken to address them but will also look ahead at the long-term goals of Scheme management and how we aim to achieve them.

Direction and control

Vision and Strategy

- 4.24 To ensure the Scheme not only addresses its current challenges but continuously improves, it needs clear leadership and vision.
- 4.25 As I reported last year, a dedicated Director of civil service pensions has been appointed and there is now a five-year mission for the Scheme to become the best managed, best administered and best value public sector scheme in the UK.
- 4.26 Four supporting strategic objectives supplement this vision:
- To provide a value for money, quality service for all members and employers
 - To ensure scheme members value and understand their benefits and are actively planning for retirement
 - To ensure employers value and understand the Scheme as part of the overall reward package and fulfil their obligations to support delivery of a quality service to members
 - To ensure the Scheme is sustainable and supports the wider 'Brilliant Civil Service' agenda.
- 4.27 The first step to meeting these objective has been to strengthen the effectiveness of Civil Service Pensions within the Cabinet Office. There has been significant recruitment of staff in the areas of contract management, employer liaison and operations and there are plans in place to strengthen financial capability. The impact of these appointments can be seen across many of the activities set out below and will the form the basis of long-term improvement to the Scheme.
- 4.28 Other steps to achieve our goal of transforming services include providing online servicing for active members and online functionality for employers. We intend to refine some of the processing work and move more work over from Civil Service Pensions to MyCSP. We will be looking to find ways of improving member engagement and awareness, with a focus on enhancing the Scheme website for ease of navigation and targeted communications.

Contract Management

- 4.29 There has been considerable progress in the area of contract management. As I reported last year, a revised contract between Cabinet Office and MyCSP was put in place in August 2016. It empowers MyCSP to drive efficiencies and also provides Cabinet Office with a proper credit regime, improved audit rights, lower costs and better exit provisions.
- 4.30 A Contract Management Group, which meets monthly, monitors MyCSP's performance underpinned by sub-groups such as the Service Delivery Group, the Projects and Change Group and the Member and Employer Engagement Group.
- 4.31 There is also now a full-time Civil Service Pensions presence at MyCSP's headquarters in Liverpool to focus on the day-to-day management of the contract. This revised approach has enabled collaborative solutions and problem solving at the right level and so avoided unnecessary escalation.
- 4.32 The quality of reporting by MyCSP is improving, helped by the permanent Civil Service Pensions presence in Liverpool, who receives monthly reports which can be discussed on the ground with MyCSP. The various improvements in MyCSP's control environment have also led to a better overall quality of management information and this will continue to be refined going forward.
- 4.33 One area where management information is key relates to benefit payment accuracy and GIAA have raised concerns about the quality of the data underpinning this reporting. Partly as a response to this, MyCSP has put in place a regime of extensive post-payment testing which covers approximately 10% of benefits. This has provided, amongst other things, a greater level of assurance about the reporting of benefit accuracy.

Financial management

- 4.34 I reported last year that the Scheme finance function had moved into the Civil Service Pensions directorate to improve financial oversight of the Scheme and of MyCSP. Alongside this a detailed, independent review of financial management was undertaken which set out several areas for improvement. This in turn highlighted skill gaps both in Civil Service Pensions and MyCSP which have been detrimental to the Scheme. For instance, poor cash forecasting processes led to an excess of £477 million in cash being requested from the Consolidated Fund in 2016–17.
- 4.35 We have started to address these issues by reorganising and skilling up the finance function and encouraging MyCSP to do the same. There is a detailed plan to improve the quality of several key financial activities, including short- and long-term forecasting, budgeting, management of the employer contributions and overpayments. We are also setting up a governance group to enhance the financial governance of the Scheme which will include representatives from the Civil Service Pensions central finance team, HM Treasury, the Government Actuary's Department (GAD) and GIAA.
- 4.36 There have already been noticeable improvements, including closer working relationships with MyCSP, GAD and HMT. This has led to some streamlining of work between Civil Service Pensions and MyCSP's finance teams, much improved long-term forecasting for the Office of Budget Responsibility and a far more informed working arrangement with GAD. However, there is still more to be done.

New Fair Deal

- 4.37 We have improved the process for on-boarding of new employers resulting from the New Fair Deal to ensure the administrative and financial impact can be assessed. A pipeline of expected and potential New Fair Deal transfers is now in place which supports a more informed assessment of capacity requirements for bringing new employers into the Scheme.

Administration

- 4.38 As a result of the improved contract management arrangements, MyCSP, encouraged by Civil Service Pensions, put in place the proper internal audit function, required by the contract, to undertake a comprehensive review of its internal control framework. This identified several systemic and apparently long-standing failings, including:
- failure to revise pension awards after receiving additional data from employers
 - duplicate payments being made

- excessive numbers of staff with privileged access to key administration software systems
- a failure to recoup funds paid on behalf of employers under the Civil Service Compensation Scheme, with the resultant shortfall being met by the Vote
- a failure to pay contribution-equivalent premiums to HMRC.

- 4.39 Following the identification of these issues, Cabinet Office contacted the Pensions Regulator (tPR) to make them aware of the issues and to identify whether these are classed as material breaches of pensions legislation for their purposes; this is still being considered by tPR. As a result, the Director of Civil Service Pensions now meets with tPR on a monthly basis to appraise them of the ongoing work and progress made. tPR has noted the open and transparent approach adopted by Civil Service Pensions.
- 4.40 After the review MyCSP, with Civil Service Pensions' support, have made several key changes in their senior management and in April 2017 put in place a rectification plan which aims to resolve the bulk of the key issues by March 2018, although some work will be completed in March 2019.
- 4.41 A formal Programme Board has been established to oversee this, headed by the Director of Civil Service Pensions, which provides monthly progress reports to me, to tPR and the Minister for the Cabinet Office.
- 4.42 Following a review by GIAA we have formalised the process by which MyCSP provide services directly to employers and charge them via an agreed rate card. In order to provide transparency, Civil Service Pensions now sign off on these services to ensure the charges are compliant.
- 4.43 Alongside the work to resolve these issues, we are working with MyCSP and others to transform services, with a programme of work planned for 2018–19.

Employers

Employer Responsibilities

- 4.44 One of the Scheme's inherent risks is the dependency on many different employers to provide the right data and information to allow deductions and benefits to be accurately calculated.
- 4.45 There remain challenges in ensuring employers understand their obligations and responsibilities, and in setting up an effective framework for holding employers to account and so drive improvements in Scheme performance. GIAA identified several areas where improvements could be made and Civil Service Pensions is currently considering ways their recommendations can be taken forward.
- 4.46 The wide-ranging nature of this dependency presents practical challenges. Civil Service Pensions has focused on improving employer communication using three forums:
- The Intelligent Customer Forum (ICF), which comprised senior officials and was chaired by a Director from the Department for Work and Pensions (DWP), ran until April 2017. A new employer Strategic Working Group will commence in January 2018 and will provide a forum by which senior officials can review and contribute to the strategic direction, delivery model and commercial structure of the administration of the Scheme.
 - The Practitioner Group comprises working-level pension practitioners from a range of employers. This meets monthly, is attended by MyCSP, and is used as a forum to test new initiatives and canvass employer and member feedback.
 - Civil Service Pensions and MyCSP continue to run quarterly regional employer forums to update employers on annual events and scheme initiatives.
- 4.47 Employer compliance is targeted in the following ways:
- Regular Employer Pensions Notices (EPNs) are sent to employers and published online. They are used to update employers on scheme guidance, policy and process changes and changes to legislation that affect the management of the Scheme;
 - The Accounting Officer Certificate (see below) is used to gain employer assurance that correct scheme guidance, process and procedures have been adhered to; and
 - MI, performance measures and targets are being developed to improve the quality and timeliness of monthly data transfers.

- 4.48 Ensuring employers understand and value the Scheme is a strategic objective and it follows that the achievement of this goal will assist the achievement of the objective of ensuring members value the Scheme.
- 4.49 To continue on this path, Civil Service Pensions is, in 2018, undertaking a review of the employer and administrator relationship model to determine whether Scheme roles and responsibilities can be improved to help the Scheme run more efficiently. This has identified some short-term improvements related to scheme promotion, new joiner processes and resolving gaps in historic data that should reduce effort for employers and improve service for members. These are part of the programme of work scheduled for 2018.

Accounting Officer Certificates

- 4.50 There has been a long-standing arrangement whereby each year employer Accounting Officers provide me with an Accounting Officer Certificate (AOC) reporting on the operation of their pension control framework and compliance with the terms of their Participation Agreement. The AOC asks a series of questions focused on the processes and procedures they have in place to ensure adherence with scheme rules and guidance. A revised AOC was designed for 2016–17 with focus on key areas.
- 4.51 All employers have now returned their AOCs. Two-thirds have stated that they have adequate controls and processes in place. One-third identified some weaknesses generally in the areas of staff training and the maintenance and transmission of accurate payroll data. Only three employers identified fundamental weaknesses focused on staff training, payroll data accuracy and correct calculation of contributions.
- 4.52 Civil Service Pensions is ensuring that remedial action is being put in place by employers around the key areas identified. We are working with MyCSP to develop a compliance model with performance targets, actions and escalations to address poor performance in relation to the quality of monthly interface submissions. The model is dependent on the enhancements to the monthly interface process that will bring improved data quality and submission timeliness and is expected to go live in early 2018.
- 4.53 One issue that came to light was that a particular department had not been deducting contributions from some allowances received by staff and in turn the allowances had not been counted towards pension benefit calculations. It is not clear how the incorrect treatment happened but Civil Service Pensions has asked for and received assurance from the other main Civil Service employers that they do not have similar issues.
- 4.54 The affected department has set up a Programme Board, which the Director of Civil Service Pensions attends, to monitor progress, ensure that the correct deliverables have been identified and help steer the programme accordingly. The Board had its first meeting on 21 July 2017.
- 4.55 Overall the 2016–17 AOC exercise has worked better than in previous years but there are still areas where we believe assurance needs to be strengthened. Civil Service Pensions will therefore again review the process in time for the 2017–18 exercise.

Data

- 4.56 There have been longstanding problems with the integrity of Scheme data. Accurate member data is necessary to enable the proper calculation of pension entitlements and the prompt and correct payment of benefits. Changes in tax regulations have also made the supply of accurate data even more essential.
- 4.57 To detect errors and prevent mistakes, manual checks are routinely carried out prior to any payment event. To improve this process MyCSP has now introduced automated checks to improve consistency and efficiency.
- 4.58 As I reported last year, the underlying data problems are being addressed by way of a 'Data Improvement Strategy' aimed at continuous improvement in the provision, recording, maintenance and application of all scheme data. To facilitate this, a Data Working Group has been set up with attendees from Civil Service Pensions, employers and MyCSP. The group meets monthly to discuss the data issues and gain universal agreement on the required actions.
- 4.59 The initial review of data validation failures for active members identified 3.2m lines of potentially suspect data. Working together with MyCSP, the team ran a bulk cleanse activity which reduced the number to 1.2m lines, which now require employer involvement to resolve. This process is set to run for two years and commenced in October 2017. In Q1 2018 the deferred and pensioner data will be assessed for accuracy and another separate programme of work will be commissioned to consider cleansing of this data in the next two years.

- 4.60 To ensure a timely and robust data cleanse programme, Civil Service Pensions procured a data cleanse specialist firm to work alongside MyCSP and Civil Service Pensions. This includes web-based portal functionality for employers backed up by a training programme. Data considered to be at risk of error will be validated by employers using historic payroll records.
- 4.61 Civil Service Pensions has recognised that to ensure cleansed data remains accurate, the interfaces with employers need significant review. To ensure robust data going forward, there will be enhancements to the monthly interface between employers and MyCSP. The scope of quality assurance checks has been broadened and improved management information will allow Civil Service Pensions to quickly identify any trends or systemic issues. This regime will be implemented from Q1 2018 and should significantly improve the validity of new data being received.

Membership numbers/scheme liability

- 4.62 I have reported previously on the problems with reporting accurate membership numbers and the lack of regular reconciliations. One instance of this led to an overstatement of deferred members in the 2012 Scheme valuation. To help avoid this problem reoccurring, Civil Service Pensions asked MyCSP to introduce regular reconciliations to help highlight problems which could then be resolved.
- 4.63 MyCSP carried out significant work during 2016–17 and introduced a more robust process centred around the reconciliation process. This has led to a significant improvement to the controls around the numbers and consequently their accuracy. This in turn provides added assurance around the accuracy of data needed for the 2016 Scheme valuation.
- 4.64 The work has allowed MyCSP, for the first time, to report by entitlement rather than the member's current status. This reflects the fact that a significant number of members have multiple entitlements. The ability to analyse data in this way makes it easier to detect any issues or errors.

Data security

- 4.65 Employers are responsible for data held by themselves or their payroll provider. Civil Service Pensions has provided guidance to both employers and MyCSP on the security of data in transit and data storage. Employers are required to certify that they have a secure payroll interface with MyCSP's pension software (Compendia), or an alternative agreed with MyCSP, which monitors the status of payroll interfaces.
- 4.66 The Security Working Group monitors all matters concerning information assurance and data security that may arise as MyCSP transforms its services. The group was upgraded during the year to increase the level of expertise, and the frequency of meetings has increased.
- 4.67 No personal data incident issues were reported to the Information Commissioner's office during the year.

Other schemes

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



John Manzoni
Principal Accounting Officer and Permanent Secretary
Cabinet Office

15th December 2017

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Statement of Parliamentary Supply – (subject to Audit)

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

Summary of resource and capital outturn 2016–17

	Note	Estimate			Outturn			2016–17	2015–16
		Voted £000	Non- Voted £000	Total £000	Voted £000	Non- Voted £000	Total £000	Voted outturn compared with Estimate: saving/ (excess) £000	Outturn Total £000
Departmental Expenditure Limit									
• Resource		-	-	-	-	-	-	-	-
• Capital		-	-	-	-	-	-	-	-
Annually Managed Expenditure									
• Resource	SOPS1	7,905,416	-	7,905,416	7,811,020	-	7,811,020	94,396	8,091,826
• Capital		-	-	-	-	-	-	-	-
Total Budget		7,905,416	-	7,905,416	7,811,020	-	7,811,020	94,396	8,091,826
Non-Budget									
• Resource		-	-	-	-	-	-	-	-
Total		7,905,416	-	7,905,416	7,811,020	-	7,811,020	94,396	8,091,826
Total Resource		7,905,416	-	7,905,416	7,811,020	-	7,811,020	94,396	8,091,826
Total Capital		-	-	-	-	-	-	-	-
Total		7,905,416	-	7,905,416	7,811,020	-	7,811,020	94,396	8,091,826

Net Cash Requirement 2016–17

Note	2016–17 Estimate £000	2016–17		2015–16
		Outturn £000	Outturn compared with Estimate: saving/ (excess) £000	Outturn £000
SOPS2	2,754,764	2,277,769	476,995	2,244,998
	2016–17 Estimate £000	2016–17 Outturn £000		2015–16 Outturn £000
	-	-		-

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

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

The notes below form part of these disclosures.

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

SOPS1. Analysis of net resource outturn by section

2016-17										2015-16	
Outturn £000						Estimate £000				Outturn £000	
Administration			Programme			Total	Net Total	Net compared to Estimate	Net total compared to Estimate, adjusted for virements	Total	
Gross	Income	Net	Gross	Income	Net						
Annually Managed Expenditure											
Voted:	-	-	-	11,588,723	(3,777,703)	7,811,020	7,811,020	7,905,416	94,396	94,396	8,091,826
Non-voted:	-	-	-	-	-	-	-	-	-	-	-
Non-budget:	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	11,588,723	(3,777,703)	7,811,020	7,811,020	7,905,416	94,396	94,396	8,091,826

SOPS2. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net Total outturn compared with estimate: Saving/(excess) £000
Net Resource Outturn	SOPS1	7,905,416	7,811,020	94,396
Accruals adjustments:				
New provisions		(11,591,760)	(11,578,689)	(13,071)
Changes in payables		-	(190,658)	190,658
Changes in receivables		-	(14,534)	14,534
Changes in non-supply payables		-	188,640	(188,640)
Changes in non-supply receivables		-	8,279	(8,279)
Use of provision		6,441,108	6,053,711	387,397
Excess cash receipts surrenderable to the Consolidated Fund		-	-	-
Net Cash Requirement		2,754,764	2,277,769	476,995

Parliamentary Accountability Disclosures

Losses and Special Payments

(Subject to Audit)

During the year 7,116 cases totalling £827,990 were written off (2015-16: 9,052 – £469,780).

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

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

I certify that I have audited the financial statements of the Cabinet Office: Civil Superannuation for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Losses and Special Payments disclosure that is described as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2017 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the Losses and Special Payments disclosure to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

18th December 2017

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

FINANCIAL STATEMENTS

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

		2016-17	2015-16
	Note	£000	£000
Principal Scheme arrangements			
Income			
Contributions receivable ¹	5	(3,566,974)	(3,518,058)
Transfers in	6	(105,565)	(182,702)
Other pension income	7	(6,508)	(7,931)
Expenditure			
Service cost	8	4,435,000	4,530,000
Enhancements	9	45,609	43,044
Transfers in	10	96,565	222,702
Injury benefits	11	8,963	11,930
Pension financing cost	12	6,719,000	6,830,000
		7,626,090	7,928,985
Other minor agency/principal pension schemes			
Income			
Contributions receivable		(98,656)	(90,942)
Expenditure			
Total charge to provisions		282,515	251,885
Benefits payable	14	1,071	1,898
		184,930	162,841
Combined Net Expenditure for the year			
		7,811,020	8,091,826
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year			
Pension re-measurements:			
- Actuarial loss / (gain)	19.7	41,600,022	(13,235,977)
		49,411,042	(5,144,151)

¹ A small element of employer contributions is paid in respect of the cost of administering the Scheme and has been deducted from the total shown here. Scheme administration costs are shown within the main Cabinet Office Account and details can also be found within the Report of the Manager on page 6.

The notes on pages 35 to 48 form part of these financial statements.

Combined Statement of Financial Position as at 31 March 2017

	Note	2016–17	2015–16
		£000	£000
Principal Scheme arrangements			
Current assets:			
Receivables (within 12 months)	16	296,406	302,743
Cash and cash equivalents	17	468,569	271,650
Total current assets		764,975	574,393
Current liabilities			
Payables (within 12 months)	18	(744,083)	(553,689)
Total current liabilities		(744,083)	(553,689)
Net current assets/(liabilities), excluding pension liability		20,892	20,704
Receivables (after 12 months)	16	53	53
Pension liability	19.4	(234,033,000)	(187,329,000)
Net liabilities, including pension liabilities		(234,012,055)	(187,308,243)
Compensation agency arrangements – CSCS			
Receivables (within 12 months)	22	7,539	16,139
Net current assets		7,539	16,139
Other pension schemes			
Receivables (within 12 months)	23	2,023	1,620
Payables (within 12 months)	24	(557)	(293)
Net current assets/(liabilities), excluding pension liability		1,466	1,327
Pension liability	25.2	(3,900,000)	(3,479,000)
Net liabilities, including pension liabilities		(3,898,534)	(3,477,673)
Combined Scheme – Total net liabilities		(237,903,050)	(190,769,777)
Taxpayers' equity:			
General Fund		(237,903,050)	(190,769,777)
		(237,903,050)	(190,769,777)

The notes on pages 35 to 48 form part of these financial statements.



John Manzoni
Principal Accounting Officer and Permanent Secretary
Cabinet Office

15th December 2017

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

	Note	2016-17 £000	2015-16 £000
Balance at 31 March		(190,769,777)	(198,158,926)
Net Parliamentary Funding – drawn down		2,466,409	2,208,562
Net Parliamentary Funding – deemed		288,355	324,791
Supply (payable)/receivable adjustment		(476,995)	(288,355)
Contingencies Fund Advance		250,000	-
Repayment of Contingencies Fund		(250,000)	-
Combined Net Expenditure for the Year	SOPS1	(7,811,020)	(8,091,826)
Actuarial gain/(loss)	19.7	(41,600,022)	13,235,977
Net change in taxpayers' equity		(47,133,273)	7,389,149
Balance at 31 March		(237,903,050)	(190,769,777)

The notes on pages 35 to 48 form part of these financial statements.

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

	Note	2016–17 £000	2015–16 £000
Cash flows from operating activities			
Combined net (expenditure)/income for the year	SOPS1	(7,811,020)	(8,091,826)
Adjustments for non-cash transactions			
(Increase)/decrease in Scheme receivables (within 12 months)	16	6,337	6,644
<i>Less Movement in receivables relating to items not disclosed in the Combined Statement of Comprehensive Net Expenditure</i>			
(Increase)/decrease in CSCS receivables – ACPs inc lump sums	22	8,600	84,472
Less movement in non-supply receivables	16, 22	(8,279)	(91,474)
(Increase)/decrease in other schemes' receivables	23	(403)	1,174
Increase/(decrease) in Scheme payables	18	190,394	(45,131)
Increase/(decrease) in other schemes' payables	24	264	(270)
<i>Movement in payables relating to items not disclosed in the Combined Statement of Comprehensive Net Expenditure</i>			
Less movement in non-supply payables	18	(188,640)	36,436
Increase in Scheme pension provisions	19.4	11,154,000	11,360,000
Increase in Scheme pension provisions – enhancements and transfers in	19.4	142,174	265,746
Increase in other schemes' pension provisions		282,515	251,885
Use of Scheme provisions – benefits paid	19.4	(5,926,519)	(5,857,868)
Use of Scheme provisions – refunds and transfers out	19.4	(54,463)	(92,901)
Use of other schemes' provisions		(72,729)	(71,885)
Net cash outflow from operating activities		(2,277,769)	(2,244,998)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		2,466,409	2,208,562
From the Contingencies Fund		250,000	-
Repayment to the Contingencies Fund		(250,000)	-
Adjustments for payments and receipts not related to Supply			
Compensation payments made on behalf of employers (including lump sum payments)	13	(478,973)	(414,704)
Reimbursement of compensation payments by employers (including lump sum payments)	13,22	487,573	499,176
Injury benefit payments made on behalf of employers	11	(10,306)	(9,187)
Reimbursement of injury benefit payments by employers	11,16	9,985	16,189
Net Financing		2,474,688	2,300,036
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	17	196,919	55,038
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities		-	-
Payments of amounts due to the Consolidated Fund		-	-
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		196,919	55,038
Cash and cash equivalents at the beginning of the period	17	271,650	216,612
Cash and cash equivalents at the end of the period	17	468,569	271,650

The notes on pages 35 to 48 form part of these financial statements.

Notes to the Financial Statements

1. Basis of preparation of the Scheme financial statements

The financial statements of the Civil Superannuation have been prepared in accordance with the relevant provisions of the 2016–17 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 – *Employee Benefits* and IAS 26 – *Accounting and Reporting by Retirement Benefit Plans* are of particular relevance to these statements.

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

1.1 Principal Civil Service Pension Arrangements

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

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

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

1.2 Civil Service Compensation Scheme

1.2.1 The Cabinet Office acts as agent for employers in the payment of compensation benefits arising under the Civil Service Compensation Scheme (CSCS). Compensation payments are generally recovered from employers on a monthly basis. The financial flows associated with these transactions are not brought to account in the financial statements.

1.3 Other minor agency and principal pension scheme arrangements

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

1.3.2 CSP acts an agent for the following schemes:

- pension increases to former Prime Ministers, former Speakers, various former public service appointees and former MEPs and their widow(er)s
- payments to the United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service
- payments to the Post Office Staff Superannuation Scheme for pensions paid in respect of periods in the

Civil Service

- pension increases in respect of pensions paid to former staff of the Raw Cotton Commission
- pension increases in respect of pensions paid to former staff of the Sugar Board
- Federated Superannuation System for Universities.

2. Statement of accounting policies

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

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

2.1 Accounting convention

These Accounts have been prepared under the historical cost convention.

- *Contributions receivable*

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

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

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

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

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

- *Transfers in*

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

- *Income received from departments in respect of enhancements*

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

- *Other pension income*

2.1.8 The remaining element of 'other income' is repayment of gratuities. This is accounted for as income and expenditure (representing the associated increase in the Scheme pension liabilities) on an accruals basis.

- *Additional Voluntary Contributions*

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

- *Current service cost*

2.1.10 The current service cost is the increase in the present value of the Scheme pension liabilities arising from members' service in the current period and is recognised in the revenue account. It is determined by the Scheme Actuary based on a discount rate of 1.37% real (3.60% including inflation).

- *Past service costs*

2.1.11 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.

- *Pension financing cost*

2.1.12 The financing cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one year closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The financing cost is based on a discount rate of 1.37% real (3.60% including inflation).

- *Injury benefits*

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

- *Scheme liabilities*

2.1.14 Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liabilities are measured on an actuarial basis using the Projected Unit Credit method and are discounted at 0.24% real (2.80% gross). The Actuary reviews the most recent actuarial valuation at the Statement of Financial Position date and updates it to reflect current conditions.

- *Pension benefits payable*

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

- *Payments to and on account of leavers*

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

(or earlier death).

- *Transfers out*

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

- *Actuarial gains/losses*

2.1.18 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.

2.2 Changes to International Financial Reporting Standards

There are no accounting standards that have been issued but not yet come into effect under the *FReM* that will have a material impact on the Scheme financial statements.

3 Accounting policies for CSCS agency arrangements

Compensation benefits for staff leaving before normal retirement age are met by employing departments. For administrative convenience and value-for-money considerations, compensation benefits are paid initially by CSP, throughout the month, but are then recovered from employers at month end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2016–17 are shown in Note 13.

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

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

5. Contributions receivable

	2016–17	2015–16
	£000	£000
Employers'	(2,778,466)	(2,736,795)
Employees':		
Normal	(749,407)	(746,150)
Purchase of added years	(33,362)	(31,081)
Actuarial Retirement Reduction Buy Out	(5,101)	(3,604)
Effective Pension Age	(638)	(428)
	(3,566,974)	(3,518,058)

Contributions of £2.78 billion are expected to be payable to the Scheme in 2017–18.

6. Transfers in (see also Note 10)

	2016-17	2015-16
	£000	£000
Group transfers from other schemes	(57,381)	(147,738)
Individual transfers in from other schemes	(48,184)	(34,964)
	(105,565)	(182,702)

7. Other pension income

	2016-17	2015-16
	£000	£000
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	68	(587)
capitalised cost of enhancement to pensions, payable on departure	-	-
capitalised cost of enhancement to pensions, payable at age 60	(6,468)	(7,222)
Repayment of gratuities*	-	-
Effective Pension Age receivable from employer	(108)	(122)
	(6,508)	(7,931)

* Repayments of contributions paid to members who leave the Scheme within two years of joining.

8. Service cost

	2016-17	2015-16
	£000	£000
Current service cost	4,435,000	4,430,000
Past service cost	-	100,000
	4,435,000	4,530,000

9. Enhancements (see also Note 19.4)

	2016-17	2015-16
	£000	£000
Employees:		
Purchase of added years	33,362	31,081
Refund of gratuities	-	-
Actuarial Retirement Reduction Buy Out	5,101	3,604
Effective Pension Age	638	428
Employers:		
Effective Pension Age	108	122
Bringing forward the payment of accrued lump sums	(68)	587
Enhancements to pensions on departure	-	-
Enhancements to pensions on retirement	6,468	7,222
	45,609	43,044

10. Transfers in – additional liability

	2016–17	2015–16
	£000	£000
Group transfers in from other schemes	48,381	187,738
Individual transfers in from other schemes	48,184	34,964
	96,565	222,702

11. Injury benefits

	2016–17	2015–16
	£000	£000
Injury benefits payable	19,269	21,117
Less: recoverable from employers	(10,306)	(9,187)
	8,963	11,930

Injury benefits payable to former employees but which are not recoverable from employers (i.e. those in respect of injuries sustained on or before 1 March 1998) are transactions of the Scheme and are brought to account through the Statement of Comprehensive Net Expenditure. During 2016–17, these amounted to £8,963K (2015–16: £11,930K).

12. Pension financing cost (see also Note 19.4)

	2016–17	2015–16
	£000	£000
Interest charge for the year	6,719,000	6,830,000
	6,719,000	6,830,000

Statement of Comprehensive Net Expenditure – CSCS compensation agency arrangements**13. Compensation benefits payable**

	2016–17	2015–16
	£000	£000
Recoverable from employers	91,147	106,733
Amounts met from central funding	-	-
Total annual compensation payable	91,147	106,733
Lump sum payable recoverable from employers	387,826	307,971
Total lump sums payable	387,826	307,971

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

14. Benefits payable – not charged to provisions

	2016–17	2015–16
	£000	£000
George Cross (recoverable)	6	-
Pensions increase for ex-PMs/Speakers	84	857
Pensions increase for Public Service Appointments	127	126
Pensions increase ex for MEPs/widow(er)s	605	622
Payments to the United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	15	15
Payments to the Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	52	61
Pensions increases in respect of pensions paid to former staff of the Sugar Board	16	23
Pensions to Governors of overseas colonies awarded before the introduction of a new scheme in 1978	1	1
Federated Superannuation System for Universities	165	193
	1,071	1,898

15. Additional Voluntary Contributions (AVCs)

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

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

The aggregate amounts of AVC investments are as follows:

	2016–17			2015–16		
	Standard Life	Equitable Life ¹	Scottish Widows'	Standard Life	Equitable Life ¹	Scottish Widows'
	£000	£000	£000	£000	£000	£000
Movements in the year:						
Balance at 1 April	56,022	16,137	148,317	60,370	17,188	148,089
New investments	2,116	147	968	1,916	131	1,862
Sales of investments to provide pension benefits	(5,250)	(2,050)	(15,088)	(5,226)	(1,171)	(40,917)
Changes in market value of investments	9,092	1,859	13,785	(1,038)	(11)	39,283
Balance at 31 March	61,980	16,093	147,982	56,022	16,137	148,317
Contributions to provide life cover	n/a	32	n/a	n/a	39	n/a
Benefits paid on death	n/a	244	n/a	n/a	51	n/a

Note 1: Data as at 5 April

Statement of Financial Position: Principal arrangements

16. Receivables – contributions due in respect of pensions

Analysis by type	2016–17	2015–16
	£000	£000
Amounts falling due within one year:		
Pension contributions due from employers	217,827	217,878
Employees' normal contributions	58,059	58,059
Employees' added pension	1,838	2,041
Early retirement employer costs	6,036	11,185
Overpayment receivables (net of provision for non-recovery)	11,759	13,014
Sub-total	295,519	302,177
Non-supply receivables:		
Injury benefit receivables	887	566
	296,406	302,743
Amounts falling due after more than one year:		
Long-term receivables	53	53
	53	53

17. Cash and cash equivalents

Analysis by type	2016–17	2015–16
	£000	£000
Balance at 1 April	271,650	216,612
Net change in cash balances	196,919	55,038
Balance at 31 March	468,569	271,650
The following balances at 31 March were held at:		
Government banking services	467,728	270,809
Balance with government departments	841	841
Balance at 31 March	468,569	271,650

18. Payables – in respect of pensions

Analysis by type	2016–17	2015–16
	£000	£000
Amounts falling due within one year		
Pensions	(202,328)	(208,028)
HMRC and voluntary contributions	(57,438)	(54,738)
Overpaid contributions: employers	-	(2,235)
Other creditors	(7,322)	(333)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(476,995)	(288,355)
	(744,083)	(553,689)

19. Pension liabilities

19.1 Assumptions underpinning the pension liability

The Civil Service Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department (GAD) carried out an assessment of the Scheme liabilities as at 31 March 2017. The Report of the Actuary on pages 13 to 16 sets out the scope, methodology and results of the work the Actuary has carried out.

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

- Scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme
- income and expenditure, including details of expected bulk transfers in or out of the Scheme
- following consultation with the Actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The major assumptions used by the Actuary were:

	At 31 March 2017	At 31 March 2016	At 31 March 2015	At 31 March 2014	At 31 March 2013
Rate of increase in salaries ¹	4.55%	4.2%	4.2%	4.5%	3.95%
Rate of increase in pensions in payment and deferred pensions ²	1.0%	0.0%	1.2%	2.7%	2.2%
Inflation assumption	2.55%	2.2%	2.2%	2.5%	1.70%
Nominal discount rate	2.80%	3.60%	3.55%	4.35%	4.10%
Discount rate net of price inflation	0.24%	1.37%	1.3%	1.8%	2.35%
Life expectancy ³ (in years) at age 60					
Current retirements					
Females	30.8	30.7	31.3	31.2	30.7
Males	29.0	28.9	29.1	29.0	28.6
Retirements in 20 years' time					
Females	33.0	32.8	33.6	33.5	33.0
Males	31.2	31.1	31.4	31.3	31.1

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

² This is the pension increase applicable after the balance sheet date.

³ Stated life expectancy figures are for members retiring on grounds other than ill-health. Assumed life expectancy of ill-health pensioners is lower.

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

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

In accordance with IAS 19 – *Employee Benefits*, the Scheme Manager/trustees are required to undertake a

sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

19.2 Analysis of the pension liability

	At 31 March 2017 £bn	At 31 March 2016 £bn	At 31 March 2015 £bn	At 31 March 2014 £bn	At 31 March 2013 £bn
Current pensions and associated contingent pensions	89.9	69.4	68.6	66.9	66.4
Deferred pensions, including contingent pensions, for members no longer contributing to the Scheme	36.9	30.2	35.2	30.9	26.1
Accrued benefits available to members contributing to the Scheme	107.2	87.7	91.0	77.9	67.5
Total	234.0	187.3	194.8	175.7	160.0

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

The value of the liability on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The Scheme Manager accepts that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in Note 19.4. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

19.3 Sensitivity analysis

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

Change in assumption		Approximate effect on total liability **	
Financial assumptions			
(i)	discount rate* +0.5% a year	-10.0%	£23bn
(ii)	earnings increases* +0.5% a year	+1.5%	£3.5bn
(iii)	pension increases* +0.5% a year	+9.0%	£21bn
Demographic assumptions			
(iv)	additional one year increase to life expectancy at retirement	+3.0%	£7.0bn
(v)	all active members who move to the new scheme retire (on average) one year later***	-	-

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

** Approximate effect rounded to the nearest 0.5%

*** Impact is small at -0.2% rounded down here to 0%

19.4 Analysis of movement in the Scheme liability

	2016-17	2015-16
	£000	£000
Scheme liability at 1 April	(187,329,000)	(194,838,000)
Service cost (Note 8)	(4,435,000)	(4,530,000)
Pension financing cost (Note 12)	(6,719,000)	(6,830,000)
Enhancements (Note 9)	(45,609)	(43,044)
Pension transfers in (Note 10)	(96,565)	(222,702)
Benefits payable (Note 19.5)	5,926,519	5,857,868
Pension payments to and on account of leavers (Note 19.6)	54,463	92,901
Actuarial gain / (loss) (Note 19.7)	(41,388,808)	13,183,977
Scheme liability at 31 March	(234,033,000)	(187,329,000)

During the year ended 31 March 2017, employers' contributions represented an average of 21.1% of pensionable pay and it is forecast that this will stay the same during the scheme years 2017-18 and 2018-19. A valuation as at 31 March 2016 is currently under way which will determine the employer contribution rates payable from 1 April 2019.

19.5 Analysis of benefits paid

	2016-17	2015-16
	£000	£000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	5,125,039	4,998,572
Commutations and lump sum benefits on retirement	801,480	859,296
Per Statement of Cash Flows	5,926,519	5,857,868

19.6 Analysis of payments to and on account of leavers

	2016-17	2015-16
	£000	£000
Refunds to members leaving the service	19,178	18,147
Payments for members joining state scheme	10	1
Group transfers to other schemes	170	16,270
Individual transfers to other schemes	35,105	58,483
Per Statement of Cash Flows	54,463	92,901

19.7 Analysis of actuarial gain/ (loss)

	2016-17	2015-16
	£000	£000
Experience gains/(losses) arising on the Scheme liabilities	6,265,192	6,863,977
Changes in assumptions underlying the present value of Scheme liabilities	(47,654,000)	6,320,000
PCSPS	(41,388,808)	13,183,977
Other schemes	(211,214)	52,000
Per Statement of Changes in Taxpayers' Equity	(41,600,022)	13,235,977

19.8 History of Experience (gains)/losses

	2016-17	2015-16	2014-15	2013-14	2012-13
Experience (gains)/losses on the Scheme liabilities					
Amount (£000)	(6,265,192)	(6,863,977)	(294,352)	(4,946,649)	2,198,278
Percentage of the present value of the Scheme liabilities	(2.7%)	(3.7%)	(0.2%)	(2.8%)	1.4%
Total amount recognised in Statement of Changes in Taxpayers' Equity Amount (£000)	41,388,808	(13,183,977)	11,635,931	10,733,655	10,463,945
Percentage of the present value of the Scheme liabilities	17.7%	(7.0%)	6.0%	6.1%	6.5%

20. Financial instruments

The Scheme has minimal exposure to foreign exchange rate risk. The majority of payments made overseas to individual members are liable to foreign exchange rate risk. However, the Scheme does not bear any risk in relation to this. The foreign exchange rate risk falls on the recipient of the payment made by the Scheme. Any increase or decrease in the amounts receivable, in respect of overseas payments liable to foreign exchange rate risk, are borne by the individual member. The exception is when payments are made overseas to individual members from the Commission of Irish Lights. In these circumstances, the Scheme bears the foreign exchange liability as part of the transfer terms, but it is not seen to be a major financial risk.

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

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

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

An ombudsman has ruled that the Civil Service Injury Benefits Scheme (CSIBS) does not allow the offsetting of Employment Support Allowance (ESA) against CSIBS benefits. This ruling could lead to some £13 million of (ESA) deductions being refunded to beneficiaries. The Scheme makes CSIBS payments but recovers any post 1998 payments from employers. Work is ongoing to assess the quantum of deductions that would be funded by the Vote

(i.e. relate to pre-1998 cases). This is therefore being considered as a contingent liability due to the uncertainty of the amount.

Statement of Financial Position – CSCS compensation agency arrangements

22. Receivables – Non-supply

	2016–17	2015–16
	£000	£000
Recoverable annual compensation payments including lump sums	7,539	16,139
Balance at 31 March	7,539	16,139

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

23. Receivables – amounts falling due within one year

	2016–17	2015–16
	£000	£000
Contributions	2,023	1,620
Balance at 31 March	2,023	1,620

24. Payables – amounts falling due within one year

	2016–17	2015–16
	£000	£000
Pensions	(557)	(293)
Balance at 31 March	(557)	(293)

25. Pension liability

25.1 The Actuary provides an annual valuation of the Grosvenor and Government Communications Bureau pension schemes included within these financial statements.

25.2 Analysis of movement in scheme liability

	2016–17	2015–16
	£000	£000
Opening scheme liability at 1 April	(3,479,000)	(3,351,000)
Net movement in year (including actuarial gain/loss)	(421,000)	(128,000)
Scheme liability at 31 March	(3,900,000)	(3,479,000)

26. Related party transactions

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

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

27. Events after the reporting period

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

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