Cabinet Office: Civil Superannuation

Accounts
2014-15

HC 45

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Accounts
2014-15
(For the year ended 31 March 2015)

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Report of the Manager

Introduction

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, defined benefit, contributory, public service occupational pension scheme made under the Superannuation Act 1972. The PCSPS covers four pension arrangements. New entrants who joined the Civil Service from 30 July 2007 were offered membership of **nuvos**, a career average pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of **premium**, **classic** and **classic plus**. Money purchase pensions known as **partnership** are available as an alternative for employees joining on or after 1 October 2002. **Partnership** is delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

The Civil Servants and Others Pension Scheme (CSOPS) known as Alpha is a new unfunded, defined benefit, contributory, public service occupational pension scheme that came into force as from 1 April 2015. Many PCSPS members transferred into Alpha on that date, while others will transfer into it over the next few years. The PCSPS is now closed to new members.

Financial Performance

Resource Outturn

The 2014-15 resource outturn is £9,120 million (2013-14: £7,302 million). At £99 million above the Supply Estimate forecast of £9,021 million, the overspend is 1.1%. The increase in outturn compared to the prior year is as a result of a decrease in the discount rate which has resulted in an increase in both the Current Service Costs and the Pension financing cost and a loss on transfer of two schemes joining the PCSPS. The loss on transfer of £167 million resulted from the transfer into the PCSPS of the General Lighthouses Authorities and the House of Commons Staff Pension Scheme. The additional liability was not matched by the amount received which created the loss. The reason this occurred was due to the differing actuarial assumptions used to determine the liability and the transfer payments due.

Net Cash Requirement

In 2014-15 the net cash requirement was £1,509 million (2013-14: £2,197 million). At £451 million below the Supply Estimate of £1,960 million, the outturn is a variance of 23%. This is mainly due to the receipt of the money paid to the scheme in respect of the transfer of the General Lighthouse Authorities and the House of Commons Staff Pension Schemes when they transferred into the PCSPS which was not anticipated.

PCSPS Liability

The total liability to pay pensions in the future is £194,838 million as at 31 March 2015, compared with £175,729 million as at 31 March 2014, an increase of £19,109 million. The increase in liability is mainly due to changes in assumptions underlying the present value of scheme liabilities. An analysis of the movement in liability is provided in note 19.4 to the accounts. Further detail is provided in note 19.

Increase in Employee Contributions

The employee contributions were increased on 1 April 2014 by an average of 0.64%. The total employee contributions received in 2014-15 were £752.3 million (2013-14: £672.5 million). This is an increase of £79.8 million due to an increase in the contribution rate paid by employees from 1st April 2014.

Roles and responsibilities

The Cabinet Office and the Civil Service Pensions Board (CSPB)

The CSPB came into effect as from April 2010 to strengthen the governance and management of the Civil Service pension arrangements.

As Accounting Officer, I have formally delegated to the CSPB the in-year responsibility for managing the administration of the arrangements. The CSPB draws most of its members from employers who participate in the PCSPS and from PCSPS members. The Cabinet Office Finance Director also sits on the Board and there are two non-executive members from the private sector pensions industry. The Pension Schemes Executive (TPSE), staffed by officials from the Cabinet Office, supports the CSPB and its activities.

The CSPB's responsibilities are:

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

On behalf of the CSPB, TPSE manages the day-to-day delivery of administration by MyCSP Ltd through a formal contract that came into force as from 1 May 2012 (before that MyCSP was part of the public sector and administered the scheme under a Service Level agreement). In addition, TPSE:

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

In exercising its responsibilities the CSPB has put in place processes to monitor the cost of scheme administration. For the year ending 31 March 2015 the total cost of administration and management of the Civil Service pension arrangements was £61.2m. This can be broken down as follows:

Central management	£1.7m
Administration	£59.5m
Total	£61.2m

Of this, £47.3m has been met centrally from a 'levy' on employer pension contributions with employers meeting £13.9m of the costs directly. This is a transitional arrangement and from a future point the intention is that all administration and management costs will be met centrally through the employer pension contributions.

Employers

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

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

Since October 2013, private sector employers who have taken on functions that were formerly carried out in the public sector may apply to join the Civil Service pension arrangements. Their admission is restricted to any employees that they have taken on as a result of the transfer of work. These employees can only remain PCSPS members while they continue to be employed principally on the work that they were doing while employed in the public sector. TPSE has in place admission agreements with each New Fair Deal employer which requires them to provide an annual compliance statement.

Around 300 employers are managed within the scheme. These are made up of departments, NDPBs, government agencies and external organisations, which include the New Fair Deal employers.

MyCSP

On 1 May 2012, the Cabinet Office's contract with Capita Hartshead to pay benefits novated to MyCSP as it moved to the private sector. Under the contract Capita Hartshead was responsible for:

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

This contract ended on 16 September 2014. MyCSP now performs in-house all the work that Capita Hartshead previously did under the contract.

Cabinet Office

The Cabinet Office's Civil Service Workforce Reform Team is responsible for development of policy and maintenance of scheme rules. The Cabinet Office Finance and Estate Management team is responsible for the scheme finances, including the production of the annual accounts.

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

The statements also include transactions and balances in respect of the Grosvenor and Government Communications Bureau pension schemes, which are managed under separate arrangements.

Audit

As Accounting Officer, as far as I am aware, there is no relevant audit information of which the scheme's auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the scheme's auditors are aware of the information. The Comptroller and Auditor General is the scheme's auditor under the Government Resource and Accounts Act.

The notional audit fee for the year is £130K and it is accounted for in the Cabinet Office departmental accounts.

Civil Service Compensation Scheme (CSCS)

MyCSP, under contract to the Cabinet Office, acted in 2014-15 as agent for employers in the payment of compensation benefits arising under the CSCS. MyCSP calculate the benefits which Capita pay. Employers then reimburse the Cabinet Office: Civil Superannuation vote. These flows are not brought to account in these financial statements. Details of the total amounts paid under the CSCS are at Note 13.2.

Rule changes

2015 Pension Reforms

As part of the Government's reforms to public service pensions, a new pension scheme called Alpha has been introduced from 1 April 2015 for civil servants and others covered by the Civil Service pension arrangements. Members will move to Alpha for future pension accrual unless they are protected from the changes. The PCSPS is closed to new entrants. Those who have protection are those aged within 10 years of Normal Pension age on 31st March 2012.

Details of Alpha are available on the Civil Service Pensions website:
http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/
and the scheme rules are available at:
http://www.legislation.gov.uk/uksi/2014/1964/contents/made

Contribution changes

Following an amendment in March 2012, the PCSPS rules were further amended in March 2013 and March 2014 to provide for scheme members to pay extra contributions from 1 April 2013 and 1 April 2014 respectively.

Contribution rates have again been amended from April 2015. The new rates are intended to raise the same level of member contribution as the 2014/15 rates would have raised. The same contribution structure now applies across all schemes, and is tiered according to the level of a member's actual salary.

The consequence of the changes is that current and former **classic** members generally pay a higher contribution rate than they paid in 2014/15, and members of the other schemes pay a lower contribution rate.

Partnership Death and Ill-Heath schemes

Partnership members are provided with death and ill-health benefits. These benefits were previously provided by stand-alone schemes made under Superannuation Act 1972. The Public Service Pensions Act 2013 automatically closed these schemes on 31st March 2015.

Replacement arrangements were established by adding Schedules to The Public Service (Civil Servants and Others) Pensions Regulations 2014. The new arrangements deliver very similar benefits to the schemes they replaced.

Same-sex marriage

The PCSPS rules were amended to recognise same sex marriages. The rules relating to members of same sex marriages are very similar to the rules for civil partnerships.

Unregistered Death Benefit Scheme

The Unregistered Death Benefit Scheme was closed on 31st March 2015. There are no plans to put in place any alternative provision.

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

The CSAVCS allows Civil Service pension scheme members to increase their benefits by contributing to defined contribution arrangements. TPSE continues to exercise its duty of care towards members by monitoring the CSAVC providers, working with the Scheme's professional advisers, Aon Hewitt Ltd.

Members who choose to contribute to the CSAVCS build up a fund which they have traditionally used to buy an annuity. The March 2014 Budget included a number of changes, and proposed changes, around how individuals can access and use their defined contribution pension pots and the rules of the AVC scheme have been amended to permit complete flexibility. The options offered to members 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.

Complaints under the Internal Dispute Resolution (IDR) Procedures

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

During 2014-15 MyCSP and Capita completed 123 first stage decisions, upholding in full or in part 21 of the complaints that they investigated. In the same period TPSE completed 88 investigations at the second stage of the IDR process. In 69 cases TPSE rejected the complaints by scheme members or concluded that they should be considered outside of the IDR process (although in 4 of the rejected cases, TPSE decided that compensation for distress and inconvenience should be paid). In the remaining 19 cases, TPSE upheld in full or in part the complaints made and, where appropriate, ordered remedial action (including compensation for distress and inconvenience in 10 of these cases).

The Pensions Ombudsman or the Pension Ombudsman's Office completed investigations into 25 of TPSE's cases during the year and upheld TPSE's decision in 14 of them.

National Fraud Initiative (NFI)

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. Data on the PCSPS pensions in payment are compared against data on recorded deaths to identify cases where pensions might remain in payment to deceased persons. PCSPS data are also matched against housing benefits so that local authorities can identify claimants who have failed to declare receipt of an occupational pension. Work commenced on the NFI 2014 report in April 2014 and was the ninth exercise in which Cabinet Office had participated. Cabinet Office identified about 200 potential overpayments of around £350,000 in total. The majority of cases have been contacted and £170,000 has been recovered to date with some of the cases being paid back on a repayment plan. During 2014-15 outstanding debts arising from the NFI 2012 exercise were reduced to £1 million (from c£1.7M last year) which are being recovered

Pensions increase

Pension payments increased by 2.7% from 7 April 2014, in line with the movement in the Consumer Prices Index from September 2012 to September 2013.

Membership statistics				
Membership of the PCSPS at 31 March:				**Movements**
	2015		**2014**	
Active members*	493,000		484,000	9,000 (1.86%)
Deferred members as previously reported			370,000	
Adjustment due to new information received[1]			-26,000	
Restated total numbers of deferred members	341,000		344,000	-3000 (-1.0%)
Pensions in payment:				
Officers	513,000		526,000	-13,000 (2.4%)
Dependants of deceased members	120,000		128,000	-8,000 (-1.6%)
Total number pensioners	633,000		654,000	
Adjustment for "Other pensioners" [2]	6,000		1,000	
Adjustment due to new information received[3]			-32,000	
Restated total number of pensioners	639,000		623,000	16,000[4] (2.57%)
Annual compensation payments (and other on-going payments) for which employers are responsible	6,800		10,300	-3,500 (-34.0%)
Staff opting for **partnership** pension Arrangements	7,731		7,706	25 (0.3%)

*The approximate split of active membership at 31 March 2015 was 51% classic, 2% classic plus, 23% premium and 23% nuvos, and 1% partnership.

[1] There is a large drop in the deferred membership numbers data provided by MyCSP in comparison to those provided by our previous pensions administrator. This is explained further in the Governance Statement.

[2] "Other" pensioners were not previously included in these figures. These are people who are receiving a pension as a result of members opting to give up part of their own pension and allocate it to a dependant.
[3] The adjustment has been made due to new information received on pensioner membership numbers from our pensions administrator. This is explained further in the Governance Statement.
[4] The large increase is due to two bulk transfers coming into the scheme.

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

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

Advisers

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

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

Medical Advisers: Health Assured, PO Box 10426, Hinkley, LE10 9FL.

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

Auditors:

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

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

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

Further information

Please address any enquiries about Civil Service pension arrangements to:

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Priestley Road
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RG24 9NW

(scheme.managementexecutive@cabinetoffice.gov.uk)

John Manzoni
Permanent Secretary
Cabinet Office

Report of the Actuary

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the Cabinet Office. It summarises the pensions disclosures required for the 2014-15 Accounts of the Principal Civil Service Pension Scheme (PCSPS).

2. The PCSPS is a final salary and/or career average salary defined benefit scheme, the rules of which are laid before Parliament under the provisions of the Superannuation Act 1972. The PCSPS is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

3. The statement is based on an assessment of the liabilities as at 31 March 2015, using membership data as at 31 March 2012.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2012, and implied salaries in each of the years between 1 April 2012 and 31 March 2015, used to prepare this statement.

Table A – Active members

31 March 2012 membership data			2012-13	2013-14	2014-15
Number (thousands)	Total salaries* (pa) (£ billion)	Total accrued pensions (£ billion)	Total salaries implied by receipts (£ billion)	Total salaries implied by receipts (£ billion)	Total salaries implied by receipts (£ billion)
532	15.0	3.1	13.1	13.2	13.1

* Full-time equivalent salary roll as at 31 March 2012

Table B – Deferred members

31 March 2012 membership data	
Number (thousands)	Total deferred pension (pa)* (£ billion)
377	1.31

* includes pension increase due in April 2012.

Table C – Pensions in payment

31 March 2012 membership data		2012-13	2013-14	2014-15
Number (thousands)	Total pension (pa)* (£ billion)	Total pension (pa) implied by Accounts (£ billion)	Total pension (pa) implied by Accounts (£ billion)	Total pension (pa) implied by Accounts (£ billion)
610	4.42	4.39	4.65	4.95

* includes pension increase due in April 2012.

Methodology

5. The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the

principal assumptions applying to the 2014-15 Accounts. The contribution rate for accruing costs in the year ended 31 March 2015 was determined using the PUCM and the principal assumptions applying to the 2013-14 Accounts.

6. This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

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

Table D1 – Principal financial assumptions

Assumption	31 March 2015	31 March 2014
Rate of return (discount rate)	3.55%	4.35%
Rate of earnings increases*	4.20%	4.50%
Rate of future pension increases	2.20%	2.50%
Rate of return in excess of:		
Earnings increases (long term)*	-0.65%	-0.15%
Pension increases	1.30%	1.80%
Expected return on assets:	n/a	n/a

* short term adjustments have been made to this assumption for the period from 1 April 2012 to 31 March 2020 as summarised in Table D2.

Table D2 - Rate of salary growth assumed for the period from 1 April 2012 to 31 March 2020

Year	2014/15 Accounts	2013/14 Accounts
2012/13	0.0% plus promotional scale	0.0% plus promotional scale
2013/14	1.0% plus promotional scale	1.0% plus promotional scale
2014/15	1.0% plus promotional scale	1.0% plus promotional scale
2015/16	1.0% plus promotional scale	1.0% plus promotional scale
2016/17	1.0% plus promotional scale	4.5% plus promotional scale*
2017/18	1.0% plus promotional scale	4.5% plus promotional scale*
2018/19	1.0% plus promotional scale	4.5% plus promotional scale*
2019/20	1.0% plus promotional scale	4.5% plus promotional scale*

*4.5% was the long term earnings increase assumption used for the 2013/14 Accounts

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

Demographic assumptions

9. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

10. The analysis of scheme experience conducted for the latest full valuation of the scheme for funding purposes has been used to inform the Cabinet Office's choice of assumptions for the 2014-15 Accounts. These assumptions are the same as those used for the 2013-14 Accounts and underlying the 2012 funding valuation.

11. The standard mortality tables known as the 'S1' tables are used but with the mortality rates adjusted to allow for scheme experience. Separate assumptions are used for males and females and for members and dependants. For example, for male members retiring in normal health the S1NMA table is multiplied by 0.93. For female members retiring in normal health the S1NFA table is multiplied by 0.96. Members retiring in ill-health are assumed to experience heavier rates of mortality. Mortality improvements to 2012 are based on historic population experience for those years and improvements from 2012 are in accordance with those incorporated in the 2012-based principal population projections for the United Kingdom.

12. Reforms to the Civil Service schemes implemented in April 2015, which introduced the Civil Service and Others Pension Scheme[1], may affect the behaviour of members, ie members subject to a later normal pension age for accrual after 2015 might be expected to retire later. Revised age retirement rates were adopted for the 2012 valuation to reflect recent retirement experience in the PCSPS and also make allowance for members who are expected to transfer to the new scheme on or after 1 April 2015.

13. The contribution rate used to determine the accruing cost in 2014-15 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2013-14 Accounts.

Liabilities

14. Table E summarises the assessed value as at 31 March 2015 of benefits accrued under the scheme prior to 31 March 2015 based on the data, methodology and assumptions described in paragraphs F.4 to F.13. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ Billion

	31 March 2015	31 March 2014	31 March 2013	31 March 2012*	31 March 2011*
Total market value of assets	Nil	Nil	nil	nil	nil
Value of liabilities	(194.8)	(175.7)	(160.0)	(143.8)	(135.9)
Surplus/(Deficit)	(194.8)	(175.7)	(160.0)	(143.8)	(135.9)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

* Figures calculated by Aon Hewitt

Pension costs

15. The cost of benefits accruing in the year ended 31 March 2015 (the Current Service Cost) is based on a standard contribution rate of 33.2%. Members contributed between 1.5% and 8.85% of pensionable pay in the year, depending on the section of the scheme they belong to and their

[1] The legislation for the new benefit structure, Civil Servants and Others Pension Scheme (CSOPS), is set out from the following link: http://www.legislation.gov.uk/uksi/2014/1964/contents/made.

full-time equivalent pensionable pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost in 2014-15 taking into account an estimated average rate of contributions paid by members. The corresponding figure for 2013-14 is also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	2014-15	**2013-14**
Standard contribution rate	33.2%	28.6%
Members' estimated average contribution rate	5.8%	5.1%
Employers' estimated share of standard contribution rate	27.4%	23.5%

16. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purpose of the 2014-15 Accounts is not the same as the actual rate of contributions payable by employers. The actual rates of contributions payable by employers over 2014-15 are assumed to be 18.9% of pensionable pay (including an allowance of 0.15% in respect of administration expenses) on average, which was determined based on the data, methodology and financial and demographic assumptions as adopted for the funding of the scheme at the 2007 actuarial valuation.

17. The most significant difference between the actuarial assessments for the 2014-15 Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 1.80% a year for the 2014-15 Current Service Cost in the 2014-15 Accounts compared with 3.5% a year underlying the funding rate determined for the 2007 funding valuation. (Note that the discount rate for scheme funding purposes has been reviewed and reduced to 3% a year but this does not affect the rate of contributions payable until 1 April 2015.) A higher discount rate results in a lower assessed cost of benefit accrual. The discount rate net of pension increases for scheme funding is set by HM Treasury and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate net of pension increases for the schemes' Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

18. The estimated pensionable payroll for the financial year 2014-15 was £13.1 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2014-15 (at 33.2% of pay) is assessed to be £4.3 billion (including employee normal contributions).

19. There is no past service cost in 2014-15.

20. There is a settlement cost to the scheme in 2014-15 of £0.2 billion. This cost has arisen as a result of the transfers into the PCSPS during 2014-15 of the General Lighthouse Authorities' pension schemes (GLA) and the House of Commons Staff Pension Scheme (HoCSPS). The settlement cost is the difference between the value of the GLA and HoCSPS liabilities on the Accounts assumptions and the value of the GLA and HoCSPS liabilities on the transfer value assumptions as at the time of the transfer.

21. The pension cost is the combined cost of the items in paragraphs F.18, F.19 and F.20. Therefore the total pension cost is £4.5 billion.

Sensitivity analysis

22. 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 2015 of changes to the main actuarial assumptions.

23. The principal financial assumptions are the future increases in pensionable pay due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate

of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

24. As a result of the scheme reform, there is significant uncertainty associated with how members will retire in future for those members who move across to the CSOPS. Assumed age retirement rates can have a significant impact on the scheme liabilities and so I have included an indication of the approximate effect (on the total past service liability) of all members who move to the CSOPS retiring one year later than assumed in the main liability calculations.

25. Table G shows the indicative effects on the total liability as at 31 March 2015 of changes to these assumptions (rounded to the nearest ½%).

Table G: Sensitivity to significant assumptions

Change in assumption			Approximate effect on total liability **	
Financial assumptions				
(i)	discount rate*	+½% a year	-10%	- £19 billion
(ii)	earnings increases*	+½% a year	+ 1%	+ £2 billion
(iii)	pension increases*	+½% a year	+ 8.5%	+ £16 billion
Demographic assumptions				
(iv)	additional one year increase to life expectancy at retirement*		+ 2.5%	+ £5 billion
(v)	all active members who move to the new scheme retire (on average) 1 year later		-0.5%	-£0.5 billion

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

** Approximate effect rounded to nearest ½%.

*** Only the long term earnings assumption has been changed. The short term earnings assumptions have not been changed.

Sandra Bell
Government Actuary's Department
16 October 2015

Statement of Accounting Officer's Responsibilities

Under the Government Resources & 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.

The combined financial statements must give a true and fair view of the state of affairs of the Principal Civil Service Pension Scheme and certain other minor pension schemes at the year end and of the net resource outturn and cash flows for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them. In addition, the financial statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

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

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

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

GOVERNANCE STATEMENT

The Accounting Officer's responsibility

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

I confirm that the Corporate Governance Code has been followed as far as is applicable.

The Governance Framework

The Civil Service Pensions Board (CSPB)

Over the period 1 April 2014 to 31 March 2015, the CSPB was chaired by a Permanent Secretary under a memorandum of understanding with myself as the Accounting Officer. Philip Rutnam, Permanent Secretary of the Department for Transport, was the CSPB Chair throughout this period.

During 2014/15, the CSPB's main functions were:

- To carry out, within the constraints of Ministerial responsibilities, the roles and responsibilities that a Trustee Board would fulfil for a private sector occupational pension scheme.
- To ensure, as an overriding aim, that members of the Civil Service pension arrangements receive their correct benefits under the scheme rules.
- To work to protect the reputation of the Civil Service pension arrangements for effective administration and proper use of taxpayers' money.

The CSPB had four members drawn from employers covered by the Civil Service pension arrangements and a further four from scheme members. In addition the CSPB had two non-executive members drawn from the wider pensions industry. The Cabinet Office finance director was also a member of the CSPB. The Pensions Schemes Executive (TPSE) staffed by Cabinet Office officials, supported and provided the secretariat function for the CSPB.

Each year, the Chair of the CSPB submits a report to me on the activities and effectiveness of the CSPB.

In 2014-15 the CSPB held 4 quarterly meetings. During the year, the CSPB's membership was as follows:

Member	Role	Home Department/Trade Union (where applicable)	Number of CSPB meeting attended in 2014-15
Philip Rutnam	Chair	Department for Transport	4 (out of 4)
Ian Albert	Member Nominee	PCS	4 (out of 4)
Robert Branagh[2]	Non-executive member		4 (out of 4)
Alison Cottrell	Employer Nominee	HM Treasury	3 (out of 3)
Allan Course	Non-executive member		2 (out of 4)
Katherine Green	Employer Nominee	HM Treasury	1 (out of 1)
Sarah Healey	Employer Nominee	DCSMS	2 (out of 4)
Neil License	Member Nominee	PCS	3 (out of 4)
Bruce Mann	Cabinet Office Finance Director	Cabinet Office	1 (out of 4)
Lorimer Mackenzie	Member Nominee	FDA	4 (out of 4)

[2] Robert Branagh joined the Cabinet Office on an interim basis on 1 September 2015 to 30 April 2016. Consequently he has stood down from the CSPB for this period.

Simon Parkes	Employer Nominee	Department for Education	3 (out of 4)
John Plant	Member Nominee	Prospect	4 (out of 4)

Katherine Green replaced Alison Cottrell as an Employer Representative as from March 2015.

The CSPB had two sub-groups in place during 2014/15:

The Service Delivery Group (SDG) was chaired by Robert Branagh (one of the CSPB's non-executive members). Its core aim was to consider on behalf of and provide advice to the CSPB in the following areas:

- MyCSP's performance against their contractual requirements, in particular the delivery of service measured against the Service Level agreement and Key Performance Indicators.
- Performance assessment and trend analysis against SLA/KPIs
- Risks and issues connected with Service Delivery
- Complaints handling, including trend analysis of complaints and actions taken by MyCSP to correct identified systemic issues
- Benchmarking of scheme delivery against industry best practice
- MyCSP programme of continuous improvement
- Impact of 2015 programme work on delivery of business-as-usual
- TPSE's performance in managing the MyCSP contract
- Delivery of defined contribution arrangements, including performance of providers and professional advisers

The Governance Sub Group (GSG) was chaired by Simon Parkes. The GSG's core aim was to support the CSPB. The GSG had delegated powers to make decisions without reference to the CSPB in the following areas to ensure their early implementation:

- Internal audit programme for the Civil Service pension arrangements
- Employer audit programme
- The appropriate assurance framework that should be in place for the Civil Service pensions arrangements, including the Accounting Officer Certification process
- Relationships with Cabinet Office Audit and Risk Committee
- TPSE's contributions to the Scheme Accounts
- Reporting back to the Cabinet Office any concerns about TPSE, including resourcing and levels of service provided

The GSG was also responsible for providing to the CSPB advice on the following:

- Raising the profile of the Civil Service pension arrangements and the importance of the proper maintenance and accurate transfer of pensions data, developing a strategy to gain buy-in from senior departmental stakeholders
- Developing and implementing an effective member communications strategy

- Relationships with Shared Service providers
- Relationships with the Cabinet Office Audit and Risk Committee
- Relationships with the Pensions Regulator
- Achieving and maintaining compliance with regulatory and statutory requirements
- The performance of all non-MyCSP contracts and Service Level Agreements, including actuarial, legal and medical advice, making recommendations to CSPB on the removal, appointment and re-appointment of providers
- Oversight of TPSE performance on matters of compliance, governance, contributions and financial scheme management, high level risk and general support to CSPB
- Admittance to the Civil Service pension arrangements of employers under the 'New Fair Deal' process

The GSG oversaw the successful development and implementation of the revised Accounting Officer Certificate process. Going forwards, it will be looking to devote more time and effort into the performance with employers and will have a close interest in the Cabinet Office's employer engagement and communication strategies.

Management of Risk

Corporate Governance

The Cabinet Office Audit and Risk Committee (COARC)

COARC receives and considers reports from the Cabinet Office on all relevant matters concerning audit and risk. This includes the production of the Civil Superannuation accounts, and any matters relating to those accounts. I have given the Cabinet Office Finance Director specific responsibility for overseeing the Civil Superannuation Vote. He was also a member of the CSPB and provided the link between CSPB and COARC.

Scheme Administration

MyCSP administer the Civil Service pension arrangements under contract to the Cabinet Office.

TPSE monitored the operation of MyCSP through various meetings during the year, as well as receiving regular Management Information about service performance. These meetings enabled TPSE to assess regularly MyCSP's performance and to report back to the CSPB and its Sub Groups on areas of concern or interest.

As referred to in the Report of the Manager, Capita Hartshead (CH) provided certain administration services under contract to MyCSP until September 2014. Under this contract CH was responsible for administering the Civil Service pension arrangements for deferred and pensioner members. Those responsibilities included making payments to the pensioners. CH internal auditors carried out an internal audit plan agreed under the terms of the contract agreed by the Cabinet Office.

The transfer of the Pensioner Payroll and subsequent administration problems

As part of the agreed plan to transform the administration of the Civil Service pension arrangements MyCSP brought in-house the payment of pensions from Capita Hartshead, in September 2014. At the same time, it also brought in-house all administration activities for deferred members.

As part of the transition, Cabinet Office wrote to 1.1 million deferred and pensioner members advising them of the change. This led to a larger number of phone calls than MyCSP had expected or planned for as significant numbers of deferred members realised that they could claim their pension, and did so. MyCSP also inherited more work in progress than they expected (approximately 14,000 items as opposed to the 10,000 items originally forecast), a large number of other work items that needed manual interventions, as well as inheriting a number of unforeseen legacy issues. At a similar time, HM Treasury announced complex changes in pension freedoms to the wider pensions industry that affected defined contribution schemes. Although these changes were not relevant to the vast majority of members, they prompted a significant amount of calls to the contact centre.

The cumulative effect of all these factors was a significant dip in service performance from MyCSP. Although the vast majority of pensions already in payment were still paid correctly and on time following the payroll transfer, there was a delay in processing new work and responding to member queries. In the contact centre alone, MyCSP had been receiving 1,000 calls a day and had prepared to receive 2,000, however the actual daily calls averaged over 3,500 a day for over two months (and on occasion peaked at over 7,000 a day). Consequently members faced very long delays getting through on phone lines. MyCSP opened additional lines and employed additional staff, but were (in CSPB's view) too slow to do so and failed to fully communicate with members effectively via the scheme website. The growing delays in dealing, and in some cases paying pensions, through the autumn led to adverse press coverage, and a significant number of complaints being made to the Cabinet Office.

In January, recognising that improvement to service was not progressing quickly enough, the Cabinet Office and MyCSP put in place a stabilisation plan, which successfully cleared the outstanding backlog by March 2015. Service levels have since continued to improve but there remain some isolated areas of delay and complaints are still at a higher than the CSPB is comfortable with. The Cabinet Office continues to work with MyCSP to drive additional service improvements and reduce the risk of any future service degradation.

Accounting treatment for schemes joining the PCSPS

When pension benefits are transferred into (out of) the Civil Service scheme, there will generally be a difference, a settlement loss or gain, between:

- the transfer payment received by (paid by) the scheme, and

- the accounting value of the liabilities entering (leaving) the scheme (where the value of the liabilities is calculated using the accounting assumptions).

The reason for this is that the transfer payment is generally calculated using different actuarial assumptions to those used to calculate the accounting value of the liabilities entering/leaving the scheme. In the Civil Service scheme:

- the assumptions used to calculate the transfer payment are determined by the parties involved in that particular transfer. For transfers between government bodies the financial assumptions adopted are often those used in the most recent actuarial valuation of the scheme (which are currently set by HM Treasury to mainly reflect long-term expectations).

- the financial assumptions used to calculate the accounting value of the liabilities entering/leaving the scheme are set annually by HM Treasury to reflect current market conditions.

Settlement gains and losses should be recognised within the Statement of Comprehensive Net Expenditure as expenditure or income as appropriate. However, with previous transfers into the Civil Service scheme accounts, the values of these settlement gains and losses were not material and were reported within the yearly movement in the pension liability due to actuarial gains and losses.

On 1 April 2014 two schemes – the General Lighthouse Authorities and the House of Commons Staff Pension Scheme – transferred to the Civil Service scheme. Supply Estimates for 2014-15 were prepared on the understanding that any settlement loss on transfer would not be material, as was the case in previous years. However, on further discussion of the figure provided by the Government Actuary's Department (GAD), the settlement loss was deemed to be material and has therefore been recognised as part of net expenditure in the 2014-15 accounts. This has resulted in expenditure above our Annually Managed Expenditure limit in our Supply Estimate of £99.0 million.

To reduce the risk of this re-occurring for future transfers, processes have been updated so that the Cabinet Office provide GAD with details for future proposed transfers and in turn GAD will provide details of the liability, any potential losses on transfer and payment amounts before any transfers take place. A gateway process has been developed which will review all future transfers and will not accept any transfers of funds until the impact on the estimates has been determined. It was the lack of the provision of losses on transfer information which led to the excess vote qualification.

Alpha implementation

The joint Cabinet Office and MyCSP Programme delivered Alpha on 1 April 2015, as planned. The new legislation took effect and MyCSP's business processes and IT changes were ready to manage members' benefits under the new Civil Service pensions arrangements. All communications have been issued to support implementation of the reforms, including information to guide employers through the changes. The main Options Exercise was completed on time. Cabinet Office ensured provision was made for any relevant member who could not complete their options on time.

The Alpha Programme Board extended their governance to cover employers' responsibilities in the implementation of Alpha. Employers had a 95% success rate of migrating the right members into Alpha on 1 April 2015, and there are controls in place to monitor and correct employer migration.

Control framework for employers

The Civil Service pension arrangements cover over 230 public sector employers (this excludes New Fair Deal employers – see below). Employers have signed a Participation Agreement with CSPB, primarily relating to the timely and accurate provision of scheme contributions and member data.

The Accounting Officers for the employers are responsible for maintenance of sound corporate governance arrangements. They report to me annually on compliance with the terms of the Participation Agreement through an Accounting Officer Certificate (AOC) and accompanying checklists. These reports cover, among other things the date of their last internal audit, whether recommendations have been implemented, and their intentions regarding future audits.

Where completion of the checklist shows that a requirement has not been met, or a control is not operating effectively, Accounting Officers must qualify their AOCs stating the compliance issues that exist and the remedial action being taken.

Because of the need for employers to concentrate on the implementation of Alpha, Cabinet Office, with CSPB's agreement put the AOC exercise for 2014/15 back two months. Cabinet Office received 194 certificates covering 233 separately identified employers (some certificates covered more than one employer). These certificates covered 471,209 active members as at 31 March 2015.

The only employer who failed to return the AOC was The Children's Commissioner for England. This non-compliance has been escalated within Cabinet Office and also to the CSPB. The Children's Commissioner has around 25 members.

Cabinet Office, with input from the Government Internal Audit Agency (GIAA) extensively revised the AOC process for 2014/15. The changes were designed to make the process more focussed on risk, and moved away from the 'one-size fits all' approach of previous years. Employers no longer had to decide whether to qualify their certificate. Instead they completed a workbook, which provided a risk rating.

The AOC workbook allocated employers a risk rating based on their number of active members. There were also a number of employers that were given a high risk rating due to previously known issues.

Returns received		Members
High risk employers	11	302,512
Medium risk employers	72	153,659
Low risk employers	111	15,038
	194	**471,209**

The returns saw the number of high risk employers rise from 7 to11. Many of the responses given to the different questions in the workbook have been fairly detailed. This is an improvement on previous years and is seemingly due to the change of focus of the AOC. The feedback received from employers on the new process has been encouraging. Smaller employers especially have found the whole exercise more proportionate. There were some minor teething problems due to the technology, but these are all resolvable in time for next year's exercise.

TPSE shares intelligence with MyCSP with regard to employers where known problems exist.

The issues revealed by the AOC process do not have a material effect on these Accounts.

New Fair Deal

From 1 October 2013, employers can be admitted into the Civil Service pension arrangements, under Section 1(4A) of the Superannuation Act 1972 (as amended), where they are carrying out work formerly done within Government. These employers generally come from the private sector. Scheme membership is restricted to existing members whose employment has transferred to the private sector employer. This process is known as New Fair Deal.

As at 31 March 2015, 66 private sector employers have joined the scheme under New Fair Deal, covering a total of 5,238 scheme members. Although the work is highly technical in nature generally it has gone well. No issues have had to be escalated beyond working level, and there has not been any particular area that has demonstrated systemic weaknesses in the processes that Cabinet Office has put in place.

Other schemes

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. Sir Kim Darroch, National Security Adviser, has provided me with an assurance statement that he is satisfied that there are suitable controls in operation within the agencies.

Review of effectiveness during 2014-15

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by COARC. As noted above, the Chair of the CSPB annually informs me on the effectiveness of risk management within the scheme as part of its Annual Review of its effectiveness and the work that it has done.

The CSPB has also reviewed its own performance in terms of effectiveness. The outcome of that review is that the CSPB is generally operating effectively, but poor levels of management information from MyCSP in terms of its performance have hampered its ability to hold both MyCSP and TPSE to account. The Cabinet Office has work in hand to rectify this issue and ensure that the CSPB in future receive the management information needed to carry out its responsibilities. The CSPB relies heavily on the input of its non-executive members.

My Review is also informed by the work of those who have responsibility for the development and maintenance of the internal control framework, as well as comments made by both internal and external auditors in their management letter and other reports.

Internal Audit

The internal audit service for the pension scheme is provided by the Government Internal Audit Agency (GIAA). The Head of Internal Audit for the scheme, or a member of their team, attends all CSPB and Sub Group meetings and provides expert advice on audit issues.

During the year the majority of the internal audit work remained focused on the rolling programme of audit reviews assessing employers' compliance with their scheme obligations.

There were a number of audits looking at projects and Cabinet Office service delivery, and these were reported to the CSPB. However, due to the implementation of the stabilisation plan in the later part of the year, the internal audit work planned to focus on MyCSP controls was postponed to 2015/2016.

The key issues from the employer audit work were consistent with those raised in previous years:

- Some employers had insufficient evidence to substantiate their sign-off of their AOC to the CSPB.

- Significant data integrity issues continue to be found;
    - Comparison of MyCSP and Employer datasets revealed data mismatches in key areas such as scheme type, date of birth, date entered scheme, and date entered service. The level of mismatch was consistent with previous years and consistent across a range of employers irrelevant of size.
    - Some employers do not have fully working interfaces in place.
    - Some employer data is not appearing on MyCSP's Compendia administration system; an example being discrepancies in allowances.

- Data completeness continues to be a high risk. The main causes of these incomplete records were when staff move between employers; changes to the structure of the Civil Service through Machinery of Government Changes; the employer moves its HR/payroll function into a shared service; or staff exiting the scheme.

- An internal audit review was completed over the project to cleanse member records to allow for an options exercise to be executed during the implementation of Alpha. The audit found the project to be well controlled, however, it did not include assurance over the data itself. This will be a focus for the coming year.

The overall Internal Audit opinion is "limited assurance".

Data Security

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

Capita Hartshead's secure data handling was monitored by MyCSP under contract up until September 2014 when MyCSP brought the payment of pensions in-house. Capita Hartshead exchanged data with HMRC, DWP, and their banks.

Cabinet Office has a Senior Information Risk Owner (SIRO), whose role is to 'own' the Department's information risk policy and assessment and by so doing to ensure that it is embedded into the culture and work of the department. The SIRO is supported by a network of Information Asset Owners (IAOs). These staff oversee data handling in the management units for which they have responsibility. TPSE have appointed an IAO. During 2014/15, TPSE's IAO, in conjunction with a member of the department's Departmental Security Unit and an independent auditor, once again reviewed MyCSP's delivery partner's arrangements to ensure that they continue to comply with the Cabinet Office's data handling and security compliance requirements.

The Cabinet Office has put in place a Security Working Group (SWG) to monitor all matters concerning information assurance and data security that will arise while MyCSP transforms the services that it will deliver. The SWG is chaired by the Cabinet Office's Departmental Security Officer and comprises of representatives from TPSE, MyCSP and other specialists. The SWG met regularly during 2014-15.

There was one personal data incident reported during the year where one envelope containing the medical records of 5 serving civil servants being considered for premature retirement on health grounds was lost whilst in transit (via a secure courier) to scheme medical adviser were lost. There was a slight delay in this being reported to the Cabinet Office. The SWG investigated the incident. This led to the medical adviser adopting a number of changes to procedures. The SWG liaised with the Information Commissioner's Office, who confirmed that no further action was necessary.

Data Quality

MyCSP continue to cleanse data at the point of benefit "crystallisation" (when a member leaves the Civil Service through retirement or an exit scheme, or when a death in service occurs) to ensure that members received correct benefits. Due to the additional focus on stabilising service following the introduction of a new administration system (Compendia) and the transfer of the pensioner payroll the data cleanse programme for this year has been targeted at where there is most need.

We have made some good progress on data cleansing, but there is still much more to do. Firstly, MyCSP have worked with employers to cleanse around 60,000 records to enable existing members who had a choice about when they moved to Alpha to make informed decisions based on accurate information. In addition to the 60,000 records cleansed for Alpha transition, Cabinet Office has also funded a programme to cleanse 20,000 records to enable Annual Benefit Statements to be issued to all active members. Annual Benefit Statements were issued to 95% of active members by the end of 2015.

MyCSP have used a data validation tool called DataGator to support data cleansing activity and identify the priority areas for data cleansing. This identifies any data in Compendia which contains incorrect formatting or illogical entries. Cabinet Office received some DataGator dashboard reports which showed a high number of "validation fails", and asked GAD to assess whether these results would have a material impact on their assessment of scheme liabilities. GAD were satisfied that the majority of validation fails would not have a material impact on the accounting valuation results (and the remaining ones, where information from DataGator was not detailed enough to accurately assess them, were unlikely to have a material impact). GAD therefore concluded that their opinion remained that the 2012 data used for their assessment of the liabilities in the subsequent scheme funding and accounting valuations was sufficiently reliable.

Cabinet Office have also asked GIAA to complete a data audit and an interface audit, these should help Cabinet Office to understand the primary areas of focus for data cleanse activity. At the time of publication these reports had not been finalised.

Cabinet Office plans to produce a comprehensive data improvement strategy by 31 March 2016, which will need to be delivered over the next 3 to 5 years across Government. This strategy will build on the work already completed, and reflect the additional insight gathered over the course of the last year.

Disclosure of information to Scheme Members

The Occupational and Personal Pension Schemes (Disclosure of Information Regulations), 2013 and the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991 require pension schemes to provide certain information to members within specified timeframes. MyCSP breached the law by not providing information within these timeframes in around 20,000 cases during 2014 and 2015 and, in November 2015, MyCSP and Cabinet Office jointly reported these breaches to the Pensions Regulator.

MyCSP has provided Cabinet Office with a plan to clear all outstanding cases by mid-January 2016, and has confirmed that it has now put in place processes to ensure that further breaches do not occur, except in cases where they cannot obtain all the relevant information due to circumstances outside their control. Reporting against the disclosure requirements will form part of MyCSP's monthly reporting to Cabinet Office.

Backlog of Stage 1 Internal Dispute Resolution (IDR) Cases

Historically MyCSP have dealt with around 200 – 250 stage 1 IDR cases a year, with each requiring a detailed investigation. By the end of October 2015, they had built up a backlog of 156 cases going back to April 2015. Of these cases 122 predated 1st October 2015. Cabinet Office has insisted that they put in place a recovery plan. The plan is based upon clearing the backlog by 31st January 2016, while at the same time ensuring that new cases are cleared within the two month contractual deadline that MyCSP has to deal with them. Cabinet Office is having weekly progress calls with MyCSP and to date the plan is on track.

Membership Numbers

Following the transfer of the pensioner payroll from Capita Hartshead to MyCSP, MyCSP reassessed the number of deferred members and pensioners, and this has highlighted discrepancies in the membership numbers previously provided by Capita Hartshead. MyCSP reported a reduced number of both deferred members and pensioners, 26,000 fewer deferred members and 32,000 fewer pensioners. These differences have been included within the membership table (page 8) as prior year adjustments along with a restatement of how "Other Pensioners" are treated for consistency purposes. These "Other Pensioners" were not accounted for previously and have been now. They are people who are receiving a pension as a result of members opting to give up part of their own pension and allocate it to a dependant.

No regular reconciliation of membership movements took place, and Cabinet Office have been unable to identify the reason for the discrepancy in the deferred membership numbers. However, MyCSP are confident that the numbers as currently reported are correct. It is not possible to conclude whether the PCSPS year-end liabilities were overvalued as a result of incorrect deferred membership numbers because insufficient information is available to determine whether the 2012 data provided to the Government Actuary's Department (GAD) includes any of the above extra deferred members. However, GAD have advised that excluding 26,000 deferred members may, in isolation, reduce the overall PCSPS year-end liability by around 1.2% (this figure is based on assuming all 26,000 removed members are consistent with the average deferred member for the PCSPS).

In the pensioner numbers Capita Hartshead had erroneously included 30,000 suspended cases which MyCSP concluded should have been removed from the membership figures, and this explains the majority of the differential. Unlike the deferred member numbers, it is possible to be reasonably confident that the PCSPS year-end liabilities were not overvalued as a result of incorrect pensioner numbers. GAD performed checks on the 2012 data used for their assessment of liabilities and concluded that the actual amount of pensions in payment was not inconsistent with the pension payroll figure derived from the data.

Overall, GAD have concluded that the PCSPS year-end liabilities were unlikely to be materially overvalued as a result of incorrect membership numbers.

Overseas Pension Payments

There were around 14,700 pensioners living overseas when the pensioner payroll was migrated from Capita Hartshead to MyCSP in September 2014 and, when the payroll was run that month, they were paid 7 days later than their pension due date. There was a further delay for around 100 pensioners because MyCSP needed to ask them to complete bank mandate forms due to issues with their international bank account numbers. There were no similar problems in subsequent months.

Revising the Assurance Framework

The qualification of the scheme accounts in 2010-11 and 2011-12, the results from the employer audits, the findings of internal audits on TPSE in 2012-13 and TPSE's own dealings with employers led to the changes to the Accounting Officer Certification process outlined above. As part of the ongoing work on strengthening the Assurance Framework Cabinet Office will issue a revised version of the Participation Agreement. The new Agreement will:

- Strengthen messages about the employers' responsibilities
- Explain what employers can expect from the Cabinet Office on behalf of the Scheme Manager
- Explain the role and responsibilities of the CSPB.

Cabinet Office had originally intended to issue the new Participation Agreement at the same time as the AOC commissioning letter but subsequently decided against doing this, as it has already started work on reviewing the contract in place with MyCSP. Cabinet Office took the view that this review may lead to further changes to the Participation Agreement. As such, the new Participation Agreement will be issued once the review is completed.

The CSPB as from 1 April 2015

The Public Service Pensions Act 2013 requires public service pension schemes to have a Pensions Board in place to assist the Scheme Manager. In the Civil Service pension arrangements, the existing CSPB had been in place since 2010. However, the 2013 Act now puts the CSPB on a legal footing. In effect, for the Civil Service this means that the new Board replaces the old one from 1 April 2015, which has now ceased to exist.

Planned Improvements

The new pension scheme for civil servants, called Alpha, came into effect as from 1 April 2015.

Cabinet Office is undertaking a review of its contract with MyCSP and has strengthened its contract management capability. At the same time Cabinet Office will apply the programme management approach that worked well with regard to the implementation of the Alpha scheme as from 1 April 2015 across a range of activities in the future. This will include work that will be necessary in connection with the cessation of contracting out from the State Second Pension scheme.

Cabinet Office will be carrying out a number of activities which will address some of the issues that have been reported in this Statement. Although MyCSP are confident that membership numbers are correct going forward, Cabinet Office will work with MyCSP to ensure that regular reconciliation of membership movements takes place. Cabinet Office also plans to produce a comprehensive data improvement strategy by 31 March 2016. Both these activities will lead to a better understanding of the accuracy of the data used by the Government Actuary's Department for the valuation of scheme liabilities, and allow them to make any further necessary checks or adjustments.

John Manzoni
Permanent Secretary
19 January 2016

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

I certify that I have audited the financial statements of the Cabinet Office: Civil Superannuation for the year ended 31 March 2015 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. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 Report of the Actuary and the Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Basis for qualified opinion on regularity

Parliament authorised an Annually Managed Resource Expenditure limit for the Cabinet Office: Civil Superannuation of £9,021 million. Against this limit, the Cabinet Office: Civil Superannuation achieved net expenditure of £9,120 million, therefore breaching the authorised limit by £99 million as shown in the Statement of Parliamentary Supply.

Qualified opinion on regularity

In my opinion, except for the excess described in the basis for qualified opinion paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 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 2015 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 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 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.

I draw attention to my Report at pages 28 to 32. The purpose of my Report is to explain my qualified opinion on regularity and also my assessment of the impact of the outcome of the data validation work and the membership number discrepancies as reported in the Governance Statement.

Sir Amyas C E Morse **Date 25 January 2016**
Comptroller and Auditor General

National Audit Office
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The Report of the Comptroller and Auditor General to the House of Commons

Introduction

The Cabinet Office: Civil Superannuation Accounts 2014-15 report the financial results of the Principal Civil Service Pension Scheme (PCSPS) ('the Scheme') and a number of other smaller public sector pension schemes. I am appointed auditor of these Accounts under the Government Resources and Accounts Act 2000.

In the year ended 31 March 2015 the Scheme was responsible for £9,120 million of public expenditure. The Scheme secures the approval to incur expenditure through the parliamentary supply process on an annual basis. The Scheme reports to Parliament on its expenditure under an accounts direction issued by HM Treasury under the Government Resource Accounts Act 2000. This requires the Scheme to prepare financial statements in accordance with the Government Financial Reporting Manual (FReM). The Scheme, like other similar public sector schemes, is unfunded and the cash required to meet the payment of pensions is met from employer and employee contributions with any shortfall financed by the Exchequer.

In accordance with Treasury guidance the Scheme's long term liabilities to pay pensions are valued by the Government Actuary's Department (GAD) in accordance with International Accounting Standards (IAS) *19 – Employee Benefits* and IAS *26 Accounting and Reporting by Retirement Benefit Plans*. The Combined Statement of financial position of the Resource Account shows a liability of £194.8 billion at 31 March 2015.

Purpose of Report

Data quality issues

In both 2010-11 and 2011-12 I qualified my opinion on these Accounts in two respects: the regularity of pension benefit payments; and a limitation of scope relating to the truth and fairness of the valuation of the pension liability. The Cabinet Office had been unable to provide sufficient evidence of the completeness and accuracy of the membership records and data which support both current pension benefit payments to individuals and the liability for future pension benefits. For the years ended 31 March 2013 and 2014, I was able to provide an unqualified audit opinion. However, I reported that there remained underlying problems with the management and retention of membership records and data and a continued risk to the accuracy of pension benefit payments to individuals. I also noted that the historic and systemic nature of the data quality issues meant that they may take many years to fully resolve.

For the current year the findings from my audit have confirmed that, although some progress has been made, data quality issues remain. However, as in the previous two years, my judgement is that these do not have a material impact on the truth and fairness of the pension benefit payments reported in the financial statements, or on the valuation of the Scheme liability. I have therefore not modified my audit opinion in this regard.

Underlying data quality issues may, depending on their nature and scale, result in material error or misstatement in the related transactions and balances reported in the financial statements. In reaching my conclusion I have, therefore, carefully considered the impact of the two key data quality concerns that I identified through my audit: discrepancies identified through management's data validation work; and, discrepancies in the deferred and pensioner member numbers, as referred to in the Governance Statement.

My report explains the nature of the issues I identified and the work I have undertaken to support my clear audit opinion on the Scheme liability.

Excess vote

I have qualified my regularity opinion on the Scheme's financial statements due to a breach of the Scheme's authorised limit for net resource expenditure. This report therefore also sets out how the breach of the authorised limit occurred.

Valuation of the Scheme's liability for future pension benefits

The Scheme is required to comply with the provisions of International Accounting Standards (IAS) 19 – *Employee Benefits* and IAS 26 – *Accounting and reporting by Retirement Benefit Plans*. These require that the financial statements reflect the actuarially calculated liabilities arising from an employers retirement benefit obligations.

The liability for future pension benefits recognised in the Statement of Financial Position for the Scheme is a single figure actuarial estimate of the value of the future cash flows to pay pension entitlements of members accrued to date. These cash flows can run up to 80 years into the future and the estimate depends on a wide range of information, assumptions and judgements. The typically long term and often complex nature of pension schemes means that there can be significant uncertainty over the valuation of a scheme's future liabilities; good quality scheme data is, therefore, essential if a reasonable estimate of a scheme's future liabilities is to be made.

HM Treasury requires a full actuarial valuation of the Scheme's liabilities every four years to fit in with the Government spending review cycle. This liability valuation must reflect the best estimate of the present value of the amounts that will be paid, taking into account all expected changes in factors affecting the payments. In between full valuations HM Treasury, in line with Accounting Standards, requires annual updates of the value of the liabilities to reflect current conditions. The valuation in the Scheme's resource account is based on the most recent full liability valuation using membership data as at 31 March 2012, with the results updated annually,up to 31 March 2015.

The Scheme liability is calculated by an actuary to reflect expected future pension benefit payments arising in respect of both current and deferred pensioners and currently active members of the scheme. The amount of liability in relation to each member depends on factors including salary and reckonable service. The actuarial assumptions are then applied to this member data to determine the cash flows arising from these future scheme obligations. Assumptions are required for numerous factors including, for instance, salary growth rates and mortality rates. Changing the assumptions will generally have a significant impact on the results of the valuation. Data quality issues may also have an impact on the results of the valuation where the nature of the data is such that it feeds into the overall valuation calculation.

Assessment of data validation findings

Pension benefits paid

In recognition of the concerns over member data accuracy and completeness, the Cabinet Office established a data cleanse programme in 2014-15. The first pilot phase of this was completed during the year when the records of those 60,000 members who had a choice over when they will transfer to the new Alpha scheme were validated. To support their data cleansing activity, the scheme administrators (MyCSP) developed a data validation tool called DataGator. This identifies any data in the pension administration system which contains incorrect formatting and illogical or inconsistent entries. As at September 2015 DataGator showed that 77% of active member records had at least one data validation fail. Most of these fails have been assessed by MyCSP to have no impact on the accuracy of any calculated pension benefit (e.g. inconsistencies in addresses). However, the remainder of the fails relate to service or earnings, which are key factors in determining a pension benefit. Of the total member records, 6.5% of records had a validation fail that would potentially prevent MyCSP providing a correct annual benefit statement.

I am content that the data issues do not lead to a material misstatement in the pension benefit payments recognised in the financial statements because MyCSP review and cleanse member records prior to pension benefit determination and my audit testing of benefits paid found them to be free from material error or misstatement.

Valuation of the Scheme liabilities

The Cabinet Office asked GAD to assess the implications of the DataGator results on their valuation of the Scheme liabilities i.e. future pension benefits for active and deferred members.

As a result of their analysis of the DataGator findings, GAD have concluded that there is no reason to assert that the data contains significant errors which would have a material impact on the annual accounts, and they are content that that the information in the DataGator report does not lead them to a different conclusion as regards the valuation of the Scheme liability.

I have reviewed GAD's analysis of the potential impact of the DataGator findings on the valuation of the Scheme liability. I am satisfied that GAD's conclusions regarding the potential impact of the DataGator findings on the liability valuation is supported by the results of the analysis they have undertaken. In light of the GAD assessment, and my audit work undertaken in this area, I have concluded that while the DataGator findings are providing further evidence of the known member data shortcomings that I have reported on previously, they do not result in a material misstatement of the Scheme liability.

Notwithstanding the above, complete and accurate membership data is required to ensure that correct pensions are awarded and paid and that members can be provided with accurate benefit statements and quotations. Poor quality data also increases administration costs as it often requires the pension administrator and employers to undertake additional enquiries to confirm a member's true entitlement. In this regard I will continue to monitor the Cabinet Office's progress in developing and implementing their comprehensive data improvement strategy referred to in the Governance Statement.

Assessment of Membership Number Discrepancies

Following the transfer of responsibility for the administration of the pensioner payroll and the deferred membership from Capita to MyCSP, no action was taken to track the movements on the Scheme membership numbers. The first report on membership numbers was produced in August 2015, with the transfer of responsibilities having taken place in September 2014. It was not possible to run these reports retrospectively but it was possible to track back using monthly membership movement reports. This revealed that there was a discrepancy in the numbers of members Capita were reporting prior to migration and the numbers MyCSP were reporting post migration. MyCSP were reporting fewer members than Capita's pre-migration membership reports - 32,000 fewer pensioners and 26,000 fewer deferred members.

Pensioner numbers

In the case of the pensioner numbers, I do not consider that the discrepancy points to an error in the Scheme liability recognised in the financial statements, or in the benefits paid. There is sufficient evidence from other sources for me to have been able to confirm that the number of members actually being paid did not change on migration. I also consider that the actuarial liability valuation is correctly stated. I have reached this conclusion because GAD were able demonstrate that the value of benefits in payment in their 2012 valuation data extract was not inconsistent with the value of the pensions paid per the accounts. The discrepancy almost certainly arises from differences in the way Capita and MyCSP extracted, and/or categorised the membership numbers, particularly as there were approximately 30,000 long term suspended case records on the Capita system which MyCSP are not including on the grounds that there is no ongoing pension liability in respect of these cases.

Deferred members

For the deferred members, MyCSP and the Cabinet Office have not been able to offer an explanation for why the discrepancy exists. In addition, it is much harder to validate deferred member numbers by reference to other sources of information. As the Cabinet Office has not undertaken reconciliations of the membership movements it is also not possible to validate the member numbers by reference to the movements in and out of the other membership categories (active members and pensioners).

The Cabinet Office asked GAD to investigate this discrepancy and GAD highlighted four data groups within the 2012 data extract they were provided with that may be contributing to the discrepancy. In particular, there were around 24,000 members in the deferred data extract aged 60 or over who have not claimed entitled pension benefits or where no further liability exists. GAD included these in their valuation but it is likely that MyCSP are excluding some or all of these members. However, in the absence of any specific information on the cases making up the discrepancy it is not possible to confirm whether or not the 26,000 deferred members were appropriately included in the valuation.

However, GAD concluded that, assuming the additional records each represented a typical deferred member, then the impact on the 2014-15 accounts of 26,000 such members would be around 1.2% of the Scheme liability. However, if the additional records relate to older members with unclaimed pension benefits, or suspended dummy records then the financial impact may be expected to be significantly smaller.

Given I consider it is likely that the discrepancy is explained by either legitimate movements out of the deferred member numbers or exclusions from the deferred member numbers by MyCSP, which are more likely to involve cases with no further liability, I have concluded that the GAD estimate can be taken as a worst case analysis. On this basis, I have concluded that I have reasonable assurance that the deferred member data discrepancy does not give rise to a material misstatement in the Scheme liability recognised in the financial statements.

Going forward the Cabinet Office should arrange for regular reconciliations of the membership movements to be undertaken so that discrepancies in the membership data can be identified, investigated and explained. This is of particular importance now as membership data will be drawn in 2015-16 to commence the next full Scheme valuation.

Explanation for qualified regularity opinion

The Scheme prepares an Annual Estimate of its net expenditure which provides authorisation to incur the net expenditure through an Act of Parliament. This Act sets a limit on the net expenditure which the Scheme may not exceed and on the total overall cash it can use. Where these limits are breached, I qualify my regularity opinion on the financial statements. HM Treasury then prepares a statement of all such excesses in the year and requests that the House of Commons approves the expenditure, which is given statutory authority as part of a Supply and Appropriations (Anticipation and Adjustments) Act. Further detail on the authorised limits can be found in the Supply Estimates for 2014-15.

Parliament authorised an Annually Managed Net Resource Expenditure limit for Civil Superannuation of £9,021 million. The Scheme's outturn against this limit was £9,120 million meaning that the authorised limit was breached by £99 million and so I have qualified my regularity opinion on the Scheme's financial statements in this regard. HM Treasury proposes to ask Parliament to authorise a further £99 million of resource expenditure.

The breach of the authorised limit arose because the Scheme managers did not account for losses arising in respect of two large bulk transfers of members into the Scheme and, consequently, the losses were not recognised as expenditure requirements in the Supply Estimates.
In the recent past there have only been small bulk transfers into the Scheme. However, on 1 April 2014 there were two large bulk transfers into the Scheme (House of Commons Administration Pension Scheme and the General Lighthouses Pension Scheme). In both cases the value of the transfer payments received from the exporting scheme were less than the consequent increases in the Scheme's liability to pay future pension benefits. This difference arises because the transfer payments are determined by the Actuary on a funding basis, using financial assumptions based on long term expectations, while the accounting liability valuation is determined using assumptions set annually by the Treasury to reflect current market conditions. The loss is analogous to a settlement loss and as such should be accounted for as an expenditure item in accordance with IAS 19.

In the past when such losses have not been material the Scheme has incorrectly accounted for them as an actuarial loss flowing through other comprehensive net expenditure, with consequently no impact on net expenditure. Due to the low value of the losses, this did not lead to a material misstatement of the accounts or an increased expenditure requirement in the Supply Estimates. However, the Actuary determined that the combined loss in respect of both transfers was £167 million, with a consequent increase in the finance cost of £7 million. The combined increase in Scheme expenditure of £174 million is material in the context of the Schemes accounts. Including the above figures, the Statement of Parliamentary Supply now shows that the scheme has a resource excess of £98.7 million. This represents a breach in the Schemes authorised supply limit for Annually Managed Net Resource Expenditure. In these circumstances I have qualified my regularity opinion on the Scheme's financial statements.

There will be a number of further large bulk transfers into the Scheme over the coming years as the Government seeks to rationalise the public service pension schemes in accordance with the Public Service Pensions Act 2013. To reduce the risk of a similar breach reoccurring the Cabinet Office have introduced procedures to ensure that they provide the Actuary with details of all future transfers so that they can provide details of the transfer and liability amounts such that appropriate estimates can be included to cover any potential losses/gains on transfer.

Sir Amyas C E Morse
Comptroller and Auditor General

Date 25 January 2016

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Statement of Parliamentary Supply

Summary of Resource and Capital Outturn 2014-15

£000								2014-15	2013-14
		Estimate			Outturn				Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving/ (excess)	Total
Departmental Expenditure Limit									
• **Resource**		-	-	-	-	-	-	-	-
• **Capital**		-	-	-	-	-	-	-	-
Annually Managed Expenditure									
• **Resource**	SOPS2.1	9,021,000	-	9,021,000	9,119,702	-	9,119,702	(98,702)	7,301,675
• **Capital**		-	-	-	-	-	-	-	-
Total Budget		9,021,000	-	9,021,000	9,119,702	-	9,119,702	(98,702)	7,301,675
Non-Budget									
• **Resource**		-	-	-	-	-	-	-	-
Total		9,021,000	-	9,021,000	9,119,702	-	9,119,702	(98,702)	7,301,675

Total Resource		9,021,000	-	9,021,000	9,119,702	-	9,119,702	(98,702)	7,301,675
Total Capital		-	-	-	-	-	-	-	-
Total		9,021,000	-	9,021,000	9,119,702	-	9,119,702	(98,702)	7,301,675

Net Cash Requirement 2014-15

£000	Note	2014-15 Estimate	2014-15 Outturn	Outturn compared with Estimate: saving/ (excess)	2013-14 Outturn
	SOPS3	1,960,000	1,508,892	451,108	2,197,317

Administration Costs 2014-15

2014-15 Estimate	2014-15 Outturn	2013-14 Outturn
-	-	-

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

Explanations of variances between Estimate and outturn are given in the Management Commentary.

The Excess Vote was created due to a transfer loss of £167 million resulting from the transfer into the PCSPS of the General Lighthouses Authorities and the House of Commons Staff Pension Scheme. The additional liability was not matched by the amount received which created the loss. The reason this occurred was due to the differing assumptions used to determine the liability and the payment due.

The notes on pages 34 to 35 form part of these accounts.

Notes to the Statement of Parliamentary Supply

SOPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

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

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

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

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and

- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

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

SOPS2. Net outturn

SOPS2.1 Analysis of net resource outturn

	2014-15										2013 - 2014 Outturn £000
	Outturn £000							Estimate £000			
	Administration			Programme			Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net					
Annually Managed Expenditure											
Voted:	-	-	-	13,305,691	(4,185,989)	9,119,702	9,119,702	9,021,000	(98,702)	(98,702)	7,301,675
Non-voted:	-	-	-	-	-	-	-	-	-	-	-
Non-budget:	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	13,305,691	(4,185,989)	9,119,702	9,119,702	9,021,000	(98,702)	(98,702)	7,301,675

SOPS3. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: Saving/(excess)
		£000	£000	£000
Net Resource Outturn	SOPS2.1	9,021,000	9,119,702	(98,702)
Accruals adjustments:				
New provisions		(13,164,500)	(13,298,777)	134,277
Changes in payables		-	(280,030)	280,030
Changes in receivables		-	122,670	(122,670)
Changes in non-supply payables		-	255,108	(255,108)
Changes in non-supply receivables		400,000	(77,043)	477,043
Use of provision		5,703,500	5,667,262	36,238
Excess cash receipts surrenderable to the Consolidated Fund		-		
Net Cash Requirement		**1,960,000**	**1,508,892**	**451,108**

Combined Statement of Comprehensive Net Expenditure
for the Year to 31 March 2015

		2014-15	2013-14
Principal arrangements – PCSPS	Note	**£000**	**£000**
Income			
Contributions receivable[1]	5	(3,242,741)	(3,170,453)
Transfers in	6	(800,582)	(89,804)
Other pension income	7	(63,290)	(27,982)
Expenditure			
Service cost	8	4,341,000	3,782,000
Enhancements	9	102,205	65,330
Transfers in	10	967,582	89,804
Injury Benefits	11	5,734	9,203
Pension financing cost	12	7,661,000	6,529,000
Net Expenditure		**8,970,908**	**7,187,098**
Compensation agency arrangements - CSCS			
Expenditure			
Benefits payable	13.1	4	9
Net Expenditure		**4**	**9**
Other minor agency and principal pension scheme arrangements			
Other pension schemes			
Income			
Contributions receivable		(79,375)	(76,565)
Expenditure			
Total charge to provisions		226,989	190,074
Benefits payable	14	1,176	1,059
Net Expenditure for the year		**148,790**	**114,568**
Combined Net Expenditure for the year		**9,119,702**	**7,301,675**
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year			
Pension re-measurements:			
- Actuarial (gain) / loss	19.7	12,013,486	11,072,057
Total Comprehensive Net Expenditure		**21,133,188**	**18,373,732**

[1] A small element of Employer Contributions is paid in respect of the cost of administering the scheme and therefore has been deducted from the total shown here. It is not shown as administration expenses due to the fact that all costs are initially met by the main Cabinet Office. The full costs are shown within the main Cabinet Office annual accounts and details can also be found within the Report of the Manager on page 5.

The notes on pages 40 to 54 form part of these financial statements.

Combined Statement of Financial Position
as at 31 March 2015

	Note	2014-15 £000	2013-14 £000
Principal arrangements – PCSPS			
Current assets:			
Receivables (within 12 months)	16.1	309,387	257,573
Cash and cash equivalents	17	216,612	38,548
Total current assets		**525,999**	**296,121**
Current liabilities			
Payables (within 12 months)	18.1	(598,820)	(319,082)
Total current liabilities		**(598,820)**	**(319,082)**
Net current assets/(liabilities), excluding pension liability		**(72,821)**	**(22,961)**
Receivables (after 12 months)	16.1	53	53
Pension liability	19.4	(194,838,000)	(175,729,000)
Net liabilities, including pension liabilities		**(194,910,768)**	**(175,751,908)**
Compensation agency arrangements - CSCS			
Receivables (within 12 months)	22	100,611	30,515
Net current assets		**100,611**	**30,515**
Other pension schemes			
Receivables (within 12 months)	24	2,794	2,034
Payables (within 12 months)	25	(563)	(271)
Net current assets/(liabilities), excluding pension liability		**2,231**	**1,763**
Pension liability	26.2	(3,351,000)	(2,815,000)
Net liabilities, including pension liabilities		**(3,348,769)**	**(2,813,237)**
Combined Scheme – Total net Liabilities		**(198,158,926)**	**(178,534,630)**
Taxpayers' equity:			
General Fund		(198,158,926)	(178,534,630)
		(198,158,926)	**(178,534,630)**

John Manzoni
Accounting Officer

19th January 2016

The notes on pages 40 to 54 form part of these financial statements.

Combined Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2015

	Note	General Fund 2014-15 £000	General Fund 2013-14 £000
Balance at 31 March		(178,534,630)	(162,358,215)
Net Parliamentary Funding – drawn down		1,764,000	1,955,323
Net Parliamentary Funding – deemed		69,683	311,677
Supply (payable) / receivable adjustment		(324,791)	(69,683)
Combined Net Expenditure for the Year		(9,119,702)	(7,301,675)
Actuarial gain / (loss)	19.7	(12,013,486)	(11,072,057)
Net change in Taxpayers' Equity		**(19,624,296)**	**(16,176,415)**
Balance at 31 March		**(198,158,926)**	**(178,534,630)**

The notes on pages 40 to 54 form part of these financial statements.

Combined Statement of Cash Flows
for the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Cash flows from operating activities			
Combined net (expenditure)/income for the year		(9,119,702)	(7,301,675)
Adjustments for non-cash transactions			
(Increase)/Decrease in PCSPS receivables (within 12 months)	16.1	(51,814)	(9,877)
Movement in receivables relating to items not disclosed in the Combined Statement of Comprehensive Net Expenditure			
(Increase)/decrease in CSCS receivables – ACPs inc Lump Sums	22	(70,096)	(2,266)
Less movement in non-Supply receivables	16.1, 22	77,043	2,223
(Increase)/Decrease in Other Schemes receivables	24	(760)	(1,061)
Increase/(Decrease) in PCSPS payables	18.1	279,738	(222,692)
Increase/(Decrease) in Other Schemes payables	25	292	94
Less movement in non-Supply payables	18.1	(255,108)	241,994
Increase in PCSPS pension provisions	19.4	12,002,000	10,311,000
Increase in PCSPS pension provisions - enhancements and transfers in	19.4	1,069,788	155,134
Increase in Other Schemes pension provisions		226,989	190,074
Use of PCSPS provisions – benefits paid	19.4	(5,502,727)	(5,388,824)
Use of PCSPS provisions - refunds and transfers out	19.4	(95,992)	(104,965)
Use of Other Schemes provisions		(68,543)	(66,476)
Net cash outflow from Operating Activities		**(1,508,892)**	**(2,197,317)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		1,764,000	1,955,323
Adjustments for payments and receipts not related to Supply			
Compensation payments made on behalf of employers (including lump sums payments)	13.2	(530,177)	(557,630)
Reimbursement of compensation payments by employers (including lump sum payments)		460,081	555,364
Injury benefit payments made on behalf of employers	11	(11,315)	(8,167)
Reimbursement of injury benefit payments by employers		4,367	8,210
Net Financing		**1,686,956**	**1,953,100**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	17	178,064	(244,217)
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		**178,064**	**(244,217)**
Cash and cash equivalents at the beginning of the period	17	38,548	282,765
Cash and cash equivalents at the end of the period		**216,612**	**38,548**

The notes on pages 40 to 54 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 2014-15 *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 Scheme

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

Contributions to the Scheme by employers and employees are set at rates determined by the Scheme's Actuary and approved by the 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.

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

1.2 Civil Service Compensation Scheme

TPSE 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

In addition, the financial statements includes transactions relating to other minor pension schemes, a number of which are closed schemes. TPSE acts as principal in respect of pension paid to the Governor of an overseas colony, awarded prior to the introduction of a new scheme on 30 September 1978. TPSE acts as principal in respect of the Grosvenor and Government Communications Bureau pension schemes on the basis of audited information supplied by the agencies. TPSE 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 United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service;
- Payments to Post Office Staff Superannuation Scheme for pensions paid in respect of periods in the Civil Service;
- Pension increases in respect of pensions paid to former staff of the Raw Cotton Commission;
- Pension increases in respect of pensions paid to former staff of the Sugar Board;
- Federated Superannuation Scheme for Universities.

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

2. 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 which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the account Scheme financial statements.

2.1 *Accounting convention*

These accounts have been prepared under the historical cost convention.

- *Contributions receivable*

Employers' normal pension contributions are accounted for on an accruals basis. There are no employers' special pension and compensation contributions.

Employees' pension contributions which 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.

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

Under the PCSPS rules which came into effect in April 2010, those members who take early retirement and receive an Actuarially Reduced Pension are able to 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.

- *Transfers in*

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

- *Income received from departments in respect of enhancements*

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

- *Other pension income*

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

- *Additional Voluntary Contributions*

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 at note 15.

- *Current service cost*

The current service cost is the increase in the present value of the PCSPS pension liabilities arising from members' service in the current period and is recognised in the revenue account. It is determined by the scheme actuary taking into account employer and employee contributions receivable in 2014-15 and based on a discount rate of 1.80% real (4.35% including inflation).

- *Past service cost*

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*

The pension financing cost is the increase during the period in the present value of the PCSPS pension liabilities because benefits are one year closer to settlement and is recognised in the revenue account. The interest cost is based on a discount rate of 1.80% real (4.35% including inflation).

- *Injury benefits*

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

- *Scheme liabilities*

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at 1.30% real (3.55% 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*

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

- *Payments to and on account of leavers*

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

- *Transfers out*

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

- *Actuarial gains/losses*

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.

- *Central management administrative expenses*

Employers are responsible for the day to day administration of the PCSPS/CSCS and meet the associated costs from their running cost provision. An element of the accruing superannuation liability charge, paid by employers, is used by the Cabinet Office to offset central management costs. These include the costs associated with the management and development of Civil Service pension arrangements, the procurement of pension payroll and other services, maintenance and development of pension software used by scheme administrators and the publication of explanatory scheme material. In 2014-15 these costs amounted to £46.8 million (2013-14: £39 million).

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 Principal Civil Service Pension Scheme's Financial Statements.

3. Accounting policies for CSCS agency arrangements

- *Benefits payable*

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 TPSE, throughout the month, but then recovered from employers at month-end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2014-15 are shown at note 13.

As a result of recent changes to departmental structures which have been due to the Spending Review, employers have been given the opportunity to capitalise their outstanding liabilities and make a one-off payment to the scheme. Payments received from employers in this respect are included in note 13.

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

The policies applied to the PCSPS 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

	2014-15	2013-14
	£000	£000
Employers'	(2,451,525)	(2,460,573)
Employees':		
Normal	(752,301)	(672,532)
Purchase of added years	(34,334)	(35,915)
Actuarial Retirement Reduction Buy Out	(4,581)	(1,433)
	(3,242,741)	**(3,170,453)**

£3.5 billion contributions are expected to be payable to the Scheme in 2015-16

6. Transfers-in

	2014-15	2013-14
	£000	£000
Group transfers from other schemes	(771,092)	(52,669)
Individual transfers in from other schemes	(29,490)	(37,135)
	(800,582)	**(89,804)**

7. Other pension income

	2014-15	2013-14
	£000	£000
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	(50,417)	(4,489)
capitalised cost of enhancement to pensions, payable on departure	(1)	-
capitalised cost of enhancement to pensions, payable at age 60	(12,856)	(23,493)
Repayment of Gratuities	(16)	-
	(63,290)	**(27,982)**

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

8. Service Cost

	2014-15	2013-14
	£000	£000
Current service cost	4,341,000	3,782,000
	4,341,000	**3,782,000**

9. Enhancements (see also Note 19.4)

	2014-15	2013-14
	£000	**£000**
Employees:		
Purchase of added years	34,334	35,915
Refund of gratuities	16	-
Actuarial Retirement Reduction Buy Out	4,581	1,433
Employers:		
Bringing forward the payment of accrued lump sums	50,417	4,489
Enhancements to pensions on departure	1	-
Enhancements to pensions on retirement	12,856	23,493
	102,205	**65,330**

10. Transfers in – additional liability

	2014-15	2013-14
	£000	**£000**
Group transfers in from other schemes	938,092	52,669
Individual transfers in from other schemes	29,490	37,135
	967,582	**89,804**

A loss on transfer of £167 million resulted from the transfer into the PCSPS of the General Lighthouses Authorities and the House of Commons Staff Pension Scheme. The additional liability was not matched by the amount received which created the loss.

11. Injury Benefits

	2014-15	2013-14
	£000	**£000**
Injury benefits payable	17,049	17,370
Less: recoverable from employers	(11,315)	(8,167)
	5,734	**9,203**

Injury benefits payable to former employees but which are not recoverable from employers (ie those in respect of injuries sustained on or before 1 March 1998) are transactions of the Principal Civil Service Pension Scheme and are brought to account through the Statement of Comprehensive Net Expenditure. During 2014-15 these amounted to some £5,734 (2013-14: £9,203).

12 Pension financing cost (see also Note 19.4)

	2014-15	2013-14
	£000	**£000**
Interest charge for the year	7,661,000	6,529,000
	7,661,000	**6,529,000**

Statement of Comprehensive Net Expenditure – CSCS compensation agency arrangements

13 Compensation benefits payable

13.1 The following amounts represent annual compensation payments payable to former employees, but which are not recoverable from employers. They are brought to account in the Statement of Comprehensive Net Expenditure.

	2014-15	2013-14
	£000	£000
Central funding – difference between provision for current year and outturn expenditure (note 13.2)	4	9
	4	**9**

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

	2014-15	2013-14
Recoverable from employers	93,773	155,364
Amounts met from central funding (note 13.1)	4	9
Total annual compensation payable	**93,777**	**155,373**
Lump sum payable recoverable from employers	436,404	402,266
Total lump sums payable	**436,404**	**402,266**

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

14 Benefits payable – not charged to provisions

	2014-15	2013-14
	£000	£000
Pensions increase for ex-PMs/Speakers	83	75
Pensions increase for Public Service Appointments	120	114
Pensions increase ex for MEPs/widow(er)s	669	499
Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	(1)	43
Payments to Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	84	105
Pensions increases in respect of pensions paid to former staff of the Sugar Board	23	23
Pensions to Governors of overseas colonies awarded prior to the introduction of a new scheme in 1978	1	1
Federated Superannuation Scheme for Universities	197	199
	1,176	**1,059**

15 Additional Voluntary Contributions (AVCs)

15.1 The Civil Service Additional Voluntary Contribution Scheme (CSAVCS) provides for employees to make AVCs to increase their pension entitlements or to increase life cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment by their employers to one of the three appointed providers (Equitable Life Assurance Society, Scottish Widows' Fund and Standard Life Assurance Society), or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution Schemes (FSAVCs). The Managers of the CSAVCS are only responsible for payments made to the Scheme's appointed providers. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the appointed provider at 31 March each year (5 April for Equitable Life) confirming the amounts held to their account and the movements in year.

15.2 The aggregate amounts of AVC investments are as follows:

	2014-15			2013-14		
	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	56,003	16,528	139,956	54,968	16,838	140,766
New investments	1,679	107	4,287	1,568	130	4,414
Sales of investments to provide pension benefits	(3,730)	(454)	(5,738)	(4,229)	(1,356)	(10,622)
Changes in market value of investments	6,418	1,007	9,584	3,696	916	5,398
Balance at 31 March	**60,370**	**17,188**	**148,089**	**56,003**	**16,528**	**139,956**
Contributions to provide life cover	n/a	46	n/a	n/a	38	n/a
Benefits paid on death	n/a	122	n/a	n/a	202	n/a

1 – data as at 5 April

Statement of Financial Position: Principal arrangements - PCSPS

16 Receivables – contributions due in respect of pensions

16.1 Analysis by type

	2014-15	2013-14
	£000	£000
Amounts falling due within one year:		
Pension contributions due from Employers	193,638	194,545
Employees' normal contributions	58,140	52,275
Employees' added pension	2,218	2,252
Early retirement Employer costs	45,217	2,281
Overpayment receivables (Net of provision for non-recovery)	2,606	5,600
Sub Total	**301,819***	**256,953**
Non-supply receivables:		
Injury benefit receivables	7,568	620
	309,387	**257,573**
Amounts falling due after more than one year:		
Long term receivables	53	53
	53	**53**

16.2 Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15	2013-14	2014-15	2013-14
	£000	£000	£000	£000
Balances with other central government bodies	272,215	224,392	-	-
Balances with Local authorities	12,640	10,088	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	14,484	13,724	-	-
Balances with public sector organisations	299,339	248,204	-	-
Bodies external to government	10,048	9,369	53	53
Total receivables	**309,387**	**257,573**	**53**	**53**

17 Cash and cash equivalents

	2014-15	2013-14
	£000	£000
Balance at 1 April	38,548	282,765
Net change in cash balances	178,064	(244,217)
Balance at 31 March	**216,612**	**38,548**
The following balances at 31 March were held at:		
Government Banking Services	215,252	38,448
Balance with Government departments	1,360	100
Balance at 31 March	**216,612**	**38,548**

18 Payables – in respect of pensions

18.1 Analysis by type

	2014-15	2013-14
	£000	£000
Amounts falling due within one year		
Pensions	(202,585)	(200,584)
HM Revenue & Customs and voluntary contributions	(71,444)	(48,815)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(324,791)	(69,683)
	(598,820)	**(319,082)**

18.2 Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15	2013-14	2014-15	2013-14
	£000	£000	£000	£000
Balances with other central government bodies	(405,081)	(135,704)	-	-
Balances with Local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with public sector organisations	(405,081)	(135,704)		
Bodies external to government	(193,739)	(183,378)	-	-
Total payables	**(598,820)**	**(319,082)**	**-**	**-**

19 Pension liabilities

19.1 Assumptions underpinning the pension liability

The PCSPS is an unfunded defined benefit scheme. GAD carried out an assessment of the Scheme liabilities as at 31 March 2015. The Report of the Actuary on pages 10 to 14 sets out the scope, methodology and results of the work the actuary has carried out.

The Cabinet Office together with 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 in order 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 into or out of the Scheme; and
- following consultation with the actuary, the key assumptions that should be used to value the Scheme liabilities, ensuing 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 2015	At 31 March 2014	At 31 March 2013	At 31 March 2012	At 31 March 2011	At 31 March 2010
Rate of increase in salaries[1]	4.2%	4.5%	3.95%	4.25%	4.90%	4.25%
Rate of increase in pensions in payment and deferred pensions[2]	1.2%	2.7%	2.2%	5.2%	3.1%	0.0%
Inflation assumption[1]	2.2%	2.5%	1.70%	2.00%	2.65%	2.75%
Nominal discount rate	3.55%	4.35%	4.10%	4.85%	5.6%	4.6%
Discount rate net of price inflation	1.3%	1.8%	2.35%	2.8%	2.9%	1.8%
Life expectancy[3] (in years) at age 60						
Current retirements						
Females	31.3	31.2	30.7	30.3	30.2	30.0
Males	29.1	29.0	28.6	28.3	28.1	28.0
Retirements in 20 years time						
Females	33.6	33.5	33.0	32.1	32.0	31.9
Males	31.4	31.3	31.1	30.2	30.1	30.0

[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, 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, 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 the Scheme Managers/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

Value of liabilities (£ billion)					
At 31 March	**2015**	**2014**	**2013**	**2012**	**2011**
Current pensions and associated contingent pensions	68.6	66.9	66.4	62.5	54.9
Deferred pensions, including contingent pensions, for those no longer contributing to the scheme	35.2	30.9	26.1	24.1	21.9
Accrued benefits available to members contributing to the PCSPS	91.0	77.9	67.5	57.2	59.1
Total	**194.8**	**175.7**	**160.0**	**143.8**	**135.9**

Pension Scheme liabilities accrue over employee's periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. 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, the age of retirement and the 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 managers of the Scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 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*	+½% a year	-10%	- £19 billion
(ii) earnings increases*	+½% a year ***	+ 1%	+ £2 billion
(iii) pension increases*	+½% a year	+ 8.5%	+ £16billion
Demographic assumptions			
(iv) additional one year increase to life expectancy at retirement*		+ 2.5%	+ £5 billion
(v) all active members who move to the new scheme retire (on average) 1 year later		-0.5%	-£0.5 billion

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.
** Approximate effect rounded to nearest ½%.
*** Only the long term earnings assumption has been changed. The short term earnings assumptions have not been changed.

19.4 Analysis of movement in the scheme liability

	2014-15	2013-14
	£000	£000
Scheme liability at 1 April	(175,729,000)	(160,023,000)
Current service cost (note 8)	(4,341,000)	(3,782,000)
Pension Financing Cost (note 12)	(7,661,000)	(6,529,000)
Enhancements (note 9)	(102,205)	(65,330)
Pension transfers-in (note 10)	(967,583)	(89,804)
Benefits payable (note 19.5)	5,502,727	5,388,824
Pension payments to and on account of leavers (note 19.6)	95,992	104,965
Actuarial gain/(loss) (note 19.7)	(11,635,931)	(10,733,655)
Scheme liability at 31 March	**(194,838,000)**	**(175,729,000)**

During the year ended 31 March 2015, employers' contributions represented an average of 18.9% of pensionable pay.

19.5 Analysis of benefits paid

	2014-15	2013-14
	£000	£000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	4,909,659	4,614,780
Commutations and lump sum benefits on retirement	593,068	774,044
Per Statement of Cash Flows	**5,502,727**	**5,388,824**

19.6 Analysis of payments to and on account of leavers

	2014-15	2013-14
	£000	£000
Refunds to members leaving the service	19,937	28,591
Payments for members joining State scheme	784	1,302
Group transfers to other schemes	12,692	14,698
Individual transfers to other schemes	62,578	60,374
Per Statement of Cash Flows	**95,991**	**104,965**

19.7 Analysis of actuarial gain/(loss)

	2014-15	2013-14
	£000	£000
Experience gains/(losses) arising on the scheme liabilities	294,352	4,946,649
Changes in assumptions underlying the present value of scheme liabilities	(11,930,283)	(15,680,304)
PCSPS	**(11,635,931)**	**(10,733,655)**
Other Schemes	(377,555)	(338,402)
Per Statement of Changes in Taxpayers Equity	**(12,013,486)**	**(11,072,057)**

19.8 History of Experience (gains) / losses

	2014-15	2013-14	2012-13	2011-12	2010-11
Experience (gains)/losses on the scheme liabilities					
Amount (£000)	(294,352)	(4,946,649)	2,198,278	81,991	377,348
Percentage of the present value of the scheme liabilities	(0.2%)	(2.8%)	1.4%	0.1%	0.3%
Total amount recognised in Statement of Changes in Taxpayers Equity					
Amount (£000)	11,635,931	10,733,655	10,463,945	1,316,719	(8,217,067)
Percentage of the present value of the scheme liabilities	6.0%	6.1%	6.5%	0.9%	(6.0%)

20. Financial Instruments

The pension scheme has minimal exposure to foreign exchange rate. The majority of payments made overseas the 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, or borne by the individual member. The exception to this is when payments made overseas to individual members from the Commission of Irish Lights, which transferred into the Scheme this financial year, the scheme bares the foreign exchange liability as part of the transfer terms but this is not seen to be a major financial risk.

The pension 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 non-public 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 of, liquidity or market risk.

21. Contingent liabilities disclosed under IAS 37

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

Statement of Financial Position – CSCS compensation agency arrangements

22. Receivables – Non-Supply

	2014-15	2013-14
	£000	£000
Recoverable annual compensation payments including lump sums	100,611	30,515
Balance at 31 March	**100,611**	**30,515**

23. Payables – amounts falling due within one year

23.1 Central funding of early departures

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

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

24 Receivables – amounts falling due within one year

	2014-15	2013-14
	£000	£000
Contributions	2,794	2,034
Balance at 31 March	**2,794**	**2,034**

25 Payables – amounts falling due within one year

	2014-15	2013-14
	£000	£000
Pensions	(563)	(271)
Balance at 31 March	**(563)**	**(271)**

26 Pension liability

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

26.2 Analysis of movement in scheme liability

	2014-15	2013-14
	£000	£000
Opening scheme liability at 1 April	(2,815,000)	(2,353,000)
Net movement in year (including actuarial gain/loss)	(536,000)	(462,000)
Scheme liability at 31 March	**(3,351,000)**	**(2,815,000)**

27. Losses and Gains

During the year 3,020 cases totalling £301,035 were written off (2013-14: 4,504 - £351,823).

28. Related Party Transactions

The PCSPS, 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 Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions during the year.

MyCSP Limited is an associate company of the Cabinet Office. The Cabinet Office incurred charges of £55.8M million relating to pensions administration which has been funded by a charge on Civil Superannuation employer pension contributions.

29. Events after the Reporting Period

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

The Accounting Officer authorised the issue of these financial statements on the same date as the audit certificate was signed by the C&AG.

Annex to the Accounts

Data Reporting Tables

The Data Reporting Tables presented in this annex to the Accounts 2014-15 are unaudited.

They comprise:

A. Cabinet Office: Civil Superannuation Total Departmental Spending
B. Cabinet Office: Civil Superannuation Country and Regional Analyses

	2008-09 OUTTURN	2009-10 OUTTURN	2010-11 OUTTURN	2011-12 OUTTURN	2012-13 OUTTURN	2013-14 OUTTURN	2014-15 OUTTURN	2015-16 PLANS	2016-17 PLANS
Resource DEL									
Of which:									
Resource AME									
Civil superannuation	7,156,509	7,437,877	-7,573,154	8,715,117	7,972,681	7,301,675	8,994,143	8,534,000	8,976,449
Total Resource AME	**7,156,509**	**7,437,877**	**-7,573,154**	**8,715,117**	**7,972,681**	**7,301,675**	**8,994,143**	**8,534,000**	**8,976,449**
Of which:									
Net public service pensions 2	1,069,658	1,204,405	1,437,868	1,950,749	2,129,847	2,205,732	1,488,634	2,010,662	2,763,539
Change in pension scheme liabilities	3,954,776	3,820,322	-10,829,910	4,213,758	4,092,728	4,030,208	5,278,778	5,181,000	4,205,000
Unwinding of the discount rate on pension scheme liabilities	6,434,000	7,064,000	6,634,500	7,693,000	7,044,000	6,626,000	7,893,997	7,300,000	8,196,000
Release of provisions covering payments of pension benefits	-4,301,925	-4,650,850	-4,815,612	-5,142,390	-5,293,894	-5,560,265	-5,667,266	-5,957,662	-6,188,090
Total Resource Budget	**7,156,509**	**7,437,877**	**-7,573,154**	**8,715,117**	**7,972,681**	**7,301,675**	**8,994,143**	**8,534,000**	**8,976,449**
Of which:									
Capital DEL									
Of which:									
Capital AME									
Of which:									
Of which:									
Total AME	7,156,509	7,437,877	-7,573,154	8,715,117	7,972,681	7,301,675	8,994,143	8,534,000	8,976,449

1 Includes impairments

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

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

Table 6 Total identifiable expenditure on services by country and region, 2009-10 to 2013-14

£ million

Cabinet office (civil superannuation)	National Statistics				
	2009-10	2010-11	2011-12	2012-13	2013-14
North East	45	61	77	86	100
North West	92	115	152	169	193
Yorkshire and the Humber	67	84	113	125	145
East Midlands	56	69	93	102	117
West Midlands	63	78	104	115	130
East	103	121	167	182	206
London	143	165	231	249	279
South East	254	287	402	433	484
South West	170	197	270	295	332
Total England	993	1,177	1,610	1,756	1,983
Scotland	105	129	170	187	213
Wales	65	79	106	116	132
Northern Ireland	11	16	17	19	21
UK identifiable expenditure	1,174	1,402	1,903	2,079	2,350
Outside UK	31	36	48	51	58
Total identifiable expenditure	1,204	1,438	1,951	2,130	2,407
Non-identifiable expenditure	-	-	-	-	-
Total expenditure on services	1,204	1,438	1,951	2,130	2,407

Table 7 Total identifiable expenditure on services by country and region, per head 2009-10 to 2013-14

£ per head

Cabinet office: Civil Superannuation	National Statistics				
	2009-10	2010-11	2011-12	2012-13	2013-14
North East	17	24	30	33	38
North West	13	16	22	24	27
Yorkshire and the Humber	13	16	21	24	27
East Midlands	13	15	20	22	25
West Midlands	11	14	19	20	23
East	18	21	29	31	35
London	18	21	28	30	33
South East	30	33	46	50	55
South West	32	37	51	55	62
England	19	22	30	33	37
Scotland	20	25	32	35	40
Wales	21	26	35	38	43
Northern Ireland	6	9	10	10	12
UK identifiable expenditure	**19**	**22**	**30**	**33**	**37**

Data in this table are National Statistics £ million

	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	OUTSIDE UK	Not Identifiable	Grand Total
Social protection																
Old age	100	193	143	117	130	206	279	484	332	1,983	213	132	21	58	-	2,407
of which: pensions	*100*	*193*	*143*	*117*	*130*	*206*	*279*	*484*	*332*	*1,983*	*213*	*132*	*21*	*58*	*-*	*2,407*
Total social protection	100	193	143	117	130	206	279	484	332	1,983	213	132	21	58	-	2,407
TOTAL CABINET OFFICE: CIVIL SUPERANNUATION EXPENDITURE ON SERVICES	**100**	**193**	**143**	**117**	**130**	**206**	**279**	**484**	**332**	**1,983**	**213**	**132**	**21**	**58**	**-**	**2,407**

1. **Tables 6, 7 and 8** show analyses of the department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in the November 2014 release. The figures were largely taken from the **O**nline **S**ystem for **C**entral **A**ccounting and **R**eporting (OSCAR) during the summer of 2014 and the regional distributions were completed by the following autumn (taking on board any revisions to departmental totals). Please note that totals may not sum due to rounding.

2. The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.

3. TES is a cash equivalent measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2014.

4. The data feature both identifiable and non-identifiable spending:

    a. Identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions.
    b. Expenditure that is incurred for the benefit of the UK as a whole and cannot be disseminated by individual country or region is considered to be non-identifiable.

5. Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.

6. The functional analyses of spending in **Table 8** are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in Chapter A of the CRA November 2014 release. These are not the same as the strategic priorities shown elsewhere in the report.

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