
Cabinet Office: Civil Superannuation

Accounts 2011-12

Cabinet Office: Civil Superannuation

Accounts

2011-12

(For the year ended 31 March 2012)

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

*Ordered by the House of Commons to be printed on
31 January 2013*

© Crown copyright 2013

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or e-mail: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at: psc Correspondence@cabinet-office.gsi.gov.uk

This publication is available for download at www.official-documents.gov.uk

ISBN: 9780102981483

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002536542 1/13 19585 26496

Printed on paper containing 75% recycled fibre content minimum.

Contents

	Page
Report of the Manager	4
Report of the Actuary	10
Statement of Accounting Officer's Responsibilities	13
Governance Statement	14
The Certificate of the Comptroller and Auditor General to the House of Commons	20
The Report of the Comptroller and Auditor General to the House of Commons	22
Statement of Parliamentary Supply	25
Combined Statement of Comprehensive Net Expenditure	26
Combined Statement of Financial Position	27
Combined Statement of Changes in Taxpayers' Equity	28
Combined Statement of Cash Flows	29
Notes to the Accounts	30
Annex to the Accounts	47

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 joining the Civil Service from 30 July 2007 are offered membership of **nuvos**, a whole career pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of **premium**, **classic** and **classic plus**. Money purchase pensions known as **partnership** are available as an alternative for employees joining on or after 1 October 2002. **Partnership** is delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

Financial Performance

Resource Outturn

In 2011-12 resource outturn at £8,715 million (2010-11: £7,573 million), was close to that expected. At £22 million below the Supply Estimate forecast of £8,737 million, the variance is well below 1%.

Net Cash Requirement

In 2011-12 the net cash requirement was £1,875 million (2010-11: £1,372 million), £323 million (15%) below the Supply Estimate of £2,198 million. The underspend was mainly due to lower than forecast payments made during the year relating to early departure schemes run by employers.

PCSPS Liability

The total liability to pay pensions in the future is £143,843 million as at 31 March 2012, compared with £135,873 million as at 31 March 2011, an increase of £7,970 million. An analysis of the movement in liability is provided in note 23.4 to the accounts.

Roles and responsibilities

The Cabinet Office and the Scheme Management Board (SMB)

With effect from 1 April 2010 a Scheme Management Board has been in place to strengthen the governance and management of the Civil Service pension arrangements. Sir Gus O'Donnell, up to 31 December 2011, and Ian Watmore, from 1 January 2012 to 31 March, acted as Accounting Officer for the year in question for Cabinet Office: Civil Superannuation. Throughout the year responsibility for managing the arrangements was formally delegated to the Chair of the Scheme Management Board. The Board draws most of its members from employers who participate in the PCSPS and from PCSPS members. HM Treasury also has a representative on the Board and there are two non-executive members from the private sector pensions industry. A Scheme Management Executive (SME), staffed by officials from the Cabinet Office, supports the Board and its activities.

The SMB's responsibilities are:

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

On behalf of the SMB, the SME manages the day-to-day delivery of administration by My Civil Service Pension (MyCSP) through a service agreement (which was replaced by a formal contract from 1 May 2012 when MyCSP moved into the private sector). In addition, the SME:

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

In exercising its responsibilities the SMB has put in place processes to monitor the cost of scheme administration. For the year ending 31 March 2012 the total cost of administration and management of the Civil Service pension arrangements was £35.2m. This can be broken down as follows:

Central management	£1.4m
Administration	£26.4m
MyCSP Transformation Programme	£7.4m

Of this, £21.0m has been met centrally from a 'levy' on employer pension contributions with employers meeting £14.2m, of the costs directly. This is a transitional arrangement and from a future point the intention is that all administration and management costs will be met centrally through the employer pension contributions.

Employers

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

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

MyCSP

With effect from 1 April 2010 MyCSP became responsible for the administration of the PCSPS and associated arrangements. From 1 February 2011 responsibility for MyCSP transferred to the Cabinet Office. On 1 May 2012 MyCSP moved into the private sector as part of a Mutual Joint Venture (MJV).

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

Capita Hartshead

In 2011-12 MyCSP managed the contract that the Cabinet Office had in place with Capita Hartshead to pay benefits. Under the contract Capita Hartshead is responsible for:

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

The contract with Capita Hartshead novated to MyCSP on 1 May 2012.

Cabinet Office

Cabinet Office's pension policy 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 production of 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 resource accounts.

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

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.

Civil Service Compensation Scheme (CSCS)

MyCSP, on behalf of the SMB acted in 2011/12 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 17.2.

Rule changes

The Government announced, at Spending Review 2010, its intention to increase employee pension contributions for public servants other than members of the Armed Forces, by an average of 3.2%, and to phase these additional contributions in over a three year period starting from April 2012.

The PCSPS rules were amended in March 2012 to provide for scheme members to pay extra contributions from 1 April 2012, with the contribution rate for individuals dependent on their full-time equivalent annual pensionable earnings. The average increase from 1 April 2012 was 1.3%, and there will be discussions with the trade unions before further amendments to the scheme rules to provide for increases from April 2013 and April 2014.

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

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

The CSAVCS allows PCSPS members to increase their benefits by contributing to 'money purchase' arrangements. Members contribute to these arrangements, building up a fund which they can then use to buy an annuity.

SME continues to exercise its duty of care towards members by monitoring the CSAVCS providers, working with the scheme's professional advisers, Aon Hewitt Ltd.

In June 2011, Scottish Widows confirmed completion of an internal governance review of their Pension Investment Approaches (risk graded fund options) which concluded that the Pension Investment Approaches continue to deliver in line with their expectations. In February 2011 a member was identified as being invested in a fund which had not been approved by the Scheme Managers. SME took advice from Aon Hewitt before authorising Scottish Widows to write to the affected member about transferring to a suitable alternative approved fund. In relation to members investing in non-approved funds, SME and Aon Hewitt have escalated matters with Scottish Widows.

In August 2011, Standard Life confirmed a number of modest increases to fund charges which impacted on CSAVCs. This was primarily in relation to custodian fees, which had previously been borne by shareholders, and the percentage increase was in the region of 0.01%. The report that Standard Life compiled for the 2011 annual review meeting showed that, as at 30 September 2011, two members were invested in non-approved funds. SME has taken advice from Aon Hewitt as to how to instruct Standard Life to rectify this and to ensure that members cannot access non-approved funds in the future.

In May 2011, HM Treasury published 'The Equitable Life Payment Scheme design' which set out the rules for calculating relative losses incurred by with profits policy holders as a result of regulatory failure. In January 2012, the Equitable Life Payment Scheme published a progress report which stated that, due to the complexities in retrieving contact details for group schemes (such as the CSAVCS), individuals eligible for receipt of a payment may not be contacted until June 2014. SME included more information on this subject in the letter which was issued to members along with their Equitable Life benefit statements for the year to 5 April 2012.

Complaints under the Internal Dispute Resolution (IDR) Procedures

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

During 2011-12 MyCSP and Capita completed 235 first stage decisions, upholding in full or in part 55 of the complaints that they investigated. In the same period SME completed 130 investigations at the second stage of the IDR process. In 106 cases SME rejected the complaints by scheme members (although in 22 of those cases, decided that compensation for distress and inconvenience should be paid). In the remaining 24 cases, SME upheld in full or in part the complaints made and, where appropriate, ordered remedial action (including compensation for distress and inconvenience in 6 of these cases).

The Pensions Ombudsman completed investigations into 17 of SME's cases during the year and upheld SME's decision, in full or in part, in 15 of them.

National Fraud Initiative (NFI)

NFI is a biennial IT data matching exercise co-ordinated by the Audit Commission involving organisations within central and local government working together to identify and eliminate frauds and overpayments. Data on PCSPS pensions in payment are compared against data on recorded deaths to identify cases where pensions might remain in payment to deceased persons. PCSPS data are also matched against housing benefits so that local authorities can identify claimants who have failed to declare receipt of an occupational pension. Work commenced on the NFI 2010 report in April 2011 and was the seventh exercise in which Cabinet Office had participated. Cabinet Office identified 912 potential overpayments of around £1.5 million in total. Around 500 cases have been contacted and £343,000 recovered. During 2011-12 outstanding debts arising from the NFI 2008 exercise were reduced to £890,000 which are being recovered.

Pensions increase

Pension payments increased by 3.1% from 11 April 2011, in line with the movement in the CPI All-items index from September 2009 to September 2010.

Membership statistics			
Membership of the PCSPS at 31 March:			
	2012		2011
Active members*	523,000		564,000
Deferred members	365,000		352,000
Pensions in payment			
Officers	494,000		474,000
Dependants of deceased members	128,000		130,000
Annual compensation payments (and other on-going payments) for which employers are responsible	16,600		17,100
Staff opting for partnership pension Arrangements **	7,214		7,798

*The approximate split of active membership at 31 March 2012 was 57% **classic**, 2% **classic plus**, 26% **premium** and 15% **nuvos**.

** The figure for 2011 has been restated due to the fact that Scottish Widows found that the figure they had advised last year was incorrect.

Managers, advisers, auditors and bankers

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

Accounting Officer: Richard Heaton, 70 Whitehall, London, SW1A 2AS

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

Advisers

Scheme Actuary: Aon Hewitt, Parkside House, Epsom, KT18 5BS. (from 1 April 2012 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: Capita Health Services, Greyfriars, 10 Queen Victoria Road, Coventry, CV1 3PJ.

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: DCLG, Internal Audit Services, Floor 3/E2, Eland House, Bressenden Place, London, SW1E 5DU.

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

Further information

Please address any enquiries about Civil Service pension arrangements to:

Pensions Scheme Management Executive
Cabinet Office
Priestley House
Priestley Road
Basingstoke
RG24 9NW

Richard Heaton

Permanent Secretary
Cabinet Office
30 November 2012

Report of the Actuary

Accounts for the year ended 31 March 2012

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

B. This Report summarises advice given by Aon Hewitt Limited to the Cabinet Office. It relates solely to the liabilities of the Principal Civil Service Pension Scheme. Liabilities relating to payments made before normal retirement age as compensation for early retirement under the terms of the Civil Service Compensation Scheme fall to employers and are excluded.

C. Liabilities

We have assessed the value of the expected benefit entitlements under the Principal Civil Service Pension Scheme built up during periods of employment (or former employment) prior to 31 March 2012. The capitalised value as at 31 March 2012 has been assessed using the methodology and assumptions set out in Sections E and F below. The results are as follows:

Value of Liabilities	£ billion
Current pensions & associated contingent pensions	62.5
Deferred pensions, including contingent pensions, for those no longer contributing	24.1
Accrued benefits available to members contributing to the scheme	57.2
Total	143.8

D. Accruing Costs

The cost of benefits accruing for each year of service is shared between members and employers.

For the year ended 31 March 2012, employees in the **classic** section made contributions of 1.5% of pensionable pay. Employees in the **classic plus** and **premium** sections, which came into effect as from 1 October 2002, made contributions of 3.5% of pensionable pay. Employees in the **nuvos** section, which came into effect as from 30 July 2007, also made contributions of 3.5% of pensionable pay.

We have assessed the employers' share of the cost of benefits accruing in the year ended 31 March 2012 (the employers' share of the 'current service cost') to be 26.2% of pensionable pay.

To determine the amounts actually charged to employers under the ASLC mechanism the employers' contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates which were assessed under the ASLC mechanism as required to meet the cost of benefits accruing in the year 2011-12 were as follows:

Employer's Share of Contribution Rate	
Pay band from April 2011	% of Pensionable Pay Rate charged
£21,000 and under	16.7%
£21,001 to £43,500	18.8%
£43,501 to £74,500	21.8%
£74,501 and above	24.3%
Estimated average rate charged to Employers for current year	18.9%
Rate payable by the Prison Service for prison officers employed before September 1987 and entitled to enhanced benefits	25.8%

The employers' contributions receivable are assessed as £2.6 billion for financial year 2011-12. The next ASLC assessment is being carried out as at 31 March 2010.

E. Methodology

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

F. Assumptions

The principal financial assumptions adopted for the liability assessments referred to in Section C are an investment return in excess of price increases (based on CPI) of 2.80% p.a. (pension benefits under the Scheme are generally increased in line with prices), and an investment return in excess of long-term earnings increases of 0.58% p.a.. The gross rate of return is assumed to be 4.85% p.a. although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to a long-term allowance for increases in salaries of 4.25% p.a. and an allowance for CPI price inflation of 2.00% p.a. General pay increases in the year from 1 April 2012 are assumed to be nil.

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

As an illustration, the assumed life expectancy at age 60 for a member (in normal health) who is currently age 60 is 28.3 years for a man and 30.3 years for a woman. The assumed life expectancy at age 60 for a member (in normal health) who is currently aged 40 is 30.2 years for a man and 32.1 years for a woman.

For the current service cost calculation referred to in Section D, which was determined as at 31 March 2011, the principal financial assumptions were an investment return in excess of price increases of 2.90% p.a. and an investment return in excess of earnings increases of 0.67% p.a. The demographic assumptions were identical to those adopted for the pension liability assessments referred to in Section C.

G. Notes

Our calculation of the liabilities as at 31 March 2012 has been based on an approximate update of a full actuarial valuation of the Scheme as at 31 March 2007. The gap between the date of the latest full valuation and the effective date of our approximate update calculations is therefore five years. This compares with a maximum duration of four years between formal actuarial valuations that is required under Chapter 12 of the Financial Reporting Manual for the financial year 2011-12.

In preparing the approximate update calculations, we have used data supplied by the Scheme administrators as at 31 December 2011. Our calculations take account of the 5.2% pension increase granted in April 2012.

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

The Government is consulting on how to equalise Guaranteed Minimum Pensions (GMPs). At present, it is not clear how such equalisation will be implemented and it is possible that there will be no impact on the liabilities of this scheme. We have therefore made no allowance for GMP equalisation within the liability assessments.

H. Sensitivities of liabilities

We have estimated the sensitivity of the Scheme liabilities as at 31 March 2012 to individual changes in the underlying assumptions (with all other assumptions remaining unchanged). The table below shows the sensitivities we have tested along with the estimated revised Scheme liabilities.

Sensitivity	Estimated scheme liability as at 31 March 2012 £ billion
1.1 Decrease in the discount rate of 0.5% per annum	157
1.2 Increase in the discount rate of 0.5% per annum	132
2.1 Decrease in the assumed rate of inflation of 0.5% per annum	132
2.2 Increase in the assumed rate of inflation of 0.5% per annum	158
3.1 Decrease in the assumed earnings increase of 0.5% per annum	141
3.2 Increase in the assumed earnings increase of 0.5% per annum	147
4.1 Members live 1 year less than anticipated	140
4.2 Members live 1 year longer than anticipated	147

Statement

We have prepared this Report for the Cabinet Office as managers of the Principal Civil Service Pension Scheme. In our opinion the assessment of the liabilities of the Scheme as at 31 March 2012 and of the accruing cost of benefits set out above comply with the requirements of Chapter 12 of the Financial Reporting Manual for the financial year 2011-12, other than in relation to the time gap between full valuations which is detailed in Section G.

Jonathan Teasdale
Fellow of the Institute and Faculty of Actuaries
Aon Hewitt Limited
25 July 2012

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 Richard Heaton 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

The Accounting Officer is 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 they are personally responsible, in accordance with the responsibilities assigned to them in *Managing Public Money*.

During the accounting period, there was a change of Accounting Officer - Sir Gus O'Donnell was the Accounting Officer for up to 31 December 2011, and Ian Watmore took over from 1 January 2012. After the end of the accounting period, Melanie Dawes took over from Ian Watmore on an interim basis, from 30 June until 01 August. I assumed Accounting Officer responsibility on 02 August 2012.

Throughout these changes strong continuity has been provided by the teams who have day to day responsibility for managing the Civil Superannuation resources. These teams have remained largely and unchanged and have conducted thorough briefings for incoming Accounting Officers.

The Governance Framework

The Scheme Management Board

The SMB is chaired by a Permanent Secretary under a memorandum of understanding from the Accounting Officer. It has four members drawn from employers covered by the Civil Service pension arrangements and a further four from scheme members. In addition the SMB has two non-executive members drawn from the wider pensions industry. The Cabinet Office finance director is also a member of the SMB. The non-executives chair the SMB's Risk and Operations Committees. The Committees provide the detailed scrutiny of the scheme administration, and report back to the full SMB on a quarterly basis. A Scheme Management Executive (SME) staffed by Cabinet Office officials, supports the SMB.

In 2011/12 the SMB held 4 quarterly meetings. During the year, the SMB's membership was as follows:

Member	Role	Home Department/ Trade Union (where applicable)	Number of SMB meetings attended in 2011-12
Jonathan Stephens	Chair	Department for Culture Media and Sport	4
Ian Albert	Member Representative	PCS	3
Robert Branagh	Non-executive member		4
Allan Course	Non-executive member		3
Alison Cottrell	Central Government	HM Treasury	4
Janice Godrich	Member Representative	PCS	0
William Hague	Employer Representative	Cabinet Office	4
Ann Harris	Employer Representative	DWP	2
Neil Hayward	Employer Representative	HMRC (resigned December 2011)	3
Lorimer Mackenzie	Member Representative	First Division Association	4
Simon Parkes	Employer Representative	Department for Education	2
John Plant	Member Representative	Prospect	3

Throughout the year, the SMB operated two committees that covered Risk and Operations. SMB considered reports from the Committees at each of its meetings. For both committees, the principal areas of concern were connected with MyCSP. The Risk Committee's focus was on getting MyCSP to improve its ability to identify risk and how to use risk as a means of helping to manage their business. The Operations Committee was particularly concerned with the level of Management Information provided by MyCSP, and sought improvements on what was being delivered. Throughout the year, the Operations Committee sought and monitored information on 'business-as-usual', providing appropriate challenge to MyCSP's managers to ensure that this key concern of the SMB's did not get overlooked.

Following the qualification of the 2010-11 scheme accounts due primarily to lack of evidence from employers to support benefits in payment in the cases sampled by the NAO, the SMB has received increased information about this year's accounts and in particular on the lessons learned. The SME has worked closely with MyCSP and NAO to improve procedures and processes in obtaining information from employers and enabling the audit to run more smoothly.

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, and he has also been appointed as a member of the SMB, which has strengthened the link between SMB and COARC. During the year COARC received reports on the actions of SME, particularly with regard to rectifying, as far as possible, issues raised by the qualification of the 2010-11 Accounts.

Scheme Administration

Throughout the reporting period, MyCSP provided pension administration under a service level agreement with SMB with, for historical reasons some administration remaining under existing contracts with third parties. During this time, MyCSP was also part of the Cabinet Office, reporting at first to the Head of Efficiency and Reform Group (ERG) and then directly to the Accounting Officer.

MyCSP administered the Civil Service pension arrangements through a number of Pensions Service Centres (PSCs), both in the public and private sector. SME reminded MyCSP of their corporate governance responsibilities during the year, which they accepted. Phil Bartlett as CEO of MyCSP has sent me assurances for the whole period.

SME monitored the operation of MyCSP through quarterly strategic meetings and monthly contract meetings. This has enabled SME to assess regularly MyCSP's performance against the service level agreement in place and to report back to the SMB and its Committee on areas of concern or interest.

MyCSP managed the pension administration services provided by Capita Hartshead (CH) under contract to the Cabinet Office. Under this contract CH are responsible for administering the Civil Service pension arrangements for deferred and pensioner members. These responsibilities include making payments to the pensioners. CH internal auditors carry out an internal audit plan agreed under the terms of the contract held by the Cabinet Office. In 2011-12 CH operated appropriate corporate governance. CH's directors and Head of Internal Audit provided assurance statements, six monthly and annually respectively, on the adequacy and effectiveness of their system of internal control. MyCSP monitored CH's performance and operated a joint risk register with them. CH also produced an annual AAF 01/06 report (Assurance Report on Internal Controls), detailing their control environment and control objectives for the administration of clients' pension schemes.

Control framework for employers

The Civil Service pension arrangements cover over 250 employers. All employers have signed a Participation Agreement with SMB, 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.

For 2011-12 I have received 256 AOCs. Of these 40 were qualified compared with 47 qualifications in 2010-11, 51 in 2009-10 and 92 in 2008-09.

The reason for the qualifications included problems with:

- Data issues
- Incorrect payment of contributions
- Civil Service Compensation Scheme cases
- Putting members in the wrong version of the scheme
- The Reconciliation check.

The Reconciliation check was the largest source of problems. The purpose of the check is to reconcile employer records with awards made. SME's analysis of these cases suggests that problem is more to do with the check itself than with any more significant issues with the employers. SME is working with employers to improve the check going forward.

The SME assesses each qualification on a Red/Amber/Green basis. The results for 2011/12 were

Rating	No. of qualified certificates	Comments
Red	1	A small employer with a persistent problem concerning data
Red/Amber	3	This is another small employer, which has two agencies, hence the total of 3. The issue concerns the payroll data interface with MyCSP
Amber	7	SME is monitoring the issues with the employers concerned
Amber/Green	11	These were either data issues or contribution payments
Green	18	The issues that led to the qualification were resolved in year

The SME is in the process of escalating both the Red and the Red/Amber cases. The total number of members at risk of being affected is less than 0.5% of the total number of active members.

The SMB has initiated a programme of employer audits designed to improve oversight of employer performance. The audits concentrate on the provision of accurate data to MyCSP and correct payment of contributions to the Cabinet Office. The audit programme is still developing and greater emphasis will be made in the coming year on employer record keeping. The SMB receives periodic updates on these audits.

Other schemes

Responsibility for the governance and administration of the Security Service and Secret Intelligence Service pension schemes included in these financial statements rests with the relevant agencies.

Management of risk

One of the SMB's main responsibilities is the development and maintenance of a risk management framework and system of internal control. The SMB's Risk Committee, chaired by one of its non-executive executive members, meets quarterly and examines the risk registers and approach to risk management of both MyCSP and SME. The Committee reports any matters of concern to the SMB. These concerns are in turn taken up as necessary with senior officials. The Chair of the Risk Committee has written during the year to MyCSP explaining the Committee's concerns about MyCSP's risk identification process. The Committee has subsequently noted a gradual improvement in MyCSP's performance in this area.

In SME the main processes of identifying, evaluating and managing risk and changes to risk were conducted at team level. SME maintain a series of risk registers and an issues log, which formed the basis of monthly leadership team meetings. Following discussions at these meetings, SME's risk manager made any necessary changes to these registers and issues log.

The SMB has initiated a programme of employer audits designed to improve oversight of employer performance. These audits will become, as they develop, a key part of the assurance framework. The audits concentrate on the provision of accurate data to MyCSP and correct payment of contributions to the Cabinet Office. The audit programme is still developing. Although it remains early days, the audits are finding that employers generally have reasonable controls in place regarding roles and responsibilities, staff training and the collection and payover of contributions. However, the evidence supporting the AOCs is variable, which supports SME's views as reported in the previous paragraph. The audits are also highlighting that departments may need to focus greater attention on managing the risks associated with record keeping and data transfer. The audits will place more emphasis in the coming year on employer record keeping. The SMB receives periodic updates on these audits.

Review of effectiveness during 2011-12

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 SMB has also written to me on the effectiveness of risk management within the scheme. 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.

The qualification of the 2010-11 Resource Accounts highlighted among other things the need for greater clarity on roles and responsibilities with regard to the accounts. To this end

responsibility for the production of the accounts was delegated to the Cabinet Office Finance Director.

The SMB produces an Annual Review of its effectiveness and the work that it has done, together with a forward look. The report reflected the general effectiveness of SMB's performance particularly with regard to negotiations of the contract with MyCSP Ltd that came into effect on 1 May 2012. SMB's attention throughout the year was dominated by these contract negotiations with MyCSP in the lead up to the latter's move into the private sector.

The Department for Communities and Local Government (DCLG) provided internal audit services to the scheme throughout the year. IAS conducted audits on SME's effectiveness, collection of contributions, scheme resilience, counter-fraud and risk management. The DCLG team also undertook the programme of employer audits. In addition, ERG undertook a review of SME's capability to manage the contract with MyCSP successfully. Where the DCLG have identified weaknesses, SME have acted to strengthen performance. Rather than consider whether each internal audit opinion will be disclosed in the Governance Statement as and when reports are produced, our internal auditors will present to SMB a formal report at the year-end summarising the work they have performed, their view on the PCSPS risk control environment, and their view on any audit opinions or recommendations that should be included in the Governance Statement. This year-end report will be shared with the NAO. As part of the internal auditor's annual report they will include a statement as to their compliance with Government Internal Audit Standards. This statement will be included in future Governance Statements.

Data Security

Employers are responsible for data held themselves or by their payroll provider. However, SME 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 (PenServer), or an alternative agreed with MyCSP, who monitor the status of payroll interfaces.

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

CH's secure data handling was monitored by MyCSP under contract. CH exchanged data with HMRC, DWP, and their banking partners.

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

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 a senior Cabinet Office official and comprises of representatives from SME, MyCSP and outside specialists.

Planned Improvements

A number of lessons learned from the 2010-11 Accounts will be applied both to these accounts and future ones, including enhanced working between the various parties involved, greater efforts to secure employer co-operation and the addition of the Cabinet Office Finance Director to the SMB.

The review of the Reconciliation Check (in which employers reconcile the names of staff put forward for pension awards with those who actually receive them) will look to strengthen a key control. In addition, the SMB have commissioned internal audit to undertake a review of the AOC process to see how this may be strengthened going forwards.

The Employer Audit programme will begin to produce sufficient levels of evidence during 2011-12 to identify consistent themes and areas of concern. These will be reported back to the SMB as part of a wider review of the scheme's assurance framework.

The ERG review found that as a result of the move to a formal legal contract with MyCSP, SME will need to strengthen its capability in certain areas. Steps are being taken to achieve this.

Under the commercial contract in place, MyCSP is due to deliver in 2012-13 a detailed transformation plan, improved management information, a robust Business Continuity and Disaster Recovery Plan to replace the current piecemeal provision, strategies for communications, internal audit and employer and member engagement, and an enhanced risk control framework.

Richard Heaton
Permanent Secretary
30 November 2012

Cabinet Office: Civil Superannuation 2011-12**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 2012 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Basis for qualified opinions on regularity and the financial statements

Under legislation and the governing rules of the PCSPS, benefits are calculated with reference to an individual's qualifying service and their pensionable pay. The scope of my audit was limited because the Cabinet Office was unable to provide me with evidence to support some service and salary records and therefore to validate the accuracy of some benefits awarded. As a result I have concluded that there is an unsupported element of payments which is sufficiently material for me to limit the scope of my regularity opinion on benefit payments made in the year ended 31 March 2012.

The benefits awarded and membership records held by the Scheme are used to calculate the liability for future benefits. Because of the limitation in the evidence to support the accuracy of benefits awarded in the year to 31 March 2012 and a further limitation in the evidence provided to me to support some benefits accrued at the start of the financial year, I have limited the scope of my opinion on the pension liability.

Qualified opinion on regularity

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

Qualified opinion on financial statements

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

- the financial statements give a true and fair view of the state of the scheme's affairs as at 31 March 2012, and of its net cash requirement, net resource outturn, and net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

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

Matters for which I report by exception

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

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

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

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

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

28 January 2013

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

Introduction

1. The Cabinet Office: Civil Superannuation Accounts 2011-12 report the financial results of the Principal Civil Service Pension Scheme (PCSPS) and a number of other small public sector pension schemes. I am appointed auditor of these Accounts under the Government Resources and Accounts Act 2000.
2. I have qualified my opinions in two respects:
 - A qualification of my opinion relating to the regularity of benefit payments. My audit sought assurance that benefit payments made by the PCSPS were in accordance with the Scheme rules. The Cabinet Office has not retained, or provided me with, sufficient records to give this assurance ahead of the statutory deadline for laying the accounts before Parliament. I am therefore limited in my ability to confirm that all pensioners, or other beneficiaries, have received their correct entitlements.
 - A limitation in the scope of my opinion relating to the truth and fairness of the valuation of the pension liability. I sought assurance that the pension liability of £144 billion was a reasonable estimate based on the Scheme's membership records. The evidence presented to me was insufficient to support, in all material respects, this liability.

Background

3. The PCSPS is an occupational scheme, which at 31 March 2012 had 523,000 active members, 365,000 deferred members and 622,000 individuals receiving benefits. In the year ended 31 March 2012, the Scheme received £3.1 billion of contributions and other income, and paid out £4.9 billion, with Parliament funding the balance.

Qualification relating to regularity of benefit payments

4. Pension awards under the PCSPS are linked to a member's length of qualifying service and pensionable earnings. As part of my audit I test whether the service history data used by the Cabinet Office to calculate benefits are accurate, and thus whether individuals have received their correct award. Last year the Cabinet Office could not provide me with sufficient evidence to demonstrate that this was the case and I therefore qualified my regularity opinion on the 2010-11 Superannuation Accounts.
5. This year, as in 2010-11, I selected a sample of benefit payments and asked the Cabinet Office to provide employment or other primary records to support the awards. I was not able to confirm some six per cent by value of the payments I tested. Of this unsupported value, the main issues elements related to these types of cases:
 - The Cabinet Office did not provide any primary evidence to support the award. These were for members who had previously left the Scheme and deferred their award.
 - Primary records did not agree to, or were insufficient to support, the payment calculation.
6. These findings were a significant improvement over the prior year, when a quarter, by value, of the payments could not be supported. Nonetheless, as the Cabinet Office has

not given me sufficient supporting information to materially validate the payment awards made in year, I have again qualified my regularity opinion in this respect.

Limitation on scope relating to the pension liability

7. The Accounts show a liability of £144 billion, which represents the amount that the Scheme estimates it will need to pay to current members in the future.
8. The Cabinet Office engaged an actuary to provide a valuation of the liability as at 31 March 2012. I was able to satisfy myself that the Cabinet Office and actuary's assumptions, and the methodology for calculation, were reasonable. However, as was the case for the prior year valuation as at 31 March 2011, the Cabinet Office did not provide sufficient records to give me assurance over the quality of the membership data used to calculate the pension liability. As such, the evidence presented to me was insufficient to support, in all material respects, this liability. I have again limited my opinion on the financial statements in this respect.

Factors related to the qualifications

Governance and Delivery Model

9. From 1 April 2010 the Cabinet Office launched a programme to transform and modernise the administration of civil service pensions. At that date the Cabinet Office Accounting Officer delegated responsibility for the management of the schemes to a Scheme Management Board. Delivery of pension administration was moved from an employer managed model, through which employers could engage one of seven authorised providers, to a single centrally managed function, MyCSP, governed by a Service Level Agreement with the Scheme Management Board.
10. In my report on 2010-11 Superannuation Accounts, I noted that these changes had resulted in an improved structure with better operational and risk management. I considered, however, that there were some weaknesses in the model which contributed to the circumstances under which I had qualified the Accounts:
 - The Board's operational role, including its focus on planning for the mutualisation of MyCSP, did not give it the capacity to take full ownership of financial matters and the accounts in 2010-11. In addition, there was no Finance Director, or other senior finance official, directly responsible for Civil Superannuation.
 - The change in relationship between employers and the administration function exposed the lack of a robust system of records management, including clarity over roles and responsibilities.
11. In March 2012, the Cabinet Office Finance Director was appointed to the Scheme Management Board and was formally delegated responsibility for managing resources under the Civil Superannuation estimate, including preparation of its Accounts. This has improved financial control, including processes for providing evidence to support pension payments. There has also been a clarification in roles and responsibilities with respect to records, which in part follows the move to a full contractual relationship with MyCSP Ltd when it was mutualised in May 2012.
12. Despite the improvements outlined, the Cabinet Office could not provide records for all the cases I selected. It appears that records, some of them old, have not consistently

been retained where members have moved within, or left, the Civil Service and that this is a particular issue where government bodies have closed.

Scheme data

13. Employers are responsible for providing accurate data to the Scheme Administrator on their employees. In 2011, the Scheme Management Board commissioned the Cabinet Office internal audit to undertake a programme of audits to review employer systems and assess data reliability. This was intended to supplement the existing system of assurance that relied solely on self-certification by the employers.
14. I am pleased to note that a full programme of employer audits commenced in 2012. The audits conducted so far support my concerns, identifying some differences between the data held at employers and that by the Scheme. The audits also highlighted significant variation in the strength and consistency of controls at employers. This work is enabling the Cabinet Office to map processes with the aim of standardising and strengthening controls across the Scheme going-forward.

Changes to Civil Service Pensions and the Scheme Administrator

15. The PCSPS and its administration continues to undergo a period of significant change, which may increase the risks identified by my audit:
 - Scheme rules have been modified with all awards to be based on a career average salary as from April 2015. This increases the importance of the systematic retention and maintenance of staff records, which could be needed to be held over several decades.
 - MyCSP Ltd is contracted to undertake a programme of service transformation. This will include the restructuring of its operations, standardisation of systems, and the development of new IT infrastructure. The Cabinet Office should ensure that the risks of the complex data transfer operation and data cleansing exercise are carefully managed.

Actions required to secure improvement

16. The Cabinet Office should continue to develop and implement its programme with employers and MyCSP to improve record-keeping and improve systems and processes, including addressing the issues I have outlined. It should as part of that programme identify gaps in its historic records and take practicable action to address these.
17. The Cabinet Office has agreed the need to take such action to address the issues I have raised.

*Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
28 January 2013*

Statement of Parliamentary Supply

Summary of Resource Outturn 2011-12

£000	2011-12							2010-11	
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
Departmental Expenditure Limit									
• Resource		-	-	-	-	-	-	-	
• Capital		-	-	-	-	-	-	-	
Annually Managed Expenditure									
• Resource	5.1	8,737,000	-	8,737,000	8,715,144	-	8,715,144	21,856 (7,573,143)	
• Capital		-	-	-	-	-	-	-	
Total Budget		8,737,000	-	8,737,000	8,715,144	-	8,715,144	21,856 (7,573,143)	
Non-Budget									
• Resource	5.1	-	-	-	-	-	-	-	
Total		8,737,000	-	8,737,000	8,715,144	-	8,715,144	21,856 (7,573,143)	

Total Resource		8,737,000	-	8,737,000	8,715,144	-	8,715,144	21,856 (7,573,143)
Total Capital		-	-	-	-	-	-	-
Total		8,737,000	-	8,737,000	8,715,144	-	8,715,144	21,856 (7,573,143)

Net Cash Requirement 2011-12

£000

Note

7

2011-12
Estimate
2,198,000

2011-12		2010-11
Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
1,874,634	323,366	1,371,745

Administration Costs 2011-12

2011-12
Estimate
-

2011-12
Outturn
-

2010-11
Outturn
-

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

The notes on pages 30 to 46 form part of these accounts.

**Combined Statement of Comprehensive Net Expenditure
for the Year to 31 March 2012**

		2011-12	2010-11
	Note	£000	£000
Principal arrangements – PCSPS			
Income			
Contributions receivable	9	(2,960,537)	(3,155,482)
Transfers in	10	(38,675)	(73,699)
Other pension income	11	(138,492)	(75,977)
Expenditure			
Past Service Cost		-	(15,540,000)
Pension cost	12	3,930,000	4,690,000
Enhancements	13	179,709	115,848
Transfers in	14	38,675	73,699
Injury Benefits	15	8,603	8,183
Interest on scheme liabilities	16	7,590,000	6,540,000
Other Interest payable (included for completeness)		-	-
Administration expenses (included for completeness)		-	-
Net Expenditure/(Income)		8,609,283	(7,417,428)
Compensation agency arrangements - CSCS			
Expenditure			
Benefits payable	17.1	31	102
Net Expenditure		31	102
Other minor agency and principal pension scheme arrangements			
Other pension schemes			
Income			
Contributions receivable		(63,575)	(81,883)
Expenditure			
Total charge to provisions		168,374	(74,957)
Benefits payable	18	1,005	1,012
Net Expenditure/(Income) for the year		105,804	(155,828)
Combined Net Expenditure/(Income) for the year		8,715,118	(7,573,154)
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year			
Actuarial (gain) / loss	23.7	1,359,632	(8,493,976)
Total Comprehensive Net Expenditure/(Income) for the year ended 31 March 2012		10,074,750	(16,067,130)

The notes on pages 30 to 46 form part of these financial statements.

**Combined Statement of Financial Position
as at 31 March 2012**

	Note	<u>2011-12</u> <u>£000</u>	<u>2010-11</u> <u>£000</u>
Principal arrangements - PCSPS			
Current assets:			
Receivables (within 12 months)	20.1	213,817	252,267
Cash and cash equivalents	21	244,955	279,889
Total current assets		<u>458,772</u>	<u>532,156</u>
Current liabilities			
Payables (within 12 months)	22.1	(575,612)	(551,678)
Total current liabilities		<u>(575,612)</u>	<u>(551,678)</u>
Net current assets/(liabilities), excluding pension liability		<u>(116,840)</u>	<u>(19,522)</u>
Receivables (after 12 months)	20.1	118,053	138,066
Pension liability	23.4	(143,843,000)	(135,873,000)
Net liabilities, including pension liabilities		<u>(143,841,787)</u>	<u>(135,754,457)</u>
Compensation agency arrangements - CSCS			
Receivables (within 12 months)	25	77,172	33,835
Net current assets		<u>77,172</u>	<u>33,835</u>
Other pension schemes			
Receivables (within 12 months)	27	4,431	7,643
Payables (within 12 months)	28	(1,404)	(2,468)
Net current assets/(liabilities), excluding pension liability		<u>3,027</u>	<u>5,175</u>
Pension liability	29.2	(1,986,000)	(1,832,000)
Net liabilities, including pension liabilities		<u>(1,982,973)</u>	<u>(1,826,825)</u>
Combined Scheme – Total net Liabilities		<u>(145,747,588)</u>	<u>(137,547,446)</u>
Taxpayers' equity:			
General Fund		(145,747,588)	(137,547,446)
		<u>(145,747,588)</u>	<u>(137,547,446)</u>

Richard Heaton
Accounting Officer

30 November 2012

The notes on pages 30 to 46 form part of these financial statements.

Combined Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2012

	Note	General Fund	
		2011-12 £000	2010-11 £000
Balance at 31 March		(137,547,446)	(154,950,281)
Changes in accounting policy		-	-
Restated balance at 1 April		(137,547,446)	(154,950,281)
Net Parliamentary Funding – drawn down		1,883,000	1,535,189
Net Parliamentary Funding – deemed		314,254	150,810
Consolidated Fund Standing Services			-
Supply (payable) / receivable adjustment		(322,620)	(314,254)
Amounts payable to the Consolidated Fund		(26)	(36,041)
Combined Net Expenditure for the Year		(8,715,118)	7,573,155
Actuarial gain / (loss)		(1,359,632)	8,493,976
Net change in Taxpayers' Equity		(8,200,142)	17,402,835
Balance at 31 March		(145,747,588)	(137,547,446)

The notes on pages 30 to 46 form part of these financial statements.

**Combined Statement of Cash Flows
for the year ended 31 March 2012**

	2011-12	2010-11
	£000	£000
Cash flows from operating activities		
Combined net (expenditure)/income for the year	(8,715,118)	7,573,154
Adjustments for non-cash transactions		
(Increase)/Decrease in PCSPS receivables (within 12 months)	38,450	18,751
(Increase)/Decrease in PCSPS receivables (after 12 months)	20,013	17,983
<i>Movement in receivables relating to items not disclosed in the Combined Statement of Comprehensive Net Expenditure</i>	(8,428)	(198,956)
<i>(Increase)/decrease in CSCS receivables – ACPs inc Lump Sums</i>	(43,336)	(32,216)
<i>Less movement in non-Supply receivables</i>	43,336	32,216
(Increase)/Decrease in Other Schemes receivables	3,212	(4,960)
Increase/(Decrease) in PCSPS payables/supply	(27,639)	199,473
Increase/(Decrease) in PCSPS payables/non supply	51,572	31,411
Increase/(Decrease) in Other Schemes payables	(1,064)	2,435
Increase in PCSPS pension provisions	11,520,000	(4,310,000)
Increase in PCSPS pension provisions - enhancements and transfers in	218,384	189,547
Increase in Other Schemes pension provisions	168,374	(74,958)
Use of PCSPS provisions – benefits paid	(4,855,152)	(4,623,670)
Use of PCSPS provisions - refunds and transfers out	(229,951)	(126,810)
Use of Other Schemes provisions	(57,287)	(65,133)
Net cash outflow from Operating Activities	(1,874,634)	(1,371,733)
Cash flows from financing activities		
From the Consolidated Fund (Supply) - current year	1,883,000	1,685,999
From the Consolidated Fund (Supply) - prior year		(150,810)
Net Parliamentary financing	1,883,000	1,535,189
Adjustments for payments and receipts not related to Supply		
Compensation agency payments made on behalf of employers (including lump sums payments)	(1,024,725)	(545,487)
Reimbursement of compensation payments by employers (including lump sum payments)	981,389	513,271
Injury benefit payments made on behalf of employers	(6,730)	(6,210)
Reimbursement of injury benefit payments by employers	6,766	5,694
Net Financing	1,839,700	1,502,457
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	(34,934)	130,724
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities	-	-
Payments of amounts due to the Consolidated Fund		(12)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	(34,934)	130,712
Cash and cash equivalents at the beginning of the period	279,889	149,177
Cash and cash equivalents at the end of the period	244,955	279,889

The notes on pages 30 to 46 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 Principal Civil Service Pension Scheme have been prepared in accordance with the relevant provisions of the 2011-12 *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, 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 Scheme Management Executive on behalf of members of the Civil Service who satisfy the membership criteria.

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

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

1.2 Civil Service Compensation Scheme

SME 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 statement include transactions relating to other minor pension schemes, a number of which are closed schemes. SME acts as principal in respect of pension paid to the Governor of an overseas colony, awarded prior to the introduction of a new scheme on 30 September 1978. SME acts as principal in respect of the Grosvenor and Government Communications Bureau pension schemes on the basis of audited information supplied by the agencies. SME 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 Civil Service Compensation Scheme rules which came into effect in December 2010, those members who take early retirement and receive an Actuarially Reduced Pension are able to use part or all of their lump sum payment 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 13.

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

- *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 19.

- *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 2011-12 and based on a discount rate of 2.9% real (5.6% 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.

- *Interest on scheme liabilities*

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

- *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 2.8% real (4.85% gross). Full actuarial valuations by a professional qualified

actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the Statement of Financial Position date and updates it to reflect current conditions.

The last formal actuarial valuation undertaken for the PCSPS was completed in 2007. Consequently, a formal actuarial valuation would have been due by 2010. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2007, such as would have been provided for a formal valuation. In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

- *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 Consolidated 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 2011-12 these costs amounted to £21.0 million (2010-11: £23.9 million).

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 SME, throughout the month, but then recovered from employers at month-end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2011-12 are shown at note 17.

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 17.

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. Net outturn

5.1 Analysis of net resource outturn

2011 - 2012								2010 - 2011 Outturn £000	
Outturn £000						Estimate £000			
Administration			Programme			Total	Net Total	Net total compared to Estimate	Total
Gross	Income	Net	Gross	Income	Net				

Spending in Departmental Expenditure Limit

Voted:	-	-	-	-	-	-	-	-	-	-
Non-voted:	-	-	-	-	-	-	-	-	-	-

Annually Managed Expenditure

Voted:	-	-	-	11,916,397	(3,201,253)	8,715,144	8,715,144	8,737,000	21,856	(7,573,143)
--------	---	---	---	------------	-------------	-----------	-----------	-----------	--------	-------------

Non-voted:

	-	-	-	-	-	-	-	-	-	-
--	---	---	---	---	---	---	---	---	---	---

Non-budget:

	-	-	-	-	-	-	-	-	-	-
--	---	---	---	---	---	---	---	---	---	---

Total	-	-	-	11,916,397	(3,201,253)	8,715,144	8,715,144	8,737,000	21,856	(7,573,143)
-------	---	---	---	------------	-------------	-----------	-----------	-----------	--------	-------------

5.2 Analysis of net capital outturn by section

2011-2012					2010-2011 outturn £000
Outturn £000			Estimate £000		
Gross	Income	Net	Net	Net total compared with Estimate	Net

Spending in Departmental Expenditure Limit

Voted:	-	-	-	-	-	-
Non-voted	-	-	-	-	-	-

Annually Managed Expenditure

Voted	-	-	-	-	-	-
Non-voted	-	-	-	-	-	-

Total	-	-	-	-	-	-
-------	---	---	---	---	---	---

6. Reconciliation of net resource outturn to combined net expenditure

		2011-12 £000	2010-11 £000
	Note	Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget	8,715,144	(7,537,113)
	Non-Budget	-	-
Net Resource Outturn		8,715,144	(7,537,113)
Add:	Non-supply Expenditure	-	-
	Prior Period Adjustments	-	-
Less:	Income payable to the Consolidated Fund	(26)	(36,041)
	Prior Period Adjustments	-	-
Net Expenditure in Consolidated Statement of Comprehensive Net Expenditure		8,715,118	(7,573,154)

7. Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2011-12	2010-11
	£000	£000
Net cash requirement – core scheme and agencies	(1,874,634)	(1,371,745)
From the Consolidated Fund (Supply) – current year	1,883,000	1,685,999
From the Consolidated Fund (Supply) – prior year	(43,300)	(150,810)
Adjustments for payments and receipts not related to Supply	(43,300)	(32,732)
Net Increase/(decrease) in cash	(34,934)	130,712

8. Analysis of income payable to the Consolidated Fund

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

	Outturn 2011-12		Outturn 2010-11	
	£000	£000	£000	£000
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
Operating income outside the ambit of the Estimate	-	-	-	-
Non-operating income (outside the ambit of the Estimate)	26	26	12	12
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Other amounts surrenderable to the Consolidated Fund	-	36,029	36,029	-
Total income payable to the Consolidated Fund	26	36,055	36,041	12

**Statement of Comprehensive Net Expenditure – principal arrangements
PCSPS****9. Pension contributions receivable**

	2011-12	2010-11
	£000	£000
Employers'	(2,595,151)	(2,770,888)
Employees':		
Normal	(324,143)	(344,737)
Purchase of added years	(39,496)	(39,857)
Actuarial Retirement Reduction Buy Out	(1,747)	-
	(2,960,537)	(3,155,482)

£3.1 billion contributions are expected to be payable to the Scheme in 2012-13

10. Pension transfers-in

	2011-12	2010-11
	£000	£000
Group transfers from other schemes	(5,162)	(4,532)
Individual transfers in from other schemes	(33,513)	(69,167)
	(38,675)	(73,699)

11. Other pension income

	2011-12	2010-11
	£000	£000
Refund of gratuities received *	(1)	(1)
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	(114,185)	(26,068)
capitalised cost of enhancement to pensions, payable on departure	(4,506)	(33,525)
capitalised cost of enhancement to pensions, payable at age 60	(19,774)	(16,371)
Non-retainable income	(26)	(12)
	(138,492)	(75,977)

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

12. Pension Cost

	2011-12	2010-11
	£000	£000
Current service cost	3,930,000	4,690,000
Past service cost	-	(15,540,000)
	3,930,000	(10,850,000)

13. Enhancements (see also Note 23.4)

	2011-12	2010-11
	£000	£000
Employees:		
Purchase of added years	39,496	39,857
Refund of gratuities	1	1
Actuarial Retirement Reduction Buy Out	1,747	-
Employers:		
Bringing forward the payment of accrued lump sums	114,185	26,094
Enhancements to pensions on departure	4,506	33,525
Enhancements to pensions on retirement	19,774	16,371
	179,709	115,848

14. Transfers in – additional liability

	2011-12	2010-11
	£000	£000
Group transfers in from other schemes	5,162	4,532
Individual transfers in from other schemes	33,513	69,167
	38,675	73,699

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

15. Injury Benefits

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Special Payments	(78)	-
Injury benefits payable	15,411	14,395
Less: recoverable from employers	(6,730)	(6,211)
	<u>8,603</u>	<u>8,183</u>

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 2011-12 these amounted to some £8,603 (2010-11: £8,183).

16. Interest on scheme liabilities (see also Note 24.4)

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Interest charge for the year	7,590,000	6,540,000
	<u>7,590,000</u>	<u>6,540,000</u>

Statement of Comprehensive Net Expenditure – CSCS compensation agency arrangements**17. Compensation benefits payable**

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

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Discounts allowed in pre-funded annual compensation payments note (17.2)	-	-
End-year revaluation of central funding provision	-	-
Central funding – difference between provision for current year and outturn expenditure (note 17.2)	31	102
	<u>31</u>	<u>102</u>

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

Recoverable from employers	236,310	238,678
Pre-funded by employers (note 26.1)	-	-
Discounts allowed on pre-funding (note 17.1)	-	-
Discounts allowed on pre-payments (note 17.1)	-	-
Amounts met from central funding (note 17.1)	31	102
Total annual compensation payable	<u>236,341</u>	<u>238,780</u>
Lump sum payable recoverable from employers	788,414	306,809
Total lump sums payable	<u>788,414</u>	<u>306,809</u>

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

18. Benefits payable – not charged to provisions

	2011-12	2010-11
	£000	£000
Pensions increase for ex-PMs/Speakers	79	73
Pensions increase for Public Service Appointments	100	105
Pensions increase ex for MEPs/widow(er)s	385	331
Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	34	58
Payments to Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	153	180
Pensions increases in respect of pensions paid to former staff of the Raw Cotton Commission	-	1
Pensions increases in respect of pensions paid to former staff of the Sugar Board	25	24
Pensions to Governors of overseas colonies awarded prior to the introduction of a new scheme in 1978	1	1
Federated Superannuation Scheme for Universities	228	239
	1,005	1,012

19. Additional Voluntary Contributions (AVCs)

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

19.2 The aggregate amounts of AVC investments are as follows:

	2011-12			2010-11		
	Standard Life	Equitable Life ¹	Scottish Widows	SL	EL ¹	SW
	£000	£000	£000	£000	£000	£000
Movements in the year:						
Balance at 1 April	54,310	17,884	139,513	51,821	17,791	139,580
New investments	2,303	136	7,065	2,791	177	7,351
Sales of investments to provide pension benefits	(4,932)	(1,623)	(16,354)	(4,037)	(1,019)	(12,789)
Changes in market value of investments	1,408	197	6,805	3,735	935	5,371
Balance at 31 March	53,090	16,594	137,028	54,310	17,884	139,513
Contributions to provide life cover	n/a	80	n/a	n/a	95	n/a
Benefits paid on death	n/a	1	n/a	n/a	128	n/a

1 – data as at 5 April

Statement of Financial Position: Principal arrangements - PCSPS**20. Receivables – contributions due in respect of pensions****20.1 Analysis by type**

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Pension contributions due from Employers	174,059	213,304
Employees' normal contributions	21,248	25,431
Employees' added pension	2,358	2,508
Early retirement Employer costs	3,447	4,857
Individual transfers	-	-
Group transfers	5,524	511
Overpayment receivables (Net of provision for non-recovery)	6,687	5,126
Sub Total	<u>213,323</u>	<u>251,737</u>
Non-supply receivables:		
Injury benefit receivables	494	530
	<u>213,817</u>	<u>252,267</u>
Amounts falling due after more than one year:		
Group transfers	118,000	138,013
Long term receivables	53	53
	<u>118,053</u>	<u>138,066</u>

20.2 Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12	2010-11	2011-12	2010-11
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	175,015	221,964	118,000	138,013
Balances with Local authorities	10,368	10,985	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	12,655	13,415	-	-
Balances with public sector organisations	198,038	246,364	118,000	138,013
Bodies external to government	15,779	5,903	53	53
Total receivables	<u>213,817</u>	<u>252,267</u>	<u>118,053</u>	<u>138,066</u>

21. Cash and cash equivalents

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April	279,889	149,177
Net change in cash balances	(34,934)	130,712
Balance at 31 March	<u>244,955</u>	<u>279,889</u>
The following balances at 31 March were held at:		
Government Banking Services	244,855	279,683
Balance with Government departments	100	206
Balance at 31 March	<u>244,955</u>	<u>279,889</u>

22. Payables – in respect of pensions**22.1 Analysis by type**

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year		
Pensions	(211,275)	(162,546)
Injury benefits	-	(7)
HM Revenue & Customs and voluntary contributions	(41,691)	(38,698)
Overpaid contributions: employers	-	(134)
Overpaid contributions: employees	-	-
Overpaid contributions: employees added years	-	(11)
Other creditors	-	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	(322,620)	(314,254)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	(26)	-
Receivable	-	(36,029)
	<u>(575,612)</u>	<u>(551,679)</u>

22.2 Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12	2010-11	year	
	£000	£000	2011-12	2010-11
	£000	£000	£000	£000
Balances with other central government bodies	(421,352)	(412,136)	-	-
Balances with Local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with public sector organisations	(421,352)	(412,136)		
Bodies external to government	(154,260)	(139,543)	-	-
Total payables	(575,612)	(551,679)	-	-

23. Provisions for pension liabilities**23.1 Provision for pension liability**

Assumptions underpinning the provision for pension liability.

The PCSPS is an unfunded defined benefit scheme. Aon Hewitt Limited carried out an assessment of the Scheme liabilities as at 31 March 2012. The Report of the Actuary on pages 10 to 12 sets out the scope, methodology and results of the work the actuary has carried out.

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

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

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

The major assumptions used by the actuary were:

	At 31 March 2012	At 31 March 2011	At 31 March 2010	At 31 March 2009	At 31 March 2008
Rate of increase in salaries	2.25%	2.25%	4.25%	4.25%	4.25%
Rate of increase in pensions in payment and deferred pensions	5.2%	3.1%	0.0%	5.0%	3.9%
Inflation assumption	2.00%	2.65%	2.75%	2.75%	2.75%
Nominal discount rate	4.85%	5.6%	4.6%	6.04%	5.32%
Discount rate net of price inflation	2.8%	2.9%	1.8%	3.2%	2.5%
Mortality rates at age 60					
Current retirements					
Females	30.3	30.2	30.0	29.9	28.1
Males	28.3	28.1	28.0	27.9	26.4
Retirements in 20 years time					
Females	32.1	32.0	31.9	31.8	29.6
Males	30.2	30.1	30.0	29.9	29.0

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

The assumption that has the biggest impact on the amount of the reported liability is the discount rate. As set out in the FReM, and as required by IAS 19, the 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 reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The SME does not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the SME, the actuary has used key assumptions that are the most appropriate for the scheme in the light of current knowledge.

Analysis of the provision for pension liability

Value of liabilities (£ billion)									
At 31 March	2012		2011		2010		2009		2008
Current pensions and associated contingent pensions	62.5		54.9		57.8		50.6		46.4
Deferred pensions, including contingent pensions, for those no longer contributing to the scheme	24.1		21.9		24.8		19.0		21.0
Accrued benefits available to members contributing to the PCSPS	57.2		59.1		70.4		46.1		52.0
Total	143.8		135.9		153.0		115.7		119.4

23.2 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.

23.3 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 23.4. 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.

23.4 Analysis of movement in scheme liability

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Scheme liability at 1 April	(135,873,000)	(152,961,000)
Current service cost (note 12)	(3,930,000)	(4,690,000)
Past service cost (note 12)	-	15,540,000
Interest on pension scheme liability (note 16)	(7,590,000)	(6,540,000)
Enhancements (note 13)	(179,709)	(115,848)
Pension transfers-in (note 14)	(38,675)	(73,699)
Benefits paid (note 23.5)	4,855,152	4,623,670
Pension payments to and on account of leavers (note 23.6)	229,951	126,810
Actuarial gain/(loss) (note 23.7)	(1,316,719)	8,217,067
Scheme liability at 31 March	<u>(143,843,000)</u>	<u>(135,873,000)</u>

During the year ended 31 March 2012, employers contributions represented an average of 18.9% of pensionable pay. This is not expected to change for 2012-13.

23.5 Analysis of benefits paid

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	4,022,083	3,781,124
Commutations and lump sum benefits on retirement	833,069	842,546
	<u>4,855,152</u>	<u>4,623,670</u>

23.6 Analysis of payments to and on account of leavers

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Refunds to members leaving the service	37,436	31,887
Payments for members joining State scheme	3,512	5,141
Group transfers to other schemes	120,342	15,008
Individual transfers to other schemes	68,661	74,774
Per Statement of Cash Flows	<u>229,951</u>	<u>126,810</u>

23.7 Analysis of actuarial gain/(loss)

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Experience gains/(losses) arising on the scheme liabilities	81,991	(377,348)
Changes in assumptions underlying the present value of scheme liabilities	(1,398,710)	8,594,415
PCSPS	<u>(1,316,719)</u>	<u>8,217,067</u>
Other Schemes	<u>(42,913)</u>	<u>276,909</u>
Per Statement of Changes in Taxpayers Equity	<u>(1,359,632)</u>	<u>8,493,976</u>

23.8 History of Experience gains / (losses)

	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>
Experience (gains)/losses on the scheme liabilities					
Amount (£000)	81,991	377,348	(3,899,568)	740,822	(4,402,803)
Percentage of the present value of the scheme liabilities	0.1%	0.3%	(2.5%)	0.6%	(3.7%)
Total amount recognised in Statement of Changes in Taxpayers Equity					
Amount (£000)	1,317	(8,217,067)	31,102,568	(9,637,821)	(16,130,803)
Percentage of the present value of the scheme liabilities	0.9%	(6.0%)	20.3%	(8.3%)	(13.5%)

24. 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**25. Receivables – Non-Supply**

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Recoverable annual compensation payments including lump sums	77,172	33,835
Balance at 31 March	<u>77,172</u>	<u>33,835</u>

26 Payables – amounts falling due within one year**26.1 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**27. Receivables – amounts falling due within one year**

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Contributions	4,431	7,643
Balance at 31 March	<u>4,431</u>	<u>7,643</u>

28. Payables – amounts falling due within one year

	<u>2011-12</u>	<u>2010-11</u>
	<u>£000</u>	<u>£000</u>
Pensions	(1,404)	(2,468)
Balance at 31 March	<u>(1,404)</u>	<u>(2,468)</u>

29. Provision for pension liability

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

29.2 Analysis of movement in scheme liability

	2011-12	2010-11
	£000	£000
Opening scheme liability at 1 April	(1,832,000)	(2,249,000)
Net movement in year (including actuarial gain/loss)	(154,000)	417,000
Scheme liability at 31 March	(1,986,000)	(1,832,000)

30 Financial Instruments

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

31. Losses

During the year 840 cases totalling £41,678.44 were written off (2010-11: 1,518 - £24,599.18).

32. 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 and trading funds whose employees are members of the Schemes. None of the Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions during the year.

MyCSP Ltd existed as a 'shell' company until 1 May 2012, when it became a Mutual Joint Venture. The assets vested with the company from that date. Prior to that date the management structure was staffed by civil servants. From vesting day, those with control over MyCSP Ltd became directors of the new company.

33. Events after the Reporting Period

MyCSP the PCSPS scheme administrator, moved into the private sector on 1 May 2012 as mutual joint venture. This is to support improvements in the efficiency and effectiveness in administration and is not expected to affect the financial position of the PCSPS itself

The Accounting Officer authorised the issue of these financial statements on 28 January 2013.

Annex to the Accounts

Data Reporting Tables

The Data Reporting Tables presented in this annex to the Accounts 2011-12 are unaudited.

They comprise:

- A. Cabinet Office: Civil Superannuation Total Departmental Spending

Cabinet Office: Civil superannuation								
Total departmental spending								
	£'000							
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
Resource DEL								
Total Resource DEL	-	-	-	-	-	-	-	-
<i>Of which:</i>								
-Pay	-	-	-	-	-	-	-	-
-Net current procurement ¹	-	-	-	-	-	-	-	-
-Current grants and subsidies to the private sector and abroad	-	-	-	-	-	-	-	-
-Current grants to local government	-	-	-	-	-	-	-	-
-Depreciation ²	-	-	-	-	-	-	-	-
-Other	-	-	-	-	-	-	-	-
Resource AME								
Section A: Civil superannuation	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,154	8,715,144	8,168,000	-2,959,000
Total Resource AME	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,154	8,715,144	8,168,000	-2,959,000
<i>Of which:</i>								
-Pay	4,500	-	-	-	-	-	-	-
-Net current procurement ¹	-	-	-	-	-	-	-	-
-Current grants and subsidies to the private sector and abroad	-	-	-	-	-	-	-	-
-Current grants to local government	-	-	-	-	-	-	-	-
-Net public service pensions ³	535,536	1,559,233	722,509	373,877	14,207,654	1,022,144	1,091,000	-3,111,500
-Take up of provisions	-	-	-	-	-	-	-	-
-Release of provisions	-4,500	-	-	-	-	-	-	-
-Depreciation ²	-	-	-	-	-	-	-	-
-Other	5,507,731	6,036,887	6,434,000	7,064,000	6,634,500	7,693,000	7,077,000	152,500
Total Resource Budget	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,154	8,715,144	8,168,000	-2,959,000
<i>Of which:</i>								
-Depreciation ²	-	-	-	-	-	-	-	-
Capital DEL								
Total Capital DEL	-	-	-	-	-	-	-	-
<i>Of which:</i>								
-Net capital procurement ⁴	-	-	-	-	-	-	-	-
-Capital grants to the private sector and abroad	-	-	-	-	-	-	-	-
-Capital support for local government	-	-	-	-	-	-	-	-
-Capital support for public corporations	-	-	-	-	-	-	-	-
-Other	-	-	-	-	-	-	-	-
Capital AME								
Total Capital AME	-	-	-	-	-	-	-	-
<i>Of which:</i>								
-Capital grants to the private sector and abroad	-	-	-	-	-	-	-	-
-Net lending to the private sector and abroad	-	-	-	-	-	-	-	-
-Capital support for public corporations	-	-	-	-	-	-	-	-
-Other	-	-	-	-	-	-	-	-
Total Capital Budget	-	-	-	-	-	-	-	-
Total departmental spending⁵	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,154	8,715,144	8,168,000	-2,959,000
<i>of which:</i>								
-Total DEL	-	-	-	-	-	-	-	-
-Total AME	6,043,267	7,596,120	7,156,509	7,437,877	-7,573,154	8,715,144	8,168,000	-2,959,000

¹ Net of income from sales of goods and services² Includes impairments

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

⁴ Expenditure on tangible and intangible fixed assets net of sales

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



information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-Call: 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Houses of Parliament Shop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders: 020 7219 3890/General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: shop@parliament.uk

Internet: <http://www.shop.parliament.uk>

TSO@Blackwell and other accredited agents

ISBN 978-0-10-298148-3



9 780102 981483