

**HSC Pension Scheme Statement  
for the year ended 31 March 2017**



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for the year ended 31 March 2017**

*Laid before the Northern Ireland Assembly by the  
Department of Finance  
under section 10(4) of the Government Resources  
and Accounts Act (Northern Ireland) 2001*

*04 July 2017*



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## **A) ACCOUNTABILITY REPORT**

### **REPORT OF THE MANAGERS**

#### **Background to the Scheme**

##### **Statutory basis for the Scheme**

The HSC Pension Scheme is an unfunded occupational scheme, which is open to all HSC employees and employees of other approved organisations. The Scheme provides pensions in varying circumstances for employees of participating employers. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits payable.

Scheme provisions are governed by the following regulations:

- The Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995, as amended
- The Health and Social Care (Pension Scheme) Regulations (Northern Ireland) 2008, as amended
- The Health and Social Care Pension Scheme Regulations (Northern Ireland) 2015, as amended
- The Health and Personal Social Services (Compensation for Premature Retirement) Regulations (Northern Ireland) 1983, as amended
- The Health and Personal Social Services (Superannuation) (Additional Voluntary Contributions) Regulations (Northern Ireland) 1999, as amended

On 1 April 2008 a new section of the HSC Pension Scheme was introduced for new members (the 2008 Section). Most members of the Pension Scheme who joined prior to 1 April 2008 will be in the old section (the 1995 Section). New joiners, on or after 1 April 2008, will be members of the 2008 Section.

On 1 April 2015 a new career average scheme was introduced for new members and members of the 1995 Section and 2008 Section who were more than 13 years and 5 months from their normal retirement age on 1 April 2012.

##### **Eligibility to join the Scheme**

The employers of HSC Pension Scheme members are classified as Employing Authorities or Direction Bodies. Employing Authorities are defined in the Regulations and their staff have automatic entry to the Scheme. Non-HSC employers can apply for Direction Body status in order that their staff may join the Scheme provided they meet specific criteria.

##### **Main features of the Scheme, including benefits and how they are funded**

The HSC Pension Scheme (1995 and 2008 Sections) is a final salary scheme. Members of the 1995 Section receive a pension of 1/80th of the best of the last three year's pensionable pay for each year of membership.

Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.4% of total pensionable earnings over the relevant pensionable service. The lump sum is normally three times the annual pension payment.

Members of the 2008 Section receive a pension of 1/60th of the average of the best three consecutive year's pensionable pay in the last ten for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.87% of total pensionable earnings over the relevant pensionable service. There is no automatic lump sum entitlement; however, members can choose to receive a lump sum which may be a maximum of 25% of the value of their fund at retirement.

The 2015 Scheme is a Career Average Revalued Earnings (CARE) Scheme, with benefits based on a proportion of pensionable earnings each year. The pension is built up at a rate of 1/54<sup>th</sup> of each year's pensionable earnings. Active members accrued pension benefits are revalued in line with the Consumer Prices Index plus 1.5%. There is no automatic lump sum entitlement; however members can choose to receive a lump sum by giving up some of their accrued pension.

### **Management of the Scheme**

From 1 April 2009 the HSC Pension Service, part of the Business Services Organisation (BSO), has been responsible for the administration of the HSC Pension Scheme.

The Scheme is managed by the Department of Health, which is responsible for Scheme legislation.

HSC employers are required to comply with Scheme Regulations, including submission of pension data to the HSC Pension Service.

### **Contributions**

Employers' contributions to the Scheme are determined by the Scheme Actuary (the Government Actuary's Department) and are on the basis of salary bands, which are reviewed annually and are a percentage rate of the member's pensionable earnings. The percentage rates payable are reviewed as part of the periodical actuarial review which takes place at least every 4 years.

**Key developments in year**

**Changes in contributions**

<b>Band</b>	<b>Salary range</b>	<b>2016-17</b>
1	Up to £15,431.99	5.0%
2	£15,432.00 to £21,477.99	5.6%
3	£21,478.00 to £26,823.99	7.1%
4	£26,824.00 to £47,845.99	9.3%
5	£47,846.00 to £70,630.99	12.5%
6	£70,631.00 to £111,376.99	13.5%
7	£111,377.00 and over	14.5%

**Changes in benefits**

There was no increase in pension payments in 2016-17.

**Scheme Changes – Legislative Changes 2016-17**

<b>Title of legislation</b>	<b>Effective Date</b>	<b>Purpose</b>	<b>Applies to</b>
Health and Personal Social Services (Superannuation), Health and Social Care (Pension Schemes) (Amendment) Regulations (Northern Ireland) 2016 (S.R. 2016 No.384)	1/6/2016	Allows employees of GP Federations to join the Scheme as officer members.	All sections of the Scheme

**Membership statistics**

<b>Active members</b>				
Active members at 1 April 2016				60,027
Retrospective adjustment*				4,745
Add:	New entrants			581
Less:	Retirements in the year			(1,510)
	Transfers out			-
	Undecided leavers			(277)
	Refunds			(19)
	Deaths			(20)
	Unclaimed refundable service			-
	Leaving with deferred rights			(9)
<b>Active members at 31 March 2017</b>				<b>63,518</b>



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<b>Deferred members</b>						
Deferred members at 1 April 2016						
				14,498		
Retrospective adjustment*						
				521		
Add:	Members leaving with deferred rights			31		
Less:	Taking up deferred rights			(404)		
	Rejoining scheme			-		
	Transfers out			(27)		
	Deaths			(5)		
<b>Deferred members at 31 March 2017</b>				<b>14,614</b>		
<b>Pensioners in payment</b>						
			Members	Dependents	Total	
Pensioners in payment at 1 April 2016						
			19,613	3,642	23,255	
Retrospective adjustment*						
			1,860	(30)	1,830	
Add:	Retiring at normal retiring age			1,408	-	1,408
	New dependents			-	268	268
	Retiring on ill health grounds			-	-	-
	Retiring previously deferred			287	-	287
	Retiring, previously in receipt of compensation payments			30	-	30
Less:	Commutated pension			(15)	-	(15)
	Death in year			(381)	(152)	(533)
<b>Pensioners in payment at 31 March 2017</b>			<b>22,802</b>	<b>3,728</b>	<b>26,530</b>	
<b>Compensation payments &gt; 60</b>						
Members in receipt of compensation payments at 1 April 2016						
				2,084		
Retrospective adjustment*						
				(66)		
Add:	Members leaving under early retirement				-	
Less:	Members retiring at normal retirement age				(25)	
	Deaths before normal retirement age				56	
<b>Members in receipt of compensation payments at 31 March 2017</b>				<b>2,049</b>		
<b>Ill health retirement</b>						
Ill health retirement members at 1 April 2016						
				8,238		
Retrospective adjustment*						
				27		
Add:	Members retiring on ill health grounds				265	
Less:	Deaths in year				(229)	
<b>At 31 March 2017</b>				<b>8,301</b>		
<b>Compensation payments &lt; 60</b>						
Members in receipt of compensation payments at 1 April 2016						
				63		
Retrospective adjustment*						
				-		
Add:	Members leaving under early retirement schemes during the year				-	
Less:	Members retiring at normal retirement age				(25)	
	Deaths before normal retirement age				-	
<b>Members in receipt of compensation payments at 31 March 2017</b>				<b>38</b>		
<b>Undecided leavers**</b>						
<b>Undecided leavers at 31 March 2017</b>						
				<b>4,851</b>		
Undecided leavers at 31 March 2016						
				1,929		

\* A retrospective adjustment to a member's status comes about when an action on the member's record is carried out at a point later than the actual date the requirement for action occurred, due to the data gathering process required to enable the action to take place.

\*\*Undecided leavers are reported by headcount as this reflects the basis on which GAD have calculated the pension scheme liability for this pension scheme statement.

### **Financial position as at 31 March 2017**

The movements in the Scheme during the year are summarised in the Statement of Comprehensive Net Expenditure and net expenditure for the year is £811,437k.

Income mainly comprises contributions from employers (who are defined per page 2 above), of £325,652k and employee contributions of £165,888k (note 3). Other receipts include transfers in of £4,969k from other schemes (note 4) and other pension income of £6k (note 5).

The charge to the Statement of Comprehensive Net Expenditure recognises the movements in the scheme liability (other than those arising from actuarial gains and losses). This comprises the current service cost of £670,000k, enhancements of £22,631k, transfers in of £4,969k and interest on scheme liabilities of £610,000k. Payments also include other pension expenditure of £352k as per note 10 to the financial statements.

### **Disclosure of information to auditor**

The Principal Accounting Officer, Permanent Secretary of the Department of Health, has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Scheme's auditors are aware of such information. So far as he is aware there is no relevant audit information of which the entity's auditors are unaware.

### **Events after the reporting period**

There were no events after the reporting period requiring adjustment or disclosure in these financial statements.

### **Independent Public Service Pension Commission**

On 10 March 2011 the Independent Public Service Pensions Commission's Final Report from Lord Hutton was published, summarising Lord Hutton's proposals for the reform of public service pension schemes. The main recommendations of the review are that:

- the Government must honour in full the pension promises that have already accrued to scheme members, maintaining the link to final salary for past service;
- a new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes, with existing members being moved to the new schemes as soon as practical;
- pension benefits in the CARE schemes should be uprated in line with average earnings while members are accruing benefits;
- flexible retirement should be encouraged, while abatement in its current form should be

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- eliminated and caps on pension accrual should be removed or significantly lifted;
- member's Normal Pension Age in the new schemes should increase to be in line with the State Pension Age, and should be regularly reviewed to ensure the link remains appropriate;
- there should be a fixed cost ceiling, which if exceeded should be followed by a consultation process to bring costs back within the ceiling; and
- immediate savings could be made by increasing the member contribution rate. In this respect, the Government implemented progressive changes to the level of employee contributions such that employee contribution rates have increased by 3% on average as at 2016-17.

In line with the Commission's view a new HSC Pension Scheme was introduced on 1 April 2015.

### **Information for Members**

Further information about the Scheme, and its sections, can be found on the HSC Pensions Website [www.hscpensions.hscni.net](http://www.hscpensions.hscni.net) which is accessible to all members and employers.

### **Additional Voluntary Contributions (AVCs), Free-Standing Additional Voluntary Contributions (FSAVCs) and Stakeholder Pensions**

The Pension Scheme has continued to offer a range of in-house top up money purchase AVC and Stakeholder Pension facilities from Standard Life and an AVC only facility from Equitable Life which is closed to new members.

#### **The names and addresses of the Scheme's:**

Accounting Officer:	Mr R Pengelly Permanent Secretary Department of Health Castle Buildings Stormont Estate Belfast BT4 3SQ
Administrator:	Business Services Organisation Waterside House 75 Duke Street Derry County Londonderry BT47 6FP
Actuary:	Government Actuary's Department Finlaison House 15-17 Furnival Street London EC4A 1AB

Legal Advisers	Departmental Solicitors Office Victoria Hall 12 May Street Belfast BT1 4NL  Legal Department Business Services Organisation Headquarters 2 Franklin Street Belfast BT2 8DQ
Auditor	Northern Ireland Audit Office 106 University Street Belfast BT7 1EU
Bankers	Danske Bank Donegall Square West Belfast BT1 6JS
Employers	Principal employers:  Health and Social Care Board Health and Social Care Trusts Health and Social Care Bodies  Additional bodies permitted to join: General Practitioners Staff employed by General Medical Practitioners Direction Bodies

**Contact for enquiries and complaints**

Any enquiries or complaints about the HSC Pension Scheme should be addressed to:

Mr M Bradley  
The Scheme Administrator  
HSC Pension Service  
Waterside House  
75 Duke Street  
Londonderry  
BT47 6FP

## REPORT OF THE ACTUARY

### Introduction

This report has been prepared by the Government Actuary's Department at the request of the Department of Health (DoH). It summarises the pensions disclosures required for the 2016-17 Annual Report and Financial Statements of the Health and Social Care Pension Scheme for Northern Ireland (HSCPS or the Scheme).

The report is based on an assessment of the liabilities as at 31 March 2015, with an approximate updating to 31 March 2017 to reflect known changes.

### Membership data

Tables A to B summarise the principal membership data as at 31 March 2015 used to prepare this statement.

**Table A – Active members**

	<b>31 March 2015 membership data</b>	<b>2016-17 financial statements</b>
Number (thousands)	Total salaries (pa) (£ million)	Total salaries implied by receipts (£billion)
58	1,669	1.77

**Table B – Pensions in payment**

	<b>31 March 2015 membership data</b>	<b>2016-17 financial statements</b>
Number (thousands)	Total pension* (pa) (£ million)	Total pension (pa) (£ million)
30.7	283.7	306.9

*\*pension amounts are as at the valuation date and so exclude pension increases due in April 2015*

### Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2016-17 Pension Scheme Statement. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the 2015-16 Pension Scheme Statement.

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

### **Principal financial assumptions**

The principal financial assumptions adopted to prepare this report are shown in Table C.

**Table C – Principal financial assumptions**

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

\* short term adjustments have been made to this assumption for the period to 2020

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

### **Demographic assumptions**

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

**Table D – Post-retirement mortality assumptions**

<b>Normal Health</b>	
Males	80% of S1NMA mortality
Females	85% of S1NFA mortality
<b>Current ill-health pensioners</b>	
Males	80% of S1IMA mortality
Females	85% of S1IFA mortality
<b>Future ill-health pensioners</b>	
Males	100% of S1IMA mortality
Females	100% of S1IFA mortality
<b>Partners</b>	
Males	80% of S1NMA mortality
Females	85% of S1NFA mortality

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

The contribution rate used to determine the accruing cost in 2016-17 was based on the demographic and financial assumptions applicable at the start of the year, that is, those adopted for the 2015-16 Pension Scheme Statement.

## Liabilities

Table E summarises the assessed value as at 31 March 2017 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described above. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

<b>£ Billion</b>	<b>31 March 2017</b>	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>31 March 2014</b>	<b>31 March 2013</b>
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	22.70	16.96	17.52	15.13	11.83
(Deficit)	(22.70)	(16.96)	(17.52)	(15.13)	(11.83)
Of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

## Accruing costs

The cost of benefits accrued in the year ended 31 March 2017 (the Current Service Cost) is based on a standard contribution rate of 38.0%. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 9.4%. The corresponding figures for 2015-16 are also included in the table.

**Table F – Contribution rate**

	<b>Percentage of pensionable pay</b>	
	<b>2016-17</b>	<b>2015-16</b>
<b>Standard contribution rate</b>	38.0%	40.6%
<b>Members' estimated average contribution rate</b>	(9.4%)	(9.5%)
<b>Employers' estimated share of standard contribution rate</b>	28.6%	31.1%

For the avoidance of doubt, the actual rate of contributions payable by employers, 16.3% of pensionable pay for 2016-17, is not the same as the employers' share of the standard contribution rate as above (28.6% for 2016-17). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Pension Scheme Statements is the discount rate. The discount rate for Pension Scheme Statements is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

The pensionable payroll for the financial year 2016-17 was £1.77 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016-17 (at 38.0% of pay) is assessed to be £0.67 billion.

There have been no past service costs in the year 2016-17.

I am not aware of any events that have led to a material settlement or curtailment gain over 2016-17.

### **Sensitivity analysis**

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2017 of changes to the most significant actuarial assumptions.

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

There is significant uncertainty associated with how members will retire in future, both for those remaining in the current scheme where recent patterns of retirement have been materially different to historic patterns, and as a result of the scheme reform for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in the 1995 section and so I have included an indication of the approximate effect (on the total past service liability) of assuming all 1995 section members retire at their Normal Pension Age (on average this equates to members retiring approximately 2 years earlier than assumed). The pattern of retirements from the 2008 section doesn't have a significant impact on the liability as both early and late retirements are subject to actuarial adjustment.

Table G shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest ½%).



**Table G - Sensitivity to significant assumptions**

Change in assumption	Approximate effect on total liability	
<b>Financial assumptions</b>		
(i) discount rate*: $-\frac{1}{2}\%$ a year	+13.0%	+£3.0 billion
(ii) (long term) earnings increase*: $-\frac{1}{2}\%$ a year	-2.0%	-£0.5 billion
(iii) pension increases*: $-\frac{1}{2}\%$ a year	-8.0%	-£1.8 billion
<b>Demographic assumptions</b>		
(iv) each pensioner subject to longevity of an individual 1 year younger than assumed:	+2.5%	+£0.6 billion
(v) 1995 section members retire at their Normal Pension Age (approximately equivalent to assuming members retire around 2 years earlier):	+1.5%	+£0.3 billion

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



**Dhanisha Sanghrajka**  
Government Actuary's Department  
25 May 2017

## **STATEMENT OF THE ACCOUNTING OFFICER'S RESPONSIBILITIES**

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance has directed the Department of Health HSC Pension Scheme to prepare for each financial year financial statements in the form and on the basis set out in the Accounts Direction.

The financial statements must give a true and fair view of the state of affairs of the Scheme 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 the Assembly 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 these 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 the Department of Finance 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.

The Department of Finance has appointed the Permanent Head of the Department as Accounting Officer for the HSC Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in the Accounting Officers' Memorandum issued by the Department of Finance and published in *Government Accounting Northern Ireland*.

## **GOVERNANCE STATEMENT**

### **Introduction**

This statement is given in respect of the Health and Social Care Pension Scheme (HSCPS) for 2016-17. It outlines the Department's governance framework for directing and controlling the function and how assurance is provided to support me in my role as Accounting Officer for the Department of Health and is also applicable to the management of the HSCPS. The Board of the Department of Health is accountable for internal control. As Accounting Officer, I have responsibility for maintaining a sound system of internal governance that supports the achievement of the Department's policies, aims and objectives. I also have responsibility for safeguarding the public funds and departmental assets in accordance with the responsibilities assigned to me in Managing Public Money Northern Ireland.

As Accounting Officer, I have a duty to satisfy myself that the HSCPS administrators have adequate governance systems and procedures in place to promote the effective and efficient conduct of their business and to safeguard financial propriety and regularity.

### **Corporate Governance in Central Government Departments: Code of Good Practice 2013**

The Department applies the principles of good practice outlined in the Code and continues to further strengthen its governance arrangements. The Department does this by undertaking continuous assessment of its compliance in line with the Corporate Governance Code

### **Governance Framework**

In my role as Accounting Officer, I function with the support of the Departmental Board (the Board). This includes highlighting to the Board specific business implications or risks and, where appropriate, the measures that could be employed to manage these risks or implications. I am also required to combine my Accounting Officer role with my responsibilities to the Minister, which includes providing advice on the allocation of Departmental resources and the setting of appropriate financial and non-financial performance targets for the Business Services Organisation (BSO) as HSCPS administrator.

### **The Departmental Board**

The Departmental Board (the Board) represents the collective and strategic leadership within the Department, in conjunction with the experience and contribution of two Independent Board Members. The Board supports me as Accounting Officer in directing the business of the Department as effectively as possible, to achieve the objectives and priorities set by the Minister. The Board has a key role in overseeing the sound financial management and corporate governance of the Department including the HSCPS and closely monitors the Department's progress in the achievement of key objectives and priorities set out in the Departmental Business Plan, including Programme for Government commitments.

The Departmental Board applies the principles of good practice in Corporate Governance and continues to strengthen its governance arrangements. The Board does this by assessment of its compliance with Corporate Governance best practice.

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The Board ensures that appropriate risk management procedures are in place within the Department and it scrutinises the governance and performance of ALBs and the HSCPS based on an assurance and accountability framework.

The strategic aims, policies and strategies for the Department are set by the Minister. The role of the Departmental Board is to support me, as the Accounting Officer, in establishing the necessary governance and assurance mechanisms to ensure effective and efficient delivery of the Minister's priorities and other statutory functions of the Department. In line with best practice, the operational procedures of the Departmental Board are kept under continuous review and a more detailed evaluation is conducted every few years. The last review was undertaken in 2013-14 and a further review commenced in 2016-17.

<b>Executive Board Members 2016-17</b>		<b>No of meetings attended</b>
Mr R Pengelly	Permanent Secretary	7/10
Mr S Holland	Deputy Secretary, Social Care Policy Group	8/10
Mrs C McArdle	Chief Nursing Officer	7/10
Dr M McBride	Chief Medical Officer	9/10
Mrs D McNeilly	Deputy Secretary, Health Care Policy Group (April 2016- July 2016) Deputy Secretary, Resources and Performance Management Group and Senior Finance Director (August 16-March 2017)	7/10
Mrs J Thompson	Deputy Secretary, Resources and Performance Management Group and Senior Finance Director (April 2016-July 2016)	3/3
Mr Jackie Johnston	Deputy Secretary, Health Care Policy Group (August 2016-March 2017)	5/7
<b>Independent Board Members 2016-17</b>		
Dr C King	Independent Board Member	10/10
Mr M Little	Independent Board Member	9/10

Independent Board Members (IBMs) provide support, guidance and challenge to the Departmental Board. As Accounting Officer, I have regular meetings with the IBMs and carry out annual performance assessments.

### Management Information

The Board reviews regular reports from the HSCPS to challenge performance against targets. These reports have been the subject of considerable refinement over recent years and are continually revised to allow them to identify and respond to emerging challenges.

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In June 2012, the Board agreed a new Framework for Business Planning, Risk Management and Assurance. The Framework provides a clear and common understanding of business planning, risk management and assurance processes in the Department, along with associated guidance.

The requirements of HSCPS Governance within the Department have evolved to ensure that the accountability review process is more balanced in terms of governance and performance. Submission and acceptability of Board level information and reports is subject to challenge.

### Quality of Information

The Board receives a range of management information about matters such as Finance, Human Resources, the Departmental Business Plan, the Departmental Risk Register and the Governance and Performance of ALBs including the HSCPS, to assist it in discharging its role. Regular formal reviews of the operation of the Board include the quality of information provided to it. In addition, Board members, collectively and individually, keep the quality of reported information under continuous review and seek enhancements as necessary to support the Board and its committees.

### Departmental Audit and Risk Assurance Committee (DARAC)

DARAC Members 2016-17		No. of meetings attended
Dr C King	IBM and Chair of DARAC	4/4
Mr M Little	IBM and DARAC Member	3/4
Mrs J Pyper	Chief Executive Utility Regulator	4/4
Mr T Connolly	Finance Director Department of Education (1 April 2016-2 December 2016) Head of Business Engagement Department for the Economy (5 December 2016-31 March 2017)	4/4

The DARAC is a Committee of the Board and meets four times per year, with additional topic focused meetings. DARAC comprises four members, each of whom is independent of Departmental management. Other officials in attendance at DARAC meetings include the Departmental Accounting Officer, the Senior Finance Director, the Director of Finance, the Head of Internal Audit and officials from the Northern Ireland Audit Office (NIAO).

The DARAC gives detailed attention to internal governance issues, including the quality of risk management and corporate governance within the Department. This also includes consideration of HSC wide issues or any other issues outwith the Department that affect my role as the Department's Accounting Officer.

An example of this in respect of the adequacy of the arrangements by which I hold ALB Accounting Officers to account for the performance and governance of their organisations. Systems for responding to recommendations made by authoritative external bodies, including the Public Accounts Committee,

NIAO, and the Regulation and Quality Improvement Authority (RQIA), are also examined. The DARAC advises the Board and me as Accounting Officer on its conclusions and recommendations with regard to identified governance weaknesses.

#### *DARAC – Responsibilities and Performance*

In line with best practice set out in the HMT Audit and Risk Assurance Committee Handbook, the Chair of DARAC sets an agreed core programme of work for each of its quarterly meetings, which includes:

- Scrutiny of the Departmental accounts;
- Consideration of internal audit strategy;
- Review of internal and external audit findings; and
- Monitoring of residual audit recommendations.

The Department provides regular reports to DARAC on risk management and assurance in the Department and the accountability and assurance of its ALBs. In addition, DARAC considers and comments on individual issues of internal governance and their implications for wider governance arrangements.

The DARAC conducts a self-assessment according to guidelines issued by the National Audit Office on a regular basis. The findings of the self-assessment are presented to DARAC for action as appropriate. In addition, the Chair of the DARAC delivers an annual report to both the Departmental Board and the DARAC and also reports to the Board following each quarterly meeting of the DARAC.

The DARAC has also considered the HSC Pension Scheme Statement for 2016-17 and on the basis of the evidence presented, has recommended the HSCPS to the Departmental Accounting Officer for approval.

#### **Top Management Group**

As Accounting Officer, I am supported by my Top Management Group, which comprises the Executive Board Members. It provides a forum for the consideration and endorsement of corporate business and the handling of the emerging issues.

#### **Departmental Framework for Business Planning, Risk Management and Assurance**

Business planning and risk management is at the heart of governance arrangements to ensure that statutory obligations and Ministerial priorities are properly reflected in the management of business at all levels within the Department.

The Framework for Business Planning, Risk Management and Assurance provides a clear and common understanding of business planning, risk management and assurance processes in the Department, along with associated guidance. In order to ensure its continued effectiveness, a review of the Framework commenced in 2014-15. The review sought feedback from each business area regarding their application of the Framework, and included engagement with the Departmental Internal Audit Group to consider any emerging issues/lessons learned from its ongoing programme of directorate governance audits. The outcome of the review is currently being finalised, subject to the outcome of current Departmental considerations on the future approach to the identification and handling of risk.

## **Business Planning and Risk Management**

Business planning and risk management is at the heart of governance arrangements to ensure that statutory obligations and ministerial priorities are properly reflected in the management of business at all levels within the organisation.

### **Business Planning**

In establishing its strategic objectives, the Department takes its lead from the statutory framework governing the functions of the Department and the specific priorities set by the Minister and the Executive, including those outlined in the Programme for Government. The Departmental Business Plan also takes account of the governance arrangements that the Department must put in place for the proper discharge of its responsibilities as a Government Department and public authority e.g. financial probity, equality, human rights etc. Within a budget period, the existing Departmental Business Plan is rolled forward into a new fiscal year.

The Departmental Board is the custodian of the Departmental Business Plan's affordability and deliverability. Progress against the Departmental Business Plan is addressed at quarterly Board meetings and includes formal quarterly written reports in Red, Amber or Green format against each of the targets in the fiscal year.

It is the responsibility of Executive Board Members to ensure that the Directorates under their control have appropriate plans in place. It is essential that linkages between plans at Departmental and Directorate level are clearly stated. Similarly, there must be a clear connection at all levels between objectives and associated risks. This is evidenced through the risk management, business planning and assurance processes operated within the Department.

### **Risk Management**

Risk management is an organisation-wide responsibility. In the Department there are two key levels at which the risk management process is formally documented:

- The Departmental Risk Register focuses on the principal risks to the Department's delivery of its statutory responsibilities and strategic objectives including those of the HSCPS; and
- Directorate risk registers focus primarily on the risks to the achievement of Directorate objectives including those of the HSCPS.

Directorate business plans must be directly linked to the delivery of the Departmental Business Plan. Similarly there must be a clear connection at all levels between objectives and associated risks. Formal processes exist to escalate objectives and associated risks from Directorate to Departmental level, subject to the approval of the Departmental Board.

The Departmental approach to the identification and handling of risk, including the format of the Departmental Risk Register, is currently under review. Until any new approach/template has been agreed, the current approach to risk and version of the Departmental Risk Register continues to be used. The Departmental Risk Register is reviewed at the beginning of the financial year to update all risks, controls and actions and is maintained in conjunction with the Departmental Business Plan. It is therefore subject to the same Departmental Board reporting arrangements.

Executive Board Members are responsible for ensuring that the Directorates under their control have a business plan and fully-linked risk register. I require bi-annual formal written assurances from Directors, signed by Executive Board members, about the proper operation of business planning and risk management within their business areas. Where a risk identified at Directorate level becomes unmanageable within the Directorate's resources, or where it threatens to impact on Departmental objectives or across Directorates, it must be escalated to the Departmental Board and considered for inclusion on the Departmental Risk Register.

The system of internal governance is designed to help manage risk rather than to eliminate it and controls must at all times be commensurate with the nature of the risk. A set of risk assessment criteria has been developed, agreed and applied by those Departmental officials involved in the risk assessment process.

The system of internal governance is based on an on-going process to identify and prioritise the risks to the discharge of the Department's statutory responsibilities, including the delivery of its strategic objectives. The system also determines the controls and analyses the risks in terms of their impact and likelihood of realisation in conjunction with the controls.

The system of internal governance has been in place in the Department for the year ending 31 March 2017 and continues up to the date of approval of the HSC Pension Scheme Annual Report and Accounts. This accords with Department of Finance guidance.

The system of internal governance entails monitoring and reporting on: a) the delivery of Ministerial/Departmental Policy; b) the use of resources (including financial, human, estate and information); c) compliance with statutory requirements; d) statistical and other performance monitoring reports; e) the content of external and internal audit reports; f) serious adverse incident reporting; g) RQIA and other reports prepared by inspecting/regulatory/licensing bodies; h) inquiry reports; i) compliance with standards and guidance; j) the discharge of statutory functions; k) corporate governance and, l) business planning arrangements. These are with respect to both the Department itself and its ALBs.

The DARAC also plays a key role in providing advice on the quality of risk management and assurance within the Department. Additionally, risk monitoring and management processes within the ALBs are monitored by the Department through separate processes, as highlighted in the '*Governance and Accountability within DoH ALBs*' section below.

## **Information Risk**

Safeguarding the Department's information is a critical aspect of supporting the Department in the delivery of its objectives. Central to achieving this is the effective management of information risk. The arrangements in place to manage this risk include:

- The Assistant Departmental Security Officer (ADSO) regularly reviews Departmental information to ensure that it is appropriately protected;
- A Senior Information Risk Owner (SIRO) and Information Asset Owners (IAOs) are in place to reduce the risk to personal information within the Department;
- Annual assurance from IAOs regarding the personal information assets they manage; and
- IAOs are aware of their responsibilities to ensure information is securely stored, access-controlled and disposed of appropriately.



Regular mandatory awareness training is delivered to Departmental staff, providing them with an up-to-date understanding of information governance issues and risks.

Restrictions exist to protect access to and disposal of electronic and paper records and the Department has an Information and Records Management Policy Statement underpinning its records management arrangements. Appropriate guidance, central controls and a disposal schedule process all govern the retention and disposal of Departmental Records.

### **Governance and Accountability within DoH ALBs including the HSCPS**

Governance and Accountability can be considered under the following headings:

- HSCPS Assurance and Accountability;
- Departmental Assurance;
- Controls Assurance Standards;
- Statutory Duty of Quality; and
- Service Frameworks.

### **HSCPS Assurance and Accountability**

The Department, including the HSCPS, achieves its corporate objectives through direct Departmental action and through its 17 ALBs. The Chief Executives of ALBs (as ALB Accounting Officers) are directly accountable to me (Permanent Secretary of the Department) as Principal Accounting Officer. ALBs through their Boards are held to account for the delivery of their prescribed functions and Ministerial/Departmental priorities and ensuring compliance with other statutory responsibilities. The HSCB also performs a key role, alongside the Department, in relation to the performance and financial management of HSC Trusts.

As part of the review of Assurance and Accountability Arrangements, a Sponsorship Handbook was developed in 2016/17 which replaced the Assurance and Accountability Framework. The handbook sets out the Department's approach to sponsorship of its Arm's Length Bodies to ensure, as far as possible, that there is consistency of approach and proportionality of application. The guidance and arrangements described within the handbook reflect the responsibilities placed on the Department, under Managing Public Money NI, for the sponsorship of ALBs operating under the control of DoH.

The handbook details the roles and responsibilities of all Departmental staff, including Executive Board Members and sponsor branches, in addition to describing the format and structure of the biannual accountability process. Through its sponsor branches, the Department engages directly with each ALB, commensurate with the level of risk the body poses to the Department. ALB risks can either be escalated in the Department, through the ALB accountability review process, or highlighted to the Department through the other formal and informal interactions that the sponsors, Executive Board Members and professional staff maintain with ALBs.

### **Departmental Assurance**

The Department receives much of its assurance through an on-going process of monitoring of the BSO acting as the HSCPS administrator, including Corporate Governance, Use of Resources and the Delivery and Quality of Services. In addition to regular monitoring information derived primarily from management information systems, the Department periodically tests the assurance provided by initiating

external reviews, audits, inquiries, ad-hoc and self-assessment exercises which are designed to sample aspects of the governance arrangements and performance of the BSO administration of the HSCPS.

This monitoring is based on assessing the operation and performance of ALBs against standards, guidance and targets; statutory and licensing requirements and Departmental policy and strategy. Three important examples of these are Controls Assurance Standards; the statutory Duty of Quality and Service Frameworks.

### **Sources of Independent Assurance**

The Department obtains independent assurance from the following sources in relation to the HSCPS:

- Departmental Internal Audit Group;
- Northern Ireland Audit Office; and
- Business Services Organisation Internal Audit.

### **Departmental Internal Audit Group (IAG)**

The Department utilises an internal audit function which operates to defined standards and whose work is informed by an analysis of risk to which the body is exposed and annual audit plans are based on this analysis.

The Department's Head of Internal Audit (HIA) reports directly to the Departmental Accounting Officer and attends and provides reports to the DARAC. As such, HIA therefore plays a crucial role in the review of the effectiveness of risk management, controls and governance by:

Focusing audit activity on the key business risks:

- Being available to guide managers and staff through improvements in internal controls;
- Auditing the application of risk management and control as part of Internal Audit reviews of key systems and processes; and
- Providing advice to management on the internal governance implications of proposed and emerging changes.

The remit of Internal Audit includes an assessment of internal financial controls and the wider internal environment which affects the achievement of Departmental objectives. Internal Audit submits regular reports to management and the DARAC, which includes the HIA's independent opinion on the adequacy and effectiveness of the Department's system of internal control, together with recommendations for improvement.

The HIA has provided me with an opinion on the Department's management of risk, control and governance. The Internal Audit opinion reflects an aggregate assessment of Internal Audit activity over a four year period from 2013-14 to 2016-17. This indicates that, overall, the system of governance, risk management and internal control within the Department is satisfactory.

### **Northern Ireland Audit Office (NIAO)**

The NIAO provides an opinion on whether an organisation's financial statements give a true and fair view, have been prepared in accordance with the relevant accounting standards and are in accordance

with the guidance issued by relevant authorities. The results of the NIAO's financial audit work are reported to the Northern Ireland Assembly.

The NIAO also seeks to promote better value for money through highlighting and demonstrating ways in which improvements could be made to realise financial savings or reduce costs; safeguard against the risk of fraud, irregularity and impropriety; attain improvements in service provision; support and enhance management, administrative and organisational processes.

A representative of the NIAO attends the DARAC quarterly meetings at which corporate governance and risk management matters are considered.

### **Business Services Organisation (BSO) Internal Audit**

BSO Internal Audit is a centralised service which provides reasonable assurance in relation to internal audit and specialist advice and guidance to Boards within HSC organisations and Departmental ALBs, including the HSC Pension Scheme. The Department reviews the Head of Internal Audit's (HIA) mid and end-year independent opinions, on the adequacy and effectiveness of each of the ALBs and the HSC Pension Scheme's system of internal control, together with any recommendations for improvement. The opinion for 2016-17 was that overall there was a satisfactory system of internal control designed to meet the BSO's objectives. However, limited assurance was provided in relation to pensions processing due to a high volume of errors identified in information provided to HSC Pension Service by payroll shared services, on which pension payments are based.

### **Review of Effectiveness of the System of Internal Governance**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal governance. My review of the effectiveness of the system of internal governance is informed by the work of the Department's Internal Audit and the Executive Board Members within the Department, who have responsibility for the development and maintenance of the internal framework, and comments made by the external auditors in their management letter and other reports. I have been advised by the DARAC on the implications of my review of the effectiveness of the system of internal control, and a plan to address weaknesses and ensure continuous improvement of the system is in place. This is evidenced through DARAC's review of the Departmental Governance Statement and the DARAC Chair's annual report to me as Accounting Officer.

### **Internal Governance Divergences**

#### **Prior Year Issues**

There were no governance matters arising in previous years.

#### **New Issues for 2016-17**

#### **Underpayment of Employers Superannuation Contributions**

During February 2017 it was brought to the attention of the BSO Payroll Shared Services Centre, by one of the HSC bodies, that there was a potential error in how the HRPTS system was calculating employers' superannuation contributions during periods of sickness and ordinary and stretch maternity leave.

Subsequent significant investigations resulted in the identification of a material regional liability estimated at £14.8m in respect of underpayments of these contributions dating back to the introduction of the new HRPTS system in each individual HSC body. Each HSC body has been advised of their share of the estimated liability, which has been accounted for in 2016/17, and work has begun to identify the required systems changes to address this issue going forward. BSO is also working with the region to identify how the system specification error arose, which requires a review of each entity's individual system cut-over processes.

**HRPTS system performance**

HSC Pension Service receives 95% of its data through an electronic interface from HSC Payroll Shared Service Centre (PSSC). PSSC recently updated their software systems and as part of the new system development a new interface between PSSC systems and HSCPS (Altair) system was required. Development and testing of the new interface took a considerable period of time and was finally signed off and recently put into the LIVE system in June 2016. As a result a bulk upload of data was processed by HSCPS throughout 2016/17 and as a result approximately 80,000 member data errors were identified. These were mainly due to changes in employee's circumstances (promotion/part time working/change of address etc.). A dedicated team was put in place to address this issue and all errors were rectified. Subsequent monthly interface files are however still problematic. This has been reported to the Pension Regulator (TPR) and is included in HSCPS Record Keeping Improvement Plan. TPR has requested that Payroll Shared Services Centre initiate a time bound action plan to target current payroll to pension system issues in order to improve the quality of the data interface

Following the implementation of the 1% pay award and pension auto-enrolment in October/ November 2016, the HRPTS system began to experience significant systems performance issues, leading to delays in interface to general ledger and the need to invoke contingency arrangements in respect of one of the payroll runs. These issues persisted through to February 2017, despite BSO ITS team working with the system supplier who initiated a series of fixes to resolve the issues. The impact on the HSC Pension Scheme was that some pension scheme contributions were calculated incorrectly and were therefore underpaid during this period. These discrepancies were identified and rectified during February 2017. BSO continue to closely monitor systems performance and a resolution plan has been put in place by the systems supplier, and the final phase of this is due to complete by end of September 2017.

**2017-18 Budget Position**

The Northern Ireland Assembly was dissolved as from 26 January 2017 for an election which took place on 2 March, on which date Ministers also ceased to hold office. An Executive was not formed following the election within the period specified in the legislation. As a consequence, a Budget Act is not yet in place for 2017-18. In the absence of a budget for 2017-18 determined by an Executive, Section 59 of the Northern Ireland Act 1998 and Section 7 of the Government Resources and Accounts Act (Northern Ireland) 2001 provide for the Permanent Secretary of the Department of Finance to issue cash to departments from the NI Consolidated Fund. These powers are an interim measure designed to ensure that services can be maintained until such times as a budget is agreed and a Budget Act passed.

**Excess Vote**

The HSC Pension Scheme Statement for 2016-17 has expended more resources than was authorised by the Assembly (£18,252k). The vast majority of this was due to a technical excess (£16,032k) due to the Assembly being dissolved in January 2017 and therefore the process of approving 2016-17 Spring

Supplementary Estimates and associated Budget Bill did not take place. However, an Excess (£2,220k) was also incurred because expenditure in RfR is above the amount provided for in the Estimate. This occurred because the actual outturn for Current Service Cost was in excess of the estimated figure as supplied by GAD. As a result of this breach NIAO has provided a qualified regularity opinion. The Department is taking all necessary steps to ensure that there is no recurrence of this issue.

**Conclusion**

The Department of Health has a rigorous system of accountability which I can rely on as Accounting Officer to form an opinion on the probity and use of public funds, as detailed in Managing Public Money NI. The system operates on a principle of devolved authority and the accountability framework structure across the Department's operating base.

Further to considering the accountability framework within the Department, including the BSO, and in conjunction with assurances given to me by the DARAC, I am content that the DoH and the HSC Pension Scheme have operated a sound system of internal governance during 2016-17.



Mr R Pengelly  
Accounting Officer  
29 June 2017

## **The Certificate and Report of the Comptroller and Auditor General to the Northern Ireland Assembly**

### **DEPARTMENT OF HEALTH HSC PENSION SCHEME STATEMENTS**

#### **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

I certify that I have audited the financial statements of the Pension Scheme for the year ended 31 March 2017 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. I have also audited the Statement of Assembly Supply 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 (Northern Ireland) 2001. 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 Pension Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Pension Scheme; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Managers, Report of the Actuary and Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Assembly Supply properly presents the outturn against Assembly control totals and that those totals have not been exceeded. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

#### **Basis for qualified opinion on regularity arising from breach of an Assembly control total**

In 2016-17 the HSC Pension Scheme expended more resources than the Assembly had authorised resulting in an excess vote. Net resource outturn of £851,907,000 was £18,252,000 in excess of the £833,655,000 limit authorised by the Assembly. Part of this excess, £16,032,000 arose because the Assembly dissolved at the end of January 2017 and therefore the process of considering and approving the 2016-17 Spring Supplementary Estimates by way of a Budget Bill could not take place. However a further excess of £2,220,000 arose as the payroll figures used by the Government Actuary's Department at the time of estimating the Current Service Cost were based on the prior year payroll figure (updated approximately) as actual payroll was not available at the time. This meant the figures given to the Department for preparing the Supplementary Estimate were understated.

The Department told me that they will continue to liaise with the Government Actuary's Department to determine what further reviews need to be carried out when the SSE forecast is prepared and they will continue to work closely together and scrutinise forecasts to ensure they are as robust as possible.

**Opinion on regularity**

In my opinion, except for the breach described in the basis for qualification paragraphs above, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31 March 2017; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Pension Scheme's affairs as at 31 March 2017 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with Department of Finance directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001.

**Opinion on other matters**

In my opinion:

- the information given in the Report of the Managers and Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

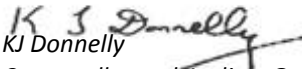
**Matters on which I report by exception**

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with Department of Finance's guidance.

**Report**

Other than as outlined in the basis for the qualification opinion paragraphs above, I have no observations to make on these Pension Scheme Statements.

  
KJ Donnelly  
Comptroller and Auditor General  
Northern Ireland Audit Office  
106 University Street  
Belfast  
BT7 1EU

3 July 2017

STATEMENT OF ASSEMBLY SUPPLY AND RELATED NOTES

Summary of Resource Outturn 2016-17

	Note	2016-17						2015-16	
		Estimate			Outturn			Outturn	
		Gross Expenditure £000	Accruing Resources £000	Net Total £000	Gross Expenditure £000	Accruing Resources £000	Net Total £000	Net total outturn compared with Estimate: saving / (excess) £000	Prior Year Outturn £000
Request for resources									
Providing a pension scheme for persons employed in the health and social care sector									
Annually Managed Expenditure		1,289,700	(456,045)	833,655	1,307,952	(456,045)	851,907	(18,252)	(894,972)
<b>Total resources</b>	<b>SOAS 1</b>	<b>1,289,700</b>	<b>(456,045)</b>	<b>833,655</b>	<b>1,307,952</b>	<b>(456,045)</b>	<b>851,907</b>	<b>(18,252)</b>	<b>(894,972)</b>

Summary of Net Cash Requirement 2016-17

	Note	2016-17			2015-16
		Estimate	Outturn	Net total outturn compared with Estimate: saving / (excess)	Outturn
		£000	£000	£000	£000
Net Cash Requirement	SOAS 2(a)	-	-	-	-

Summary of income payable to the Consolidated Fund

In addition to accruing resources, the following income relates to the pension scheme and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Note	2016-17 Forecast		2016-17 Outturn	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
<b>Total</b>	<b>SOAS 3</b>	-	<i>18,883</i>	<b>102,253</b>	<i>61,783</i>



## Department of Health

### HSC Pension Scheme Statement 2016-17

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Total Income due to be paid over to the Consolidated Fund is £102,253K. Total Receipts are £61,783K.

The HSC Pension Scheme has incurred an Excess of £18,252k.

Of this total excess of £18,252k, £16,032k arose due to the Assembly being dissolved in January 2017 and therefore the process of approving 2016-17 Spring Supplementary Estimates and the associated Budget Bill did not take place. Consequently, the Supply Estimate position shown in the Statement of Assembly Supply is the Main Estimate position. Had the Spring Supplementary Estimates and associated Budget Bill been approved by the Assembly to reflect changes to departmental budgets that had previously been agreed by the Executive or changes that could reasonably have been expected to have been agreed in the January Monitoring Round, this part of the Excess would not have occurred. The remaining excess of £2,220k was incurred as a result of expenditure in the RfR being above the amount provided for in the Spring Supplementary Estimate.

The Department will seek Assembly approval by way of an Excess Vote in the next Budget Act.

#### ***Explanation of the variation between estimate and outturn (net cash requirement):***

*(1) Changes in working capital other than cash £52,565k - see SOAS 2a*

A greater than forecast estimate for the movement in CFERs included in receivables is the principle reason for this variance.

*(2) Excess cash receipts surrenderable to the Consolidated Fund, this excludes Excess Accruing Resources (£40,470k) (£61,783k - see SOAS 2a)*

Based on forecast budget and working capital information this figure was estimated as £18,883k. Actual outturn was greater than estimate by £42,900k.

The notes on pages 30 to 31 form part of the Statement of Assembly Supply.

**SOAS 1. Reconciliation of Estimates, accounts and budgets**

	Note	2016-17			2015-16
		Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
		£000	£000	£000	£000
Net Resource Outturn		851,907	833,655	(18,252)	894,972
Non - supply income (CFERs)	SOAS 4	(40,470)	-	40,470	-
<b>Net expenditure in SCNE</b>		<b>811,437</b>	<b>833,655</b>	<b>22,218</b>	894,972

The Scheme does not have an administrative budget and all costs of administering the Scheme are borne by DoH and BSO.

**SOAS 2(a). Reconciliation of resources to cash requirement**

	Note	Estimate	Outturn	Net total outturn compared with Estimate savings / (excess)
		£000	£000	£000
		<b>Net Resource Outturn</b>	SOAS 1	833,655
<b>Accruals Adjustments:</b>				
Changes in working capital other than cash	SOAS 2(b)	25,182	(27,383)	52,565
Use of provisions	16	411,980	421,293	(9,313)
New provisions and adjustments to previous provisions	16	(1,289,700)	(1,307,600)	17,900
Excess cash receipts surrenderable to the Consolidated Fund	SOAS 3	18,883	61,783	(42,900)
<b>Net Cash Requirement</b>		-	-	-

**SOAS 2(b). Movements in working capital other than cash**

	Note	2016-17	2015-16
		£000	£000
Increase in receivables related to supply	12	(14,226)	(3,770)
Increase in receivables not related to supply (injury benefit)	12	952	(328)
Decrease in payables falling due within one year	14	187	(1,857)
Movement in working capital		(13,087)	(5,955)
Excess net cash requirement adjustment		-	(7,224)
Movement in CFERS excess accruing resources	SOAS 3	40,470	(2,979)
<b>Movement in working capital</b>		<b>27,383</b>	<b>(16,158)</b>

**SOAS 3. Analysis of income payable to the Consolidated Fund**

	2016-17 Forecast		2016-17 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess accruing resources	-	-	40,470	-
Operating income and receipts surrenderable to the Consolidated Fund	-	-	40,470	-
Excess cash surrenderable to the Consolidated Fund	-	18,883	61,783	61,783
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b>18,883</b>	<b>102,253</b>	<b>61,783</b>

**SOAS 4. Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund**

	2016-17	2015-16
	£000	£000
Operating income	496,515	447,437
Income authorised to be Accruing Resources	(456,045)	(447,437)
<b>Operating income payable to the Consolidated Fund</b>	<b>40,470</b>	<b>-</b>

**OTHER ASSEMBLY ACCOUNTABILITY DISCLOSURES**

**Losses and special payments**

**Losses Statement**

	2016-17	2016-17	2015-16
	No of cases	£000	£000
De Minimus Overpayments	93	1	3

**Special Payments**

	2016-17	2016-17	2015-16
	No of cases	£000	£000
Extra-Statutory Payments	26	78	76

**B) FINANCIAL STATEMENTS**

**STATEMENT OF COMPREHENSIVE NET EXPENDITURE**

**for the year ended 31 March 2017**

	Note	2016-17	2015-16
		£000	£000
<b>Income</b>			
Contributions receivable	3	491,540	440,907
Transfers in	4	4,969	6,517
Other pension income	5	6	13
		<b>496,515</b>	447,437
<b>Expenditure</b>			
Service cost	6	(670,000)	(700,001)
Enhancements	7	(22,631)	(5,283)
Transfers in	8	(4,969)	(6,517)
Pension financing cost	9	(610,000)	(630,000)
Other expenditure	10	(352)	(608)
		<b>(1,307,952)</b>	(1,342,409)
<b>Net Expenditure</b>		<b>(811,437)</b>	(894,972)
<b>Other Comprehensive Net (Expenditure)/Income</b>			
Pension re-measurements:			
Actuarial (loss)/gain	16.4	(4,850,000)	1,520,000
<b>Total Comprehensive Net (Expenditure)/Income for the year ended 31 March</b>		<b>(5,661,437)</b>	625,028

The notes on pages 37 to 52 form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION**

As at 31 March 2017

	Note	2016-17	2015-16
		£000	£000
<b>Current assets</b>			
Receivables	12	57,382	44,108
Cash and cash equivalents	13	61,783	44,392
<b>Total current assets</b>		<b>119,165</b>	88,500
<b>Current liabilities</b>			
Payables (within 12 months)	14	(109,962)	(51,914)
<b>Total current liabilities</b>		<b>(109,962)</b>	(51,914)
<b>Net current assets, excluding pension liability</b>		<b>9,203</b>	36,586
Pension liability	16.1	(22,692,700)	(16,956,393)
<b>Net liabilities, including pension liabilities</b>		<b>(22,683,497)</b>	(16,919,807)
<b>Taxpayers' equity</b>			
General fund		(22,683,497)	(16,919,807)
		<b>(22,683,497)</b>	(16,919,807)

The notes on pages 37 to 52 form part of these financial statements.



Mr R Pengelly  
Accounting Officer  
29 June 2017

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**

**for the year ended 31 March 2017**

	Note	General Fund	
		2016-17	2015-16
		£000	£000
<b>Balance at 1 April</b>		(16,919,807)	(17,500,443)
Excess accruing resources	SOAS 4	(40,470)	-
Excess cash receipts payable to the Consolidated Fund	SOAS 3	(61,783)	(44,392)
Comprehensive Net Expenditure for the year		(811,437)	(894,972)
Actuarial (loss)/gain		(4,850,000)	1,520,000
Net change in Taxpayers' Equity		(5,763,690)	580,636
<b>Balance at 31 March</b>		<b>(22,683,497)</b>	<b>(16,919,807)</b>

The notes on pages 37 to 52 form part of these financial statements.

**STATEMENT OF CASH FLOWS**

**for the year ended 31 March 2017**

	Note	2016-17	2015-16
		£000	£000
<b>Cash flows from operating activities</b>			
Net expenditure for the year		(811,437)	(894,972)
<b>Adjustments for non-cash transactions:</b>			
Increase in receivables related to supply	12	(14,226)	(3,770)
Decrease/(increase) in receivables not related to supply	12	952	(328)
Increase/(decrease) in payables	14	187	(1,857)
Increase in pension provision	16.1	1,280,000	1,330,001
Increase in pension provision - enhancements and transfers in	16.1	27,600	11,800
Use of provisions - pension liability	16.2	(414,480)	(377,392)
Use of provisions - refunds and transfers	16.3	(6,813)	(8,887)
<b>Net cash inflow from operating activities</b>		<b>61,783</b>	54,595
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>61,783</b>	54,595
Payments of amounts due to the Consolidated Fund		(44,392)	(78,436)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>17,391</b>	(23,841)
<b>Cash and cash equivalents at the beginning of the period</b>	13	<b>44,392</b>	68,233
<b>Cash and cash equivalents at the end of the period</b>	13	<b>61,783</b>	44,392

The notes on pages 37 to 52 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 Scheme have been prepared in accordance with the relevant provisions of the 2016-17 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance. 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 Assembly Supply. This statement, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

#### **1.1 HSC Pension Scheme**

The HSC Pension Scheme is an unfunded, defined benefit pay-as-you-go occupational pension scheme which is operated by the Business Services Organisation on behalf of the Department of Health and is open to all HSC employees and employees of other approved organisations.

Contributions to the Scheme by employers and employees are set at rates determined by the Scheme's Actuary and approved by the Department of Health. The contributions fund payments made by the Scheme. The administrative expenses associated with the operation of the Scheme are borne by the Business Services Organisation (BSO) and reported in their financial statements.

The financial statements of the Scheme show the financial position of the HSC Pension Scheme 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.

The financial statements also have regard to the Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995 as amended, the Health and Social Care (Pension Scheme) Regulations (Northern Ireland) 2008 as amended, The Health and Social Care Pension Scheme Regulations (Northern Ireland) 2015 as amended and the Health and Personal Social Services (Compensation for Premature Retirement) Regulations 1983 as amended.

### **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 the 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 Scheme financial statements.

## **2.1 Accounting convention**

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

## **2.2 Contributions receivable**

Employers' normal pension contributions are accounted for on an accruals basis.

Employers' special pension and compensation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on a cash basis.

Employees' pension contributions and amounts received in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the Scheme liability is recognised as expenditure. Neither Additional Voluntary Contributions (AVCs) nor payments to providers of Stakeholder Pensions are brought into account in these financial statements.

## **2.3 Pre-funding of contribution from employing bodies**

Amounts receivable from employing bodies to reduce or extinguish their liabilities in respect of future payment of benefits arising from the early retirement of their employees are accounted for on an accruals basis.

## **2.4 Transfers in and out**

Transfers in, in respect of individual members, are normally accounted for as income and expenditure (representing the associated increase in the Scheme liability) on a cash basis.

## **2.5 Other income**

Other income, including Contributions Equivalent Premium (CEP) and refunds of pension overpayments, are accounted for on an accruals basis.

Contributions Equivalent Premium income relates to the refund of National Insurance Contributions from the Contributions Agency resulting from members who left the Scheme but subsequently returned to the Scheme before the end of their 13-month disqualifying period.

Other income includes refunds of gratuities, pension overpayments and miscellaneous income. Pension overpayments can arise as a result of Pensioner error, Departmental error or Exchequer loss.

## **2.6 Current service cost**

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is based on the discount rate applicable at 1 April 2016, being 1.37% real rate (i.e. 3.60% including inflation).

## **2.7 Interest on Scheme liabilities**

The interest cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net

Expenditure. The cost is based on the discount rate applicable at 1 April 2016, being 1.37% real rate (i.e. 3.60% including inflation).

## **2.8 Past service cost**

The past service cost is the increase in the period in the present value of the Scheme liabilities arising from current members' past service in the current period and is recognised in the Statement of Comprehensive Net Expenditure.

## **2.9 Other expenditure**

Other expenditure is accounted for on an accruals basis. CEP payments relate to National Insurance Contributions due to the Contributions Agency resulting from members who have left the Scheme.

## **2.10 Scheme liability**

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit method and is discounted at the rate applicable at the close of 31 March 2017, being 0.24% real rate (i.e. 2.80 % including inflation)

As per the requirements of IAS 19 and IAS26, as amended by FReM, full actuarial valuations by a professionally qualified actuary are required at intervals not exceeding four years. In accordance with this a full actuarial valuation was carried out as at 31 March 2015. The last full funding valuation was carried out as at 31 March 2012 and the next one is due to be carried out as at 31 March 2016.

The actuary reviews the most recent actuarial valuation at the Statement of Financial Position date, and updates it to reflect current conditions. In this case the actuary has used full membership data as at 31 March 2015 and demographic assumptions in line with the latest funding valuation as at 31 March 2012.

## **2.11 Pension benefits payable**

Pension benefits payable are accounted for as a decrease in the Scheme liability on an accruals basis.

## **2.12 Pension payments to those retiring at their normal retirement age**

Where a retiring member of the pension scheme has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the Scheme liability on an accruals basis.

Where a retiring member of the pension scheme has a choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the Scheme liability on a cash basis.

## **2.13 Pension payments to and on account of leavers before their normal retirement age**

Where a member leaving the Scheme before normal retirement age is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the Scheme liability on an accruals basis.

Refunds include amounts payable both at the time of leaving or at normal retirement age (or earlier death).

Where a member leaving the Scheme before normal retirement age has the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the Scheme liability on a cash basis.

#### **2.14 Lump sums payable on death in service**

Lump sum payments payable on death in service are accounted for on a cash basis. They are funded through the normal pension contributions and are a charge on the pension provision.

#### **2.15 Actuarial gains/losses**

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

#### **2.16 Additional Voluntary Contributions**

Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the employing organisations to the approved AVC providers. Details on AVCs are at note 11 to the financial statements.

#### **2.17 Administration expenses**

All costs of administering the HSC Pension Scheme are borne by the DoH and the Business Services Organisation.

#### **2.18 Cash and cash equivalents**

Cash and cash equivalents represent cash balances held at bank as adjusted for any outstanding payments and receipts that have yet to be processed through the account.

#### **2.19 Currency and rounding**

The functional currency is sterling and all figures are rounded to the nearest thousand pounds.

#### **2.20 Impending application of newly issued Accounting Standards not yet effective**

There have been no changes which would impact on these financial statements.

#### **2.21 Going Concern**

The Statement of Financial Position as at 31 March 2017 shows net liabilities of £22,683,497k, reflecting liabilities due in future years. It is considered appropriate to adopt a going concern basis for the preparation of the financial statements as the department is supply financed and draws its funding from the Consolidated Fund. Therefore there is no liquidity risk in respect of the liabilities due in future years.

### 3. Contributions receivable

	2016-17	2015-16
	£000	£000
Employers	325,652	279,557
Employees	165,888	161,350
	<b>491,540</b>	440,907

£459,240k contributions are expected to be payable to the Scheme in 2017-18.

### 4. Pension Transfers in

	2016-17	2015-16
	£000	£000
Individual transfers in from other schemes	4,969	6,517
	<b>4,969</b>	6,517

### 5. Other pension income

	2016-17	2015-16
	£000	£000
Refund of pension payments	6	13
	<b>6</b>	13

### 6. Service cost

	2016-17	2015-16
	£000	£000
Current service cost (see note 16.1)	670,000	691,003
Past service cost	-	8,998
	<b>670,000</b>	700,001

The past service cost was included for 2015-16 in recognition of the announced Government policy to provide full indexation on GMPs for members who reach SPA between 06 April 2016 and 05 December 2018.

**7. Enhancements (see also Note 16.1)**

	2016-17	2015-16
	£000	£000
Employees:		
Purchase of added years	-	2,217
Employers:		
Pre-funded compensation payments	22,631	3,066
	<b>22,631</b>	<b>5,283</b>

**8. Transfers in – additional liability**

	2016-17	2015-16
	£000	£000
Individual transfers in from other schemes	4,969	6,517
	<b>4,969</b>	<b>6,517</b>

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 movement in the pension provision during the year.

**9. Pension financing cost (see also Note 16.1)**

	2016-17	2015-16
	£000	£000
Net interest on defined benefit liability	610,000	630,000
	<b>610,000</b>	<b>630,000</b>

## 10. Other pension expenditure

	2016-17	2015-16
	£000	£000
Contributions Equivalent Premium	108	221
Contribution refund	244	387
	<b>352</b>	<b>608</b>

## 11. Additional Voluntary Contributions

The HSC Pension Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to supplement their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment to one of the approved providers, Equitable Life Assurance Society or Standard Life, 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 Contributions (FAVC) Schemes. The managers of the HSC Pension Scheme have responsibility only for the onward payment by employers of members' contributions to the Scheme's approved provider. These AVCs are not recognised in these financial statements. Members participating in the arrangement each receive an annual statement from the approved provider at 31 March each year confirming the amounts held to their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

### The Equitable Life Assurance Society

Employees make contributions to two schemes (W0111) and (WP111) provided by the Equitable Life Assurance Society.

### Scheme Number W0111

Movements in the year were as follows:

	2016-17	2015-16
	£000	£000
Balance at 1 April	1,908	2,167
New investments (net of transfers/refunds)	(28)	(95)
Sales of investments to provide pension benefits	(24)	(153)
Changes in market value of investments	247	(11)
<b>Balance at 31 March</b>	<b>2,103</b>	<b>1,908</b>

**Scheme Number WP111**

Movements in the year were as follows:

	<b>2016-17</b>	<b>2015-16</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	2,324	2,539
New investments (net of transfers/refunds)	(22)	(65)
Sales of investments to provide pension benefits	(214)	(152)
Changes in market value of investments	128	2
<b>Balance at 31 March</b>	<b>2,216</b>	<b>2,324</b>

**Standard Life**

Movements in the year were as follows:

	<b>2016-17</b>	<b>2015-16</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	3,833	3,949
New investments (net of transfers/refunds)	(294)	(214)
Sales of investments to provide pension benefits	-	(218)
Changes in market value of investments	621	316
<b>Balance at 31 March</b>	<b>4,160</b>	<b>3,833</b>



## 12. Receivables - contributions due in respect of pensions

### Analysis by type

	2016-17	2015-16
	£000	£000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	37,809	22,804
Employees' normal contributions	13,189	13,476
Capitalised cost of enhancement to pensions payable on departure	4,754	5,259
Overpaid pensions	348	335
Other receivables	8	8
<b>Sub-total</b>	<b>56,108</b>	<b>41,882</b>
Non-supply receivables:		
Injury benefits receivable	1,274	2,226
<b>Total amounts falling due within one year</b>	<b>57,382</b>	<b>44,108</b>

Included in pension contributions due is £40,470 (2015-16: £nil) that will be due to the Consolidated Fund once the debts are collected.

## 13. Cash and cash equivalents

	2016-17	2015-16
	£000	£000
Balance at 1 April	44,392	68,233
Net change in cash balances	17,391	(23,841)
<b>Balance at 31 March</b>	<b>61,783</b>	<b>44,392</b>
The following balances at 31 March were held at:		
Commercial banks and cash in hand	61,783	44,392
<b>Balance at 31 March</b>	<b>61,783</b>	<b>44,392</b>

**14. Payables - in respect of pensions**  
**Analysis by type**

	2016-17	2015-16
	£000	£000
<b>Amounts falling due within one year:</b>		
Pensions	2,589	2,268
HMRC	3,879	3,718
Other creditors	1,241	1,536
CFERs due to be paid to Consolidated Fund – excess accruing resources	40,470	-
Other CFERs due to the Consolidated Fund – excess cash receipts	61,783	44,392
<b>Total amounts due within one year</b>	<b>109,962</b>	<b>51,914</b>

**15. Amounts due to the Consolidated Fund**

	2016-17	2015-16
	£000	£000
Excess cash receipts surrenderable to the Consolidated Fund	(61,783)	(44,392)
Excess ARs payable to Consolidated Fund	(40,470)	-
	<b>(102,253)</b>	<b>(44,392)</b>
Cash and cash equivalents	61,783	44,392
Consolidated Fund Extra Receipts included in receivables	40,470	-
	<b>102,253</b>	<b>44,392</b>

## 16. Pension liability

### Assumptions underpinning the pension liability

The HSC Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2017. The Report of the Actuary on pages 9 to 13 sets out the scope, methodology and results of the work the actuary has carried out.

The Scheme managers 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 Scheme managers 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:

- o Scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners;
- o benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;
- o income and expenditure, including details of expected bulk transfers into or out of the Scheme; and
- o 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 key financial assumptions used by the Actuary were:

	31 Mar 17	31 Mar 16	31 Mar 15	31 Mar 14	31 Mar 13
Rate of increase in salaries*	4.55%	4.20%	4.20%	4.50%	3.95%
Rate of increase in pensions in payment and deferred pensions	2.55%	2.20%	2.20%	2.50%	1.70%
Inflation assumption	2.55%	2.20%	2.20%	2.50%	1.70%
Nominal discount rate	2.80%	3.60%	3.55%	4.35%	4.10%
Discount rate net of price inflation	0.24%	1.37%	1.30%	1.80%	2.35%

\* short term adjustments have been made to this assumption for the period to 2020.

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

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

In accordance with IAS 19 the Scheme Managers are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

The key demographic assumption relates to pensioner mortality. The assumptions made are represented by the sample life expectancies set out in note 16.7.

#### Analysis of the provision for pension liability

Categories	At 31	At 31	At 31	At 31	At 31
	March	March	March	March	March
	2017	2016	2015	2014	2013
	£bn	£bn	£bn	£bn	£bn
Pensions in Payment	6.2	5.1	5.3	4.8	3.8
Deferred Pensions	1.4	0.9	0.9	0.8	0.6
Active Members (Past Service)	15.1	11.0	11.3	9.5	7.4
<b>Total</b>	<b>22.7</b>	<b>17.0</b>	<b>17.5</b>	<b>15.1</b>	<b>11.8</b>

Pension scheme liabilities accrue over employees' 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. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

The value of the liability on the statement of financial position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, without changing the discount rate, the value of the pension scheme 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 16.4. 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.

### 16.1 Analysis of movements in the Scheme liability

	Note	2016-17		2015-16	
		£000	£000	£000	£000
Scheme liability at 1 April			16,956,393		17,520,871
Current service cost	6	670,000		691,003	
Past service cost	6	-		8,998	
Pension financing cost	9	610,000		630,000	
			1,280,000		1,330,001
Enhancements	7	22,631		5,283	
Pension transfers in	4	4,969		6,517	
			27,600		11,800
Benefits payable	16.2	(414,480)		(377,392)	
Pension payments to and on account of leavers	16.3	(6,813)		(8,887)	
			(421,293)		(386,279)
Actuarial(gain)/ loss	16.4		4,850,000		(1,520,000)
<b>Scheme liability at 31 March</b>			<b>22,692,700</b>		<b>16,956,393</b>

The pension scheme liability can be split into £21.2 billion for the closed sections of the scheme (1995 and 2008) and £1.5 billion for the open section (2015 CARE scheme). From 2017/18 this information will be disclosed on the face of the Statement of Financial Position.

During the year ended 31 March 2017, employer contributions represented an average of 16.3% of pensionable pay.

### 16.2 Analysis of benefits paid

	2016-17	2015-16
	£000	£000
Pensions or annuities to retired employees and dependents (net of recoveries or overpayments)	307,987	291,620
Commutations and lump sum benefits on retirement	104,074	82,974
Death in service benefits	2,419	2,798
<b>Total benefits paid</b>	<b>414,480</b>	<b>377,392</b>

### 16.3 Analysis of payments to and on account of leavers

	2016-17	2015-16
	£000	£000
Individual transfers to other schemes	6,813	8,887
<b>Total payments to and on account of leavers</b>	<b>6,813</b>	<b>8,887</b>

### 16.4 Analysis of actuarial (loss)/gain

	2016-17	2015-16
	£000	£000
Experience gains arising on the pension liabilities	190,000	140,000
Changes in mortality assumptions	-	330,000
Changes to financial assumptions	(5,040,000)	1,050,000
<b>Total actuarial (loss)/gain</b>	<b>(4,850,000)</b>	<b>1,520,000</b>

### 16.5 History of experience gains/(losses)

	2016-17	2015-16	2014-15	2013-14	2012-13
	£000	£000	£000	£000	£000
Experience gains / (losses) on Scheme liabilities:					
Amount (£000)	190,000	140,000	60,000	(704,867)	11,292
Percentage of the present value of Scheme liabilities	0.8%	0.8%	0.3%	(4.7)%	0.1%
Total amount recognised in statement of Changes in Taxpayers Equity :					
Amount (£000)	(4,850,000)	1,520,000	(1,480,000)	(2,684,867)	(698,708)
Percentage of the present value of Scheme liabilities	(21.4%)	9.0%	(8.4)%	(17.7)%	(5.9)%

## 16.6 Sensitivity of results

The Government Actuary has been asked to indicate the approximate effects on the actuarial liability as at 31 March 2017 of changes to the main actuarial assumptions.

The key financial assumptions are the rate of return net of price inflation and the rate of return net of salary inflation. A key demographic assumption is members' longevity. The table below indicates the order of magnitude of changes to these assumptions on the Scheme's liability:

<b>Change in assumption</b>	<b>Approximate % change in the total liability</b>	<b>Approximate increase / (decrease to the total liability)</b>
Discount rate decrease of ½ % per annum*	Increase of 13.0%	£3.0 billion
Long term earnings increase of ½ % per annum*	Increase of 2.0%	£0.5 billion
Pension increases of ½ % per annum*	Increase of 8.0%	£1.8 billion
Assumed longevity increased by rating the tables assumed up by 1 year	Increase of 2.5%	£0.6 billion

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

## 16.7 Pensioner mortality

The following tables show the average number of years that both current and future pensioners are expected to live after retirement age, under the mortality assumptions used for the Pension Scheme Statements at 31 March 2017.

<b>Average number of years current pensioners expected to live after retiring at age:</b>	<b>Men</b>	<b>Women</b>
60	30.3	31.9
65	25.3	26.9

<b>Average number of years future pensioners expected to live after retiring at current age:</b>	<b>Men</b>	<b>Women</b>
60	32	33.5
65	27.5	29.0

## **17. Financial Instruments**

As the cash requirements for the HSC Pension 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.

## **18. Contingent liabilities disclosed under IAS37**

In the unlikely event of a default by one of the approved AVC providers, the Department will guarantee pension payments. This guarantee does not apply to members who make payments to institutions offering Free Standing Additional Voluntary Contributions.

A recent Supreme Court ruling, the 'Brewster Judgement', that there should be no requirement for a nomination form to be completed in order for an unmarried surviving partner to be entitled to a survivor's pension will most likely result in a scheme liability. On advice from HMT/DoF the HSC Pension Scheme will consider applications for payment of a partner pension without the need for a nomination from 1 April 2008. It is expected that those affected by the ruling will be invited to apply for a partner pension and until this action is carried it is not possible to quantify the amounts involved.

In January 2017, the Employment Tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to the New Judicial Pension Scheme established in April 2015, while under transitional provisions older colleagues were able to remain in the existing final salary scheme. The Government is currently appealing that judgement. Should the Employment Tribunal's decision be upheld, then it may result in a contingent liability for all public service schemes, including the HSC Pension Scheme. Schemes will await the advice of HMT/DoF on what action to take.

## **19. Related party transactions**

The HSC Pension Scheme falls within the ambit of the Department of Health which is regarded as a related party. During the year, the Scheme has had material transactions with the Department, in addition to other government departments and central government bodies whose employees are members of the Scheme. None of the managers of the Scheme, key managerial staff or other related parties have undertaken any material transactions with the Scheme during the year.

## **20. Events after the Reporting Period**

There are no subsequent events that have a material effect on the 2016-2017 financial statements.

## **Date of authorisation for issue**

The Accounting Officer authorised the issue of these financial statements on 3 July 2017.

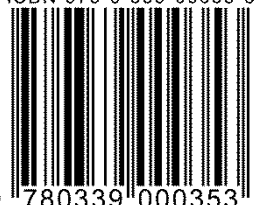








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