

**HSC Pension Scheme Statement
for the year ended 31 March 2018**

*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*

4 July 2018

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HSC Pension Scheme Statement for the year ended 31 March 2018

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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, between 1 April 2008 and 31 March 2015, 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 1/54th 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

Band	Salary range	2017-18
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 a 1% pension increase for 2017-18 from 10 April 2017.

Scheme Changes – Legislative Changes 2017-18

No new pension legislation was introduced during 2017-18.

Membership statistics

Active members				
Active members at 1 April 2017				63,518
Retrospective adjustment*				10,176
Add:	New entrants**			9,794
Less:	Retirements in the year			(1,465)
	Undecided leavers			(1,098)
	Refunds			(11)
	Deaths			(20)
	Leaving with deferred rights			(3)
Active members at 31 March 2018				80,891
Deferred members				
Deferred members at 1 April 2017				14,614
Retrospective adjustment*				(81)
Add:	Members leaving with deferred rights			17
Less:	Taking up deferred rights			(437)
	Transfers out			(10)
	Deaths			(6)
Deferred members at 31 March 2018				14,097
Pensioners in payment				
		Members	Dependents	Total
Pensioners in payment at 1 April 2017				22,802 3,728 26,530
Retrospective adjustment*				(1,999) 11 (1,988)
Add:	Retiring at normal retiring age	1,339	-	1,339
	New dependents	-	240	240
	Retiring previously deferred	304	-	304
Less:	Commutated pension	(8)	-	(8)
	Death in year	(371)	(179)	(550)
Pensioners in payment at 31 March 2018				22,067 3,800 25,867
Compensation payments > 60				
Members in receipt of compensation payments at 1 April 2017				2,049
Retrospective adjustment*				25
Less:	Members retiring at normal retirement age			(15)
	Deaths before normal retirement age			(71)
Members in receipt of compensation payments at 31 March 2018				1,988

Ill health retirement				
Ill health retirement members at 1 April 2017				8,301
Retrospective adjustment*				31
Add:	Members retiring on ill health grounds			210
Less:	Deaths in year			(228)
Ill health retirements at 31 March 2018				8,314
Compensation payments < 60				
Members in receipt of compensation payments at 1 April 2017				38
Retrospective adjustment*				(15)
Members in receipt of compensation payments at 31 March 2018				23
Undecided leavers***				
Undecided leavers at 31 March 2018				5,647
Undecided leavers at 31 March 2017				4,851

* 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. This has proved to be more problematic for active members during 2017-18 due to interface issues from the Payroll system to the Pension system, resulting in an increased adjustment of 10,176 (2016-17 4,745). This does not affect the pension scheme contributions.

**New entrants have increased significantly in 2017-18 to 9,794 (2016-17: 581). This is the result of auto enrolment being introduced during 2017-18 where employers have to automatically enrol all new employees into the HSC Pension Scheme. Previously members had to elect to join the scheme but now the onus is on the members to withdraw from the scheme if they don't wish to contribute.

***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 2018

The movements in the Scheme during the year are summarised in the Statement of Comprehensive Net Expenditure and net expenditure for the year is £1,163,747k.

Income mainly comprises contributions from employers (who are defined per page 2 above), of £308,069k and employee contributions of £175,703k (note 3). Other receipts include transfers in of £13,859k from other schemes (note 4) and other pension income of £60k (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 £1,000,000k, past service cost of £9,000k, enhancements of (£2,000k), transfers in of £13,859k and interest on scheme liabilities of £640,000k. Payments also include other pension expenditure of £579k 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 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 from 2016-17 onwards.

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 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

Department of Health

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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 statement has been prepared by the Government Actuary's Department (GAD) at the request of the Department of Health (DoH). It provides a summary of GAD's assessment of the scheme liability in respect of the Health and Social Care Pension Scheme (HSC) as at 31 March 2018, and the movement in the scheme liability over the year 2017-18, prepared in accordance with the requirements of Chapter 9 of the 2017-18 version of the Financial Reporting Manual.

The HSC is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.

The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2018.

Membership data

Tables A to C summarise the principal membership data as at 31 March 2016 used to prepare this statement.

Table A – Active members

	Number of Members (000s)	Total pensionable pay* (pa) £ m
Males	13	475
Females	49	1,250
Total	62	1,725

**Pensionable pay is the Actual figure*

Table B – Deferred members

	Number of Members	Total deferred pension* (pa) £ 000's
Males	3,535	12,349
Females	13,152	29,249
Total	16,687	41,598

**Pension amounts include the pension increase granted in April 2016*

Table C – Pensions in payment

	Number of Members	Annual pension* (pa) £ m
Males	7,594	120
Females	23,841	177
Total	31,435	297

*Pension amounts include the pension increase granted in April 2016

Methodology

The present value of the liabilities as at 31 March 2018 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2018. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2018 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2017 in the 2016-17 accounts.

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.

Financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2018	31 March 2017
	pa	pa
Nominal discount rate	2.55%	2.80%
Rate of pension increases	2.45%	2.55%
Rate of general pay increases	3.95%	4.55% from 2020/21
Rate of short-term general pay increase	n/a	1.0% pa to 2019/20
Real discount rate in excess of:		
• Pension increases	0.10%	0.24%
• Long-term pay increases	(1.4%)	(1.7%)
Expected return on assets	n/a	n/a

The assessment of the liabilities allows for the known pension increases up to and including April 2018.

Demographic assumptions

Table E summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S2 tables' with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Baseline mortality	Standard table	Adjustment
Males		
Retirements in normal health	S2NMA	83%
Current ill-health pensioners	S2IMA	83%
Future ill-health pensioners	S2IMA	100%
Dependants	S2NMA	83%
Females		
Retirements in normal health	S2NFA	85%
Current ill-health pensioners	S2IFA	85%
Future ill-health pensioners	S2IFA	100%
Dependants	S2NFA	100%

These assumptions are the same as those recommended for the 31 March 2016 funding valuation of the scheme. Note that the accounts as at 31 March 2017 were based on the assumptions adopted for the 2012 valuation.

Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017. Note that the accounts as at 31 March 2017 were based on the previous 2014-based projections.

Liabilities

Table F summarises the assessed value as at 31 March 2018 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 shown for comparison.

Table F – Statement of Financial Position

£ Billion	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	24.40	22.70	16.96	17.52	15.13
(Deficit)	(24.40)	(22.70)	(16.96)	(17.52)	(15.13)
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 2018 (the current service cost) is assessed as 52.9% of pensionable pay.

For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2017-18 as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2017-18 accounts.

Table G – Contribution rate

	2017-18	2016-17
	% of pay	% of pay
Employer contributions	16.3%	16.3%
Employee contributions (average)	9.2%	9.4%
Total contributions	25.5%	25.7%
Current service cost (expressed as a % of pay)	52.9%	38.0%

The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

The pensionable payroll for the financial year 2017-18 was £1.9 billion (as advised by DoH based on contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2017-18 (at 52.9% of pay) is assessed to be £1.0 billion.

Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018. This resulted in a past service cost in respect of these members of £9 million. I am not aware of any other events that have led to a material past service cost over 2017-18.

I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2017-18.

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 2018 of changes to the most significant actuarial assumptions.

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

Table H shows the indicative effects on the total liability as at 31 March 2018 of changes to these assumptions (rounded to the nearest ½ %).

Table H - Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i)	discount rate*:	+½% a year	-13.0% -£3.2 billion
(ii)	(long term) earnings increase*:	+½% a year	+2.0% +£0.5 billion
(iii)	pension increases*:	+½% a year	+9.0% +£2.2 billion
Demographic assumptions			
(iv)	additional 1 year increase in life expectancy at retirement		+3.0% +£0.7 billion
(v)	1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire around 2 years earlier):		+1.5% +£0.4 billion

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



Garry Swann FIA
Actuary
Government Actuary's Department
25 May 2018

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 2017-18. 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.

The Northern Ireland Assembly was dissolved from 26 January 2017 with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An executive was not formed following the 2 March election. As a consequence there has been no Minister in place in the Department during the 2017-18 financial year. Any reference to the Minister throughout the Department's Governance Statement refers to the Minister in office prior to the dissolution of the Assembly. Whilst there has been no Minister in post throughout 2017-18, Ministerial priorities remain fundamental in determining the Department's strategic direction.

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 as part of a wider review of the Departmental Board.

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.

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 Ministerial 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 2016-17.

Executive Board Members 2017-18		No of meetings attended
Mr R Pengelly	Permanent Secretary	5/6
Mr S Holland	Deputy Secretary, Social Care Policy Group	5/6
Mrs C McArdle	Chief Nursing Officer	5/6
Dr M McBride	Chief Medical Officer	4/6
Mrs D McNeilly	Deputy Secretary, Resources and Performance Management Group	3/6
Mr J Johnston	Deputy Secretary, Health Care Policy Group	5/6
Mrs N Lloyd	Director of Finance, Resources and Performance Management Group (from 18 August 2017)	3/4
Independent Board Members 2017-18		
Dr C King	Independent Board Member (1 April 2017 – 30 September 2017)	3/3
Mr M Little	Independent Board Member	6/6
Mr F Caddy	Independent Board Member (1 October 2017 – 31 March 2018)	3/3

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.

In 2017, the Board agreed an updated 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 2017-18		No. of meetings attended
Dr C King	IBM and Chair of DARAC (1 April 2017 – 30 September 2017)	2/2 (1 as Chair)
Mr M Little	IBM and DARAC Member (1 April 2017 – 30 September 2017) IBM and Chair of DARAC (1 October 2017 – 31 March 2018)	4/4 (3 as chair)
Mrs J Pyper	Chief Executive Utility Regulator (DARAC Member 1 April 2017 – 30 June 2017)	1/1
Mr T Connolly	Head of Business Engagement Department for the Economy	3/4
Mr F Caddy	IBM and DARAC Member (1 October 2017 – 31 March 2018)	2/2
Ms C Archbold	Acting DSO for DoH (DARAC Member 1/7/17 – 31/3/18)	2/3

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 with 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 2017-18 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 concluded in 2017 and a revised Framework was approved by the Board.

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.

The Departmental Guidance document 'Framework for Business Planning, Risk Management and Assurance' sets out guidance on the processes to be followed to ensure connections and linkages are identified and considered throughout the process. Included within the Framework are draft templates for directorate business plans and risk registers. Each of these contains sections for the inclusion of links to directorate risks, departmental risks and departmental business plan references. Directorate business plans and risk registers and their effective operation in conjunction with the Framework are considered as part of Internal Audit Directorate Reviews.

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 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 2018 and continues up to the date of approval of the HSC Pension Scheme Annual Report and Accounts. This accords with Department of Finance (DoF) 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:

Department of Health

HSC Pension Scheme Statement 2017-18

- 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.

In 2017-18 the Department reviewed, and updated as required, the information management controls in response to the impending introduction of the General Data Protection Regulations in May 2018.

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.

The Department has recorded no data loss-related incidents in 2017-18.

Fraud

The Department takes a zero tolerance approach to fraud in order to protect and support our key public services. We have put in place an Anti-Fraud Policy and Fraud Response Plan to outline our approach to tackling fraud, define staff responsibilities and the actions to be taken in the event of suspected or perpetrated fraud, whether originating internally or externally to the organisation. Our Fraud Liaison Officer (FLO) promotes fraud awareness, co-ordinates investigations in conjunction with the BSO counter Fraud and Probity Services team and provides advice to personnel on fraud reporting arrangements. All staff are provided with mandatory fraud awareness training in support of the Anti-Fraud Policy and Fraud Response plan, which are kept under review and updated as appropriate every five years. The Department attends and participates in the NICS Fraud Forum, which is a best practice advisory group. The Forum consists of representatives from all NI departments meeting at least 2 times per year.

Cyber Security

IT Assist, within the DoF Enterprise Shared Services Division, is responsible for the provision of IT services, including Cyber security environments, to all NICS Core Departments. To provide assurance to Departmental organisations using ESS services, the services provided by IT Assist, and other ESS bodies (RecordsNI, HR Connect, AccountNI, NI Direct), have been accredited by the NICS Risk and Information Assurance Council as meeting NICS security policy and suitable for secure controlled access to external organisations. IT Assist services also has annual compliance certification to the Public Service Network for interconnectivity to GB Public Sector Organisations.

In the 2017-18 period IT Assist have recorded no successful hacking incidents and have recorded over 800 million spam/spoofing/phishing emails blocked at the secure mail boundary environment.

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. All Internal Audit staff were centralised in October 2017 into one team, 'The Group Internal Audit and Fraud Investigation Service' within the Department of Finance.

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 overall 'satisfactory' opinion on the Department's management of risk management, control and governance. The Internal Audit opinion reflects the internal audit activity carried out during 2017-18 and cumulative assurances derived from the previous three years (2014 to 2017).

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 though 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 2017-18 was that overall there was a satisfactory system of internal control designed to meet the BSO's objectives.

At individual audit assignment level satisfactory assurance was provided in relation to HSC Pension Schemes pensions processing for 2017-18 with the exception of death in service payments and employers' superannuation contributions which were given limited assurance. This is due to a number of errors identified in the calculation of survivors' payments. Internal Audit recommend updating Death in Service guidance to include worked examples as a result of their 2017-18 findings. Underpayment of employers' superannuation contributions is an historic issue continuing from 2016-17 due to HRPTS system errors in specific circumstances. Internal Audit recommend quantification of the underpayment and corrective action to ensure the system error is resolved, and this is disclosed on page 25 "Underpayment of Employers' Superannuation Contributions".

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

A number of governance matters arising in prior years have now been addressed and no longer represent reportable internal control divergences for 2017-18. These include:

Excess Vote

The HSC Pension Scheme Statement for 2016-17 expended more resources than was authorised by the Assembly. The vast majority of this was due to a technical excess 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 was also incurred in 2016-17 because expenditure in RfR was 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 provided a qualified regularity opinion in 2016-17. The Department took all necessary steps to ensure there was no recurrence of this issue and the net total outturn compared with estimate shows a saving of £3m for 2017-18.

HRPTS system performance

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 was put in place by the systems supplier and the final phase of this completed by end of September 2017. BSO Shared Services worked with the system supplier to complete the remediation plan which fully resolved the issue in October 2017. The system performance has been tested robustly and deemed satisfactory.

A number of governance matters arising in prior years are still considered to represent internal control divergences for 2017-18. These include:

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 was advised of their share of the estimated liability and all HSC bodies made a 75% payment of their estimated liability to the Pension Scheme in March 2018. The HSC bodies have confirmed that payments to maintain the Pension Scheme fund will continue each month in 2018-19.

The mechanism to correct the system is currently available. Financial resources to support robust testing will be made in available in June 2018. Once the solution has been validated for accuracy and compliance, it will be implemented into the HRPTS system. The HSC bodies will review the payments to the Pension Scheme and transfer any remaining liability for 2017-18 and 2018-19.

New Issues for 2017-18

Interface from Payroll Systems to Pensions Systems

Pensions Service (HSCPS) Altair system receives an electronic interface from BSO Shared Services payroll system, updating member records on a monthly basis. At the outset of procuring a new payroll solution this interface requirement was identified and included as part of the new system requirements. In May 2012 an initial specification was submitted to the system supplier, detailing Altair data interface requirements and subsequently the interface went live on 25 May 2016.

Although the interface is operating as per design, errors are occurring due to incomplete information within the payroll system. At December 2017 there were approximately 7,500 outstanding payroll queries of which 3,500 have now been resolved.

Department of Health

HSC Pension Scheme Statement 2017-18

The HSC Pension Scheme Regulations require the Government Actuary's Department (GAD) to carry out a valuation of the HSC Pension Scheme every four years. The current valuation (reference year of 2016) has been ongoing throughout 2017-18. For the purpose of the valuation GAD requested individual member data for active members, pensioners and those who had left the scheme but have not yet received a pension. GAD have indicated that obtaining the required data for this valuation was somewhat protracted owing to interface issues between HSC payroll and HSC Pensions. It is not expected that this issue will materially detract from the results of the current scheme valuation, however action is required to rectify the underlying data issues.

In order to help address these data issues and support the BSO Shared Services Payroll team, HSC Pension Service resourced a dedicated team to reach a resolution. In parallel, HSC Pension Service is currently working with the Business Services Team (BST) within Shared Services to improve data transfer and investigate potential software solutions to prevent further occurrence. Progress will be monitored by the Department and the HSC Pension Board going forward.

Financial Performance

2018-19 Budget Position

The Northern Ireland Assembly was dissolved from 26 January 2017 with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An Executive was not formed following the 2 March 2017 election. As a consequence, the Northern Ireland Budget Act 2017 was progressed through Westminster, receiving Royal Assent on 16 November 2017, followed by the Northern Ireland Budget (Anticipation and Adjustments) Act 2018 which received Royal Assent on 28th March 2018. The authorisations, appropriations and limits in these Acts provide the authority for the 2017-18 financial year and a vote on account for the early months of the 2018-19 financial year as if they were Acts of the Northern Ireland Assembly.

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 throughout 2017-18.



Mr R Pengelly
Accounting Officer
28 June 2018

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

HSC PENSION SCHEME

Opinion on financial statements

I certify that I have audited the financial statements of the HSC Pension Scheme for the year ended 31 March 2018 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. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Assembly Supply, and the related notes.

In my opinion the financial statements:

- give a true and fair view of the state of the scheme's affairs as at 31 March 2018 and of its net operating expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of this certificate. My staff and I are independent of HSC Pension Scheme in accordance with the ethical requirements of the Financial Reporting Council's Revised Ethical Standard 2016, and have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinions.

Other Information

The Accounting Officer is responsible for the other information included in the Accountability Report. The other information comprises the information included in the Accountability Report other than the financial statements and my audit certificate and report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially

misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Department of Finance directions made under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- the information given in the Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

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 am required to obtain 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Assembly Supply properly presents the outturn against voted 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 Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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 and the parts of the Accountability Report 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 the Department of Finance's guidance.

Report

I have no observations to make on these financial statements.



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

3 July 2018

STATEMENT OF ASSEMBLY SUPPLY AND RELATED NOTES

Summary of Resource Outturn 2017-18

	Note	2017-18						2016-17	
		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		1,664,508	(476,801)	1,187,707	1,661,438	(476,801)	1,184,637	3,070	851,907
Total resources	SOAS 1	1,664,508	(476,801)	1,187,707	1,661,438	(476,801)	1,184,637	3,070	851,907

Summary of Net Cash Requirement 2017-18

	Note	2017-18			2016-17
		Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving / (excess) £000	Outturn £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	2017-18 Forecast		2017-18 Outturn	
		Income £000	Receipts £000	Income £000	Receipts £000
		Total	SOAS 3	-	<i>6,431</i>

Total Income due to be paid over to the Consolidated Fund is £62,155k. Total Receipts are £81,735k.

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

(1) Changes in working capital other than cash £25,456k - 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 (£20,890k) (£41,265k - see SOAS 2a)

Based on forecast budget and working capital information this figure was estimated as £6,431k. Actual outturn was greater than estimate by £34,834k.

The notes on pages 32 to 33 form part of the Statement of Assembly Supply.

SOAS 1. Reconciliation of Estimates, accounts and budgets

	Note	2017-18			2016-17
		Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
		£000	£000	£000	£000
Net Resource Outturn		1,184,637	1,187,707	3,070	851,907
Non - supply income (CFERs)	SOAS 4	(20,890)	-	20,890	(40,470)
Net expenditure in SCNE		1,163,747	1,187,707	23,960	811,437

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
		Net Resource Outturn	SOAS 1	1,187,707
Accruals Adjustments:				
Changes in working capital other than cash	SOAS 2(b)	40,470	15,014	25,456
Use of provisions	16	429,900	419,943	9,957
New provisions and adjustments to previous provisions	16	(1,664,508)	(1,660,859)	(3,649)
Excess cash receipt to be surrendered to the Consolidated Fund	SOAS 3	6,431	41,265	(34,834)
Net Cash Requirement		-	-	-

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

	Note	2017-18	2016-17
		£000	£000
Decrease/(Increase) in receivables related to supply	12	3,241	(14,226)
Decrease in receivables not related to supply (injury benefit)	12	38	952
Increase in payables falling due within one year	14	1,287	187
Movement in working capital		4,566	(13,087)
Movement in CFERS excess accruing resources	SOAS 3	(19,580)	40,470
Movement in working capital		(15,014)	27,383

SOAS 3. Analysis of income payable to the Consolidated Fund

	2017-18 Forecast		2017-18 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess accruing resources	-	-	20,890	40,470
Operating income and receipts surrenderable to the Consolidated Fund	-	-	20,890	40,470
Excess cash surrenderable to the Consolidated Fund	-	6,431	41,265	41,265
Total income payable to the Consolidated Fund	-	6,431	62,155	81,735

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

	2017-18	2016-17
	£000	£000
Operating income	497,691	496,515
Income authorised to be Accruing Resources	(476,801)	(456,045)
Operating income payable to the Consolidated Fund	20,890	40,470

OTHER ASSEMBLY ACCOUNTABILITY DISCLOSURES

Losses and special payments

Losses Statement

	2017-18	2017-18	2016-17
	No of cases	£000	£000
De Minimus Overpayments	93	2	1

Special Payments

	2017-18	2017-18	2016-17
	No of cases	£000	£000
Extra-Statutory Payments	24	75	78

B) FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2018

	Note	2017-18	2016-17
		£000	£000
Income			
Contributions receivable	3	483,772	491,540
Transfers in	4	13,859	4,969
Other pension income	5	60	6
		497,691	496,515
Expenditure			
Service cost	6	(1,009,000)	(670,000)
Enhancements	7	2,000	(22,631)
Transfers in	8	(13,859)	(4,969)
Pension financing cost	9	(640,000)	(610,000)
Other expenditure	10	(579)	(352)
		(1,661,438)	(1,307,952)
Net Expenditure		(1,163,747)	(811,437)
Other Comprehensive Net Expenditure			
Pension re-measurements:			
Actuarial loss	16.4	(470,000)	(4,850,000)
Total Comprehensive Net Expenditure for the year ended 31 March		(1,633,747)	(5,661,437)

The notes on pages 39 to 54 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	2017-18	2016-17
		£000	£000
Current assets			
Receivables	12	54,103	57,382
Cash and cash equivalents	13	56,026	61,783
Total current assets		110,129	119,165
Current liabilities			
Payables (within 12 months)	14	(85,913)	(109,962)
Total current liabilities		(85,913)	(109,962)
Net current assets, excluding pension liability		24,216	9,203
Pension liability	16.1	(24,403,615)	(22,692,700)
Net liabilities, including pension liabilities		(24,379,399)	(22,683,497)
Taxpayers' equity			
General fund		(24,379,399)	(22,683,497)
		(24,379,399)	(22,683,497)

The notes on pages 39 to 54 form part of these financial statements.


Mr R Pengelly
Accounting Officer
28 June 2018

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2018

	Note	General Fund	
		2017-18	2016-17
		£000	£000
Balance at 1 April		(22,683,497)	(16,919,807)
Excess accruing resources	SOAS 4	(20,890)	(40,470)
Excess cash receipts payable to the Consolidated Fund	SOAS 3	(41,265)	(61,783)
Comprehensive Net Expenditure for the year		(1,163,747)	(811,437)
Actuarial loss		(470,000)	(4,850,000)
Net change in Taxpayers' Equity		(1,695,902)	(5,763,690)
Balance at 31 March		(24,379,399)	(22,683,497)

The notes on pages 39 to 54 form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

	Note	2017-18	2016-17
		£000	£000
Cash flows from operating activities			
Net expenditure for the year		(1,163,747)	(811,437)
Adjustments for non-cash transactions:			
Decrease/(Increase) in receivables related to supply	12	3,242	(14,226)
Decrease in receivables not related to supply	12	38	952
Increase in payables	14	1,287	187
Increase in pension provision	16.1	1,649,000	1,280,000
Increase in pension provision - enhancements and transfers in	16.1	11,859	27,600
Use of provisions - pension liability	16.2	(418,063)	(414,480)
Use of provisions - refunds and transfers	16.3	(1,881)	(6,813)
Net cash inflow from operating activities		81,735	61,783
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		81,735	61,783
Payments of amounts due to the Consolidated Fund		(87,492)	(44,392)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(5,757)	17,391
Cash and cash equivalents at the beginning of the period	13	61,783	44,392
Cash and cash equivalents at the end of the period	13	56,026	61,783

The notes on pages 39 to 54 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation of the Scheme financial statements

The financial statements of the Scheme have been prepared in accordance with the relevant provisions of the 2017-18 *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, final pay control 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 2017, being 0.24% real rate (i.e. 2.80% 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 2017, being 0.24% real rate (i.e. 2.80% 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 2018, being 0.10% real rate (i.e. 2.55 % 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 for Resource Accounts was carried out as at 31 March 2016. 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.

For the purposes of the resource accounts the assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2018.

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 2018 shows net liabilities of £24,379,399k, 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

	2017-18	2016-17
	£000	£000
Employers	308,069	325,652
Employees	175,703	165,888
	483,772	491,540

£504,915k contributions are expected to be payable to the Scheme in 2018-19.

4. Pension Transfers in

	2017-18	2016-17
	£000	£000
Individual transfers in from other schemes	13,859	4,969
	13,859	4,969

5. Other pension income

	2017-18	2016-17
	£000	£000
Refund of pension payments	-	6
Final Pay Control	60	-
	60	6

6. Service cost

	2017-18	2016-17
	£000	£000
Current service cost (see note 16.1)	1,000,000	670,000
Past service cost	9,000	-
	1,009,000	670,000

The Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018. This resulted in a past service cost of £9m.

7. Enhancements (see also Note 16.1)

	2017-18	2016-17
	£000	£000
Employers:		
Pre-funded compensation payments	(2,000)	22,631
	(2,000)	22,631

8. Transfers in – additional liability

	2017-18	2016-17
	£000	£000
Individual transfers in from other schemes	13,859	4,969
	13,859	4,969

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)

	2017-18	2016-17
	£000	£000
Net interest on defined benefit liability	640,000	610,000
	640,000	610,000

10. Other pension expenditure

	2017-18	2016-17
	£000	£000
Contributions Equivalent Premium	70	108
Contribution refund	509	244
	579	352

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:

	2017-18	2016-17
	£000	£000
Balance at 1 April	2,103	1,908
New investments (net of transfers/refunds)	23	(28)
Sales of investments to provide pension benefits	(179)	(24)
Changes in market value of investments	44	247
Balance at 31 March	1,991	2,103

Scheme Number WP111

Movements in the year were as follows:

	2017-18	2016-17
	£000	£000
Balance at 1 April	2,216	2,324
New investments (net of transfers/refunds)	(14)	(22)
Sales of investments to provide pension benefits	(112)	(214)
Changes in market value of investments	25	128
Balance at 31 March	2,115	2,216

Standard Life

Movements in the year were as follows:

	2017-18	2016-17
	£000	£000
Balance at 1 April	4,160	3,833
New investments (net of transfers/refunds)	122	(294)
Sales of investments to provide pension benefits	(339)	-
Changes in market value of investments	128	621
Balance at 31 March	4,071	4,160

12. Receivables - contributions due in respect of pensions

Analysis by type

	2017-18	2016-17
	£000	£000
Amounts falling due within one year:		
Pension contributions due from employers	31,096	37,809
Employees' normal contributions	18,269	13,189
Capitalised cost of enhancement to pensions payable on departure	2,252	4,754
Overpaid pensions	1,242	348
Other receivables	8	8
Sub-total	52,867	56,108
Non-supply receivables:		
Injury benefits receivable	1,236	1,274
Total amounts falling due within one year	54,103	57,382

Included in pension contributions due is £20,890k (2016-17: £40,470k) that will be due to the Consolidated Fund once the debts are collected.

13. Cash and cash equivalents

	2017-18	2016-17
	£000	£000
Balance at 1 April	61,783	44,392
Net change in cash balances	(5,757)	17,391
Balance at 31 March	56,026	61,783
The following balances at 31 March were held at:		
Commercial banks and cash in hand	56,026	61,783
Balance at 31 March	56,026	61,783

14. Payables - in respect of pensions
Analysis by type

	2017-18	2016-17
	£000	£000
Amounts falling due within one year:		
Pensions	4,331	2,589
HMRC	3,939	3,879
Other creditors	726	1,241
CFERs due to be paid to Consolidated Fund – excess accruing resources current year	20,890	40,470
CFERs due to be paid to Consolidated Fund – excess accruing resources prior year	14,762	-
Other CFERs due to the Consolidated Fund – excess cash receipts	41,265	61,783
Total amounts due within one year	85,913	109,962

15. Amounts due to the Consolidated Fund

	2017-18	2016-17
	£000	£000
Excess cash receipts surrenderable to the Consolidated Fund	(41,265)	(61,783)
Excess ARs payable to Consolidated Fund	(20,890)	(40,470)
	(62,155)	(102,253)
Cash and cash equivalents	56,026	61,783
CFERs included in receivables	20,891	40,470
CFERs received iro prior year receivables, yet to be paid	(14,762)	-
	62,155	102,253

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 2018. 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 18	31 Mar 17	31 Mar 16	31 Mar 15	31 Mar 14
Rate of increase in salaries*	3.95%	4.55%*	4.20%	4.20%	4.50%
Rate of increase in pensions in payment and deferred pensions	2.45%	2.55%	2.20%	2.20%	2.50%
Inflation assumption	2.45%	2.55%	2.20%	2.20%	2.50%
Nominal discount rate	2.55%	2.80%	3.60%	3.55%	4.35%
Discount rate net of price inflation	0.10%	0.24%	1.37%	1.30%	1.80%

* short term adjustments were made to this assumption used as at 31 March 2017.

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
	2018	2017	2016	2015	2014
	£bn	£bn	£bn	£bn	£bn
Pensions in Payment	6.5	6.2	5.1	5.3	4.8
Deferred Pensions	1.4	1.4	0.9	0.9	0.8
Active Members (Past Service)	16.5	15.1	11.0	11.3	9.5
Total	24.4	22.7	17.0	17.5	15.1

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	2017-18		2016-17	
		£000	£000	£000	£000
Scheme liability at 1 April			22,692,700		16,956,393
Current service cost	6	1,000,000		670,000	
Past service cost	6	9,000		-	
Pension financing cost	9	640,000		610,000	
			1,649,000		1,280,000
Enhancements	7	(2,000)		22,631	
Pension transfers in	4	13,859		4,969	
			11,859		27,600
Benefits payable	16.2	(418,063)		(414,480)	
Pension payments to and on account of leavers	16.3	(1,881)		(6,813)	
			(419,944)		(421,293)
Actuarial(gain)/ loss	16.4		470,000		4,850,000
Scheme liability at 31 March			24,403,615		22,692,700

The pension scheme liability can be split into £22.1 billion for the closed sections of the scheme (1995 and 2008) and £2.3 billion for the open section (2015 CARE scheme).

During the year ended 31 March 2018, employer contributions represented an average of 16.3% of pensionable pay.

16.2 Analysis of benefits paid

	2017-18	2016-17
	£000	£000
Pensions or annuities to retired employees and dependents (net of recoveries or overpayments)	328,577	307,987
Commutations and lump sum benefits on retirement	87,339	104,074
Death in service benefits	2,147	2,419
Total benefits paid	418,063	414,480

16.3 Analysis of payments to and on account of leavers

	2017-18	2016-17
	£000	£000
Individual transfers to other schemes	1,881	6,813
Total payments to and on account of leavers	1,881	6,813

16.4 Analysis of actuarial loss

	2017-18	2016-17
	£000	£000
Experience (losses)/gains arising on the pension liabilities	(710,000)	190,000
Changes in mortality assumptions	1,190,000	-
Changes to financial assumptions	(950,000)	(5,040,000)
Total actuarial (loss)	(470,000)	(4,850,000)

16.5 History of experience (losses)/gains

	2017-18	2016-17	2015-16	2014-15	2013-14
	£000	£000	£000	£000	£000
Experience (losses)/gains on Scheme liabilities:					
Amount (£000)	(710,000)	190,000	140,000	60,000	(704,867)
Percentage of the present value of Scheme liabilities	(2.9)%	0.8%	0.8%	0.3%	(4.7)%
Total amount recognised in statement of Changes in Taxpayers Equity :					
Amount (£000)	(470,000)	(4,850,000)	1,520,000	(1,480,000)	(2,684,867)
Percentage of the present value of Scheme liabilities	(1.9)%	(21.4)%	9.0%	(8.4)%	(17.7)%

16.6 Sensitivity of results

The Government Actuary has been asked to indicate the approximate effects on the actuarial liability as at 31 March 2018 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:

Change in assumption	Approximate % change in the total liability	Approximate increase / (decrease to the total liability)
Discount rate increase of ½ % per annum*	Decrease of 13.0%	(£3.2 billion)
Long term earnings increase of ½ % per annum*	Increase of 2.0%	£0.5 billion
Pension increases of ½ % per annum*	Increase of 9.0%	£2.2 billion
Assumed longevity increased by rating the tables assumed up by 1 year	Increase of 3.0%	£0.7 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 2018.

Average number of years current pensioners expected to live after retiring at age:	Men	Women
60	29.4	30.8
65	24.4	25.8

Average number of years future pensioners expected to live after retiring at current age:	Men	Women
60	31.5	32.8
65	26.4	27.7

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. In the 2017-18 year HSC Pension Service processed a minimal amount of these cases. Unfortunately the amounts for the 2017-18 year cannot be quantified but procedures have now been set in place to quantify the amounts paid in forthcoming financial years.

In January 2017, the Employment Tribunal (ET) 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 lodged an appeal with the Employment Appeal Tribunal (EAT). On 29 January the EAT dismissed the appeal, so the ET ruling that the transitional provisions give rise to age discrimination stands.

However, on the 19 March 2018 the Lord Chancellor and the Home Secretary/Welsh Secretary lodged an appeal which will be held in the Court of Appeal – it is expected the case will be heard towards the end of 2018 or early 2019.

Should the Court of Appeal uphold the Employment Tribunal's decision, 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 2017-2018 financial statements.

Date of authorisation for issue

The Accounting Officer authorised the issue of these financial statements on 3 July 2018.

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