



Department of
**Health, Social Services
and Public Safety**

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HPSS Superannuation Scheme Resource Accounts

For the year ended 31 March 2007

Department of Health, Social Services and Public Safety

HPSS Superannuation Scheme Resource Accounts For the year ended 31 March 2007

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

14 September 2007

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Report of the Scheme Managers

Accounts for the year ended 31 March 2007

Introduction

The HPSS Superannuation Scheme is an unfunded, contributory, voluntary membership Scheme administered by the Department of Health, Social Services and Public Safety. The current regulations under which the Scheme operates are the *Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995*.

The Regulations apply to the employees of the Health and Personal Social Services bodies, the principal employer, although the employees of a number of other bodies are also permitted to join.

Further information about the Scheme is given in the explanatory booklet published in December 2005, which is issued to all members.

Managers, Advisers and Employers

Managers

Accounting Officer: Dr A McCormick
Permanent Secretary
Department of Health, Social Services and Public Safety
Castle Buildings
Stormont Estate
Belfast
BT4 3SQ

Scheme Administrator: Department of Health, Social Services and Public Safety
Castle Buildings
Stormont Estate
Belfast
BT4 3SQ

Advisers

Pension Scheme Actuary: Government Actuary's Department
Finlaison House
15-17 Farnival Street
London
EC4A 1AB

Auditors: Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

Employers

Principal employers:

Health and Social Services Boards
Health and Social Services Trusts

Additional bodies permitted to join:

General Practitioners
Staff employed by General Medical Practitioners
Direction Bodies

Changes to the Scheme

Pensions were increased by 2.7% with effect from 10 April 2006. Employee contribution rates remained the same at 6% and employer contribution rates remained the same at 7%.

Notional transfers

In accordance with DAO (DFP) 05/06, from 1 April 2006 transfers between the Health and Personal Social Services (Superannuation) Scheme and both the Principal Civil Service Pensions Scheme and the Teachers' Superannuation Scheme are no longer treated on a notional basis. Instead, such transfers result in the payment of actual cash from the transferring Club Scheme to cover the accumulated cost (transfer value) of employees transferring to the receiving Club Schemes. Because the overall effect of this change is that transfers between NI Club Pensions will be treated in the same way as transfers from external schemes, separate disclosure is no longer required within the Report of the Managers.

	2006-07		2005-06	
	Cases	£000	Cases	£000
Transfers to the Department of Education	-	-	1	76
Transfers to the Northern Ireland Civil Service	-	-	18	526
	-	-	19	602
Transfers from the Department of Education	-	-	7	56
Transfers from the Northern Ireland Civil Service	-	-	24	300
	-	-	31	356

Post balance sheet events

There are no post balance sheet events.

Membership statistics

Detail of the current membership of the Scheme is as follows:

Active members	
Active members at 1 April 2006	56,349
add: New entrants in the year	3,888
Less: Leaving with deferred Rights	(489)
Retirements in the year	(844)
Transfers out	(190)
Deaths	(42)
Active members at 31 March 2007	58,672

Deferred members	
Deferred members at 1 April 2006	12,126
add: Members leaving who have deferred pension rights	489
less: Members taking up deferred pension rights	(205)
Deaths	(1)
Deferred members at 31 March 2007	12,409

Pensioners in payment	Members	Dependants	Total
Pensioners in payment at 1 April 2006	10,378	2,884	13,262
Members retiring in year at normal retiring age	444	-	444
Members retiring in year, previously in receipt of compensation payments	27	-	27
New dependants	-	189	189
Deaths in year	(392)	(149)	(541)
Pensioners in payment at 31 March 2007	10,457	2,924	13,381

Compensation payments	
Members in receipt of compensation payments at 1 April 2006	2,377
add: Members leaving under early retirement schemes during the year	86
less: Members reaching normal retirement age during the year	(27)
Deaths before normal retirement age	(38)
Members in receipt of compensation payments at 31 March 2007	2,398

III health retirement	
III health retirement members at 1 April 2006	7,680
add: Members retiring on ill health grounds	314
less: Deaths in year	(132)
III health members at 31 March 2007	7,862

Financial commentary

The movements in the Scheme during the year are summarised in the Revenue Account and net outgoings for the year are £571,559k.

Income mainly comprises contributions from employers (who are defined per page 3 above), of £94,700k and employee contributions of £80,220k. Other receipts include transfers in of £9,150k from other Schemes and other pension income of £141k per Note 9 to the accounts.

The charge to the Revenue account now recognises the movements in the scheme liability (other than those arising from actuarial gains and losses). This comprises the current service cost £350,000k, enhancements of £5,598k, transfers in £9,150k and interest on the scheme liabilities £390,000k. Payments include other pension expenditure of £1,022k per Note 14 to the accounts.

Further information

Any enquiries about the HPSS Superannuation Scheme should be addressed to:

HPSS Superannuation Branch
Department of Health, Social Services and Public Safety
Waterside House
75 Duke Street
Derry
County Londonderry
BT67 1FP

Report of the Actuary

Accounts for the year ended 31 March 2007

A. Liabilities

The capitalised value as at 31 March 2007 of expected future benefit payments under the HPSS Superannuation Scheme, for benefits accrued in respect of employment (or former employment) prior to 31 March 2007, has been estimated using the methodology and assumptions set out in Sections C and D below. The results are as follows:

Value of Liabilities	£ billion
Pensions in Payment	2.4
Deferred Pensions	0.4
Active Members (Past Service)	6.6
Total	9.4

B. Accruing Costs

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the employer meeting the balance of the cost of the benefits. The cost of the increases to benefits in line with the Retail Prices Index, after leaving service, is met by the Exchequer. The total cost of benefits accruing in the year 2006-07 have been assessed using the methodology and assumptions set out in Sections C and D below. The results are as follows:

	% of Pensionable Pay
Current Service Cost	26.2%
Average Members' Contribution Rate	5.9%
Employer's share of Current Service cost	20.3%
Actual rate charged to employers for current year	7.0%

The actual rate charged of 7% is the rate recommended in GAD's 1999 valuation report. This contribution rate is significantly lower than the standard cost of 26.2% because the actual contribution rate excludes the cost of pension increases.

In relation to the pensionable payroll for the financial year, the employers' regular contributions at 7% in cash terms were £0.092 billion for the financial year 2006-07. The Current Service Cost disclosed in the scheme accounts was £0.35 billion, and includes an allowance for the expected impact of Agenda for Change.

C. Methodology

The value of the liabilities has been obtained using the projected unit method with a one year control period, which allows for expected future pay increases in respect of active members. The liabilities and standard contribution rate include pension increases awarded since leaving service for pensioners and deferred pensioners, plus allowance for future pension increases for all categories of member.

D. Assumptions

The principal financial assumptions adopted for the pension assessments made in relation to this Statement are an investment return in excess of price increases of 1.8% a year. (most pension benefits under the scheme are increased in line with prices), and an investment return in excess of earnings increases of 0.3% a year.

The gross rate of return is assumed to be close to 4.6% a year, although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of close to 4.3% a year and an allowance for price inflation of 2.75% a year.

The demographic assumptions adopted for the assessments are derived from the specific experience of the membership of the scheme to 31 March 2003, and other similar large public service pension schemes where some aspect of the experience is not readily available. Allowance has been made for the expected impact of Agenda for Change and the dynamisation factors, which are used to revalue General Medical Practitioners' accrued benefits until 31 March 2008.

The principal financial assumptions adopted for calculation of the Current Service Cost for the year ending 31 March 2007 are an investment return in excess of price increases of 2.8% a year and an investment return in excess of earnings increases of 1.3% a year.

E. Notes

1. (1) Sections A and B of this Statement are based on the results of an actuarial assessment carried out as at 31 March 2003 for the purposes of FRS 17, with an approximate updating for the subsequent financial years to reflect known changes that have occurred between 1 April 2003 and 31 March 2007, based on the available data. The method assumes that the profile of the membership has remained stable within the period, which may not necessarily be the case, and so the results should be viewed as an indication of the order of magnitude of the liabilities rather than a full actuarial assessment.
2. The actual rate charged to employers for 2006/07 at 7.0% of pensionable pay follows the recommendations made at the 1999 funding valuation. This excludes the cost of pension increases. The next funding valuation is due as at 31 March 2004.
3. The pension benefits taken into account in this assessment are those normally provided from the rules of the Scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessments include the cost of premature retirement benefits awarded on redundancy and exclude the cost of injury benefits.

Ian A Boonin FIA
Chief Actuary
Government Actuary's Department
London

24 August 2007

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance and Personnel has directed the Department of Health, Social Services and Public Safety HPSS Superannuation Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis) the financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the scheme during the year and the disposition, at the end of the financial year, of the net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year, nor on the net liabilities at the year end.

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 and Personnel including the relevant accounting and disclosure requirements, and apply suitable 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 and Personnel has appointed Dr. Andrew McCormick as Accounting Officer for the HPSS Superannuation 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 Personnel and published in *Government Accounting Northern Ireland*.

Statement on Internal Control

Scope of responsibility

This statement is given in respect of the Departmental Resource Account for 2006/07. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting Northern Ireland*. I am also required to combine these duties with my duty to serve the Minister in charge of my Department and I have particular responsibility to see that appropriate advice is tendered to the Minister on all matters of financial propriety and regularity and more broadly as to all considerations of prudent and economical administration, efficiency and effectiveness.

In providing advice to Minister the consequences of the achievement or non-achievement of particular policies and objectives are explored as part of the planning and decision making process. This process includes highlighting specific business implications or risks and, where appropriate, the measures that could be employed to manage these risks or implications.

As principal Accounting Officer for the Department I also have responsibility for the Department's Executive Agency, Health Estates. I am also Accounting Officer for the Non Departmental Public Bodies, namely the NI Practice and Education Council for Nursing and Midwifery, the Mental Health Commission for NI, the NI Social Care Council, the NI Health and Personal Social Services Regulation and Improvement Authority and the Fire Authority for NI.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for the year ending 31 March 2007 and up to the date of approval of the annual report, and accords with the Department of Finance and Personnel guidance.

Capacity to handle risk

During 2006/07 risk management arrangements continued to be operated across the Department, its Non-Departmental Public Bodies (NDPBs) and Health Estates Agency (HEA). The risk management strategy, based on the Australia / New Zealand standard provides guidance on the risk assessment process. This involves the identification, assessment, recording and review of risks in a consistent manner across all business areas.

The risk and control framework

As from March 2003, the Department has had in place a Corporate Risk Register (CRR) and a Departmental Risk Management Strategy. The CRR specifies the key risks for the Department as a whole, including the identification of risks to the provision of health and personal social services and the provision of fire and rescue cover to the local population. It is reviewed twice a year by the Departmental Board, with individual risks considered on an exception basis where necessary. The in-year and end-year reports on internal control demonstrate the steps being taken to manage risks in significant areas of responsibility and monitor progress reports on key initiatives and projects.

In addition risk registers are maintained by individual Directorates and Professional Groups and by NDPBs and the HEA.

As part of an ongoing process, during 2006/07, reviews of risk registers across all business areas have been conducted in line with departmental guidance. It is intended to work closely with directorates on the continuing embedding of risk management, to build on work already done and, where possible, to simplify and streamline the processes in order to effect improvement in risk management.

Following the initial risk assessment, and subsequent reviews, the key identified risk that it is considered may impact upon the Superannuation branch relates to the need to modernise the existing HPSS Superannuation Scheme provisions, including GP contractors, and to develop a new Scheme for future new entrants to the HPSS. These changes, which have arisen from proposed wider Government changes to the legislative framework regarding pensions, Inland Revenue's simplification measures and from changes in terms and conditions and working practices across the HPSS, will add significantly to the complexity of administration, legislation payment and IT requirements. In addition Heywood Limited was awarded a contract in January 2007 to provide and support a new HPSS Superannuation IT system. The implementation of the system will take place in 3 phases. Work on phase 1 which will replace the existing system and provide considerable additional functionality, including enhanced system management and audit functionality, is underway and is expected to be completed in November 2007. Phases 2 and 3 will introduce additional functionality to administer the new arrangements to be introduced as a result of the scheme modernisation review and roll out employer and member internet access. The branch is identifying and closely monitoring the potential risk impacts of these developments.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Board and the Audit Committee have advised me on the implications of the result 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.

The Departmental Board has a key role in the effective corporate governance of the Department's business and monitors closely the progress in the achievement of key objectives and targets, for example those set out in the Corporate and Business Plan and the Public Service Agreement. The Board at its twice-monthly Board meetings also considers issues such as key policy proposals, budget allocations and critical issues which may have arisen.

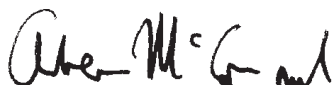
The Department has an internal audit unit, which operates to defined standards and whose work is informed by an analysis of the risks to which the body is exposed, and annual audit plans are based on this analysis. Its remit not only includes an assessment of internal financial controls but also the wider internal control environment, which applies to the achievement of Departmental objectives. It submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control, together with recommendations for improvement. A robust monitoring process ensures that the Departmental Audit Committee biannually reviews progress on outstanding internal audit recommendations.

Significant Internal Control Problems

Following audit work completed over the past couple of years the Department's Head of Internal Audit has provided an assessment of no assurance on the Superannuation Branch internal control systems. There has been a very good response by management to the audit recommendations, and this is currently being followed up.

The Department failed to operate adequate internal controls to monitor unplanned movements in debtors during 2006/07 and this resulted in the net cash requirement limit in respect of the Superannuation Resource Account being exceeded. The Spring Supplementary Estimate for 2006/07 provided for a net cash requirement of £4.757m. The net cash requirement outturn for 2006/07 is £11.982m representing an excess cash requirement of £7.225m.

The Department is taking action to review processes for monitoring debtors and the consequential impacts on the cash requirement for the Superannuation Resource Account. New monitoring systems and procedures to improve accuracy in forecasting the cash requirement will be kept under review.



Dr Andrew McCormick
Accounting Officer
03 September 2007

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

I certify that I have audited the financial statements of the HPSS Superannuation Scheme for the year ended 31 March 2007 under the Government Resources and Accounts Act (Northern Ireland) 2001. These comprise the Statement of Parliamentary Supply, the Revenue Account and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Report of the Managers and the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and the Department of Finance and Personnel directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by the Department of Finance and Personnel regarding transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with the Department of Finance and Personnel's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Report of the Scheme Managers and the Report of the Actuary and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

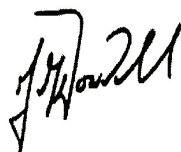
In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel, of the state of the scheme's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net outgoings, recognised gains and losses and cashflows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001.

Qualified regularity opinion arising from cash net expenditure in excess of amounts authorised

Except for cash net expenditure of £11,981,593.19 in excess of the amount authorised by Parliament referred in paragraphs 1 to 17 of my report, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The details of this matter can be found in my report on these financial statements.



JM Dowdall CB
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

06 September 2007

HPSS Superannuation Scheme

Statement of Parliamentary Supply 2006-07

Summary of Resource Outturn 2006-07

	Note	2006-07						2005-06	
		Estimate			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 or (excess) £000	Prior Year Outturn £000
Request for Resources A:									
Providing a superannuation scheme for persons employed in the health and personal social services									
Annually Managed Expenditure		791,000	184,243	606,757	755,770	184,206	571,564	35,193	531,248
Non-budget		-	-	-	-	-	-	-	800,000
Total resources	3	791,000	184,243	606,757	755,770	184,206	571,564	35,193	1,331,248

Summary of Net Cash Requirement 2006-07

	Note	2006-07			2005-06	
		Estimate	Outturn	Net total outturn compared with Estimate: saving or (excess) £000	Prior Year Outturn	£000
Net Cash Requirement	4	4,757	11,982	(7,225)	-	-

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	2006-07 Forecast		2006-07 Outturn	
		Income £000	Receipts £000	Income £000	Receipts £000
Total	5	-	-	5	14,505

Income Excess AR is £4,839.21. Cash Excess AR is £14,505,153.45. This amount is surrenderable to the Consolidated Fund.

The Scheme has incurred an Excess Vote of £7,225k because the voted net cash requirement for an estimate has been breached. The Scheme will seek Parliamentary approval for the Excess Vote in the next Budget Act.

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

The excess of £7,224,593.19 between the net cash requirement outturn (£11,981,593.19) and the estimate (£4,757,000.00) is due to the fact that no estimate cover was provided for changes in working capital £16.221m.

The notes on pages 20 to 39 form part of these financial statements.

HPSS Superannuation Scheme

Revenue Account for the Year Ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Income			
Contributions receivable	7	174,920	162,737
Transfers in	8	9,150	9,637
Other income	9	141	129
Outgoings		184,211	172,503
Pension cost	10	350,000	330,000
Enhancements	11	5,598	5,925
Transfers in	12	9,150	9,637
Interest on scheme liabilities	13	390,000	350,000
Other expenditure	14	1,022	823
		755,770	696,385
Net Outgoings for the Year		571,559	523,882

Statement Of Recognised Gains And Losses For The Year Ended 31 March 2007

		2006-07 £000	2005-06 £000
Actuarial (loss)	19.4	(1,640,000)	(1,100,000)
Recognised (losses) for the financial year		(1,640,000)	(1,100,000)

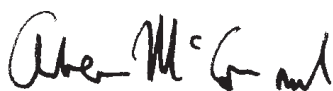
Refer to Note 19.7 for an explanation of the restated 2005-06 comparatives.

The notes on pages 20 to 39 form part of these financial statements.

HPSS Superannuation Scheme Balance Sheet As At 31 March 2007

	Note	2006-07 £000	2005-06 £000
Current Assets			
Debtors	16	21,209	20,418
		21,209	20,418
Creditors: Amounts falling due within one year	17	(13,875)	(22,080)
Net Current (Liabilities)/Assets, excluding pension liability		7,334	(1,662)
Pension liability	19.1	(9,441,519)	(7,225,716)
Net (Liabilities), including pension liabilities		(9,434,185)	(7,227,378)
Taxpayers Equity:			
General Fund	20	(9,434,185)	(7,227,378)
		(9,434,185)	(7,227,378)

The notes on pages 20 to 39 form part of these financial statements.



Dr Andrew McCormick
Accounting Officer
03 September 2007

HPSS SUPERANNUATION SCHEME

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006-07 £000	2005-06 £000
Net cash inflow/(outflow) from operating activities	21a	20,290	(5,595)
Payments of amounts due to the Consolidated Fund		(20,290)	(3)
Financing	21b	-	5,598
Increase / (Decrease) in cash in the period	21c	-	-

The notes on pages 20 to 39 form part of these financial statements.

NOTES TO THE ACCOUNTS

Accounts for the year ended 31 March 2007

1. Basis of preparation of the Scheme statement

The Scheme statement has been prepared in accordance with the relevant provisions of the 2006-07 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance and Personnel, which reflect the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits. These accounts show the unfunded pension liability and movements in that liability during the year. These accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes* to the extent that these are appropriate, together with the provisions of the Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the scheme to prepare an additional statement - a *Statement of Parliamentary Supply*. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

The Scheme statement summarises the transactions of the HPSS Superannuation Scheme. The balance sheet shows the deficit on the Scheme; the Revenue Account shows, inter alia, the movements in the liability analysed between the pension cost, enhancements, transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the Report of the Government Actuary and the Scheme statement should be read in conjunction with that Report.

2. Statement of Accounting policies

The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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 accounts.

2.1 Accounting convention

These accounts 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 this statement.

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.

In accordance with DAO (DFP) 05/06, from 1 April 2006 transfers between the Health and Personal Social Services (Superannuation) Scheme and both the Principal Civil Service Pensions Scheme and the Teachers' Superannuation Scheme are no longer treated on a notional basis. Instead, such transfers result in the payment of actual cash from the transferring Club Scheme to cover the accumulated cost (transfer value) of employees transferring to the receiving Club Schemes. The overall effect of this change is that transfers between NI Club Pensions will be treated in the same way as transfers from external schemes.

2.5 Other income

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

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

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

2.6 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue account. The cost is based on the discount rate applicable at 1 April 2006, being 2.8 % real rate (i.e. 5.4% 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 Revenue account. The interest cost is based on the discount rate applicable at 1 April 2006, being 2.8% real rate (i.e. 5.4% including inflation).

2.8 Other payments

Other payments are accounted for on an accruals basis.

Contributions Equivalent Premium payments relate to National Insurance Contributions due to the Contributions Agency resulting from members who have left the Scheme.

2.9 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 accrued benefit method and is discounted at the rate applicable at the close of 31 March 2007, being 1.8% real rate (i.e. 4.6% including inflation).

As per the requirements of FRS 17, as amended by FReM, full actuarial valuations by a professionally qualified actuary are required at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date, in this case the 2003 valuation, and updates it to reflect current conditions.

2.10 Pension benefits payable

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

2.11 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.

2.12 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.

2.13 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.

2.14 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 balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

2.15 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.

2.16 Administration expenses

All costs of administering the HPSS Superannuation Scheme are borne by the Department of Health, Social Services and Public Safety.

3. Reconciliation of Estimates, accounts and budgets

3 (a) Reconciliation of net resource outturn to net outgoings

	Note	2006-07			2005-06
		Outturn £000	Supply estimate £000	Outturn compared with estimate £000	Outturn £000
Net Resource Outturn		571,564	606,757	35,193	1,331,248
Adjustment due to change in discount rate%	3(a)	-	-	-	(800,000)
Non-supply income (CFERs)	5	(5)	-	5	(7,366)
Net Outgoings		571,559	606,757	35,198	523,882

During the year ended 31 March 2007, the Budgeting and Estimates treatment for movements in the Scheme liability resulting from a change in the discount rate was brought into line with the Accounting treatment. The current year adjustment to the Scheme liability, arising from the change in the discount rate from 2.8% to 1.8%, is reflected in the closing reserve position as at 31 March 2007 and appears as an item in the Statement of Recognised Gains and Losses for the year ended 31 March 2007, where it is included as part of the actuarial loss.

This differs from the 2005-06 Resource Accounts adjustment of £800m, which was put through the opening reserve position as at 1 April 2005. The £800m adjustment noted in the comparative figures above, represents the difference between the Estimates and Accounting treatment of the change in the discount rate from 3.5% to 2.8%. During 2005-06, Parliamentary approval was given for the necessary resources, and was reflected as a non-budget item of £900m, in the Estimates and in the Statement of Parliamentary Supply 2005-06.

3(b). Outturn against final administration budget

All costs of administering the HPSS Superannuation Scheme are borne by the Department of Health, Social Services and Public Safety.

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving or (excess) £000
Net Resource Outturn	3(a)	606,757	571,564	35,193
Accruals adjustments:				
Changes in working capital other than cash	4(a)	-	16,221	(16,221)
Use of provisions	19.1	189,000	178,945	10,055
New provisions and adjustments to previous provisions	19.1	(791,000)	(754,748)	(36,252)
Net Cash Requirement		4,757	11,982	(7,225)

4 (a) Movements in Working Capital other than Cash

	Note	2006-07 £000	2005-06 £000
Decrease/(increase) in debtors related to supply	16(a)	16,138	(13,267)
(Increase)/decrease in debtors not related to supply	16(a)	(191)	22
Increase in creditors falling due within 1 year	17(a)	99	1,190
Movement in Working Capital	21(a)	16,046	(12,055)
Movement in interdepartmental balance with DHSSPS	18	(17,088)	10,026
Adjustment for CFERs included in debtors		(14,500)	14,500
Adjustment for amount due to Consolidated Fund		(679)	679
Movement in Working Capital	4	(16,221)	13,150

5. Analysis of income payable to the Consolidated Fund

	2006-07 Forecast		2006-07 Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess accruing resources	-	-	-	14,500
Other operating income and receipts not classified as accruing resources	-	-	5	5
Total	-	-	5	14,505

6. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	2006-07 £000	2005-06 £000
Operating income	184,211	172,503
Income authorised to be Accruing Resources	(184,206)	(165,137)
Operating income payable to the Consolidated Fund	5	7,366

7. Pension contributions receivable

	2006-07 £000	2005-06 £000
Employers	94,700	88,335
Employees	80,220	74,402
	174,920	162,737

8. Pension Transfers in (see also note 12)

	2006-07 £000	2005-06 £000
Individual transfers in from other schemes	9,150	9,637
	9,150	9,637

9. Other pension income

	2006-07 £000	2005-06 £000
Contributions Equivalent Premium reclaimed	11	11
Refund of superannuation payments	121	111
Other	9	7
	141	129

10. Pension cost

	2006-07 £000	2005-06 £000
Current service cost	350,000	330,000
	350,000	330,000

11. Enhancements (see also note 19.1)

	2006-07 £000	2005-06 £000
Employees:		
Purchase of added years	2,636	2,552
Employers:		
Pre-funded compensation payments	2,962	3,373
	5,598	5,925

12. Transfers in (see also note 8)

	2006-07 £000	2005-06 £000
Individual transfers in from other schemes	9,150	9,637
	9,150	9,637

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

13. Interest on scheme liabilities (see also note 19.1)

	2006-07 £000	2005-06 £000
Interest charge for the year	390,000	350,000
	390,000	350,000

14. Other pension expenditure

	2006-07 £000	2005-06 £000
Contributions Equivalent Premium	501	362
Contribution refund	521	461
	1,022	823

15. Additional Voluntary Contributions

The HPSS Superannuation 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 Contribution (FSAVC) Schemes. The Managers of the HPSS Superannuation Scheme have responsibility only for the onward payment by employers of members' contributions to the Scheme's approved provider. These AVCs are not brought to account in this statement. Members participating in this 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:	2006-07 £000	2005-06 £000
Balance at 1 April	2,148	2,024
New investments (net of transfers / refunds)	47	(19)
Sales of investments to provide pension benefits	(122)	(96)
Changes in market value of investments	112	239
Balance at 31 March	2,185	2,148

Scheme number WP111

Movements in the year were as follows:	2006-07 £000	2005-06 £000
Balance at 1 April	2,440	2,334
New investments (net of transfers / refunds)	(19)	(26)
Sales of investments to provide pension benefits	(69)	(47)
Changes in market value of investments	114	179
Balance at 31 March	2,466	2,440

Standard Life

Movements in the year were as follows:	2006-07 £000	2005-06 £000
Balance at 1 April	3,631	2,733
New investments (net of transfers / refunds)	131	234
Sales of investments to provide pension benefits	(181)	(48)
Changes in market value of investments	367	712
Balance at 31 March	3,948	3,631

16 Debtors – contributions due in respect of pensions

16 (a) Analysis by type

Amounts falling due within one year:	2006-7 £000	2005-06 £000
Pension contributions due	14,963	14,500
Capitalised cost of enhancement to pensions payable on departure	985	506
Overpaid pensions	238	225
Contributions Equivalent Premium refunds due	1	1
Balance due from the Department of Health, Social Services and Public Safety	-	5,107
Balance due from Consolidated Fund	4,757	-
Other debtors	3	8
Subtotal	20,947	20,347
Non-supply debtors:		
Injury benefit	262	71
	21,209	20,418

There are no pension contributions receivable that will be due to the Consolidated Fund once the debts are collected (2005-06 £14,500k).

16 (b) Intra-government balances

Amounts falling due within one year	2006-07 £000	2005-06 £000
Balances with other central government bodies	7,857	8,698
Balances with HPSS Trusts	12,961	11,404
Balances with bodies external to government	391	316
At 31 March	21,209	20,418

17. Creditors – in respect of pensions**17 (a) Analysis by type**

Amounts falling due within one year:	2006-07 £000	2005-06 £000
Pensions	1,885	1,691
Inland Revenue	8	103
Balance due to the Department of Health, Social Services and Public Safety	11,981	-
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund	1	20,286
	13,875	22,080

17 (b) Intra-government balances

Amounts falling due within one year	2006-07 £000	2005-06 £000
Balances with other central government bodies	11,989	20,389
Balances with bodies external to government	1,886	1,691
At 31 March	13,875	22,080

18. Amounts due from/(to) the Consolidated Fund

	2006-07 £000	2005-06 £000
Net cash requirement (Summary of Resource Outturn)	4,757	-
Surplus carried over from the previous year	-	5,598
Cash drawn down during the year	-	(5,598)
Due from Consolidated Fund at year end	4,757	-
Excess cash receipts surrenderable	-	(12,244)
Excess ARs payable to the Consolidated Fund	-	(7,363)
Other operating income not classified as accruing resources payable to the Consolidated Fund	(1)	-
	4,756	(19,607)
	2006-07 £000	2005-06 £000
Balance due (to) /from the Department of Health, Social Services and Public Safety	(11,981)	5,107
Consolidated Fund Extra Receipts included in Debtors	-	14,500
Excess net cash requirement	7,225	-
	(4,756)	19,607

19. Provision for pension liability

The HPSS Superannuation Scheme is an unfunded defined benefit scheme. A full actuarial valuation was carried out as at 31 March 2003 and has been updated to 31 March 2007 by the Government Actuary.

The major assumptions used by the Actuary were:

	31 March 2007	31 March 2006	31 March 2005
Rate of investment return net of salary increases	0.3%	1.3%	2.0%
Rate of investment return net of price increases	1.8%	2.8%	3.5%

The scheme managers/trustees are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

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

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 far 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 included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. The managers/trustees 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 notes 19.4 and 19.5. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

19.1 Analysis of movement in scheme liability

	Note	2006-07		2005-2006	
		£000	£000	£000	£000
Scheme liability at 1 April			7,225,716		5,595,374
Current service cost	10	350,000		330,000	
Interest on pension scheme liability	13	390,000		350,000	
			740,000		680,000
Enhancements	11	5,598		5,925	
Pension transfers in	8	9,150		9,637	
			14,748		15,562
Benefits payable	19.2	(174,787)		(158,973)	
Pension payments to and on account of leavers	19.3	(4,158)		(6,247)	
			(178,945)		(165,220)
Actuarial loss	19.4		1,640,000		1,100,000
Scheme liability at 31 March			9,441,519		7,225,716

Refer to Note 19.7 for an explanation of the restated 2005-06 comparatives.

During the year ended 31 March 2007, employer contributions represented an average of 7% of pensionable pay.

19.2 Analysis of benefits payable

	2006-07 £000	2005-06 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	143,176	133,657
Commutations and lump sum benefits on retirement	29,971	23,748
Death in Service Benefits	1,640	1,568
Per cash flow statement	174,787	158,973

19.3 Analysis of payments to and on account of leavers

	2006-07 £000	2005-06 £000
Individual transfers to other schemes	4,158	6,247
Per cash flow statement	4,158	6,247

19.4 Analysis of actuarial (loss)

	2006-07 £000	2005-06 £000
Experience gains/(losses) arising on scheme liabilities	120,000	(150,000)
Changes in assumptions underlying the present value of Scheme liabilities	(10,000)	(150,000)
Adjustment to discount rate % at 1 April	-	(800,000)
Adjustment to discount rate % at 31 March	(1,750,000)	-
Per Statement of Recognised Gains and Losses	(1,640,000)	(1,100,000)

Refer to Note 19.7 for an explanation of the restated 2005-06 comparatives.

19.5 History of Experience (losses)

	2006-07	2005-06	2004-05
Experience gains/(losses) on scheme liabilities:			
Amount (£000)	120,000	(150,000)	(530,000)
% of the present value of the scheme liabilities	1.3%	-2.1%	-9.5%
Total actuarial (loss):			
Amount (£000)	(1,640,000)	(1,100,000)	(830,000)
% of the present value of the scheme liabilities	-17.4%	-15.2%	-14.8%

Refer to Note 19.7 for an explanation of the restated 2005-06 comparatives.

19.6 Sensitivity of Results

The Government Actuary has been asked to indicate the approximate effects on the actuarial liability as at 31 March 2007 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 liability	Approximate increase / decrease to the liability
Increase / decrease in the rate of return in excess of salaries of ½% per annum, holding all other assumptions constant	Increase / decrease of 5% for active members	£300 million
Increase / decrease in the rate of return in excess of prices of ½% per annum, holding all other assumptions constant	Increase / decrease of 7% for all members	£700 million
Assumed longevity increased by rating the tables assumed down by 2 years	Increase of 4% for all members	£400 million

19.7 Explanation of restated disclosure of 2005-06 comparatives in respect of adjustment to scheme liability due to change in discount rate

The Statement of Recognised Gains and Losses within the Health and Personal Social Services Superannuation Scheme Accounts 2005-06 disclosed a total movement of £1,100m, analysed as a £300m actuarial loss and £800m in respect of a restatement of the opening balance of the pension liability as at 1 April 2005, due to a change in the discount rate percentage. In accordance with FRS 17, the £800m adjustment meets the definition of an actuarial loss. As such, this movement has been reclassified as an actuarial loss in order to make the prior year comparative figures consistent with the 2006-07 disclosures within the Notes to the Accounts. This restatement is reflected in the Statement of Recognised Gains and Losses and the following Notes to the Accounts: 19.1, 19.4, 19.5 and 20.

20. General Fund

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

	Note	2006-07 £000	2005-06 £000
Balance at 1 April		(7,227,378)	(5,595,347)
Net Parliamentary Funding:			
Draw down		-	-
Year End Adjustment:			
Supply debtor – current year		4,757	-
Excess vote – prior year		-	11,461
Net transfer from operating activities:			
Net outgoings		(571,559)	(523,882)
CFERs repayable to consolidated fund	5	(5)	(7,366)
Excess cash receipts surrenderable to the consolidated fund		-	(12,244)
Actuarial losses (SRGL)		(1,640,000)	(1,100,000)
Balance at 31 March		(9,434,185)	(7,227,378)

Refer to Note 19.7 for an explanation of the restated 2005-06 comparatives.

Notes to the Cash Flow Statement

21 (a) Reconciliation of Net Outgoings to operating cash flows

		2006-07 £000	2005-06 £000
Net outgoings for the year		(571,559)	(523,882)
Decrease/(increase) in debtors related to supply		16,138	(13,267)
(Increase)/decrease in debtors not related to supply		(191)	22
Increase in creditors		99	1,190
Increase in pension provision	19.1	740,000	680,000
Increase in pension provisions – enhancements and transfers in	19.1	14,748	15,562
Use of provisions – pension liability	19.2	(174,787)	(158,973)
Use of provisions – refunds and transfers	19.3	(4,158)	(6,247)
Net cash inflow/(outflow) from operating activities		20,290	(5,595)

21 (b) Analysis of financing and reconciliation to the net cash requirement

	Note	2006-07 £000	2005-06 £000
From Consolidated Fund (Supply) – prior year	18	-	5,598
Adjustment for payments and receipts not related to supply			
Amounts due to the Consolidated Fund - received in a prior year and paid over in the current year		(5,107)	-
Amounts due to the Consolidated Fund - received in a prior year and not paid over		-	(679)
Amounts due to the Consolidated Fund – received and not paid over		1	7,363
Amounts due to the Consolidated Fund – not yet received		-	(14,500)
Excess cash receipts surrenderable to the Consolidated Fund		-	12,244
Movement in interdepartmental balance with the Department of Health, Social Services and Public Safety	18	17,088	(10,026)
Net Cash Requirement per Statement of Parliamentary Supply		11,982	-

21 (c) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2006-07 £000	2005-06 £000
Net cash requirement	(11,982)	-
From Consolidated Fund (Supply) – prior year	-	5,598
Amounts due to the Consolidated Fund - received in a prior year and paid over in the current year	(5,107)	-
Amounts due to the Consolidated Fund - received in a prior year and not paid over	-	(679)
Amounts due to the Consolidated Fund – received and not paid over	1	7,363
Amounts due to the Consolidated Fund – not yet received	-	(14,500)
Excess cash receipts surrenderable to the Consolidated Fund	-	12,244
Movement in interdepartmental balance with the Department of Health, Social Services and Public Safety	17,088	(10,026)
Increase / (decrease) in cash	-	-

22. Financial Instruments

FRS 13 *Derivatives and Other Financial Instruments* requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Liquidity risk

Resources voted by Parliament finance the Scheme's net revenue resource requirements. The Scheme is not therefore exposed to significant liquidity risks.

23. Contingent liabilities and assets

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

The Department has received legal claims from 313 individuals who are pursuing the possibility of having part time HPSS service before 1 April 1991 considered for pension purposes. To date approximately 44 claims have been identified as eligible for settlement. At this time 17 formal offers of reinstatement have been issued and 16 have been accepted by the claimants. We await reply on the remaining 1 offer. Should all 44 individuals choose to avail of the offer, the maximum cost to the HPSS Superannuation Scheme is estimated to be in the region of £101,420.

The Department has given an undertaking to maintain parity with GB on granting freelance and GP locums access to the HPSS Superannuation Scheme. Backdating for freelance locums would be to 1 April 2001, and for GP locums 1 April 2002. Accurately establishing employer contribution costs for backdated service has proved difficult. However, Superannuation Branch has estimated that the total employer contribution liability for backdating these locums would be in the region of £500k. This estimate assumes that one third of all locums will seek to have membership backdated. If locums decide to have their memberships backdated, then they will be liable to pay the employee contributions themselves. Information regarding the value of this contingent asset is not available at this time. Once these contingent assets are realised, there will be an associated liability reflected in the Scheme Liability that represents the pension benefits of the new members

24. Losses and Special Payments**24 (a) Losses Statement**

	2006-07 No of cases	2006-07 £000	2005-06 £000
Total	151	31	37

24 (b) Special Payments

	2006-07 No of cases	2006-07 £000	2005-06 £000
Total	33	64	54

25. Related party transactions

The HPSS Superannuation Scheme falls within the ambit of the Department of Health, Social Services and Public Safety, which is regarded as a related party. During the year, the Scheme has had material transactions with the Department and the employing 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.

Report of the Comptroller and Auditor General

EXCESS VOTE

Purpose of the Report

1. In 2006-07, the Health and Personal Social Services (HPSS) Superannuation Scheme (the Scheme) expended more cash than Parliament had authorised. By so doing, the Scheme breached Parliament's control expenditure and incurred what is termed an 'excess' for which further parliamentary authority is required. I have qualified my opinion on the HPSS Superannuation Scheme's 2006-07 resource account in this regard. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform the Northern Ireland Assembly's further consideration.

My responsibilities with regard to the breach of regularity

2. As part of my audit of the HPSS Superannuation Scheme's financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are 'regular'. In doing so, I have had regard to the Supply limits has set on expenditure. In 2006-07 these limits were authorised by the Westminster Parliament.
3. By expending cash that is unauthorised and is thus not regular, the Scheme has breached Parliament's controls. The scheme is administered by the Department of Health, Social Services and Public Safety (the Department).

Background to the Excess

4. Parliament, and now under devolution the Northern Ireland Assembly, authorises and sets limits on expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in the Supply Estimates for which approval and authority is given in the annual Budget Orders.
5. There is, therefore, a single 'Net Cash Requirement' for the Scheme. This is the limit on the amount of cash that can be used in the year to meet the funding requirements of the Scheme.
6. The Net Cash Requirement also represents the maximum amount of cash that may be provided to the Scheme from the Consolidated Fund. It is the net of the amount of cash that the Department receives relating to income that Parliament has authorised as Accruing Resources. Northern Ireland Assembly/Parliament sets separate limits on the amount of Accruing Resources that can be applied towards meeting the expenditure incurred in the year.

Limits

7. The limits described above for the Scheme were set out in the Northern Ireland Main Supply Estimates for 2006-07, as amended by the Northern Ireland Spring Supplementary Estimates. The limit on the Net Cash Requirement was set at £4,757,000 for 2006-07. This limit was authorised in the Budget (Northern Ireland) Order 2006, the Budget (No.2) (Northern Ireland) Order 2006 and the Budget (Northern Ireland) Order 2007. The breach reported below is against this limit.

Breach of limit on Net Cash Requirement

8. The Statement of Supply to the HPSS Superannuation Scheme 2006-07 resource accounts shows that the Net Cash Requirement was £11,981,593.19 which is £7,224,593.19 (151.87 percent) in excess of the amount authorised. It is proposed to ask the Northern Ireland Assembly to authorise a further grant of supply from the Consolidated Fund of £7,224,593.19 by an Excess Vote.

Details and Causes

9. As explained in the footnote to the Statement of Supply, (page 16) of the resource accounts, the Excess arose mainly because of a lack of estimate cover for changes in working capital other than cash of £16.2 million. The main reason for the changes in working capital other than cash is the movement in Consolidated Funds Extra Receipts (CFERs) in debtors of £14.5 million in respect of pension contributions due. In the 2005-06 accounts there were CFERs in debtors of £14.5 million but in this year's accounts the balance is nil because income received by the Department in 2006-07 aligned more closely with the estimate. This movement has been partially offset by underexpenditure in the pension scheme (£35.2 million and movements in provision (£26.2 million).
10. The underestimation of pension contributions in 2005-06, which gave rise to significant excess accruing resources, appears to be the key factor in this year's Excess Vote. I am surprised that the Department did not anticipate a reduction in debtors as debtors at 31 March 2006 were unusually high as a result of the CFER debtors as outlined in paragraph 9. I asked the Department how the underestimation of changes in working capital other than cash, particularly the impact of debtors had arisen. The Department told me that there are inherent difficulties ensuring that sufficient estimate cover is provided when dealing with a scheme with a net outturn approximating £572m for which the Government Actuary is only able to provide projected costs to the nearest £100m. The Department indicated that historically there has been no requirement for estimate cover for movements in working capital because there has been CFERs in debtors to offset these. However, the Department noted that in 2006-07 there were no CFERs in debtors because the estimate for income received was in line with the actual outturn, reflecting accurate estimates for income received. As a consequence the Department noted that the lack of CFERs in debtors coupled with no estimate cover for the movement in working capital has resulted in the excess net cash requirement. The Department indicated that it is aware of the requirement to provide robust projections of the annual cover required, but is also conscious of the need not to request significantly more than can be rightly justified, as required by Government Accounting Northern Ireland. The Department told me that it regrets that an excess vote occurred and clearly indicated its commitment to address the matter urgently so as to avoid a repeat of this situation in the future.
11. In the report entitled 'Excess Votes (Northern Ireland) 2004-05 (HC 917) the Westminster Committee of Public Accounts reiterated its comments from its previous report in 2005 (HC 311) that it expected all Pension Schemes in Northern Ireland which are subject to resource budgeting to review their estimates procedures to make sure that they are not vulnerable to the deficiencies which gave rise to an excess. As a result, the Committee expressed its expectation that all Northern Ireland departments have robust procedures in place to estimate and monitor their use of cash and resources.
12. In response to the Committee's expectations I asked the Department what it had done to ensure that their estimate procedures were sufficiently robust to avoid excesses. The Department has informed me that it has developed a much closer working relationship with the Government Actuary Department (GAD) including several face to face meetings with GAD at which the Department is able to clarify precisely its needs with regards the provision of robust and timely information

for the Estimates. In addition to meetings, the Department told me it has maintained direct communication channels with GAD through conversations via telecoms, e-mail and written communication by letter. As well there have been other improvements including the agreement of a timetable from GAD for the submission of updated assumptions in respect of the Annual Accounts and agreement from GAD to apply sensitivity analysis on actuarial assumptions in time for the Main and Supplementary Estimates.

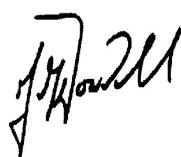
13. The Department also told me that it considers that the process of preparing the resource accounts has also been enhanced through improved working relationships between the Finance Directorate and HPSS Superannuation Branch. They are now more aware of the importance of their input and the need for them to be as accurate as possible in their returns.

Further Action to be taken by the Department to help prevent a recurrence

14. The Department has advised me that it has made improvements in its projection of the 'Resource' requirement in respect of the Superannuation Scheme. Unfortunately, despite accurately forecasting Resource Requirements, difficulties still exist with estimating its Net Cash Requirement, particularly regarding the projection of the impact within the Estimate of working capital movements. However, the Department is committed to resolving this issue as a matter of urgency. A plan of action is to be drawn up to focus attention on the need to assess movements in working capital before December 2007 – in time for the processing of any required changes through the Spring Supplementary Estimate. Furthermore the Department noted that detailed procedure documentation for the preparation of the Main and Supplementary Estimates incorporating a checklist for estimating expenditure and accruing resources is being developed.

Summary and conclusions

15. In forming my opinion on the HPSS Superannuation Scheme 2006-07 financial statements, I am required to confirm whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. On the basis of my findings above, I concluded that cash net expenditure of £11,981,593.19 was in excess of the £4,757,000 authorised by Parliament resulting in an excess of £7,224,593.19, and that it was therefore irregular. My audit opinion has been qualified in this respect.



JM Dowdall CB
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

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