Presented pursuant to the GRA Act 2000 c.20. s.6

Cabinet Office: Civil Superannuation

Resource Accounts 2002-03

LONDON: The Stationery Office
HC 186

26 January 2004
£8.00

Presented pursuant to the GRA Act 2000 c.20. s.6

Cabinet Office
Civil Superannuation

Resource Accounts
2002 - 03

(For the year ended 31 March 2003)

being the accounts of the Principal Civil Service Pension Scheme, compensation agency arrangements and other minor agency and principal pension scheme arrangements

Ordered by the House of Commons to be printed 26 January 2004

LONDON: The Stationery Office
HC 186

26 January 2004
£8.00

Contents

Report of the Managers

Introduction

We, Civil Service Pensions Division, Cabinet Office, are the managers of the Civil Service pension and associated arrangements. The main pension scheme is the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded defined benefit pension scheme. Membership is voluntary and the scheme is contributory. Money purchase pensions are available as an alternative to members joining after 1 October 2002. These are delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

Other schemes include the Civil Service Compensation Scheme (CSCS) that sets the tariff that may be payable by employers benefits on loss of office, the Civil Service Additional Voluntary Contributions Scheme (CSAVCS), the Civil Service Injury Benefit Scheme (CSIBS), the Civil Service Supplementary (Earnings Cap) Pension Scheme 1994 and schemes providing risk benefits (payable on death or ill-health) for those who have opted for the money purchase pension option. All schemes, other than the money purchase option, are made under section 1 of the Superannuation Act 1972.

In this report, the term "Civil Service pension arrangements" extends to all pension options, whether defined benefit or money purchase.

The accompanying scheme statement and financial statements covers the Superannuation Act schemes and also includes pensions and pensions increases payable under a number of other schemes, the majority of which are closed small schemes. Expenditure on all these schemes is less than one per cent of the total. This report makes no further reference to them on de minimis grounds. Money invested in the stakeholder pension option is not under the control of the Cabinet Office and is not reflected in this scheme statement although employer contributions will be reflected in individual departmental resource accounts.

The Managers and Advisers for the schemes are listed below.

Managers

Scheme Managers:	Civil Service Pensions Division, Cabinet Office, 8th Floor, Grosvenor House, Basing View, Basingstoke, RG21 4HG.
Accounting Officer:	Colin Balmer, Cabinet Office, 70 Whitehall, London SW1A 2AS.

Advisers

Scheme Actuary:	Government Actuary's Department, Finlaison House, 15-17, Furnival Street, London EC4A 1AB.
	Hewitt, Bacon & Woodrow Ltd, Parkside House, Epsom, KT18 5BS – from 1 April 2003.
Legal Advisers:	The Treasury Advisory Division, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ.
Medical Advisers:	BMI Health Services, Greyfriars, 10 Queen Victoria Road, Coventry, CV1 3PJ.
Money Purchase Scheme Advisers:	Hewitt, Bacon & Woodrow, Parkside House, Epsom, KT18 5BS.
Auditors:	National Audit Office, 157-197, Buckingham Palace Road, London SW1W 9SP.

Review of the Year

Civil Service pension arrangements

On 1 October 2002 we launched new pension arrangements for the Civil Service. New entrants now have the choice of a new final salary pension scheme, or of a stakeholder pension with significant employer contributions varying according to member age and level of employee contribution.

We recognise that pensions form a significant part of the Civil Service remuneration package, and we want civil servants to be able to choose the pension that suits them best. Final salary pensions may be good for those who spend a long period with one employer, but those who change jobs frequently during their career may prefer their employer to contribute to a stakeholder pension. By giving our new staff a choice of two good quality pension alternatives we aim not only to support a more diverse Civil Service but also to raise awareness and appreciation of the value of the pension element of the remuneration package.

The new final salary scheme (known as the **premium** scheme) offers improvements over the previous scheme (renamed the **classic** scheme) which had been in place since 1972. The pension now builds up at the rate of 1/60th of salary for each year of service, rather than at the rate of 1/80th. Although there is no automatic lump sum, members may choose to give up pension for lump sum if they wish. After allowing for this, the net pension is around 8% higher in the new scheme. Other changes include higher payments on death-in-service, extension of pensions to partners of unmarried members and a more targeted approach to ill-health retirement. None of the cost of the benefit improvements has fallen to employers. The entire cost has been met by an increase in the member contribution rate from 1.5% to 3.5% of pay.

The new arrangements are intended primarily for new civil servants, but we recognised that some existing civil servants might be attracted to the new final salary pension scheme. We therefore ran an 'options exercise' for existing staff. This included the production, for every active member, of a pension choices pack with personalised details of what the new pension scheme would mean for them. Members had the option of staying in the **classic** scheme, of moving to the **premium** scheme (with past service reduced to reflect the improved benefit structure) or moving to the **classic plus** scheme (providing **premium** scheme benefits for service from 1 October with service before 1 October continuing to be pensioned broadly on the **classic** model). There was an excellent response rate, with around two-thirds of staff registering a choice. Of these, the majority (86%) opted to remain in **classic** scheme, while 8% opted for **premium** and 6% for **classic plus**.

The stakeholder pension option for new entrants is known as the **partnership** pension account. We undertook a competitive procurement exercise to appoint a panel of pension providers for employees to choose from. The panel consists of AMP NPI, Scottish Widows, Standard Life and TUC.

Employees opting for a **partnership** pension account do not need to contribute, but are encouraged to do so by having their contributions matched by the employer up to 3% of pay. In addition, the employer pays contributions based on age, varying from 3% of pay for those under 21, to 12.5% of pay for those aged 46 and over. Lump sum benefits of up to three times pay on death in service and on ill health retirement are provided separately under schemes made under the Superannuation Act 1972.

The provisions for compensation for early departure have in the past been closely related to the pension arrangements. We have therefore made cost-neutral amendments to the Civil Service Compensation Scheme to enable the compensation provisions to operate in conjunction with the variety of new pension arrangements. The timing of payment and form of some benefits has changed, but not the quantum.

The Civil Service unions have been involved throughout the development of the new pension options, both in negotiating the terms and also in appraising their members of the options open to them. The unions' constructive involvement throughout this process stands as a testament to the value of partnership working.

CSAVC Scheme

In common with the rest of the industry, all three CSAVC Scheme providers (Equitable Life, Scottish Widows and Standard Life) continue to apply a market value adjustment where members transfer their money out of with profits. The level of those adjustments varies between the providers and has been adjusted through the year by providers.

CSAVCs - Equitable Life

We continue to exercise our duty of care towards members by monitoring the position of Equitable Life carefully, keeping in close contact with the CSAVC Scheme's advisers, Hewitt, Bacon and Woodrow. We issue updates, including via our website, as and when there are material developments in Equitable's situation that will affect scheme members. The last updates were issued in May and July 2002, concerning the security of unit linked funds, levels of market value adjustment, bonus rates, changes to Equitable's administration and providing information for those who had transferred out of Equitable as part of the bulk surrender arrangements. Since then there have been no relevant developments.

Ill-health Retirement Review

We play a key role in driving forward the Civil Service's response to the Treasury's recommendations for reducing the numbers of ill-health retirements across the public sector, published in July 2000. In 2002-03 we asked Civil Service employers to let us know their progress against the Civil Service Action Plan for reducing medical retirements (which we published in November 2000 in response to the Treasury's report). The review included the Civil Service pension scheme medical adviser visiting five of the larger Civil Service employers, reporting back on the practical evidence for improvements, including best practice. The review shows that continuing good progress is being made across the Civil Service. The aim of the initiative overall remains to enable individuals to remain employed, with the Civil Service often benefiting from the retention of valuable skills and expertise in the workplace, with medical retirement remaining available for those whose health is such that retention in the Civil Service is no longer possible. The Civil Service, as a result of action taken by the scheme managers, employers, and the scheme medical adviser, has achieved overall the target of no more than 3.72 medical retirements per 1,000 staff. A small number of employers do not yet meet the target themselves but are within touching distance of doing so and we believe that they will achieve this by the target date of 2005.

Injury Benefit Review

For internal reasons the Treasury has not taken this forward in 2002-03. We have, however, amended the Civil Service Injury Benefit Scheme reflecting some of the key preliminary review recommendations (with Treasury support) with effect from 1 April 2003.

National Fraud Initiative

We participated in NFI 2002. The NFI is an IT data matching exercise co-ordinated by the Audit Commission involving organisations within central and local government working together to identify and eliminate frauds and overpaid benefits. Data on PCSPS pensions in payment are matched against data on recorded deaths to identify cases where pensions might be in payment to deceased persons. PCSPS data are also matched against housing benefits so that local authorities can identify claimants who fail to state they were receiving income from an occupational pension. We had previously participated in similar exercises in 1998 and 2000 and had achieved annual savings in excess of £1 million and had recovered over £1.4 million overpaid pensions.

Change of pension payroll contractor

In 2002, after a competitive procurement, Cabinet Office awarded the Civil Service pensioner payroll contract to Capita Hartshead, the UK's largest pensions administration provider, and part of Capita Business Services Ltd. After 6 months of planning, development and testing, Capita Hartshead started to pay Civil Service pensions from 1 October 2002.

The transition went well and without disruption to the pension payments of 550,000 pensioners. Some delays were experienced initially in bringing into payment some new awards and in the handling of queries and correspondence. Most delays were of no more than a few days, but a few were more severe. A particular cause of the delays was the huge volume of telephone calls and letters received by Capita Hartshead in response to pensioners' perceptions that the pension payment function had been privatised (their pensions have been paid through the private sector since 1997). The new contract provides a significant cost saving for the taxpayer and, when new procedures being developed by Capita Hartshead are in place, raised service standards for pensioners.

Transfer of by-analogy schemes to PCSPS

British Library, Broadcasting Standards Commission, Chequers Estate Trust, Countryside Council for Wales, English Heritage, English Nature, Great Britain China Centre, Greater London Magistrates Court's Authority, Metropolitan Police Authority, National Consumer Council, Registrar of Public Lending Right, Scottish Natural Heritage, Scottish Public Services Ombudsman, Sir John Soame's Museum and Westminster Foundation for Democracy joined the PCSPS.

This enabled unfunded by-analogy schemes to be wound up and their liabilities transferred to the PCSPS. This avoided the need and associated costs of maintaining separate arrangements and made available the economies of scale provided by the PCSPS.

Dispute Resolution Review

We completed a fifth annual review of statutory dispute resolution work. The review reflected lessons learned and is used as a means of spreading best practice. We received 117 complaints during the year about the way employing departments or Authorised Pension Administration Centres had administered the PCSPS. In 81 cases we found in favour of the employers although in five of these cases we awarded monetary compensation to the complainant in respect of distress and inconvenience they had been caused. In 31 cases we upheld, in full or in part, the complaints made by the scheme members and, where appropriate, ordered remedial action. The number of complaints is very small in relation to the size of Civil Service pension arrangements.

The largest number of complaints, 37, concerned injury benefits. Other complaints included reckonable service, transfers into and out of the pension scheme, the CSAVCS and ill health retirement. We responded to 16 Pensions Ombudsman investigations that were completed during the year. The Pensions Ombudsman upheld our decision, in full or part, in 15 of these cases.

Pensions increase

Pension payments were increased by 1.7% from 8 April 2002, in line with the movement in the RPI All-items index from September 2000 to September 2001.

Membership statistics

Details of the membership of the PCSPS are as follows:

Active members	603,000
Deferred members	277,000
Pensions in payment	
Officers	406,000
Dependants of deceased members	127,000
Annual compensation payments	
(and other on-going payments) for which employers are responsible	17,000

Employers

At 3l March 2003 there were some 285 employers whose staff are members of Civil Service pension arrangements.

Further information

Any enquiries about Civil Service pension arrangements should be addressed:

Civil Service Pensions Division
Cabinet Office
8th Floor, Grosvenor House
Basing View
Basingstoke
RG21 4HG

Colin Balmer
Accounting Officer

20 November 2003

Report of the Actuary

Accounts for the year ended 31 March 2003

A. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded public service scheme made under the Superannuation Act 1972. All payments of benefits and other liabilities from the scheme are met from the Civil Superannuation Vote. Participating employers make contributions known as accruing superannuation liability charges (ASLCs), which are treated as Appropriations in Aid on the Vote. ASLCs are regularly assessed by the Scheme Actuary and are consistent with those that might have applied had the scheme been funded, making allowance for amortised surpluses or deficits that would have arisen in a funded scheme. The most recent ASLC assessment was carried out by the Government Actuary's Department as at 31 March 1999. Hewitt Bacon & Woodrow Limited has been appointed as Scheme Actuary with effect from 1 April 2003, and will be carrying out the next ASLC assessment as at 31 March 2003.

B. This Report relates solely to the liabilities of the PCSPS. Liabilities relating to payments made before normal retirement age as compensation for early retirement under the terms of the Civil Service Compensation Scheme fall to employers and are excluded.

C. Liabilities

We have assessed the value of the expected benefit entitlements under the PCSPS built up during periods of employment (or former employment) prior to 31 March 2003. The capitalised value as at 31 March 2003 has been assessed using the methodology and assumptions set out in Sections E and F below. The results are as follows:

Value of Liabilities	**£ billion**
Current pensions & associated contingent pensions	30.3
Deferred pensions, including contingent pensions, for those no longer contributing	10.5
Accrued benefits available to members contributing to the scheme	33.0
Total	**73.8**

D. Accruing Costs

The cost of benefits accruing for each year of service is shared between members and employers. Employees in the Classic section make contributions of 1.5% of pensionable pay. Employees in the Classic Plus and Premium sections, which came into effect as from 1 October 2002, make contributions of 3.5% of pensionable pay. Employers meet the balance of the cost. The employers' contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates which were assessed under the ASLC mechanism as required to meet the cost of benefits accruing in the year 2002-03 were as follows:

	Employer's Share of Contribution Rate	
Pay band from April 2002	**% of Pensionable Pay Standard Rate**	**% of Pensionable Pay Rate charged**
£16,500 and below	16.5%	12.0%
£16,501 to £34,000	18.5%	13.5%
£34,001 to £59,000	22.5%	16.5%
£59,001 and above	24.0%	18.5%

Estimated average rate charged to Employers for current year	13.3%
Rate payable by the Prison Service for prison officers employed before Sept 1987 and entitled to enhanced benefits	20.5%

The employers' contributions receivable are assessed as £1.5 billion for financial year 2002-03. The rates charged, averaging 13.3%, are less than the standard charges, averaging 18.5%, because allowance was made for a notional surplus, based on the experience of the scheme up to the last review as at 31 March 1999; part of the surplus was spread over the remaining average working lifetime of staff in post. We are currently completing a quadrennial review of the period up to 31 March 2003. We expect to be recommending changes which will result in increased employers' contributions being payable from 1 April 2005.

E. Methodology

The value of the liabilities has been obtained by using the projected accrued benefits method. Expected future pay increases made to employed members are allowed for. The standard contribution rate for accruing costs has been determined under the ASLC assessment using the projected unit method, with a control period of 3 years.

F. 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 3.5% p.a. (pension benefits under the scheme are generally increased in line with prices), and an investment return in excess of earnings increases of 2% p.a. The gross rate of return is assumed to be 6% p.a. although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 3.9% p.a. and an allowance for price inflation of 2.4% p.a. The demographic assumptions are those adopted for the most recent assessment of the ASLC, and were derived from the specific experience of the membership of this scheme.

G. Notes

Our calculation of the liabilities as at 31 March 2003 has been based on a full actuarial valuation of the scheme as at that date. The data used for the valuation takes account of the pension increase of 1.7% p.a. granted in April 2003.

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

Statement

We have prepared this Report for the Cabinet Office as managers of the Principal Civil Service Pension Scheme. In our opinion the assessment of the liabilities of the scheme as at 31 March 2003 and of the accruing cost of benefits set out above comply with the requirements of Chapter 15 of the Resource Accounting Manual for the financial year 2002-03.

For Hewitt Bacon & Woodrow Limited 17 November 2003
R K Mulcahy
Fellow of the Institute of Actuaries

Statement of Accounting Officer's Responsibilities

Under Government Resources & Accounts Act 2000, the Accounting Officer is required to prepare a combined financial statement for pension and compensation in the form and on the basis determined by HM Treasury.

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accruals basis and must show a true and fair view of the financial transactions of the combined scheme during the year and disposition, at the end of the financial year, of the combined 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 combined net liabilities at the year end.

In preparing these financial statements, the Accounting Officer is required to satisfy himself that:

- suitable accounting policies have been selected and applied consistently;
- the combined financial statements have been prepared on a going-concern basis;
- reasonable and prudent judgements and estimates have been made; and
- applicable accounting standards have been followed, in accordance with the guidelines set by HM Treasury, subject to any material departures disclosed in the financial statements.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Civil Superannuation's policies, aims and objectives, set by the department's Ministers, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I have delegated to the Head of Civil Service Pensions Division (CSP), responsibilities for the management of the Civil Superannuation Resources. This delegation is contained in a Memorandum of Understanding which forms part of a wider delegation and control framework designed to ensure that Civil Superannuation receives all monies properly due, and to safeguard the regularity and propriety of expenditure, The MOU sets out those responsibilities which co-exist with, and are additional to, the Head of CSP's normal duties as a Cabinet Office official.

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 aims and objectives of Civil Superannuation, 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 Civil Superannuation for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

The risk environment

CSP is a small organisation with some 45 staff and management of risk is embedded in policymaking, planning and delivery. Risk training is provided to all members of CSP. In CSP the main processes for identifying, evaluating, managing risk and changes to risks are conducted at Branch level. In accordance with the MOU risk registers are maintained by each branch of CSP and are reviewed regularly by the branches and by the CSP risk manager. Risk is also a standing agenda item at each monthly CSP management team meeting. Business priorities are set out in the CSP business plan and all risks which could have a major impact on the Cabinet Office – however remote the likelihood – are communicated to the Senior Management Team of the Corporate Development Group (to which the Head of CSP reports), and to me. They are also reported to the Cabinet Office Audit and Risk Committee who advise me on the effectiveness of the systems of internal control.

During the year a paper on Corporate Governance, which had been approved by the Audit and Risk Committee, was submitted to the Cabinet Office Management Board. In March 2003 the Audit and Risk Committee considered an update on the control system for Civil Superannuation. This update also covered steps taken to address weaknesses identified by NAO in the operation of controls by some Authorised Pension Administration Centres (APACs) which were reported in the last Statement for the year 2001-02. The Committee thought the paper provided a clear and thorough overview and asked for Civil Superannuation to be included as a standing item on all future agendas, and for CSP to provide updates, as necessary, on accounting and control issues. Cabinet Office Internal Audit reported that the corporate governance arrangements in CSP are sound though CSP necessarily has to rely on organisations outside of its control.

Delegation framework

Responsibility for pensions administration has been delegated to employers under the Superannuation Act 1972. This means that Accounting Officers in departments are responsible for all aspects of pensions administration including the calculation of pension benefits for their employees and for ensuring that appropriate systems of internal control are in place. All employers have engaged one of nine APACs to calculate pension awards on their behalf. These APACs operate to a developed control framework standard.

All APACs have been reminded of their corporate governance responsibilities during the year and have accepted these responsibilities. Under an agreed protocol Accounting Officers provide me with annual letters of assurance regarding the administration of the PCSPS for their staff.

The respective roles and responsibilities of employers and APACs are documented and have been reviewed and reissued by CSP. Responsibilities for maintenance of sound corporate governance arrangements form part of that documentation. Periodic audit is a condition of the Employer delegation and both employers and APACs report on the date of their last internal audit, whether recommendations have been implemented, and audit plans. The Cabinet Office Internal Audit Director has also contacted Heads of Internal Audit in each of the APACs to discuss their audit plans on Civil Superannuation. CSP strategically monitors the operation of APACs using returns supplied by the APACs and through bilateral meetings at each APAC site on an approximate 9 month cycle at which a range of issues including corporate governance and the management of risks are discussed. CSP also chairs meetings of the APAC Board and the Penserver (scheme software) User Group and attends and contributes to meetings of the APAC Best Practice Club.

Pensioner payroll

In 2001-02 CSP conducted a competitive tender of the pensioner payroll service which was being operated under contract by Paymaster (1836) Ltd. This tender led to a change of provider and a new contract was awarded to Capita Hartshead, and from 1 October 2002 they started to pay the pensions. Paymaster and Capita Hartshead's contractual responsibilities included paying all the existing pensioners and processing new pensions awards received from APACs on behalf of employers. In 2002-03 both contractors operated appropriate corporate governance and internal control arrangements and their operations were audited. CSP managed both contracts and monitored the performance of both contractors.

Review of effectiveness

As Accounting Officer, I also 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 CSP 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit and Risk Committee, and a plan to ensure continuous improvement of the system is in place. This includes (from 2003-04) the creation of joint risk registers with each of the APACs; and letters of assurance are to be provided, half yearly, by heads of APACs to the Head of CSP confirming that sound corporate governance arrangements (including systems of internal control) have been maintained.

Colin Balmer
Accounting Officer

20 November 2003

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

I certify that I have audited the financial statements on pages 15 to 33 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the accounting policies set out on pages 20 to 23.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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. I report whether the contributions payable to the Scheme have been paid in accordance with the Scheme rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Scheme Manager is not consistent with the financial statements, if the Department has not kept proper accounting records for the Scheme or if I have not received all the information and explanations I require for my audit.

I read the information contained in the Accounts, 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 mis-statements or material inconsistencies with the financial statements.

I review whether the statement on pages 11 to 12 reflects the department's compliance with Treasury's guidance entitled Corporate Governance: Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the department in the preparation of the financial statements and of whether the accounting policies are 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 mis-statement, whether caused by error or by fraud or other irregularity, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conformed to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

My opinion takes into account that unfunded liabilities to pay pensions after the end of the Scheme's year are not required to be recognised in the financial statements but are disclosed in the report of the actuary and in the notes to these accounts.

Opinion

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Scheme for the year ending 31 March 2003, the net outgoings and cash requirement for the year and the amount and disposition at that date of its assets and liabilities, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury;
- 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 contributions payable to the Scheme during the year ended 31 March 2003 have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
18 December 2003

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

SCHEDULE 1

Summary of Resource Outturn 2002-03

for the year ended 31 March 2003

	2002-03 Estimate			2002-03 Outturn				2001-02
	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total Outturn compared with Estimate saving/ (excess)	Prior Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources	3,117,578	1,940,600	1,176,978	3,090,039	1,940,600	1,149,439	27,539	1,451,106
Net Cash Requirement			**1,246,298**			**1,118,116**	**128,182**	**1,619,007**

Reconciliation of Resources to Cash requirement

	Note	£000	£000	£000	£000	£000	£000
Net Total resources		**1,176,978**			**1,149,439**	**27,539**	**1,451,106**
Capital							
Acquisition of fixed assets:		-			-	-	-
Cash purchase		-			-	-	-
Finance lease		-			-	-	-
On-balance-sheet PFI		-			-	-	-
Investments							
Non-Operating A in A		-			-	-	-
Accruals adjustments							
Non-Cash items	31	(5,001)			(101,994)	96,993	(281,094)
Changes in Working Capital other than cash	32				(7,088)	7,088	15,300
Changes in creditors falling due after more than one year	33	27,321			17,139	10,182	27,321
Use of provision	34	47,000			60,620	(13,620)	406,374
Net Cash requirement		**1,246,298**			**1,118,116**	**128,182**	**1,619,007**

Explanation of the variation between Estimate and Outturn.

The outturn variance is due to civil servants taking early retirement in April 2003 rather than March 2003.

Explanation of the variation between estimate net cash requirement and outturn net cash requirement.

The outturn variance is due to civil servants taking early retirement in April 2003 rather than March 2003, and to payments for group transfers being paid later than expected.

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	2002-03 Forecast		2002-03 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income & receipts - excess A-in-A	-	-	2,476,967	*1,860,625*
Non-operating income & receipts - excess A-in-A	-	-	-	-
Subtotal	**-**	**-**	**2,476,967**	***1,860,625***
Other operating income & receipts- not classified as A-in-A	-	-	69	*69*
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total	**-**	**-**	**2,477,036**	***1,860,694***

Actual outturn - resources

Request for Resources: Actual amount net resources outturn £1,149,439,143.35. Actual amount of savings in resources over Estimate £27,537,856.65.

Actual outturn - cash

Net cash requirement: Outturn net requirement £1,118,115,610.97 which is £128,182,389.03 less than Estimate.

The actual receipts surrenderable to the Consolidated Fund were £1,860,693,582.85, of which £31,692,356.58 were excess receipts relating to 2001-02.

SCHEDULE 2

Combined Revenue Account

for the year ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Principal arrangements			
PCSPS			
Contributions and benefits:			
Contributions receivable	6	(1,749,439)	(1,561,632)
Transfers in	7	(2,645,320)	(694,665)
Other income	8	(21,409)	(24,214)
		(4,416,168)	(2,280,511)
Benefits payable	9	2,881,435	2,727,787
Payments to and on account of leavers	10	180,933	333,713
		3,062,368	3,061,500
Net outgoings for the year		**(1,353,800)**	**780,989**
Compensation agency arrangements			
CSCS			
Contributions and benefits:			
Benefits payable	11	12,090	16,175
Net outgoings for the year		**12,090**	**16,175**
Other minor agency and principal pension scheme arrangements			
Other pension schemes			
Contributions and benefits:			
Contributions receivable	12	(1,399)	(1,456)
Benefits payable	13	15,581	15,032
Net outgoings for the year		**14,182**	**13,576**
COMBINED NET IN/OUTGOINGS FOR THE YEAR	**14**	**(1,327,528)**	**810,740**
NET RESOURCE OUTTURN	**14**	**1,149,439**	**1,451,106**

SCHEDULE 3

Combined Balance Sheet as at 31 March 2003

	Note	2002-03 £000	2001-02 £000
Principal arrangements			
PCSPS			
Cash at Bank	18	265,059	611,661
Balance with Government Departments	18	370	415
Debtors	19	734,359	83,524
Creditors due within one year	20	(126,102)	(105,729)
Consolidated Fund			
Excess A in A Current Year	21	(786,967)	(640,366)
Excess A in A Prior Year		(31,692)	-
Unspent supply (Schedule 1)	18	(128,182)	(4,393)
Net current liabilities		**(73,155)**	**(54,888)**
Provision for liabilities and charges	22	(109,987)	(27,611)
Net liabilities		**(183,142)**	**(82,499)**
Compensation agency arrangements			
CSCS			
Debtors	23	1,614	990
Creditors due within one year	24	(17,139)	(27,321)
Net current liabilities		**(15,525)**	**(26,331)**
Creditors due after one year	24	(24,335)	(41,474)
Provisions for liabilities and charges	25	(72,000)	(113,000)
Net liabilities		**(111,860)**	**(180,805)**
Other minor agency and principal pension scheme arrangements			
Other pension schemes			
Creditors due within one year	27	(65)	(440)
Net liabilities		**(65)**	**(440)**
Combined Scheme Net Liabilities		**(295,067)**	**(263,744)**
Financed by:			
Revenue Account			
Balance brought forward		(263,744)	(431,645)
Financing by Consolidated Fund		1,241,906	1,505,700
Combined net outgoings for year from Schedule 2		1,327,528	(810,740)
Adjustments re creditors for CFERs	21	(2,476,967)	(640,366)
Other adjustment to Consolidated Fund	30	(123,790)	113,307
Balance carried forward		**(295,067)**	**(263,744)**

Colin Balmer
Accounting Officer

20 November 2003

SCHEDULE 4

Cash Flow Statement

For the year ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Net cash flow from operating activities (note A)		710,817	(1,010,333)
Consolidated Fund Extra receipts		69	167
Payment of extra receipts to Consolidated Fund, including partial surrender of unspent supply from 2001-02		(2,300,046)	(260,363)
Compensation agency payments made on behalf of employers		(103,215)	(95,298)
Reimbursement of compensation payments by employers		102,591	95,371
Injury benefit payments made on behalf of employers		(2,517)	-
Reimbursement of injury benefit payments by employers		2,445	-
Financing (see note B)		1,243,208	1,783,799
Increase/Decrease in cash in the period		**(346,648)**	**513,343**

	Note	2002-03 £000	2001-02 £000
Note A – Reconciliation of Net Outgoings to operating cash flows			
Net outgoings for the year (Schedule 2)		(1,327,528)	810,740
Adjustment for non-cash items	31	(101,994)	(281,094)
Adjustments for movements in working capital other than cash			46,992
Movement in debtors	32	648,035	
Movement in overpayment debtors	19	2,728	
Movement in PCSPS creditors due within 1 year	32	(20,374)	
Movement in prefunding creditors due within 1 year	32	10,182	
Other scheme creditors due within 1 year	32	375	
Adjustment for creditors falling due after 1 year	33	17,139	27,321
Use of provisions	34	60,620	406,374
Net cash flow from operating activities		**(710,817)**	**1,010,333**

	Note	2002-03 £000	2001-02 £000
Note B – Analysis of financing, and reconciliation to the net cash requirement			
From the Consolidated Fund (Supply) – current year		1,243,208	1,623,400
From the Consolidated Fund (Supply) – prior year		-	160,399
Net financing		**1,243,208**	**1,783,799**
Increase in cash		**346,648**	**(513,343)**
Net cash flows other than financing		**1,589,856**	**1,270,456**
Adjustments for payments and receipts not related to Supply:			
Net difference of payments and reimbursements associated with compensation scheme		(624)	73
Net difference of payments and reimbursements associated with injury benefit payments		(72)	-
Amounts due to the Consolidated Fund – received in prior year – Excess Appropriations in Aid relating to prior year		(608,674)	(260,195)
Unspent supply Prior year		(1,303)	-
Amounts due to the Consolidated Fund - received and not paid over - Excess Appropriations in Aid relating to current year	35	138,933	608,673
Net Cash Requirement (Schedule 1)		**1,118,116**	**1,619,007**

Notes to the Accounts

1. Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded defined benefits scheme. A full actuarial valuation was carried out at 31 March 2003 and the Report of the Actuary is set out on pages 8 to 9. The major assumptions used by the actuary in assessing the liabilities of the scheme as at 31 March 2003 were:

	At 31 March 2003	At 31 March 2002
Rates of increase in salaries	3.9%	4.9%
Inflation assumption	2.4%	3.4%

The actual rates of pension increase in the scheme awarded in April 2003 and April 2002 were 1.7% and 1.7% and this has been taken into account in the actuary's assessment of the liabilities. Most pension benefits under the scheme are increased in line with inflation. In accordance with the Resource Accounting Manual, the scheme liability has been discounted at 3.5 per cent real (6 per cent nominal).

During the year ended 31 March 2003, contributions were in the range of 12 to 20.5 per cent of pensionable pay. Rates will remain the same next year, subject to revalorisation.

Movement in scheme liability during the year:

		£000
Scheme liability at 1 April 2002		64,200,000
Current service cost	2,328,867	
Past service costs	-	
Interest on pension scheme liability	3,910,913	
		6,239,780
Benefits payable	(2,874,779)	
Pension payments to and on account of leavers	(180,933)	
		(3,055,712)
Income received in respect of enhancements	45,282	
Pension transfers in	2,645,320	
		2,690,602
Actuarial loss		3,702,946
Scheme liability at 31 March 2003		**73,777,616**

Analysis of actuarial loss	**2002-03**
	£000
Experience gains and losses arising on the scheme liabilities	3,112,405
Changes in assumptions underlying the present value of the liabilities	590,541
	3,702,946
Experience gains and losses	
Experience gains and losses arising on the scheme liabilities:	
amount (£000)	3,112,405
percentage of the present value of the scheme liabilities	4.2%
Total actuarial loss:	
amount (£000)	3,702,946
percentage of the present value of the scheme liabilities	5.0%

Notes to the Accounts *(continued)*

2. Basis of preparation

The scheme statement has been prepared in accordance with the relevant provisions of the Resource Accounting Manual for 2002-03 issued by the Treasury, which are in turn based on the recommendations of the Statement of Recommended Practice entitled Financial Reports of Pension Schemes.

PCSPS principal arrangements

The statement summarises the transactions of the PCSPS where Civil Service Pensions Division (CSP) acts as principal. The scheme statement does not take account of obligations to pay pensions that fall due after the end of the current year. The actuarial position of the PCSPS, which *does* take account of pension obligations, is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

CSCS agency arrangements

CSP act as agent for employers in the payment of compensation benefits arising under the Civil Service Compensation Scheme (CSCS). Compensation benefits paid out in the course of the month are generally recovered from employers at month-end. These financial flows are not brought to account in the financial statement. However the financial statement recognises the liabilities arising from the central funding of compensation payments (see note 25) and any amounts that have been pre-funded or pre-paid by employers (see note 26). These liabilities comprise some £72 million (2001-02: £113 million) in relation to centrally funded elements of the compensation scheme and £42 million (2001-02: £69 million) in relation to prefunding of compensation liabilities by employers. The accumulated value of the future funding to be reimbursed from the Consolidated Fund as and when payments are made to beneficiaries is not reflected as an asset of the CSCS in these accounts as the sums payable are subject to annual approval by Parliament through the supply procedure.

Other minor agency and principal pension scheme arrangements

In addition the financial statement includes transactions relating to other minor pension schemes, a number of which are closed schemes. CSP act as principal in respect of pensions paid to the widows of former members of the Royal Irish Constabulary, and a pension paid to the Governor of an overseas colony, awarded prior to the introduction of a new scheme on 30 September 1978. CSP act an agent for the following schemes:

- Lower judiciary and pension increases in respect of the higher judiciary (responsibility has passed to the Lord Chancellor's Department with effect from 1 April 2003);
- Pension increases to former Prime Ministers, former Speakers, various former public service appointees and former MEPs and their widow(er)s;
- Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service;
- Payments to Post Office Staff Superannuation Scheme for pensions paid in respect of periods in the Civil Service;
- Pension increases in respect of insurance based pensions to former staff of the Wheat Commission;
- Pension increases in respect of pensions paid to former staff of the Raw Cotton Commission;
- Pension increases in respect of pensions paid to former staff of the Sugar Board;
- Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seamans' National Insurance Society);
- Pension increases to retired civil servants formerly employed by Power Jets (Research and Development) Ltd; and
- Pension contributions to the Services Sound and Vision Corporation Pension Scheme Fund (until 2003-04).

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

Notes to the Accounts *(continued)*

3. Accounting policies for PCSPS principal arrangements

Contributions receivable

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

Employees' pension contributions and amounts received in respect of the purchase of added years service are accounted for on an accruals basis. Additional Voluntary Contributions (AVCs) are not brought to account in this statement, see note 16.

Transfers in

Transfers in are accounted for on an accruals basis where the scheme has formally accepted a liability in respect of a group transfer. Transfers in of individual members of staff are accounted for on a cash basis.

Other income

Amounts receivable from employers in respect of bringing forward the payment of accrued superannuation lump sums, and in respect of the costs of pension enhancement, capitalised either at early departure or normal retirement age, are accounted for on an accruals basis.

The remaining element of "other income" including repayment of gratuities and overpayments recovered other than by deduction from future benefits, are accounted for on an accruals basis.

Benefits payable

Pensions payable, including income tax and voluntary deductions, are accounted for on an accruals basis. Pensions are paid monthly in arrears throughout each month. The amount of pension arrears due at year-end is estimated by apportioning some of the payments made during April to March. The estimate takes into account pensions up-rating payable from the first Monday on or after 6 April and any movement in the number of pensions in payment during March and April.

Income tax and voluntary deductions are deducted from pensions. Deductions from payments made from the sixth day of one month to the fifth day of the next month are paid to Inland Revenue and other appropriate bodies on the nineteenth day of the second month.

Payments to and on account of leavers

Refunds of employees' contributions are accounted for on an accruals basis. Refunds include amounts payable both at time of leaving or at normal retirement age (or earlier death).

Transfers out are accounted for on an accruals basis where the scheme has formally transferred a liability in respect of a group transfer. Transfers out of individual members of staff are accounted for on a cash basis.

Foreign Currency Transactions

The pensions of around 1,200 former locally engaged staff of the Ministry of Defence (MOD), in Gibraltar, Malta, Singapore and Malaysia, have been awarded in local currency. Payments are made in local currency each month by MOD. These payments are reimbursed to MOD the following month in sterling. The amounts charged to the revenue account will vary each month according to exchange rates. Reimbursements to MOD in 2002-03 amounted to £4 million. The year-end creditor position in the balance sheet included an amount of £86,000 reimbursed to MOD in April 2003.

4. Accounting policies for CSCS compensation agency arrangements

Benefits payable

Compensation benefits for staff leaving before normal retirement age are met by employing departments. For administrative convenience and value for money considerations, compensation benefits are paid initially by CSP, throughout the month, but then recovered from employers at month-end. These transactions are not recorded in the revenue account (Schedule 2). Details of compensation benefits payable during 2002-03 are shown at note 11.

Central funding of early departures

Some employers receive central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support will continue until their former employees reach normal retirement age, usually age 60. At that stage compensation payments will be replaced by pension payments payable under the rules of the PCSPS.

See note 25, for the disclosures required in FRS 12, "Provisions, liabilities and assets".

The liabilities for central funding are recognised in the balance sheet (Schedule 3) as a provision. The revaluation is charged to the revenue account (Schedule 2), see note 11. The difference between provision for central funding for the current year and outturn expenditure is also charged to the revenue account. Compensation benefits payable are accounted for on an accruals basis.

Pre-funding of early retirements

Some employers have made cash payments to CSP, subsequently surrendered to the Consolidated Fund, to pre-fund compensation payments that will be paid to their former employees in the forthcoming years. The cash payments received from employers have been earmarked for use in each financial year, up to and including 2009-10. No further pre-funding will take place, as this facility is no longer available to employers. The cash received, yet to be utilised, is recognised as a liability in the balance sheet (Schedule 3). Subsequent transactions to clear these liabilities are recorded as balance sheet items only.

The cash pre-funded by employers reduces their liabilities for compensation benefits by a greater amount. The annual discount, the difference between the cash pre-funded and the offset allowed in the year, is charged to the revenue account (Schedule 2), see note 11.

Pre-payment of early retirement costs

Prior to the privatisation of Her Majesty's Stationary Office (HMSO) in September 1996, a cash payment was made to CSP, subsequently surrendered to the Consolidated Fund, to extinguish liabilities for compensation benefits in respect of their former employees. The cash payment has been fully utilised. Compensation benefits payable in respect of former HMSO employees are charged to the revenue account (Schedule 2), see note 11. These compensation payments will be replaced by pension payments payable under the rules of the PCSPS when former HMSO employees reach age 60.

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

Contributions receivable and pensions payable are accounted for on an accruals basis.

Notes to the Accounts *(continued)*

Revenue account – PCSPS principal arrangements

6. Contributions receivable

	2002-03	2001-02
	£000	£000
Employers'	(1,543,082)	(1,389,418)
Employees':		
Normal	(182,475)	(151,704)
Purchase of added years	(23,882)	(20,510)
	(1,749,439)	**(1,561,632)**

7. Transfers in

	2002-03	2001-02
	£000	£000
Group transfers from other schemes	(2,499,402)	(593,223)
Individual transfers in from other schemes	(145,918)	(101,442)
	(2,645,320)	**(694,665)**

8. Other income

	2002-03	2001-02
	£000	£000
Overpayments recovered	(9)	(77)
Refund of gratuities received	(5)	-
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	(5,553)	(7,461)
capitalised cost of enhancement to pensions, payable on departure	(11,972)	(14,075)
capitalised cost of enhancement to pensions, payable at age 60	(3,870)	(2,601)
	(21,409)	**(24,214)**

9. Benefits payable

	2002-03	2001-02
Pensions to:	£000	£000
Retired employees	2,249,690	2,132,868
Widow(er)s	315,508	302,089
Dependants	5,283	4,840
All pensions	2,570,481	2,439,797
Lump sum benefits paid:		
On retirement (including early retirement)	274,537	254,336
On death	29,761	27,928
Injury benefit	6,656	5,726
	2,881,435	2,727,787

Injury benefits, payable in respect of injuries sustained on or after 1 April 1998, are recoverable from employers. During 2002-03 this amounted to £2,517,000.

Notes to the Accounts *(continued)*

10. Payments to and on account of leavers

	2002-03	2001-02
	£000	£000
Refunds of contributions to members leaving the service	6,655	3,144
Payments for members joining State scheme	538	1,024
Group transfers to other schemes	107,677	274,094
Individual transfers to other schemes	66,063	55,451
	180,933	**333,713**

Revenue account – CSCS compensation agency arrangements

The following represent annual compensation payments payable, not recoverable from employers, brought to account in the revenue account (Schedule 2).

11. Benefits payable

	2002-03	2001-02
	£000	£000
Revaluation of central funding provisions at year-end in respect of annual pensions increase and discounted amount arising from passage of time (interest expense)	6,000	7,000
Difference between provision for current year and outturn expenditure	948	1,785
Discounts allowed on pre-funded annual compensation payments	4,274	6,219
Discounts allowed on pre-paid annual compensation payments	868	1,171
	12,090	**16,175**

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

Recoverable from employers	103,215	95,298
Pre-funded by employers	27,321	40,735
Discounts allowed on pre-funding	4,274	6.219
Discounts allowed on pre-payments	868	1,171
Met by central funding	47,948	58,785
Total annual compensation payable	**183,626**	**202,208**
Lump sum payments		
Recoverable from employers	48,490	60,295
Total lump sums payable	**48,490**	**60,295**

Revenue account – Other minor agency and principal pension scheme arrangements

12. Contributions receivable

	2002-03	2001-02
Lower judiciary	£000	£000
Employees':		
Normal	(1,399)	(1,453)
Purchase of added years		(3)
	(1,399)	**(1,456)**

Notes to the Accounts *(continued)*

13. Pensions payable

	2002-03	2001-02
	£000	£000
Royal Irish Constabulary retired pensioners and dependants	5	12
Lower judiciary – retired officers	7,864	7,304
Lower judiciary – widows	1,374	1,299
Higher judiciary pensions increase	5,098	4,991
Pensions increase for ex-PMs/Speakers	53	57
Pensions increase for Public Service Appointments	132	128
Pensions increase ex MEPs/widow(er)s	90	81
Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	36	42
Payments to Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	768	956
Pensions increases in respect of insurance based pensions to former staff of the Wheat Commission	9	8
Pensions increases in respect of pensions paid to former staff of the Raw Cotton Commission	6	6
Pensions increases in respect of pensions paid to former staff of the Sugar Board	23	28
Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seamans' National Insurance Society)	7	7
Pensions to Governors of overseas colonies awarded prior to the introduction of a new scheme in 1978	1	1
Pensions increases to retired civil servants formerly employed by Power Jets (Research and Development) Ltd	20	20
Pension contributions to the Services Sound & Vision Corporation Pension Scheme Fund	95	92
	15,581	**15,032**

14. Reconciliation of net outgoings for the year to control total and net resource outturn

	2002-03	2001-02
	£000	£000
Net outgoings (Schedule 2)	(1,327,528)	810,740
Add income scored as Consolidated Fund Extra Receipts	2,476,967	640,366
Net Resource Outturn (Schedule 1)	**1,149,439**	**1,451,106**

15. Administrative expenses

An element of the accruing superannuation liability charge, paid by employers, is appropriated in aid of the Cabinet Office to offset central management costs. These include the costs associated with the management and development of Civil Service pension arrangements, the procurement of pension payroll and other services, maintenance and development of pension software used by scheme administrators and the publication of explanatory scheme material. In 2002-03 these costs amounted to £12.6 million (2001-02 - £12.1 million). Employers are responsible for the day to day administration of the PCSPS/CSCS and meet the associated costs from their running cost provision.

Notes to the Accounts *(continued)*

16. Additional voluntary contributions

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

The aggregate amounts of AVC investments are as follows:

	2002-03			2001-02		
	Standard Life	Equitable Life[1]	Scottish Widows	Standard Life	Equitable Life[1]	Scottish Widows
	£000	£000	£000	£000	£000	£000
Movements in the year were as follows:						
Balance at 1 April	10,049	50,871	84,939	-	75,581	62,373
Adjustments for incorrect statement of funds at 01/04/02			14,156			
New investments	5,111	(910)	18,321	9,731	(12,840)	21,549
Sales of investments to provide pension benefits	(118)	(3,453)	(3,433)	-	(4,214)	(3,179)
Changes in market value of investments	(2,010)	(5,285)	(3,507)	318	(7,656)	4,196
Balance at 31 March	**13,032**	**41,223**	**110,476**	**10,049**	**50,871**	**84,939**
Contributions to provide life cover	n/a	198	n/a	n/a	212	n/a
Benefits paid on death	n/a	89	n/a	n/a	103	n/a

[1] – data as at 5 April

17. Contingent liabilities

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

Notes to the Accounts *(continued)*

Balance sheet – PCSPS principal arrangements

18. Cash at bank

CSP operates only one bank account. For operational reasons it is impossible to segregate cash balances and Consolidated Fund liabilities between CSP's various operations. As a result, for the purposes of the balance sheet disclosure, cash at bank and consolidated fund balances are recorded under principal arrangements. Whilst these balances relate to all CSP's operations they are deemed to primarily belong to principal arrangements, as these are the operations where CSP has effective responsibility. In the case of agency arrangements CSP is simply the channel by which departments and the Consolidated Fund respectively, settle and fund, liabilities to pensioners. As such, in year cash funding is deemed to automatically equate with expenditure. Cash balances relating to principal arrangements other than the PCSPS are too small to require segregated disclosure.

Cash analysis	**2003**	**2002**
	£000	£000
Cash at bank	265,059	611,661
Balance with Government Departments	370	415
Non-Supply debtors for CSCS payments	1,614	990
Non-Supply debtors for injury benefit payments	72	-
	267,115	**613,066**
Consolidated Fund Supply unspent at year-end	128,182	4,393
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	138,933	608,673
	267,115	**613,066**

19. Debtors

	2003	**2002**
	£000	£000
Employers' contributions	20,900	16,188
Employees' normal contributions	2,794	2,123
Employees' added years	362	267
Bringing forward the payment of accrued superannuation lump sums	198	51
Capitalised cost of enhancement to pensions payable on departure	610	114
Capitalised cost of enhancement to pensions payable at age 60	-	2
Individual transfers	3,866	16,938
Group transfers	702,829	47,841
Sub Total	**731,559**	**83,524**
Overpayment debtors	2,728	-
Injury benefit debtors	72	-
Balance at 31 March	**734,359**	**83,524**

Notes to the Accounts *(continued)*

20. Creditors payable within 12 months

	2003	2002
	£000	£000
Pensions	(90,268)	(81,495)
Inland Revenue	(34,978)	(22,996)
Voluntary deductions	(76)	(1,238)
Overpaid individual transfers	(780)	-
Balance at 31 March	**(126,102)**	**(105,729)**

21. Creditors payable within 12 months – Consolidated Fund excess Appropriations in Aid

	2003	2002
	£000	£000
Appropriations in Aid realised	(4,417,567)	(2,281,966)
Less: Appropriations in Aid authorised	1,940,600	1,641,600
Sub Total	**(2,476,967)**	**(640,366)**
Less: Appropriations in Aid received and surrendered to the Consolidated Fund	1,690,000	-
Excess Appropriations in Aid for surrender to the Consolidated Fund		
Balance at 31 March	**(786,967)**	**(640,366)**

22. Provisions for liabilities and charges

Provision has been made to recognise that the PCSPS has a liability to make payments to other pension schemes following the transfer of employment of groups of staff. Scheme members generally have three months from the date of transfer of employment to decide whether to transfer their existing accrued pension rights to the new employer's pension scheme, if applicable, or preserve those rights with the PCSPS. The exact timing and amount of these group transfer payments are not known. In most cases payment is made within a year of the transfer of staff. The future liabilities have been estimated, using actuarial advice, at the end of the three months option period. The estimates are revalued at year-end. Provisions for new transfers and revaluations at year-end are scored in the revenue account (Schedule 2) and are included in Note 10 as Group transfers to other schemes. A number of other group transfers, in and out, may take place at some future date.

Group Transfers	2003	2002
	£000	£000
Balance at 1 April	(27,611)	(102,891)
Cash paid out during year	13,620	349,374
Provision for new transfers in-year	(96,211)	(298,355)
Revaluation at year-end	215	24,261
Balance at 31 March	**(109,987)**	**(27,611)**

Notes to the Accounts *(continued)*

Balance sheet – CSCS compensation agency arrangements

23. Debtors

	2003	2002
	£000	£000
Recoverable annual compensation payments	736	867
Recoverable lump sums	878	123
Balance at 31 March	**1,614**	**990**

24. Creditors prefunding liabilities

	2003	2002
	£000	£000
Amounts due in less than a year:		
Annual compensation payments pre-funded by employers	(17,139)	(27,321)
	(17,139)	(27,321)
Amounts due in more than a year		
Annual compensation payments pre-funded by employers	(24,335)	(41,474)
Balance at 31 March	**(24,335)**	**(41,474)**

25. Provisions for central funding

Provision has been made to recognise that the CSCS has a liability to make payments to employers in respect of centrally funded elements of the compensation scheme. Some employers receive central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support will continue until their employees reach normal retirement age, usually 60. It is expected that central funding will cease in the financial year 2006-07. The future liabilities are valued at £72 million. This represents the net present value of the estimated future cash flows expected to arise until the end of 2006-07. The cash flows only recognise known future increases. The discount rate is 3%. At each year-end provisions are revalued to take into account any further increases in the rates of annual compensation payments that have been announced and the effect of the unwinding of the discount. The revaluation is scored in the revenue account (Schedule 2); see Note 11.

Central funding of annual compensation payments	2003	2002
	£000	£000
Balance at 1 April	(113,000)	(163,000)
Used in year: compensation paid	47,000	57,000
Revaluation at year-end	(6,000)	(7,000)
Balance at 31 March	**(72,000)**	**(113,000)**

Notes to the Accounts *(continued)*

26. Annual compensation payments pre-funded by employers

Employing departments were, until March 2000, able to use current-year underspends on running costs to reduce or extinguish their existing liabilities in respect of future annual compensation payments arising from the early retirement of their employees. Details of departments' pre-funding are as follows:

Pre-funding	2003	2002
	£000	£000
Balance at 1 April	(68,795)	(109,530)
Used in year: compensation paid	27,321	40,735
Balance at 31 March	**(41,474)**	**(68,795)**
To be used in next 12 months (note 24)	(17,139)	(27,321)
To be used after more than 12 months (note 24)	(24,335)	(41,474)

Balance sheet – Other minor agency and principal pension scheme arrangements

27. Creditors payable within 12 months

	2003	2002
	£000	£000
Pensions	(65)	(293)
Inland Revenue and voluntary deductions	-	(147)
Balance at 31 March	**(65)**	**(440)**

28. The net liabilities of the PCSPS, CSCS and other pension schemes, shown in Schedule 3, will be met by the Consolidated Fund, subject to annual approval by Parliament through the supply procedure.

29. Financing from Consolidated Fund

	2002-03	2001-02
	£000	£000
Drawn down	1,243,208	1,505,700
Adjustment for prior year underspend	3,090	-
Adjustment for prior year Appropriation Account surplus		117,700
Total funding	**1,246,298**	**1,623,400**

30. Adjustments re Consolidated Fund

	2002-03	2001-02
	£000	£000
Prior year Appropriation Account surplus		117,700
Prior year Consolidated Fund Supply unspent at year-end	4,393	-
Consolidated Fund Supply unspent at year-end	(128,183)	(4,393)
	(123,790)	**113,307**

Notes to the Accounts *(continued)*

31. Non-cash items

	2002-03	2001-02
	£000	£000
Revaluation of central funding provision (note 25)	(6,000)	(7,000)
Revaluation of provisions for group transfers (note 22)	217	24,261
Provision for new group transfers (note 22)	(96,211)	(298,355)
Per Schedule 1	**(101,994)**	**(281,094)**

32. Movements in working capital other than cash (see Schedules 1 and 4)

	2002-03	2001-02
	£000	£000
Movement in debtors – PCSPS (note19)	650,763	31,896
Movement in debtors – Other schemes	-	(204)
Movement in creditors due within 1 year – PCSPS (note 20)	(20,373)	1,932
Movement in creditors due within 1 year – CSCS (note 24)	10,182	13,412
Movement in creditors due within 1 year – Other schemes (note 27)	375	(44)
Per Schedule 4	**640,947**	**46,992**
Less movement in debtors related to excess A in A	(648,035)	(31,692)
Per Schedule 1	**(7,088)**	**15,300**

33. Changes in creditors falling due after more than one year (see Schedules 1 and 4)

	2002-03	2001-02
	£000	£000
Movement in creditors due after 1 year – PCSPS (note 24)	17,139	27,321
Per Schedule 1	**17,139**	**27,321**

34. Use of provision (see Schedules 1 and 4)

	2002-03	2001-02
	£000	£000
Central funding of early retirements (note 25)	47,000	57,000
Group transfers (note 22)	13,620	349,374
Per Schedule 1	**60,620**	**406,374**

35. Excess Appropriations in Aid Received in year

	2002-03	2001-02
	£000	£000
From Schedule 3	2,476,967	640,366
Plus received in year, but relating to prior year	83,524	51,831
Less unpaid at year end, but relating to current year	(731,558)	(83,524)
Less received and paid relating to current year	(1,690,000)	-
Excess Appropriations in Aid not yet surrendered to the Consolidated Fund	**138,933**	**608,673**

Notes to the Accounts *(continued)*

36. Related Party Transactions

The PCSPS and CSCS fall within the ambit of the Cabinet Office, which is regarded as a related party. During the year, the Schemes have had material transactions with the Cabinet Office and other departments, executive agencies and trading funds whose employees are members of the Schemes. None of the Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions during the year.

37. 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 PCSPS 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 FRS13 applies.

Liquidity risk

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

Interest rate risk

All of the PCSPS's financial assets and liabilities carry nil or fixed rates of interest. The PCSPS is not therefore exposed to any interest rate risk.

38. Losses

During 2002-03 losses arose in 1,690 cases. The total loss was £234,370.

Printed in the UK by the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
160974 01/04

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

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Fax orders 0870 600 5533
Order through the Parliamentary Hotline Lo-call 0845 7 023474
E-mail book.orders@tso.co.uk
Textphone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9-21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18-19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders 020 7219 3866

TSO Accredited Agents
(see Yellow Pages)

and through good booksellers