



Cabinet Office

# Royal Mail Statutory Pension Scheme Annual Report and Account 2018–19



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# Royal Mail Statutory Pension Scheme

## Annual Report and Account 2018–19

(For the year ended 31 March 2019)

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

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| <b>Contents</b>   | <b>Page</b> |
|---|-------------|
| <b>Accountability Report</b>  |             |
| <b>Corporate Governance Report</b>  |             |
| Report of the manager   | 5           |
| Report of the actuary   | 12          |
| Statement of Accounting Officer's responsibilities  | 15          |
| Governance Statement  | 16          |
| <b>Parliamentary Accountability and Audit Report</b>                                      |             |
| Statement of Parliamentary Supply   | 20          |
| Losses and special payments disclosure  | 22          |
| The Certificate and Report of the Comptroller and Auditor General to the House of Commons | 23          |
| <b>Financial Statements</b>   |             |
| Statement of Comprehensive Net Expenditure  | 26          |
| Statement of Financial Position   | 27          |
| Statement of Changes in Taxpayers' Equity   | 28          |
| Statement of Cash Flows   | 29          |
| Notes to the Scheme's financial statements  | 30          |

## Accountability Report

### Corporate Governance Report

#### Report of the manager

##### 1. Introduction

This report provides key information on the Royal Mail Statutory Pension Scheme (RMSPS) (“the Scheme”) including ongoing developments and other information for members.

##### 2. The Scheme, its objectives and strategy

With effect from 1 April 2012 and under the provisions of the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012, which received Royal Assent on 13 June 2011, the government assumed responsibility for both the Royal Mail Pension Plan (RMPP) deficit and the majority of the plan’s liabilities. Following this transfer of responsibility, the RMSPS was established to provide for pensions or other benefits to be payable to, or in respect of, persons who are, or have been, qualifying members of the RMPP.

The RMSPS is a statutory scheme as defined under Section 26(1) of the Finance Act 1970 and is a registered scheme under the Finance Act 2004.

There are no investment arrangements within the RMSPS to meet the liabilities of the Scheme. Future benefits will be paid out of the consolidated fund, to the extent that Parliament votes the necessary funds as requested by the Cabinet Office.

##### 3. Main features of the Scheme

The RMSPS is an unfunded, defined benefit scheme providing pension and lump sum benefits on retirement and death to members and former members of the RMPP and their dependants, in respect of their service up to 31 March 2012. The Scheme is closed to new members and the accrual of new benefits, consequently there are no employer or employee contributions.

There are two primary benefit structures within the RMSPS which are set out in Schedule 1 of the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012:

- Section A and B members are entitled to a pension and an automatic lump sum on retirement (with the option to exchange their pension for an additional lump sum or vice versa, subject to Her Majesty’s Revenue and Customs (HMRC) limits); and
- Section C members are entitled to a pension on retirement, with the option to exchange their pension for a lump sum up to HMRC limits.

The Scheme has three main categories of membership:

- pensioners (those members who are receiving a pension);
- deferred members (those members who have left pensionable service in the RMPP but are not yet receiving their pension); and
- active deferred members (those members who remain in pensionable service within the RMPP).

The Scheme has some dual members i.e. members with two benefits entitlements. This arose when the rules on normal retirement age (NRA) changed from 60 to 65, known as NRA60 & NRA65.

## 4. Changes in benefits

Active deferred members differ from deferred members in that their pension entitlements receive revaluation based on the Retail Price Index (RPI) while they are still employed by the Royal Mail or Post Office. Once they leave RMPP service and become deferred members, revaluation for section A and B members is based on the Consumer Prices Index (CPI). Section C members continue to receive revaluation based on the RPI.

For section A and B members, in accordance with scheme regulations, eligible pensions in payment and deferred benefits were increased on 9 April 2018, reflecting the 3.0% increase in the CPI for the year ended September 2017. No discretionary increases were awarded.

For section C members, in accordance with scheme regulations, eligible pensions in payment and deferred benefits were increased by 3.9% in April 2018, reflecting the change in the RPI for the year ended September 2017 (capped at 5.0%). No discretionary increases were awarded.

## 5. Management of the Scheme

Under the Postal Services Act 2011, the Minister for the Civil Service (currently the Prime Minister) is the Scheme Manager. In practice, this responsibility is delegated to the Minister for the Cabinet Office, and the Permanent Secretary for the Cabinet Office is the Accounting Officer of the Scheme.

The Cabinet Office is ultimately responsible for ensuring that the Scheme operates effectively. The day to day administration was carried out by the Pensions Service Centre (PSC), part of Royal Mail Group (RMG) until 30 September 2018. Capita Employee Benefits Ltd were awarded the contract for the administration from 1 October 2018. The administration is carried out under a contract managed by Cabinet Office. Further details are provided in note 16 of the report of the manager.

The Cabinet Office retains direct management of:

- maintenance of scheme rules;
- complaints made under the second stage of the internal dispute resolution procedures and responses to referrals from the Pensions Ombudsman;
- ensuring appropriate audit programmes and risk frameworks are in place;
- certain discretionary decisions on behalf of the Minister for the Civil Service; and
- scheme finances, including the production of the annual account.

## 6. Cabinet Office and the administrator

The Cabinet Office oversees the delivery of scheme administration through a formal contract.

Under the contract, the administrator is responsible for:

- providing administration for deferred and pensioner scheme members, including paying pensions;
- maintaining accurate and secure records and a proper audit trail of all transactions;
- investigating and responding to complaints made by scheme members, including any made under the first stage of the internal dispute resolution procedures;
- pursuing and reclaiming any overpayments of benefits;
- handling transfers out of the Scheme;
- calculating and paying annual pension increases;
- deducting and paying over tax to HMRC;
- operating a payroll bank account; and
- producing financial and management reports.

In addition, the PSC completed reconciliation work on Guaranteed Minimum Pension records held for members against those held by HMRC.

## 7. Financial review

The total pension liability at 31 March 2019 is £44.0 billion (31 March 2018: £46.4 billion). This relates to benefits accrued before 2012 for qualifying members of the RMPP as at 31 March 2019. The decrease in liability has been driven by changes in assumptions underlying the present value of the Scheme liabilities.

The net expenditure for the year was £1.2 billion (2017–18: £1.3 billion) and entirely consists of the pension financing cost. The reduction in the net expenditure is attributable to the way this cost is calculated; the decrease in the starting liability and a decrease in the nominal discount rate used decreases the interest cost.

Total benefits of £1.4 billion (2017–18: £1.4 billion) were payable in the year in respect of pensions or annuities, commutations, lump sums and death benefits payable. Total transfers out of £4.8 million (2017–18: £7.6 million) were payable in the year, a decrease following the administrative changes on transitioning to the new administrator.

During the year a net actuarial gain of £2.2 billion (2017–18: £0.4 billion actuarial gain) was incurred and has been included within Other Comprehensive Net Expenditure.

The notional cost of the audit is £68,000 (31 March 2018: £40,000). This fee reflects only those costs that are directly associated with the audit of these financial statements and is incorporated in the Cabinet Office Financial Statements.

The total number of scheme members decreased from 388,648 at 31 March 2018 to 384,528 at 31 March 2019.

The financial statements and accompanying notes set out the Scheme's expenditure for the year ended 31 March 2019 and its financial position and cash flows.

## 8. Reconciliation of net cash requirement to estimate

There was a £47.3 million variance between the estimated cash requirement of £1,410.0 million and the outturn of £1,362.7 million. This is primarily due to the estimate incorporating cover for the risk of fluctuation in the incidence of retirements from month to month.

## 9. Membership statistics

| <b>Deferred pensioners<br/>(including active deferred – single status only)</b>    | <b>31 March 2019</b>  | <b>31 March 2018</b>  |
|--|-----------------------|-----------------------|
| <b>At 1 April</b>  | 181,840               | 191,697               |
| Adjustment*  | (178)                 | -                     |
| Full retirements**   | (5,351)               | (6,312)               |
| Deaths   | (286)                 | (335)                 |
| Transfers  | (18)                  | (81)                  |
| Partial retirements (i.e. from single to dual status)                              | <u>(2,683)</u>        | <u>(3,129)</u>        |
| <b>At 31 March</b>   | <b><u>173,324</u></b> | <b><u>181,840</u></b> |
| <b>Dual status pensioners (deferred members with<br/>part benefits in payment)</b> | <b>31 March 2019</b>  | <b>31 March 2018</b>  |
| <b>At 1 April</b>  | 14,026                | 13,019                |
| Full retirements**   | (1,948)               | (2,076)               |
| Deaths   | (59)                  | (46)                  |
| Partial retirements (i.e. from single to dual status)                              | <u>2,683</u>          | <u>3,129</u>          |
| <b>At 31 March</b>   | <b><u>14,702</u></b>  | <b><u>14,026</u></b>  |
| <b>Pensioners</b>  | <b>31 March 2019</b>  | <b>31 March 2018</b>  |
| <b>At 1 April</b>  | 192,782               | 190,757               |
| Adjustment*  | 786                   | -                     |
| Full retirements   | 7,127                 | 8,144                 |
| New dependants   | 1,423                 | 1,965                 |
| Pensioner payment ceased   | (92)                  | (231)                 |
| Deaths   | <u>(5,524)</u>        | <u>(7,853)</u>        |
| <b>At 31 March</b>   | <b><u>196,502</u></b> | <b><u>192,782</u></b> |
| <b>Total</b>   | <b><u>384,528</u></b> | <b><u>388,648</u></b> |

\* Adjustments are needed to the membership movement to reflect differences in reporting following the administration transition

\*\*Full retirements from deferred and dual status pensioners include 172 members who took trivial commutations.

## 10. Scheme records

Records were maintained by the Royal Mail Pensions Service Centre to 30 September 2018, and Capita from 1 October 2018, with the exception of dual status members.

## 11. Additional voluntary contributions (AVCs)

There are no additional voluntary contributions allowed within the RMSPS.



## 12. Scheme developments

There were no changes to the Scheme rules during the year.

The Pension Service Centre completed the Guaranteed Minimum Pension (GMP) reconciliation and rectification exercise for the Scheme before the administration services were transferred to Capita.

The Royal Mail Pension Plan closed to future accrual and members will build up benefits in a Defined Benefit Cash Balance Scheme (DBCBS) with effect from 1 April 2018, or opt to join the Royal Mail Defined Contribution Plan. In addition, RMG are proposing setting up a Collective Defined Contribution Scheme following the results of a formal government consultation. This is not expected to have an impact on the RMSPS.

## 13. Reporting of personal data related incidents

There have been no instances of loss of protected personal data reported to the Information Commissioner's Officer in 2018–19.

In line with the General Data Protection Regulations and Data Protection Act 2018 the Scheme has ensured that:

- contracts with suppliers are amended to ensure that data is processed, by data processors, in accordance with the legislation;
- robust reporting mechanisms are in place; and
- a scheme data management policy and privacy notices are in place.

Any breaches of General Data Protection Regulations are monitored by the Cabinet Office, and there have been no reportable breaches during the year.

## 14. Actuarial position

The Scheme's liabilities as at 31 March 2019 were calculated by the Government Actuary's Department (the appointed actuary to the Scheme) in accordance with 'International Accounting Standard 19 Employee Benefits (IAS 19)' and the requirements of Chapter 9 of the 2018-19 version of the 'Government Financial Reporting Manual (FRM)'. This assessment was completed using full scheme data as at 31 March 2018, updated on an approximate basis by the Government Actuary's Department to reflect changes that have occurred from 1 April 2018 to 31 March 2019.

## 15. Events after the reporting period

There have been no material events between the Statement of Financial Position date and the date the account was authorised for issue.

Capita Employee Benefits Limited moved from being an indirectly held subsidiary of Capita plc to being a directly held subsidiary of Capita plc. This is an internal reorganisation of the legal holding structure and has no impact on the Scheme.

The Accounting Officer of the Scheme has authorised these financial statements to be issued on the date that the Comptroller & Auditor General (C&AG) certifies the account.

## 16. Contract for scheme administration

During 2017, the Cabinet Office ran a procurement exercise for the contract to administer the Scheme. The procurement was published in the official Journal of the European Union and following a robust and open process Capita Employee Benefits was awarded the contract in October 2017 which came into effect on 1 October 2018 for seven years.

There were expected challenges faced on transition, with moving data onto the new administrators system, and a service stabilisation plan was implemented to ensure the elimination of any work backlogs and rectify delays in the payment of overseas pensioners, and initial concerns have now largely been resolved. A data cleanse was performed on transition to verify the data and ensure the proper running of the Scheme.

With respect to dual members, the payroll and helpdesk transferred on 1 October, but casework was held back as the data interface was still going through testing which prevented the sharing of data. The dual member transition and member portal are still progressing. Further details are provided on page 18.

## 17. Auditor

These financial statements have been audited by the C&AG, whose opinion is expressed in the certificate and report of the C&AG to the House of Commons.

## 18. Managers, advisers and employers

### Managers

|   |  |
|---|--|
| Accounting Officer of the Scheme  | John Manzoni   |
| Scheme manager at the Cabinet Office  | Debra Soper  |
| Address for correspondence with the Scheme manager and principal Accounting Officer | Cabinet Office, 70 Whitehall, London SW1A 2AS  |
| Address for correspondence with Capita Employee Benefits                            | Scheme administrator, Capita Employee Benefits, Hartshead House, 2 Cutlers Gate, Sheffield, S4 7TL |

### Advisers

|                   |   |
|-------------------|---|
| Scheme Actuary    | Government Actuary's Department, Finlaison House, 15–17 Furnival Street, London EC4A 1AB                |
| Principal bankers | Royal Bank of Scotland, 36 St Andrew Square, Edinburgh EH2 2YB  |
| Legal advisers    | Government Legal Department, 1 Kemble Street, London WC2B 4TS   |
| Auditor           | Comptroller and Auditor General, National Audit Office, 157–197 Buckingham Palace Road, London SW1W 9SP |

### Employers

The following employers participated in the Scheme:

- Royal Mail Group; and
- Post Office Limited.

## 19. Disclosure of audit information

As Accounting Officer, as far as I am aware there is no relevant audit information of which the Scheme's auditor is unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

As Accounting Officer, I confirm that the annual report and account as a whole are fair, balanced and understandable, and that I take personal responsibility for them and for the judgements required for determining that they are fair, balanced and understandable.

A handwritten signature in black ink, appearing to read 'J. Manzoni', is written over a horizontal line.

---

**John Manzoni**  
**Principal Accounting Officer and Permanent Secretary**

**15 July 2019**

## Report of the actuary

### Royal Mail Statutory Pension Scheme

### Account for the year ended 31 March 2019

#### Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Cabinet Office (CO). It provides a summary of GAD's assessment of the Scheme liability in respect of the Royal Mail Statutory Pension Scheme (RMSPS) as at 31 March 2019, and the movement in the Scheme liability over the year 2018-19, prepared in accordance with the requirements of Chapter 9 of the 2018-19 version of the Financial Reporting Manual.
2. The RMSPS is a closed defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The Scheme is wholly unfunded. I am not aware of any informal practices operated within the Scheme which lead to a constructive obligation.
3. The assessment has been carried out by calculating the liability as at 31 March 2018 based on the data provided as at 31 March 2018 and rolling forward that liability to 31 March 2019.

#### Membership data

4. Table A summarises the principal membership data as at 31 March 2018 used to prepare this statement.

**Table A - Membership summary**

| Category           | Number of members<br>(single + dual) | Total pension as at 31<br>March 2018 (£ million)* |
|--------------------|--------------------------------------|---|
| Active Deferred    | 85,028                               | 459   |
| Deferred Pensioner | 110,452                              | 369   |
| Pensioner          | 205,988                              | 1,118   |
| Dependents         | 38,516                               | 130   |

\* Including pension increases awarded in April 2018. Does not include NPA65 pension that is not yet in payment for dual status members.

#### Methodology

5. The present value of the liabilities as at 31 March 2019 has been determined using the Projected Unit Credit Method (PUCM), based on the demographic and financial assumptions applying as at 31 March 2019.
6. This statement takes into account the benefits normally provided under the Scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member.

## Principal financial assumptions

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

**Table B - Principal financial assumptions**

| <b>Assumption</b>                       | <b>31 March 2019 p.a.</b> | <b>31 March 2018 p.a.</b> |
|---|---------------------------|---------------------------|
| Rate of return (discount rate)          | 2.90%                     | 2.55%                     |
| Rate of future pension increases* (CPI) | 2.60%                     | 2.45%                     |
| Rate of future pension increases* (RPI) | 3.60%                     | 3.45%                     |
| Real rate of return in excess of:       |                           |                           |
| Pension increases (CPI)                 | 0.29%                     | 0.10%                     |
| Pension increases (RPI)                 | (0.68%)                   | (0.87%)                   |
| Expected return on assets:              | n/a                       | n/a                       |

\*compounded rate

8. The assessment of the liabilities allows for the known pension increases up to and including April 2019.

## Demographic assumptions

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

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

| <b>Baseline mortality</b>           | <b>Standard table*</b> | <b>Adjustment</b> |
|-------------------------------------|------------------------|-------------------|
| <b>Males</b>                        |                        |                   |
| Normal and ill health retirements*  | S2PMA                  | 121%              |
| Dependants                          | S2PMA                  | 115%              |
| <b>Females</b>                      |                        |                   |
| Normal and ill health retirements** | S2PFA                  | 118%              |
| Dependants                          | S2DFA                  | 111%              |

\*From the 'S2' series of standard tables published by the CMI and based on the experience of self-administered pension schemes. Separate tables are available based on experience of members retiring in normal and ill-health and for dependants.

\*\*Future ill-health retirees are assumed to be subject to the same mortality as normal health retirees but on the basis that they were born three years earlier than their actual date of birth.

10. These assumptions are the same as those adopted for the 31 March 2018 accounting valuation of the Scheme.
11. Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017. Note that the account as at 31 March 2018 was based on the previous 2016-based projections.

## Liabilities

12. Table D summarises the assessed value as at 31 March 2019 of benefits accrued under the Scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 11. The corresponding figures for the previous year are shown for comparison.

**Table D – Statement of Financial Position**

|                                   | 31 March<br>2019<br>£ m | 31 March<br>2018<br>£ m | 31 March<br>2017<br>£ m | 31 March<br>2016<br>£ m | 31 March<br>2015<br>£ m |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total market value of assets      | nil                     | nil                     | nil                     | nil                     | nil                     |
| Value of liabilities              | 43,960                  | 46,390                  | 46,814                  | 38,302                  | 40,274                  |
| Surplus/(Deficit)                 | (43,960)                | (46,390)                | (46,814)                | (38,302)                | (40,274)                |
| of which recoverable by employers | n/a                     | n/a                     | n/a                     | n/a                     | n/a                     |

## Accruing costs

13. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. I am not aware of any events that have led to a material past service cost over 2018/19.
14. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2018/19.

## Sensitivity analysis

15. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2019 of changes to the most significant actuarial assumptions.
16. The most significant financial assumptions are the discount rate and pension increases (based on either RPI or CPI). A key demographic assumption is mortality.
17. Table E shows the indicative effects on the total liability as at 31 March 2019 of changes to these assumptions (rounded to the nearest 0.5%).

**Table E - Sensitivity to significant assumptions**

| Change in assumption*  | Approximate effect on total liability |       |
|--|---------------------------------------|-------|
|  | %                                     | £ bn  |
| <b>Financial assumptions</b>                                     |                                       |       |
| (i) net discount rate increase of ½% a year                      | (8.0)                                 | (3.5) |
| (ii) pension increases of ½% a year                              | 8.0                                   | 3.5   |
| <b>Demographic assumptions</b>                                   |                                       |       |
| (ii) additional 1 year increase in life expectancy at retirement | 3.5                                   | 1.5   |

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

## Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Cabinet Office to prepare for each financial year a statement of account for the Royal Mail Statutory Pension Scheme in the form and on the basis set out in the Accounts Direction.

The financial statements are prepared on an accruals basis and must give a true and fair view of state of affairs of the Scheme at the year end and of the net resource outturn, changes in taxpayers' equity and cash flows for the year then ended. The account is required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the 'Government Financial Reporting Manual (FReM)' and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the 'Government Financial Reporting Manual' have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

HM Treasury has appointed the Permanent Secretary of Cabinet Office as Accounting Officer for the Royal Mail Statutory Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in Accounting Officers' Memorandum issued by HM Treasury and published in 'Managing Public Money'.

## Governance Statement

### 1. Scope of responsibility

As the Accounting Officer for the RMSPS during 2018–19, I have responsibility for maintaining a sound system of governance, risk management and internal control that supports the achievement of the RMSPS'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 “Managing Public Money”.

### 2. Scheme governance

The governance arrangements of RMSPS are designed to:

- be efficient and cost effective with clear separation from the existing Royal Mail Pension Plan;
- be based on a transparent and robust structure which is compliant with legislative provisions in the Postal Services Act 2011 (‘the Act’); and
- be compliant with relevant good practice and policy for public service schemes across government.

### 3. Governance: roles and responsibilities

The bodies and individuals involved in Scheme governance are:

- the **Minister for the Civil Service** (currently the Prime Minister) is the Scheme Manager. In practice, this responsibility is delegated to the **Minister for the Cabinet Office** and me, as the **Permanent Secretary for the Cabinet Office** and the Accounting Officer of the Scheme;
- the **Cabinet Office Audit and Risk Committee** supports and advises me, as the Accounting Officer, on all relevant matters concerning audit and risk;
- the **Civil Service & Royal Mail Pensions Directorate**, which is part of Civil Service Human Resources within the Cabinet Office, oversees the day-to-day management of the Scheme;
- the **Governance Group** is an advisory group which includes member representatives and the Chair is appointed by the Minister for the Cabinet Office;
- the **RMPP Trustee Executive** which has continued responsibility for the ongoing Royal Mail Pension Plan and reviews respective communications for dual members;
- the **Pensions Finance Governance Group** is part of Civil Service Pensions and reviews the governance statement and provides a review of the Scheme report and account and other related issues; and
- the day-to-day administration of the Scheme was carried out by the **Royal Mail Group Pension Service Centre** to 30 September 2018, and by **Capita Employee Benefits Ltd** from 1 October 2018, under a contract with the Cabinet Office operated in accordance with the Department’s internal control framework.

### 4. The Cabinet Office Audit and Risk Committee (COARC)

The COARC is a sub-committee of the Cabinet Office Board which supports me as the Accounting Officer on all relevant matters concerning audit and risk.

The COARC was chaired by Catherine Brown, an independent non-executive member of the Cabinet Office Board, as an acting chair to 1 September 2018, before Mike Ashley, also an independent non-executive member, took over responsibility.

All meetings were attended by at least one other non-executive director, the Cabinet Office Finance Director and me.

The Scheme was discussed at one meeting, with reports and updates provided by Civil Service & Royal Mail Pensions, the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA).



## 5. The Governance Group

The RMSPS Governance Group is an advisory group established as part of the RMSPS governance. Its membership is based on nominations from a range of stakeholders including HM Treasury, the Royal Mail Group plc, Post Office Limited, the Postal Unions, the National Federation of Occupational Pensioners, the Cabinet Office and a representative of the Secretary of State for the Department for Business, Energy & Industrial Strategy (BEIS).

The primary functions of the governance group are as follows:

- oversee and input into communications with the Scheme's membership and other stakeholders;
- monitor cross-scheme issues to ensure consistency; and
- develop co-operative working relationships with all of the stakeholders of the RMSPS and provide feedback to them on the operation of the Scheme.

The governance group met four times in the year to 31 March 2019 and was presented with reports highlighting the activities of the preceding three months. These reports included:

- actual pension payments made against forecasts;
- a scheme report highlighting significant activity in the reporting period;
- the number of overpayments made;
- the performance of the Royal Mail Pensions Service Centre and Capita against agreed targets; and
- transition to the new administration contract.

These reports and the data presented to the Governance Group are produced by the Scheme administrator and reviewed by the RMSPS management team, to provide the level of detail needed for effective oversight.

## 6. Pensions Finance Governance Group

The Pensions Finance Governance Group provides proper oversight of financial management within Civil Service & Royal Mail Pensions which includes the RMSPS.

The Scheme was discussed at five meetings during the year, with representatives from National Audit Office, Government Actuary's Department and the Cabinet Office central finance team. The group discussed the 2017–18 annual report and account, the main and supplementary estimates and the audit planning report for 2018–19.

## 7. Risk management

The RMSPS has a risk management framework in place to ensure key risks are monitored and effective measures are in place to mitigate them. The risk framework was reviewed in November 2017. The main risks identified and monitored on an ongoing basis are:

- failure of the administrator to process pension payments and lump sums on time;
- insufficient funds to meet liabilities as they fall due; and
- inability to maintain service because of loss of systems or key members of staff.

Additional risks identified and reviewed during the year relate to the transition of the Scheme administration including reducing any casework backlog, data quality and changes within the RMPP, these are recorded in a contracted risk log which is updated on a monthly basis.

To enable robust oversight of RMSPS administration and Capita, a joint Cabinet Office and Capita governance model has been created, with three main governance boards implemented, supported by several working groups, to oversee and monitor the administration.

The monthly service delivery board has met since December 2018, with an initial focus on managing the transition. The board focuses its reviews on the monthly performance against Key Performance Indicators (KPIs). The Strategy board commenced from January 2019, focusing on overseeing the strategic direction and management of the contract and facilitating an environment of continuous improvement for the Scheme, including opportunities to benefit from Capita's investment in technology across their client base. The risk committee records, classifies and categorises all risks prevalent in the Scheme, and agrees actions to mitigate and reduce known risk to an acceptable level.

GIAA assessed these supporting governance arrangements to ensure they are adequate in design and effective in operation. The review found the joint governance model is robust in design, with some minor enhancements identified to further improve control design. GIAA will assess the operational effectiveness of these boards again during 2019-20.

## **8. New administrator**

Following the transition of the Scheme administration to Capita, additional processes to manage the transition were put in place, including the appointment of a transition manager and the creation of a transition project board. The transition project board has met monthly with input from external stakeholders to correctly monitor the administration transition.

GIAA assessed the contract management processes the Cabinet Office had put in place to effectively manage and monitor the contract and provided independent assurance on the adequacy and effectiveness of governance and programme management arrangements supporting the transition. The reviews provided a moderate opinion, identifying good practice in control design, performance and relationship management and that the transition teams and transition governance structures in place are working well. In addition PWC were commissioned to provide technical assurance on the Capita IT solution, and were content with Capita's approach, providing confidence in the Capita calculations and assurance on the membership.

All services with the exception of joint members (members with benefits in both RMSPS and the RMPP) went live with Capita on 1 October 2018. Joint members continue to be administered by the RMG whilst we work with Capita to fully stabilise the operational processes taken over and ensure all the interfaces between RMG and Capita are in place, robust and secure. We expect Capita to be ready to take on the full administration, including Joint members, by October 2019.

An exit plan has been agreed with the Pension Service Centre following the transition to cover the transfer of data and post go-live support, with a data sharing agreement agreed with Royal Mail Pension Trustees Ltd which will provide a basis for the sharing of data and maintain a service for joint members that is focused on a positive experience.

## **9. Data security**

A data privacy impact assessment was performed during the year by the Cabinet Office and cleared through the data protection officer. In addition, the Capita information technology infrastructure was approved by the Cabinet Office accreditor, and a security working group was put in place which meets monthly to discuss any security issues.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance structures, risk management and system of internal control. My review of the effectiveness of the system of internal control is informed by the work of Civil Service & Royal Mail Pensions who are managers of the RMSPS within the Cabinet Office and who have responsibility for the development and maintenance of the internal control framework, by GIAA and Capita Group Internal Audit (GIA), and also by comments made by the external auditors in their management letter and other reports. There have been challenges following the transition, and appropriate structures have been put in place to mitigate any risks, and I will continue to keep this under review.

Quarterly reports and the risk register are received from the administrator and meetings are held regularly to monitor compliance, delivery and risks. Any issues are reported to the Governance Group where appropriate. GIAA acts as the Scheme's overarching internal audit service. It develops an annual audit plan and provides me with an Annual Report and Opinion on the adequacy and effectiveness of risk management, governance and control for the Scheme as a whole. GIAA coordinates its work with Capita GIA and places reliance on the work of Capita GIA to inform its annual opinion.

GIA have developed an audit plan for 2019-20, designed so that GIA delivers effective and efficient assurances to the Cabinet Office on the adequacy and effectiveness of the design and operation of Capita's governance, processes and controls. GIA will also issue an Annual Statement of Assurance each year on its opinion on the adequacy of risk, control and governance processes exercised by Capita management over the systems and processes used to administer the RMSPS contract. Management are satisfied that the controls remain appropriate.

The GIAA Head of Internal Audit provides me with a report on internal audit activity over the reporting period which contains his independent opinion on the adequacy and effectiveness of the Scheme's governance, risk management and internal control arrangements.

For 2018-19 the Scheme received a 'moderate' opinion, and GIAA highlighted the upward control environment trajectory. The report recognises the governance and risk management environment in place forms a good basis to stabilise the operational performance of Capita and provide a quality and value for money service for the Scheme.




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**John Manzoni**  
Principal Accounting Officer and Permanent Secretary

15 July 2019

## Parliamentary accountability and audit report

### Statement of Parliamentary Supply – (Subject to Audit)

In addition to the primary statements prepared under International Financial Reporting Standards, the FReM also requires the Scheme to prepare an additional statement – a Statement of Parliamentary Supply. This statement, and its supporting notes, show outturn against the estimate in terms of the net resource requirement and the net cash requirement.

#### Summary of resource and capital outturn 2018–19

|   |              |           |               |           |           |               |   | 2018–19<br>£000 | 2017–18<br>£000 |
|---|--------------|-----------|---------------|-----------|-----------|---------------|---|-----------------|-----------------|
|   | Estimate     |           |               | Outturn   |           |               | Voted<br>outturn<br>compared<br>with<br>estimate:<br>saving | Total           |                 |
|   | SOPS<br>Note | Voted     | Non-<br>voted | Total     | Voted     | Non-<br>voted |   |                 | Total           |
| <b>Departmental<br/>expenditure<br/>limit</b> |              |           |               |           |           |               |   |                 |                 |
| - Resource                                    |              | -         | -             | -         | -         | -             | -   | -               |                 |
| - Capital                                     |              | -         | -             | -         | -         | -             | -   | -               |                 |
| <b>Annually<br/>managed<br/>expenditure</b>   |              |           |               |           |           |               |   |                 |                 |
| - Resource                                    | SOPS<br>1.1  | 1,168,000 | -             | 1,168,000 | 1,166,000 | -             | 1,166,000   | 2,000           |                 |
| - Capital                                     |              | -         | -             | -         | -         | -             | -   | -               |                 |
| <b>Total budget</b>                           |              | 1,168,000 | -             | 1,168,000 | 1,166,000 | -             | 1,166,000   | 2,000           |                 |
| <b>Non-budget</b>                             |              |           |               |           |           |               |   |                 |                 |
| - Resource                                    |              | -         | -             | -         | -         | -             | -   | -               |                 |
| <b>Total</b>                                  |              | 1,168,000 | -             | 1,168,000 | 1,166,000 | -             | 1,166,000   | 2,000           |                 |

|                                     | Note  | Estimate  | Outturn   | 2018–19<br>£000 | 2017–18<br>£000 |
|-------------------------------------|-------|-----------|-----------|-----------------|-----------------|
| <b>Net cash requirement</b>         | SOPS2 | 1,410,000 | 1,362,730 | 47,270          | 1,355,232       |
| <b>Administration costs 2018–19</b> |       | -         | -         |                 | -               |

Figures in the area outlined in bold are voted totals subject to Parliamentary control.

All outturn figures are classified as voted annually managed expenditure (AME) items.

Explanations of variances between estimate and outturn are given in SoPS Note 2.

**SOPS1 Net outturn****SOPS1.1 Analysis of net resource outturn by section**  
Subject to Audit

|   |                  |           |        |                  |           | 2018-19                              | 2017-18  |
|---|------------------|-----------|--------|------------------|-----------|--------------------------------------|--|
|   |                  |           |        |                  |           | £000                                 | £000   |
|   | Outturn          |           |        | Total<br>Outturn | Estimate  | Outturn                              | Outturn  |
|   | Administration   | Programme |        | Total            | Net Total | Net total<br>compared<br>to Estimate | Net total<br>compared<br>to Estimate,<br>adjusted for<br>virements |
|   | Gross Income Net | Gross     | Income |                  |           |                                      |  |
| <b>Spending in Departmental expenditure limit</b> |                  |           |        |                  |           |                                      |  |
| <b>Voted:</b>                                     |                  |           |        |                  |           |                                      |  |
| - RMSPS   | -                | -         | -      | -                | -         | -                                    | -  |
| <b>Non Voted</b>                                  | -                | -         | -      | -                | -         | -                                    | -  |
| <b>Annually managed expenditure</b>               |                  |           |        |                  |           |                                      |  |
| <b>Voted:</b>                                     |                  |           |        |                  |           |                                      |  |
| - RMSPS   | -                | -         | -      | 1,166,000        | -         | 1,166,000                            | 1,166,000  |
|   |                  |           |        |                  |           |                                      |  |
| <b>Total budget</b>                               | -                | -         | -      | 1,166,000        | -         | 1,166,000                            | 1,166,000  |
|   |                  |           |        |                  |           |                                      |  |
| <b>Non Voted</b>                                  |                  |           |        |                  |           |                                      |  |
| - RMSPS   | -                | -         | -      | -                | -         | -                                    | -  |
| <b>Total</b>                                      | -                | -         | -      | 1,166,000        | -         | 1,166,000                            | 1,166,000  |

**SOPS 2 Reconciliation of net resource outturn to net cash requirement**

Subject to Audit

|  | Note | Estimate<br>£000 | Outturn<br>£000  | 2018–19<br>Net total<br>outturn<br>compared with<br>estimate:<br>saving<br>£000 | 2017–18<br>Outturn<br>£000 |
|--|------|------------------|------------------|---|----------------------------|
| Net resource outturn   |      | 1,168,000        | 1,166,000        | 2,000   | 1,325,000                  |
| Accruals adjustments:  |      |                  |                  |   |                            |
| – Non-cash item – pension financing cost                                   | 8.4  | (1,168,000)      | (1,166,000)      | (2,000)   | (1,292,000)                |
| – Non-cash item – past service cost  | 8.4  | -                | -                | -   | (33,000)                   |
| Changes in working capital other than cash:                                |      |                  |                  |   |                            |
| – Increase/(decrease) in receivables                                       |      | -                | 1,602            | (1,602)   | (407)                      |
| – (Increase)/decrease in payables (within 12 months)                       |      | -                | 1,336            | (1,336)   | (6,499)                    |
| <i>Less movements in the consolidated fund and scheme manager payables</i> |      | -                | (6,470)          | 6,470   | 4,480                      |
| Use of provision:  |      |                  |                  |   |                            |
| Pension  |      | 1,410,000        | 1,366,262        | 43,738  | 1,357,658                  |
| <b>Net cash requirement</b>  |      | <b>1,410,000</b> | <b>1,362,730</b> | <b>47,270</b>   | <b>1,355,232</b>           |

There is a £47.3 million variance from the estimated cash requirement of £1,410.0 million to the outturn of £1,362.7 million. This is primarily due to the estimate incorporating cover for the risk of fluctuation in the incidence of retirements from month to month.

The £2.0 million variance in the net resource outturn of £1,166.0 million is as a result of the final actuarial liability being lower than estimated, resulting in a lower interest cost than expected.

The notional audit cost of £68,000 (2017–18: £40,000), in respect of the C&AG's audit of the Scheme's financial statements for the year ended 31 March 2019, is borne by the Vote of the Cabinet Office and is therefore not a reconciling item in the note above.

**Losses and special payments**

Subject to Audit

There are no losses or special payments, individually or in aggregate in excess of £300,000 which would require disclosure during the year to 31 March 2019 (2017–18: none), or that have been recognised since that date.

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

### Opinion on financial statements

I certify that I have audited the financial statements of the Royal Mail Statutory Pension Scheme, for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Losses and Special Payments Disclosures that is described in those disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2019 and of its total comprehensive net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2019 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), and Practice Note 15 – The Audit of Occupational Pension Schemes in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Royal Mail Statutory Pension Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Royal Mail Statutory Pension Scheme's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

### Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Royal Mail Pension Scheme's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are, Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises information included in the Accountability Report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.



## **Opinion on other matters**

In my opinion:

- the Losses and Special Payments Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Royal Mail Statutory Pension Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the Accountability Report; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Parliamentary Accountability and Audit Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Report**

I have no observations to make on these financial statements.

**Gareth Davies**

**Date 17 July 2019**

**Comptroller and Auditor General**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

## Financial Statements

### Statement of Comprehensive Net Expenditure for the year ended 31 March 2019

|   | Note | 2018–19<br>£000    | 2017–18<br>£000  |
|---|------|--------------------|------------------|
| <b>Principal Arrangements – Royal Mail Statutory Pension Scheme</b>             |      |                    |                  |
| <b>Expenditure</b>  |      |                    |                  |
| Pension financing cost  | 3    | 1,166,000          | 1,292,000        |
| Past service cost   | 4    | -                  | 33,000           |
| <b>Net Expenditure</b>  |      | <b>1,166,000</b>   | <b>1,325,000</b> |
| <b>Other Comprehensive Net Expenditure</b>                                      |      |                    |                  |
| Net actuarial gain  | 8.7  | (2,229,738)        | (391,342)        |
| <b>Total Comprehensive Net (income)/expenditure for the year ended 31 March</b> |      | <b>(1,063,738)</b> | <b>933,658</b>   |

The notes on pages 30 to 36 form part of these financial statements.

**Statement of Financial Position**  
as at 31 March 2019

|   |             | <b>31 March</b>            | <b>31 March</b>            |
|---|-------------|----------------------------|----------------------------|
|   |             | <b>2019</b>                | <b>2018</b>                |
|   | <b>Note</b> | <b>£000</b>                | <b>£000</b>                |
| <b>Principal Arrangements – Royal Mail Statutory Pension Scheme</b> |             |                            |                            |
| <b>Current assets:</b>  |             |                            |                            |
| Receivables   | 5           | 3,101                      | 1,499                      |
| Cash and cash equivalents   | 6           | <u>14,500</u>              | <u>20,970</u>              |
| <b>Total current assets</b>   |             | <u><b>17,601</b></u>       | <u><b>22,469</b></u>       |
| <b>Current liabilities:</b>   |             |                            |                            |
| Payables (within 12 months)   | 7           | <u>(55,326)</u>            | <u>(56,662)</u>            |
| <b>Total current liabilities</b>                                    |             | <u><b>(55,326)</b></u>     | <u><b>(56,662)</b></u>     |
| <b>Net current liabilities, excluding pension liability</b>         |             | <u><b>(37,725)</b></u>     | <u><b>(34,193)</b></u>     |
| Pension liability   | 8.4         | <u>(43,960,000)</u>        | <u>(46,390,000)</u>        |
| <b>Net liabilities, including pension liabilities</b>               |             | <u><b>(43,997,725)</b></u> | <u><b>(46,424,193)</b></u> |
| <b>Taxpayers' equity:</b>   |             |                            |                            |
| General fund  |             | <u>(43,997,725)</u>        | <u>(46,424,193)</u>        |
|   |             | <u><b>(43,997,725)</b></u> | <u><b>(46,424,193)</b></u> |



**John Manzoni**  
Principal Accounting Officer and Permanent Secretary

15 July 2019

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2019

|  | Note | 31 March<br>2019<br>£000   | 31 March<br>2018<br>£000   |
|--|------|----------------------------|----------------------------|
| Balance as at 1 April                    |      | (46,424,193)               | (46,845,767)               |
| Net Parliamentary funding – drawn down   |      | 1,356,267                  | 1,352,574                  |
| Net Parliamentary funding – deemed       |      | 20,963                     | 16,487                     |
| Supply – prior year                      |      | -                          | 7,134                      |
| Supply payable – current year adjustment | 7    | (14,500)                   | (20,963)                   |
| Net expenditure for the year             |      | (1,166,000)                | (1,325,000)                |
| Net actuarial gain/(loss)                | 8.7  | 2,229,738                  | 391,342                    |
| <b>Balance as at 31 March</b>            |      | <b><u>(43,997,725)</u></b> | <b><u>(46,424,193)</u></b> |

The notes on pages 30 to 36 form part of these financial statements.

## Statement of Cash Flows for the year ended 31 March 2019

|  | Note | 2018–19<br>£000    | 2017–18<br>£000    |
|--|------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>  |      |                    |                    |
| Net expenditure for the year   |      | (1,166,000)        | (1,325,000)        |
| Adjustments for non-cash transactions – pension financing cost   | 3    | 1,166,000          | 1,292,000          |
| Adjustments for non-cash transactions – past service cost  | 4    | -                  | 33,000             |
| (Increase)/decrease in receivables   | 5    | (1,602)            | 407                |
| (Decrease)/increase in payables – pensions   | 7    | (1,336)            | 6,499              |
| <i>less movements in consolidated fund and scheme manager payables</i>   | 7    | 6,470              | (4,480)            |
| Use of provisions – pensions or annuities to retired employees and dependants  | 8.5  | (1,129,815)        | (1,103,497)        |
| Use of provisions – commutations and lump-sum payments   | 8.5  | (211,558)          | (228,887)          |
| Use of provisions – death benefits payable   | 8.5  | (20,136)           | (17,631)           |
| Use of provisions – refunds and transfers  | 8.6  | (4,753)            | (7,643)            |
| <b>Net cash outflow from operating activities</b>  |      | <b>(1,362,730)</b> | <b>(1,355,232)</b> |
| <b>Cash flows from financing activities</b>  |      |                    |                    |
| From the consolidated fund (supply) – current year   |      | 1,356,267          | 1,352,574          |
| From the consolidated fund (supply) – prior year   |      | -                  | 7,134              |
| <b>Net Parliamentary financing</b>   |      | <b>1,356,267</b>   | <b>1,359,708</b>   |
| Adjustments for payments and receipts not related to supply  |      | -                  | -                  |
| <b>Net financing</b>   |      | <b>1,356,267</b>   | <b>1,359,708</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents in the year before adjustment for receipts and payments to the consolidated fund</b> |      | <b>(6,463)</b>     | <b>4,476</b>       |
| (Decrease)/increase of monies that are payable to the Scheme manager as they are outside the scope of the Scheme's activities                |      | (7)                | 4                  |
| <b>Net (decrease)/increase in cash and cash equivalents in the year after adjustment for receipts and payments to the consolidated fund</b>  |      | <b>(6,470)</b>     | <b>4,480</b>       |
| <b>Cash and cash equivalents at 1 April</b>  | 6    | 20,970             | 16,490             |
| <b>Cash and cash equivalents at 31 March</b>   | 6    | 14,500             | 20,970             |
| <b>Net (decrease)/increase in cash and cash equivalents</b>  |      | <b>(6,470)</b>     | <b>4,480</b>       |

The notes on pages 30 to 36 form part of these financial statements.

## Notes to the Scheme financial statements

### 1 Basis of preparation of the Scheme financial statements

The financial statements of the Scheme have been prepared in accordance with the relevant provisions of the 2018–19 ‘Government Financial Reporting Manual (FReM)’ issued by HM Treasury. The accounting policies contained in the ‘FReM’ apply International Financial Reporting Standards as adapted or interpreted for the public sector. ‘IAS 19 Employee Benefits’ and ‘IAS 26 Accounting and Reporting by Retirement Benefit Plans’ are of particular relevance to these statements.

These financial statements set out the RMSPS’s transactions and balances relating to scheme members, all of whom transferred into the Scheme as at 1 April 2012. As this is a closed scheme, there are no employer or employee contributions, the ongoing pension and other payments are funded from the consolidated fund. The administrative expenses associated with the operation of the Scheme are borne by the Cabinet Office and reported in the Cabinet Office departmental account.

The Statement of Comprehensive Net Expenditure shows income and expenditure during the year. The only expenditure items are the actuary’s estimates of the interest on the Scheme’s ongoing liabilities and actuarial loss for the year. The Statement of Financial Position includes the actuary’s estimate of the unfunded future pension costs of scheme members. These financial statements should be read in conjunction with the actuary’s report.

### 2 Statement of accounting policies

The accounting policies contained in the ‘FReM’ follow International Financial Reporting Standards to the extent that they are meaningful and appropriate in the public sector context.

Where the ‘FReM’ permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the Scheme’s financial statements. Where transactions are accounted for on a cash basis this is specifically stated in the notes below.

An assessment of International Financial Reporting Standards (IFRS) implemented in the year considered ‘IFRS 9 Financial Instruments’ and determined no material transactions or balances were affected, and ‘IFRS 15 Revenue from Contracts with Customers’ is not applicable to the Scheme.

An assessment of International Financial Reporting Standards (IFRS) issued but not yet effective, considered ‘IFRS 16 Leases’ and ‘IFRS 3 Business Combinations’ and determined they are not applicable to the Scheme.

#### 2.1 Accounting convention

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

#### 2.2 Pension contributions receivable

2.2.1 There are no employees’ or employers’ contributions made into this scheme.

#### 2.3 Transfers in

2.3.1 There are no transfers in as the Scheme is closed to new members.

#### 2.4 Transfers out

2.4.1 Transfers out represent capital sums paid to other pension schemes for members who have left the Scheme. Transfers out are normally accounted for on a cash basis as use of provision, whereby payments in relation to transfers out decrease the total pension scheme’s liability.

## **2.5 Past Service cost**

- 2.5.1 Past service costs are increases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past Service costs are recognised in the Combined Statement of Comprehensive Net Expenditure on a straight-line basis over the period in which increases in benefits vest.

## **2.6 Pension financing cost**

- 2.6.1 The interest cost is the increase during the year in the present value of the Scheme's liabilities because the benefits are one year closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on the discount rate (including inflation) at the start of the year, i.e. 2.55% for 2018–19 (2.80% for 2017–18).

## **2.7 Scheme liability**

- 2.7.1 Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit method and the assumptions set out in note 8.1 below.
- 2.7.2 Full actuarial assessments by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent full actuarial assessment at the Statement of Financial Position date and updates it to reflect current conditions and significant recent developments. The most recent full actuarial valuation was as at 31 March 2018.

## **2.8 Pension benefits payable**

- 2.8.1 Pension benefits payable are accounted for on an accruals basis as a decrease in the Scheme pension liabilities. These include pensions, lump sums and death in service payments.

## **2.9 Injury benefits**

- 2.9.1 There are no injury benefits payable by the Scheme.

## **2.10 Actuarial gains and losses**

- 2.10.1 Actuarial gains or losses arising are recognised in the Statement of Comprehensive Net Expenditure.

## **2.11 Additional voluntary contributions**

- 2.11.1 There are no additional voluntary contributions (AVCs) directly within the Scheme. AVC funds were not transferred into the RMSPS as part of the transfer of liabilities from the RMPP to the RMSPS. Any AVC contracts entered into with third party financial institutions in respect of AVCs are managed by the RMPP. However, when the Scheme is obliged to do so, it pays certain benefits arising from the disinvestment of AVCs to the relevant scheme members. The Scheme then recovers all payments, in respect of any AVC benefit payments, from the RMPP. Where AVCs are still to be recovered at the year end this is included as a receivable balance.

## **2.12 Significant estimates and judgements**

- 2.12.1 The key estimates and judgements relate to the valuation of the pensions liability set out in note 8 below.

**3 Pension financing cost (see also Note 8)**

|   | <b>2018–19</b>   | <b>2017–18</b>   |
|---|------------------|------------------|
|   | <b>£000</b>      | <b>£000</b>      |
| Net interest on defined-benefit liabilities | 1,166,000        | 1,292,000        |
|   | <u>1,166,000</u> | <u>1,292,000</u> |

**4 Past service cost**

|                    | <b>2018–19</b> | <b>2017–18</b> |
|--------------------|----------------|----------------|
|                    | <b>£000</b>    | <b>£000</b>    |
| Past service costs | -              | 33,000         |
|                    | <u>-</u>       | <u>33,000</u>  |

**5 Receivables**

|   | <b>2018–19</b> | <b>2017–18</b> |
|---|----------------|----------------|
|   | <b>£000</b>    | <b>£000</b>    |
| <b>Amounts falling due within one year:</b> |                |                |
| RMPP  | 1,566          | 791            |
| Repayment from pensioners                   | 1,484          | 613            |
| Cabinet Office                              | 51             | 95             |
| <b>Balance at 31 March</b>                  | <u>3,101</u>   | <u>1,499</u>   |

**6 Cash and cash equivalents**

|                             | <b>2018–19</b> | <b>2017–18</b> |
|-----------------------------|----------------|----------------|
|                             | <b>£000</b>    | <b>£000</b>    |
| Balance at 1 April          | 20,970         | 16,490         |
| Net change in cash balances | (6,470)        | 4,480          |
| <b>Balance at 31 March</b>  | <u>14,500</u>  | <u>20,970</u>  |

The following balances at 31 March were held at:

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| Government Banking Service (GBS)  | 14,268        | 20,969        |
| Commercial banks and cash in hand | 232           | 1             |
| <b>Balance at 31 March</b>        | <u>14,500</u> | <u>20,970</u> |



## 7 Payables – in respect of pensions

|  | 2018–19<br>£000        | 2017–18<br>£000        |
|--|------------------------|------------------------|
| <b>Amounts falling due within one year:</b>                                    |                        |                        |
| Pensions payable   | (20,405)               | (17,652)               |
| Lump sums payable  | (9,715)                | (7,603)                |
| Tax deductions payable   | (10,706)               | (10,436)               |
| Amounts issued from the consolidated fund for supply but not spent at year end | (14,500)               | (20,963)               |
| Amounts payable to the Scheme manager  | -                      | (7)                    |
| Other payables   | -                      | (1)                    |
| <b>Balance at 31 March</b>   | <b><u>(55,326)</u></b> | <b><u>(56,662)</u></b> |

## 8 Provision for pension liabilities

### 8.1 Assumptions underlying the pension liability

The RMSPS is a closed, defined benefit scheme and is wholly unfunded. Pension liabilities are accrued up to 31 March 2012, as explained in more detail in the Report of the Manager. The calculation of the pension liability is based on a full actuarial assessment of the Scheme carried out as at 31 March 2018, updated annually by the Government Actuary's Department to reflect changes that have occurred from 1 April 2018 to 31 March 2019. The report of the actuary in these financial statements sets out the scope, methodology and results of the work the actuary has carried out.

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

- scheme membership, including age profiles, active and deferred members 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's liabilities, other than those financial assumptions prescribed by HM Treasury, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The major assumptions used by the actuary, including mortality assumptions, are described in the report of the actuary; the primary financial assumptions are set out below. Since the Scheme is closed to future accrual there are no assumptions about potential pay increases.

|  | At 31 March 2019<br>% | At 31 March 2018<br>% |
|--|-----------------------|-----------------------|
| Nominal rate of return (discount rate) | 2.90                  | 2.55                  |
| Nominal pension increases (RPI)        | 3.60                  | 3.45                  |
| Nominal pension increases (CPI)        | 2.60                  | 2.45                  |
| Discount rate net of inflation (RPI)   | (0.68)                | (0.87)                |
| Discount rate net of inflation (CPI)   | 0.29                  | 0.1                   |

The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the Scheme liabilities. However, the Scheme manager acknowledges that the valuation is inherently uncertain, since a change in any one of these assumptions will either increase or reduce the liability.

The assumption with the biggest impact on the reported liability is the discount rate net of price inflation. As required by 'IAS 19', this is based on yields on high quality corporate bonds. However, unlike 'IAS 19', the yields are prescribed by HM Treasury and so not assessed at the reporting date, nor calibrated to the term of the RMSPS liabilities. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

## 8.2 Analysis of the pension liability

| <b>Present value of the actuarial liability in respect of</b> | <b>31 March 2019<br/>£ million</b> | <b>31 March 2018<br/>£ million</b> |
|---|------------------------------------|------------------------------------|
| Pensions in payment   | 20,410                             | 18,450                             |
| Deferred members  | 23,550                             | 27,940                             |
| <b>Total liabilities</b>                                      | <b>43,960</b>                      | <b>46,390</b>                      |

The duration of the scheme's liabilities is approximately 18 years.

## 8.3 Sensitivity Analysis

In accordance with 'IAS 19', the Scheme manager is required to undertake a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation at the end of the reporting period would have been affected by changes in the relevant actuarial assumption.

A sensitivity analysis for each significant actuarial assumption as at the end of the accounting year is detailed below.

### Sensitivity to significant assumptions

| <b>Change in assumption*</b>                                     | <b>Approximate effect on total liability</b> |             |
|--|--|-------------|
|  | <b>%</b>                                     | <b>£ bn</b> |
| <b>Financial assumptions</b>                                     |  |             |
| (i) net discount rate increase of ½% a year                      | (8.0)  | (3.5)       |
| (ii) pension increases of ½% a year                              | 8.0  | 3.5         |
| <b>Demographic assumptions</b>                                   |  |             |
| (ii) additional 1 year increase in life expectancy at retirement | 3.5  | 1.5         |

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

## 8.4 Analysis of movements in the Scheme liability

|   | <b>Note</b> | <b>2018–19<br/>£000</b> | <b>2017–18<br/>£000</b> |
|---|-------------|-------------------------|-------------------------|
| Scheme liability as at 1 April                |             | (46,390,000)            | (46,814,000)            |
| Past service cost                             |             | -                       | (33,000)                |
| Pension financing cost                        | 3           | (1,166,000)             | (1,292,000)             |
| Benefits payable                              | 8.5         | 1,361,509               | 1,350,015               |
| Pension payments to and on account of leavers | 8.6         | 4,753                   | 7,643                   |
| Net actuarial gains                           | 8.7         | 2,229,738               | 391,342                 |
| <b>Scheme liability at 31 March</b>           |             | <b>(43,960,000)</b>     | <b>(46,390,000)</b>     |

**8.5 Analysis of benefits paid**

|   | <b>2018–19</b>          | <b>2017–18</b>          |
|---|-------------------------|-------------------------|
|   | <b>£000</b>             | <b>£000</b>             |
| Pensions or annuities to retired employees and dependants (net of recoveries or overpayments) | 1,129,815               | 1,103,497               |
| Commutations and lump sum benefits on retirement  | 211,558                 | 228,887                 |
| Death benefits payable  | <u>20,136</u>           | <u>17,631</u>           |
| <b>Per Statement of Cash Flows</b>  | <b><u>1,361,509</u></b> | <b><u>1,350,015</u></b> |

**8.6 Analysis of payments to and on account of leavers**

|  | <b>2018–19</b>      | <b>2017–18</b>      |
|--|---------------------|---------------------|
|  | <b>£000</b>         | <b>£000</b>         |
| Payments to members joining State scheme           | 3                   | -                   |
| Individual transfers to other schemes              | <u>4,750</u>        | <u>7,643</u>        |
| <b>Total payments to and on account of leavers</b> | <b><u>4,753</u></b> | <b><u>7,643</u></b> |

**8.7 Analysis of actuarial gain/(loss)**

|  | <b>2018–19</b>          | <b>2017–18</b>        |
|--|-------------------------|-----------------------|
|  | <b>£000</b>             | <b>£000</b>           |
| Experience gains and losses arising on the pension liabilities | (1,378,262)             | (202,658)             |
| Changes to assumptions   | <u>3,608,000</u>        | <u>594,000</u>        |
| <b>Total actuarial gain</b>                                    | <b><u>2,229,738</u></b> | <b><u>391,342</u></b> |

**8.8 History of Experience gains/(losses)**

|  | <b>2018–19</b> | <b>2017–18</b> | <b>2016–17</b> | <b>2015–16</b> | <b>2014–15</b> |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Experience gains and (losses) on scheme liabilities:</b>                  |                |                |                |                |                |
| Amount (£'000)   | (1,378,262)    | (202,658)      | 719,579        | 643,037        | 451,293        |
| Percentage of the present value of the Scheme liabilities                    | 3.14 %         | 0.44%          | (1.54%)        | (1.68%)        | (1.12%)        |
| <b>Total amount recognised in Statement of Changes in Taxpayers' Equity:</b> |                |                |                |                |                |
| Amount (£'000)   | 2,229,738      | 391,342        | (8,476,421)    | 2,075,037      | (3,184,707)    |
| Percentage of the present value of the Scheme liabilities                    | (5.07%)        | (0.84%)        | 18.11%         | (5.42%)        | 7.91%          |

## 9 Financial Instruments

The Scheme's financial instruments comprise of cash, receivables, and payables. Details of these can be found in the relevant notes.

Resources, voted annually by Parliament, finance the pension scheme's net revenue resource requirements, there is, therefore, no exposure to significant liquidity risks. The pension scheme does not access funds from commercial sources and so is not exposed to interest rate risk.

The Scheme has no significant exposure to foreign exchange rate risk. The foreign exchange rate risk falls on the recipient of the payment made by the Scheme. Any increase or decrease in the amounts receivable, in respect of overseas payments liable to foreign exchange rate risk, is borne by the individual member.

There is no material difference between the fair values and carrying values of the pension scheme's financial instruments.

## 10 Contingent liabilities disclosed under IAS 37 – 'Provisions, Contingent Liabilities and Contingent Assets'

The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. In the accounts for 2017-18, a past service cost of £33 million was included to reflect the government's position at that time regarding the equalisation of GMPs (how to make equal payments to men and women) and indexation (price protect) in public sector pension schemes.

On 26 October 2018, the High Court published its judgement in a case regarding the equalisation of GMPs, and found that pensions must be equalised for the effects of unequal GMP. In considering its judgement, HM Treasury's view is that the court has not called in to question the equalisation method used in public service pension schemes.

However, the different benefit structure of Section C of the RMSPS means that a different approach needs to be taken to GMP equalisation for members of this section. Cabinet Office is considering the appropriate approach to take to GMP equalisation across the RMSPS, in conjunction with its advisers. This may give rise to an additional liability in future years, however this is not expected to be material to the actuarial liability disclosed in these accounts.

## 11 Related-party transactions

The RMSPS falls within the ambit of the Cabinet Office, which is regarded as a related party with which the RMSPS has had various material transactions during the year. 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 (2017-18: none).

## 12 Events after the reporting period

There have been no material events between the Statement of Financial Position date and the date the account was authorised for issue.

Capita Employee Benefits Limited moved from being an indirectly held subsidiary of Capita plc to being a directly held subsidiary of Capita plc. This is an internal reorganisation of the legal holding structure and has no impact on the Scheme.

The Accounting Officer of the Scheme has authorised these financial statements to be issued on the date that the Comptroller and Auditor General certifies the account.

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