



Cabinet Office

# Royal Mail Statutory Pension Scheme Annual Report and Account 2020-21





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# Royal Mail Statutory Pension Scheme

## Annual Report and Account 2020-21

(For the year ended 31 March 2021)

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

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# 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 RMPP’s liabilities. Following this transfer of responsibility, the RMSPS was established to provide retirement and death benefits to former members of the RMPP and their dependants, in respect of their service up to 31 March 2012.

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 on the necessary funds as requested by the Cabinet Office.

#### 3. Main features of the Scheme

The RMSPS is an unfunded, defined benefit scheme. 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 members (those who joined the Scheme before 1 December 1971) and section B members (those who joined between 1 December 1971 and 31 March 1987) 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 (those who joined after 31 March 1987) 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 prior to 31 March 2012 but are not yet receiving their pension); and
- active deferred members (joint members) (those members who were in RMPP pensionable service as at 31 March 2012 and continued in RMPP pensionable service).

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 and NRA65.

## 4. Changes in benefits

Active deferred members differ from deferred members in that their deferred pension entitlements held in RMSPS receives 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 6 April 2020, reflecting the 1.7% increase in the CPI for the year ended September 2019. No discretionary increases were awarded.

For section C members, in accordance with scheme regulations, eligible pensions in payment and deferred benefits were increased by 2.4% in April 2020, reflecting the change in the RPI for the year ended September 2019, and is limited to a maximum increase of 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 is carried out by Capita Pension Solutions Ltd. (formerly Capita Employee Benefits Ltd.), under a contract managed by the Cabinet Office.

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 management 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, active deferred and pensioner scheme members, including paying pensions and death benefits;
- 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.

## 7. Financial review

The total pension liability at 31 March 2021 is £48.6 billion (31 March 2020: £49.0 billion). This relates to benefits accrued before 2012 for qualifying members and their beneficiaries of the RMPP as at 31 March 2021.

The net expenditure for the year was £0.9 billion (2019-20: £1.6 billion) and consists solely of the pension financing cost. The expenditure has decreased by £0.7 billion as a past service cost of £0.3 billion was included last year and the interest cost is lower this year following a reduction in the nominal discount rate.

Total benefits of £1.4 billion (2019-20: £1.4 billion) were payable in the year in respect of pensions, commutations, lump sums and death benefits payable. Total transfers out of £4.4 million (2019-20: £4.7 million) were payable in the year.

During the year, a net actuarial loss of £0.2 billion (2019-20: £4.9 billion actuarial loss) was incurred and has been included within Other Comprehensive Net Expenditure. The actuarial loss has been driven by the fall in the nominal discount rate from 1.80% to 1.25% partially offset by a decrease in the assumed rate of pension increases.

The notional cost of the audit is £52,000 (31 March 2020: £50,000). 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 378,769 at 31 March 2020 to 371,559 at 31 March 2021.

The financial statements and accompanying notes set out the Scheme's expenditure for the year ended 31 March 2021 and its financial position and cash flows.

## 8. Reconciliation of net cash requirement to estimate

There was a £33.3 million variance between the estimated cash requirement of £1,473.0 million and the outturn of £1,439.7 million. This is primarily due to the estimate incorporating cover for the risk of a small fluctuation in the incidence of retirements from month to month.

## 9. Guaranteed Minimum Pension (GMP) equalisation and indexation

2016 saw the introduction of the new State Pension which simplified the pension system but removed the mechanism whereby pension schemes and DWP shared the cost of indexing pension payments for members in employment between 1978 and 1997 with a GMP entitlement who reached State Pension age after April 2016.

The Government implemented an 'interim solution' of having public service pension schemes fully index GMPs for members reaching State Pension age after April 2016, and conducted a consultation on how it proposes to ensure it continues to meet these past commitments to public service employees.

The consultation response was published on 23 March 2021 and the Government has decided to make full GMP indexation the permanent solution for scheme members with a GMP reaching State Pension age beyond 5 April 2021, in addition to members who reached State Pension age after April 2016. A past service cost was included in the 2019-20 account to reflect the additional liabilities accrued for affected members, and represented the full expected cost of GMP indexation, therefore no further allowance or adjustment is required in the 2020-21 accounts.

A project to correct GMP indexation applied to member records transferred from the previous administrator is expected to be completed by the end of July 2021. Separate to indexation, work to equalise members' records in Section C of the RMSPS is being arranged, with an expected project completion date by the end of December 2022.



## 10. Membership statistics

<b>Deferred pensioners (including active deferred – single status only)</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
<b>At 1 April</b>	164,739	173,324
Adjustment*	(442)	(253)
Full retirements**	(5,194)	(5,327)
Deaths	(375)	(137)
Transfers	(3)	(12)
Partial retirements (i.e. from single to dual status)	(2,530)	(2,856)
<b>At 31 March</b>	<b>156,195</b>	<b>164,739</b>
<b>Dual status pensioners (deferred members with part benefits in payment)</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
<b>At 1 April</b>	15,770	14,702
Adjustment*	3	(69)
Full retirements**	(1,690)	(1,693)
Deaths	(76)	(26)
Partial retirements (i.e. from single to dual status)	2,530	2,856
<b>At 31 March</b>	<b>16,537</b>	<b>15,770</b>
<b>Pensioners</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
<b>At 1 April</b>	198,260	196,502
Adjustment*	345	(312)
Full retirements	7,112	6,995
Trivial commutations	(228)	(241)
New dependants	2,327	2,580
Pensioner payment ceased	(741)	(12)
Deaths	(8,248)	(7,252)
<b>At 31 March</b>	<b>198,827</b>	<b>198,260</b>
<b>Total</b>	<b>371,559</b>	<b>378,769</b>

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

## 11. Additional voluntary contributions (AVCs)

There are no additional voluntary contributions allowed within the RMSPS. AVC Funds are retained in the RMPP but active deferred members are allowed to spread their AVC benefit entitlement across both schemes.

## 12. Scheme records

The administration of the Scheme was transferred from the Pension Service Centre (PSC) to Capita in 2018. An interface solution was implemented to allow the flow of member data between Capita and PSC to facilitate case processing of retirements and other benefits for active deferred members.

A data sharing agreement is in place with Royal Mail Pension Trustees Ltd. which provides a basis for the sharing of data and maintain a good service for active deferred members.

### **13. Scheme developments**

There were no changes to the Scheme rules during the year. There were no developments within the RMPP that would have a significant impact on the Scheme.

A communication and engagement strategy was implemented in the year to help joint members understand how their benefits are split between the RMSPS and the RMPP and what to expect from the two administrators. The aim is to fully engage members not just when they are due to retire but so they become fully informed of their benefits earlier in their careers by using the tools available and accessing the Scheme information, providing as smooth a member experience as possible. Monthly liaison meetings were held with the RMPP Trustee Executive to coordinate and align scheme communications across the two schemes.

We partnered with the Communications Workers Union at the end of March 2021 to promote the RMSPS website and online portal with its approximately 80,000 members. This resulted in around 3,000 members registering on the online portal and an uplift of thousands of additional visits to the RMSPS website.

### **14. Reporting of personal data related incidents and data security**

Any breaches of General Data Protection Regulations are monitored by the Cabinet Office, and there have been no instances of loss of protected personal data reported to the Information Commissioner's Officer in 2020-21.

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.

Capita's information technology infrastructure is maintained through a monthly security working group which discusses any security issues.

### **15. Actuarial position**

The Scheme's liabilities as at 31 March 2021 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 2020-21 version of the 'Government Financial Reporting Manual (FReM)'. 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 2020 to 31 March 2021.

### **16. Events after the reporting period**

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

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.

### **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: Alex Chisholm, 70 Whitehall, London SW1A 2AS

Scheme manager at the Cabinet Office: Dominic Arthur, Cabinet Office, 10 South Colonnade, Canary Wharf, London E14 4QQ

### Scheme administrator

Address for correspondence: Capita Pension Solutions Ltd, 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, 102 Petty France, London SW1H 9GL

### Auditors

External Auditors: Comptroller and Auditor General, National Audit Office, 157-197 Buckingham Palace Road, London SW1W 9SP

Internal Auditors: Government Internal Audit Agency, 10 Victoria Street, London SW1H 0NB

## 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.



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**Alex Chisholm**  
Principal Accounting Officer and Permanent Secretary

7 July 2021

## Report of the actuary

### Royal Mail Statutory Pension Scheme

### Account for the year ended 31 March 2021

#### 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 2021, and the movement in the Scheme liability over the year 2020-21, prepared in accordance with the requirements of Chapter 9 of the 2020-21 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 2021.

#### 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 (single + dual)	Total pension as at 31 March 2018 (£ million)*
Active Deferred	85,028	459
Deferred Pensioner	110,452	369
Pensioner	205,988	1,118

\* 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 2021 has been determined using the Projected Unit Credit Method (PUCM), based on the demographic and financial assumptions applying as at 31 March 2021.
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. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

## Principal financial assumptions

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 2021 p.a.</b>	<b>31 March 2020 p.a.</b>
Rate of return (discount rate)	1.25%	1.80%
Rate of future pension increases (CPI)	2.22%	2.35%
Real discount rate in excess of:		
CPI inflation	(0.95%)	(0.5%)
Rate of RPI inflation until February 2030	3.22%	3.35%
Rate of RPI inflation from February 2030	2.32%	3.35%

8. The assessment of the liabilities allows for the known pension increases up to and including April 2021.

## 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%

\* No adjustment is made for pensioners who have already retired on ill-health grounds. Future ill-health retirees are assumed to be subject to the above mortality on the basis that the members were born three years earlier than their actual date of birth.

10. The assumptions in Table C above are the same as those adopted for the 31 March 2018 funding valuation of the Scheme and the accounts as at 31 March 2020.
11. Mortality improvements are assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a reduction in life expectancies. The other demographic assumptions, such as for commutation and family statistics, are unchanged from the 2019-20 accounts.

## Liabilities

12. Table D summarises the assessed value as at 31 March 2021 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.

13. **Table D – Statement of Financial Position**

	31 March 2021 £ m	31 March 2020 £ m	31 March 2019 £ m	31 March 2018 £ m	31 March 2017 £ m
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	48,614	48,994	43,960	46,390	46,814
Surplus/(Deficit)	(48,614)	(48,994)	(43,960)	(46,390)	(46,814)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

## Accruing costs

14. 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 2020-21.
15. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2020-21.

## Sensitivity analysis

16. 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 2021 of changes to the most significant actuarial assumptions.
17. The most significant financial assumptions are the discount rate and pension increases (currently based on CPI). A key demographic assumption is mortality.
18. Table E shows the indicative effects on the total liability as at 31 March 2021 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	
	%	£000
<b>Financial assumptions</b>		
(i) net discount rate increase of ½% a year	-8.5	(4,132,000)
(ii) pension increases of ½% a year	7.5	3,646,000
<b>Demographic assumptions</b>		
(ii) additional one-year increase in life expectancy at retirement	4.0	1,945,000

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

**COVID-19 implications**

19. As with the accounts last year, the 2020-21 Resource Accounts are being produced at a time when the UK continues to deal with the COVID-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.
20. The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2020) 11 Revised, dated 18 December 2020, and remain unchanged for these accounts. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.
21. The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short-term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether COVID-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from COVID-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

**Kenneth Starr FIA**  
**Actuary**  
**Government Actuary's Department**  
**12 May 2021**

## 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;
- prepare the financial statements on a going concern basis; and
- confirm that the annual report and financial statements as a whole are fair, balanced and understandable and take personal responsibility for the annual report and financial statements and the judgements required for determining that as a whole they are fair, balanced and understandable.

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 2020-21, 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'. I am also required to provide assurances about the stewardship of the RMSPS. These assurances are provided in this Governance Statement, in line with HM Treasury guidance.

### 2. Scheme governance

The governance arrangements of RMSPS are designed to:

- be efficient and cost effective;
- be based on a transparent and robust structure which is compliant with the Scheme rules; and
- follow relevant good practice and policy for public service schemes across government.

### 3. Governance: roles and responsibilities

The bodies and individuals involved in the 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 Government Business Services 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 that holds pension benefits for active deferred members;
- the **Pensions Finance Governance Group** 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 is carried out by **Capita Pensions Solutions Ltd.** 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)

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.

COARC was chaired by Mike Ashley, an independent non-executive member. All meetings were attended by at least one other non-executive director and the Cabinet Office Finance Director.

Scheme discussions included 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 independent 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 three times in the year to 31 March 2021 and was presented with reports highlighting the activities of the preceding months. These reports included:

- actual pension payments made against forecasts;
- a scheme report highlighting significant activity in the reporting period;
- a risk report highlighting key risks and their ratings;
- the number of overpayments made, recovery performance and causes; and
- the performance of Capita against agreed targets.

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

## 6. Cabinet Office Scheme Governance

The Cabinet Office Pensions directorate has regular service governance arrangements in place with the Scheme administrator, including a Quarterly Strategy Group and a monthly Service Delivery Group, which are supported by a Finance Governance Group and a Risk and Compliance Group. The Pensions Finance Governance Group provides proper oversight of financial management within Civil Service & Royal Mail Pensions and discussed the content of the governance statement and report of the manager.

## 7. Risk management

The Cabinet Office has a risk management framework in place to ensure key risks are monitored and effective measures are in place to mitigate them, via the Risk and Compliance Group. The main risks kept under review and monitored on an ongoing basis are:

<b>Risk</b>	<b>Current Position</b>
Joint member interface issues, including joint member processes, which could result in delays and errors with pension payments	This risk remains high and is being mitigated through improved working with the RMPP. Cabinet Office commissioned an independent review to identify improvements to the joint member processes, which will be implemented in 2021.
Incorrect member data, data provided during the interface process and data security	This issue is static, however, Cabinet Office is working with Capita on a number of data improvements through 2021.
Failure to deliver the GMP equalisation and indexation programme leading to delays or inadequate delivery of the programme	This programme was delayed but work is now progressing to a revised schedule, and phase one should be completed by the end of July 2021. There is no adverse impact on members from this delay.
Work volumes being significantly higher than forecast leading to delays in processing member cases	This risk is driven by external factors (which cannot be controlled) and has become an issue, with the current position covered in paragraph 8 below.
Failure of operational processes which could have an adverse effect on members	This risk remains static, with no issues identified in the past year.

All risks identified and reviewed during the year are recorded in a risk register which is reviewed and updated on a monthly basis. Where risks are outside of tolerance levels, mitigating controls or action are implemented to address risks and are tracked via the Risk and Compliance Group.

## 8. Key issues arising in the reporting period

Along with the rest of the UK, the Scheme continues to deal with the impact of the COVID-19 pandemic and the majority of the administrator's staff continues to work from home as a result. Capita quickly mobilised staff to home-working despite initial technical and connectivity issues early on in the pandemic, and the contact centre has maintained good response results. Following the transition of services from the previous administrator to Capita in November 2018, there has been a backlog of casework, which has been exacerbated by the impact of the pandemic. Capita put in place a stabilisation plan, which has addressed some of the backlog, and was scheduled for completion by April 2021. However, a recent, unexpected increase in casework volumes has adversely affected the recovery plan, and stabilisation will not be achieved until late 2021.

An underlying issue with the administration is the processing of pension events for joint members, due to the need for two separate scheme administrators to share data and coordinate activity. In late 2020, Cabinet Office and the trustees of the RMPP commissioned an independent review of the joint member processes. This has identified a number of process improvements, which should reduce processing times and help to further reduce the backlog of cases.

## 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 a number of parties. These included the Civil Service & Royal Mail Pensions directorate within the Cabinet Office; GIAA reporting into COARC; and the external scheme auditors.

Monthly reports and the risk register are received from the administrator and meetings are held monthly to monitor compliance, delivery and risks. Any issues are reported to the Governance Group where appropriate.

Risks are identified through a number of mediums such as meeting groups (the Service Delivery Review meetings, the Risk Committee, the RMSPS Governance Group, the Security Working Group and the Scheme Manager Risk meeting), risk workshops, horizon scanning, and ad hoc reporting from Capita to the Scheme Manager. Risks are evaluated through workshops or via the RMSPS Risk Committee and are continually monitored (including controls) by the second line function and through reporting to the various meeting groups.

In considering the effectiveness of the internal controls for the Scheme, I have taken into account the findings of the Reporting Accountants' assurance report for Capita Pensions Solutions Ltd. for the year ending December 2020. I have sought information from the administrator to aid consideration of the report's findings and concluded that risks are suitably mitigated by the control arrangements in place.

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 Group Internal Audit (Capita GIA) and places some reliance on the work of Capita GIA to inform its annual opinion.

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

For 2020-21, the Scheme received a 'moderate' opinion, with some improvements required to enhance the adequacy and effectiveness of the framework of governance, risk management and control, with the Scheme yet to achieve its objective of a steady state, but the GIAA recognise that the Scheme Manager, working with the Administrator, is addressing these issues.

Capita GIA developed an audit plan for 2020-21, designed so that Capita 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. The plan was designed to focus on key areas of risk and the system of internal controls under a Business as Usual (BAU) scenario. Audits carried out during the year covered Capita's response to COVID-19 and Data Quality.

Capita GIA 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. Capita GIA was satisfied that for the year 2020-21, the controls in place remain appropriate.




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**Alex Chisholm**  
Principal Accounting Officer and Permanent Secretary

7 July 2021

## 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 2020–21

								2020–21 £000	2019–20 £000
	Estimate			Outturn			Voted outturn compared with estimate: saving	Total	
	SOPS Note	Voted	Non- voted	Total	Voted	Non- voted			Total
<b>Departmental expenditure limit</b>									
- Resource		-	-	-	-	-	-	-	
- Capital		-	-	-	-	-	-	-	
<b>Annually managed expenditure</b>									
- Resource	SOPS 1.1	969,300	-	969,300	868,982	-	868,982	100,318	
- Capital		-	-	-	-	-	-	-	
<b>Total budget</b>		969,300	-	969,300	868,982	-	868,982	100,318	
<b>Non-budget</b>									
- Resource		-	-	-	-	-	-	-	
<b>Total</b>		969,300	-	969,300	868,982	-	868,982	100,318	

	Note	Estimate	Outturn	2020-21 £000 Outturn compared with estimate: saving	2019-20 £000 Outturn
<b>Net cash requirement</b>	SOPS2	1,473,000	1,439,663	33,337	1,421,380
<b>Administration costs 2020-21</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

						2020-21	2019-20
						£000	£000
	Outturn			Total Outturn	Estimate		Outturn
	Administration	Programme		Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements
	Gross Income Net	Gross	Income Net				
<b>Spending in Departmental expenditure limit Voted:</b>							
- RMSPS	- - -	-	-	-	-	-	-
<b>Non-voted</b>	- - -	-	-	-	-	-	-
<b>Annually managed expenditure Voted:</b>							
- RMSPS	- - -	868,982	-	868,982	868,982	969,300	100,318
<b>Total budget</b>	- - -	868,982	-	868,982	868,982	969,300	100,318
<b>Non-voted - RMSPS</b>	- - -	-	-	-	-	-	-
<b>Total</b>	- - -	868,982	-	868,982	868,982	969,300	100,318

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

Subject to Audit

		Estimate	Outturn	2020-21 Net total outturn compared with estimate: saving	2019-20 Outturn
	Note	£000	£000	£000	£000
Net resource outturn		969,300	868,982	100,318	1,554,392
Accruals adjustments:					
– Non-cash item – pension financing cost	8.4	(969,300)	(868,982)	(100,318)	(1,254,392)
– Non-cash item – past service cost	8.4	-	-	-	(300,000)
Changes in working capital other than cash:					
– Increase/(decrease) in receivables		-	865	(865)	(520)
– (Increase)/decrease in payables (within 12 months)		-	(2,473)	2,473	(4,797)
<i>Less movements in the consolidated fund and scheme manager payables</i>		-	412	(412)	6,336
Use of provision:					
Pension		1,473,000	1,440,859	32,141	1,420,361
<b>Net cash requirement</b>		<b>1,473,000</b>	<b>1,439,663</b>	<b>33,337</b>	<b>1,421,380</b>

There is a £33.3 million variance from the estimated cash requirement of £1,473.0 million to the outturn of £1,439.7 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 £100.3 million variance in the net resource outturn of £869.0 million is due to the estimate incorporating cover for the risk of fluctuation in the resource requirement for the year.

The notional audit cost of £52,000 (2019-20: £50,000), in respect of the C&AG's audit of the Scheme's financial statements for the year ended 31 March 2021, 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 2021 (2019-20: none in excess of £300,000), 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 (“the Scheme”) for the year ended 31 March 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury’s Government Financial Reporting Manual.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability and Audit Report that is described in that report 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 2021 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 2021 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’ and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in the United Kingdom’. My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2016. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Scheme in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the Scheme’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.



My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Scheme is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

### **Other Information**

The other information comprises information included in the Annual Report, but does not include the parts of the Parliamentary Accountability and Audit Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

### **Opinion on other matters**

In my opinion:

- the parts of the Parliamentary Accountability and Audit Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Report of the Manager 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.

### **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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Scheme will not continue to be provided in the future.

## 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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Scheme's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Scheme's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Scheme's controls relating to the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012, the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator.
- discussing among the engagement team and involving relevant internal and external specialists, including actuarial specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, significant or unusual transactions and selection of inappropriate assumptions underpinning significant estimates.
- obtaining an understanding of the Scheme's framework of authority as well as other legal and regulatory frameworks that the Scheme operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Scheme. The key laws and regulations I considered in this context included the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012, the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator; and
- obtaining an understanding of the control environment in place at the Scheme, the administrator and the scheme actuary in respect of membership data, the pension liability and benefits payable.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- performing substantive testing of benefits paid in the year to ensure compliance with laws, and regulations and regularity;
- engaging an auditor's expert to review the actuarial methods and assumptions used by the scheme actuary, reviewing the expert's report and undertaking any further procedures as necessary; and
- reviewing any significant correspondence with the Pensions Regulator.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted 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.

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.

## **Report**

I have no observations to make on these financial statements.

**Gareth Davies**

**13 July 2021**

**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 2021

	Note	2020-21 £000	2019-20 £000
<b>Principal arrangements – Royal Mail Statutory Pension Scheme</b>			
<b>Expenditure</b>			
Pension financing cost	3	868,982	1,254,392
Past service cost	4	-	300,000
<b>Net expenditure</b>		<b>868,982</b>	<b>1,554,392</b>
<b>Other comprehensive net expenditure</b>			
Net actuarial loss	8.7	192,258	4,899,946
<b>Total comprehensive net expenditure for the year ended 31 March</b>		<b>1,061,240</b>	<b>6,454,338</b>

The notes on pages 31 to 37 form part of these financial statements.

**Statement of Financial Position**  
as at 31 March 2021

		<b>31 March</b>	<b>31 March</b>
		<b>2021</b>	<b>2020</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	3,446	2,581
Cash and cash equivalents	6	<u>21,248</u>	<u>20,836</u>
<b>Total current assets</b>		<b><u>24,694</u></b>	<b><u>23,417</u></b>
<b>Current liabilities:</b>			
Payables (within 12 months)	7	<u>(62,596)</u>	<u>(60,123)</u>
<b>Total current liabilities</b>		<b><u>(62,596)</u></b>	<b><u>(60,123)</u></b>
<b>Net current liabilities, excluding pension liability</b>		<b><u>(37,902)</u></b>	<b><u>(36,706)</u></b>
Pension liability	8.4	<u>(48,614,358)</u>	<u>(48,993,977)</u>
<b>Net liabilities, including pension liabilities</b>		<b><u>(48,652,260)</u></b>	<b><u>(49,030,683)</u></b>
<b>Taxpayers' equity:</b>			
General fund		<u>(48,652,260)</u>	<u>(49,030,683)</u>
		<b><u>(48,652,260)</u></b>	<b><u>(49,030,683)</u></b>



**Alex Chisholm**  
Principal Accounting Officer and Permanent Secretary

7 July 2021

The notes on pages 31 to 37 form part of these financial statements.

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2021

		<b>31 March 2021 £000</b>	<b>31 March 2020 £000</b>
	<b>Note</b>		
Balance as at 1 April		(49,030,683)	(43,997,725)
Net Parliamentary funding – drawn down		1,439,939	1,427,454
Net Parliamentary funding – deemed		20,574	14,500
Supply payable – current year adjustment	7	(20,850)	(20,574)
Net expenditure for the year		(868,982)	(1,554,392)
Net actuarial loss	8.7	(192,258)	(4,899,946)
		<hr/>	<hr/>
<b>Balance as at 31 March</b>		<b>(48,652,260)</b>	<b>(49,030,683)</b>

The notes on pages 31 to 37 form part of these financial statements.

## Statement of Cash Flows for the year ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
<b>Cash flows from operating activities</b>			
Net expenditure for the year		(868,982)	(1,554,392)
Adjustments for non-cash transactions – pension financing cost	3	868,982	1,254,392
Adjustments for non-cash transactions – past service cost	4	-	300,000
(Increase)/decrease in receivables	5	(865)	520
Increase in payables – pensions	7	2,473	4,797
<i>less movements in consolidated fund and scheme manager payables</i>	7	(412)	(6,336)
Use of provisions – pensions to retired employees and dependants	8.5	(1,174,055)	(1,150,502)
Use of provisions – commutations and lump-sum payments	8.5	(247,235)	(250,377)
Use of provisions – death benefits payable	8.5	(15,198)	(14,773)
Use of provisions – refunds and transfers	8.6	(4,371)	(4,709)
<b>Net cash outflow from operating activities</b>		<b>(1,439,663)</b>	<b>(1,421,380)</b>
<b>Cash flows from financing activities</b>			
From the consolidated fund (supply)		1,439,939	1,427,454
<b>Net Parliamentary financing</b>		<b>1,439,939</b>	<b>1,427,454</b>
Adjustments for payments and receipts not related to supply		-	-
<b>Net financing</b>		<b>1,439,939</b>	<b>1,427,454</b>
<b>Net increase in cash and cash equivalents in the year before adjustment for receipts and payments to the consolidated fund</b>		<b>276</b>	<b>6,074</b>
Increase of monies that are payable to the Scheme Manager as they are outside the scope of the Scheme's activities		136	262
<b>Net increase in cash and cash equivalents in the year after adjustment for receipts and payments to the consolidated fund</b>		<b>412</b>	<b>6,336</b>
<b>Cash and cash equivalents at 1 April</b>	6	20,836	14,500
<b>Cash and cash equivalents at 31 March</b>	6	21,248	20,836
<b>Net increase in cash and cash equivalents</b>		<b>412</b>	<b>6,336</b>

The notes on pages 31 to 37 form part of these financial statements.

## Notes to the Scheme financial statements

### 1.1 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 2020-21 '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, and the past service cost. 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.

### 1.2 Going concern

The Statement of Financial Position as at 31 March 2021 shows a pension liability of £48.6 billion (2019-20: £49.0 billion) reflecting liabilities falling due in the long-term, which are to be financed by drawings from the Consolidated Fund. Such drawings will be grants of Supply approved annually by Parliament to meet the Scheme's pension benefits, which come into payment each year. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than as required for the service of the specified year or retained in excess of that need. In common with other public service pension schemes, the future financing of the Scheme's liabilities is to be met by future grants of supply to be approved annually by Parliament. Such approval for amounts required for 2021-22 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

## 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) issued but not yet effective considered 'IFRS 16 Leases' and 'IFRS 17 Insurance Contracts' and determined they are not applicable, as the Scheme has not entered into any such arrangements.

### 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 scheme 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. 1.80% for 2020-21 (2.90% for 2019-20).

## **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 Credit losses**

- 2.11.1 In accordance with 'IFRS 9 Financial Instruments', any expected credit losses are not considered to be material to the Scheme.

## **2.12 Additional voluntary contributions**

- 2.12.1 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 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.

## 2.13 Critical accounting judgements and key sources of estimation uncertainty

2.13.1 In accordance with IAS 1 – ‘Presentation of Financial Statements’ – the preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. There have been no changes made to past assumptions. 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>2020-21</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>
Net interest on defined-benefit liabilities	868,982	1,254,392
	<b>868,982</b>	<b>1,254,392</b>

### 4 Past service cost

	<b>2020-21</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>
Past service costs	-	300,000
	<b>-</b>	<b>300,000</b>

The past service cost in 2019-20 is in respect of the additional liabilities for the indexation and equalisation of Guaranteed Minimum Pensions (GMP) in public service pension schemes for members reaching State Pension age after 6 April 2021.

### 5 Receivables

	<b>2020-21</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year:</b>		
RMPP	1,769	1,086
Repayment from pensioners	1,625	1,430
Cabinet Office	51	61
Administrator	1	4
<b>Balance at 31 March</b>	<b>3,446</b>	<b>2,581</b>

### 6 Cash and cash equivalents

	<b>2020-21</b>	<b>2019-20</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	20,836	14,500
Net change in cash balances	412	6,336
<b>Balance at 31 March</b>	<b>21,248</b>	<b>20,836</b>

The following balances at 31 March were held at:

Government Banking Service (GBS)	21,224	20,829
Commercial banks and cash in hand	24	7
<b>Balance at 31 March</b>	<b>21,248</b>	<b>20,836</b>

## 7 Payables – in respect of pensions

	2020-21 £000	2019-20 £000
<b>Amounts falling due within one year:</b>		
Pensions payable	(19,118)	(18,471)
Lump sums payable	(9,896)	(10,180)
Tax deductions payable	(12,334)	(10,636)
Amounts issued from the consolidated fund for supply but not spent at year end	(20,850)	(20,574)
Amounts payable to the Cabinet Office	(398)	(262)
<b>Balance at 31 March</b>	<b><u>(62,596)</u></b>	<b><u>(60,123)</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 2021. 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 Manager 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; 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 2021 %	At 31 March 2020 %
Nominal rate of return (discount rate)	1.25	1.80
Nominal pension increases (CPI)	2.22	2.35
Rate of RPI inflation until February 2030	3.22	3.35
Rate of RPI inflation from February 2030	2.32	3.35
Discount rate net of inflation (CPI)	(0.95)	(0.5)

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 2021 £ million</b>	<b>31 March 2020 £ million</b>
Pensions in payment	21,418	21,409
Deferred members	27,196	27,585
<b>Total liabilities</b>	<b>48,614</b>	<b>48,994</b>

## 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>£000</b>
<b>Financial assumptions</b>		
(i) net discount rate increase of ½% a year	(8.5)	(4,132,000)
(ii) pension increases of ½% a year	7.5	3,646,000
<b>Demographic assumptions</b>		
(ii) additional one year increase in life expectancy at retirement	4.0	1,945,000

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

The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2020) 12 Revised, dated 18 December 2020, and remain unchanged for these accounts. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.

**8.4 Analysis of movements in the Scheme liability**

	Note	2020-21 £000	2019-20 £000
Scheme liability as at 1 April		(48,993,977)	(43,960,000)
Past service cost		-	(300,000)
Pension financing cost	3	(868,982)	(1,254,392)
Benefits payable	8.5	1,436,488	1,415,652
Pension payments to and on account of leavers	8.6	4,371	4,709
Net actuarial losses	8.7	<u>(192,258)</u>	<u>(4,899,946)</u>
<b>Scheme liability at 31 March</b>		<b><u>(48,614,358)</u></b>	<b><u>(48,993,977)</u></b>

**8.5 Analysis of benefits paid**

	2020-21 £000	2019-20 £000
Pensions to retired employees and dependants (net of recoveries or overpayments)	1,174,055	1,150,502
Commutations and lump sum benefits on retirement	247,235	250,377
Death benefits payable	<u>15,198</u>	<u>14,773</u>
<b>Per Statement of Cash Flows</b>	<b><u>1,436,488</u></b>	<b><u>1,415,652</u></b>

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

	2020-21 £000	2019-20 £000
Individual transfers to other schemes	<u>4,371</u>	<u>4,709</u>
<b>Total payments to and on account of leavers</b>	<b><u>4,371</u></b>	<b><u>4,709</u></b>

**8.7 Analysis of actuarial loss**

	2020-21 £000	2019-20 £000
Experience gains and losses arising on the pension liabilities	903,142	361,864
Changes to assumptions	<u>(1,095,400)</u>	<u>(5,261,810)</u>
<b>Total actuarial loss</b>	<b><u>(192,258)</u></b>	<b><u>(4,899,946)</u></b>

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

	2020-21	2019-20	2018-19	2017-18	2016-17
<b>Experience gains (and losses) on scheme liabilities:</b>					
Amount (£'000)	903,142	361,864	(1,378,262)	(202,658)	719,579
Percentage of the present value of the Scheme liabilities	(1.86%)	(0.74%)	3.14 %	0.44%	(1.54%)
<b>Total amount recognised in Statement of Changes in Taxpayers' Equity:</b>					
Amount (£'000)	(192,258)	(4,899,946)	2,229,738	391,342	(8,476,421)
Percentage of the present value of the Scheme liabilities	0.40 %	10.00 %	(5.07%)	(0.84%)	18.11%

**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 Scheme's net revenue resource requirements, there is, therefore, no exposure to significant liquidity risks. The 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 Scheme's financial instruments.

**10 Related-party transactions**

The Scheme falls within the ambit of the Cabinet Office, which is regarded as a related party with which the Scheme has had various material transactions during the year in respect of commission income received payable to the Cabinet Office and administration fees paid to be reimbursed to the Scheme. None of the managers of the Scheme, key managerial staff or other related parties have undertaken any material transactions with the Scheme during the year (2019-20: none).

The RMPP has continued responsibility for the ongoing Royal Mail Pension Plan that holds pension benefits for active deferred members. AVC Funds are retained in the RMPP and material transactions are completed during the year in relation to these funds.

**11 Events after the reporting period**

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

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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