

**HSC Pension Scheme Statement  
for the year ended 31 March 2017**



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for the year ended 31 March 2017**

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

*04 July 2017*



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## HSC Pension Scheme Statement for the year ended 31 March 2017

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## **A) ACCOUNTABILITY REPORT**

### **REPORT OF THE MANAGERS**

#### **Background to the Scheme**

##### **Statutory basis for the Scheme**

The HSC Pension Scheme is an unfunded occupational scheme, which is open to all HSC employees and employees of other approved organisations. The Scheme provides pensions in varying circumstances for employees of participating employers. The Scheme receives contributions from employees and employers to defray the costs of pensions and other benefits payable.

Scheme provisions are governed by the following regulations:

- The Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995, as amended
- The Health and Social Care (Pension Scheme) Regulations (Northern Ireland) 2008, as amended
- The Health and Social Care Pension Scheme Regulations (Northern Ireland) 2015, as amended
- The Health and Personal Social Services (Compensation for Premature Retirement) Regulations (Northern Ireland) 1983, as amended
- The Health and Personal Social Services (Superannuation) (Additional Voluntary Contributions) Regulations (Northern Ireland) 1999, as amended

On 1 April 2008 a new section of the HSC Pension Scheme was introduced for new members (the 2008 Section). Most members of the Pension Scheme who joined prior to 1 April 2008 will be in the old section (the 1995 Section). New joiners, on or after 1 April 2008, will be members of the 2008 Section.

On 1 April 2015 a new career average scheme was introduced for new members and members of the 1995 Section and 2008 Section who were more than 13 years and 5 months from their normal retirement age on 1 April 2012.

##### **Eligibility to join the Scheme**

The employers of HSC Pension Scheme members are classified as Employing Authorities or Direction Bodies. Employing Authorities are defined in the Regulations and their staff have automatic entry to the Scheme. Non-HSC employers can apply for Direction Body status in order that their staff may join the Scheme provided they meet specific criteria.

##### **Main features of the Scheme, including benefits and how they are funded**

The HSC Pension Scheme (1995 and 2008 Sections) is a final salary scheme. Members of the 1995 Section receive a pension of 1/80th of the best of the last three year's pensionable pay for each year of membership.

Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.4% of total pensionable earnings over the relevant pensionable service. The lump sum is normally three times the annual pension payment.

Members of the 2008 Section receive a pension of 1/60th of the average of the best three consecutive year's pensionable pay in the last ten for each year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon 1.87% of total pensionable earnings over the relevant pensionable service. There is no automatic lump sum entitlement; however, members can choose to receive a lump sum which may be a maximum of 25% of the value of their fund at retirement.

The 2015 Scheme is a Career Average Revalued Earnings (CARE) Scheme, with benefits based on a proportion of pensionable earnings each year. The pension is built up at a rate of 1/54<sup>th</sup> of each year's pensionable earnings. Active members accrued pension benefits are revalued in line with the Consumer Prices Index plus 1.5%. There is no automatic lump sum entitlement; however members can choose to receive a lump sum by giving up some of their accrued pension.

### **Management of the Scheme**

From 1 April 2009 the HSC Pension Service, part of the Business Services Organisation (BSO), has been responsible for the administration of the HSC Pension Scheme.

The Scheme is managed by the Department of Health, which is responsible for Scheme legislation.

HSC employers are required to comply with Scheme Regulations, including submission of pension data to the HSC Pension Service.

### **Contributions**

Employers' contributions to the Scheme are determined by the Scheme Actuary (the Government Actuary's Department) and are on the basis of salary bands, which are reviewed annually and are a percentage rate of the member's pensionable earnings. The percentage rates payable are reviewed as part of the periodical actuarial review which takes place at least every 4 years.

## Key developments in year

### Changes in contributions

Band	Salary range	2016-17
1	Up to £15,431.99	5.0%
2	£15,432.00 to £21,477.99	5.6%
3	£21,478.00 to £26,823.99	7.1%
4	£26,824.00 to £47,845.99	9.3%
5	£47,846.00 to £70,630.99	12.5%
6	£70,631.00 to £111,376.99	13.5%
7	£111,377.00 and over	14.5%

### Changes in benefits

There was no increase in pension payments in 2016-17.

### Scheme Changes – Legislative Changes 2016-17

Title of legislation	Effective Date	Purpose	Applies to
Health and Personal Social Services (Superannuation), Health and Social Care (Pension Schemes) (Amendment) Regulations (Northern Ireland) 2016 (S.R. 2016 No.384)	1/6/2016	Allows employees of GP Federations to join the Scheme as officer members.	All sections of the Scheme

### Membership statistics

Active members				
Active members at 1 April 2016				60,027
Retrospective adjustment*				4,745
Add:	New entrants			581
Less:	Retirements in the year			(1,510)
	Transfers out			-
	Undecided leavers			(277)
	Refunds			(19)
	Deaths			(20)
	Unclaimed refundable service			-
	Leaving with deferred rights			(9)
<b>Active members at 31 March 2017</b>				<b>63,518</b>



**Department of Health**  
HSC Pension Scheme Statement 2016-17

<b>Deferred members</b>				
Deferred members at 1 April 2016				14,498
Retrospective adjustment*				521
Add:	Members leaving with deferred rights			31
Less:	Taking up deferred rights			(404)
	Rejoining scheme			-
	Transfers out			(27)
	Deaths			(5)
<b>Deferred members at 31 March 2017</b>				<b>14,614</b>
<b>Pensioners in payment</b>				
		<b>Members</b>	<b>Dependents</b>	<b>Total</b>
Pensioners in payment at 1 April 2016		19,613	3,642	23,255
Retrospective adjustment*		1,860	(30)	1,830
Add:	Retiring at normal retiring age	1,408	-	1,408
	New dependents	-	268	268
	Retiring on ill health grounds	-	-	-
	Retiring previously deferred	287	-	287
	Retiring, previously in receipt of compensation payments	30	-	30
Less:	Commutated pension	(15)	-	(15)
	Death in year	(381)	(152)	(533)
<b>Pensioners in payment at 31 March 2017</b>		<b>22,802</b>	<b>3,728</b>	<b>26,530</b>
<b>Compensation payments &gt; 60</b>				
Members in receipt of compensation payments at 1 April 2016				2,084
Retrospective adjustment*				(66)
Add:	Members leaving under early retirement			-
Less:	Members retiring at normal retirement age			(25)
	Deaths before normal retirement age			56
<b>Members in receipt of compensation payments at 31 March 2017</b>				<b>2,049</b>
<b>Ill health retirement</b>				
Ill health retirement members at 1 April 2016				8,238
Retrospective adjustment*				27
Add:	Members retiring on ill health grounds			265
Less:	Deaths in year			(229)
<b>At 31 March 2017</b>				<b>8,301</b>
<b>Compensation payments &lt; 60</b>				
Members in receipt of compensation payments at 1 April 2016				63
Retrospective adjustment*				-
Add:	Members leaving under early retirement schemes during the year			-
Less:	Members retiring at normal retirement age			(25)
	Deaths before normal retirement age			-
<b>Members in receipt of compensation payments at 31 March 2017</b>				<b>38</b>
<b>Undecided leavers**</b>				
<b>Undecided leavers at 31 March 2017</b>				<b>4,851</b>
Undecided leavers at 31 March 2016				1,929

\* A retrospective adjustment to a member's status comes about when an action on the member's record is carried out at a point later than the actual date the requirement for action occurred, due to the data gathering process required to enable the action to take place.

\*\*Undecided leavers are reported by headcount as this reflects the basis on which GAD have calculated the pension scheme liability for this pension scheme statement.

### **Financial position as at 31 March 2017**

The movements in the Scheme during the year are summarised in the Statement of Comprehensive Net Expenditure and net expenditure for the year is £811,437k.

Income mainly comprises contributions from employers (who are defined per page 2 above), of £325,652k and employee contributions of £165,888k (note 3). Other receipts include transfers in of £4,969k from other schemes (note 4) and other pension income of £6k (note 5).

The charge to the Statement of Comprehensive Net Expenditure recognises the movements in the scheme liability (other than those arising from actuarial gains and losses). This comprises the current service cost of £670,000k, enhancements of £22,631k, transfers in of £4,969k and interest on scheme liabilities of £610,000k. Payments also include other pension expenditure of £352k as per note 10 to the financial statements.

### **Disclosure of information to auditor**

The Principal Accounting Officer, Permanent Secretary of the Department of Health, has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Scheme's auditors are aware of such information. So far as he is aware there is no relevant audit information of which the entity's auditors are unaware.

### **Events after the reporting period**

There were no events after the reporting period requiring adjustment or disclosure in these financial statements.

### **Independent Public Service Pension Commission**

On 10 March 2011 the Independent Public Service Pensions Commission's Final Report from Lord Hutton was published, summarising Lord Hutton's proposals for the reform of public service pension schemes. The main recommendations of the review are that:

- the Government must honour in full the pension promises that have already accrued to scheme members, maintaining the link to final salary for past service;
- a new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes, with existing members being moved to the new schemes as soon as practical;
- pension benefits in the CARE schemes should be uprated in line with average earnings while members are accruing benefits;
- flexible retirement should be encouraged, while abatement in its current form should be

- eliminated and caps on pension accrual should be removed or significantly lifted;
- member's Normal Pension Age in the new schemes should increase to be in line with the State Pension Age, and should be regularly reviewed to ensure the link remains appropriate;
  - there should be a fixed cost ceiling, which if exceeded should be followed by a consultation process to bring costs back within the ceiling; and
  - immediate savings could be made by increasing the member contribution rate. In this respect, the Government implemented progressive changes to the level of employee contributions such that employee contribution rates have increased by 3% on average as at 2016-17.

In line with the Commission's view a new HSC Pension Scheme was introduced on 1 April 2015.

### **Information for Members**

Further information about the Scheme, and its sections, can be found on the HSC Pensions Website [www.hscpensions.hscni.net](http://www.hscpensions.hscni.net) which is accessible to all members and employers.

### **Additional Voluntary Contributions (AVCs), Free-Standing Additional Voluntary Contributions (FSAVCs) and Stakeholder Pensions**

The Pension Scheme has continued to offer a range of in-house top up money purchase AVC and Stakeholder Pension facilities from Standard Life and an AVC only facility from Equitable Life which is closed to new members.

#### **The names and addresses of the Scheme's:**

Accounting Officer:	Mr R Pengelly Permanent Secretary Department of Health Castle Buildings Stormont Estate Belfast BT4 3SQ
Administrator:	Business Services Organisation Waterside House 75 Duke Street Derry County Londonderry BT47 6FP
Actuary:	Government Actuary's Department Finlaison House 15-17 Furnival Street London EC4A 1AB

Legal Advisers	Departmental Solicitors Office Victoria Hall 12 May Street Belfast BT1 4NL  Legal Department Business Services Organisation Headquarters 2 Franklin Street Belfast BT2 8DQ
Auditor	Northern Ireland Audit Office 106 University Street Belfast BT7 1EU
Bankers	Danske Bank Donegall Square West Belfast BT1 6JS
Employers	Principal employers:  Health and Social Care Board Health and Social Care Trusts Health and Social Care Bodies  Additional bodies permitted to join: General Practitioners Staff employed by General Medical Practitioners Direction Bodies

**Contact for enquiries and complaints**

Any enquiries or complaints about the HSC Pension Scheme should be addressed to:

Mr M Bradley  
The Scheme Administrator  
HSC Pension Service  
Waterside House  
75 Duke Street  
Londonderry  
BT47 6FP

## REPORT OF THE ACTUARY

### Introduction

This report has been prepared by the Government Actuary's Department at the request of the Department of Health (DoH). It summarises the pensions disclosures required for the 2016-17 Annual Report and Financial Statements of the Health and Social Care Pension Scheme for Northern Ireland (HSCPS or the Scheme).

The report is based on an assessment of the liabilities as at 31 March 2015, with an approximate updating to 31 March 2017 to reflect known changes.

### Membership data

Tables A to B summarise the principal membership data as at 31 March 2015 used to prepare this statement.

**Table A – Active members**

	<b>31 March 2015 membership data</b>	<b>2016-17 financial statements</b>
Number (thousands)	Total salaries (pa) (£ million)	Total salaries implied by receipts (£billion)
58	1,669	1.77

**Table B – Pensions in payment**

	<b>31 March 2015 membership data</b>	<b>2016-17 financial statements</b>
Number (thousands)	Total pension* (pa) (£ million)	Total pension (pa) (£ million)
30.7	283.7	306.9

*\*pension amounts are as at the valuation date and so exclude pension increases due in April 2015*

### Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2016-17 Pension Scheme Statement. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the 2015-16 Pension Scheme Statement.

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**

The principal financial assumptions adopted to prepare this report are shown in Table C.

**Table C – Principal financial assumptions**

<b>Assumption</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
Rate of return (discount rate)	2.80%	3.60%
Rate of earnings increases*	4.55%	4.20%
Rate of future pension increases	2.55%	2.20%
Rate of return in excess of:		
Pension increases (CPI)	0.24%	1.37%
Earnings increases	(1.70%)	(0.60%)
Expected return on assets:	n/a	n/a

\* short term adjustments have been made to this assumption for the period to 2020

The pension increase assumptions up to and including 31 March 2017 are based on the Consumer Price Index (CPI) expectation of inflation.

### **Demographic assumptions**

Table D summarises the demographic assumptions adopted to prepare this report, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables known as the 'S1 tables' with the percentage adjustments to those tables derived from scheme experience.

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

<b>Normal Health</b>	
Males	80% of S1NMA mortality
Females	85% of S1NFA mortality
<b>Current ill-health pensioners</b>	
Males	80% of S1IMA mortality
Females	85% of S1IFA mortality
<b>Future ill-health pensioners</b>	
Males	100% of S1IMA mortality
Females	100% of S1IFA mortality
<b>Partners</b>	
Males	80% of S1NMA mortality
Females	85% of S1NFA mortality

These assumptions are the same as those adopted for the 2015-16 Financial Statements. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption is in line with the latest ONS projections.

The contribution rate used to determine the accruing cost in 2016-17 was based on the demographic and financial assumptions applicable at the start of the year, that is, those adopted for the 2015-16 Pension Scheme Statement.

## Liabilities

Table E summarises the assessed value as at 31 March 2017 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described above. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

<b>£ Billion</b>	<b>31 March 2017</b>	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>31 March 2014</b>	<b>31 March 2013</b>
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	22.70	16.96	17.52	15.13	11.83
(Deficit)	(22.70)	(16.96)	(17.52)	(15.13)	(11.83)
Of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

## Accruing costs

The cost of benefits accrued in the year ended 31 March 2017 (the Current Service Cost) is based on a standard contribution rate of 38.0%. Members contributed between 5.0% and 14.5% of pensionable pay, depending on the level of their pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 9.4%. The corresponding figures for 2015-16 are also included in the table.

**Table F – Contribution rate**

	<b>Percentage of pensionable pay</b>	
	<b>2016-17</b>	<b>2015-16</b>
<b>Standard contribution rate</b>	38.0%	40.6%
<b>Members' estimated average contribution rate</b>	(9.4%)	(9.5%)
<b>Employers' estimated share of standard contribution rate</b>	28.6%	31.1%

For the avoidance of doubt, the actual rate of contributions payable by employers, 16.3% of pensionable pay for 2016-17, is not the same as the employers' share of the standard contribution rate as above (28.6% for 2016-17). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Pension Scheme Statements is the discount rate. The discount rate for Pension Scheme Statements is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

The pensionable payroll for the financial year 2016-17 was £1.77 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016-17 (at 38.0% of pay) is assessed to be £0.67 billion.

There have been no past service costs in the year 2016-17.

I am not aware of any events that have led to a material settlement or curtailment gain over 2016-17.

### **Sensitivity analysis**

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2017 of changes to the most significant actuarial assumptions.

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

There is significant uncertainty associated with how members will retire in future, both for those remaining in the current scheme where recent patterns of retirement have been materially different to historic patterns, and as a result of the scheme reform for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in the 1995 section and so I have included an indication of the approximate effect (on the total past service liability) of assuming all 1995 section members retire at their Normal Pension Age (on average this equates to members retiring approximately 2 years earlier than assumed). The pattern of retirements from the 2008 section doesn't have a significant impact on the liability as both early and late retirements are subject to actuarial adjustment.

Table G shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest ½%).



**Table G - Sensitivity to significant assumptions**

Change in assumption	Approximate effect on total liability	
<b>Financial assumptions</b>		
(i) discount rate*: $-1/2\%$ a year	+13.0%	+£3.0 billion
(ii) (long term) earnings increase*: $-1/2\%$ a year	-2.0%	-£0.5 billion
(iii) pension increases*: $-1/2\%$ a year	-8.0%	-£1.8 billion
<b>Demographic assumptions</b>		
(iv) each pensioner subject to longevity of an individual 1 year younger than assumed:	+2.5%	+£0.6 billion
(v) 1995 section members retire at their Normal Pension Age (approximately equivalent to assuming members retire around 2 years earlier):	+1.5%	+£0.3 billion

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



**Dhanisha Sanghrajka**  
Government Actuary's Department  
25 May 2017

## **STATEMENT OF THE ACCOUNTING OFFICER'S RESPONSIBILITIES**

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance has directed the Department of Health HSC Pension Scheme to prepare for each financial year financial statements in the form and on the basis set out in the Accounts Direction.

The financial statements must give a true and fair view of the state of affairs of the Scheme at the year end and of the net resource outturn and cash flows for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by the Assembly or material transactions that have not conformed to the authorities that govern them. In addition, the financial statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme Rules and the recommendations of the Actuary.

In preparing these financial statements, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- Observe the Accounts Direction issued by the Department of Finance including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going-concern basis.

The Department of Finance has appointed the Permanent Head of the Department as Accounting Officer for the HSC Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme are set out in the Accounting Officers' Memorandum issued by the Department of Finance and published in *Government Accounting Northern Ireland*.

## **GOVERNANCE STATEMENT**

### **Introduction**

This statement is given in respect of the Health and Social Care Pension Scheme (HSCPS) for 2016-17. It outlines the Department's governance framework for directing and controlling the function and how assurance is provided to support me in my role as Accounting Officer for the Department of Health and is also applicable to the management of the HSCPS. The Board of the Department of Health is accountable for internal control. As Accounting Officer, I have responsibility for maintaining a sound system of internal governance that supports the achievement of the Department's policies, aims and objectives. I also have responsibility for safeguarding the public funds and departmental assets in accordance with the responsibilities assigned to me in Managing Public Money Northern Ireland.

As Accounting Officer, I have a duty to satisfy myself that the HSCPS administrators have adequate governance systems and procedures in place to promote the effective and efficient conduct of their business and to safeguard financial propriety and regularity.

### **Corporate Governance in Central Government Departments: Code of Good Practice 2013**

The Department applies the principles of good practice outlined in the Code and continues to further strengthen its governance arrangements. The Department does this by undertaking continuous assessment of its compliance in line with the Corporate Governance Code

### **Governance Framework**

In my role as Accounting Officer, I function with the support of the Departmental Board (the Board). This includes highlighting to the Board specific business implications or risks and, where appropriate, the measures that could be employed to manage these risks or implications. I am also required to combine my Accounting Officer role with my responsibilities to the Minister, which includes providing advice on the allocation of Departmental resources and the setting of appropriate financial and non-financial performance targets for the Business Services Organisation (BSO) as HSCPS administrator.

### **The Departmental Board**

The Departmental Board (the Board) represents the collective and strategic leadership within the Department, in conjunction with the experience and contribution of two Independent Board Members. The Board supports me as Accounting Officer in directing the business of the Department as effectively as possible, to achieve the objectives and priorities set by the Minister. The Board has a key role in overseeing the sound financial management and corporate governance of the Department including the HSCPS and closely monitors the Department's progress in the achievement of key objectives and priorities set out in the Departmental Business Plan, including Programme for Government commitments.

The Departmental Board applies the principles of good practice in Corporate Governance and continues to strengthen its governance arrangements. The Board does this by assessment of its compliance with Corporate Governance best practice.

## Department of Health

### HSC Pension Scheme Statement 2016-17

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The Board ensures that appropriate risk management procedures are in place within the Department and it scrutinises the governance and performance of ALBs and the HSCPS based on an assurance and accountability framework.

The strategic aims, policies and strategies for the Department are set by the Minister. The role of the Departmental Board is to support me, as the Accounting Officer, in establishing the necessary governance and assurance mechanisms to ensure effective and efficient delivery of the Minister's priorities and other statutory functions of the Department. In line with best practice, the operational procedures of the Departmental Board are kept under continuous review and a more detailed evaluation is conducted every few years. The last review was undertaken in 2013-14 and a further review commenced in 2016-17.

<b>Executive Board Members 2016-17</b>		<b>No of meetings attended</b>
Mr R Pengelly	Permanent Secretary	7/10
Mr S Holland	Deputy Secretary, Social Care Policy Group	8/10
Mrs C McArdle	Chief Nursing Officer	7/10
Dr M McBride	Chief Medical Officer	9/10
Mrs D McNeilly	Deputy Secretary, Health Care Policy Group (April 2016- July 2016) Deputy Secretary, Resources and Performance Management Group and Senior Finance Director (August 16-March 2017)	7/10
Mrs J Thompson	Deputy Secretary, Resources and Performance Management Group and Senior Finance Director (April 2016-July 2016)	3/3
Mr Jackie Johnston	Deputy Secretary, Health Care Policy Group (August 2016-March 2017)	5/7
<b>Independent Board Members 2016-17</b>		
Dr C King	Independent Board Member	10/10
Mr M Little	Independent Board Member	9/10

Independent Board Members (IBMs) provide support, guidance and challenge to the Departmental Board. As Accounting Officer, I have regular meetings with the IBMs and carry out annual performance assessments.

### Management Information

The Board reviews regular reports from the HSCPS to challenge performance against targets. These reports have been the subject of considerable refinement over recent years and are continually revised to allow them to identify and respond to emerging challenges.

In June 2012, the Board agreed a new Framework for Business Planning, Risk Management and Assurance. The Framework provides a clear and common understanding of business planning, risk management and assurance processes in the Department, along with associated guidance.

The requirements of HSCPS Governance within the Department have evolved to ensure that the accountability review process is more balanced in terms of governance and performance. Submission and acceptability of Board level information and reports is subject to challenge.

### **Quality of Information**

The Board receives a range of management information about matters such as Finance, Human Resources, the Departmental Business Plan, the Departmental Risk Register and the Governance and Performance of ALBs including the HSCPS, to assist it in discharging its role. Regular formal reviews of the operation of the Board include the quality of information provided to it. In addition, Board members, collectively and individually, keep the quality of reported information under continuous review and seek enhancements as necessary to support the Board and its committees.

### **Departmental Audit and Risk Assurance Committee (DARAC)**

<b>DARAC Members 2016-17</b>		<b>No. of meetings attended</b>
Dr C King	IBM and Chair of DARAC	4/4
Mr M Little	IBM and DARAC Member	3/4
Mrs J Pyper	Chief Executive Utility Regulator	4/4
Mr T Connolly	Finance Director Department of Education (1 April 2016-2 December 2016) Head of Business Engagement Department for the Economy (5 December 2016-31 March 2017)	4/4

The DARAC is a Committee of the Board and meets four times per year, with additional topic focused meetings. DARAC comprises four members, each of whom is independent of Departmental management. Other officials in attendance at DARAC meetings include the Departmental Accounting Officer, the Senior Finance Director, the Director of Finance, the Head of Internal Audit and officials from the Northern Ireland Audit Office (NIAO).

The DARAC gives detailed attention to internal governance issues, including the quality of risk management and corporate governance within the Department. This also includes consideration of HSC wide issues or any other issues outwith the Department that affect my role as the Department's Accounting Officer.

An example of this in respect of the adequacy of the arrangements by which I hold ALB Accounting Officers to account for the performance and governance of their organisations. Systems for responding to recommendations made by authoritative external bodies, including the Public Accounts Committee,

NIAO, and the Regulation and Quality Improvement Authority (RQIA), are also examined. The DARAC advises the Board and me as Accounting Officer on its conclusions and recommendations with regard to identified governance weaknesses.

#### *DARAC – Responsibilities and Performance*

In line with best practice set out in the HMT Audit and Risk Assurance Committee Handbook, the Chair of DARAC sets an agreed core programme of work for each of its quarterly meetings, which includes:

- Scrutiny of the Departmental accounts;
- Consideration of internal audit strategy;
- Review of internal and external audit findings; and
- Monitoring of residual audit recommendations.

The Department provides regular reports to DARAC on risk management and assurance in the Department and the accountability and assurance of its ALBs. In addition, DARAC considers and comments on individual issues of internal governance and their implications for wider governance arrangements.

The DARAC conducts a self-assessment according to guidelines issued by the National Audit Office on a regular basis. The findings of the self-assessment are presented to DARAC for action as appropriate. In addition, the Chair of the DARAC delivers an annual report to both the Departmental Board and the DARAC and also reports to the Board following each quarterly meeting of the DARAC.

The DARAC has also considered the HSC Pension Scheme Statement for 2016-17 and on the basis of the evidence presented, has recommended the HSCPS to the Departmental Accounting Officer for approval.

#### **Top Management Group**

As Accounting Officer, I am supported by my Top Management Group, which comprises the Executive Board Members. It provides a forum for the consideration and endorsement of corporate business and the handling of the emerging issues.

#### **Departmental Framework for Business Planning, Risk Management and Assurance**

Business planning and risk management is at the heart of governance arrangements to ensure that statutory obligations and Ministerial priorities are properly reflected in the management of business at all levels within the Department.

The Framework for Business Planning, Risk Management and Assurance provides a clear and common understanding of business planning, risk management and assurance processes in the Department, along with associated guidance. In order to ensure its continued effectiveness, a review of the Framework commenced in 2014-15. The review sought feedback from each business area regarding their application of the Framework, and included engagement with the Departmental Internal Audit Group to consider any emerging issues/lessons learned from its ongoing programme of directorate governance audits. The outcome of the review is currently being finalised, subject to the outcome of current Departmental considerations on the future approach to the identification and handling of risk.

## **Business Planning and Risk Management**

Business planning and risk management is at the heart of governance arrangements to ensure that statutory obligations and ministerial priorities are properly reflected in the management of business at all levels within the organisation.

### **Business Planning**

In establishing its strategic objectives, the Department takes its lead from the statutory framework governing the functions of the Department and the specific priorities set by the Minister and the Executive, including those outlined in the Programme for Government. The Departmental Business Plan also takes account of the governance arrangements that the Department must put in place for the proper discharge of its responsibilities as a Government Department and public authority e.g. financial probity, equality, human rights etc. Within a budget period, the existing Departmental Business Plan is rolled forward into a new fiscal year.

The Departmental Board is the custodian of the Departmental Business Plan's affordability and deliverability. Progress against the Departmental Business Plan is addressed at quarterly Board meetings and includes formal quarterly written reports in Red, Amber or Green format against each of the targets in the fiscal year.

It is the responsibility of Executive Board Members to ensure that the Directorates under their control have appropriate plans in place. It is essential that linkages between plans at Departmental and Directorate level are clearly stated. Similarly, there must be a clear connection at all levels between objectives and associated risks. This is evidenced through the risk management, business planning and assurance processes operated within the Department.

### **Risk Management**

Risk management is an organisation-wide responsibility. In the Department there are two key levels at which the risk management process is formally documented:

- The Departmental Risk Register focuses on the principal risks to the Department's delivery of its statutory responsibilities and strategic objectives including those of the HSCPS; and
- Directorate risk registers focus primarily on the risks to the achievement of Directorate objectives including those of the HSCPS.

Directorate business plans must be directly linked to the delivery of the Departmental Business Plan. Similarly there must be a clear connection at all levels between objectives and associated risks. Formal processes exist to escalate objectives and associated risks from Directorate to Departmental level, subject to the approval of the Departmental Board.

The Departmental approach to the identification and handling of risk, including the format of the Departmental Risk Register, is currently under review. Until any new approach/template has been agreed, the current approach to risk and version of the Departmental Risk Register continues to be used. The Departmental Risk Register is reviewed at the beginning of the financial year to update all risks, controls and actions and is maintained in conjunction with the Departmental Business Plan. It is therefore subject to the same Departmental Board reporting arrangements.

Executive Board Members are responsible for ensuring that the Directorates under their control have a business plan and fully-linked risk register. I require bi-annual formal written assurances from Directors, signed by Executive Board members, about the proper operation of business planning and risk management within their business areas. Where a risk identified at Directorate level becomes unmanageable within the Directorate's resources, or where it threatens to impact on Departmental objectives or across Directorates, it must be escalated to the Departmental Board and considered for inclusion on the Departmental Risk Register.

The system of internal governance is designed to help manage risk rather than to eliminate it and controls must at all times be commensurate with the nature of the risk. A set of risk assessment criteria has been developed, agreed and applied by those Departmental officials involved in the risk assessment process.

The system of internal governance is based on an on-going process to identify and prioritise the risks to the discharge of the Department's statutory responsibilities, including the delivery of its strategic objectives. The system also determines the controls and analyses the risks in terms of their impact and likelihood of realisation in conjunction with the controls.

The system of internal governance has been in place in the Department for the year ending 31 March 2017 and continues up to the date of approval of the HSC Pension Scheme Annual Report and Accounts. This accords with Department of Finance guidance.

The system of internal governance entails monitoring and reporting on: a) the delivery of Ministerial/Departmental Policy; b) the use of resources (including financial, human, estate and information); c) compliance with statutory requirements; d) statistical and other performance monitoring reports; e) the content of external and internal audit reports; f) serious adverse incident reporting; g) RQIA and other reports prepared by inspecting/regulatory/licensing bodies; h) inquiry reports; i) compliance with standards and guidance; j) the discharge of statutory functions; k) corporate governance and, l) business planning arrangements. These are with respect to both the Department itself and its ALBs.

The DARAC also plays a key role in providing advice on the quality of risk management and assurance within the Department. Additionally, risk monitoring and management processes within the ALBs are monitored by the Department through separate processes, as highlighted in the '*Governance and Accountability within DoH ALBs*' section below.

## **Information Risk**

Safeguarding the Department's information is a critical aspect of supporting the Department in the delivery of its objectives. Central to achieving this is the effective management of information risk. The arrangements in place to manage this risk include:

- The Assistant Departmental Security Officer (ADSO) regularly reviews Departmental information to ensure that it is appropriately protected;
- A Senior Information Risk Owner (SIRO) and Information Asset Owners (IAOs) are in place to reduce the risk to personal information within the Department;
- Annual assurance from IAOs regarding the personal information assets they manage; and
- IAOs are aware of their responsibilities to ensure information is securely stored, access-controlled and disposed of appropriately.



Regular mandatory awareness training is delivered to Departmental staff, providing them with an up-to-date understanding of information governance issues and risks.

Restrictions exist to protect access to and disposal of electronic and paper records and the Department has an Information and Records Management Policy Statement underpinning its records management arrangements. Appropriate guidance, central controls and a disposal schedule process all govern the retention and disposal of Departmental Records.

### **Governance and Accountability within DoH ALBs including the HSCPS**

Governance and Accountability can be considered under the following headings:

- HSCPS Assurance and Accountability;
- Departmental Assurance;
- Controls Assurance Standards;
- Statutory Duty of Quality; and
- Service Frameworks.

### **HSCPS Assurance and Accountability**

The Department, including the HSCPS, achieves its corporate objectives through direct Departmental action and through its 17 ALBs. The Chief Executives of ALBs (as ALB Accounting Officers) are directly accountable to me (Permanent Secretary of the Department) as Principal Accounting Officer. ALBs through their Boards are held to account for the delivery of their prescribed functions and Ministerial/Departmental priorities and ensuring compliance with other statutory responsibilities. The HSCB also performs a key role, alongside the Department, in relation to the performance and financial management of HSC Trusts.

As part of the review of Assurance and Accountability Arrangements, a Sponsorship Handbook was developed in 2016/17 which replaced the Assurance and Accountability Framework. The handbook sets out the Department's approach to sponsorship of its Arm's Length Bodies to ensure, as far as possible, that there is consistency of approach and proportionality of application. The guidance and arrangements described within the handbook reflect the responsibilities placed on the Department, under Managing Public Money NI, for the sponsorship of ALBs operating under the control of DoH.

The handbook details the roles and responsibilities of all Departmental staff, including Executive Board Members and sponsor branches, in addition to describing the format and structure of the biannual accountability process. Through its sponsor branches, the Department engages directly with each ALB, commensurate with the level of risk the body poses to the Department. ALB risks can either be escalated in the Department, through the ALB accountability review process, or highlighted to the Department through the other formal and informal interactions that the sponsors, Executive Board Members and professional staff maintain with ALBs.

### **Departmental Assurance**

The Department receives much of its assurance through an on-going process of monitoring of the BSO acting as the HSCPS administrator, including Corporate Governance, Use of Resources and the Delivery and Quality of Services. In addition to regular monitoring information derived primarily from management information systems, the Department periodically tests the assurance provided by initiating

external reviews, audits, inquiries, ad-hoc and self-assessment exercises which are designed to sample aspects of the governance arrangements and performance of the BSO administration of the HSCPS.

This monitoring is based on assessing the operation and performance of ALBs against standards, guidance and targets; statutory and licensing requirements and Departmental policy and strategy. Three important examples of these are Controls Assurance Standards; the statutory Duty of Quality and Service Frameworks.

### **Sources of Independent Assurance**

The Department obtains independent assurance from the following sources in relation to the HSCPS:

- Departmental Internal Audit Group;
- Northern Ireland Audit Office; and
- Business Services Organisation Internal Audit.

### **Departmental Internal Audit Group (IAG)**

The Department utilises an internal audit function which operates to defined standards and whose work is informed by an analysis of risk to which the body is exposed and annual audit plans are based on this analysis.

The Department's Head of Internal Audit (HIA) reports directly to the Departmental Accounting Officer and attends and provides reports to the DARAC. As such, HIA therefore plays a crucial role in the review of the effectiveness of risk management, controls and governance by:

Focusing audit activity on the key business risks:

- Being available to guide managers and staff through improvements in internal controls;
- Auditing the application of risk management and control as part of Internal Audit reviews of key systems and processes; and
- Providing advice to management on the internal governance implications of proposed and emerging changes.

The remit of Internal Audit includes an assessment of internal financial controls and the wider internal environment which affects the achievement of Departmental objectives. Internal Audit submits regular reports to management and the DARAC, which includes the HIA's independent opinion on the adequacy and effectiveness of the Department's system of internal control, together with recommendations for improvement.

The HIA has provided me with an opinion on the Department's management of risk, control and governance. The Internal Audit opinion reflects an aggregate assessment of Internal Audit activity over a four year period from 2013-14 to 2016-17. This indicates that, overall, the system of governance, risk management and internal control within the Department is satisfactory.

### **Northern Ireland Audit Office (NIAO)**

The NIAO provides an opinion on whether an organisation's financial statements give a true and fair view, have been prepared in accordance with the relevant accounting standards and are in accordance

with the guidance issued by relevant authorities. The results of the NIAO's financial audit work are reported to the Northern Ireland Assembly.

The NIAO also seeks to promote better value for money through highlighting and demonstrating ways in which improvements could be made to realise financial savings or reduce costs; safeguard against the risk of fraud, irregularity and impropriety; attain improvements in service provision; support and enhance management, administrative and organisational processes.

A representative of the NIAO attends the DARAC quarterly meetings at which corporate governance and risk management matters are considered.

### **Business Services Organisation (BSO) Internal Audit**

BSO Internal Audit is a centralised service which provides reasonable assurance in relation to internal audit and specialist advice and guidance to Boards within HSC organisations and Departmental ALBs, including the HSC Pension Scheme. The Department reviews the Head of Internal Audit's (HIA) mid and end-year independent opinions, on the adequacy and effectiveness of each of the ALBs and the HSC Pension Scheme's system of internal control, together with any recommendations for improvement. The opinion for 2016-17 was that overall there was a satisfactory system of internal control designed to meet the BSO's objectives. However, limited assurance was provided in relation to pensions processing due to a high volume of errors identified in information provided to HSC Pension Service by payroll shared services, on which pension payments are based.

### **Review of Effectiveness of the System of Internal Governance**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal governance. My review of the effectiveness of the system of internal governance is informed by the work of the Department's Internal Audit and the Executive Board Members within the Department, who have responsibility for the development and maintenance of the internal framework, and comments made by the external auditors in their management letter and other reports. I have been advised by the DARAC on the implications of my review of the effectiveness of the system of internal control, and a plan to address weaknesses and ensure continuous improvement of the system is in place. This is evidenced through DARAC's review of the Departmental Governance Statement and the DARAC Chair's annual report to me as Accounting Officer.

### **Internal Governance Divergences**

#### **Prior Year Issues**

There were no governance matters arising in previous years.

#### **New Issues for 2016-17**

#### **Underpayment of Employers Superannuation Contributions**

During February 2017 it was brought to the attention of the BSO Payroll Shared Services Centre, by one of the HSC bodies, that there was a potential error in how the HRPTS system was calculating employers' superannuation contributions during periods of sickness and ordinary and stretch maternity leave.

Subsequent significant investigations resulted in the identification of a material regional liability estimated at £14.8m in respect of underpayments of these contributions dating back to the introduction of the new HRPTS system in each individual HSC body. Each HSC body has been advised of their share of the estimated liability, which has been accounted for in 2016/17, and work has begun to identify the required systems changes to address this issue going forward. BSO is also working with the region to identify how the system specification error arose, which requires a review of each entity's individual system cut-over processes.

### **HRPTS system performance**

HSC Pension Service receives 95% of its data through an electronic interface from HSC Payroll Shared Service Centre (PSSC). PSSC recently updated their software systems and as part of the new system development a new interface between PSSC systems and HSCPS (Altair) system was required. Development and testing of the new interface took a considerable period of time and was finally signed off and recently put into the LIVE system in June 2016. As a result a bulk upload of data was processed by HSCPS throughout 2016/17 and as a result approximately 80,000 member data errors were identified. These were mainly due to changes in employee's circumstances (promotion/part time working/change of address etc.). A dedicated team was put in place to address this issue and all errors were rectified. Subsequent monthly interface files are however still problematic. This has been reported to the Pension Regulator (TPR) and is included in HSCPS Record Keeping Improvement Plan. TPR has requested that Payroll Shared Services Centre initiate a time bound action plan to target current payroll to pension system issues in order to improve the quality of the data interface

Following the implementation of the 1% pay award and pension auto-enrolment in October/ November 2016, the HRPTS system began to experience significant systems performance issues, leading to delays in interface to general ledger and the need to invoke contingency arrangements in respect of one of the payroll runs. These issues persisted through to February 2017, despite BSO ITS team working with the system supplier who initiated a series of fixes to resolve the issues. The impact on the HSC Pension Scheme was that some pension scheme contributions were calculated incorrectly and were therefore underpaid during this period. These discrepancies were identified and rectified during February 2017. BSO continue to closely monitor systems performance and a resolution plan has been put in place by the systems supplier, and the final phase of this is due to complete by end of September 2017.

### **2017-18 Budget Position**

The Northern Ireland Assembly was dissolved as from 26 January 2017 for an election which took place on 2 March, on which date Ministers also ceased to hold office. An Executive was not formed following the election within the period specified in the legislation. As a consequence, a Budget Act is not yet in place for 2017-18. In the absence of a budget for 2017-18 determined by an Executive, Section 59 of the Northern Ireland Act 1998 and Section 7 of the Government Resources and Accounts Act (Northern Ireland) 2001 provide for the Permanent Secretary of the Department of Finance to issue cash to departments from the NI Consolidated Fund. These powers are an interim measure designed to ensure that services can be maintained until such times as a budget is agreed and a Budget Act passed.

### **Excess Vote**


The HSC Pension Scheme Statement for 2016-17 has expended more resources than was authorised by the Assembly (£18,252k). The vast majority of this was due to a technical excess (£16,032k) due to the Assembly being dissolved in January 2017 and therefore the process of approving 2016-17 Spring

Supplementary Estimates and associated Budget Bill did not take place. However, an Excess (£2,220k) was also incurred because expenditure in RfR is above the amount provided for in the Estimate. This occurred because the actual outturn for Current Service Cost was in excess of the estimated figure as supplied by GAD. As a result of this breach NIAO has provided a qualified regularity opinion. The Department is taking all necessary steps to ensure that there is no recurrence of this issue.

**Conclusion**

The Department of Health has a rigorous system of accountability which I can rely on as Accounting Officer to form an opinion on the probity and use of public funds, as detailed in Managing Public Money NI. The system operates on a principle of devolved authority and the accountability framework structure across the Department's operating base.

Further to considering the accountability framework within the Department, including the BSO, and in conjunction with assurances given to me by the DARAC, I am content that the DoH and the HSC Pension Scheme have operated a sound system of internal governance during 2016-17.



Mr R Pengelly  
Accounting Officer  
29 June 2017





































































