

Board Meetings held in Common – in private

Paper Title: NHS pension scheme changes: transitional arrangements from 1 April 2019

Agenda item: 4

Report by: Matthew Style, Interim Chief Financial Officer, NHS England

Decision Making Responsibility:

NHS England	<input checked="" type="checkbox"/>
NHS Improvement	<input type="checkbox"/>
NHS England and NHS Improvement	<input type="checkbox"/>
N/A - joint discussion	<input type="checkbox"/>

Purpose of Paper:

A new NHS employer pension contribution rate of 20.6% (increased from 14.3%) will apply from 1 April 2019, an increase of 6.3%. This will lead to an additional pressure on NHS employers of around £2.8bn in 2019/20.

The Government has agreed to meet the additional NHS costs. It has been agreed with the Department of Health and Social Care (DHSC) and the NHS Business Services Authority (NHSBSA) that transitional arrangements will operate in 2019/20, with employers continuing to contribute 14.3%, with additional payments made directly from NHS England to the NHSBSA.

This paper seeks the approval of the NHS England Board to make the required payments to the NHSBSA relating to the increased 6.3% employer contribution.

The paper also requests that authority to approve payments is delegated to the Chief Financial Officer, once due diligence processes have been completed.

The NHS England Board is invited to:

- Note the changes to the NHS pension scheme employer contribution rate.
- Note the transitional arrangement agreed for 2019/20.

- Approve spending the increased mandate adjustment (c£2.8bn but final value still to be agreed with DHSC), which is in addition to the allocations approved by the Board on 31 January 2019.
- Approve delegation to the Chief Financial Officer to make payments to the NHSBSA.

Rationale for paper being discussed in the private meeting:

Board approval is required for governance purposes, given the sums involved, to allow payments of a Mandate adjustment which is not a material decision for discussion at the public board. The Government has released the public sector impact of £4.7bn but the NHS impact of £2.8bn is not in the public domain.

The NHS pension scheme changes: Transitional arrangements from 1 April 2019

Context

1. The Department of Health and Social Care (DHSC) consulted¹ on proposals to change NHS pension scheme regulations between 18 December 2018 and 28 January 2019.
2. Proposed changes include:
 - introducing a new contribution rate of 20.6% for employers from 1 April 2019
 - renewing current member contribution rates so that the same rates continue to apply beyond 31 March 2019
 - providing civil partners and same sex spouses with the same survivor pension rights as widows
 - extending the current forfeiture of pension benefits rules
3. In relation to the new employer contribution rate, the Government Actuary's Department (GAD) has undertaken a quadrennial valuation of the scheme. Scheme valuation is an actuarial assessment of the cost of past and future pension benefits accruing within the scheme.
4. The consultation document explained how provisional valuation results showed that an employer contribution rate of 20.6% is appropriate to meet the cost of pension rights that individuals are building up. This is a 6.3% increase to the current employer contribution rate.
5. An increase to the employer contribution rate from 14.3% to 20.6% from 1 April 2019 has now been confirmed by the DHSC. This does not include the scheme administration charge of 0.08%, which when added creates an effective employer rate of 20.68%.
6. For the NHS, it is estimated that in 2019/20 the increased employer contribution rate will add approximately £2.8bn to the cost of employer contributions, the majority of which relates to providers of clinical services such as hospital and community service providers, GP practices and dental practices.
7. Alongside the funding settlement for NHS England announced in June 2018, the Government committed to provide additional funding for NHS pension costs until 2023/24, adjusting the level of additional funding to reflect the final rate change.

¹ <https://www.gov.uk/government/consultations/nhs-pension-scheme-proposed-changes-to-scheme-regulations-2019>

Distribution of funding

8. For the agreed NHS element of the increase, NHS England will receive a Mandate adjustment corresponding to the estimated 2019/20 full cost of the increase.²
9. For 2019/20, a transitional approach has been agreed with the DHSC, NHS England and the scheme administrator, the NHS Business Services Authority (NHSBSA). An employer rate of 20.6% (20.68% inclusive of the administration charge) will apply. However, the NHSBSA will continue to only collect 14.38% from employers. Central payments will be made by NHS England, directly to the NHSBSA, for the outstanding 6.3% relating to NHS services.
10. The mandate adjustment and corresponding payments required to be made to the NHSBSA are additional to those approved in January 2019, and as such, based on existing Standing Financial Instructions, require approval by the Board. It is proposed that the Board delegates authority to agree the appropriate governance, due diligence, and invoicing approach, and to make the relevant payments, to the Chief Financial Officer. Existing processes in relation to NHS England's 14.38% (including the administration levy) are unaffected by this arrangement.

Implications

11. Due to the agreement with DHSC, the mandate transfer associated with the pension revaluation will be a fixed sum in 2019/20³, and it will be for the NHS to manage the costs associated with any excess pressure. The agreement includes assumptions in respect of pay growth and workforce growth, however any variation to these could lead to a material variation from expected expenditure which will need to be monitored as the financial year progresses.
12. NHS Improvement has been working with the DHSC in respect to treatment of this in organisational accounts. It is proposed that the employing entity's expenditure in the pension costs line in the employee expenses note should only be for the 14.3% value which it pays. However, to meet the disclosure requirement of the International Accounting Standard (IAS) rule 19, DHSC proposes to mandate that the employee note should also contain a disclosure of the numeric value of the employer contribution paid over on the entity's behalf. It is considered that this approach achieves the spirit of IAS19 (disclosing the total amount), whilst being consistent with the principles set out in the Companies Act, and in other elements of the International Accounting Standards Board (IASB) about the pension cost being the cost to the employer specifically.

² The Board should note that the agreed sum covers the cost in respect of directly-employed NHS England, CCG and CSU staff, but not in respect of NHS Improvement staff, which represents a pressure (of £1.14m) on our combined admin and central programme budgets in 2019/20 and beyond.

³ Whether the figure is fixed in cash terms for five years or rises broadly in line with anticipated growth in pensionable pay bill remains the subject of discussion between the NHS and the Government.

Summary of recommendations

13. The Board is asked to:

- note the changes to the NHS pension scheme employer contribution rate;
- note the transitional arrangement agreed for 2019/20;
- approve spending the increased mandate adjustment (c£2.8bn but final value still to be agreed with DHSC), which is in addition to the allocations approved by the board on 31 January 2019; and
- approve delegation to the Chief Financial Officer to make payments to the NHSBSA.

Author: Paul Twigg, Senior Lead – Strategic Finance, NHS England