

32 Pensions

The Group operates both defined benefit and defined contribution pension schemes. These pension schemes are funded and contributions are made to separate trustee-administered funds. The assets of the pension schemes are held separately from the Group.

The pension charge for the defined contribution pension schemes for the year is £21.8m (2006: £17.2m).

In 2007 there was one main defined benefit pension scheme where the Group was the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: one scheme where the Group is the sole employing sponsor; allocated sections of two multi-employer schemes in which the Group is a participating employer; an allocated section in an industry wide scheme; and several schemes to which the Group makes contributions under Admitted Body status to our customers' defined benefit pension schemes in respect of certain TUPE employees.

For the Admitted Body schemes, which are all part of the Local Government Pension Scheme, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each schemes' Schedule of Contributions. In addition, for some schemes, the Group will be required to pay any deficit (as determined by the respective Scheme Actuary) that is remaining for the notional section of the scheme at the end of the contract.

The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are:

	Capita scheme £m	Other schemes £m	Group total £m
At 31 December 2007			
Scheme assets at fair value:			
Equities/Hedge funds/Absolute returns	248.9	85.1	334.0
Bonds	56.1	33.6	89.7
Property	17.5	8.8	26.3
Insurance contracts	3.5	0.5	4.0
Cash/other	24.5	9.6	34.1
Total	350.5	137.6	488.1
Present value of scheme liabilities	(330.2)	(153.5)	(483.7)
Net asset/(liability)	20.3	(15.9)	4.4

	Capita scheme £m	Other schemes £m	Group total £m
At 31 December 2006			
Scheme assets at fair value:			
Equities/Hedge funds/Absolute returns	234.6	79.4	314.0
Bonds	64.3	32.2	96.5
Property	12.9	7.9	20.8
Insurance contracts	3.2	0.4	3.6
Cash/other	6.4	2.5	8.9
Total	321.4	122.4	443.8
Present value of scheme liabilities	(328.8)	(141.8)	(470.6)
Net liability	(7.4)	(19.4)	(26.8)

A pension asset of £20.3m has been recognised in the current year as the Directors believe that this is fully recoverable.

The pension schemes have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

Notes to the consolidated financial statements

32 Pensions (continued)

The amounts recognised in the consolidated income statement and in the consolidated statement of recognised income and expense for the year are analysed as follows:

	Capita scheme £m	Other schemes £m	Group total £m
Year ended 31 December 2007			
Recognised in the income statement:			
Current service cost	17.9	2.1	20.0
Past service cost	1.3	0.2	1.5
Recognised in arriving at operating profit	19.2	2.3	21.5
Expected return on scheme assets	(22.8)	(8.3)	(31.1)
Interest cost on scheme liabilities	17.4	7.4	24.8
Net finance cost included in administrative expenses	(5.4)	(0.9)	(6.3)
Total defined benefit charge	13.8	1.4	15.2
Taken to the statement of recognised income and expense:			
Actual return on scheme assets	18.5	8.0	26.5
Less: expected return on scheme assets	(22.8)	(8.3)	(31.1)
	(4.3)	(0.3)	(4.6)
Other actuarial gains	28.4	1.6	30.0
Actuarial gains recognised in the statement of recognised income and expense	24.1	1.3	25.4

Of the total service cost charge of £21.5m, £16.7m was included in cost of sales and £4.8m was included in administrative expenses.

	Capita scheme £m	Other schemes £m	Group total £m
Year ended 31 December 2006			
Recognised in the income statement:			
Current service cost	17.6	2.4	20.0
Past service cost	0.4	–	0.4
Recognised in arriving at operating profit	18.0	2.4	20.4
Expected return on scheme assets	(18.7)	(7.1)	(25.8)
Interest cost on scheme liabilities	15.0	6.3	21.3
Net finance cost included in administrative expenses	(3.7)	(0.8)	(4.5)
Total defined benefit charge	14.3	1.6	15.9
Taken to the statement of recognised income and expense:			
Actual return on scheme assets	28.5	10.6	39.1
Less: expected return on scheme assets	(18.7)	(7.1)	(25.8)
	9.8	3.5	13.3
Other actuarial gains and (losses)	3.6	(3.9)	(0.3)
Actuarial gains and (losses) recognised in the statement of recognised income and expense	13.4	(0.4)	13.0

Of the total service cost charge of £20.4m, £16.9m was included in cost of sales and £3.5m was included in administrative expenses.

Pension contributions are determined based on the advice of qualified independent actuaries.

Formal valuations of the Capita scheme and the FPS scheme were carried out as at 6 April 2005 and 31 March 2005 respectively. For the other schemes, the latest formal valuations were carried out as at either 1 April 2004, 31 December 2006 or 31 March 2007. These valuations are updated by qualified independent actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

The assumption for the expected long-term rate of return on assets has been derived by considering the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset was then weighted based on the target asset allocation to develop the assumption for the expected long-term rate of return on assets for the portfolio.

32 Pensions (continued)

	Capita scheme		Other schemes	
	2007 %	2006 %	2007 %	2006 %
Main assumptions:				
Rate of price inflation	3.2	2.9	3.2	2.9
Rate of salary increase	4.2	3.9	4.2	3.9
Rate of increase of pensions in payment ² :				
– inflation capped at 5%	3.2	2.9	3.2	2.9
– inflation capped at 2.5%	2.3	2.1	2.3	2.1
Discount rate	5.9	5.2	5.9	5.2
Expected rates of return on scheme assets (net of scheme expenses):				
Equities/Hedge funds/Absolute returns	7.6	7.6	7.6	7.6
Bonds	5.2	4.9	5.0 to 5.5	4.7 to 5.0
Property	7.6	7.6	7.6	7.6
Insurance contracts	5.9	5.2	5.9	5.2
Cash/other	5.5	5.0	5.5	5.0
Expected take up of extended limits of tax free cash due to A day legislation	50.0	50.0	50.0³	50.0 ³

	Capita scheme		Other schemes ¹	
	2007	2006	2007	2006
Post retirement mortality				
– Current pensioners	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB=1935) rated up 2 years
– Future pensioners	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB) rated up 2 years	PA92 MC (YOB=1965) rated up 2 years

Mortality tables above are independently prepared and published.

¹This does not apply to the Admitted Body schemes.

²There are other levels of pension increase which apply to particular periods of membership.

³This does not apply to the Admitted Body Schemes where no allowance for the extended limits is taken.

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2006	308.1	130.3	438.4
Current service cost	17.6	2.4	20.0
Past service cost	0.4	–	0.4
Interest cost	15.0	6.3	21.3
Benefits paid	(6.6)	(2.4)	(9.0)
Actuarial gains and losses	(3.6)	3.9	0.3
Contributions by employees	0.4	1.3	1.7
Contract bulk transfers/change in classification of plans	(2.5)	–	(2.5)
As at 31 December 2006	328.8	141.8	470.6
Current service cost	17.9	2.1	20.0
Past service cost	1.3	0.2	1.5
Interest cost	17.4	7.4	24.8
Benefits paid	(8.1)	(3.3)	(11.4)
Actuarial gains and losses	(28.4)	(1.6)	(30.0)
Contributions by employees	0.3	1.1	1.4
Contract bulk transfers/change in classification of plans	1.0	5.8	6.8
As at 31 December 2007	330.2	153.5	483.7

The defined benefit obligation comprises £483.7m (2006: £470.6m) arising from schemes that are wholly or partly funded.

Notes to the consolidated financial statements

32 Pensions (continued)

Changes in the fair value of scheme assets are analysed as follows:

	Capita scheme £m	Other schemes £m	Group total £m
As at 1 January 2006	286.1	109.3	395.4
Expected return on scheme assets	18.7	7.1	25.8
Contract bulk transfers/business combinations	(2.5)	–	(2.5)
Employer contributions	15.5	3.6	19.1
Contributions by employees	0.4	1.3	1.7
Benefits paid	(6.6)	(2.4)	(9.0)
Actuarial gains and losses	9.8	3.5	13.3
As at 31 December 2006	321.4	122.4	443.8
Expected return on scheme assets	22.8	8.3	31.1
Contract bulk transfers/business combinations	1.0	5.8	6.8
Employer contributions	17.4	3.6	21.0
Contributions by employees	0.3	1.1	1.4
Benefits paid	(8.1)	(3.3)	(11.4)
Actuarial gains and losses	(4.3)	(0.3)	(4.6)
As at 31 December 2007	350.5	137.6	488.1

The total employer contributions to the defined benefit pension schemes in 2008 are estimated to be £17.8m in respect of the Capita scheme and £4.4m in respect of the 'Other' schemes.

History of experience gains and losses:

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Capita scheme					
Fair value of scheme assets	350.5	321.4	286.1	234.4	151.4
Present value of defined benefit obligation	(330.2)	(328.8)	(308.1)	(257.8)	(210.4)
Scheme surplus/(deficit)	20.3	(7.4)	(22.0)	(23.4)	(59.0)
Experience adjustments arising on scheme liabilities	–	3.6	(29.3)	(20.6)	
Experience adjustments arising on scheme assets	(4.3)	9.8	26.4	2.6	
Other schemes					
Fair value of scheme assets	137.6	122.4	109.3	84.6	72.9
Present value of defined benefit obligation	(153.5)	(141.8)	(130.3)	(105.3)	(91.7)
Scheme deficit	(15.9)	(19.4)	(21.0)	(20.7)	(18.8)
Experience adjustments arising on scheme liabilities	0.1	(3.9)	(13.1)	(4.7)	
Experience adjustments arising on scheme assets	(0.3)	3.5	12.5	3.0	

The cumulative amount of actuarial gains recognised since 1 January 2004 in the consolidated statement of recognised income and expense is £15.0m (2006: cumulative actuarial losses of £10.4m). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £77.8m (of which an IFRS transitional adjustment of £67.7m was taken directly to equity) is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the consolidated statement of recognised income and expense before 1 January 2004.

33 Related party transactions

Other than the information disclosed in the Directors' report and the Directors' remuneration report, the only other related party transactions requiring disclosure are details of key management personnel compensation. These details are set out in the table below.

Compensation of key management personnel (excluding Directors of parent company)

	2007 £m	2006 £m
Short term employment benefits	3.0	3.1
Post employment benefits	0.1	0.1
Share based payments	1.8	1.1
	4.9	4.3

Gains on share options exercised in the year by key management personnel totalled £11.3m (2006: £1.2m).