Presented pursuant to the GRA Act 2000 c.20. s.6

Teachers' Pension Scheme (England and Wales)

Resource Accounts 2007-08

LONDON: The Stationery Office
HC 21

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£9.50

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REPORT OF THE MANAGERS

Accounts for the year ended 31st March 2008.

Introduction

The Teachers' Pension Scheme (TPS) is an unfunded, contributory, public service occupational pension scheme, governed by statutory regulations. The current regulations are The Teachers' Pensions Regulations 1997 (as amended).

Membership of the scheme is voluntary and is open to members of the teaching profession in England and Wales.

The scheme is managed by the Department for Children, Schools and Families and administered under contract by Capita Teachers' Pensions.

Outside the scheme, are provisions for premature retirement compensation payments made on behalf of employers and for the recovery of the costs of those payments from employers. Those provisions are managed by the Department for Children, Schools and Families and administered under contract by Capita Teachers' Pensions.

The managers, advisers and employers for both are as listed below.

MANAGERS, ADMINISTRATORS, ADVISERS AND EMPLOYERS

MANAGERS

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DL3 9BG

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ADMINISTRATOR OF THE SCHEME

Capita Business Services Ltd
Teachers' Pensions
Mowden Hall
DARLINGTON
Co Durham
DL3 9EE

EMPLOYERS

Any organisation in England and Wales that employs teachers can join the TPS. There were 2,321 employers participating in 2007-08 split into the following categories:

172	Local Authorities (LAs)
417	Further Education institutions
90	Higher Education institutions
1642	Independent establishments (including 83 Academies, 7 City Technology Colleges and 1,552 others)

PERFORMANCE AND POSITION

The TPS account is influenced by changes in membership numbers, salary levels, mortality rates, the age profile of the scheme and pensions increases. Of these elements, membership numbers increased due to the change introduced in 2006-07, with the introduction of automatic scheme membership for part-time teachers either on first appointment or when they receive a new contract, which took effect on 1 January 2007. Such teachers still retain the right to opt out of the scheme as is the case with full-time teachers.

The Government Actuary is provided with estimated interim figures for members and pension levels on which the figures in the Statement by the Actuary are based. The figures appearing in the accounts are based on actual, final year-end figures. Hence the two sets of figures do not reconcile exactly.

CHANGES TO THE TEACHERS' PENSION SCHEME

Pensions were increased by 3.6% with effect from 10 April 2007 in line with increases in the cost of living based on the Retail Price Index (RPI).

CHANGES TO THE PREMATURE RETIREMENT COMPENSATION (PRC) SCHEME

During the year, compensation payments to certain individuals were increased by 3.6% in line with the increases in pensions.

FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS

The Teachers' Pension Scheme England and Wales does not have any arrangements to offer members free-standing additional voluntary contributions or stakeholder pensions. However the Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to increase their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment to the approved provider, the Prudential. The individual's employer is responsible only for the onward payment of members' contributions to the Scheme's approved provider. Members participating in this arrangement receive an annual statement from the approved provider made up to 31 March each year confirming the amounts held in their account and the movements in the year.

In 2007-08 the aggregate amounts of AVC investments are as follows:

The Prudential

	2007-08 £000	2006-07 £000
Movements in the year:		
Balance at 1 April	1,893,001	1,870,471
New investments	237,673	258,518
Sales of investments to provide pension benefits	(238,188)	(235,925)
Changes in market value of investments	(15)	(63)
Balance at 31 March	**1,892,471**	**1,893,001**
Contributions received to provide life cover	1,734	1,857
Benefits paid on death	2,565	2,863

POST-BALANCE SHEET EVENTS

Guaranteed Minimum Pension (GMP)

During the year administrative checks revealed an inconsistency in the calculation of some of the pensions in payment. Around 20,300 pensions, based on service between 1978 and 1997, paid after state pension age, were affected. As at 31 March 2008, the estimated overpayment of pension was £26.7 million. Payment of these pensions continues at the incorrect rate but will be corrected from April 2009. Since the year end it has been confirmed that recovery of the overpayments will not be sought.

There have been no other post-balance sheet events that would have a material impact on the accounts.

MEMBERSHIP STATISTICS

These statistics rely on data provided by employers via a statutory return to the Scheme administrator. Please note that the figures for active and deferred members' relate to the financial year ending March 2007, the latest data available. As at 27 November 2008, 13,549 teachers' records had not yet been completely verified by employers. Of these records the majority relate to active members; deferred members are not included in the figures provided below.

The figures for pensions in payment are for year ending March 2008. This is the latest data available.

Detail of the current membership of the Teachers' Pension Scheme in England and Wales is as follows:

Active members

	Active members brought forward from 31 March 2006	600,124
	Adjustments due to data received post 31 March 2006	1,386
	Total active members at 1 April 2006	**601,510**
Add:	New entrants in the year	47,200
	Re-entrants in the year	41,004
	Transfers in	537
	Opted in	527
Less:	Premature retirements	(2,311)
	Age and infirmity retirements	(9,781)
	Actuarially reduced benefits	(6,178)
	Opted out	(2,138)
	Other exits (including transfers out)	(41,540)
	Deaths	(460)
	Active members at 31 March 2007	**628,370**

Deferred members

	Deferred members brought forward from 31 March 2006	409,691
	Total deferred members at 1 April 2006	**409,691**
Add:	Exits with no benefits payable (including opt outs with service remaining in scheme and transfers in)	41,874
Less:	Deaths	(156)
	Return of contributions	(1,236)
	Re-entry to service	(24,141)
	Transfers out	(1,798)
	Awards out of service	(7,486)
	Deferred members at 31 March 2007	**416,748**

Pensions in payment

Pensions at the start of the year – brought forward from 31 March 2007

	– members	455,361
	– dependants	51,186
	Total	**506,547**
Adjustments made to data received post 31 March 2007		
	– members	16,177
	– dependants	1,989
	Total	**18,166**
Total pensioners in payment as 1 April 2007		
	– members	471,538
	– dependants	53,175
	Total	**524,713**
Add:	Members retiring in the year	
	– Age/Premature pensions	18,965
	– Infirmity pensions	1,098
	– Actuarially reduced benefits	7,925
	– New dependants	1,341
	Total members and dependants retiring in year	**29,329**
Less:	Cessations in year – Members	
	Age/Premature pensions	(7,315)
	Infirmity pensions	(1,174)
	Actuarially reduced benefits	(78)
		(8,567)
	Cessations in year – Dependants	(1,420)
	Total cessations in year	**(9,987)**
Pension in payment at 31 March 2008		
	– members	490,959
	– dependants	53,096
	Total	**544,055**

Further information

Any enquiries about either the Teachers' Pension Scheme or the Premature Retirement Compensation Scheme in England and Wales should be addressed to:

Capita Business Services Ltd
Teachers' Pensions
Mowden Hall
DARLINGTON
Co Durham
DL3 9EE

David Bell
Accounting Officer

12 December 2008

Teachers' Pension Scheme (England and Wales)
Accounting Year Ended 31 March 2008

STATEMENT BY THE ACTUARY

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the Department for Children, Schools and Families ("the Department"). It summarises the pensions disclosures required for the Resource Accounts of the Teachers' Pension Scheme ("the Scheme") as at 31 March 2008.

2. The statement is based on the results of an interim valuation carried out as at 31 March 2006, with an approximate updating to 31 March 2008 to reflect known changes.

Membership data

3. Tables A1 to A3 summarise the principal membership data as at 31 March 2006 and 31 March 2008 used to prepare this statement.

Methodology

4. The value of the liabilities has been determined using the projected accrued benefit method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the Resource Accounts as at 31 March 2008. The contribution rate for accruing costs in the year ended 31 March 2008 was determined using the projected unit method and the principal financial assumptions applying to the Resource Accounts as at 31 March 2007.

5. 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), premature retirements or redundancy benefits in respect of current members, although the assessment of liabilities includes some pensions already in payment in respect of such cases.

6. The actuarial liability as at 31 March 2008 is based on the new provisions which came into force on 1 January 2007.

Financial assumptions

7. Table A4 (in Appendix) shows the principal financial assumptions adopted to prepare this statement. With effect from 31 March 2008, the assumed rate of return in excess of prices was increased from 1.8% a year to 2.5% a year, and the assumed rate of return in excess of earnings was increased from 0.3% a year to 1.0% a year.

Demographic assumptions

8. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

9. The demographic assumptions (other than the mortality assumptions) adopted for the assessment of the liabilities as at 31 March 2008 are those adopted for the 2006 interim valuation of the TPS (which were the same as those adopted for the valuation as at 31 March 2004).

10. The mortality assumptions adopted for the purpose of the Resource Accounts as at 31 March 2008 include greater allowance for future mortality improvement than those adopted for the 2006 interim valuation and the Resource Accounts as at 31 March 2007 (but the assumed current level of mortality remains in accordance with the Scheme's own experience, as reviewed at the 2004 valuation).

11. The contribution rate used to determine the accruing cost in 2007-08 was based on the demographic assumptions applicable at the start of the year, which were also those adopted for the interim valuation as at 31 March 2006.

Liabilities

12. Table 1 summarises the capital value as at 31 March 2008 of benefits accrued under the Scheme prior to 31 March 2008 based on the data, methodology and assumptions described in paragraphs 3 to 11.

Table 1 Past service liabilities as at 31 March 2008

Value of liability in respect of	£ billion
Pensions in payment	78.8
Deferred pensions	16.8
Active members (past service)	80.9
Total	**176.5**

Accruing costs

13. The cost of benefits accruing in the year ended 31 March 2008 (the 'current service cost') is based on a standard contribution rate of 31.3%, as determined at the start of the year. The actual contribution rate payable during the year was 20.5% of pensionable pay, of which members paid 6.4% and employers paid 14.1%. Table 2 shows the contribution rate used to determine the current service assuming a members' contribution rate of 6.4%, with employers meeting the balance of the cost.

Table 2 Contribution rate 2007-08

Contribution rate	Percentage of pensionable pay
Standard contribution rate	31.3%
Members' contribution rate	6.4%
Employers' share of standard rate	24.9%
Actual rate charged to employers	14.1%

14. The employers' share of the standard rate determined for the purposes of the Resource Accounts is not the same as the actual rate charged to employers (which is based on the methodology and the financial and demographic assumptions adopted for the funding of the Scheme).

15. In relation to the pensionable payroll for the financial year 2007-08, the contributions actually paid by members and employers were £4,390 million (from data provided by the Department). Based on this information, the accruing cost of pensions in 2007-08 (at 31.3% of pay, including member contributions) is estimated to be £6,700 million.

Disclosures

16. Tables A5 and A6 (in Appendix) show the Balance sheet and the Profit and loss disclosures as at 31 March 2008.

E I Battersby, FIA
Chief Actuary
Government Actuary's Department

23 May 2008

APPENDIX

Table A1 – Active members

	31 March 2006 Number (thousands)	31 March 2006 Total salaries* (£ million)	31 March 2007 Total salaries* (£ million)	31 March 2008 Total salaries* (£ million)
Males	191	7,140	7,380	7,760
Females	424	14,290	14,760	15,530
Total	615	21,430	22,140	23,290

* Full-time equivalent

Table A2 – Deferred members

	31 March 2006 Number (thousands)	31 March 2006 Total deferred pension (pa)* (£ million)	31 March 2007 Total deferred pension (pa)† (£ million)	31 March 2008 Total deferred pension (pa)# (£ million)
Males	102	300	315	332
Females	249	550	580	612
Total	351	850	895	944

* Including increases applying from April 2006
† Including increases applying from April 2007
# Including increases applying from April 2008

Table A3 – Pensions in payment

	31 March 2006 Number (thousands)	31 March 2006 Annual pension* (£ million)	31 March 2007 Annual pension† (£ million)	31 March 2008 Annual pension# (£ million)
Males	175	2,000	2,150	2,330
Females	264	2,110	2,270	2,450
Spouses & dependants	44	150	160	170
Total	483	4,260	4,580	4,950

* Including pension increase awarded in April 2006
† Including pension increase awarded in April 2007
# Including pension increase awarded in April 2008

Table A4 – Financial assumptions

Assumption	31 March 2008	31 March 2007
Rate of return (discount rate)	5.3%	4.6%
Rate of return in excess of:		
Earnings increases	1.0%	0.3%
Pension increases	2.5%	1.8%
Expected return on assets:	n/a	n/a

Appendix (continued)

Table A5 – Balance sheet disclosures

		£billion
	31 March 2008	31 March 2007
Total market value of assets	nil	nil
Value of liabilities	(176.5)	(181.3)
Surplus (deficit)	(176.5)	(181.3)
of which recoverable by employers	n/a	n/a

Table A6 – Profit & loss disclosures

	£ billion Year ending 31 March 2008
Analysis of amount charged to Operating profit	
Current service cost	6.7
Past service cost	–
Total operating charge	**6.7**
Analysis of the amount credited to other finance income	
Expected return on scheme assets	–
Interest on pension liabilities (@4.6%)	-8.4
Net return	**-8.4**
Analysis of amount recognised in STRGL	
Actual return less expected return on scheme assets	–
Experience gains and losses arising on pension liabilities	2.4
Changes in mortality assumptions	-9.5
Changes in demographic assumptions (other than mortality)	–
Changes to financial assumptions from 31 March 2008	21.2
Actuarial gain (loss) recognised in STRGL	**14.1**
Movement in surplus during the year	
Surplus at 31 March 2007	-181.3
Current service cost	-6.7
Benefits paid during the year	5.8
Past service costs	–
Other finance income	-8.4
Actuarial gain (loss)	14.1
Surplus at 31 March 2008	**-176.5**

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 5 of the Government Resources and Accounts Act 2000, HM Treasury has directed the Teachers' Pension Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The financial statement also satisfies the requirements of the Teachers' Pensions Regulations 1997 (SI 1997 No.3001).

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accrual basis and must give a true and fair view of the financial transactions of the scheme during the year and the disposition, at the end of the financial year, of the net liabilities. Note 2 'Accounting Policies' to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the net liabilities at the year end.

In preparing the accounts 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 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.

HM Treasury has appointed David Bell, the Permanent Secretary of the Department for Children, Schools and Families, as Accounting Officer for the Teachers' Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable and for keeping proper records and safeguarding the assets of the pension scheme, are set out in *Managing Public Money* and the Accounting Officers' Memorandum issued by HM Treasury.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of the Teachers' Pension Scheme's policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The Departmental Board includes two non-executive members and regularly meets to discuss all strategic policy management issues. This includes providing direction on major policy, delivery and operational issues, reviewing performance and ensuring that the Department is working economically, efficiently and effectively.

The Department has contracted out the administration of the Teachers' Pension Scheme (TPS). The TPS contract is managed by the Director General for Schools in the Department and operated in accordance with the Department's internal control framework. As Accounting Officer, I have overall responsibility for ensuring that the contractor is managing the risks effectively and for reviewing the effectiveness of the contractor's systems of internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievements of the TPS policies aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place for the TPS for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity and capability to manage risk

The Board recognises the importance of leadership to create an environment where risk management is effective and a Departmental Risk Improvement Manager is in place. Two Department-wide reviews of our risk management practice have been conducted to assess the progress made over the year regarding the improvement of the Department's risk management capacity and capability. These reviews found that we continue to make sound progress regarding the way in which we manage our risk. They also identified a small number of areas of risk management in the Department which require further improvement. These issues are now being addressed as part of the ongoing actions set out in the Department's Risk Improvement Plan.

Guidance on the identification, assessment and active management of risk in the Department is available to all staff. The Department's Risk Improvement Manager has continued to work with corporate policy colleagues to ensure that risk management is further embedded into the Department's corporate governance, finance management, business planning and assurance, and performance management arrangements and improvement activities.

Two Risk Workshops have been held during the year to identify countermeasures and contingencies to risks associated with the TPS accounts. These are now being implemented and regular reviews by the contract and finance management team will be undertaken to identify further risks and to ensure that the countermeasures and contingencies remain appropriate.

The risk and control framework

The Department's approach is to assign risks to those best placed to manage them. Therefore, individual managers are responsible to the risk owners (Directors General and Directors) for managing risk as they have knowledge of the issues involved and can best mitigate the potential impact. The risk owner for the TPS is the Director General for Schools. All managers are expected to systematically identify, assess and manage risk and document the underlying assumptions.

The key risks facing the Department have been identified and agreed by the Risk Committee, which is separate from the Board and chaired by the Director General of the Corporate Services Directorate. The Board regularly reviews key high level risks and ensures they are managed. Every quarter I discuss the key Departmental risks with the Secretary of State.

The risk management process is built into the TPS business planning and reporting processes. There is clear accountability and ownership of risk to ensure that risk is managed at the appropriate level and there are frameworks in place to escalate risks to ensure that significant risks are reported to senior management and, if required, the Board.

The Department has a number of mechanisms through which it engages with employers' representatives and unions on the administration and management of the TPS, and thereby minimises the risks involved. These include the Teachers' Pension Administration Forum (TPAF) through which all parties can raise issues or concerns about administration of the Scheme. This, in turn, is supported by communications from the Scheme's administrators to employers and members, including presentations and visits to employers. The Department has implemented a communications strategy in collaboration with all stakeholders to further improve the quality and breadth of TPS' communications.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the Director General for Schools in the Department; the Department's managers, who have responsibility for the development and maintenance of the internal control framework; Internal Audit; and comments made by the external auditors of the Scheme in their management letter and other reports. Additionally, specific to the TPS, my review is informed by the internal auditors of the contractor and by the contractor's staff. I have also been advised by the Board, the Audit and Risk Assurance Committee (ARAC), the Risk Committee and Departmental Risk Improvement Manager, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Department's internal auditors undertake a work programme approved by me to review risk management, internal control and governance. The Head of Internal Audit (HIA) produces periodic reports on Internal Audit's findings, their assessment of risk management, corporate governance and control standards in the key corporate risks and delivery areas. They identify areas where action is required to address shortcomings. I meet with the HIA monthly to discuss progress in addressing major concerns. The HIA prepares biannual reports which include their professional opinion on the effectiveness of the overall systems of internal control, risk management and governance within the Department. During the year, Internal Audit continued to advise Directorates within the Department and at year-end helped ensure issues identified through the audit work programme have been appropriately reflected in the preparation of Directorates' annual statements.

For 2007-08 ARAC supported me as the Accounting Officer by offering objective advice on issues concerning the control and governance of the Department. ARAC was chaired by a non-executive Board member and its role and composition was in line with Treasury's best practice guidance as confirmed by a formal review of its effectiveness carried out by Internal Audit.

The Department takes seriously the potential impact that fraud can have on financial control and achievement of objectives and the Fraud Sub Committee meets on a regular basis. Their role is to give assurance to ARAC that the risks to the Department's business from fraud and financial irregularity are being managed and monitored effectively and is another aspect of good governance.

Internal Control issues

There has been one fraud against the TPS discovered in 2007-08, relating to a former member who appears to have faked his own death. The TPS paid death benefit and widow's pension following receipt of a death certificate, and the case is now the subject of criminal legal action.

As covered in the Report of the Manager, administrative checks have revealed an inconsistency in the calculation of a number of individual pensions in relation to Guaranteed Minimum Pension (GMP), which has led to both over and a small number of underpayments. Capita Teachers' Pensions is taking forward the work necessary to resolve these cases and to prevent similar occurrences in the future.

Following the HMRC personal data loss in November 2007, Capita's auditors conducted a review of TPS Information Security (Data Exchange) and found that the main data exchanges were operating in a secure environment although some strengthening of the control framework was required.

The Department's internal auditors and the contractor's own auditors reviewed the operations of the TPS during the year. Their reviews of the budget and the profiling system concluded that a sound system of risk management was in place. The Department's internal auditors also undertook a review of the Spring Supplementary Supply Estimate exercise and considered an Amber/Green level of assurance to be appropriate. The Report concluded that "arrangements for estimating and profiling the TPS Supplementary Budget bid for 2007-08 were sound". They also completed a review of the contractors audit arrangements and confirmed that they are providing an effective internal audit service in line with professional standards.

As Accounting Officer I am satisfied that there are no material threats to the operational effectiveness of the TPS, and that the systems in place comply with the Treasury requirements on risk management, internal control and governance.

David Bell
Accounting Officer

12 December 2008

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Teachers' Pension Scheme (England and Wales) for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Revenue Account and Statement of Recognised Gains and Losses, the Balance Sheet, and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Report of the Managers and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Teachers' Pension Scheme has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Teachers' Pension Scheme's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Teachers' Pension Scheme's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Report of the Managers and the Report of the Actuary published with the account and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Teachers' Pension Scheme's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Scheme's affairs as at 31 March 2008, and of the net cash requirement, net resource outturn and net outgoings, recognised gains and losses and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

15 January 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London
SWIW 9SS

STATEMENT OF PARLIAMENTARY SUPPLY SUMMARY OF RESOURCE OUTTURN 2007-08

		Estimate			Outturn			2007-08 £000	2006-07 £000 Outturn
Request for resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
Teachers' pensions		15,263,543	(4,557,107)	10,706,436	15,218,908	(4,521,163)	10,697,745	8,691	8,658,435
Total resources	3	**15,263,543**	**(4,557,107)**	**10,706,436**	**15,218,908**	**(4,521,163)**	**10,697,745**	**8,691**	**8,658,435**

Net cash requirement 2007-08

	Note	Estimate	Outturn	2007-08 £000 Net Total outturn compared with Estimate: saving/ (excess)	2006-07 £000 Outturn
Summary of net cash requirement	4	**1,583,646**	**1,484,787**	**98,859**	**25,391**

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid the following income relates to the Pension Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics).

		Forecast 2007-08 £000		Outturn 2007-08 £000	
	Note	Income	*Receipts*	Income	*Receipts*
Operating income and receipts not classified as Appropriations in Aid		132	*132*	99	*104*
Other Consolidated Fund Extra Receipts					
Excess receipts to be surrendered to the Consolidated Fund		–	*72,469*	–	*59,095*
Total	5	**132**	***72,601***	**99**	***59,199***

Explanation of the variation between estimate and outturn (net total resources)

The net resource outturn on the Scheme is £8.691 million (0.08%) lower than the net resource limit in the Supply Estimate. The underspend is the result of small variances on both income and expenditure budgets.

Explanation of the variation between estimate net cash requirement and outturn net cash requirement

The £1.584 billion net cash requirement limit included £72.5 million for supply financing in relation to excess cash to be surrendered to the Consolidated Fund. The Department is not required to make a payment to the Consolidated Fund – it is a technical Supply Estimate entry that inflates the cash limit – so of the £95.8 million cash surplus only £23.3 million was as a result of operating activities (which is less than 1.5% of the planned cash requirement).

The notes on pages 22 to 34 form part of these accounts.

Revenue Account

for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Income			
Contributions receivable	7	(4,446,244)	(4,139,714)
Transfers in	8	(66,910)	(80,051)
Other income	9	(8,108)	(10,155)
		(4,521,262)	(4,229,920)
Outgoings			
Pension cost	10	6,732,944	5,001,616
Enhancements	11	33,087	56,987
Transfers in	12	66,910	80,051
Interest on scheme liabilities	13	8,359,224	7,670,649
Other expenditure	14	26,743	19,804
		15,218,908	12,829,107
Net outgoings for the year	3	**10,697,646**	**8,599,187**
Net resource outturn	3	**10,697,745**	**8,658,435**

Statement of Recognised Gains and Losses

for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Actuarial (gain) loss	19.8	(14,043,281)	30,944,105
Recognised (gains) and losses for the financial year		**(14,043,281)**	**30,944,105**

The notes on pages 22 to 34 form part of these accounts.

Balance Sheet

as at 31 March 2008

	Note	2007-08 £000	2007-08 £000	2006-07 £000	2006-07 £000
Current assets:					
Debtors	16a		362,749		350,646
Cash at bank	17		17,709		25,538
			380,458		**376,184**
Creditors – amounts falling due within one year					
Pensions and other creditors	18a + b		(276,268)		(251,710)
Consolidated Fund creditor	18a		(17,713)		(84,643)
			(293,981)		**(336,353)**
Net current assets, excluding pension liabilities			86,477		39,831
Pension liability	19.5		(176,500,000)		(181,300,000)
Provision for compensation payments where the scheme acts as a principal	20		(110,612)		(94,289)
Net Assets/(Net Liabilities)			**(176,524,135)**		**(181,354,458)**
Taxpayers' equity:					
Balance brought forward			(181,354,458)		(143,016,046)
Financing from the Consolidated Fund (Cash Flow)			1,502,391		1,289,519
Net outgoings during the year (Revenue Account)			(10,697,646)		(8,599,187)
Actuarial gain/(loss) (STRGL)	19.8		14,043,281		(30,944,105)
Excess Appropriations in Aid for current year			–		(59,095)
Income not appropriated in aid payable to the Consolidated Fund	21	(99)		(153)	
Consolidated Fund debtor/creditor	21	(17,604)		(25,391)	
			(17,703)		(25,544)
Balance carried forward			**(176,524,135)**		**(181,354,458)**

David Bell
Accounting Officer

12 December 2008

The notes on pages 22 to 34 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Net cash outflow from operating activities	22a	(1,425,587)	(1,263,981)
Receipts due to Consolidated Fund which are outside the scope of the Department's activities		–	–
Payments of amounts due to the Consolidated Fund		(59,242)	(11)
Financing	22b	1,477,000	1,235,185
Increase/(decrease) in cash in the period	22c	**(7,829)**	**(28,807)**

The notes on pages 22 to 34 form part of these accounts.

NOTES TO THE SCHEME STATEMENT

1. BASIS OF PREPARATION

The scheme statement has been prepared in accordance with the relevant provisions of the 2007-08 *Government Financial Reporting Manual* (*FReM*) issued by HM Treasury, which reflect the requirements of Financial Reporting Standard (FRS 17) *Retirement Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice Financial Reports of Pension Schemes.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the scheme to prepare an additional statement – a *Statement of Parliamentary Supply*. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Teachers' Pension Scheme – principal arrangements

The scheme statement summarises the transactions of the Teachers' Pension Scheme where the Department for Children, Schools and Families acts as principal. The balance sheet shows the deficit on the scheme; the Revenue Account shows, inter alia, the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the Statement by the Actuary, and the scheme statement should be read in conjunction with that Statement.

1.2 Teachers' Pension Scheme – agency arrangements

The scheme acts as an agent for employers in the payment of compensation benefits arising under the Teachers' Pension Compensation Scheme. Compensation benefits paid out in the course of the month are generally recovered from the employer in advance, on a quarterly basis. These financial flows are not brought to account in the financial statements.

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2. STATEMENT OF ACCOUNTING POLICIES

The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for Companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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 accounts.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Pension contributions receivable

a Employers' normal pension contributions are accounted for on an accruals basis.

b Employers' special pension and compensation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, on a cash basis.

c Employees' pension contributions which exclude amounts paid in respect of the purchase of added years (dealt with in 2.1.d below) and Additional Voluntary Contributions (dealt with in 2.16 below) are accounted for on an accruals basis.

d Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the scheme liability is recognised as expenditure.

2.3 Transfers in and out

Transfers in are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.4 Income received in respect of enhancements

Amounts received in respect of bringing forward the payment of accrued superannuation lump sums, and in respect of the cost of pension enhancement capitalised either at the time of an early departure or at normal retirement age are accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis.

2.5 Other income

Other income, including refunds of gratuities, overpayments recovered other than by deduction from future benefits, and miscellaneous income are accounted for on an accruals basis. To the extent that this income also represents an increase in the scheme liability, it is also reflected in expenditure.

2.6 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current members' service in the current period and is recognised in the revenue account. It is calculated by factoring up the actual contribution rates charged (employer's 14.1%, employee's 6.4%) to the projected unit rate (31.3%) adopted by the Actuary.

2.7 Past service cost

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 revenue account on a straight line basis over the period in which increase in benefit vest.

2.8 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement. The cost is recognised in the revenue account. The interest cost is based on a discount of 1.8% real rate (i.e. 4.6% including inflation).

2.9 Other payments

All other payments in the revenue statement are related to the compensation scheme are accounted for on an accruals basis. The other payments category excludes administration costs and audit fees which are met by the Department for Children, Schools and Families.

2.10 Scheme liability

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 is discounted at 2.5% real rate (i.e. 5.3% including inflation).

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect the current conditions.

2.11 Pension benefits payable

Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

2.12 Pension payments to those retiring at their normal retirement age

Where a retiring member of the pension scheme has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

Where a retiring member of the pension scheme has a choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.13 Pension payments to and on account of leavers before their normal retirement age

Where a member of the pension scheme is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

Where a member of the pension scheme has the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.14 Lump sums payable on death in service

Lump sum payments payable on death in service are accounted for on an accruals basis. They are funded through the normal pension contributions and are a charge on the pension provision.

2.15 Actuarial gains and losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

2.16 Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the employers to the approved AVC providers.

2.17 Premature Retirement Compensation

Compensation payments for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, compensation payments are paid initially by the scheme throughout the month and recovered from employers on a quarterly basis, in advance. These transactions are not recorded in the revenue account.

Some employers choose to extinguish their liability by providing the scheme administrators with an actuarial lump sum to meet the liabilities that have yet to be discharged, in which case the scheme accepts responsibility as a principal. Where the scheme acts as a principal, the cost of the future liability in setting up and revising the provision is recorded as expenditure in the revenue account, with offsetting income reflecting the reimbursements due from employers.

2.18 Administration expenses

The budget for all the administration expenses related to the pension scheme are included in the Supply Estimate of the Department for Children, Schools and Families. This includes all staff costs, overheads and general administration costs and more specifically for the pension scheme, the cost of fees paid for medical examinations.

3. RECONCILIATION OF ESTIMATES, ACCOUNTS AND BUDGETS

Reconciliation of net resource outturn to net outgoings

	Note	2007-08 Outturn	2007-08 Supply Estimate	2007-08 Outturn Compared with Estimate	2006-07 Outturn
		£000	£000	£000	£000
Net resource outturn		10,697,745	10,706,436	8,691	8,658,435
Non-supply income (CFERs)	5	(99)	(132)	(33)	(59,248)
Net outgoings		**10,697,646**	**10,706,304**	**8,658**	**8,599,187**

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Net resource outturn	3	10,706,436	10,697,745	8,691
Accruals adjustments				
Non-cash items	23	(15,258,129)	(15,213,865)	(44,264)
Changes in working capital other than cash	24	66,614	46,645	19,969
Changes in creditors falling due after more than one year		–	–	–
Use of provision	19.6, 19.7, 20	5,996,256	5,954,262	41,994
Excess cash receipts surrenderable to the Consolidated Fund		72,469	–	72,469
Net cash requirement		**1,583,646**	**1,484,787**	**98,859**

5. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND

In addition to appropriations in aid (A in A), the following income relates to the Scheme and is payable to the Consolidated Fund *(cash receipts being shown in italics)*

	Note	Forecast 2007-08 £000 Income	Forecast 2007-08 £000 Receipts	Outturn 2007-08 £000 Income	Outturn 2007-08 £000 Receipts
Operating income and receipts-excess A in A			–		*59,095*
Other operating income and receipts not classified as A in A		132	*132*	99	*104*
	3	132	*132*	99	*59,199*
Non-operating income and receipts-excess A in A		–	–	–	–
Other non-operating income and receipts not classified as A in A		–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
Excess cash surrenderable to the Consolidated Fund		–	*72,469*	–	–
Total income payable to the Consolidated Fund		132	*72,601*	99	*59,199*

The £59,199,000 was additional unforecast income in 2006-07 which resulted in an excess vote in 2006-07. This additional income was receipted in 2007-08 and paid over to Treasury as Consolidated Fund Extra Receipts (CFER).

6. RECONCILIATION OF INCOME RECORDED WITHIN THE REVENUE ACCOUNT TO OPERATING INCOME PAYABLE TO THE CONSOLIDATED FUND

	2007-08	2006-07
	£000	£000
Operating Income	4,521,262	4,229,920
Income authorised to be appropriated-in-aid	4,521,163	4,170,672
Operating income payable to the Consolidated Fund	**99**	**59,248**

Revenue Account: Principal arrangements via the Teachers' Pension Scheme, and principal and agency arrangements via the Teachers' Pension Compensation Scheme

7. PENSION CONTRIBUTIONS RECEIVABLE

	2007-08	2006-07
	£000	£000
Employers	(3,029,744)	(2,819,704)
Employees:		
Normal	(1,383,449)	(1,263,061)
Purchase of added years	(33,051)	(56,949)
	(4,446,244)	**(4,139,714)**

8. PENSION INCOME – TRANSFERS IN

	Note	2007-08	2006-07
		£000	£000
Group transfers in from other schemes	12	(528)	(612)
Individual transfers in from other schemes		(66,382)	(79,439)
		(66,910)	**(80,051)**

9. OTHER PENSION INCOME

	2007-08	2006-07
	£000	£000
Contributions equivalent premiums	(2,092)	(1,727)
Recoveries of payments in lieu	(11)	(11)
Reinstatement of contributions	(36)	(39)
Other income	(99)	(152)
Premature retirement compensation	(5,870)	(8,226)
	(8,108)	**(10,155)**

10. PENSION COST

	Note	2007-08	2006-07
		£000	£000
Current service cost		6,722,982	4,996,903
Past service costs		9,962	4,713
	19.5	**6,732,944**	**5,001,616**

11. ENHANCEMENTS

	Note	2007-08 £000	2006-07 £000
Employees:			
Purchase of added years		33,051	56,949
Reinstatements		36	38
	19.5	**33,087**	**56,987**

12. PENSION COST – TRANSFERS IN

	Note	2007-08 £000	2006-07 £000
Group transfers in from other schemes	8	528	612
Individual transfers in from other schemes		66,382	79,439
	19.5	**66,910**	**80,051**

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Revenue Account as expenditure as part of the movements in the provision during the year.

13. INTEREST ON SCHEME LIABILITIES

	Note	2007-08 £000	2006-07 £000
Interest charge for the year	19.5	8,359,224	7,670,649
		8,359,224	**7,670,649**

14. OTHER EXPENDITURE

The following amounts represent annual compensation payments and compensation lump sums payable.

	Note	2007-08 £000	2006-07 £000
On retirement			
Contributions equivalent premiums		3,955	5,101
Premature retirement compensation		20,218	12,345
Other		494	472
Unwinding of discount	20	2,076	1,886
		26,743	**19,804**

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Teachers' Pension Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to the Prudential to increase their pension entitlements or to increase life assurance cover.

All transactions and related assets and liabilities connected with the AVC scheme are private arrangements between the Prudential and the employees, therefore they do not form part of these accounts.

The aggregate amounts of AVC investments disclosed in the Report of the Managers do not form part of these accounts.

Balance Sheet: Principal arrangements via the Teachers' Pension Scheme, and principal and agency arrangements via the Teachers' Pension Compensation Scheme

16. DEBTORS-CONTRIBUTIONS DUE IN RESPECT OF PENSIONS

16 (a) Analysis by type

	Note	2007-08 £000	2006-07 £000
Amounts falling due within one year:			
Pension contributions due from employers		242,603	236,145
Employees' normal contributions		112,609	109,746
Bringing forward the payment of accrued superannuation lump sums		–	–
Capitalised cost of enhancement to pension payable on departure		–	–
Group transfers		–	–
Overpaid pensions*		–	–
Pension contribution debtor – sub total		355,212	345,891
Other debtors		5,208	2,788
Recoverable compensation funding from employers (principal)		2,329	1,967
		362,749	**350,646**

Included within the 2007-08 figures is £5,000 (2006-07: £59,105,000) that will be due to the Consolidated Fund once the debts are collected.

*See Note 27 for details of the Guaranteed Minimum Pension (GMP) overpayments.

16 (b) Intra-government balances

	Note	Amounts falling due within one year 2007-08 £000	Amounts falling due within one year 2006-07 £000	Amounts falling due after more than one year 2007-08 £000	Amounts falling due after more than one year 2006-07 £000
Balances with other central government bodies		873	64	–	–
Balances with local authorities		273,862	264,984	–	–
Balances with NHS Trusts		–	–	–	–
Balances with public corporations and trading funds		–	–	–	–
Balances with bodies external to government		88,014	85,598	–	–
At 31 March		**362,749**	**350,646**	**–**	**–**

17. CASH AT BANK

	Note	2007-08 £000	2006-07 £000
Balance at 1 April		25,538	54,345
Net change in cash balances		(7,829)	(28,807)
Balance at 31 March		**17,709**	**25,538**
The following balances at 31 March were held at:			
Office of HM Paymaster General		16,463	16,207
Commercial banks and cash in hand		1,246	9,331
Balance at 31 March		**17,709**	**25,538**

18. CREDITORS – IN RESPECT OF PENSIONS

18 (a) Analysis by type

	Note	2007-08 £000	2006-07 £000
Amounts falling due within one year			
Pensions		(219,779)	(198,934)
Injury benefits		–	–
Group transfer pre-payment		–	–
HMRC and voluntary contributions		(50,590)	(47,302)
Overpaid contributions: employers		–	–
Overpaid contributions: employees		–	–
Overpaid contributions: employees added years		–	–
Other creditors		(4,887)	(5,231)
Pension and other creditor sub-total		**(275,256)**	**(251,467)**
Amounts issued from the Consolidated Fund for supply but not spent at year end		(17,604)	(25,391)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:			
Received		(104)	(147)
Receivable		(5)	(59,105)
Consolidated Fund creditor sub-total		**(17,713)**	**(84,643)**
		(292,969)	**(336,110)**

18 (b) Contributions due – compensation payments agency

	Note	2007-08 £000	2006-07 £000
Balance at 1 April		(243)	(325)
Receipts from employers		(23,958)	(21,881)
Payments to employees		23,189	21,963
Balance at 31 March		**(1,012)**	**(243)**

18 (c) Intra-government balances

		Amounts falling due within one year		Amounts falling due after more than one year	
	Note	2007-08 £000	2006-07 £000	2007-08 £000	2006-07 £000
Balances with other central government bodies		(68,517)	(131,811)	–	–
Balances with local authorities		(357)	(959)	–	–
Balances with NHS Trusts		–	–	–	–
Balances with public corporations and trading funds		–	–	–	–
Balances with bodies external to government		(225,108)	(203,583)	–	–
At 31 March		**(293,982)**	**(336,353)**	**–**	**–**

19. PROVISIONS FOR PENSION LIABILITIES

19.1 The Teachers' Pension Scheme is an unfunded defined benefits scheme. A full valuation by a professionally qualified actuary is required at intervals not exceeding four years. The Government Actuary's Department carried its last full review as at 31 March 2004. The Statement by the Actuary at pages 8 to 11, therefore includes an update since 2004 for known data movements. In addition to the assumptions outlined in the Statement, the actuary has applied the following rates in calculating the scheme liabilities:

	At 31 March 2008 %	At 31 March 2007 %	At 31 March 2006 %
Rate of increase in salaries[1]	4.3	4.3	4.0
Rate of increase in pensions in payment and deferred pensions[1]	2.8	2.8	2.5
Discount rate	2.5	1.8	2.8
Inflation assumption	2.8	2.8	2.5

[1] The rates of increase shown above are the nominal increases in salaries and pensions. The rates of increase in the financial assumptions table in the Statement by the Actuary are based on the difference between the rate of return (discount rate) and the nominal increase.

19.2 The scheme managers are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

- Scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners.
- Benefit structure, including details of any discretionary benefits and any proposals to amend the scheme.
- Income and expenditure, including details of expected bulk transfers into or out of the scheme.
- Following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

19.3 Pension scheme liabilities accrue over an employee's periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. The variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

19.4 The value of the liability on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation or increase in salaries, the value of the pension liability will increase or decrease. The managers of the scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 19.5 and 19.8. The note also discloses "experience" gains and losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

19.5 Analysis of movements in the scheme liability

	Note	2007-08 £000	2006-07 £000
Scheme liability at 1 April		(181,300,000)	(143,000,000)
Current service cost	10	(6,722,982)	(4,996,903)
Past service cost	10	(9,962)	(4,713)
Interest on scheme liability	13	(8,359,224)	(7,670,649)
Enhancements	11	(33,087)	(56,987)
Pension transfers in	12	(66,910)	(80,051)
Benefits payable	19.6	5,833,320	5,294,682
Pension payments to and on account of leavers	19.7	115,564	158,726
Actuarial gain/(loss)	19.8	14,043,281	(30,944,105)
Scheme liability at 31 March		**(176,500,000)**	**(181,300,000)**

During the year ended 31 March 2008, contributions represented an average of 20.5%. Contribution rates remain unchanged in 2008-09.

19.6 Analysis of benefits paid

	Note	2007-08 £000	2006-07 £000
Pensions or annuities to retired employees and dependants (net recoveries or overpayments)		4,730,841	4,391,796
Commutations and lump sum benefits on retirement		1,102,479	902,886
		5,833,320	**5,294,682**

19.7 Analysis of payments to and on account of leavers

	Note	2007-08 £000	2006-07 £000
Refunds to members leaving service		2,502	2,416
Transfers to other schemes		113,062	156,310
Per cash flow statement	22a	**115,564**	**158,726**

19.8 Analysis of actuarial gain/(loss)

	Note	2007-08 £000	2006-07 £000
Experience gains/(losses) arising on the scheme liabilities		2,343,281	(4,344,105)
Changes in assumptions underlying the present value of scheme liabilities		11,700,000	(26,600,000)
Per Statement of Recognised Gains and Losses		**14,043,281**	**(30,944,105)**

19.9 History of experience (gains)/losses

	2007-08	2006-07	2005-06	2004-05	2003-04
Experience (gains)/losses arising on the scheme liabilities Amount (£000)	(2,343,281)	4,344,105	1,180,346	(66,330)	(897,929)
Percentage of the present value of the scheme liabilities	(1.3%)	2.4%	0.8%	(0.1%)	(0.8%)
Total amount recognised in statement of total recognised (gains) and losses Amount (£000)	(14,043,281)	30,944,105	16,380,346	1,233,670	(897,929)
Percentage of the present value of the scheme liabilities	(8.0%)	17.1%	11.5%	1%	(0.8%)

20. PROVISION FOR ANNUAL COMPENSATION PAYMENTS

	Note	2007-08 £000	2006-07 £000
Balance at 1 April		94,289	85,722
Additional provisions	23	19,624	11,612
Use of provision in year		(5,377)	(4,931)
Unwinding of discount	14	2,076	1,886
Balance at 31 March		**110,612**	**94,289**

21. GENERAL FUND

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

	Note	2007-08 £000	2006-07 £000
Balance at 1 April		(181,354,458)	(143,016,046)
Net parliamentary funding			
Drawn down	22b	1,477,000	1,235,185
Deemed		25,391	54,334
Year end adjustment			
Supply (creditor)/debtor – current year		(17,604)	(25,391)
Net transfers from operating activities			
Net outgoings	3	(10,697,646)	(8,599,187)
CFERS repayable to Consolidated Fund	3	(99)	(59,248)
Actuarial gains and losses (SRGL)	19.8	14,043,281	(30,944,105)
Balance at 31 March		**(176,524,135)**	**(181,354,458)**

22. NOTES TO THE CASH FLOW STATEMENT

22 (a) Reconciliation of net outgoings to operating cash flows

	Note	2007-08 £000	2006-07 £000
Net outgoings for the year	3	10,697,646	8,599,187
Adjustments for non-cash transactions		(8,361,300)	(7,672,535)
(Increase)/decrease in debtors		12,103	51,356
less movements in debtors relating to items not passing through the revenue account		–	–
Increase/(decrease) in creditors: pensions		42,372	(52,394)
less movements in creditors relating to items not passing through the revenue account		*(66,930)*	*30,294*
Increase in pension provision		(6,752,568)	(5,013,228)
Increase in pension provision – enhancements and transfers in		(99,997)	(137,038)
Use of provisions		5,838,697	5,299,613
Use of provisions – refunds and transfers	19.7	115,564	158,726
Net cash outflow from operating activities		**1,425,587**	**1,263,981**

22 (b) Analysis of financing and reconciliation to the net cash requirement

	Note	2007-08 £000	2006-07 £000
From the Consolidated Fund (supply) – current year	21	1,477,000	1,235,185
From the Consolidated Fund (supply) – prior year		–	–
From the Consolidated Fund (non-supply)		–	–
Net financing		**1,477,000**	**1,235,185**

22 (c) Reconciliation of net cash requirement to increase/(decrease) in cash

	Note	2007-08 £000	2006-07 £000
Net cash requirement	4	(1,484,787)	(1,264,128)
From the Consolidated Fund (Supply) – current year	22b	1,477,000	1,235,185
From the Consolidated Fund – prior year	22b	–	–
Amounts due to the Consolidated Fund received and not paid over		(42)	136
Increase/(decrease) in cash		**(7,829)**	**(28,807)**

23. NON-CASH ITEMS

	Note	2007-08 £000	2006-07 £000
Increase in pension provision	10	6,732,944	5,001,616
Increase in pension provision – enhancements and inward transfers	11,12	99,997	137,038
Increase in annual compensation payment provision	20	19,624	11,612
Unwinding of discount	14	2,076	1,886
Interest on scheme liability	13	8,359,224	7,670,649
		15,213,865	**12,822,801**

24. MOVEMENTS IN WORKING CAPITAL, OTHER THAN CASH

	Note	2007-08 £000	2006-07 £000
Increase/(decrease) in debtors	16a	12,103	51,356
(Increase)/decrease in creditors (ex. Consolidated Fund balances)	18a&b	(24,558)	(22,100)
Per cash flow statement		(12,455)	29,256
Adjustment for non appropriations in aid debtor received	18a	59,105	4
Adjustment for non appropriations in aid debtor not yet received	18a	(5)	(59,105)
		46,645	**(29,845)**

25. FINANCIAL INSTRUMENTS

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Teachers' Pension Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies to which FRS 13 mainly applies. The scheme has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the scheme in undertaking its activities.

25.1 Liquidity risk

The scheme's net revenue resource requirements are financed by resources voted annually by Parliament. The scheme is therefore not exposed to significant liquidity risks.

25.2 Interest rate risk

The scheme's assets and liabilities carry either nil or fixed rates of interest and the scheme is not, therefore, exposed to significant interest-rate risk.

25.3 Foreign currency risk

All the scheme's assets and liabilities are denominated in sterling, so it is not exposed to currency risk.

26. CONTINGENT LIABILITIES DISCLOSED UNDER FRS 12

In the unlikely event of a default by the approved AVC provider, the scheme will guarantee pension payments. This guarantee does not apply to members who make payments to institutions offering Free Standing AVCs.

27. LOSSES AND SPECIAL PAYMENTS

During the year, losses arose in 1,738 cases (2006-07: 2,086 cases). The total loss was £59,106 (2006-07: £200,033).

Included in these figures are Guaranteed Minimum Pension (GMP) overpayments or Contributions Equivalent Premiums (CEP) payments, for which we received the late notification from HMRC. This type of loss accounted for 36 cases (2006-07: 134 cases) totalling £10,257 (2006-07: £19,192).

During 2007-08 a further problem with the late notification of GMP data was identified and the Department is working with HMRC and Capita to assess the number of cases and the value of the potential overpayment. At the date of signing of these accounts (12 December 2008) the estimated number of overpayment cases and the overall value of the overpayment at the balance sheet date (31 March 2008) is 20,300 and £26.7m respectively. These overpayments are deemed to be irrecoverable and therefore do not feature as debtors in Note 16. The final position in respect of these overpayments will not be known until the end of 2008-09.

In 2007-08 one case of fraud was discovered, a loss of £25,186. This is subject to criminal legal action and the figure is included in the total loss figure.

28. RELATED-PARTY TRANSACTIONS

The Teachers' Pension Scheme falls within the ambit of the Department for Children, Schools and Families, which is regarded as a related party. Membership of the scheme is open to members of the teaching profession in England and Wales. There are no material transactions with the Department. None of the managers of the scheme, key managerial staff or other related parties has undertaken any material transactions with the scheme during the year.

29. END OF YEAR CERTIFICATION

The contributions received from employers have been certified through End of Year Certificates. At the date the 2007-08 accounts were signed, the End of Year Certificates had been received from all 172 Local Authorities (LAs), and from 2,149 non-LA employers of which 47.74% have been fully and independently audited.

30. POST BALANCE SHEET EVENTS

In November 2008, the TPS in consultation with HM Treasury decided in principle that overpayments made by the Scheme in connection with the Guaranteed Minimum Pension should not be recovered, as disclosed at note 27.

There have been no other events after the balance sheet date requiring an adjustment to the financial statements. The financial statements were authorised for issue on 15 January 2009 by David Bell (Accounting Officer).

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