Teachers' Pension Scheme (England and Wales)

Annual Report and Accounts 2013-14

For the year ended 31 March 2014

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

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1. REPORT OF THE MANAGER

BACKGROUND TO THE SCHEME

1.1 This report covers the financial year 2013-14.

1.2 The Teachers' Pension Scheme (TPS or Scheme) is a statutory, unfunded, defined benefit occupational pension scheme with benefits based on final average salary and length of service. The Scheme is managed by the Department and administered under contract by Capita Business Services Ltd (Capita).

1.3 The Scheme is governed by statutory regulations (currently statutory instruments), these being: *The Teachers' Pensions Regulations (amended 2010)* (SI2010/990). Membership of the Scheme is voluntary and is open to members of the teaching profession in England and Wales who satisfy the membership criteria set out below:

- teacher or lecturer (between the ages of 18 and 75) in pensionable service employed by:
  - a local authority or an academy;
  - an independent school;
  - a further or higher education establishment that has been accepted into the Teachers' Pension Scheme, or
  - working for a Function Provider (a company awarded a contract to perform functions on behalf of a local authority).

1.4 Contributions to the Scheme by employers and employees are set at rates determined by the Secretary of State, taking advice from the Scheme's actuary. The balance of funding is provided by Parliament. The Scheme's administrative expenses are borne by the Department and reported in the Department's consolidated accounts.

1.5 Pensions are increased annually in line with the Consumer Price Index. Retirement and other pension benefits are set out in regulations made under the *Superannuation Act (1972)* and are paid by public funds provided by Parliament. Members contribute on a "pay as you go" basis, with these contributions (along with those made by employers) being credited to the Exchequer under arrangements governed by the above Act.

1.6 The Annual Report and Accounts of the Scheme show the financial position of the TPS at the year end and the income and expenditure during the year, as follows:

- the Statement of Financial Position shows the unfunded net liabilities of the Scheme;
- the Statement of Comprehensive Net Expenditure shows, amongst other things, the change in the net liability analysed between the pension cost, enhancements and transfers in, and interest on the Scheme liabilities.

1.7 Further information about the actuarial position of the Scheme is set out in the Report of the Actuary. Outside the Scheme, there 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 also managed by the Department and administered under contract by Capita.

CORPORATE GOVERNANCE

1.8 The TPS administration is governed at two levels, encompassing strategy and service delivery. Where appropriate, issues are escalated to the Department's boards for further consideration.

1.9 The Pension Reform Board is a further, joint Department and TPS Board which brings together those Departmental and Capita senior managers responsible for the various strands of work necessary to seamlessly implement the post 2015 reform of the TPS.

1.10 Details of the Boards and their membership, together with attendance details, can be found in the Governance Statement on page 19.

1.11 The TPS Board meets monthly to ensure that the various work streams are fully monitored and mitigating action is in place for any risks that could threaten the successful completion of the overall project. The Board is satisfied that the project is currently on track.

CHANGES TO THE TEACHERS' PENSION SCHEME

1.12 Tiered employee contributions (and an increase in the average contribution rate) were introduced to the TPS in April 2012 following recommendations by Lord Hutton, chair of the Independent Public Service Pensions Commission, in his interim report reviewing the sustainability and affordability of public sector pension schemes.

1.13 Following consultations, each year's tiered contribution rates have taken effect from the following 1 April, with the final year's increase implemented from 1 April 2014. Under these arrangements, teachers have seen an average increase of 3.2 per cent over the three year period. The rates applied for each salary band in **2013-14** were:

Salary band	Contribution rate	Salary band	Contribution rate
£1 - £14,999	6.4%	£40,000 - £44,999	9.2%
£15,000 - £25,999	7.0%	£45,000 - £74,999	10.1%
£26,000 - £31,999	7.9%	£75,000 - £99,999	10.8%
£32,000 - £39,999	8.8%	£100,000 or more	11.2%

1.14 The rates applicable for the financial year **2014-15** are as follows:

Salary band	Contribution rate	Salary band	Contribution rate
£1 - £14,999	6.4%	£40,000 - £44,999	9.9%
£15,000 - £25,999	7.2%	£45,000 - £74,999	11.0%
£26,000 - £31,999	8.3%	£75,000 - £99,999	11.6%
£32,000 - £39,999	9.5%	£100,000 or more	12.4%

1.15 Benefits payable have also been increased by 2.2% from 8 April 2013. This is as a consequence of the cost of living increasing, based on the Consumer Price Index. Pension payments were increased by 2.7% from 7th April 2014 for 2014-15.

Changes to the Premature Retirement Compensation (PRC) scheme

1.16 During the year, compensation payments were increased by 2.2% with effect from 8 April 2013 in line with pensions. Compensation payments were increased by 2.7% on 7th April 2014 for 2014-15.

MEMBERSHIP STATISTICS

1.17 These statistics are validated annually by employers via a statutory return to the Scheme administrator. The figures for active and deferred members relate to the financial year ended 31 March 2013; this is the latest data available.

1.18 The figures for pensions in payment are for the year ended 31 March 2014.

1.19 Details of the membership of the TPS in England and Wales are as follows:

Active members

		2012-13 Number
	Active members brought forward from 31 March 2012	646,365
Add:	New entrants in the year	47,188
	Re-entrants in the year	44,306
	Transfers in	183
	Opted in	1,374
Less:	Premature retirements	(846)
	Age and infirmity retirements	(10,518)
	Actuarially reduced benefits	(7,769)
	Opted out	(1,335)
	Other exits (including transfers out)	(50,906)
	Deaths	(298)
	Active members at 31 March 2013	667,744

Deferred members

		2012-13 Number
	Deferred members brought forward from 31 March 2012	**459,300**
	Adjustments	**(39,270)**
	Total deferred members at 1 April 2012	420,030
Add:	Previously active members no longer in service	73,512
Less:	Deaths	(154)
	Return of contributions	(1,132)
	Re-entry to service	(29,836)
	Transfers out	(1,692)
	Awards out of service	(8,527)
	Deferred members at 31 March 2013	**452,201**

Pensions in payment

		2013-14 Number
	Pensions brought forward from 31 March 2013	574,420
	- members	61,842
	- dependants	
		636,262
	Adjustments made to data received post 31 March 2013	
	- members	3,236
	- dependants	9
		3,245
	Total pensioners in payment as 1 April 2013	
	- members	577,656
	- dependants	61,851
		639,507
Add:	Members retiring in the year	17,843
	- Age\premature pensions	497
	- Infirmity pensions	10,343
	- Actuarially reduced benefits	
	New dependants	3,815
	Total members retiring in year and dependants	**32,498**
Less:	Cessations in year – Members	
	Age/Premature pensions	(10,660)
	Infirmity pensions	(1,498)
	Actuarially reduced benefits	(1,466)
	Cessations in year – Dependants	(2,552)
	Total cessations in year	**(16,176)**
	Pension in payment at 31 March 2014	
	- members	592,715
	- dependants	63,114
	Total	**655,829**

Please note:

1.20 Due to the way in which annual service is reported by employers of Scheme members, the data contained within the Annual Accounts for active and deferred members is for the year prior to the reporting year. This is due to the annual service returns data for the Scheme membership not being fully processed until after the Annual Accounts are completed. For example, the information for active and deferred members in the 2013-14

Annual Report and Accounts are actually for the period 1 April 2012 – 31 March 2013 as this would be the most complete dataset available.

1.21 Pensioner data is a true reflection of the date of the Annual Report and Accounts and this reporting method is in line with the way in which the Scheme supplies yearly data files to the Government Actuaries Department (GAD).

1.22 One consequence of the two different years (2012-13 and 2013-14) being used within the Annual Report and Accounts is that the number of in year retirements for active and deferred members will not match the number of 'Members retiring in the year' data shown in the calculation of pensioner numbers.

Administration

1.23 Following a competitive tendering exercise, Capita were awarded a new contract to manage the TPS for seven years from 1 October 2011.

Performance and Position

Net cash requirement

1.24 In 2013-14, the net cash requirement was £3,360,642k (*2012-13: £3,301,649k*), £84,354k (*2012-13: £136,804k*) less than the amount authorised via the Supplementary Estimate. This is 2.5% within the net cash requirement limit in the Supply Estimate forecast of £3,444,996k (*2012-13: £3,438,453k*).

1.25 The Department continues to work closely with the administrator, with input from the GAD, to refine the forecasts to take into account new emerging trends and anticipated changes in behaviour as a result of perceived and actual future changes to the Scheme.

Resource Outturn to Supply Estimate

1.26 The Statement of Parliamentary Supply provides information on how the Scheme has performed against the Parliamentary control totals on resources and cash expenditure.

1.27 The Statement of Parliamentary Supply shows that the Scheme has breached the Department's Annually Managed Expenditure (AME) Parliamentary control totals. The Scheme is reporting a resource outturn of £10.649 billion which was outside the Supply Estimate net control total of £10.251 billion.

1.28 The £398 million net overspend on non-cash AME budgets, was due to an error forecasting the interest on scheme liabilities budget in the 2013-14 Supplementary Estimate. As soon as the Department identified the error, it took action to identify the impact of the error and to review its internal processes and systems to prevent any repetition of this mistake. The Accounting Officer commissioned Internal Audit to review the cause and the plans being made to improve processes and governance. More information on the cause and the corrective action is provided in the Governance Statement. The Scheme will seek Parliamentary approval by way of an Excess Vote in the next Appropriation Act.

Financial position

1.29 The Scheme had net liabilities of £250.3 billion (2012-13: £225.0 billion).

Scheme valuation

1.30 The primary purpose of formal actuarial valuations is to set employer and employee contribution rates.

1.31 The latest actuarial valuation of the TPS was carried out as at 31 March 2012 and in accordance with *The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014* ('the Directions'). The valuation determines the rate of employer contribution payable for the four year period from the implementation date of 1 April 2015 and the initial employer cost cap (both of which are set in the TPS regulations). The Directions also require results relating to scheme liabilities, notional assets and contribution rates to be reported.

1.32 The valuation report was published by the Department on 9 June 2014. The key results of the valuation are:

- employer contribution rates were set at 16.4% of pensionable pay;
- total scheme liabilities for service to the effective date of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £15.0 billion;
- an employer cost cap of 10.9% of pensionable pay.

1.33 The new employer contribution rate for the TPS will be implemented in September 2015. A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website at the following location:

https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

1.34 Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. As the interval since the last formal actuarial valuation exceeded four years, the amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2012, such as would have been provided for a formal valuation.

Influences on performance in 2013-14

1.35 The TPS Annual Report and Accounts are influenced by changes in its membership numbers, their salary levels, mortality rates, and the age profile of the Scheme and pension increases.

1.36 The GAD 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 the full year's actual data. Hence the two sets of figures do not reconcile exactly.

EVENTS AFTER THE REPORTING PERIOD

1.37 There have been no events after the reporting period that would have a material impact on the Annual Report and Accounts (see Note 20).

FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS

1.38 The Department provides for employees to make additional voluntary contributions (AVCs) to an approved provider (the Prudential) 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 Prudential, with employers being responsible only for ensuring the payment is made, not for the pension pot ultimately provided by Prudential. Members participating in this arrangement receive an annual statement from the Prudential made up to 31 March each year, confirming the amounts held in their account and the movements in the year.

1.39 Although the TPS will guarantee pension payments in the unlikely event of a default by Prudential, the transactions and related assets and liabilities connected with the AVC scheme are private arrangements between the Prudential and the employees. Teachers can take a pension from their AVC fund independently of any TPS benefits. HMRC also regards the two schemes as being separate schemes for tax purposes.

1.40 This being the case, the AVC data does not form part of these Annual Report and Accounts; it is included here for completeness only.

1.41 In 2013-14, the aggregate amounts of AVC investments are as follows:

The Prudential

	2013-14 £000	Restated 2012-13 £000
Movements in the year:		
Balance at 1 April	1,604,621	1,695,686
New investments	154,270	166,011
Sales of investments to provide pension benefits	(238,029)	(256,870)
Changes in market value of investments	75	(206)
Balance at 31 March	**1,520,937**	**1,604,621**
Contributions received to provide life cover	919	1,085
Benefits paid on death	3,204	3,545

Note: The 2012-13 figures have been restated due to interim figures being provided, these were not finalised until the accounts had been printed. The figures shown above represent the final position for both years.

EMPLOYERS

1.42 Any organisation in England and Wales that employs teachers can join the TPS. There were 6,101 (2012-13: 4,991) contributing employers participating in 2013-14 split into the following categories:

	2013-14 Number	2012-13 Number
Local Authorities	**174**	174
Further Education Institutions	**380**	415
Higher Education Institutions	**65**	76
Independent Establishments	**1,532**	1,250
Academies	**3,682**	2,725
City Technology Colleges	**225**	6
Others	**43**	345
	6,101	4,991

THE MANAGERS, ADMINISTRATORS AND ACTUARY ARE LISTED BELOW

Managers

Accounting officer
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Department for Education
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Scheme manager and premature retirement scheme manager (contact)
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Legal advisers

Legal Advisor's Office
Department for Education
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Administrator of the scheme

Capita Business Services Ltd
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DL3 9EE

FURTHER INFORMATION

Any enquiries about either the Scheme or the Premature Retirement Compensation Scheme in England and Wales should be addressed to:
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Staindrop Road
DARLINGTON
DL3 9EE

AUDIT

As Accounting Officer, as far as I am aware there is no relevant audit information of which the Scheme's auditor is unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

Chris Wormald 9 September 2014
Accounting Officer

2. REPORT OF THE ACTUARY

INTRODUCTION

2.1 This statement has been prepared by the Government Actuary's Department at the request of Department for Education (the Department). It summarises the pensions disclosures required for the 2013-14 Annual Report and Accounts of the Teachers' Pension Scheme (TPS or Scheme).

2.2 The TPS is a final salary defined benefit scheme, the rules of which are set out in *The Teachers' Pensions Regulations 2010* (SI 2010/990) and subsequent amendments. The Scheme is wholly unfunded. I am not aware of any informal practices operated within the Scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

2.3 The statement is based on an assessment of the liabilities as at 31 March 2012, with an approximate updating to 31 March 2014 to reflect known changes.

MEMBERSHIP DATA

2.4 Tables A to C summarise the principal membership data as at 31 March 2012 used to prepare this statement.

Table A – Active members

	Number (000s)	Total pensionable pay* (pa) (£ million)
Males	201	8,186
Females	490	18,316
Total	**691**	**26,502**

* Full-time equivalent as at 31st March 2012.

Table B – Deferred members

	Number (000s)	Total deferred pension† (pa) (£ million)
Males	108	324
Females	246	621
Total	**354**	**945**

† Pension amounts as at the assessment date and so excludes pension increase due in April 2012.

Table C – Pensions in payment

	Number (000s)	Annual pension† (pa) (£ million)
Males	209	2,862
Females	347	3,311
Spouses and Dependants	62	235
	618	6,408

† Pension amounts at the assessment date and so excludes pension increase due in April 2012

METHODOLOGY

2.5 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 2013-14 Annual Accounts. The contribution rate for accruing costs in the year ended 31 March 2014 was determined using the PUCM and the principal financial assumptions applying to the 2012-13 Annual Accounts.

2.6 This statement takes into account the benefits normally provided under the Scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

2.7 The principal financial assumptions adopted to prepare this statement are shown in Table D.

Table D – Principal financial assumptions

Assumption	31 March 2014	31 March 2013
Rate of return (discount rate)	4.35%	4.10%
Rate of earnings increases	4.50%	3.95%
Rate of future pension increases	2.50%	1.70%
Rate of return in excess of:		
Pension increases	1.80%	2.35%
Earnings (decreases)/ increases	(0.15)%	0.15%
Expected return on assets:	n/a	n/a

2.8 The pension increase assumption as at 31 March 2014 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

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

2.10 The 'S1' series of standard tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) are used but with adjustments derived from recent Scheme experience. For current and future male normal health pensioners, a 107% loading has been applied (that is the mortality rates are assumed to be 7% heavier than those in the standard table) relative to the S1NMA_L table. For current and future female normal health pensioners, age dependent loadings (74% up to age 79, 84% at ages 80-84, 98% at 85-89, 106% from age 90) have been applied relative to the S1NFA_L table. Mortality improvements are in accordance with those incorporated in the 2012 based principal population projections for the United Kingdom.

2.11 Reforms to the TPS due to be implemented in April 2015 may affect the behaviour of members, i.e. members subject to a later normal pension age for accrual after 2015 might be expected to retire later. The Department has revised age retirement rates to reflect recent experience and made allowance in the age retirement rates for members who are expected to transfer to the new scheme on or after 1 April 2015 for the purposes of the 2013-14 Annual Accounts.

2.12 The contribution rate used to determine the accruing cost in 2013-14 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2012-13 Annual Accounts.

Liabilities

2.13 Table E summarises the assessed value as at 31 March 2014 of benefits accrued under the Scheme prior to 31 March 2014 based on the data, methodology and assumptions described in paragraphs 2.4 to 2.12. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ billion

	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(250.2)	(224.9)	(200.6)	(192.4)	(223.9)
Surplus/(Deficit)	(250.2)	(224.9)	(200.6)	(192.4)	(223.9)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Pension cost

2.14 The cost of benefits accruing in the year ended 31 March 2014 (the Current Service Cost) is based on a standard contribution rate of 29.3% of pensionable pay. Members contributed about 9% of pensionable pay on average with different rates for different tiers of pensionable salary. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account contributions paid by members. The corresponding figures for 2012-13 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	1 April 2013 to 31 March 2014	**1 April 2012 to 31 March 2013**
Standard contribution rate	29.3%	25.5%
Members' contribution rate	9.0%	7.7%
Employers' share of standard contribution rate	20.3%	17.8%

2.15 The employers' share of the standard contribution rate determined for the purposes of the Annual Accounts is not the same as the actual rate of contributions payable by employers, currently 14.1%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme.

2.16 The most significant difference between the actuarial assessments for Annual Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 2.35% per annum for the 2013-14 Current Service Cost compared with 3.5% per annum for the existing scheme funding rate. (Note that the discount rate for scheme funding purposes has been reviewed and reduced to 3% a year, but this does not affect the current rate of contributions in payment.) A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Annual Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

2.17 The estimated pensionable payroll for the financial year 2013-14 was £23.5 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2013-14 (at 29.3% of pay) is assessed to be £6.9 billion. A full analysis of the costs is shown in note 14.5

Sensitivity Analysis

2.18 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 31st March 2014 of changes to the significant actuarial assumptions.

2.19 Changes to IAS19 published on 16 June 2011 introduced enhanced disclosure requirements for defined benefits pension schemes, including the TPS. In particular, we understand these include a requirement to disclose a sensitivity analysis for each 'significant' actuarial assumption.

2.20 The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

2.21 As a result of the scheme reform, there is significant uncertainty associated with how members will retire in future for those members who move across to the new scheme. Assumed age retirement rates can have a significant impact on the scheme liabilities and so I have included an indication of the approximate effect (on the total past service liability) of all members who move to the new scheme retiring one year later than assumed on the main liability calculations.

2.22 There was uncertainty around the actual level of withdrawals experienced by the scheme over the analysis period used to determine the scheme-specific withdrawal assumption adopted. To illustrate the possible impact of this uncertainty we have included an indication of the approximate effect of withdrawal rates being a third higher than assumed.

2.23 Table G shows the indicative effects on the total liability as at 31 March 2014 of changes to these assumptions (rounded to the nearest ½%).

Table G: Sensitivity to significant assumptions:

Change in assumption		**Approximate effect on total liability**	
Financial assumptions			
(i) discount rate*	+½% a year	- 8½%	- £21 billion
(ii) earnings increases*	+½% a year	+ 2%	+ £5 billion
(iii) pension increases*	+½% a year	+ 7½%	+ £19 billion
Demographic assumptions			
(iv) additional one year increase to life expectancy at retirement*		+ 2½%	+ £6 billion
(vi) all active members who move to the new scheme retire (on average) 1 year later		+ 0%	+ £0 billion
(vii) withdrawal rates a third higher		- ½%	- £1 billion

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

Matt Wood
Government Actuary's Department
8 July 2014

Revenue Account disclosures for year ended 31 March 2014 (GAD appendix E)

£ billion

	Year ended 31 March 2014
Analysis of amount charged to pension cost	
Current service cost	6.9
Past service cost	-
Total operating charge	**6.9**
Analysis of the amount recognised in Statement of Financial Position	
Expected return on scheme assets	-
Interest on pension liability	(9.2)
Net return	**(9.2)**
Analysis of amount recognised in Statement of Change in Taxpayers' Equity (SCITE)	
Actual return less expected return on scheme assets	-
Experience gains and losses arising on pension liabilities	(2.3)
Changes in mortality assumptions	1.3
Changes in demographic assumptions (other than mortality)	2.0
Changes to financial assumptions from 31 March 2013	(19.1)
Net actuarial losses recognised in SCITE	**(18.1)**
Movement in surplus during the year	
Deficit at 31 March 2013	(224.9)
Current service cost	(6.9)
Benefits paid during the year	8.8
Past service costs	-
Net transfers in	0.1
Interest on pension liability	(9.2)
Actuarial losses	(18.1)
Deficit at 31 March 2014	**(250.2)**

All actuarial gains and losses are recognised in full in the period in which they occur.

3. STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

3.1 Under Section 5 of the *Government Resources and Accounts Act 2000*, HM Treasury has directed the 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 (amended) 2010 (SI 2010/990)*.

3.2 The combined accounts 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 accounts are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them. In addition, the accounts 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.

3.3 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; and
- prepare the financial statements on a going concern basis.

3.4 HM Treasury has appointed Chris Wormald, the Permanent Secretary of the Department for Education, as Accounting Officer for the Teachers' Pension Scheme (England and Wales). The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Scheme, are set out in *Managing Public Money* published by HM Treasury.

4. GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

4.1 As Accounting Officer of the Department for Education I have responsibility for maintaining a sound system of internal control and risk management that supports the achievement of the Department's policies, aims and objectives, whilst safeguarding public funds and Departmental assets for which I am personally responsible. This includes the management of budgets and assets associated with the Teachers' Pension Scheme (TPS).

4.2 The administration of the TPS is contracted out to Capita. The contract is managed by the Department and operated in accordance with the Department's internal control framework. As Accounting Officer, I have responsibility for ensuring that the administrator is managing the risks effectively, and for reviewing the effectiveness of the administrator's systems of internal control.

GOVERNANCE STRUCTURE: TPS Boards

4.3 Strategy Board (SB): meets quarterly, chaired by Richard Symms, the Department's Head of Pensions, for the purpose of determining the strategic direction of the administration services, and reviewing delivery progress. The focus is on:

- Departmental/Government pension priorities;
- achievement of contractual outcomes;
- innovations and improvements that deliver improved customer service and/or service efficiencies, and
- discussion of any escalations from Service Delivery Board.

Board Member	Meetings attended	Out of a possible
Department		
Richard Symms	4	4
Neil Archbold (until October 2013)	3	3
Karen Peacock	4	4
Sue Crane (from November 2013)	1	1
Capita		
Karen Clements (alternating with N Burns)	1	2
Nick Burns (alternating with K Clements)	1	2
Andrea Waller	4	4
John Bailey	3	4
Ian Butcher	3	4
Paul Sturgess (From September 2013)	3	3

4.4 Service Delivery Board (SDB): meets monthly, chaired by Sue Crane, the Department's Senior Contract Manager. The SDB is responsible for:

- managing and monitoring delivery of the strategic direction on a "day-to-day" basis,
- monitoring core pension administration delivery (see below),
- reviewing performance against service levels and addressing delivery risks and issues, and
- discussing any escalation from Finance and Audit meetings.

Board Member	Meetings attended	Out of a possible
DfE		
Neil Archbold (until October 2013)	7	7
Sue Crane (from November 2013)	4	4
Richard Lees	10	12
Karen Peacock	11	12
Capita		
Andrea Waller (Until September 2013)	5	5
John Bailey	10	12
Mark Richardson (from September 2013)	6	7
Claire Boston-Smithson	10	12
Keith Barker	11	12
Pete Henderson	10	12
Paul Sturgess (from September 2013)	7	7

4.5 The **TPS Reform Implementation Project Board:** meets monthly, chaired by Stephen Baker (Departmental Deputy Director Teachers' Pensions), for the purpose of managing implementation of the Scheme reforms by April 2015. The focus encapsulates policy, administration and communication requirements, with a key objective to minimise any impact on business as usual administration services and financial management.

4.6 The **TPS Risk Committee:** meets monthly, chaired by Pete Henderson, TPS (Capita) Governance Manager, for the purpose of reviewing current Strategic and Service Delivery risks, identifying emerging risks in period, and assigning ownership and management of mitigating actions.

4.7 **Executive Reviews**: Stephen Baker, the Deputy Director for Teachers' Pensions and Deregulation Division has six-monthly meetings with a Capita Executive Director, which provides a vehicle for escalating and resolving issues.

4.8 Where appropriate, issues are escalated to the Department's Boards.

The Department's Boards and Committees

4.9 The Departmental Board (DB) provides strategic and operational leadership of the Department, bringing together Ministerial and official leaders with Non-Executive Members from outside government. The Board is chaired by the Secretary of State and its membership includes Ministers, the Permanent Secretary, all Directors General, the Director of Finance and Commercial Group, the Director of Strategy, Performance and Private Office, the Director of People and Change, Chief Executive of the Education Funding Agency and the Non-Executive Members.

4.10 The DB meets at least five times per year and operates collectively by advising on strategic issues and the deliverability of policies, as well as scrutinising and challenging the Department on its performance and on how well it is achieving its objectives.

4.11 The DB is supported in the delivery of its functions by three sub-committees – the Performance Committee, Audit and Risk Committee and Management Committee.

4.12 Sub-committees are responsible for reporting or escalating relevant issues to the Board. This may take the form of routine reports to Board members, but may, if considered necessary or appropriate by the sub-committee Chair, form the subject of a full agenda item for discussion at the Board.

4.13 **Management Committee (MC):** meets monthly and discusses issues such as the department's finances, the DfE Review, risk management (including the Building Block risks), Department of State functions, HR and IT. It is chaired by the Permanent Secretary and includes Non-Executive Board Members.

4.14 **Performance Committee (PC):** meets monthly and looks at the data and assessments in the delivery reports which are produced every other month, scrutinises the department's delivery numbers and discusses Impact reports. The Committee frequently challenges the department's use of data to monitor progress and discusses issues which cut across Directorates and divisions. It is chaired by one of the Non-Executives.

4.15 **Audit and Risk Committee (ARC):** meets quarterly and discusses the department's Internal Audit plan, building block risks, NAO reports, and the department's and TPS accounts,. Three Non-Executive Board Members sit on the committee, one of whom provides independent financial advice to the committee. It is chaired by the lead Non-Executive Board Member.

4.16 Further details on the DfE Board, and its assessment of its own effectiveness, can be found in the Governance Statement published in the DfE Group Consolidated Annual Report and Accounts, which are due for publication in late 2014.

Joint Department and Capita Reform Project Board

4.17 The Pension Reform Project Board, chaired by the relevant DD from the Department as Senior Responsible Officer (SRO), brings together Departmental and Capita senior managers who are responsible for the various strands of work necessary to implement the 2015 reform of the TPS. The Board meets monthly to ensure that the various work streams are fully monitored and mitigating action is in place for any risks that could threaten the successful completion of the overall project. The Board is satisfied that the project is currently on track.

The key provisions of a reformed TPS are:
- a pension based on career average earnings;
- an accrual rate of 1/57th with a revaluation rate of CPI +1.6% whilst the member is in pensionable service;
- Normal Pension Age (NPA) equal to State Pension Age (SPA);
- additional flexibilities, including beneficial early retirement factors for those with an NPA above 65 (of 3% per year for a maximum of 3 years in respect of the period from age 65 to their NPA) to provide more options to help members plan and save for their retirement; and
- accrued rights fully protected, with additional protection for those closest to retirement.

RISK MANAGEMENT AND CONTROLS

4.18 The Department's approach is to assign risks to those best placed to manage them. While I am the risk owner for the TPS, individual managers are responsible to Directors General and Directors for managing risks associated with scheme management and accounting, given their knowledge of the issues and can best mitigate any potential impacts. Delivery of scheme policy objectives, governance and administration of the scheme are the responsibility of the Director of Teachers' Group; responsibility for the financial reporting and scheme accounting lies with the Director of Finance and Commercial Group.

4.19 Risk management is built into the TPS business planning and reporting processes, evident in the governance and audit mechanisms that monitor compliance with / risks associated with policy, administration and financial requirements. There is clear accountability and ownership of risk to ensure that it is managed at the appropriate level. Risks relating to the TPS are discussed on an exceptions basis by the ARC and MC and, if necessary, escalated to the Departmental Board. Whilst no issues were escalated within 2013-14, the excess vore which led to the accounts being qualified (as discussed at paragraph 4.25) was raised as soon as it was known, at the first ARC of the 2014-15 financial year.

4.20 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk, whilst still enabling the achievement of the relevant 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 on-going process designed to:

- identify and prioritise the risks to the achievement of those policies, aims and objectives,
- evaluate the likelihood of those risks being realised and the impact should they be realised; and
- manage the risks efficiently, effectively and economically.

4.21 The specific controls used to provide assurance over the management of risks/issues associated with the TPS are described below:

- Risk Registers: one risk register is in operation that covers all sections: contract, policy, finance, reform and administration (strategic and service delivery). Each area has appropriate ownership for managing their relevant risks, and therefore each business aspect is required to take account of the impact on the other. The structure of the register is reviewed to ensure compliance with risk management good practice. The Risk committee is responsible for the management of this register.

- Contractual Audit Requirement: Capita's contract requires them to produce and implement an audit strategy, which complies with the Public Sector Internal Audit (PSIAS) and provides requisite assurance over TPS governance, risk management and controls. The requirement is delivered by Capita's internal audit division, Group Internal Audit (GIA).

- Annual Audit Plan: a risk-based annual audit plan is delivered by GIA which is approved by the Department. The Department continually reviews plan delivery, as well as approving the scope of individual audit activity, and reviewing / challenging audit findings.

  The 2013-14 audit plan included 10 separate reviews, including 5 financial audits in the following areas:

  - Finance Estimating (graded *'Satisfactory'*),
  - Debt Management (graded *'Satisfactory'*),
  - Payment Out Processes (graded *'Satisfactory'*)
  - Arrears of Contributions (graded *'Improvement Required'*)

    Improvements were suggested relating to review of the accuracy and completeness of controls for the checking and authorisation of contributions.
  - Fraud Mitigation (graded *'Improvement Required'*)

    Recommendations included Capita establishing an agreed fraud risk framework; strengthening controls relating to anti-fraud confirmation letters and the receipt and return of certification documents; and improvements to National Fraud Initiative activity reporting.

4.22 There were 29 findings made within the GIA reports released during the two year period 2012 to 2014. Capita has addressed 20 of these satisfactorily and are working to complete the final 9, all of which were rated as 'medium risk- reported for management attention and action'. All actions are on track.

- Monitoring: risks and audit finding resolutions are monitored and discussed at the SDB and SB meetings, with strategic/service delivery risk registers and audit updates incorporated into contract reports. Additionally, Capita ensures that the TPS is given prominence within their business-wide Risk Management and Audit Committee, which meets monthly.

- Independent Audit Assurance: the Department's internal audit function engages regularly with contract managers and GIA to review and challenge contract, risk and audit management.

4.23 The key financial controls are as described below:

- Income and expenditure forecasts: are calculated by Capita, with input from the Department. Expert advice is sought from GAD in respect of financial and demographic assumptions. A monthly finance meeting enables the Department's finance managers to review and challenge the forecasts, with support provided by the Department's Finance Business Partners. The forecasts are subject to further challenge by Treasury and the Office for Budget Responsibility (OBR). This process ensures procedures and controls are sufficiently robust to provide forecasts that are as accurate as possible.

- Fraud Identification: Capita are required to develop and maintain effective controls to prevent, detect and deter fraud and their internal systems are subject to regular audit reviews. In line with public sector best practice, Capita participate in the National Fraud Initiative (NFI) to identify potential fraudulent benefit claims. The screening exercises take place every two years. Capita supplements the NFI activity by undertaking mortality screening using Capita Tracing Services, with tracing activity taking place yearly, alternating between the two. From August 2014, this process will move to one which uses the "Disclosure of Death Register Information", with screening taking place on a monthly basis.

- Debt Management: the Department meets with Capita through a working group to identify and improve existing processes for debt identification to reduce the overall debt position. The working group has recently re-assessed the end-to-end process, from identification to recovery, and developed a management information and forecasting model to better understand debt and improve recovery timescales.

4.24 Pension policy changes that impact on the Scheme are effectively controlled by the Department and Capita. The Department proactively participates in the occupational pension network, which is chaired by HM Treasury and provides a vehicle for identifying and discussing impacts and solutions at public sector scheme level. Capita proactively monitor and progress general changes to overarching pension policy to ensure the scheme and administration complies with regulatory positions. Monitoring the delivery of policy changes/issues and managing risks is provided through the above mentioned governance structure.

Key issues and risks arising in the reporting year

4.25 A number of issues arose in the year which led to the external audit being extended in order to allow a full review. In additional, a number of issues arose reflecting the ongoing reform of public sector pension schemes. These are set out below.

Resource expenditure

4.26 An error was made when compiling the pension provision movements for the TPS 2013-14 Supplementary Estimate. This resulted in **non-cash** annually managed expenditure (AME) exceeding the Estimate resource control total (£10.25 billion) by a net £398 million (3.9%).

4.27 The pension provision (see note 14.5) is discounted using discount rates and cost of capital rates supplied annually by HM Treasury. The Department has to forecast all the possible movements in the pension provision for the Supplementary Estimate, in anticipation of the actuarial valuation in the annual GAD report received after the end of the financial year.

4.28 The error occurred in the calculation of the interest on the scheme liabilities (the non-cash cost of bringing the discounted pension provision one year nearer to cash). The formula for calculating the interest on the scheme liability is the average balance of pension provision multiplied by the HMT discount factor. The error arose because the opening balance for 2013-14 did not include the actuarial adjustment included in GAD's 2012-13 end of year report in May 2013. This error was compounded as the actuarial adjustment was unusually high, £17 billion, for 2012-13. On investigation it was identified that this was due to human error and it had led to the Department reducing the resource requirement for TPS at the Supplementary Estimate stage rather than increasing it.

4.29 The error was identified by the Department's accounts team when the 2013-14 GAD report arrived in May 2014. The Department immediately carried out a review of the 2013-14 forecasting process and alerted the Accounting Officer, Audit and Risk Committee and HM Treasury. The review included checking the 2014-15 spreadsheet for any errors and assessing the impact on future year's budgets.

4.30 The review focused on identifying and reducing the risk of error in future forecasting and has been extended beyond the boundaries of TPS. A number of recommendations have been made, including improving the design of spreadsheets and the quality of the documentation supporting the processes and procedures. The work also demonstrated that, whilst management review was undertaken at several stages in the process, the underlying assumptions were insufficiently visible and consequently not challenged.

4.31 The Department has already initiated action to address these issues. Specifically, implementation of the action plan will:

- improve the governance arrangements;
- re-design the spreadsheet;
- strengthen the controls in the process; and
- broaden the coverage of the management reviews and ensure they are properly documented.

4.32 Internal audit have reviewed the complex model used to calculate the provision, supporting processes, and the proposed action plan. Their recommendations are consistent with the action plan. The action plan and the final audit report has been provided to and discussed with the ARC and they will be given a regular progress update on its implementation. The findings and action plan have also been shared with the NAO.

Posting of journals to prior year accounts

4.33 A number of scheme transactions were identified as having been posted into a closed prior accounting period, with at least one such transaction crossing into a prior financial year.

4.34 Whilst our review identified that these transactions were of low value, the flaw in the existing control mechanism is material by nature. It was considered that the result of the practice of 'back posting' transactions could potentially pose a risk to quality of data used to prepare the scheme accounts, due to uncertainty over whether all transactions are relative to the current year.

4.35 The system weakness that allowed this 'back posting' has been addressed by the administrator. Enhanced manual controls have been implemented to tighten up the whole process, ensuring that there is a clear audit trail and robust controls to manage adjustments within the accounts.

Controls – movement between live and test systems

4.36 The external auditors identified a control issue relating to the integrity of source code changes passing from the test to the live environments managed by Capita. There was a small risk that, because of changes made to the system control processes (for a system implemented in 2012-13), unauthorised or unintended changes to live data could have been made.

4.37 Capita were initially unable to demonstrate that all changes to the live environment had been tested and authorised. A programme of further testing was therefore undertaken by the administrator following discussion with the external auditors, with the aim of:

- providing additional assurance that the identified risk had not been exploited, and
- demonstrating that the existing mitigating manual controls are sufficiently robust to manage the risk effectively.

4.38 Following discussions with the administrators at the conclusion of their additional testing, the management team were able to take assurance that the risk had not been exploited. A revised control process should ensure that the issue does not recur.

Other issues arising

Opt Out Rate and Contributions

4.39 The introduction of tiered employee contribution rates from 1 April 2012 and subsequent reforms of the Scheme gives rise to a risk of increased number of members opting out of the Scheme, which would have a significant impact on the Scheme's income. Opt-out rates are being monitored monthly, but to date there is no evidence to suggest the risk warrants escalation.

4.40 However, the move to tiered contributions has led to some employers experiencing difficulty in providing accurate data to Capita. This increased the risk that the annual accounts could be qualified due to lack of assurance over the accuracy of forecasting and in year / end of year pension contributions.

4.41 To mitigate the risk, Capita reviewed systems and processes and engaged directly with employers to offer support as the new system bedded in. Monthly analysis via TP's Tiered Contributions Variance Table (which gives assurance that the Employee contributions are as expected for the Employers against each tier) adds some assurance that the Scheme is receiving the correct level of contributions. The review has also focused on mitigating risks associated with the closure of the Audit Commission, who support the current year-end assurance process by issuing instructions to local authorities to complete the annual audited contributions return. Capita and TP are working with the Commission to develop an appropriate approach to ensure that this work continues.

Pension scheme reform

4.42 Introducing a reformed TPS from April 2015 will bring significant operational and logistical challenges, given the size and scale of the necessary changes. Throughout this period the Teachers' Policy and Reform teams have been taking forward key elements of the Government's response to Lord Hutton's recommendations on the reform of public service pension schemes.

4.43 To date associated risks and issues have been managed through a project structure, which has included regular review and reporting of key risks and issues. The project is being overseen jointly by senior officials and staff from the Department and Capita and will also come into scope for the existing gateway review process.

4.44 The Department has worked closely with HM Treasury, GAD and officials within other departments to ensure that any changes to TPS are consistent with Government policy on the wider issue of public sector pensions. Officials are currently working with HM Treasury to set up cross-departmental governance arrangements.

Financial management

4.45 The Pensions Finance Team and Capita, with input from the GAD and challenge from HM Treasury and the Office of Budget Responsibility, have refined budget forecasts to take into account new and emerging trends, central assumptions and anticipated changes in behaviour as a result of perceived and actual changes to the Scheme. Additional monthly monitoring of the accounts has also been introduced to reduce the risk of future overspends.

4.46 Overpayment of pensions, resulting from the failure of pensioners to disclose that they have returned to work, continues to be a risk. Capita have been given greater control over the debt recovery processes, with new systems introduced to:

- reduce the risk of future overpayments occurring;
- identify potential overpayments; and
- significantly reduce the risk of long-term overpayments arising.

4.47 The amount of unrecoverable debt will not have a material impact on the Scheme Accounts.

4.48 The system of internal control, which accords with HMT guidance, was in place for the TPS for the year ending 31 March 2014 and will continue up to the date of approval and publication the TPS Annual Report and Accounts.

People Management

4.49 There is a requirement in the administrator's contract which determines that Capita must ensure that it employs appropriately skilled and qualified practitioners, preferably with a sound pension background, to specialist posts within the organisation. The Department are working with Capita to ensure that accountancy staff are sufficiently qualified and senior.

4.50 Capita have confirmed that there is a robust recruitment programme in place, which uses internal and external recruitment consultants to identify the necessary skills and experience (including professional qualifications) expected of the candidates and then matches people against them.

4.51 All employees are subject to a probationary period (which can vary in length according to grade) and an appraisal system, to ensure that they maintain performance against objectives and undertake internal Learning & Development training to maintain and further develop their skills and professional qualifications. The Learning and Development Team within Capita maintain a record of all individuals' skills and professional qualifications.

Corporate Governance Code

4.52 The Departmental Board complied with the Corporate Governance Code throughout this period as evidenced by the production of this Governance Statement, attendance at meetings through the year and internal audit reviews.

4.53 A self-assessment exercise has been undertaken. The results are currently being compiled and reviewed and will be available in the DfE Group Consolidated Report and Accounts 2013-14.

Independent Assurance

4.54 GIA are required to assess the governance arrangements in place between Capita and the Department on an annual basis, to ensure that it provides an effective governance framework and adequate processes to proactively manage risks. Their Annual Statement of Assurance for the year ending 31 March 2014 confirms that it did provide a satisfactory framework to enable effective risk management during that period.

4.55 They conclude that they have not identified any errors, breaches or fraud, actual or impending, which may cause material financial or reputational loss to either Capita or the Department.

4.56 During the course of 2013-14, Teachers' Pensions recorded 33 minor breaches of data security where member information was accidentally included in correspondence to the incorrect person/address. The main cause of the breaches were due to automatic printing where two letters have been placed in the same envelope by the post room machine, or when a member address has not been updated. All breaches have been investigated and resolved.

Overall Assessment

4.57 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 HM Treasury requirements on risk management, internal control and governance.

Chris Wormald
Accounting Officer

9 September 2014

THE CERTIFICATE 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 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Parliament authorised an Annually Managed Net Resource Expenditure limit for the Teachers' Pension Scheme of £10,251 million. Against this limit, the Scheme had net expenditure of £10,649 million, therefore breaching the authorised limit by £398 million as shown in the Statement of Parliamentary Supply.

Qualified Opinion on regularity

In my opinion, except for the excess described in the basis for qualified opinion paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2014 and of its combined net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Report of the Manager and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse **10 September 2014**
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

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

Introduction

1. The Teachers' Pension Scheme (England and Wales) (the Scheme) is an unfunded defined benefit occupational pension scheme backed by the Exchequer, which is open to teachers and lecturers employed by local authorities, or other approved organisations, in England and Wales. The Scheme provides pensions, based on final average salary and years of pensionable service, for employees of participating employers.

2. In 2013-14 the Scheme was responsible for £10,649 million of public expenditure. The Scheme secures the approval to incur expenditure through the parliamentary supply process on an annual basis. The Scheme reports to Parliament on its expenditure under an accounts direction issued by HM Treasury under the Government Resource Accounts Act 2000. This requires the Scheme to prepare financial statements in accordance with the Government Financial Reporting Manual (FReM).

Purpose of Report

3. The Scheme prepares an Annual Estimate of its net expenditure; authorisation to incur the net expenditure is then provided by Acts of Parliament.

4. These Acts set a limit on the net expenditure which the Scheme may not exceed and on the total overall cash it can use. Where these limits are breached, I qualify my regularity opinion on the financial statements. HM Treasury then prepares a statement of all such excesses in the year and requests that the House of Commons approves the expenditure, which is given statutory authority as part of a Supply and Appropriations (Anticipation and Adjustments) Act. Further detail on the authorised limits can be found in the Supply Estimates for 2013-14.

5. Parliament authorised an Annually Managed Net Resource Expenditure limit for the Teachers' Pension Scheme of £10,251 million. The Scheme's outturn against this limit was £10,649 million meaning that the authorised limit was breached by £398 million and so I have qualified my regularity opinion on the Scheme's financial statements in this regard. HM Treasury proposes to ask Parliament to authorise a further £398 million of resource expenditure.

Explanation for Qualified Audit Opinion

6. The breach of the authorised limit arose due to an error in the forecast underlying the Scheme's 2013-14 Supplementary Estimate. A key component of the model used by the Scheme in preparing its Estimate is the Government Actuary's Department's (GAD's) valuation of the liability to pay future pensions as at 31 March each year.

7. In calculating its submission for the 2013-14 Supplementary Estimate, the Scheme failed to update the 2012-13 closing liability balance for the final GAD valuation. As the liability was understated in the model, the forecast interest on the liability was too low resulting in the resource excess of £398 million.

8. The Department for Education commissioned Internal Audit to investigate the circumstances leading to the forecasting error. This found that there was a lack of formality in the forecasting process, with knowledge of the model concentrated in one individual, and a lack of oversight and robust review.

9. To mitigate the risk of errors in the future, the Accounting Officer has undertaken that the Department will develop a new, fit for purpose, forecasting model along with documented responsibilities, procedures and guidance. In addition, management review procedures will be strengthened to ensure a more robust and consistent approach to quality assurance. I have also recommended to the Accounting Officer that he undertakes a review to ensure that there are no similar weaknesses in financial or quality assurance processes within the Scheme. He has made appropriate disclosures in his Governance Statement on the matter.

Sir Amyas C E Morse
Comptroller and Auditor General

10 September 2014

National Audit Office
157-197 Buckingham Palace Road
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London
SW1W 9SP

STATEMENT OF PARLIAMENTARY SUPPLY

for the year ended 31 March 2014

Summary of Resource and Capital Outturn 2013-14

		2013-14							2012-13
		Estimate			Outturn				Outturn
	Note	Voted £000	Non-Voted £000	Total £000	Voted £000	Non-Voted £000	Total £000	Vote Outturn compared with Estimate: saving/ (excess) £000	Total £000
Departmental Expenditure Limit									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
Annually Managed Expenditure									
- Resource	S2.1	10,250,752	-	10,250,752	10,648,822	-	10,648,822	(398,070)	10,542,341
- Capital		-	-	-	-	-	-	-	-
Non-Budget									
-Resource		-	-	-	-	-	-	-	-
Total		**10,250,752**	**-**	**10,250,752**	**10,648,822**	**-**	**10,648,822**	(398,070)	**10,542,341**

Total Resources		**10,250,752**	**-**	**10,250,752**	10,648,822	-	10,648,822	(398,070)	10,542,341
Total Capital		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**10,250,752**	**-**	**10,250,752**	**10,648,822**	**-**	**10,648,822**	**(398,070)**	**10,542,341**

NET CASH REQUIREMENT

Note	2013-14	2013-14		2012-13
	Estimate £000	Outturn £000	Vote Outturn compared with Estimate: saving/ (excess) £000	Outturn £000
S4	3,444,996	3,360,642	84,354	3,301,649

ADMINISTRATION COSTS

Note	2013-14		20132-13
	Estimate £000	Outturn £000	Outturn £000
	-	-	-

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

STATEMENT OF PARLIAMENTARY SUPPLY (continued)

Explanations of variances between Estimate and Outturn are given in SoPS Note 2 and in the Report of the Managers.

The Scheme has incurred an excess of £398 million on non-cash resource expenditure. This technical breach of the AME control total is the result of an error forecasting the interest on scheme liabilities in the Supplementary Estimate. The calculation did not include the 2012-13 £17 billion actuarial adjustment to the pension provision, and as a result the budget was understated. As soon as the Department discovered the error it initiated a review of its processes and governance arrangements. More information on the error and the corrective action being taken is provided in the Governance Statement. The Scheme will seek Parliamentary approval for the overspend by way of an Excess Vote in the next Appropriation Act.

The administration costs for the Scheme are met from within the administration costs of the Department for Education.

The notes on pages 36 to 41 form part of these accounts.

NOTES TO THE ACCOUNT
STATEMENT OF PARLIAMENTARY SUPPLY

S1. STATEMENT OF ACCOUNTING POLICIES

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury (HMT). The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 *Consolidated Budgeting Guidance and Supply Estimates Guidance Manual*.

S1.1 **Accounting convention**

The Statement of Parliamentary Supply and related notes are presented consistently with HMT budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework *European System of Accounts* (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

S1.2 **Comparison with IFRS-based accounts**

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but in certain circumstances differences may arise. A reconciliation of the Scheme's transactions that are treated differently in National Accounts and IFRS based accounts is provided in Note S3.

NOTES TO THE ACCOUNTS
Statement of Parliamentary Supply (continued)

S1. STATEMENT OF ACCOUNTING POLICIES (continued)

S1.2 Comparison with IFRS-based accounts (continued)

S1.2.1 Receipts in excess of HM Treasury agreement

This applies where HMT has agreed a limit to income retainable by the Department, with any excess income scoring outside of budgets, and consequently outside of the Statement of Parliamentary Supply. IFRS-based accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas:

- profit on disposal of assets;
- income generation above department Spending Review settlements; and
- income received above netting-off agreements.

S2. NET OUTTURN

S2.1 Analysis of net resource outturn by section

	Outturn							2013-14 Estimate			2012-13 Outturn
	Administration			Programme							
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000	Total £000	Net Total £000	Net total compared to Estimate £000	Net Total Compared to Estimate, Adjusted for Virements £000	Total £000
Spending in Departmental Expenditure Limits (DEL)											
Voted expenditure											
Section A	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Non -voted expenditure											
Section A	-	-	-	-	--	-		-	-	-	-
-		-	-	-	-	-	-	-	-	-	-
Total spending in DEL	-	-	-	-	-	-	-	-	-	-	-
Spending in Annually Managed Expenditure (AME)											
Voted expenditure											
Section A	-	-	-	16,158,714	(5,509,892)	10,648,822	10,648,822	10,250,752	(398,070)	(398,070)	10,542,341
				16,158,714	(5,509,892)	10,648,822	10,648,822	10,250,752	(398,070)	(398,070)	10,542,341
Non -voted expenditure											
Section A	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Total spending in AME	**-**	**-**	**-**	**16,158,714**	**(5,509,892)**	**10,648,822**	**10,648,822**	**10,250,752**	**(398,070)**	**(398,070)**	**10,542,341**
Total Spending	**-**	**-**	**-**	**16,158,714**	**(5,509,892)**	**10,648,822**	**10,648,822**	**10,250,752**	**(398,070)**	**(398,070)**	**10,542,341**

S2. NET OUTTURN (continued)

S2.1 Analysis of net resource outturn by section (continued)

S2.1.1 Explanation of the variation between Estimate and Outturn (net total resources)

The £398 million net overspend on non-cash resource expenditure (2012-13: £35.6 million lower) was due to the interest on Scheme liabilities being higher than forecast at the time of the 2013-14 Supplementary Estimate. That forecast was incorrect, as it did not reflect the 2012-13 actuarial adjustment (of some £17 billion) to the pension provision, of which we were notified in May 2013. The Department is reviewing its internal processes and systems to prevent any repetition of this mistake and the Governance Statement contains more information on the action being taken by the Department.

S2.2 Analysis of net capital outturn by section

The Scheme does not have any capital expenditure.

S3. RECONCILIATION OF NET RESOURCE OUTTURN TO NET EXPENDITURE AND AGAINST ADMINISTRATION BUDGET

		Note	2013-14 Outturn £000	2012-13 Outturn £000
Total resource outturn in Statement of Parliamentary Supply Budget		S2.1	10,648,822	10,542,341
Add:	Non-supply		-	-
	Expenditure		-	-
	Prior year adjustments		-	-
Less:	Income payable to the Consolidated Fund	S5	123	150
	Prior year adjustments		-	-
Combined net expenditure in Combined Statement of Comprehensive Net Expenditure			**10,648,699**	**10,542,191**

S4. RECONCILIATION OF NET RESOURCE OUTTURN TO NET CASH REQUIREMENT

	Note	Estimate £000	Outturn £000	2013-14 Net total outturn compared with Estimate Savings/ (excess) £000	2012-13 Outturn £000
Resource Outturn	S2.1	**10,250,752**	**10,648,822**	**(398,070)**	**10,542,341**
Capital Outturn		**-**	**-**	**-**	**-**
Accruals to cash adjustments:					
Adjustments to remove non-cash items:					
New provisions and adjustments to previous provisions		(15,729,528)	(16,155,598)	426,070	(15,688,511)
Adjustments to reflect working balances:					
Increase/(decrease) in receivables		25,211	48,381	(23,170)	26,941
(Increase)/decrease in payables		(24,036)	(39,704)	15,668	(26,390)
Use of provisions		8,922,597	8,858,741	63,856	8,447,268
Net cash requirement		**3,444,996**	**3,360,642**	**84,354**	**3,301,649**

S5. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND

The following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Outturn 2013-14		Outturn 2012-13	
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Operating income outside the ambit of the Estimate	123	*160*	150	*111*
Non-operating income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total amount payable to the Consolidated Fund	**123**	***160***	**150**	***111***

COMBINED STATEMENT OF COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Principal Arrangements			
INCOME			
Contributions income	3	(5,463,876)	(5,095,095)
Transfers in	4	(37,905)	(45,613)
Other pension income	5	(8,234)	(8,118)
		(5,510,015)	**(5,148,826)**
EXPENDITURE			
Service cost	6	6,908,261	5,935,214
Enhancements	7	13,022	18,055
Transfers in	8	37,905	45,613
Pension financing cost	9	9,182,567	9,670,440
		16,141,755	**15,669,322**
Net Expenditure		**10,631,740**	**10,520,496**
Compensation Arrangements			
Benefits payable	10	16,959	21,695
Net Expenditure		16,959	21,695
Combined Net Expenditure		**10,648,699**	**10,542,191**

Other Comprehensive Net Expenditure

	Note	2013-14 £000	2012-13 £000
RECOGNISED LOSSES FOR THE YEAR			
Actuarial loss	14.8	18,008,156	17,069,624
Total Comprehensive Net Expenditure		**28,656,855**	**27,611,815**

The notes on pages 46 to 64 form part of these accounts.

COMBINED STATEMENT OF FINANCIAL POSITION
as at 31 March 2014

	Note	2014 £000	2013 £000
Principal Arrangements			
CURRENT ASSETS			
Receivables	11	442,646	394,258
Cash and cash equivalents	12	55,540	73,055
Total current assets		**498,186**	**467,313**
CURRENT LIABILITIES			
Overdraft	12	(6,165)	(1,587)
Payables	13	(422,105)	(402,984)
Total current liabilities		**(428,270)**	**(404,571)**
Net current assets, excluding pension liability		**69,916**	**62,742**
Pension liability	14.5	(250,200,000)	(224,900,000)
Net liabilities, including pension liability		**(250,130,084)**	**(224,837,258)**
Compensation Arrangements			
Payables		(304)	(1,806)
Provision for compensation payments	15	(161,675)	(156,663)
Net liabilities		**(161,979)**	**(158,469)**
Combined Schemes -Total net liability		**(250,292,063)**	**(224,995,727)**
TAXPAYERS' EQUITY			
General Fund		(250,292,063)	(224,995,727)
Total equity		**(250,292,063)**	**(224,995,727)**

Chris Wormald
Accounting Officer

9 September 2014

The notes on pages 46 to 64 form part of these accounts.

COMBINED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for year ended 31 March 2014

	Note	2013-14 General Fund £000	2012-13 General Fund £000
Balance at 1 April		(224,995,727)	(200,685,411)
Net Parliamentary Funding			
– drawn down		3,338,500	3,349,000
– deemed		71,357	24,006
Consolidated Fund Standing Services		-	-
Supply (payable)/receivable adjustments		(49,215)	(71,357)
CFERS payable to the Consolidated Fund	S5	(123)	(150)
Comprehensive net expenditure for the year		(10,648,699)	(10,542,191)
Actuarial loss	14.8	(18,008,156)	(17,069,624)
Net Change in Taxpayer's equity		(25,296,336)	(24,310,316)
Balance at 31 March		**(250,292,063)**	**(224,995,727)**

COMBINED STATEMENT OF CASH FLOWS
for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net expenditure		(10,648,699)	(10,542,191)
Adjustments for non-cash transactions	9 & 15	9,186,014	9,673,647
Increase in receivables – principal arrangements	11.1	(48,388)	(26,985)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure			
(Decrease)/increase in payables – agency arrangements	13.2	(1,502)	182
Increase in payables: pensions	13.1	19,121	73,623
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	13.1	22,129	(47,415)
Increase in pension provision	6 & 15	6,918,657	5,951,201
Increase in pension provision – enhancements and transfers in	7 & 8	50,927	63,668
Use of provisions – pension liability	14.5	(8,751,906)	(8,327,918)
Use of provisions – early retirement	15	(8,830)	(8,322)
Use of provisions – refunds and transfers	14.7	(98,005)	(111,028)
Net cash outflow from operating activities		**(3,360,482)**	**(3,301,538)**
CASH FLOWS FROM FINANCING ACTIVITIES			
From the Consolidated Fund (Supply) – current year		3,338,500	3,349,000
Net Parliamentary financing		**3,338,500**	**3,349,000**
Net Financing		**(21,982)**	**47,462**
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(21,982)**	**47,462**
Payments of amounts due to the Consolidated Fund	13.1	(111)	(86)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(22,093)	47,376
Cash and cash equivalents at the beginning of the year	12	71,468	24,092
Cash and cash equivalents at the end of the year	12	**49,375**	**71,468**

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION

The accounts of the Teachers' Pension Scheme (England and Wales) (the Scheme) have been prepared in accordance with the relevant provisions of the 2013-14 *Government Financial Reporting Manual* (FReM) issued by HM Treasury (HMT). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector. *IAS 19 Employee Benefits* (IAS 19) and *IAS 26 Accounting and Reporting by Retirement Benefit Plans* (IAS 26) are of particular relevance to these accounts.

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

1.1 Teachers' Pension Scheme - principal arrangements

The Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Department for Education (the Department) on behalf of members of the teaching profession in England and Wales who satisfy the membership criteria.

Contributions to the Scheme by employers and employees are set at rates determined by the Secretary of State after consultation with the Scheme's Actuary. The contributions partially fund payments made by the Scheme, the balance of funding being provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the Department and reported in the Department's consolidated accounts.

The accounts of the Scheme show the financial position of the Teachers' Pension Scheme (England and Wales) at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme accounts should be read in conjunction with that report.

1.2 Teachers' Pension Scheme - agency arrangements

The Scheme acts as an agent for employers in the payment of compensation benefits arising under the Scheme. Compensation payments are generally recovered from the employer in advance, on a quarterly basis. The financial flows associated with these transactions are not brought into account in the financial statements. However, the accounts recognise the liabilities arising from the central funding of compensation payments which amount to some £162 million (2012-13: £157 million) (see Note 15).

2. ACCOUNTING POLICIES

The accounting policies contained in the FReM follow IFRSs to the extent that they are meaningful and appropriate to the public sector context and to an unfunded Scheme, with a separate vote. The accounts therefore include contributions receivable as income, as a pension scheme would. The position showing its liabilities and expenditure represents the employer position showing increase in liabilities suffered in year and 'net service cost', rather than pensions payable as in pension scheme accounts.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the Scheme 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 2.2d 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.

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. ACCOUNTING POLICIES (continued)

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 Statement of Comprehensive Net Expenditure. It is calculated by factoring up the actual contribution rates charged (employer's 14.1%, employee's 7.7%) to the projected unit credit rate (29.3%) adopted by the Actuary.

2.7 Past service cost

Past service costs are increases/decreases 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, change to, or improvement to, retirement benefits. Past service costs are recognised in the Statement of Comprehensive Net Expenditure in the year in which the increase in benefits vests. The use of CPI for uprating index-linked features was adopted by all central Government reporting entities from FY2010-11 onwards, replacing Retail Price Index which has been used previously for inflation indexing.

2.8 Interest on scheme liabilities

The interest cost is the increase during the year in the present value of the Scheme liabilities because the benefits are one period closer to settlement. The cost is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a discount of 1.80% real rate (i.e. 4.35% including inflation).

2.9 Other expenditure

All other expenditure in the Statement of Comprehensive Net Expenditure is related to the compensation scheme and accounted for on an accruals basis. The other payments category excludes administration costs and audit fees which were met by the Department.

2.10 Scheme liability

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. As the interval since the last formal actuarial valuation exceeded four years, the amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2012, such as would have been provided for a formal valuation. This assessment has been prepared having regard to *International Accounting Standard 19: Employee Benefits* (IAS 19), as adapted by FReM, and the discount rate prescribed by HMT have also been used.

The latest actuarial valuation of the TPS was carried out as at 31 March 2012 and in accordance with *The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014*. The valuation report was published by the Department on 9 June 2014.

2. ACCOUNTING POLICIES (continued)

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 reporting period end date are recognised in the Statement of Comprehensive Net Expenditure, Other Comprehensive Net Expenditure for the year.

2.16 Additional voluntary contributions

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

2.17 Premature retirement compensation

On-going 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 year and recovered from employers on a quarterly basis, in advance. These transactions are not recorded in the Statement of Comprehensive Net Expenditure.

2. ACCOUNTING POLICIES (continued)

2.17 Premature retirement compensation (continued)

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. 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 Statement of Comprehensive Net Expenditure, with offsetting income reflecting the reimbursements due from employers.

2.18 Administration expenses

The budget for all the administration expenses related to the Scheme is included in the Supply Estimate of the Department for Education. Administration expenses include all staff costs, overheads and general administration costs and more specifically for the Scheme, the cost of fees paid for medical examinations.

2.19 Changes to International Financial Reporting Standards

2.19.1 IFRSs in issue but not yet effective

In order to comply with the requirements of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), the Scheme must disclose where it has not applied a new IFRS that has been issued but is not yet effective. All effective dates are for accounting periods beginning on or after the given date.

The Scheme has carried out a review of the IFRSs in issue but not yet effective, to assess their impact on its accounting policies and treatment, and found that none of the updates have any material impact on the accounts of the Scheme at this time.

Standard	Issued	Effective from	Impact
IFRS 9 Financial Instruments	Accounting periods commencing 1 January 2015	Subject to Consultation	The standard introduces new requirements that address three areas; the classification and measurement of financial instruments; the calculation and disclosure of financial assets impairments and further information on hedge accounting principles and hedging relationships

2. ACCOUNTING POLICIES (continued)

2.19 Changes to International Financial Reporting Standards (continued)

2.19.1 IFRSs in issue but not yet effective (continued)

Standard	Issued	Effective from	Impact
IFRS 13 Fair Value Measurement	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. This standard defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

2.19.2 IFRSs in issue but not adopted

The Scheme has chosen not to adopt early requirements of the following accounting standards and interpretations, which have an effective date after the date of these accounts:

Standard	Issued	Effective from	Impact
IAS 27 Separate Financial Statements	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments
IAS 28 Investments in Associates and Joint Ventures	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

2. ACCOUNTING POLICIES (continued)

2.19 Changes to International Financial Reporting Standards (continued)

2.19.2 IFRSs in issue but not adopted (continued)

Standard	Issued	Effective from	Impact
IFRS 10 Consolidated Financial Statements	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.
IFRS 11 Joint Arrangements	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.
IAS 32 Financial Instruments Presentation	Accounting periods beginning on or after 1 January 2014	Subject to consultation	The amendments clarify when it is appropriate and/or required to offset financial instruments and set out the increased disclosure requirements.

3. CONTRIBUTIONS RECEIVABLE

	2013-14 £000	2012-13 £000
Employers	3,313,104	3,270,743
Employees:		
Normal	2,137,750	1,806,343
Purchase of added years	13,022	18,009
	5,463,876	**5,095,095**

£5,694 million contributions are expected to be payable to the Scheme in 2014-15.

4. TRANSFERS IN

	Note	2013-14 £000	2012-13 £000
Transfers in from other schemes	14.5	37,905	45,613
		37,905	**45,613**

Amounts in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

5. OTHER PENSION INCOME

	2013-14 £000	2012-13 £000
Contributions equivalent premiums	495	1,401
Recoveries of payments in lieu	4	5
Reinstatement of contributions	-	46
Other income	123	150
Premature retirement compensation	7,612	6,516
	8,234	**8,118**

6. SERVICE COST

	Note	2013-14 £000	2012-13 £000
Current service cost	14.5	6,887,424	5,914,125
Past service cost	14.5	20,837	21,089
		6,908,261	**5,935,214**

7. ENHANCEMENTS

	Note	2013-14 £000	2012-13 £000
Employees:			
Purchase of added years	14.5	13,022	18,009
Reinstatements		-	46
		13,022	**18,055**

8. TRANSFERS IN - ADDITIONAL LIABILITY

	Note	2013-14 £000	2012-13 £000
Transfers in from other schemes	14.5	37,905	45,613
		37,905	**45,613**

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

9. PENSION FINANCING COST

	Note	2013-14 £000	2012-13 £000
Interest charge for the year	14.5	9,182,567	9,670,440
		9,182,567	**9,670,440**

10. COMPENSATION BENEFITS

The following amounts represent annual compensation payments and compensation lump sums payable to former employees, but which are not recoverable from employers. These sums are brought to account in the Statement of Comprehensive Net Expenditure.

	Note	2013-14 £000	2012-13 £000
On retirement			
Contributions equivalent premiums		1,195	1,069
Premature retirement compensation		11,752	16,880
Other		566	539
Unwinding of discount	15	3,446	3,207
		16,959	**21,695**

11. RECEIVABLES

11.1 Analysis by type

	2014 £000	2013 £000
Amounts falling due within one year:		
Pension contributions due from employers	256,888	239,194
Employees' normal contributions	166,166	131,822
Other receivables	17,946	21,149
	441,000	392,165
Recoverable compensation from employers (principal)	1,646	2,093
Total amounts falling due within one year	**442,646**	**394,258**

Included within the 2013-14 figures is £8,000 (2012-13: £44,000) that will be due to the Consolidated Fund once the debts are collected.

There are no receivables falling due after more than one year (2012-13: £nil).

11.2 Intra-Government balances

	Amounts falling due within one year	
	2014 £000	2013 £000
Balances with other central Government bodies	176,562	68,950
Balances with local authorities	147,871	209,248
Intra-Government balances	**324,433**	**278,198**
Balances with bodies external to Government	118,213	116,060
Total receivable at 31 March	**442,646**	**394,258**

12. CASH AND CASH EQUIVALENTS

	2014 £000	2013 £000
Balance at 1 April	71,468	24,092
Net change in cash balances	(22,093)	47,376
Balance at 31 March	**49,375**	**71,468**
The following balances at 31 March were held at:		
Cash at bank and in hand:		
Government Banking Service	55,396	72,483
Commercial banks and cash in hand	144	572
	55,540	**73,055**
Overdrafts:		
Commercial banks and cash in hand overdraft	(6,165)	(1,587)
	(6,165)	**(1,587)**
Balance at 31 March	**49,375**	**71,468**

13. PAYABLES

13.1 Analysis by type

	2014 £000	2013 £000
Pensions	298,676	254,217
HMRC and voluntary contributions	71,573	71,381
Other payables	2,473	5,874
	372,722	**331,472**
Amounts issued from the Consolidated Fund for supply but not spent at year end	49,215	71,357
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	160	111
Receivable	8	44
	49,383	**71,512**
Total payable at 31 March	**422,105**	**402,984**

13.2 Contributions due - compensation payments agency

	2014 £000	2013 £000
Balance at 1 April	1,806	1,623
Receipts from employers	25,848	26,219
Payments to employees	(27,350)	(26,036)
Balance at 31 March	**304**	**1,806**

13.3 Intra-Government balances

	Amounts falling due within one year	
	2014 £000	2013 £000
Balances with other central Government bodies	121,169	143,115
Balances with local authorities	925	438
Balances with public corporations and trading funds	-	-
Intra-Government balances	**122,094**	**143,553**
Balances with bodies external to Government	300,315	261,237
	422,409	**404,790**

14. PROVISIONS FOR PENSION LIABILITIES

14.1 Assumptions underpinning the pension liability

The Teachers' Pension Scheme (England and Wales) is an unfunded defined benefits scheme. The Government Actuary's Department carried out an assessment of the scheme liabilities as at 31st March 2014. The Report of the Actuary on pages 12 to 16 sets out the scope methodology and results of the work the actuary has carried out.

The Scheme managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Scheme managers should make to the actuary in order to meet the expected requirements of the Scheme auditor. This information includes but is not limited to details of:

- Scheme membership, including age and gender profiles, 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; and

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.

14.2 Assumptions used

The key assumptions used by the actuary were:

	2014 %	2013 %	2012 %	2011 %	2010 %
Rate of increase in salaries	4.5	3.95	4.3	4.9	4.3
Rate of increase in pensions in payment and deferred pensions	2.5	1.70	2.0	2.7	2.8
Nominal discount rate	4.35	4.10	4.8	5.6	4.6
Discount rate net of price inflation	1.8	2.35	2.8	2.9	1.8
Inflation assumption	2.5*	1.70*	2.0*	2.7	2.8
Life expectancy for those retiring at 31 March aged 60	**Years**	**Years**	**Years**	**Years**	**Years**
Males	29.4	29.2	29.1	29.2	29.1
Females	32.1	32.8	32.7	32.7	32.6
Retirements in 20 years' time	**Years**	**Years**	**Years**	**Years**	**Years**
Males	31.5	31.6	31.5	31.1	31.0
Females	34.1	35.1	35.0	34.6	34.5

14. PROVISIONS FOR PENSION LIABILITIES (continued)

14.2 Assumptions used (continued)

The key assumptions used by the actuary (continued)

	2014 Years	2013 Years	2012 Years	2011 Years	2010 Years
Males	24.4	24.4	24.3	24.3	24.2
Females	27.0	27.8	27.7	27.7	27.6
Retirements in 20 years' time	**Years**	**Years**	**Years**	**Years**	**Years**
Males	26.4	26.6	26.5	26.2	26.1
Females	29.0	30.0	26.9	29.6	29.5

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. Inflation rates marked * are based on CPI, earlier rates are based on the RPI.

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the Scheme liabilities. However, the scheme managers acknowledge that the valuation reported in these Accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. The rates are set out in the above table. Any decrease in the discount rate net of price inflation leads to a significant increase in the reported liability.

In accordance with IAS 19 the Scheme Managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability overleaf.

14. PROVISIONS FOR PENSION LIABILITIES (continued)

14.3 Analysis of the provision for pension liability

	2014 £bn	2013 £bn	2012 £bn	2011 £bn	2010 £bn
Value of liability in respect of:					
Pensions in payment	128.5	119.5	104.7	94.0	105.1
Deferred members	24.3	19.6	16.9	15.7	19.8
Active members	97.4	85.8	79.0	82.7	99.0
Total liabilities	250.2	224.9	200.6	192.4	223.9

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.

The value of the liability on the Statement of Financial Position 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 14.5 and 14.8. 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.

14. PROVISIONS FOR PENSION LIABILITIES (continued)

14.4 Sensitivity analysis

Change in Assumption		Approximate effect on total liability	
Financial Assumptions			
i. Discount rate*	+ ½% a year	-8½%	-£21 billion
ii. Earnings increases*	+ ½% a year	+2%	+£5 billion
iii. Pension increases*	+ ½% a year	+7½%	+£19 billion
Demographic assumptions			
iv. Additional one year increase to life expectancy at retirement*		+2½%	+£6 billion
v. All active members who move to new scheme retire (on average) 1 year later		+0%	+£0 billion
vi. Withdrawal rates a third higher		-8½%	-£1 billion

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

14.5 Analysis of movements in the Scheme liability

	Note	2013-14 £000	2012-13 £000
Scheme liability at 1 April		224,900,000	200,600,000
Current service cost	6	6,887,424	5,914,125
Past service cost	6	20,837	21,089
Pension financing cost	9	9,182,567	9,670,440
Enhancements	7	13,022	18,055
Pension transfers in	8	37,905	45,613
Benefits payable	14.6	(8,751,906)	(8,327,918)
Pension payments to and on account of leavers	14.7	(98,005)	(111,028)
Actuarial (gain)/loss	14.8	18,008,156	17,069,624
Scheme liability at 31 March		**250,200,000**	**224,900,000**

During the year ended 31 March 2014, members' contributions represented an average 9.0% of pensionable pay (2012-13: 7.7%). Employers currently contribute 14.1% of pensionable pay (2012-13: 14.1%).

14. PROVISIONS FOR PENSION LIABILITIES (continued)

14.6 Analysis of benefits paid

	2013-14 £000	2012-13 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	7,303,513	6,880,538
Commutations and lump sum benefits on retirement	1,448,393	1,447,380
Total benefits paid	**8,751,906**	**8,327,918**

14.7 Analysis of payments to and on account of leavers

	2013-14 £000	2012-13 £000
Refunds to members leaving service	2,690	2,635
Individual Transfers to other schemes	95,315	108,393
Total payments to and on account of leavers	**98,005**	**111,028**

14.8 Analysis of actuarial losses/(gains)

	2013-14 £000	2012-13 £000
Experience (gains)/losses arising on the Scheme liabilities	(1,091,844)	1,269,624
Changes in assumptions underlying the present value of scheme liabilities	19,100,000	15,800,000
Total actuarial loss	**18,008,156**	**17,069,624**

14.9 History of experience losses/(gains)

	2013-14	2012-13	2011-12	2010-11	2009-10
Experience losses/(gains) arising on the scheme liabilities					
Amount (£000)	(1,091,844)	1,269,624	(2,051,840)	(242,743)	40,240
Percentage of the present value of the Scheme liabilities	-0.44%	0.56%	(1.0%)	(0.1%)	0.1%
Total amount recognised in Statement of Changes in Taxpayers' Equity					
Amount (£000)	18,008,156	17,069,624	(451,840)	(18,542,743)	47,040,240
Percentage of the present value of the Scheme liabilities	7.20%	7.59%	(0.2%)	(9.6%)	21.0%

15. PROVISION FOR EARLY RETIREMENT BENEFITS

		2013-14 £000	2012-13 £000
Balance at 1 April		156,663	145,791
Additional provisions		10,396	15,987
Use of provision in year		(8,830)	(8,322)
Unwinding of discount	10	3,446	3,207
		161,675	**156,663**

16. FINANCIAL INSTRUMENTS

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. The Scheme's purchase and usage requirements do not expose the Scheme to financial risks as defined under IFRS 7.

17. IAS 37 CONTINGENT LIABILITIES

In the unlikely event of a default by the approved Additional Voluntary Contributions provider, the Scheme will guarantee pension payments. The liability for 2013-14 is £70.4m (2012-13: £68.5m). This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

18. LOSSES AND SPECIAL PAYMENTS

Losses statement

	2013-14	2012-13
Total number of losses	2,434	1,540
Total value of losses £000	**491**	**117**

Special payments

	2013-14	2012-13
Total number of losses	60	74
Total value of losses £000	**15**	**20**

19. RELATED-PARTY TRANSACTIONS

The Teachers' Pension Scheme falls within the ambit of the Department for Education. The Department is regarded as a related party with which the Scheme has various material transactions during the year.

In addition, the Scheme has had material transactions with other government departments, and other central government bodies whose employees are members of the scheme.

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.

20. EVENTS AFTER THE REPORTING PERIOD.

There have been no events after the reporting period end date requiring an adjustment to these accounts.

These financial accounts were authorised for issue by Chris Wormald (Accounting officer) on the same day as the audit certificate was signed by the Comptroller and Auditor General.

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