Teachers' Pension Scheme (England and Wales)

Resource Accounts 2009-10

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(For the year ended 31 March 2010)

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Introduction

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

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

During 2009-10 the Scheme was managed by the former Department for Children, Schools and Families (now the Department for Education (DfE)) and administered under contract by Capita Business Services Ltd.

Outside the scheme are provisions for premature retirement compensation payments made on behalf of employers and for the recovery of the costs of those payments from employers. Those provisions were also managed by the former Department for Children, Schools and Families and administered under contract by Capita Business Services Ltd.

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

MANAGERS, ADMINISTRATORS, ADVISERS AND EMPLOYERS

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ADMINISTRATOR OF THE SCHEME

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

EMPLOYERS

Any organisation in England and Wales that employs teachers can join the TPS. There were 2,422 employers participating in 2009-10 split into the following categories:

174	Local Authorities (LAs)
401	Further Education institutions
81	Higher Education institutions
1,766	Independent establishments (including 201 Academies, 3 City Technology Colleges and 1,562 others)

PERFORMANCE AND POSITION

The TPS account is influenced by changes in membership numbers, salary levels, mortality rates, the age profile of the scheme and pensions increases.

The Government Actuary is provided with estimated interim figures for members and pension levels on which the figures in the Statement by the Actuary are based. The figures appearing in the main accounting statements are based on actual, final year-end figures and will therefore vary slightly from the Statement by the Actuary. The Department considers that these differences are not material to the accuracy of the accounts.

CHANGES TO THE TEACHERS' PENSION SCHEME

Pensions were increased by 5.0% with effect from 6 April 2009 in line with increases in the cost of living based on the Retail Price Index (RPI).

CHANGES TO THE PREMATURE RETIREMENT COMPENSATION (PRC) SCHEME

During the year, compensation payments to certain individuals were increased by 5.0% in line with the increases in pensions.

FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS

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

All transactions and related assets and liabilities connected with the AVC scheme are private arrangements between the Prudential and the employees, therefore they do not form part of these accounts.
In 2009-10 the aggregate amounts of AVC investments are as follows:

The Prudential

	2009-10 £000	2008-09 £000
Movements in the year:		
Balance at 1 April	1,846,057	1,892,471
New investments	181,370	227,777
Sales of investments to provide pension benefits	(184,522)	(274,424)
Changes in market value of investments	123	233
Balance at 31 March	**1,843,028**	**1,846,057**
Contributions received to provide life cover	1,526	1,635
Benefits paid on death	2,587	2,721

POST-BALANCE SHEET EVENTS

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

MEMBERSHIP STATISTICS

These statistics rely on data provided by employers via a statutory return to the scheme administrator. Please note that the figures for active and deferred members' relate to the financial year ended March 2009, the latest data available. As at 23 June 2010, 21,410 teachers' records had not yet been completely verified by employers. Of these records the majority relate to active members.

The figures for pensions in payment are for year ended 31 March 2010. This is the latest data available.

Detail of the current membership of the TPS in England and Wales is as follows:

Active members

	Active members brought forward from 31 March 2008	609,534
	Adjustments due to data received post 31 March 2008	(23,206)
	Total active members at 1 April 2008	**586,328**
Add:	New entrants in the year	47,397

	Re-entrants in the year	42,426
	Transfers in	202
	Opted in	546
Less:	Premature retirements	(1,399)
	Age and infirmity retirements	(10,527)
	Actuarially reduced benefits	(6,937)
	Opted out	(3,754)
	Other exits (including transfers out)	(41,942)
	Deaths	(368)
	Active members at 31 March 2009	**611,972**

Deferred members

	Deferred members brought forward from 31 March 2008	417,017
	Adjustments due to data received post 31 March 2008	4,624
	Total deferred members at 1 April 2008	**421,641**
Add:	Exits with no benefits payable (including opt outs with service remaining in scheme and transfers in)	41,942
Less:	Deaths	(168)
	Return of contributions	(1,389)
	Re-entry to service	(29,126)
	Transfers out	(1,164)
	Awards out of service	(8,952)
	Deferred members at 31 March 2009	**422,784**

Pensions in payment

Pensions at the start of the year – brought forward from

	31 March 2009		
		- members	491,669
		- dependants	54,489
		Total	**546,158**
	Adjustments made to data received post 31 March 2009		
		- members	3,096
		- dependants	0
		Total	**3,096**
	Total pensioners in payment as 1 April 2009		
		- members	494,765
		- dependants	54,489
		Total	**549,254**
Add:	Members retiring in the year		
		- Age\Premature pensions	19,364
		- Infirmity pensions	527
		- Actuarially reduced benefits	8,130
			28,021
		- New dependants	3,469
	Total members and dependants retiring in year		**31,490**
Less:	Cessations in year – Members		
		- Age/Premature pensions	(9,615)
		- Infirmity pensions	(1,844)
		- Actuarially reduced benefits	(506)
			(11,965)
	Cessations in year – Dependants		(1,767)
	Total cessations in year		**(13,732)**

Pension in payment at 31 March 2010

- members	510,821
- dependants	56,191
Total	**567,012**

Further information

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

Capita Business Services Ltd
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David Bell *5 July 2010*
Accounting Officer

Teachers' Pension Scheme (England and Wales)

Accounting Year Ended 31 March 2010

Statement by the Actuary

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the Department for Education ("the Department"). It summarises the pensions disclosures required for the 2009-10 Resource Accounts of the Teachers' Pension Scheme (TPS or "the scheme").

2. The TPS is a final salary defined benefit scheme, the rules of which are set out in The Teachers' Pensions Regulations 1997 (SI 1997/3001) 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).

3. The statement is based on an assessment of the liabilities on the resource accounting assumptions carried out as at 31 March 2008, with an approximate updating to 31 March 2010 to reflect known changes.

Membership data

4. Tables A1 to A3 (in Appendix) summarise the principal membership data as at 31 March 2008 and 31 March 2010 used to prepare this statement. The membership data as at 31 March 2009 used for the 2008-09 Resource Accounts is also shown.

Methodology

5. The value of the liabilities has been determined using the accrued benefit method known as the projected unit credit method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2009-10 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2010 was determined using the projected unit credit method and the principal financial assumptions applying to the 2008-09 Resource Accounts.

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

7. The actuarial liability as at 31 March 2010 makes allowance for the new provisions which came into force on 1 January 2007.

Financial assumptions

8. Table A4 (in Appendix) shows the principal financial assumptions adopted to prepare this statement. With effect from 31 March 2010, the assumed rate of return in excess of prices was reduced from 3.2% a year to 1.8% a year, and the assumed rate of return in excess of earnings was reduced from 1.7% a year to 0.3% a year. In addition, with effect from 31 March 2010, the assumed rate of future price inflation is 2.75% a year and the assumed nominal rate of salary growth is 4.3% a year (both the same as at 31 March 2009).

9. At the request of the Department, this assessment allows for the annual pay award of 2.3% on 1 September 2010, rather than increases in line with the assumed long term rate of salary growth of 4.3% a year.

Demographic assumptions

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

11. The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2010, and to determine the Current Service Cost for the year ending 31 March 2011, have been set by the Department based on the results of the analysis of scheme experience performed as part of the ongoing 2008 valuation. These assumptions differ from those adopted to prepare the 2008-09 Resource Accounts, which were based on those adopted for the 2004 actuarial review of the scheme (with the mortality assumptions adjusted to allow for future mortality improvement in accordance with the improvements incorporated in the 2006-based principal population projections for the United Kingdom (prepared by ONS)).

12. The mortality assumptions adopted for the purpose of the 2009-10 Resource Accounts are in accordance with the S1NMA (men) and S1NFA (women) standard tables projected to 2008 and with future improvements in accordance with those incorporated in the 2008-based principal population projections for the United Kingdom. An age rating of -1 year applies to male pensioners, both current and future (that is they are assumed to experience the mortality rates given in the standard tables but at ages one year younger than their actual age). An age rating of -2 years applies to future female pensioners. For current female pensioners, an age rating of -2 years applies to the younger pensioners increasing to +1 year for the older pensioners. These differ from the assumptions adopted to prepare the 2008-09 Resource Accounts.

13. The contribution rate used to determine the accruing cost in 2009-10 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2008-09 Resource Accounts.

Liabilities

14. Table 1 summarises the capital value of benefits accrued under the scheme prior to 31 March 2010 based on the data, methodology and assumptions described in paragraphs 4 to 13.

Table 1

Past service liabilities as at 31 March 2010

Value of liability in respect of	£ billion
Pensions in payment	105.1
Deferred pensions	19.8
Active members (past service)	99.0
Defined benefit obligation	**223.9**

Accruing costs

15. The cost of benefits accruing in the year ended 31 March 2010 (the 'current service cost') is based on a standard contribution rate of 21.9%, as determined at the start of the year. The actual contribution rate payable during the year was 20.5% of pensionable pay, of which members paid 6.4% and employers paid 14.1%. Table 2 shows the contribution rate used to determine the current service cost assuming a members' contribution rate of 6.4%, with employers meeting the balance of the cost.

Table 2

Contribution rate 2009-10

Contribution rate	Percentage of pensionable pay
Standard contribution rate	21.9%
Members' contribution rate	6.4%
Employers' share of standard rate	15.5%
Actual rate charged to employers	14.1%

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

17. In relation to the pensionable payroll for the financial year 2009-10, the contributions actually paid by members and employers were £4,710 million (from data provided by the Department). Based on this information, the accruing cost of pensions in 2009-10 (at 21.9% of pay, including member contributions) is estimated to be £5,030 million.

Disclosures

18. Tables A5 and A6 (in the Appendix) show the Statement of Financial Position and the Revenue Account disclosures as at 31 March 2010.

Sandra Bell
Government Actuary's Department
23 June 2010

Appendix

Table A1 – Active members

	31 March 2008		31 March 2009	31 March 2010
	Number (thousands)	Total salaries * (£ million)	Total salaries * (£ million)	Total salaries * (£ million)
Males	209	7,990	8,050	8,530
Females	480	16,700	16,120	17,830
Total	689	24,690	24,170	26,360

* Full-time equivalent

Table A2 – Deferred members

	31 March 2008		31 March 2009	31 March 2010
	Number (thousands)	Total deferred pension (pa)* (£ million)	Total deferred pension (pa)† (£ million)	Total deferred pension (pa)# (£ million)
Males	99	290	360	310
Females	235	540	650	590
Total	334	830	1,010	900

* Including increases applying from April 2008
† Including increases applying from April 2009
# No increase was applied from April 2010

Table A3 – Pensions in payment

	31 March 2008		31 March 2009	31 March 2010
	Number (thousands)	Annual pension * (£ million)	Annual pension † (£ million)	Annual pension # (£ million)
Males	185	2,290	2,540	2,620
Females	289	2,490	2,680	2,840
Spouses & dependants	49	200	190	220
Total^	523	4,980	5,410	5,680

* Including pension increase awarded in April 2008
† Including pension increase awarded in April 2009
# No pension increase was awarded in April 2010

^ Given the available data, the split of total pensions in payment into component groups shown is approximate

Appendix (continued)

Table A4 – Financial assumptions

Assumption	31 March 2010	31 March 2009
Rate of return (discount rate)*	4.6%	6.0%
Earnings increases	4.3%	4.3%
Pension increases	2.75%	2.75%
Expected return on assets:	n/a	n/a

* as prescribed by HM Treasury

Table A5 – Statement of Financial Position

£billion

	31 March 2010	31 March 2009	31 March 2008	31 March 2007	31 March 2006
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(223.9)	(168.6)	(176.5)	(181.3)	(143.0)
Surplus (deficit)	(223.9)	(168.6)	(176.5)	(181.3)	(143.0)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Appendix (continued)

Table A6 – Revenue Account disclosures

	£ billion	£ billion
	Year ended 31 March 2010	Year ended 31 March 2009
Analysis of amount charged to operating profit		
Current service cost	5.0	5.8
Past service cost	-	-
Total operating charge	**5.0**	**5.8**
Analysis of the amount credited to other finance income		
Expected return on scheme assets	-	-
Interest on pension liabilities (@ 6.0%)	(10.1)	(9.4)
Net return	**(10.1)**	**(9.4)**
Analysis of amount recognised in STRGL		
Actual return less expected return on scheme assets	-	-
Experience gains and losses arising on pension liabilities	3.5	(4.0)
Changes in mortality assumptions	(1.7)	-
Changes in demographic assumptions (other than mortality)	(0.4)	-
Changes to financial assumptions from 31 March 2010	(48.4)	20.7
Net actuarial gains/(losses) recognised in STRGL	**(47.0)**	**16.7**
Movement in surplus during the year		
Surplus at 31 March previous year	(168.6)	(176.5)
Current service cost	(5.0)	(5.8)
Benefits paid during the year	6.8	6.4
Past service costs	-	-
Other finance income	(10.1)	(9.4)
Actuarial gains/(losses)	(47.0)	16.7
Present value of the defined benefit obligation at 31 March 2010	**(223.9)**	**(168.6)**

As required by the FReM, all actuarial gains and losses are recognised in full in the period in which they occur.

Government Actuary's Department

23 June 2010

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

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

- observe the accounts direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

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

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

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

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

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

The purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievements of the TPS policies aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place for the TPS for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity and capability to manage risk

The Board recognises the importance of leadership to create an environment where risk management is effective and a Departmental Risk Improvement Manager is in place. Guidance on the identification, assessment and active management of risk in the Department is available to all staff. The Department's Risk Improvement Manager has continued to work with corporate policy colleagues to ensure that risk management is further embedded into the Department's corporate governance, financial management, business planning and assurance, and performance management arrangements and improvement activities.

A joint risk register is agreed between the Department and Capita over the administration of the Scheme and its finances. The Department/Capita Risk Register is monitored on a monthly basis at Keeping in Touch (KiT) meetings between the Contract Managers from both parties, where risks, countermeasures and contingencies are reviewed. The Register is presented to a quarterly strategy meeting between senior representatives of Capita and the Department, where it is comprehensively discussed and reviewed. As well as the content, the structure of the Register is also reviewed on an ongoing basis to ensure it complies with current risk management practice. The high level risks are reviewed at each quarterly strategic meeting to ensure that adequate countermeasures and/or contingencies are in place to mitigate these risks.

A separate risk register was established for the TPS Administration Tender Project. This is reviewed weekly by the Project Management Team to ensure that contingencies and countermeasures remain appropriate. In addition, regular meetings are held with Internal Audit to ensure that risks are assessed appropriately. The higher rated risks (those classified as medium or above) and any new risks are discussed at each Project Board, which meets every 6-8 weeks. Membership of the Project Board includes the Head of Internal Audit. This ensures that risk management is considered as an integral and important part of the procurement process. The procurement is also subject to a Gateway Review – this is an assurance tool that provides independent and timely advice, examining the project at key decision points and looks ahead to provide assurance that the project can progress successfully to the next stage.

The risk and control framework

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

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

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

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

To reduce the risk of account qualifications the contractor has established robust budget forecasting mechanisms, using historic and operational information, along with assumptions provided by HM Treasury. The forecasts are tested by the Department, with high risk accounts forecasting methodology assessed by the Government Actuary's Department. All forecasts are documented, showing the forecasting methodology and assumptions, and are provided to HM Treasury throughout the financial year. Regular audits are undertaken by Capita's internal auditors, Group Risk Business Assurance (GRBA), to provide assurance that forecasting exercises are robust and outcomes are appropriate. The resource account position is monitored on a monthly basis to allow appropriate management intervention should the forecast prove to be significantly inaccurate.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. Additionally, specific to the TPS, my review is informed by the internal auditors of the contractor and by the contractor's staff. I have also been advised by the Board, the Audit and Risk Assurance Committee (ARAC), the Risk Committee and Departmental Risk Improvement Manager.

The Department's internal auditors undertake a work programme approved by me to review risk management, internal control and governance. Internal Audit review and challenge GRBA's Annual Plans, monthly progress reports, terms of references and draft reports. This provides an independent view on whether risks are correctly considered in each audit review and that proposed management action is appropriate. GRBA are themselves regularly audited by the Department's Internal Audit. The last audit reported in March 2008 and provided a Green assurance level with no major issues being identified. The next Internal Audit review of GRBA will be undertaken in 2010-11. The Head of Internal Audit (HIA) produces periodic reports on Internal Audit's findings, their assessment of risk management, corporate governance and control standards in the key corporate risk and delivery areas. I meet with the HIA monthly to discuss progress in addressing major concerns. The HIA prepares biannual reports which include a professional opinion on the effectiveness of the overall systems of internal control, risk management and governance within the Department.

For 2009-10 ARAC supported me as the Accounting Officer by offering objective advice on issues concerning the control governance of the Department, which includes governance of the Scheme. The ARAC was chaired by a non-executive board member and its role and composition was in line with HM Treasury's best practice guidance as confirmed by a formal review of its effectiveness carried out by Internal Audit.

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

The Contractor (Capita) participates in the National Fraud Initiative (NFI). This is an exercise, run by the Audit Commission, which matches electronic data within and between audited bodies to prevent and detect fraud. The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation.

Two potential fraud cases were identified when GRBA reviewed NFI data (in May 2009) where the TPS had been contacted for bank account details to be amended after the alleged date of deaths. As the date of deaths only became known as a result of the subsequent NFI exercise, pension payments of £56,000 were incorrectly made in the first case and £14,000 in the second case. For the larger overpayment, a Police investigation did not result in court proceedings but appropriate debt recovery action is being undertaken. The police are continuing to investigate the second case. Whilst stringent controls are in place to prevent the risk of fraud, it is recognised that there remains a reduced risk that fraud could occur. The NFI process is used across the public sector to successfully identify when fraud of this nature has occurred and, in all cases, appropriate action is taken.

Internal control issues

GRBA undertook a review of Information Security and reported in March 2010. GRBA concluded that TPS have established an enhanced control framework to protect TPS membership data when it is being exchanged with third parties. This includes the implementation of the Secure Transfer Utility (STU) across the employer population. The GRBA review indicates that controls are in place over the main and regular exchanges and Capita have implemented appropriate Information Security policies and staff awareness training.
Both Capita Business Services Limited Management and the Department have continued to be proactive in implementing changes which have enhanced the overall control framework for

information security and a dedicated information security officer is in place to ensure TPS compliance with information security standards. No breaches have been reported.

To ensure TPS Information Security complies with the Department's and Cabinet Office's requirements on information assurance, Capita Business Services Limited are implementing a formal information security strategy, approved by their Board, to identify, assess and appropriately mitigate any risks that may adversely impact on the security of any critical or sensitive information asset used within the service. This strategy, based on the international security management standard ISO/IEC 27001, together with the Treating Customers Fairly (TCF) initiative, produces an Information Security Management System (ISMS) that minimises the risk of security incidents, and their associated impacts, from significantly affecting core business operations. The contract management team will work with Departmental Security Unit to further develop information assurance procedures.

In 2007-08 the Scheme became aware that incomplete Guaranteed Minimum Pension (GMP) data from HM Revenue and Customs (HMRC) had resulted in around 20,300 overpayments. This systematic error affected all public sector schemes and Accounting Officers decided, based on HM Treasury guidance, not to seek the recovery of overpayments to 31 March 2009, with corrected pension payments being made from April 2009.

In January 2009 HMRC informed the Scheme Administrators that there were additional GMP liabilities that had not been discovered during the original exercise. These additional overpayments were as a result of HMRC initially advising that GMP liabilities were not appropriate for a batch of pensioners and subsequently discovering that this was not the case. Letters were sent in June 2009 to 10,288 pensioners informing them that they had received overpayments and corrected pension payments were made from August 2009. The overpaid pensions were not recovered in line with the treatment agreed for the original batch of GMP overpayments and therefore there is no resulting impact on the TPS financial statements for 2009-10.

The Department and the Scheme Administrators (Capita) are continuing to work closely with HMRC to develop robust systems to identify where GMP information should be held and to proactively seek missing notifications. The National Audit Office (NAO) undertook a review of GMP information exchange processes and published recommendations in July 2009. HMRC is taking the lead in co-ordinating and implementing the recommendations and the cross-scheme group (known as the Joint GMP Advisory Group) initially met in February 2010 to take forward, and fully discharge, the recommendations contained in NAO's report.

Over recent years the controls to identify pensioners who have re-entered employment within the teaching profession but have failed to inform the Scheme of their change of status (and therefore continued to receive benefits that they are no longer entitled) has significantly improved. This is as a result of the Contractor improving communication procedures and, as a consequence, a large number of overpayment cases have been identified. These included cases where there were overpayments over many years and resulted in high value overpayment. Debt has increased throughout the year and is currently £5.5 million. The level of debt does not cause any material impact on the Scheme finances and is a small percentage (less than 0.1%) of the annual Scheme expenditure.

To ensure the Contractor (Capita) remains focussed on the early identification of re-employment cases, a new contractual target will be added to the existing contract. This will oblige the Administrator to obtain the information required to calculate whether a debt is being incurred at the earliest opportunity. In addition, improved debt recovery procedures will be implemented to recover monies owed (in line with *Managing Public Money*) and robust management information will be available to ensure that these improved procedures are successful in reducing debt.

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

David Bell
Accounting Officer

5 July 2010

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

I certify that I have audited the financial statements of the Teachers' Pension Scheme (England and Wales) for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Revenue Account and Statement of Recognised Gains and Losses, the Statement of Financial Position, the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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 the financial statements in accordance with applicable law and 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 Teachers' Pension Scheme (England and Wales); and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on the 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 2010, and the net cash requirement, net resource outturn, net outgoings, recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

In my opinion, the information given in the Report of the Managers for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157 - 197 Buckingham Palace Road
Victoria
London
SW1W 9SP

8 July 2010

Statement of Parliamentary Supply

Summary of Resource Outturn 2009-10

								2009-10	2008-09
								£000	£000
				Estimate			Outturn		Outturn
Request for resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
Teachers' pensions		15,366,578	(4,871,065)	10,495,513	15,255,303	(4,797,729)	10,457,574	37,939	10,653,094
Total resources	3	**15,366,578**	**(4,871,065)**	**10,495,513**	**15,255,303**	**(4,797,729)**	**10,457,574**	**37,939**	**10,653,094**

Summary of net cash requirement 2009-10

				2009-10 £000 Net Total outturn compared with Estimate: saving/ (excess)	2008-09 £000
	Note	Estimate	Outturn		Outturn
Net cash requirement	4	**2,200,492**	**2,138,865**	**61,627**	**1,776,237**

Summary of income payable to the Consolidated Fund

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

		Forecast 2009-10 £000		Outturn 2009-10 £000	
	Note	Income	*Receipts*	Income	*Receipts*
Total	5	131	*131*	**84**	***80***

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

The net resource outturn on the Scheme is £38 million (0.4%) lower than the net resource limit in the Supply Estimate. The underspend is primarily the result of both the contributions receivable and the actual cost of pensions payable being less than the forecast figures.

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

The net cash requirement variance, £61.6 million (2.8%) of the planned cash requirement arose due to combination of both the actual receivables and payables figures being higher than forecast and the provision utilisation being less than expected.

The notes on pages 27 to 40 form part of these accounts.

Revenue Account
for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Income			
Contributions receivable	7	(4,727,688)	(4,612,863)
Transfers in	8	(62,270)	(54,458)
Other pension income	9	(7,855)	(6,118)
		(4,797,813)	(4,673,439)
Outgoings			
Pension cost	10	5,021,450	5,854,980
Enhancements	11	26,053	28,493
Transfers in	12	62,270	54,458
Interest on scheme liabilities	13	10,123,793	9,374,030
Other expenditure	14	21,737	14,488
		15,255,303	15,326,449
Net outgoings for the year	3	**10,457,490**	**10,653,010**
Net resource outturn	3	**10,457,574**	**10,653,094**

Statement of Recognised Gains and Losses
for the year ended 31 March 2010

Actuarial loss/(gain)	18.8	47,040,240	(16,763,977)
Recognised (gains) and losses for the financial year		**47,040,240**	**(16,763,977)**

The notes on pages 27 to 40 form part of these accounts.

Statement of Financial Position
as at 31 March 2010

	Note	2009-10 £000	2008-09 £000
Current assets:			
Receivables	15a	347,861	374,247
Cash and cash equivalents	16	28,129	22,419
		375,990	**396,666**
Payables (within 12 months)	17a+b	(347,308)	(319,890)
Net current assets, excluding pension liabilities		**28,682**	**76,776**
Pension liability	18.5	(223,900,000)	(168,600,000)
Provision for compensation payments where the Scheme acts as a principal	19	(124,646)	(113,792)
Net liabilities, including pension liabilities		**(223,995,964)**	**(168,637,016)**
Taxpayers' equity:			
General fund	20	(223,995,964)	(168,637,016)
		(223,995,964)	**(168,637,016)**

David Bell
Accounting Officer

5 July 2010

The notes on pages 27 to 40 form part of these accounts.

Statement of Cash Flows
for the year ended 31 March 2010

	Note	2010 £000	2009 £000
Cash flows from operating activities			
Net outgoings for the year		(10,457,490)	(10,653,010)
Adjustments for non-cash transactions		10,126,296	9,376,463
(Increase)/decrease in receivables		26,386	(11,498)
Increase/(decrease) in payables: pensions		27,418	25,909
Short-term payables less movements in payables relating to items not passing through the revenue account		(5,714)	(4,709)
Increase in pension provision	18.5	5,036,182	5,861,571
Increase in pension provision – enhancements and transfers in	18.5	88,323	82,951
Use of provisions – pension liability	18.6	(6,836,482)	(6,370,237)
Use of provisions – refunds and transfers	18.7	(143,704)	(83,591)
Net cash outflow from operating activities		**(2,138,785)**	**(1,776,151)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		2,144,500	1,781,046
From the Consolidated Fund (Supply) – prior year		-	-
Net Parliamentary financing		**2,144,500**	**1,781,046**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**5,715**	**4,895**
Payments of amounts due to the Consolidated Fund		(5)	(185)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**5,710**	**4,710**
Cash and cash equivalents at the beginning of the period	**16**	**22,419**	**17,709**
Cash and cash equivalents at the end of the period	**16**	**28,129**	**22,419**

The notes on pages 27 to 40 form part of these accounts.

NOTES TO THE SCHEME STATEMENT

1. Basis of preparation

The Scheme statement has been prepared in accordance with the relevant provisions of the 2009-10 *Government Financial Reporting Manual (FReM*) issued by HM Treasury, which reflect the requirements of IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes.*

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

1.1 Teachers' Pension Scheme - principal arrangements

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

1.2 Teachers' Pension Scheme - agency arrangements

The Scheme acts as an agent for employers in the payment of compensation benefits arising under the Teachers' Pension Compensation Scheme. Compensation benefits paid out in the course of the year are generally recovered from the employer in advance, on a quarterly basis. These financial flows are not brought to account in the financial statements. However, they do recognise the liabilities arising from the central funding of compensation payments which amount to some £125 million (2008-09 £114 million) (see note 19).

2. Statement of accounting policies

The accounting policies contained in the *FReM* follow Internationally Generally Accepted Accounting Practice for companies (International GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Pension contributions receivable

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

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

c Employees' pension contributions which exclude amounts paid in respect of the purchase of added years (dealt with in 2.2.d below) and Additional Voluntary Contributions (dealt with in 2.16 below) are accounted for on an accruals basis.

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

2.3 Transfers in and out

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

2.4 Income received in respect of enhancements

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

2.5 Other income

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

2.6 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Revenue Account. It is calculated by factoring up the actual contribution rates charged (employer's 14.1%, employee's 6.4%) to the projected unit credit rate (21.9%) adopted by the Actuary.

2.7 Past service cost

Past service costs are increases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the Revenue Account on a straight line basis over the period in which the increase in benefit vests.

2.8 Interest on scheme liabilities

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

2.9 Other payments

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

2.10 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit credit method and is discounted at 1.8% real rate (i.e. 4.6% including inflation).

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the reporting period end date and updates it to reflect the current conditions. The valuation disclosures for this account are based on an update of the 2006 interim review.

The Government Actuary's Department is currently undertaking a full valuation of the Scheme as at 31 March 2008 based on the final membership statistics which have recently been confirmed.

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 Recognised Gains and Losses 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 providers.

2.17 Premature Retirement Compensation

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

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

2.18 Administration expenses

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

3. Reconciliation of Estimates, accounts and budgets

Reconciliation of net resource outturn to net outgoings

				2009-10 £000	2008-09 £000
	Note	**Outturn**	**Supply Estimate**	**Outturn Compared with Estimate**	**Outturn**
Net resource outturn		10,457,574	10,495,513	37,939	10,653,094
Non-supply income (CFERs)	5	(84)	(131)	(47)	(84)
Net outgoings		**10,457,490**	**10,495,382**	**37,892**	**10,653,010**

4. Reconciliation of resources to cash requirement

	Note	**Estimate £000**	**Outturn £000**	**Net total outturn compared with Estimate: saving/ (excess) £000**
Net resource outturn	3	10,495,513	10,457,574	37,939
Accruals adjustments				
Non-cash items		(15,361,877)	(15,250,801)	(111,076)
Changes in working capital other than cash		(1,221)	(48,094)	46,873
Changes in payables falling due after more than one year		-	-	-
Use of provision		7,068,077	6,980,186	87,891
Excess cash receipts surrenderable to the Consolidated Fund		-	-	-
Net cash requirement		**2,200,492**	**2,138,865**	**61,627**

5. Analysis of income payable to the Consolidated Fund

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

		Forecast 2009-10 £000		Outturn 2009-10 £000	
	Note	**Income**	***Receipts***	**Income**	***Receipts***
Operating income and receipts-excess A in A		-	*-*	-	*-*
Other operating income and receipts not classified as A in A		131	*131*	84	*80*
	3	131	*131*	84	*80*
Non-operating income and receipts - excess A in A		-	*-*	-	*-*
Other non-operating income and receipts not classified as A in A		-	*-*	-	*-*
Other amounts collectable on behalf of the Consolidated Fund		-	*-*	-	*-*
Excess cash surrenderable to the Consolidated Fund		-	*-*	-	*-*
Total income payable to the Consolidated Fund		131	*131*	84	*80*

6. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	Note	2009-10 £000	2008-09 £000
Operating Income		4,797,728	4,673,439
Income authorised to be appropriated-in-aid		4,797,644	4,673,355
Operating income payable to the Consolidated Fund	5	84	84

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

7. Pension contributions receivable

	Note	2009-10 £000	2008-09 £000
Employers		(3,220,283)	(3,145,021)
Employees:			
Normal		(1,481,367)	(1,439,372)
Purchase of added years		(26,038)	(28,470)
		(4,727,688)	**(4,612,863)**

8. Pension income – transfers in

	Note	2009-10 £000	2008-09 £000
Group transfers in from other schemes	12	(1,322)	(1,378)
Individual transfers in from other schemes	12	(60,948)	(53,080)
		(62,270)	**(54,458)**

9. Other pension income

	Note	2009-10 £000	2008-09 £000
Contributions equivalent premiums		(1,508)	(1,547)
Recoveries of payments in lieu		(10)	(11)
Reinstatement of contributions		(15)	(22)
Other income		(84)	(85)
Premature retirement compensation		(6,238)	(4,453)
		(7,855)	**(6,118)**

10. Pension cost

	Note	2009-10 £000	2008-09 £000
Current service cost	18.5	5,002,581	5,840,244
Past service costs	18.5	18,869	14,736
		5,021,450	**5,854,980**

11. Enhancements

	Note	2009-10 £000	2008-09 £000
Employees:			
Purchase of added years		26,038	28,470
Reinstatements		15	23
	18.5	**26,053**	**28,493**

12. Pension cost - transfers in

	Note	2009-10 £000	2008-09 £000
Group transfers in from other schemes	8	1,322	1,378
Individual transfers in from other schemes	8	60,948	53,080
	18.5	**62,270**	**54,458**

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

13. Interest on scheme liabilities

	Note	2009-10 £000	2008-09 £000
Interest charge for the year	18.5	**10,123,793**	**9,374,030**

14. Compensation benefits payable

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

	Note	2009-10 £000	2008-09 £000
On retirement			
Contributions equivalent premiums		3,072	4,177
Premature retirement compensation		15,646	7,291
Other		516	587
Unwinding of discount	19	2,503	2,433
		21,737	**14,488**

Statement of Financial Position: Principal arrangements via the Teachers' Pension Scheme, and principal and agency arrangements via the Teachers' Pension Compensation Scheme

15. Receivables - contributions due in respect of pensions

15 (a) Analysis by type

	Note	2009-10 £000	2008-09 £000
Amounts falling due within one year:			
Pension contributions due from employers		230,686	249,605
Employees' normal contributions		105,990	115,565
Bringing forward the payment of accrued superannuation lump sums		-	-
Capitalised cost of enhancement to pension payable on departure		-	-
Group transfers		-	-
Overpaid pensions		-	-
Other receivables		8,534	6,232
Pension contribution receivable – sub total		345,210	371,402
Recoverable compensation from employers (principal)		2,651	2,845
		347,861	**374,247**

Included within the 2009-10 figures is £8,000 (2008-09: £4,000) that will be due to the Consolidated Fund once the receivables are collected.

15 (b) Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2009-10	2008-09	2009-10	2008-09
Balances with other central government bodies	6,994	837	-	-
Balances with local authorities	246,892	270,709	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	93,975	102,701	-	-
At 31 March	**347,861**	**374,247**	**-**	**-**

16. Cash and cash equivalents

	Note	2009-10 £000	2008-09 £000
Balance at 1 April		22,419	17,709
Net change in cash balances		5,710	4,710
Balance at 31 March		**28,129**	**22,419**
The following balances at 31 March were held at:			
Office of HM Paymaster General		27,422	21,857
Commercial banks and cash in hand		707	562
Short term investments		-	-
Balance at 31 March		**28,129**	**22,419**

Unpresented cheques relating to payments to pensioners which did not clear by 31 March 2010, created an overdraft in the bank and are disclosed as payables (creditors) in Note 17a.

17. Payables – in respect of pensions

17 (a) Analysis by type

	Note	2009-10 £000	2008-09 £000
Amounts falling due within one year			
Pensions		(253,854)	(236,905)
Group transfer pre-payment		-	-
HMRC and voluntary contributions		(57,545)	(52,265)
Overpaid contributions: employers		-	-
Overpaid contributions: employees		-	-
Overpaid contributions: employees added years		-	-
Overdraft (see Note 16)		(2,653)	(2,686)
Other payables		(2,968)	(3,863)
Pension and other payables sub-total		**(317,020)**	**(295,719)**
Amounts issued from the Consolidated Fund for supply but not spent at year end		(28,048)	(22,414)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:			
Received		(80)	(5)
Receivable		(8)	(4)
Consolidated Fund payables sub-total		**(28,136)**	**(22,423)**
Balance at 31 March		**(345,156)**	**(318,142)**

17 (b) Contributions due - compensation payments agency

	Note	2009-10 £000	2008-09 £000
Balance at 1 April		(1,748)	(1,012)
Receipts from employers		(27,169)	(25,927)
Payments to employees		26,765	25,191
Balance at 31 March		**(2,152)**	**(1,748)**

17 (c) Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2009-10	2008-09	2009-10	2008-09
Balances with other central government bodies	(85,810)	(74,946)	-	-
Balances with local authorities	(395)	(880)	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	(261,103)	(244,064)	-	-
At 31 March	**(347,308)**	**(319,890)**	**-**	**-**

18. Provisions for pension liabilities

18.1 The Teachers' Pension Scheme is an unfunded defined benefits scheme. A full valuation by a professionally qualified actuary is required at intervals not exceeding four years. The Government Actuary's Department carried its last full review as at 31 March 2004, an interim review as at 31 March 2006 and is currently undertaking a full revaluation of the scheme as at 31 March 2008. The Statement by the Actuary at pages 9 to 14, therefore includes updates since 2006 for known data movements.

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 available 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 profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme; and
- income and expenditure, including details of expected bulk transfers into or out of the Scheme.

The major assumptions used by the actuary were:

	At 31 March 2010 %	At 31 March 2009 %	At 31 March 2008 %	At 31 March 2007 %	At 31 March 2006 %
Rate of increase in salaries [1]	4.3	4.3	4.3	4.3	1.3
Rate of increase in pensions in payment and deferred pensions [1]	2.8	2.8	2.8	2.8	2.8
Discount rate	1.8	3.2	2.5	1.8	5.4
Inflation assumption	2.8	2.8	2.8	2.8	2.7
Retiring at 31 March age 60	Years	Years	Years	Years	Years
Males	29.1	28.6	28.5	25.6	25.5
Females	31.6	31.8	31.7	28.6	28.5

[1] The rates of increase shown above are the nominal increases in salaries and pensions. The rates of increase in the financial assumptions table in the Statement by the Actuary are based on the difference between the rate of return (discount rate) and the nominal increase. The rate of salary increase assumed for 2009 and 2010 is 2.3%.

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. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the RPI used in Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The scheme managers do not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the scheme managers, the actuary has used key assumptions that are the most appropriate for the Scheme in the light of current knowledge.

18.2 Analysis of the provision for pension liability

Value of liability in respect of	**31 March 2010 £ billion**	**31 March 2009 £ billion**	**31 March 2008 £ billion**	**31 March 2007 £ billion**	**31 March 2006 £ billion**
Pensions in payment	105.1	79.8	78.8	73.4	72.8
Deferred members	19.8	15.2	16.8	18.5	11.3
Active members	99.0	73.6	80.9	89.4	58.9
Total liabilities	**223.9**	**168.6**	**176.5**	**181.3**	**143.0**

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

18.4 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 18.5 and 18.8. 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.

18.5 Analysis of movements in the scheme liability

	Note	**2009-10 £000**	**2008-09 £000**
Scheme liability at 1 April		(168,600,000)	(176,500,000)
Current service cost	10	(5,002,581)	(5,840,244)
Past service cost	10	(18,869)	(14,736)
Interest on scheme liability	13	(10,123,793)	(9,374,030)
Enhancements	11	(26,053)	(28,493)
Pension transfers in	12	(62,270)	(54,458)
Benefits payable	18.6	6,830,102	6,364,393
Pension payments to and on account of leavers	18.7	143,704	83,591
Actuarial gain/(loss)	18.8	(47,040,240)	16,763,977
Scheme liability at 31 March		**(223,900,000)**	**(168,600,000)**

During the year ended 31 March 2010, contributions represented an average of 20.5%, unchanged from 2008-09.

18.6 Analysis of benefits paid

	Note	2009-10 £000	2008-09 £000
Pensions or annuities to retired employees and dependants (net recoveries or overpayments)		5,557,429	5,110,840
Commutations and lump sum benefits on retirement		1,272,673	1,253,553
Per Statement of Cash Flows	18.5	**6,830,102**	**6,364,393**

18.7 Analysis of payments to and on account of leavers

	Note	2009-10 £000	2008-09 £000
Refunds to members leaving service		2,548	2,931
Transfers to other schemes		141,156	80,660
Per Statement of Cash Flows		**143,704**	**83,591**

18.8 Analysis of actuarial gain/(loss)

	Note	2009-10 £000	2008-09 £000
Experience (losses)/gains arising on the Scheme liabilities		(40,240)	(3,936,023)
Changes in assumptions underlying the present value of scheme liabilities		(47,000,000)	20,700,000
Per Statement of Recognised Gains and Losses		**(47,040,240)**	**16,763,977**

18.9 History of experience (gains)/losses

	2009-10	2008-09	2007-08	2006-07	2005-06
Experience (gains)/losses arising on the scheme liabilities Amount (£000)	40,240	3,936,023	(2,343,281)	4,344,105	1,180,346
Percentage of the present value of the scheme liabilities	0.1%	2.3%	(1.3%)	2.4%	0.8%
Total amount recognised in statement of total recognised (gains) and losses Amount (£000)	47,040,240	(16,763,977)	(14,043,281)	30,944,105	16,380,346
Percentage of the present value of the scheme liabilities	21.0%	(9.9%)	(8.0%)	17.1%	11.5%

19. Provision for annual compensation payments

	Note	2009-10 £000	2008-09 £000
Balance at 1 April		113,792	110,612
Additional provisions		14,731	6,591
Use of provision in year		(6,380)	(5,844)
Unwinding of discount	14	2,503	2,433
Balance at 31 March		**124,646**	**113,792**

20. General Fund

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

	Note	2009-10 £000	2008-09 £000
Balance at 1 April		(168,637,016)	(176,524,135)
Net parliamentary funding			
Drawn down		2,144,500	1,781,046
Deemed		22,414	17,604
Year end adjustment			
Supply payable – current year		(28,048)	(22,414)
Net transfers from operating activities			
Net outgoings	3	(10,457,490)	(10,653,010)
CFERS repayable to Consolidated Fund	3	(84)	(84)
Actuarial gains and losses (STRGL)	18.8	(47,040,240)	16,763,977
Balance at 31 March		**(223,995,964)**	**(168,637,016)**

21. Financial instruments

International Financial Reporting Standard IFRS 7, Financial Instruments: Disclosures, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government departments are financed, the Teachers' Pension Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies to which IFRS 7 mainly applies. The Scheme has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the Scheme in undertaking its activities.

21.1 Liquidity risk

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

21.2 Interest rate risk

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

21.3 Foreign currency risk

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

21.4 Credit risk

The Scheme's exposure to credit risk is very low. Credit risk is the risk that a service user or counter party to a financial instrument will fail to pay amounts due causing financial loss to the Scheme and arises principally from cash and outstanding receivables. The TPS has a credit (receivables) policy that ensures consistent processes are in place throughout the Scheme to measure and control credit risk.

22. Contingent liabilities disclosed under IAS 37

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

23. Losses and special payments

During the year, losses arose in 1,590 cases (2008-09: 1,739 cases). The total loss was £182,923 (2008-09: £46,453).

24. Related-party transactions

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

25. End of Year Certification

The contributions received from employers have been certified through End of Year Certificates. At the date the 2009-10 accounts were signed, the End of Year Certificates had been received from all 174 Local Authorities (LAs), and from 2,248 non-LA employers of which 44.84% have been fully and independently audited.

26. Post reporting period events

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the Teachers' Pension Scheme.

These financial statements were authorised for issue on 8 July 2010 by David Bell (Accounting Officer). There have been no events after the reporting period end date requiring an adjustment to the financial statements.

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