Teachers' Pension Scheme (England and Wales)

Annual Report and Accounts

For the year ended 31 March 2017

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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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Accountability Report

1. Report of the manager

Background to the scheme

1.1 This report covers the financial year 2016-17.

1.2 The Teachers' Pension Scheme (TPS or Scheme) is a statutory, unfunded, defined benefit occupational pension scheme split into three distinct sections. The Normal Pension Age (NPA) 60 section caters for those who entered the Scheme before 1 January 2007 and has a normal pension age of 60. The NPA 65 section caters for those who entered the Scheme for the first time on or after 1 January 2007 but before 1 April 2015 or who transitioned from the NPA 60 section following 2007 Scheme reform and have a normal pension age of 65. Both of these sections provide benefits based on final salary and length of service. The 2015 section caters for those who entered the Scheme for the first time on or after 1 April 2015 and those who transitioned from the NPA 60 and NPA 65 sections following the latest Scheme reforms. The 2015 section provides benefits based on career average earnings and has a normal pension age equal to state pension age.

1.3 The Scheme is governed by statutory regulations (currently statutory instruments), these being: *The Teachers' Pensions Regulations 2010 (as amended)* and *The Teachers' Pension Scheme Regulations 2014 (as amended)*.

1.4 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 16 and 75) in pensionable service employed by:
  - a local authority or an academy trust;
  - an independent school which has been accepted into the Scheme;
  - a further or higher education establishment that has been accepted into the Scheme;
  - an accepted function provider (a company awarded a contract to perform functions on behalf of a local authority); or
  - other approved Scheme employer.

1.5 Contributions to the Scheme are set at rates determined by the Secretary of State, taking advice from the Scheme's Actuary. The contributions partially fund payments made by the Scheme with the balance of funding provided by Parliament. The Scheme's administrative expenses are borne by Scheme employers, payable as a percentage of pensionable earnings. It is envisaged that this charge will be reviewed alongside Scheme valuations to ensure that the income raised is equal to the cost.

1.6 Pensions are increased in accordance with the Pensions (Increase) Act 1971 and the Social Security Pensions Act 1975, with annual increases being determined by the prevailing Pensions (Increase) Order. Retirement and other pension benefits are set out in regulations made under the *Superannuation Act (1972)* and *Public Service Pensions Act (2013)* 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 Acts.

1.7 The TPS Annual Report and Accounts (ARA) shows the movements in scheme fund and the financial position of the Scheme at the year end as follows:

- the Statement of Financial Position shows the unfunded net liabilities of the Scheme; and
- 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, interest on the Scheme liabilities and actuarial adjustments.

1.8 Further information about the actuarial position of the Scheme is set out in the Report of the Actuary on page 17. 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. These provisions are also managed by the Department for Education (Department or DfE) and administered under contract by Capita Business Services Ltd (Capita).

1.9 The Scheme is managed by the Department and administered under contract by Capita.

Corporate Governance

1.10 The Scheme is governed at three levels; day to day service delivery, strategy, and oversight by the independently chaired Teachers' Pension Scheme Pension Board, which was established in 2015. Where appropriate, issues are escalated for further consideration through the governance structure outlined on page 27.

1.11 Details of the Boards and their membership, together with attendance details, can be found in the Governance Statement on page 27.

Administration

1.12 Following a competitive tendering exercise, Capita were awarded a new contract to administer the TPS for seven years from 1 October 2011. In November 2014 the contract was extended by three years bringing the contract end date to September 2021.

Changes to the Teachers' Pension Scheme

1.13 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.

1.14 Whilst the contribution rates for each band level remain static in 2017- 18 when compared to 2016-17, it has been agreed that there will be an increase in band width for each of the salary bands. The following table shows the rates applied for each salary band.

2017-2018		2016-2017	
Actual Salary band	Actual Contribution rate	Actual Salary band	Actual Contribution rate
£1 - £26,259	7.4%	£1 - £25,999	7.4%
£26,260 - £35,349	8.6%	£26,000 - £34,999	8.6%
£35,350 - £41,914	9.6%	£35,000 - £41,499	9.6%
£41,915 - £55,549	10.2%	£41,500 - £54,999	10.2%
£55,550 - £75,749	11.3%	£55,000 - £74,999	11.3%
£75,750 or more	11.7%	£75,000 or more	11.7%

1.15 Employer contributions increased on 1 September 2015 from 14.10% to 16.40%. In addition, and on the same date, employers commenced payment of a charge equivalent to 0.08% of their pensionable salary costs to cover administration expenses.

1.16 The government announced on 8 July 2015, that with effect from 2016-17 tax year the annual allowance for tax relieved pension savings will be reduced for those with incomes of over £150,000. The annual allowance will be reduced by £1 for every £2 of adjusted income over £150,000 with a maximum reduction of £30,000.

1.17 Pension payments were reviewed in accordance with the Scheme regulations, there was no increase in payments from 11 April 2016 (2015-16: 1.2% increase). This reflects the negative change to the CPI for the year ended September 2015.

1.18 The arrangements for a reformed TPS, in line with the remainder of the recommendations made by Lord Hutton, have now been implemented. The Career Average Revalued Earnings (CARE) scheme was implemented from 1 April 2015, whereby benefits will accrue on a career average basis and there is a normal pension age aligned to the state pension age.

Changes to the Premature Retirement Compensation (PRC) scheme

1.19 During the year, compensation payments were reviewed. In keeping with pension payments (paragraph 1.17) there was no increase with effect from 11 April 2016 (2015-16: 1.2%).

Membership statistics

1.20 Membership information is provided 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 2016; due to the way in which annual service is reported by employers of Scheme members not being fully processed until after the Annual Accounts are completed.

1.21 The figures for pensions in payment are provided for both the year ended 31 March 2016 and the year ended 31 March 2017.

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

Active members

		2015-16 Number
	Number of members in 2015-16 accounts	673,695
	Adjustment to prior year accounts[1]	12,405
	Actual number at 31 March 2015[2]	**686,100**
Add:	New entrants in the year	54,070
	Re-entrants from deferred status in the year	118,567
	Further employment	4,725
	Total joiners	**177,362**
Less:	**Initial Awards**	
	Age and infirmity retirements	8,760
	Early retirements (actuarially reduced)	5,677
	Premature retirements	447
	Total initial awards	14,884

		2015-16 Number
	Further Awards[3]	
	Age and infirmity retirements	721
	Early retirements (actuarially reduced)	53
	Premature retirements	-
	Total further awards	774
	Other Leavers	
	Opted Out	4,235
	Deaths	337
	Withdrawals to deferred status	169,167
	Other exits (transfers out, refunds of contributions)	2,143
	Other exits (not identified)[4]	602
	Total Other Leavers	176,484
	Total leavers	**192,142**
	Actual number at 31 March 2016[2]	**671,320**

1. An adjustment has been made to the active membership of the Scheme as at 31 March 2015, as contained in the 2015-16 accounts. This adjustment reflects changes to the membership data since the 2015-16 reconciliation was compiled.
2. Data captured within the membership tables for active and deferred members is reliant upon Annual Service Returns to determine the member position at the end of the reporting period.
3. If a member returns to teaching and accrues additional pensionable service after they have already taken a retirement award from the Scheme, they are able to take a further award when they decide to retire following the completion of this additional service. These members do not have a corresponding entry in the pensioner member reconciliation as they are already pensioners before the application for a further award.
4. A number of members have multiple events in any given year, for example re-joining or leaving active service, taking a retirement award or entering further employment. The other exits from active status will include any such members who we are not able to trace accurately during the year.

Deferred members - number

		2015-16
	Number of members in 2015-16 Accounts	545,629
	Adjustment to prior year accounts[1]	(11,380)
	Actual number at 31 March 2015[2]	**534,249**
Add:	Previously active members no longer in service	169,167
	Opted Out from active service	4,235
	Other entrants to deferred service status (not identified)[3]	1,948
	Total joiners	**175,350**
Less:	Awards out of service – initial awards	10,070
	Awards out of service – further awards[4]	821
	Transfers out	652
	Deaths	869
	Return of contributions	253
	Re-entry to service	118,567
	Other exits (not identified)	162
	Total leavers	**131,394**
	Deferred members at 31 March 2016[2]	**578,205**

1. An adjustment has been made to the deferred membership of the Scheme as at 31 March 2015, as contained in the 2015-16 accounts. This adjustment reflects changes to the membership data since the 2015-16 reconciliation was compiled.
2. Data captured within the membership tables for active and deferred members is reliant upon Annual Service Returns to determine the member position at the end of the reporting period.

3. A number of members have multiple events in any given year, for example re-joining or leaving active service, taking a retirement award or entering further employment. The other entrants to deferred status will include any such members who we are not able to trace accurately during the year.
4. If a member returns to teaching and accrues additional pensionable service after they have already taken a retirement award from the Scheme, they are able to take a further award when they decide to retire following the completion of this additional service. These members do not have a corresponding entry in the pensioner member reconciliation as they are already pensioners before the application for a further award.

Pensions in payment

		2015-16 Number
	Total pensioners in payment as 1 April 2015	
	- members	610,459
	- dependants	67,491
	Actual number at 1 April 2015	**677,950**
Add:	Members retiring in the year[5]	
	- Age/Premature pensions[1]	15,029
	- Ill Health pensions[1]	668
	- Early retirement (actuarially reduced) pensions[1]	9,257
	- Phased pensions[2]	959
	- Other (unallocated)[3]	4,055
	Total members retiring in the year	29,968
	New dependants	5,294
	- Other new dependants (unidentified)	1,646
	Total new dependants	6,940
	Total members retiring in year and dependants	**36,908**
Less:	Cessations in year – Members	
	- Age/Premature pensions	(11,782)
	- Ill Health pensions	(2,155)
	- Early retirement (actuarially reduced pensions)	(517)
	- Other (unidentified)	(126)
	Total member cessations in year	(14,580)
	Cessations in year – Dependants	(5,234)
	- Other dependant cessations	-
	Total dependant cessations	(5,234)
	Total cessations in year	**(19,814)**
	Total pensions in payment at 31 March 2016	**695,044**
	Pension in payment at 31 March 2016	
	- members	625,847
	- dependants	69,197
	Total	**695,044**

		2016-17 Number
	Pensioners brought forward 31 March 2016	
	- Members	625,847
	- Dependants	69,197
	Total number at 31 March 2016	**695,044**
Add:	Members retiring in the year	
	- Age/premature pensions[1]	17,396
	- Ill Health pensions[1]	652
	- Early retirement (actuarially reduced) pensions[1]	8,656
	- Phased pensions[2]	906
	Total members retiring in year	27,610
	New dependants	6,719
	Total members retiring in year and dependants	**34,329**
Less:	Cessations in year – Members	
	- Age/premature pensions	11,078
	- Ill Health pensions	1,958
	- Early retirement (actuarially reduced) pensions	508
	- Other (unidentified) [3]	2,974
	Total member cessations in year	16,518
	Cessations in year – Dependants	6,811
	- Other dependant cessations (unidentified) [4]	1,572
	Total dependant cessations	8,383
	Total cessations in year	**24,901**
	Total pensions in payment at 31 March 2017	**704,472**
	Pension in payment at 31 March 2017	
	- members	636,939
	- dependants	67,533
	Total	**704,472**

1. These members have corresponding retirements in the active and deferred member reconciliations.
2. Phased retirement awards do not have a corresponding exit from the non-pensioner movements as they are only drawing part of their retirement benefits. Therefore, they remain a non-pensioner member as well as becoming a pensioner member.
3. These members are primarily members whose retirement award has been authorised by the Scheme's administrator in the reporting year but whose payment date falls into a different year. When data becomes available from Annual Service Returns, we carry out a match of retirements from active and deferred status to those new entrants into pensioner status. Any retirements that do not match (again, primarily due to their retirement date spanning a scheme year) will then fall into the "other (unidentified)" category. Therefore, the 2016-17 figure is subject to change in the 2017-18 accounts.
4. Other cessations include cases where we have suspended payment of pension as a result of uncertainty around continued entitlement to the pension.
5. Following publication of the accounts for the year to 31 March 2016, the new additions to pensioner status for the 2015-16 year have now been matched with those in the active and deferred membership movements. This has resulted in a revised allocation of retirements between the various groups.

1.23 We have categorised a member in the tables above as active if the last recorded service date provided by their employer is 31 March and the employer has not informed us that they have left service by that date.

1.24 We are aware from our analysis of the membership data that there are a number of members who have been classified as deferred due to employers providing a leaving service notification and the member has returned to pensionable service the following day. The membership figures quoted within the Report of the Actuary on page 17 show these members as active members, in addition to and including an estimate of the number of active members where the employer has yet to provide the relevant service data to the Scheme.

Performance and position

Net cash requirement

1.25 In 2016-17, the net cash requirement was £3,306.3 million (2015-16: £3,549.5 million), £93.2 million (2015-16: £126.3 million) less than the amount authorised via the Supplementary Estimate. This is 2.7% within the net cash requirement limit in the Supply Estimate forecast of £3,399.6 million (2015-16: £3,675.8 million).

1.26 The Department continues to work closely with the administrator, with input from the Government Actuary's Department (GAD), to refine the cash 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

1.27 The Statement of Parliamentary Supply provides information on how the Scheme has performed against the Parliamentary control totals on resources and cash expenditure. An explanation of variances is on page 40.

Financial position

1.28 There was an actuarial adjustment of £67.4 billion (2015-16: £12.3 billion). The Actuaries take into account a number of different factors when determining the scheme valuation. The biggest influence on the liability in 2016-17 was a change in the future cost of finance which amounted to £70.2 billion.

1.29 The Scheme had net liabilities of £347.3 billion (2015-16: £271.9 billion) at 31 March 2017.

Scheme valuation

1.30 The primary purpose of a formal actuarial valuation is to set the employer contribution rate.

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 and the initial employer cost cap (both of which are set out in the TPS regulations). The Directions also require results relating to scheme liabilities, notional assets and contribution rates to be reported.

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

- employer contribution rates were set at 16.40% of pensionable pay, in line with current regulations, not including the additional 0.08% employers pay for the cost of Scheme administration;
- at the effective date, total Scheme liabilities for service 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 which is a measure of the cost of providing pensions in the career average scheme to all members from April 2015. The employer contribution rate of 16.4% of pay principally is different because it also includes contributions of 5.6% of pay to address the pre-April 2015 deficit in the scheme, and also because it measures the cost of providing pensions based on members' actual scheme entitlements, and so reflects that some current active members remain protected in the final salary scheme; and
- Actuarial assessments are undertaken in intervening years between formal valuations for financial reporting purposes, using updated membership data. The amounts recognised in these Accounts have been prepared using full membership data as at 31 March 2014.

1.33 The funding valuation uses a different set of assumptions than those used to inform the IAS 19 valuation. Therefore the Scheme liability is reported as two different values.

1.34 The new employer contribution rate and administration levy for the TPS was implemented in September 2015. A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website[1].

1.35 A formal valuation is currently in progress with the results due to be implemented in April 2019.

[1] The full address of the website is:
https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

Influences on performance in 2016-17

1.36 The ARA is influenced by changes in the Scheme's membership numbers, their salary and service levels, mortality rates, and the age profile of the members and their pension increases.

Free-standing additional voluntary contributions and stakeholder pensions

1.37 The Department provides for employees to make additional voluntary contributions (AVCs) to an approved provider (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 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 Prudential, confirming the amounts held in their account and the movements in the year.

1.38 Although the Secretary of State 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 Prudential and those members contributing to the AVC scheme. Members can purchase an annuity or take a lump sum from their AVC fund independently of any TPS benefits. HM Revenue and Customs (HMRC) also regards the two schemes as being separate schemes for tax purposes.

1.39 This being the case, the AVC data does not form part of the ARA; it is included here for completeness only.

1.40 In 2016-17, the aggregate amounts of AVC investments are as follows:

Prudential

	2016-17 £000	2015-16 £000
Movements in the year:		
Balance at 1 April	1,479,506	1,527,344
New investments	141,591	142,060
Sales of investments to provide pension benefits	(170,358)	(190,139)
Changes in market value of investments	(32)	241
Balance at 31 March	**1,450,707**	**1,479,506**
Contributions received to provide life cover	540	638
Benefits paid on death	3,762	3,069

Employers

1.41 Any employer in England and Wales that meets the requirements of the Scheme qualifies as a TPS employer – further details on qualification requirements can be found in the *Teachers' Pensions Regulations 2010 (as amended)* and the *Teachers' Pension Scheme Regulations 2014 (as amended)*. There were 8,762 (2015-16: 7,722) contributing employers participating in 2016-17 split into the following categories:

	2016-17 Number	2015-16 Number
Local authorities	174	174
Further education institutions	369	371
Higher education institutions	65	65
Independent establishments	1,465	1,474
Academies	6,194	5,222
Free Schools	355	323
Others	140	93
	8,762	**7,722**

Issues arising in 2016-17

1.42 The Scheme administrator instigated quarterly meetings with the Pension Regulator which have been supplemented with monthly data sharing in-line with Code of Practice 14. This has prompted the Pension Regulator to write to employers who are more than 90 days in arrears to remind them of their responsibilities.

1.43 In August 2016, it was identified that a population of TPS members (potentially up to 93,000 members) who retired during the period April 2011 to April 2015 received an underpayment of benefits. This came to light following detailed investigation into the payments received for an individual member of the TPS as part of a separate complaint case. Wider investigations revealed that more members were affected. The background to this issue is that when a member retires in any given financial year, the Scheme does not know the Pension Increase (PI) factors to be applied to fully index the lump sum and pension up to the date of retirement until they are published by HMT. The PI factors are not typically published until the following March. An adjustment to the pension for members who retired in the period is usually undertaken as part of the annual exercise to uprate all pensions in payment in line with inflation. However, during the period April 2011 to April 2015, for some members this did not happen. A formal rectification project is in progress to accurately identify all affected members, to contact any such members, take corrective actions on the impacted member records, and ensure member benefits (estimated at around £35 million) are accurately paid. The associated control environment will be reviewed as part of a 2017-18 TPS Change Management Audit. A provision has been made in 2016-17 to cover this rectification project.

1.44 On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. The Government triggered Article 50 of the Lisbon Treaty on 29 March 2017. The negotiations to leave the EU will need to be completed within two years of this date. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made. Sensitivity analysis around the key financial assumptions underpinning the actuarial valuation of the scheme liabilities that may potentially be affected by this decision may be found on page 62.

Jonathan Slater **12 July 2017**
Accounting Officer

The managers, administrators and actuary are listed below

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Administrator of the Scheme

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

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2. Report of the actuary

Introduction

2.1 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 2016-17 Annual Report and Accounts of the Teachers' Pension Scheme (TPS).

2.2 The TPS is a defined benefit scheme. It has a final salary section which applies to benefits accrued before 1 April 2015 and to future accrual for older members who have fully protected status or tapered protection. There is also a new career average section applying to future accrual after 1 April 2015 for members without protected status. The rules of the final salary section are set out in *The Teachers' Pensions Regulations 2010 (SI 2010/990)* and the rules of the career average section are set out in *The Teachers' Pension Scheme Regulations 2014 (SI 2014/512)*. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.

2.3 The statement is based on an assessment of the liabilities as at 31 March 2014, with an approximate updating to 31 March 2017 to reflect known changes.

2.4 Figures in this report have in general been rounded for presentational purposes, so the totals may not add up.

Membership data

2.5 Tables A to C summarise the principal membership data as at 31 March 2014 used to prepare this statement.

Table A – Active members[1]

	Number (000s)	Total pensionable pay* (pa) (£ million)
Males	210	8,420
Females	519	19,101
Total	**730**	**27,522**

* Pensionable pay is the Full time Equivalent figure.

Table B – Deferred members[1]

	Number (000s)	Total deferred pension* (pa) (£ million)
Males	144	326
Females	319	648
Total	**463**	**974**

* Pension amounts include the pension increase granted on 7 April 2014.

Table C – Pensions in payment

	Number (000s)	Annual pension* (pa) (£ million)
Males	219	3,306
Females	373	3,981
Spouses & dependants	68	301
Total	**660**	**7,588**

* Pension amounts include the pension increase granted on 7 April 2014.

1 Deferred members as at 31 March 2014, who rejoined active service on 1 April 2014, have been treated as being active members of the scheme in these tables. The number of active and deferred members in these tables are therefore not directly comparable with the Membership Statistics provided in the Annual Report and Account

Methodology

2.6 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 2016-17 Annual Report and Accounts. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the 2015-16 Annual Report and Accounts.

2.7 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

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

Table D – Principal financial assumptions

Assumption	31 March 2017	31 March 2016
Rate of return (discount rate)	2.80%	3.60%
Rate of earnings increases*	4.55%	4.20%
Rate of future pension increases	2.55%	2.20%
Rate of return in excess of:		
Pension increases (CPI)	0.24%	1.37%
Earnings increases*	(1.7)%	(0.6)%
Expected return on assets:	n/a	n/a

* short-term adjustments have been made to this assumption.

2.9 The pension increase assumption as at 31 March 2017 are based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

2.10 Table E summarises the demographic assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the ‘S1 tables’ with the percentage adjustments to those tables derived from scheme experience. All age-dependent adjustments are based on the members' ages in 2012.

Table E – Post-retirement mortality assumptions

Normal health	
Males	107% of S1NMA_L mortality
Females	Age-dependant adjustments to S1NFA_L mortality (74% up to age 79, 84% at ages 80-84, 98% at ages 85-89, 106% from age 90)
Current ill-health pensioners	
Males	Age-dependent adjustments:
	≤71 (in 2012): 65% of S1IMA mortality
	>71 (in 2012): 114% of S1NMA mortality
Females	Age-dependent adjustments:
	≤71 (in 2012): 89% of S1IFA mortality
	>71 (in 2012): 109% of S1NFA mortality
Future ill-health pensioners	
Males	100% of S1IMA mortality
Females	100% of S1IFA mortality
Partners	
Males	108% of S1NMA mortality
Females	88% of S1DFA mortality

2.11 These assumptions are the same as those adopted for the 2015-16 Annual Report and Accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption is in line with the latest ONS projections

2.12 The contribution rate used to determine the accruing cost in 2016-17 was based on the demographic and financial assumptions applicable at the start of the year, that is, those adopted for the 2015-16 Annual Report and Accounts.

Liabilities

2.13 Table F summarises the assessed value as at 31 March 2017 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 2.5 to 2.12. The corresponding figures for the previous four year ends are also included in the table.

Table F – Statement of Financial Position

£ billion	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(347.2)	(271.7)	(275.5)	(250.2)	(224.9)
Deficit	(347.2)	(271.7)	(275.5)	(250.2)	(224.9)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing cost

2.14 The cost of benefits accrued in the year ended 31 March 2017 (the Current Service Cost) is based on a standard contribution rate of 32.3%. Members contributed between 7.4% and 11.7% of pensionable pay, depending on the level of their pay. Table G shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 9.6%. The corresponding figures for 2015-16 are also included in the table.

Table G – Contribution rate

	Percentage of pensionable pay	
	2016-17	**2015-16**
Standard contribution rate	32.3%	33.8%
Members' estimated average contribution rate	(9.6%)	(9.6%)
Employers' estimated share of standard contribution rate	22.7%	24.2%

2.15 For the avoidance of doubt, the actual rate of contributions payable by employers, 16.4% of pensionable pay for 2016-17 (excluding administration levy), is not the same as the employers' share of the standard contribution rate as above (22.7% for 2016-17). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Annual Report and Accounts is the discount rate. The discount rate for Annual Report and Accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

2.16 The pensionable payroll for the financial year 2016-17 was £24.2 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016-17 (at 32.3% of pay) is assessed to be £7.8 billion.

2.17 Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The Department have indicated to us that over the period 2016-17 past service costs have arisen from two sources. A £35 million provision has been set up as at 31 March 2017, in respect of an exercise which will make corrective "second bite" lump sum payments to some recent retirees. A further amount, of approximately £20 million, has also been recognised as a past service cost over the period. This relates to payments made into the scheme to provide past added years contracts, and similar arrangements, which the Department have notified should be treated as past service costs.

2.18 I am not aware of any events that have led to a material settlement or curtailment gain over 2016-17.

Sensitivity analysis

2.19 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 31 March 2017 of changes to the most significant actuarial assumptions.

2.20 The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

2.21 There is significant uncertainty associated with how members will retire in future for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in final salary scheme sections and so I have included an indication of the approximate effect (on the total past service liability) of all active members who move to the new scheme retire on average 1 year later.

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

2.23 Table H shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest ½%).

Table H: Sensitivity to significant assumptions

Change in assumption		**Approximate effect on total liability**	
Financial assumptions			
(i) discount rate*	+½% a year	- 10.0%	- £35 billion
(ii) earnings increases*	+½% a year	+ 2.0%	+ £7 billion
(iii) pension increases*	+½% a year	+ 8.5%	+ £30 billion
Demographic assumptions			
(iv) additional one year increase to life expectancy at retirement*		+ 3.0%	+ £11 billion
(v) all active members who move to the new scheme retire (on average) 1 year later		+ 0.0%	+ £0 billion
(vi) withdrawal rates a third higher		- 0.5%	- £2 billion

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

Garth Foster
Government Actuary's Department
26 June 2017

Revenue Account disclosures for year ended 31 March 2017

	Year ended 31 March 2017 (£ billion)
Analysis of amount charged to Pension cost	
Current service cost	7.8
Past service cost	0.1
Total operating charge	**7.9**
Analysis of the amount recognised in statement of financial position	
Expected return on scheme assets	-
Interest on pension liability	9.8
Net return	**9.8**
Analysis of amount recognised in Statement of Changes in Taxpayers Equity (SoCTE)	
Actual return less expected return on scheme assets	-
Experience gains arising on pension liabilities	(2.9)
Changes in mortality assumptions	-
Changes in demographic assumptions (other than mortality)	-
Changes to financial assumptions from 31 March 2016	70.2
Net actuarial losses recognised in SOCTE	**67.3**
Movement in surplus during the year	
Deficit at 31 March 2016	271.7
Current service cost	7.9
Benefits paid	(9.5)
Enhancements	-
Transfers In	-
Transfers Out	-
Past service costs	-
Settlement costs	-
Interest on pension liability	9.8
Actuarial (gains)/losses	67.3
Deficit at 31 March 2017	**347.2**

As required by the FReM, 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* 2010 (as amended) and *The Teachers' Pension Scheme Regulations 2014 (as amended)*.

3.2 The combined Accounts are prepared on an accruals basis and 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, application of resources, changes in taxpayers' equity and cash flows for the year then ended.

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 Accounts; and
- prepare the Accounts on a going concern basis.

3.4 HM Treasury has appointed Jonathan Slater, 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 the Accounting Officer is answerable, for keeping proper records and safeguarding the Scheme assets, are set out in Managing Public Money published by HM Treasury.

3.5 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.

3.6 As Accounting Officer, I confirm that the annual report and Accounts as a whole are fair, balanced and understandable. I take personal responsibility for the annual reports and Accounts and the judgments required to determine that they are fair, balanced and understandable.

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 On 3 May 2016 I was appointed as Accounting Officer for the Scheme from the outgoing Permanent Secretary, Chris Wormald. In doing so, I have taken assurance from an interim governance statement declaring he had reviewed the assurance frameworks within his areas of responsibility. He confirmed that he was satisfied with the governance, internal control and risk management of the Scheme at the time of his departure. This letter covered the period 1 April 2015 to 2 May 2016.

4.3 The administration of the TPS is currently 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

4.4 Strategy Board (SB): meets quarterly, chaired by Stephen Baker (Deputy Director, Teachers' and Teaching), 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.

4.5 Strategy Board Membership

Board Member	Meetings attended	Out of a possible
Department		
Stephen Baker	4	4
Jeff Rogerson	4	4
Sue Crane	4	4
Peter Springhall	3	4
Capita		
Susan Ring	4	4
Ian Butcher	4	4
David Heslop	4	4
Neil Brady (left November 2016)	2	2
Governance Secretary	4	4

4.6 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, Operations and Audit meetings.

Board Member	Meetings attended	Out of a possible
DfE		
Sue Crane	12	12
Peter Springhall	10	12
Richard Lees	12	12
Karen Cammack	7	7
Fiona Laundy	9	9
Capita		
David Heslop	12	12
Neil Brady (to October 2016)	7	7
Paula Graham (from February 2017)	2	2
Mark Richardson	10	12
Kerry Tate-Maskill	11	12
Neil Crombie	12	12
Keith Barker	12	12
Pete Henderson (to February 2017)	11	11
Governance Secretary	12	12

4.7 The TPS Risk Committee: meets monthly, chaired by the TPS 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.

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

4.9 Where appropriate, issues are escalated to the Department's boards.

The Department's boards and committees

4.10 The DfE Department Board (DB) provides strategic and operational leadership for the Department, by bringing together Ministerial and official leaders with non-executive Board Members from outside government. The DB is chaired by the Secretary of State and its membership includes Ministers, the Permanent Secretary, all Directors General, the Chief Executive of the Education and Skills Funding Agency, the Director of Strategy, and the non-executive board members.

4.11 The DB meets several times a year and advises 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.

4.12 The DB is supported in the delivery of its functions by three sub-committees – the Performance Committee (PC), the Audit and Risk Committee (ARC) and the Management Committee (MC).

4.13 Further details on the DB can be found in the Department's Governance Statement published in the Department's Consolidated Annual Report and Accounts, which are due for publication in July 2017.

4.14 Sub-committees report or escalate relevant issues to the DB. 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 DB. Although TPS issues were discussed a number of times at ARC meetings, no issues were escalated to the DB in 2016-17.

4.15 Management Committee: meets monthly and focuses on the Department's capacity and capability to achieve its strategic aims and objectives. It is chaired by the Permanent Secretary and includes non-executive board members.

4.16 Performance Committee: meets monthly and scrutinises progress against the performance and delivery of Departmental objectives. It is chaired by one of the non-executive board members.

4.17 Audit and Risk Committee: meets quarterly and provides assurance to the DB and Accounting Officer on audit, risk and control issues. It is chaired by the lead non-executive board member and its membership includes two independent financial specialists and the Chair of the Education and Skills Funding Agency Audit Committee.

Teachers' Pension Scheme Pensions Board (TPSPB)

4.18 The TPS Pension Board was established on 1 April 2015 in accordance with the Public Services Pensions Act 2013. The TPSPB is responsible for assisting the Scheme manager in ensuring compliance with the TPS Regulations, any other legislation relating to the governance and administration of this Scheme and any requirements imposed by the Pensions Regulator. The role of the TPSPB is to assist the Scheme manager by delivering challenge and oversight to the Department and the administrators, and thereby provide additional assurance that the Scheme is being administered effectively. The TPSPB, whose members are appointed by the Secretary of State for Education, consists of 4 member representatives, 4 employer representatives, one independent pensions specialist, 2 senior DfE officials, and an independent Chairman. Details and biographies of Board members can be found on the Teachers' Pensions website.[2]

4.19 In January 2017 the Minister agreed to extend membership of the TPSPB from four to five employer and member representatives to widen representation. The new Board members will join in 2017-18.

4.20 The TPSPB met formally three times in 2016-17 and will continue to meet on a quarterly cycle with meetings aligned to service delivery milestones and financial and assurance timelines.

[2] Full website address is https://www.teacherspensions.co.uk/public/governance/the-board.aspx

Board Member		Meetings attended	Out of a possible
Geoff Ashton	Independent Pensions Specialist	2	3
Jerry Glazier	Member Representative	3	3
Simon Judge (left November 2016)	DfE	2	3
Paul Kett (joined Sept 2016)	DfE	1	2
Trefor Llewellyn	Employer Representative	3	3
Lee Probert	Employer Representative	3	3
Michael Richardson CB	Chair	3	3
Alice Robinson	Member Representative	3	3
David Simmonds CBE (until November 2016)	Employer Representative	-	2
David Trace	Member Representative	3	3
Dave Wilkinson	Member Representative	2	3
David Butcher (from July 2016)	Employer Representative	2	2
Secretariat (DfE)			
Stephen Baker		2	2
Karen Cammack		3	3
Fiona Laundy		3	3
Jeff Rogerson		3	3
Kathryn Symms		3	3

4.21 The TPSPB provides extra assurance to the Accounting Officer, Scheme members and their employers on the effective management of the TPS. This is done through oversight of regular financial, operational administration and risk management reporting, and through challenge to both the administrator and the DfE, reinforcing existing mechanisms to ensure the voices of members and employers are represented at the core of delivery of the Scheme.

4.22 For 2016-17, building on knowledge gained from the TPSPB's first full year in office and from the Chairman's membership of the Pensions Regulator's Public Sector Consultative Forum, the TPSPB created three sub committees:

- Managing Risk and Internal Controls;
- Service Delivery and Maintenance of Data; and
- Information for Members and Communications.

The sub-committees provide additional scrutiny on the key aspects of the TPS which matter most to members and employers.

4.23 Having completed its first full year in office the TPSPB reviewed its place within the wider governance framework. During 2016-17 the TPSPB's assurance role has been fully integrated within the wider governance structure, with the Board and its new sub-committees being established within it. Furthermore they are also placed firmly in the relevant escalation routes to ensure proper information flows and the capacity to be involved in strategic decisions as they are taken – i.e. that the Board has the information and are given the time to be able to feed in views if they wish to.

Risk management and controls

4.24 The Department's approach is to assign risks to those best placed to manage them. While the Accounting Officer is the risk owner for the TPS, individual managers are responsible for managing risks associated with Scheme management and accounting, given their knowledge of the issues and being best placed to mitigate any potential impacts. The Director of Teachers' Group is responsible for the delivery of Scheme policy objectives, governance and administration of the Scheme; responsibility for the financial reporting and Scheme accounting lies with the Director of Finance and Commercial Group.

4.25 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 DB. No issues were escalated in 2016-17.

4.26 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.

4.27 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, incorporating membership from both the Department and the Scheme administrator, 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 Standards (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 agreed with the Department. The Department continually reviews plan delivery, as well as approving the scope of individual audit activity, and reviewing/challenging audit findings.
- During 2016-17 there were 9 GIA reviews:
  - RMH Environment – Improvement Required;
  - Service Level Management and Reporting – Effective;
  - Quality Management – Effective;
  - TPS Scheme Accounting – Improvement Required;
  - Financial Crime – Effective;
  - TPS Internal Fraud Follow Up Controls Evaluation – Effective;
  - Regulatory Compliance (Legal) – Effective;
  - IT Application Management (Hartlink Change) – Effective;
  - Business Continuity / Disaster Recovery – Effective.

  A tenth review, Data Integrity (Member Records) was deferred until 2017-18 to review the scope.

  There were 14 findings (11 Medium and 3 Low risk rated findings) made within the GIA reports released during the period April 2016 to March 2017. At 31 March 2017, all actions had been addressed and were closed.

GIA acknowledge there is an ongoing rectification project to correct pensioner records where there has been an underpayment of lump sum benefits (see paragraph 1.43). This was due to the failure to apply 'second bite' pensions increases during the period April 2011 – April 2015. A provision has been made in 2016-17 to cover this.

For the areas reviewed during the period, GIA confirmed the overall effectiveness of governance and risk management to be generally effective. This is supported by the fact there have been no 'Critical' or 'High' issues identified during the course of the year.

Where GIA identified weaknesses, they have confirmed that Capita management has taken appropriate measures to agree and remediate the identified weaknesses in the control environment.

During the period, the Capita GIA function has implemented a new strategy to enhance the effectiveness and resilience of Capita's internal audit services to its Financial Services regulated business. This has included the appointment of 5 new experienced Heads of Audit, and appointment of PwC as primary co-source partner for a period of 3 years with effect 1st September 2016, with the necessary broad range of expertise and resources to provide the bulk of internal audit resource under Capita GIA management direction, control, and supervision.

A Head of Business Assurance has been appointed within Capita Employee Benefits (CEB) reporting to the CEB Chief Executive Officer to enhance and reinforce the three lines of defence model. An assurance plan for 2017 has been produced for the TPS that encompasses GIA activities, and business assurance risk based activities to provide assurance to Capita/DfE stakeholders in accordance with contractual requirements and the PSIAS.

- 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 and also reported through to the TPSPB Managing Risk and Controls subcommittee. 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 provided by the Government Internal Audit Agency (GIAA) engages regularly with contract managers and GIA to review and challenge contract, risk and audit management.

4.28 The key financial controls are as described below:

- Fraud identification: Capita is required to develop and maintain effective controls to prevent, detect and deter fraud and its internal systems are subject to regular audit reviews. Monthly screening using data available through the Disclosure of Death Register Information was implemented on 1 May 2015 to identify potential cases. This replaces annual screening exercises.
- Debt Management: Scheme debt is reviewed as part of the monthly finance meetings between the Department and Capita to identify and improve existing processes for debt identification to reduce the overall debt position. Casework is managed through Capita's secure Hartlink system, with the Department receiving monthly reports on the status of all debt cases, and profile and trend analysis data outlining the wider debt position.
- Cash forecasts: are provided by Capita, using financial models based on historic data. The forecasts are subject to challenge by the Department and further challenge by HM Treasury and the Office for Budget Responsibility (OBR).
- Income and Expenditure forecasts: The Departmental finance team produce the Main and Supplementary Estimates (estimates) in line with the Spending Review requirements. The estimates are based upon the cash data provided by TP and modified to include information from the Scheme Actuary in respect of financial and demographic assumptions, and HMT in respect of interest rates and other fiscal assumptions. HMT provide further challenge to the estimates before they are approved by Parliament.
- Monthly Management Reports: show the movement between actual outturn and forecast movement are prepared by the department finance team and submitted for scrutiny to the department management board and HMT.

4.29 Pension policy changes that impact on the Scheme are determined by the Department following appropriate consultation. 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. TP also attends various forums with other public sector pension schemes to discuss good practice.

4.30 Following a review of internal processes, a number of recommendations made by GIA and GIAA have been implemented to address procedural and control weaknesses. GIAA is content that the revised controls reduce the risk of further fraudulent activity to an acceptable level. To provide additional assurance, the new operating model implemented as part of the mitigating controls was subject to review in financial year 2016-17 by GIA and the revised control environment was graded 'Effective'.

People management

4.31 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.

4.32 Capita has 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.

4.33 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 maintains a record of all individuals' skills and professional qualifications.

Corporate governance code

4.34 The Department 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.

Independent assurance

4.35 GIA is 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 2017 confirms that it did provide a satisfactory framework to enable effective risk management during that period.

4.36 They conclude that; other than the second bite pension increase issue noted in paragraph 4.27, they have not identified any errors, breaches or fraud, actual or impending, which may cause material financial or reputational damage to the Department.

4.37 During the course of 2016-17, Teachers' Pensions recorded 27 minor breaches of data security, mostly (24) where member service information was accidentally included in correspondence addressed to another person/address. The other instances were where an example form was supplied to a small volume of employers with member details included (member specific data should not have been available to view within this template). No Data Protection breach occurred and remedial actions were taken to ensure similar incidents do not recur. All breaches have been investigated and resolved.

Jonathan Slater **12 July 2017**
Accounting Officer

Parliamentary accountability and audit report

Statement of Parliamentary Supply

for the year ended 31 March 2017

Summary of Resource and Capital Outturn 2016-17

							2016-17		2015-16
				Estimate			Outturn		Outturn
	Note	Voted £000	Non-Voted £000	Total £000	Voted £000	Non-Voted £000	Total £000	Voted Outturn compared with Estimate: saving/ (excess) £000	Total £000
Departmental Expenditure Limit									
- Resource		-	-	-	-	-		-	-
- Capital		-	-	-	-	-		-	-
Annually Managed Expenditure									
- Resource	S1.1	11,432,174	-	11,432,174	11,342,029	-	11,342,029	90,145	12,125,167
- Capital		-	-	-	-	-	-	-	-
Total Budget		11,432,174	-	11,432,174	11,342,029	-	11,342,029	90,145	12,125,167
Non-Budget									
-Resource		-	-	-	-	-	-	-	-
Total		**11,432,174**	**-**	**11,432,174**	**11,342,029**	**-**	**11,342,029**	**90,145**	**12,125,167**
Total Resources		**11,432,174**	**-**	**11,432,174**	**11,342,029**	**-**	**11,342,029**	**90,145**	**12,125,167**
Total Capital		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**11,432,174**	**-**	**11,432,174**	**11,342,029**	**-**	**11,342,029**	**90,145**	**12,125,167**

Net cash requirement

	2016-17		2016-17	2015-16
Note	Estimate £000	Outturn £000	Outturn compared with Estimate: saving/(excess) £000	Outturn £000
S3	**3,399,560**	**3,306,342**	93,218	3,549,479

Administration costs

	2016-17		2015-16
Note	Estimate £000	Outturn £000	Outturn £000
	-	-	-

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

Explanations of variances between Estimate and Outturn are given in SoPS Note S1.1.1.

The notes on pages 39 to 41 form part of these Statements.

Notes to the Statement of Parliamentary Supply

S1. Net outturn

S1.1 Analysis of net resource outturn by section

	2016-17										2015-16 Outturn
	Outturn							Estimate			
	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	-	-	-	17,673,365	(6,331,336)	11,342,029	11,342,029	11,432,174	90,145	90,145	12,125,167
	-	-	-	17,673,365	(6,331,336)	11,342,029	11,342,029	11,432,174	90,145	90,145	12,125,167
Non-voted expenditure											
Section A	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Total spending in AME	**-**	**-**	**-**	**17,673,365**	**(6,331,336)**	**11,342,029**	**11,342,029**	**11,432,174**	**90,145**	**90,145**	**12,125,167**
Total Spending	**-**	**-**	**-**	**17,673,365**	**(6,331,336)**	**11,342,029**	**11,342,029**	**11,432,174**	**90,145**	**90,145**	**12,125,167**

S1. Net outturn (continued)

S1.1 Analysis of net resource outturn by section (continued)

S1.1.1 Explanation of the variation between Estimate and Outturn (net total resources)

The net resource outturn is £90 million (2015-16: £168 million underspend) lower than the net resource limit in the Supply Estimate. The underspend is the result of Scheme expenditure being £98m lower than forecast and Scheme income being £8m less than forecast. The outturn was 0.79% under the estimate. This reflects the work of the Department and Scheme administrator in order to ensure that the budget is taut and realistic and that there was not a breach of the Estimate.

S1.2 Analysis of net capital outturn by section

The Scheme does not have any capital expenditure.

S2. Reconciliation of net resource outturn to net expenditure

		SoPS Note	2016-17 Outturn £000	2015-16 Outturn £000
Total resource outturn in Statement of Parliamentary Supply		S1.1	11,342,029	12,125,167
Less:	Income payable to the Consolidated Fund	S4	122	41
Combined net expenditure in Combined Statement of Comprehensive Net Expenditure			**11,341,907**	**12,125,126**

S3. Reconciliation of net resource outturn to net cash requirement

	SoPS Note	Estimate £000	Outturn £000	2016-17 Net total outturn compared with Estimate savings/ (excess) £000	2015-16 Outturn £000
Resource Outturn	S1.1	**11,432,174**	**11,342,029**	**90,145**	**12,125,167**
Capital Outturn		**-**	**-**	**-**	**-**
Accruals to cash adjustments:					
Adjustments to remove non-cash items:					
New provisions and adjustments to previous provisions		(17,751,116)	(17,651,526)	(99,590)	(18,112,444)
Adjustments to reflect working balances:					
Increase in receivables		66,765	25,162	41,603	26,741
Decrease in payables		(3,391)	30,673	(34,064)	(14,539)
Use of provisions		9,655,128	9,560,004	95,124	9,524,554
Net cash requirement		**3,399,560**	**3,306,342**	**93,218**	**3,549,479**

S4. 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 2016-17 Income £000	*Receipts £000*	Outturn 2015-16 Income £000	*Receipts £000*
Operating income outside the ambit of the Estimate	122	*122*	41	*41*
Non-operating income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total amount payable to the Consolidated Fund	**122**	***122***	**41**	***41***

5. Parliamentary accountability disclosures

Audited information

Losses statement

	2016-17	2015-16
Total number of losses	2,747	3,757
Total value of losses £000	226	184

There were no individual losses in excess of £300,000.

Special payments

	2016-17	2015-16
Total number of special payments	-	-
Total value of special payments £000	-	-

Auditor's remuneration

The Comptroller & Auditor General is appointed by statute to audit these accounts and his certificate and report appears on pages 43 to 44. The notional fee incurred for the year is £93,800 (2015-16 £86,000) and relates to the statutory audit of the Scheme's accounts. The National Audit Office (NAO), as the Scheme's external auditors, provided no other services during this year.

Jonathan Slater **12 July 2017**
Accounting Officer

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 for the year ended 31 March 2017 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. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability Disclosures that is described in those disclosures as having been audited.

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 Schemes' 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 Report of the Managers, the Report of the Actuary and the Governance Statement 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.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 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 Schemes' affairs as at 31 March 2017 and of its 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 parts of the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Report of the Managers 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 and the parts of the Parliamentary Accountability Disclosures to be audited 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.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **14 July 2017**
Comptroller and Auditor General

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

Accounts

Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Principal arrangements			
Income			
Contributions receivable	3	(6,286,149)	(5,967,705)
Transfers in	4	(21,148)	(27,083)
Other pension income	5	(4,905)	(5,661)
Other pension income - Administration Fee		(19,256)	(11,171)
		(6,331,458)	**(6,011,620)**
Expenditure			
Service cost	6	7,865,639	8,234,301
Enhancements	7	7,530	10,178
Transfers in	8	21,148	27,083
Pension financing cost	9	9,752,406	9,762,105
Administration Expenses	10	18,466	19,515
		17,665,189	**18,053,182**
Net expenditure		**11,333,731**	**12,041,562**
Compensation arrangements			
Benefits payable	11	8,176	83,564
Net expenditure		**8,176**	**83,564**
Combined net expenditure		**11,341,907**	**12,125,126**

Other comprehensive net expenditure

	Note	2016-17 £000	2015-16 £000
Recognised losses for the year			
Actuarial loss	15.7	67,403,325	(12,318,660)
Total comprehensive net expenditure		**78,745,232**	**(193,534)**

The notes on pages 49 to 65 form part of these Accounts.

Combined Statement of Financial Position

as at 31 March 2017

	Note	2017 £000	2016 £000
Principal arrangements			
Current assets			
Receivables	12	501,804	476,642
Cash and cash equivalents	13	87,768	55,377
Total current assets		**589,572**	**532,019**
Current liabilities			
Overdraft	13	-	(66)
Payables	14.1	(466,365)	(465,033)
Total current liabilities		**(466,365)**	**(465,099)**
Net current assets, excluding pension liability		**123,207**	**66,920**
Provision for pension liability	15.4	(347,200,000)	(271,700,000)
Net liabilities, including pension liability		**(347,076,793)**	**(271,633,080)**
Compensation arrangements			
Payables	14.2	(107)	345
Provision for compensation payments	16	(235,027)	(240,180)
Net liabilities		**(235,134)**	**(239,835)**
Combined Schemes - Total net liability		**(347,311,927)**	**(271,872,915)**
Taxpayers' equity			
General Fund		(347,311,927)	(271,872,915)
Total equity		**(347,311,927)**	**(271,872,915)**

Jonathan Slater **12 July 2017**
Accounting Officer

The notes on pages 49 to 65 form part of these Accounts.

Combined Statement of Changes in Taxpayers' Equity

for year ended 31 March 2017

	Note	2016-17 General Fund £000	2015-16 General Fund £000
Balance at 1 April		(271,872,915)	(275,615,886)
Net Parliamentary Funding			
– drawn down		3,338,718	3,544,500
– deemed		55,270	60,248
Supply payable adjustments		(87,646)	(55,270)
CFERs payable to the Consolidated Fund	S4	(122)	(41)
Comprehensive net expenditure for the year		(11,341,907)	(12,125,126)
Actuarial (loss)/gain	15.7	(67,403,325)	12,318,660
Net Change in Taxpayer's equity		(75,439,012)	3,742,971
Balance at 31 March		**(347,311,927)**	**(271,872,915)**

The notes on pages 49 to 65 form part of these Accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Net expenditure		(11,341,907)	(12,125,126)
Adjustments for non-cash transactions	9 & 16	9,750,485	9,765,866
Increase in receivables – principal arrangements	12	(25,162)	(26,404)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure			
Increase in payables – agency arrangements	14.2	452	(337)
Increase in payables – pensions	14.1	1,332	9,525
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	14.1	(32,457)	5,013
Increase in pension provision	6 & 16	7,872,363	8,309,317
Increase in pension provision – enhancements and transfers in	7 & 8	28,678	37,261
Use of provisions – pension liability	15.5	(9,513,495)	(9,415,086)
Use of provisions – early retirement	16	(9,956)	(9,546)
Use of provisions – refunds and transfers	15.6	(36,553)	(99,921)
Net cash outflow from operating activities		**(3,306,220)**	**(3,549,438)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		3,338,718	3,544,500
Net Parliamentary financing		**3,338,718**	**3,544,500**
Net financing		**32,498**	**(4,938)**
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**32,498**	**(4,938)**
Payments of amounts due to the Consolidated Fund	14.1	(41)	(76)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		32,457	(5,014)
Cash and cash equivalents at the beginning of the year	13	55,311	60,325
Cash and cash equivalents at the end of the year	13	**87,768**	**55,311**

The notes on pages 49 to 65 form part of these Accounts.

Notes to the Accounts

1. Basis of preparation

The Accounts of the Teachers' Pension Scheme (England and Wales) have been prepared in accordance with the relevant provisions of the 2016-17 *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 an unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Department for Education 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 costs of administering the Scheme is met by Employers via a levy on Contributions and reported in these Accounts.

The Accounts of the Scheme show the financial position of the Scheme 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. Basis of preparation (continued)

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 Accounts. However, the Accounts recognise the liabilities arising from the central funding of compensation payments which amount to some £235 million (2015-16: £240 million) (see Note 16).

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 2.18 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. Accounting policies (continued)

e Income received from employers in respect of administration expenses are accounted for on an accruals basis.

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. Transfers out reduce the liability and are shown 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.

2.6 Administration fee and expenses

The costs of administering the Scheme are ultimately met by Employers via a levy of 0.08% of pensionable salary. This levy is shown as Income in the Statement of Comprehensive Net Expenditure and accounted for on an accruals basis. The expenses are paid for by DfE and recharged to the Scheme on a quarterly basis. These charges are shown under Expenditure in the Statement of Comprehensive Net Expenditure and are accounted for on an accruals basis.

2.7 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 rate charged (employers 16.4%) to the projected unit credit rate (32.3%) adopted by the Actuary.

2. Accounting policies (continued)

2.8 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.

2.9 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 rate of 1.37% (2015-16: 1.30%), real rate i.e. 3.60% (2015-16: 3.55%) including inflation.

2.10 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.

2.11 Bad Debt Provision

A bad debt provision has been made in respect of Employers who are either in Administration or are notified insolvent. The provision is released once Scheme managers are satisfied that there is no possibility of recovery from any source.

2.12 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at 0.24% real (2.80% gross). The actuary reviews the most recent actuarial valuation at the date of the Statement of Financial Position and updates it to reflect current conditions. Differences between the Actuary's figures shown on page 24 and the Annual Accounts are due to rounding.

2.13 Pension benefits payable

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

2. Accounting policies (continued)

2.14 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.

2.15 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 cash basis.

Where a member of the pension scheme may have the option of receiving a refund of contributions or, with additional service, a deferred pension, the transaction is accounted for as a decrease in the Scheme liability on a cash basis.

2.16 Lump sums payable on death in service

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

2.17 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.

2.18 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. Accounting policies (continued)

2.19 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.

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.

2.20 Administration expenses

The budget for all the administration expenses related to the Scheme in 2016-17 is included in the Supply Estimate. 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. These are collated by the Department and recharged to the Scheme on a quarterly basis. Employers pay a contribution to cover administrative expenses and this is covered in note 2.2e.

2.21 Changes to International Financial Reporting Standards

No changes to International Financial Reporting Standards have impacted on the Scheme Accounts.

3. Contributions receivable

	2016-17 £000	2015-16 £000
Employers	3,965,234	3,686,474
Employees:		
Normal	2,313,385	2,271,052
Purchase of added years	7,530	10,179
	6,286,149	**5,967,705**

£6,318 million contributions are expected to be payable to the Scheme in 2017-18.

4. Transfers in

	Note	2016-17 £000	2015-16 £000
Transfers in from other schemes		21,148	27,083
	15.4	**21,148**	**27,083**

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

	2016-17 £000	2015-16 £000
Contributions equivalent premiums	777	886
Recoveries of payments in lieu	11	4
Other income	122	41
Premature retirement compensation	3,995	4,730
	4,905	**5,661**

6. Service cost

	Note	2016-17 £000	2015-16 £000
Current service cost	15.4	7,809,576	8,013,126
Past service cost	15.4	56,063	221,175
		7,865,639	**8,234,301**

7. Enhancements

	Note	2016-17 £000	2015-16 £000
Employees:			
Purchase of added years		7,530	10,178
	15.4	**7,530**	**10,178**

8. Transfers in - additional liability

	Note	2016-17 £000	2015-16 £000
Transfers in from other schemes		21,148	27,083
	15.4	**21,148**	**27,083**

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	2016-17 £000	2015-16 £000
Net interest charge for the year		9,752,406	9,762,105
	15.4	**9,752,406**	**9,762,105**

10. Administration Expenses

	Note	2016-17 £000	2015-16 £000
Administration Fees		17,979	19,515
Bad Debt Provision		487	-
		18,466	**19,515**

11. 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	2016-17 £000	2015-16 £000
On retirement			
Contributions equivalent premiums		1,616	2,983
Premature retirement compensation[1]		7,445	75,774
Other		1,036	1,046
Unwinding of discount	16	(1,921)	3,761
		8,176	**83,564**

1. Charge in 2015-16 is due to the difference in interest rates between years (2015-16 -0.8%, 2014-15 2.2%).

12. Receivables

	2017 £000	2016 £000
Amounts falling due within one year:		
Pension contributions due from employers	297,725	287,396
Employees' normal contributions	172,554	166,006
Other receivables	30,403	21,001
Bad Debt Provision	(487)	-
	500,195	474,403
Recoverable compensation from employers (principal)	1,609	2,239
Total amounts falling due within one year	**501,804**	**476,642**

Included within the 2016-17 figures is £nil (2015-16: £nil) that will be due to the Consolidated Fund once the debts are collected.

There are no receivables falling due after more than one year (2015-16: £nil).

13. Cash and cash equivalents

	2017 £000	2016 £000
Balance at 1 April	55,311	60,325
Net change in cash balances	32,457	(5,014)
Balance at 31 March	**87,768**	**55,311**
The following balances at 31 March were held at:		
Cash at bank and in hand:		
Government Banking Service	86,800	54,327
Commercial banks and cash in hand	968	1,050
	87,768	**55,377**
Overdrafts:		
Commercial banks and cash in hand overdraft	-	(66)
	-	**(66)**
Balance at 31 March	**87,768**	**55,311**

14. Payables

14.1 Payables – principal arrangements

	2017 £000	2016 £000
Pensions	289,865	325,634
HMRC and voluntary contributions	83,542	78,498
Other payables	5,190	5,590
	378,597	**409,722**
Amounts issued from the Consolidated Fund for supply but not spent at year end	87,646	55,270
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	122	41
Receivable	-	-
	87,768	**55,311**
Total payable at 31 March	**466,365**	**465,033**

14.2 Payables - compensation payments agency

	2017 £000	2016 £000
Balance at 1 April	(345)	(8)
Receipts from employers	26,940	27,091
Payments to employees	(26,488)	(27,428)
Balance at 31 March	**107**	**(345)**

15. Provisions for pension liabilities

15.1 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 31 March 2017. The Report of the Actuary on pages 17 to 24 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 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 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.

15. Provisions for pension liabilities (continued)

15.1 Assumptions underpinning the pension liability (continued)

The key assumptions used by the actuary were:

	2017 %	2016 %	2015 %	2014 %	2013 %
Rate of increase in salaries[1]	4.55	4.2	4.2	4.5	3.95
Rate of increase in pensions in payment and deferred pensions	2.55	2.2	2.2	2.5	1.70
Inflation assumption[2]	2.55	2.2	2.2	2.5	1.70
Nominal discount rate	2.80	3.60	3.55	4.35	4.10
Discount rate net of price inflation	0.24	1.37	1.3	1.8	2.35

	2017 Years	2016 Years	2015 Years	2014 Years	2013 Years
Life expectancy for those retiring at 31 March aged 60					
Males	29.4	29.3	29.5	29.4	29.2
Females	31.7	31.6	32.2	32.1	32.8
	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	31.4	31.3	31.6	31.5	31.6
Females	33.6	33.5	34.2	34.1	35.1
	Years	Years	Years	Years	Years
Life expectancy for those retiring at 31 March aged 65					
Males	24.4	24.3	24.5	24.4	24.4
Females	26.6	26.5	27.1	27.0	27.8
	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	26.3	26.2	26.5	26.4	26.6
Females	28.4	28.3	29.1	29.0	30.0

[1] Short term adjustments have been made to this assumption.
[2] The inflation assumptions shown are based on CPI.

15. Provisions for pension liabilities (continued)

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 both professional expertise and data from Her Majesty's Treasury 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.

15.1 Assumptions underpinning the pension liability used (continued)

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 nominal discount rate 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 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 below.

15.2 Analysis of the provision for pension liability

	2017 £bn	2016 £bn	2015 £bn	2014 £bn	2013 £bn
Value of liability in respect of:					
Pensions in payment	151.6	136.5	143.3	128.5	119.5
Deferred members	28.2	21.0	27.7	24.3	19.6
Active members	167.4	114.2	104.5	97.4	85.8
Total liabilities*	**347.2**	**271.7**	**275.5**	**250.2**	**224.9**

*Figures in this report have in general been rounded for presentational purposes, so the totals may not add up

15. Provisions for pension liabilities (continued)

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 or child qualifies for benefits. 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.

15.2 Analysis of the provision for pension liability (continued)

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 15.4 and 15.7. 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.

15.3 Sensitivity analysis

Table showing the indicative effects on the total liability as at 31 March 2017 of changes to assumptions (rounded to the nearest ½%).

Change in Assumption		Approximate effect on total liability	
Financial Assumptions			
Discount rate[1]	+ ½% a year	(10.0%)	(£35 billion)
Earnings increases[1]	+ ½% a year	+2.0%	+£7 billion
Pension increases[1]	+ ½% a year	+8.5%	+£30 billion
Demographic assumptions			
Additional one year increase to life expectancy at retirement[1]		+3.0%	+£11 billion
All active members who move to new scheme retire (on average) 1 year later		+0.0%	+£0 billion
Withdrawal rates a third higher		(0.5%)	(£0.2 billion)

[1] Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

15. Provisions for pension liabilities (continued)

15.4 Analysis of movements in the Scheme liability

	Note	2016-17 £000	2015-16 £000
Scheme liability at 1 April		271,700,000	275,500,000
Current service cost	6	7,809,576	8,013,126
Past service cost	6	56,063	221,175
Pension financing cost	9	9,752,406	9,762,105
Enhancements	7	7,530	10,178
Pension transfers in	8	21,148	27,083
Benefits payable	15.5	(9,513,495)	(9,415,086)
Pension payments to and on account of leavers	15.6	(36,553)	(99,921)
Actuarial loss	15.7	67,403,325	(12,318,660)
Scheme liability at 31 March		**347,200,000**	**271,700,000**

During the year ended 31 March 2017, members' contributed an average of 9.5% of pensionable pay (2015-16: 9.6%). Employers currently contribute 16.4% of pensionable pay, (2015-16: 15.44% being 14.1% from 1 April 2015 to 31 August 2015 and 16.4% from 1 September 2015 to 31 March 2016).

15.5 Analysis of benefits paid

	2016-17 £000	2015-16 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	8,231,789	8,034,065
Commutations and lump sum benefits on retirement	1,281,706	1,381,021
Total benefits paid	**9,513,495**	**9,415,086**

15.6 Analysis of payments to and on account of leavers

	2016-17 £000	2015-16 £000
Refunds to members leaving service	4,954	4,894
Individual Transfers to other schemes	31,599	95,027
Total payments to and on account of leavers	**36,553**	**99,921**

15.7 Analysis of actuarial (gains)/losses

	2016-17 £000	2015-16 £000
Experience gain arising on the Scheme liabilities	(2,796,675)	(3,218,660)
Changes in mortality assumptions underlying the present value of Scheme liabilities	-	(5,900,000)
Changes in demographic assumptions (other than mortality) underlying the present value of Scheme liabilities	-	-
Changes in financial assumptions underlying the present value of Scheme liabilities	70,200,000	(3,200,000)
Total actuarial (gain)/loss	**67,403,325**	**(12,318,660)**

15.8 History of experience (gains)/losses

£000	2016-17	2015-16	2014-15	2013-14	2012-13
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	(2,796,675)	(3,218,660)	(1,870,798)	2,208,156	1,269,624
Percentage of the present value of the Scheme liabilities	0.81%	(1.18%)	(0.68%)	0.88%	0.56%
Total amount recognised in Statement of Changes in Taxpayers' Equity Amount (£000)	67,403,325	(12,318,660)	15,629,202	18,008,156	17,069,624
Percentage of the present value of the Scheme liabilities	(19.41%)	(4.53%)	5.67%	7.20%	7.59%

16. Provision for compensation payments

	Note	2016-17 £000	2015-16 £000
Balance at 1 April		240,180	170,949
Additional provisions		6,724	2,332
Use of provision in year		(9,956)	(9,546)
Unwinding of discount	11	(1,921)	3,761
Step change in discount rate		-	72,684
		235,027	**240,180**

17. 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.

18. 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 2016-17 is £47.1 million per annum (2015-16: £71.1 million). This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

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 have undertaken any material transactions with the Scheme during the year.

20. Events after the reporting period

There have been no events between the Statement of Financial Position date and the date the accounts were authorised for issue requiring an adjustment to accounts.

The accounts were authorised for issue by Jonathan Slater (Accounting Officer) on the date they were certified by the Comptroller & Auditor General.

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