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# **Teachers' Pension Scheme (England and Wales)**

## **Annual Accounts 2011–12**

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# **Teachers' Pension Scheme (England and Wales)**

## **Annual Accounts 2011–12**

**(For the year ended 31 March 2012)**

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

*Ordered by the House of Commons to be printed  
28 June 2012*

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**TEACHERS' PENSION SCHEME: ENGLAND AND WALES****REPORT OF THE MANAGERS**

Accounts for the year ended 31 March 2012.

**Introduction**

The Teachers' Pension Scheme (TPS) is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Department for Education (DfE) and is governed by statutory regulations. The current regulations are the Teachers' Pensions Regulations (amended) 2010 (SI2010/990) (the Regulations). Membership of the scheme is voluntary and is open to 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 Scheme's Actuary and approved by the DfE. The contributions partially fund payments made by the Scheme, the balance of funding being provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the DfE and reported in DfE's financial statements. The scheme is managed by the Department for Education and administered under contract by Capita Business Services Ltd.

The financial statements of the Scheme show the financial position of the TPS 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 the 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 financial statements should be read in conjunction with that Report.

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

**EMPLOYERS**

Any organisation in England and Wales that employs teachers can join the TPS. There were 3,779 employers participating in 2011-12 split into the following categories:

174	Local Authorities (LAs)
414	Further Education institutions
68	Higher Education institutions
3,123	Independent establishments (including 1,645 Academies, 5 City Technology Colleges and 1,473 others)

**ADMINISTRATION**

Following a competitive tendering exercise Capita were awarded a new contract to manage the TPS. The new contract came into effect in 1 October 2011.

**PERFORMANCE AND POSITION***Net Cash Requirement*

The TPS is an unfunded pension scheme, in which payments from the scheme are funded by contributions from current employees and employers with the difference between these contributions and scheme expenditure financed by the Exchequer.

In 2011-12, the net cash requirement was £3,078,689,000 (2010-11: £2,533,448,000), £63,458,000k (2%) within the net cash requirement limit in the Supply Estimate forecast of £3,142,147,000.

The Department continues to work closely with the administrator, with input from the Government Actuary's Department (GAD), to refine the forecasts to take into account new emerging trends and anticipated changes in behaviour as a result of perceived and actual future changes to the pension scheme.

#### *Resource Outturn to Supply Estimate*

The Statement of Parliamentary Supply provides information on how the Scheme has performed against the Parliamentary controls on resources and cash expended by the Scheme.

The Statement of Parliamentary Supply shows that the Scheme has not breached any of the Parliamentary controls. The Scheme is reporting, in the Statement of Parliamentary Supply a resource outturn of £11,709,947,000 (2010-11: -£10,413,781,000) which was within the Supply Estimate net control total of £11,732,780,000. The underspend is the result of the Scheme income being £37 million below forecast, due to a slight fall off in contributions received. Resource expenditure was £60m below expectations as pension expenditure and transfers were below those expected over the final 4 months of the year. At 2% within the Estimate figure this reflects the work which the Department and the Scheme administrator have put in to ensure that forecasts of expenditure and receipts are taut and realistic.

#### *Financial Position*

The Scheme had net liabilities of £200.7bn (2010-11: £192.5bn) reflecting, amongst other factors, the small change in discount rate from 2.9% (2010-11) to 2.8%.

#### *Scheme Valuation*

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years." The Regulations require a valuation to be completed no later than 4 years after the previous valuation.

The last formal actuarial valuation undertaken for the Teachers' Pension Scheme was completed in 2004. Consequently, a formal actuarial valuation would have been due by 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using full membership data as at 2008, such as would have been provided for a formal valuation, updated to reflect the current Scheme membership. In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

#### *Influences on Performance in 2011-12*

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

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

**CHANGES TO THE TEACHERS' PENSION SCHEME**

There were no changes to the contribution rates during 2011-12.

From 1 April 2012 tiered contribution rates will be used. The rates for each salary band are:

£1 – £14,999	6.4%	£40,000 – £74,999	8.0%
£15,000 – £25,999	7.0%	£75,000 – £111,999	8.4%
£26,000 – £31,999	7.3%	£112,000 or more	8.8%
£32,000 – £39,999	7.6%		

Benefits payable were increased by 3.1% from 6 April 2011 as a consequence of the cost of living increasing, based on the Consumer Price Index (CPI).

**CHANGES TO THE PREMATURE RETIREMENT COMPENSATION (PRC) SCHEME**

During the year, compensation payments were increased by 3.1% from 6 April 2011 in line with pensions.

**FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS**

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

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

In 2011-12 the aggregate amounts of AVC investments are as follows:

**The Prudential**

	<b>2011-12</b>	<b>2010-11</b>
	<b>£000</b>	<b>£000</b>
<b>Movements in the year:</b>		
Balance at 1 April	1,778,665	1,843,028
New investments	182,134	187,344
Sales of investments to provide pension benefits	(264,902)	(251,868)
Changes in market value of investments	(211)	161
<b>Balance at 31 March</b>	<b>1,695,686</b>	<b>1,778,665</b>
Contributions received to provide life cover	1,243	1,395
Benefits paid on death	3,291	3,154

**EVENTS AFTER THE REPORTING PERIOD**

There have been no events after the reporting period that would have a material impact on the accounts (see note 25).



**MEMBERSHIP STATISTICS**

These statistics rely on data provided by employers via a statutory return to the Scheme administrator. Please note that the figures for active and deferred members relate to the financial year ended 31 March 2011, the latest data available. As at 20 April 2012, 41,344 teachers' records had not yet been completely verified by employers. Of these records the majority relate to active members.

The figures for pensions in payment are for year ended 31 March 2012. This is the latest data available.

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

**Active members**

	Active members brought forward from 31 March 2010	658,351
	Adjustments due to data received post 31 March 2010	(19,226)
	<b>Total active members at 1 April 2010</b>	<b>639,125</b>
Add:	New entrants in the year	45,626
	Re-entrants in the year	37,995
	Transfers in	244
	Opted in	945
Less:	Premature retirements	(1,323)
	Age and infirmity retirements	(11,472)
	Actuarially reduced benefits	(7,991)
	Opted out	(3,669)
	Other exits (including transfers out)	(44,568)
	Deaths	(367)
	<b>Active members at 31 March 2011</b>	<b>654,545</b>

**Deferred members**

	Deferred members brought forward from 31 March 2010	426,496
	Adjustments due to data received post 31 March 2010	11,665
	<b>Total deferred members at 1 April 2010</b>	<b>438,161</b>
Add:	Previously active members no longer in the scheme	45,520
Less:	Deaths	(161)
	Return of contributions	(1,271)
	Re-entry to service	(31,545)
	Transfers out	(1,314)
	Awards out of service	(9,667)
	<b>Deferred members at 31 March 2011</b>	<b>439,723</b>

Due to timing differences that exist between when active and deferred membership data for the year ended 31 March 2011 is available compared to the pensioner data for the same period there is an un-reconciled difference between the active and deferred member becoming pensioners as reported in the 2011-12 accounts compared to the new pensioners reported in the 2010-11 accounts.

**Pensions in payment**

	Pensions at the start of the year – brought forward from 31 March 2011	
	– members	532,777
	– dependants	55,664
	<b>Total</b>	<b>588,441</b>
	Adjustments made to data received post 31 March 2011	
	– members	3,015
	– dependants	2,232
	<b>Total</b>	<b>5,247</b>
	Total pensioners in payment as 1 April 2011	
	– members	535,792
	– dependants	57,896
	<b>Total</b>	<b>593,688</b>
Add:	Members retiring in the year	
	– Age\Premature pensions	20,309
	– Infirmity pensions	456
	– Actuarially reduced benefits	11,067
	– New dependants	31,832
		3,722
	<b>Total members retiring in year and dependants</b>	<b>35,554</b>
Less:	Cessations in year – Members	(9,329)
	Age/Premature pensions	(1,758)
	Infirmity pensions	(313)
	Actuarially reduced benefits	(11,400)
	Cessations in year – Dependants	(2,132)
	<b>Total cessations in year</b>	<b>(13,532)</b>
	<b>Pension in payment at 31 March 2012</b>	
	– members	556,224
	– dependants	59,486
	<b>Total</b>	<b>615,710</b>

The Managers, Administrators and Actuary are listed below

**MANAGERS**

*Accounting Officer*

Chris Wormald  
Department for Education  
Sanctuary Buildings  
Great Smith Street  
LONDON  
SW1P 3BT

*Scheme Manager and Premature Retirement Scheme Manager (contact)*

Peter Springhall  
Department for Education  
Mowden Hall  
Staindrop Road  
DARLINGTON  
DL3 9BG

**ACTUARY**

Pension Scheme Actuary  
Government Actuary's Department  
Finlaison House  
15-17 Furnival Street  
LONDON  
EC4A 1AB

**BANKERS**

Citibank N.A  
Citigroup Centre  
Canada Square  
Canary Wharf  
London  
E14 5LB

**LEGAL ADVISERS**

Legal Advisor's Office  
Department for Education  
Sanctuary Buildings  
Great Smith Street  
LONDON  
SW1P 3BT

**AUDITOR**

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
LONDON  
SW1W 9SP

**ADMINISTRATOR OF THE SCHEME**

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

**Further information**

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

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

**Audit**

As Accounting Officer, as far as I am aware there is no relevant audit information of which the Scheme's auditors are 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 auditors are aware of that information.

*Chris Wormald*  
Accounting Officer

25 June 2012

## Teachers' Pension Scheme (England and Wales)

Accounting Year Ended 31 March 2012

**REPORT OF THE ACTUARY****Introduction**

1. This statement has been prepared by the Government Actuary's Department at the request of Department for Education ('the Department'). It summarises the pensions disclosures required for the 2011-12 Annual Accounts of the Teachers' Pension Scheme (TPS or 'the scheme').
2. The TPS is a final salary defined benefit scheme, the rules of which are set out in The Teachers' Pensions Regulations 2010 (SI 2010/990) and subsequent amendments. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).
3. The statement is based on an assessment of the liabilities as at 31 March 2008, with an approximate updating to 31 March 2012 to reflect known changes.

**Membership data**

4. Tables A to C summarise the principal membership data as at 31 March 2008 and 31 March 2012 used to prepare this statement.

**Table A – Active members**

	31 March 2008		31 March 2012
	Number (thousands)	Total salaries* (pa) (£ million)	Total salaries* (pa) (£ million)
	689	24,690	26,690

\* Full-time equivalent

**Table B – Deferred members**

	31 March 2008		31 March 2012
	Number (thousands)	Total deferred pension† (pa) (£ million)	Total deferred pension† (pa) (£ million)
	334	830	1,000

† Including increases applying in April of year

**Table C – Pensions in payment**

	31 March 2008		31 March 2012
	Number (thousands)	Total pension† (pa) (£ million)	Total pension† (pa) (£ million)
	523	4,980	6,740

† Including increases applying in April of year

## Methodology

5. The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2011-12 Annual Accounts. The contribution rate for accruing costs in the year ended 31 March 2012 was determined using the PUCM and the principal financial assumptions applying to the 2010-11 Annual Accounts.
6. This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include 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

7. The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2012, the assumed rate of return in excess of pension increases was decreased from 2.90% to 2.80% a year, and the assumed rate of return in excess of earnings was decreased from 0.70% a year to 0.60% a year. In addition, with effect from 31 March 2012, the assumed rate of future pension increases is 2.00% a year and the assumed nominal rate of salary growth is 4.25% a year (changed from 2.65% and 4.90% respectively as at 31 March 2011).

**Table D – Principal financial assumptions**

<b>Assumption</b>	<b>31 March 2012</b>	<b>31 March 2011</b>
Rate of return (discount rate)	4.85%	5.60%
Rate of return in excess of:		
Pension increases	2.80%	2.90%
Earnings increases	0.60%	0.70%
Expected return on assets:	n/a	n/a

8. The pension increase assumption as at 31 March 2012 is based on the Consumer Price Index (CPI) expectation of inflation.

## Demographic assumptions

9. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
10. The standard mortality tables known as S1NXA are used but with adjustments derived from recent scheme experience. An age rating of -1 year applies to male pensioners, both current and future (that is they are assumed to experience the mortality rates given in the standard tables but at ages one year younger than their actual age). An age rating of -2 years applies to future female pensioners. For current female pensioners, an age rating of -2 years applies to the younger pensioners increasing to +1 year for the older pensioners. Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom. These assumptions are the same as adopted for the 2010-11 Annual Accounts, except for the allowance for mortality improvements.
11. The reforms to the scheme due to be implemented in April 2015 and the increased member contributions being phased in from April 2012 may affect the behaviour of members, eg members subject to a later normal retirement age for accrual after 2015 might be expected to retire later. Given the uncertainty surrounding the potential impact of these changes on member behaviour, the Department has decided to make no allowance for them for the purposes of the 2011-12 Annual Accounts.

12. The contribution rate used to determine the accruing cost in 2011-12 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2010-11 Annual Accounts.

### Liabilities

13. Table E summarises the assessed value as at 31 March 2012 of benefits accrued under the scheme prior to 31 March 2012 based on the data, methodology and assumptions described in paragraphs 3 to 12. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

	£ billion				
	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(200.6)	(192.4)	(223.9)	(168.6)	(176.5)
Surplus/(Deficit)	(200.6)	(192.4)	(223.9)	(168.6)	(176.5)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

### Pension cost

14. The cost of benefits accruing in the year ended 31 March 2012 (the Current Service Cost) is based on a standard contribution rate of 24.7% of pensionable pay. Members contributed 6.4% of pensionable pay. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account contributions paid by members. The corresponding figures for 2010-11 are also included in the table.

**Table F – Contribution rate**

	Percentage of pensionable pay		
	1 April 2011 to 31 March 2012	22 June 2010 to 31 March 2011	1 April 2010 to 21 June 2010
Standard contribution rate	24.7%	29.3%	32.8%
Members' contribution rate	6.4%	6.4%	6.4%
Employers' estimated share of standard contribution rate	18.3%	22.9%	26.4%

15. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Annual Accounts is not the same as the actual rate of contributions payable by employers, currently 14.1%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Annual Accounts and for scheme funding purposes is the discount rate net of pension increases, which is 2.80% pa for the 2011-12 Current Service Cost compared with 3.5% pa for the existing scheme funding rate (note that the discount for scheme funding purposes has recently been reviewed and reduced to 3% but this does not affect the current rate of contributions). A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Annual Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

16. The pensionable payroll for the financial year 2011-12 was £23.3 billion (derived from contributions payable by employers and members over the year). Based on this information, the accruing cost of pensions in 2011-12 (at 24.7% of pay) is assessed to be £5.8 billion. There is no past service cost and so this is the total pension cost for 2011-12.

*Matt Wood*  
Government Actuary's Department  
8 May 2012



**APPENDIX: REVENUE ACCOUNT DISCLOSURES**

Revenue Account disclosures for year ended 31 March 2012

	<b>£ billion</b>
	<b>Year ended 31 March 2012</b>
<b>Analysis of amount charged to Pension cost</b>	
Current service cost	5.8
Past service cost	0
<b>Total operating charge</b>	<b>5.8</b>
<b>Analysis of the amount recognised in statement of Financial Position</b>	
Expected return on scheme assets	0.0
Interest on pension liability	(10.7)
<b>Net return</b>	<b>(10.7)</b>
<b>Analysis of amount recognised in Statement of Change in Taxpayers' Equity (SCITE)</b>	
Actual return less expected return on scheme assets	0.0
Experience gains and losses arising on pension liabilities	1.4
Changes in mortality assumptions	0.6
Changes in demographic assumptions (other than mortality)	0.0
Changes to financial assumptions from 31 March 2012	(1.6)
<b>Net actuarial gains/(losses) recognised in SCITE</b>	<b>0.4</b>
<b>Movement in deficit during the year</b>	
Deficit at 1 April 2011	(192.4)
Current service cost	(5.8)
Benefits paid during the year	7.8
Past service costs	0.0
Net transfers in	0.1
Interest on pension liability	(10.7)
Actuarial gains/(losses)	0.4
<b>Deficit at 31 March 2012</b>	<b>(200.6)</b>

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

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 5 of the Government Resources and Accounts Act 2000, HM Treasury has directed the Teachers' Pension Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The financial statement also satisfies the requirements of the Teachers' Pensions Regulations (amended) 2010 (SI 2010/990).

The combined financial statements must give a true and fair view of the state of affairs of the scheme at the year end of the net resource outturn and cash flows for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them. In addition, the financial statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

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

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

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

## GOVERNANCE STATEMENT FOR THE TEACHERS' PENSION SCHEME

Covering the period 1 April 2011 to 31 March 2012

### Scope of Responsibility

1. I became Permanent Secretary and Accounting Officer of the Department for Education on 26 March 2012, following the departure of Sir David Bell on 16 December 2011 and the interim appointment of Tom Jeffery from 17 December 2011 to 25 March 2012. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aim and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. This includes the management of funds associated with the Teachers' Pension Scheme (TPS).
2. The administration of the TPS has been contracted out to Capita Business Services Ltd, although the services are delivered by Capita Life and Pensions Services Ltd. As Accounting Officer, I have overall responsibility for ensuring that the contracted administrator is managing the risks effectively and for reviewing the effectiveness of the administrator's systems of internal control.

### Governance and Board Structure

3. The TPS is governed at two levels. Issues are initially discussed at board meetings attended by representatives from the Department and the administrator. Where necessary issues can be escalated to the Department's boards.

### The Department's Boards

4. The **Departmental Board (DB)** provides strategic and operational leadership of the Department, by bringing together Ministerial and official leaders with Non-Executive Members from outside government. The Board is chaired by the Secretary of State and its membership includes the Ministers, the Permanent Secretary, all Directors General, the Director of Finance and Commercial and the Non-Executive Members. The Board meets every six weeks and operates collectively by advising on: strategic issues and the deliverability of policies; and scrutinising and challenging the Department on its performance and how well it is achieving its objectives.
5. The **Executive Management Board (EMB)** has a core membership of the Permanent Secretary, the Directors General and, from 1 September 2011, the Director of Finance and Commercial Group. EMB focuses on providing collective and corporate leadership by visibly and transparently:
  - taking forward the Department's agreed strategic aims and objectives;
  - allocating and managing financial and human resources;
  - monitoring performance;
  - setting standards and values;
  - maintaining a transparent system of effective controls (including internal controls);
  - managing risk; and
  - leading and overseeing the process of change and innovation to enable the Department to deliver.
6. The **Delivery Assurance, Risk and Audit Committee (DARAC)** was established in April 2011. Chaired by the lead Non-Executive Board Member, DARAC provides independent scrutiny and challenge of key delivery programmes and risk areas within the Department. It provides advice to the Accounting Officer and Board on risk management strategies, financial accounts, financial and performance management, as well as internal and external audit.
7. Further details on the Department's boards can be found in the main Governance Statement published in the Department for Education's (DfE) Annual Report and Accounts.

**TPS Boards**

8. The **Strategy Board** (SB) meets once a quarter. It is responsible for determining, and reviewing delivery progress of, the strategic direction and the administration services. The strategic direction takes account of i) Departmental/Government pension priorities, ii) progress towards and achievement of contractual outcomes, and iii) identified innovations that, if implemented, would deliver more effective administration for customers and/or deliver service efficiencies.

9. Board Member	Meetings attended	Out of a possible
<b>DfE Officials</b>		
Richard Symms	4	4
Paul Bleasdale	2	2
Peter Springhall	4	4
Lynda Keith	1	2
Neil Archbold	2	2
<b>Capita</b>		
Mike Addenbrooke	1	2
Peter Thomas	2	2
Colin Fowler	2	2
Paul James	2	2
Sandra Sellers	1	1
Chris Barrett	3	3
Elizabeth Ford	1	1
Karen Clements	2	2
Andrea Waller	2	2
Tim Moran	2	2
John Bailey	2	2
Ian Butcher	1	2
Pete Henderson	2	2
Josey Evans	2	2
James Fuller	1	2

10. The **Service Delivery Board** (SDB) meets every month. The SDB is responsible for managing and monitoring delivery of the strategic direction set by the SB on a "day-to-day" basis and addressing risks/issues that may impact on delivery. The SDB also monitors core pension administration delivery (see below).

11.	<b>Board Member</b>	<b>Meetings attended</b>	<b>Out of a possible</b>
	<b>DfE Officials</b>		
	Peter Springhall	10	11
	Neil Archbold	6	6
	Jeff Rogerson	3	5
	Richard Lees	4	5
	Harjit Guram	5	5
	Anthony Wilson	4	8
	Karen Cammack	1	2
	Karen Cheeseman	2	2
	Lisa Ward	2	3
	<b>Capita</b>		
	Andrea Waller	4	4
	John Bailey	7	7
	Mark Richardson	6	6
	Elizabeth Ford	3	3
	Samantha King	9	10
	James Fuller	3	5
	Chris Barrett	5	7
	Chris Dixon	5	5
	Mike Povey	7	7
	Jennie Boddy	1	1
	Diane Wallis	1	1
	Chris Kemp	4	4
	Tim Moran	3	5
	Pete Henderson	5	5
	Josey Evans	6	6
	Emma Cripps	2	2
	Joanne Dudley	1	1
	Emma Jobson	1	1
	Leigh Bosworth	2	3
	Andrew Allwood	2	2
	Colin Fowler	1	1
	Andy Myers	2	2
	Mark Johnston	1	1
	Sandra Sellers	5	6
	Judith Gordon	3	3
	Paul James	3	4
	Julia Baynes	1	1

12. The **Operational Performance Board** (OPB) was introduced as part of the revised governance arrangements contained in the contract to administer the scheme re-let to Capita Business Services Ltd in October 2011. The OPB meets every month and provides a forum for discussing the administrator's delivery of core pension administration service, reviewing performance against service levels and quality or service provided to customers. From March 2012 the meeting was combined with the Service Delivery Board.

13.	<u>Meetings attended</u>	<u>Out of a possible</u>
<b>Board Member</b>		
<b>DfE Officials</b>		
Peter Springhall	3	4
Neil Archbold	4	4
Harjit Guram	3	4
<b>Capita</b>		
John Bailey	4	4
Chris Barrett	1	4
Mark Richardson	4	4
Pete Henderson	4	4
Josey Evans	4	4
Mike Povey	3	4
Andrea Waller	3	3

14. The attendee lists reflect the transfer from one set of governance arrangements to another in line with the new administration contract that went live in October 2011 and Capita delivering transitional activities.. A review of the required attendees is ongoing which may reduce the number of people who attend these meetings.

#### **Internal Control and Risk Management**

15. As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance of the TPS. My review of the governance arrangements is informed by the work of the Department's internal auditors and executive managers who have responsibility for the development and maintenance of the governance framework, and comments made by the external auditors in their management letter and other reports. Additionally, specific to the TPS, my review is informed by the internal auditors of the administrator and by the administrator's staff. I am also advised by the Board and the Delivery Assurance, Risk and Audit Committee (DARAC) by exception.
16. The Department takes seriously the potential impact that fraud can have on financial control and achievement of objectives. The Fraud Sub Committee, which meets annually, has oversight of fraud within the Department and reports to DARAC, giving assurance that fraud and financial irregularity are being managed and monitored effectively.
17. The Head of Internal Audit (HIA) produces periodic reports on Internal Audit's findings, their assessment of risk management, corporate governance and control standards in the key corporate risk and delivery areas. I meet with the HIA monthly to discuss progress in addressing major concerns. The HIA prepares biannual reports which include a professional opinion on the effectiveness of the overall systems of internal control, risk management and governance within the Department. The Department's internal auditors' work programme is approved by DARAC.
18. The Department's approach is to assign risks to those best placed to manage them. Therefore, individual managers are responsible to the risk owners (Directors General and Directors) for managing risk as they have knowledge of the issues involved and can best mitigate the potential impact. The risk management process is built into the TPS business planning and reporting processes, evident in the governance and audit mechanisms that monitor compliance with, and 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, identified by exception, are discussed by DARAC, EMB and ultimately to the DB. No issues were escalated in 2011-12.

19. The Contract and Finance Management Team (CFMT), within the Terms and Conditions Division, maintains an internal risk register that encompasses internal management and delivery of the Department's policy and finance objectives, making effective use of the TPS administrator. Capita maintains a separate risk register that focuses on delivery of administrative functions which enable the Department to fulfil its policy and finance objectives. The approach provides separate risk governance over 'business as usual', transition and pension scheme reform aspects, but each business aspect is required to take account of the impact on the other. Risk registers are reviewed in preparation for and presented to the SB, SDB and OPB, with issues being raised and escalated as appropriate. Discussion is focused on high level risks and ensuring appropriate countermeasures and/or contingencies are in place to mitigate risk. As well as the content, the structure of the separate registers is reviewed on an ongoing basis to ensure they comply with current risk management good practice.
20. The system of internal control, which accords with HM Treasury guidance, was in place for the TPS for the year ending 31 March 2012 and will continue up to the date of approval and publication of both the TPS Annual Accounts and Departmental Annual Report.
21. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure, 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 ongoing 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.
22. The Deputy Director responsible for the management of the TPS has meetings once every six months with the administrator's Finance Director. I also hold six-monthly meetings with the administrator's Chief Executive. Both provide a vehicle for escalating issues.
23. The day to day contact between the contract managers from the Department and the administrator enables any concerns to be identified and addressed quickly. These can be rapidly escalated where necessary. To help facilitate this, the risk register and issues log have been incorporated into the contract reports.
24. CFMT meets with Internal Audit regularly to provide updates on key issues and for Internal Audit to provide robust and appropriate challenge. This provides a level of challenge over the application of the risk management processes and discussion around contingencies that are in place or could be enhanced (and risks are escalated, as appropriate). CFMT also meets regularly with the administrator's internal auditors, Group Business Assurance (GBA), to discuss progress against the audit plan and to seek assurance that management actions have been implemented. This is reinforced by the daily contact between CFMT and Capita on the separate 'business as usual', transition and pension scheme reform aspects. Any issues are discussed at the Quarterly Strategy Board (QSB) or, where urgent action is required, escalated to Senior Management immediately.
25. Internal Audit has recently audited the GBA audit function and found that it is compliant with Government Internal Audit Standards with sufficient controls in place to mitigate key risks. In respect of delivery, GBA's Annual Audit Plan is influenced by the higher rated risks associated with administration delivery and is approved by CFMT before delivery commences. CFMT also approve the scope of individual audit activity, and review and challenge delivery against the plan and implementation of audit findings. Internal audit also provide an additional and independent level of review which ensures risks and controls are appropriately covered. GBA's audit plan for the 2011-12 financial year included 12 separate reviews. The key financial audits were in the following areas: 1) 'Arrears of Contributions' – rated as improvement required, and 2) 'Finance Reconciliations' – rated as satisfactory. All findings identified by the audit fieldwork have been resolved.
26. Income and expenditure forecasts are calculated by Capita. At a series of meetings the forecasts are challenged by the scheme managers, with support from the Department's Finance Advice and Challenge Team. Where appropriate expert advice is sought from the Government Actuary's Department on the

financial assumptions. Once the forecasts have been agreed they are subjected to further challenge by Treasury and the Office for Budget Responsibility (OBR). This process ensures procedures forecasts and controls are sufficiently robust to provide forecasts that are as accurate as possible.

27. The administrator participates in the National Fraud Initiative (NFI) in which lists of known deceased individuals are reconciled with the pensioner database to identify potential fraudulent benefit claims. The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation. The NFI process is used across the public sector to identify when fraud of this nature has occurred and, in all cases, appropriate action is taken up to and including Civil and Criminal prosecution. As part of its delivery of the new administration contract, Capita is supplementing the NFI activity by undertaking mortality screening using the "Disclosure of Death Register Information". The screening exercises take place every two years, alternating with the NFI activity, and implementation has commenced.
28. CFMT has a communications strategy which engages all key stakeholders through the scheme administrators. The Department also engages directly with employer representatives and unions in the administration and management of the TPS to minimise the risks involved. These include quarterly Teachers' Pensions Stakeholder Forums (TPSF) through which key stakeholders can raise issues about the administration of the Scheme.

### Key Issues

29. A new contract to administer the TPS was awarded to Capita Business Services Ltd in March 2011. The administration services moved to the new contractual arrangements on 1 October 2011. Capita established a separate transition team to manage implementation of new services. A separate Transition Manager within CFMT worked with Capita to manage the process.
30. There is a risk that changes to the TPS, perceived and actual, will result in an increase in the number of members opting out of the scheme. Depending upon the level, this could have a significant impact on the scheme's income. The opt-out rate is being monitored closely by the Department's Pension Reform Team to identify any emerging trends and to date there is no evidence emerging to support this concern. The introduction of tiered contribution rates from 1 April 2012 and scheme reform is a significant factor for future years. The administrator and CFMT will continue to work together to monitor and manage the impact of these changes on the control of the TPS finances.
31. CFMT is working with the administrator to review the system whereby employers provide assurances that the correct level of contributions has been submitted. This is being done to mitigate the risks associated with the closure of the Audit Commission, who support the current process by issuing instructions to local authorities to complete the annual audited contributions return.
32. Risks associated with these issues are assessed and, where appropriate, included within the Risk Register.

### Policy development

33. The Pension Policy and Reform teams have taken forward several major change projects during 2011-12. The most significant of these is a project to deliver changes to the TPS in line with the Government's response to Lord Hutton's recommendations on the reform of public service pension schemes. During 2011-12, extensive negotiations have taken place with teacher unions and employers on increases to pension contributions and the design for a reformed TPS. The outcome of negotiations is reflected in a Proposed Final Agreement, setting out the main design parameters for a reformed scheme. Associated risks and issues have been managed through a project and programme structure, which has included regular review and reporting of key risks and issues. Significant activity has focused on ensuring that employers and employees were fully aware of the changes to contribution rates prior to implementation, including the potential impact of these changes on payroll systems. Post implementation will be monitored carefully and we will ask for a post implementation internal audit review to be built into GBA's Annual Audit Plan.



**Financial Management**

34. At the end of March 2011, as a result of an unexpectedly low level of receipts from contributions and an unexpectedly high level of expenditure due to the number of teachers retiring, the TPS exceeded its net cash requirement by £11.9 million (0.47% of the net cash budget), resulting in a qualification of the C&AG's regularity opinion due to an excess vote. The overspend was considered by the Public Accounts Committee (PAC), which recommended that more effort should be made to prevent excess votes. This was accepted by the Department in the Treasury Minute response.
35. The Department continues to work closely with the administrator, with input from the Government Actuary's Department, HMT and the Office for Budget Responsibility (OBR), to refine the forecasts to take into account new emerging trends, central assumptions and anticipated changes in behaviour as a result of perceived and actual changes to the pension scheme. Additional monitoring of the accounts was also introduced to reduce the risk of future overspends. The cash forecasts of income and expenditure were compared with the actual figures through the supply bank account. If large variances were discovered these were investigated and the forecasts amended, if required. This exercise was completed on a monthly basis early in the financial year, moving to weekly in the last few months and almost daily in the last few weeks. As a result the net cash requirement was not exceeded in March 2012.
36. Overpayments resulting from pensioners failing to disclose that they have returned to work continue to be a risk. New systems have been introduced to identify potential overpayments and procedures put in place to recover overpayments identified. The new systems also reduce the risk of future overpayments occurring. This process is being managed through a project board consisting of senior CFMT and Capita managers. The amount of unrecoverable debt will not have a material impact on the scheme accounts.

**Information: IT Management and Data Safeguarding**

37. Capita continues to build on its formal security strategy, moving towards implementation of a secure data environment that complies with updated HM Government Security Policy Framework (SPF). A Security Working Group is in operation, comprising the Department's Data Accreditor, CFMT and key Capita representatives, to ensure that the solution complies with SPF requirements in managing data and information risks. Although the secure data environment will not be operational until October 2012, the current security controls have been accepted as satisfactory by the Department's Data Security Unit for the interim period.
38. Both Capita and DfE have been proactive in implementing changes which have enhanced the overall control framework for information security and a dedicated information security officer is in place in Capita to ensure TPS compliance with information security standards. No breaches have been reported in 2011-12.

**People Management**

39. The long standing Deputy Director, with responsibility for the TPS, retired midway through the financial year. In order to reduce the impact of the change on the management of the scheme, retirement was phased over several months to enable an effective hand over of duties to take place. Throughout the financial year the Deputy Directors were supported by an experienced team, further reducing the risks associated with the change. The outcome of the competitive tendering exercise also ensured continuity of key staff involved in the administration of the scheme.

**Overall Assessment**

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

*Chris Wormald*  
Accounting Officer

25 June 2012

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

I certify that I have audited the financial statements of the Teachers' Pension Scheme (England and Wales) for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and auditor

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

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Accounts document to identify material inconsistencies with the audited financial statements. 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 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2012 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the information given in the Report of the 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 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.

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

27 June 2012

## STATEMENT OF PARLIAMENTARY SUPPLY

Summary of Resource and Capital Outturn 2011-12

£000	Note	Estimate			Outturn			2011-12	2010-11
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Vote	Outturn
								Outturn compared with Estimate: saving/ (excess)	Total
<b>Departmental Expenditure Limit</b>									
– Resource		–	–	–	–	–	–	–	
– Capital		–	–	–	–	–	–	–	
<b>Annually Managed Expenditure</b>									
– Resource	3	11,732,780	–	11,732,780	11,709,947	–	11,709,947	22,833 (10,413,781)	
– Capital		–	–	–	–	–	–	–	
<b>Total Budget</b>		<b>11,732,780</b>	<b>–</b>	<b>11,732,780</b>	<b>11,709,947</b>	<b>–</b>	<b>11,709,947</b>	<b>22,833 (10,413,781)</b>	
<b>Total</b>		<b>11,732,780</b>	<b>–</b>	<b>11,732,780</b>	<b>11,709,947</b>	<b>–</b>	<b>11,709,947</b>	<b>22,833 (10,413,781)</b>	
Total Resources		11,732,780	–	11,732,780	11,709,947	–	11,709,947	22,833 (10,413,781)	
Total Capital		–	–	–	–	–	–	–	
<b>Total</b>		<b>11,732,780</b>	<b>–</b>	<b>11,732,780</b>	<b>11,709,947</b>	<b>–</b>	<b>11,709,947</b>	<b>22,833 (10,413,781)</b>	

## Net cash requirement 2011-12

£000	Note	2011-12			2010-11
		Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
	4	<b>3,142,147</b>	<b>3,078,689</b>	63,458	2,533,448

## Administration Costs

£000

£000	Estimate	Outturn	2011-12	Outturn
	–	–	–	–

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 Note 3 and in the Report of the Managers.

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

The notes on pages 29 to 46 form part of these accounts.

**STATEMENT OF COMPREHENSIVE NET EXPENDITURE**

for the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Income</b>			
Contributions receivable	6	(4,822,340)	(4,859,990)
Transfers in	7	(49,563)	(68,888)
Other pension income	8	(15,969)	(9,864)
		<u>(4,887,872)</u>	<u>(4,938,742)</u>
<b>Expenditure</b>			
Pension cost	9	5,784,014	7,090,616
Pension credit (Past Service Costs)	10	0	(22,200,000)
Enhancements	11	18,570	23,296
Transfers in	12	49,563	68,888
Interest on scheme liabilities	13	10,717,111	9,526,193
Compensation benefits payable	14	28,471	15,910
		<u>16,597,729</u>	<u>(5,475,097)</u>
<b>Net Expenditure/(Income)</b>		<u><b>11,709,857</b></u>	<u><b>(10,413,839)</b></u>
<b>Other Comprehensive Net Expenditure</b>			
		2011-12 £000	2010-11 £000
<b>Recognised (gains) and losses for the financial year</b>			
Actuarial (gain)	18.8	<u>(451,840)</u>	<u>(18,542,743)</u>
<b>Total Comprehensive Net Expenditure/(Income) for the year ended 31 March 2012</b>		<b>11,258,017</b>	<b>(28,956,582)</b>

The notes on pages 29 to 46 form part of these accounts.

**STATEMENT OF FINANCIAL POSITION**

as at 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Current assets:</b>			
Receivables	15.1	367,272	367,881
Cash and cash equivalents	16	25,728	330
<b>Total Current Assets</b>		<b>393,000</b>	<b>368,211</b>
<b>Current liabilities:</b>			
Cash and cash equivalents	16	(1,636)	(12,141)
Payables (within 12 months)	17.1+17.2	(330,984)	(343,418)
<b>Total Current Liabilities</b>		<b>(332,620)</b>	<b>(355,559)</b>
<b>Net current assets, excluding pension liabilities</b>		<b>60,380</b>	<b>12,652</b>
Pension liability	18.5	(200,600,000)	(192,400,000)
Provision for compensation payments where the Scheme acts as a principal	19	(145,791)	(130,519)
Net liabilities, including pension liabilities		<b>(200,685,411)</b>	<b>(192,517,867)</b>
Taxpayers' equity:			
General fund		(200,685,411)	(192,517,867)
		<b>(200,685,411)</b>	<b>(192,517,867)</b>

Chris Wormald  
Accounting Officer

25 June 2012

The notes on pages 29 to 46 form part of these accounts.

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**

For year ended 31 March 2012

	Note	General Fund	
		2011-12 £000	2010-11 £000
<b>Balance at 1 April</b>		<b>(192,517,867)</b>	<b>(223,995,964)</b>
Net Parliamentary Funding – drawn down		3,102,694	2,493,525
Net Parliamentary Funding – deemed			28,048
Consolidated Fund Standing Services			
Supply (payable)/receivable adjustments		(24,006)	–
Excess Vote – Prior-Year		11,875	0
Excess Vote – Appropriations-in-Aid		–	–
CFERS Payable to the Consolidated Fund		(90)	(58)
Comprehensive Net Expenditure for the Year		(11,709,857)	10,413,839
Actuarial gain		451,840	18,542,743
<b>Net change in Taxpayers' Equity</b>		<b>(8,167,544)</b>	<b>31,478,097</b>
<b>Balance at 31 March</b>		<b><u>(200,685,411)</u></b>	<b><u>(192,517,867)</u></b>

The net change in Taxpayers' Equity in 2010-11 was positive due to the £22.2 billion Past Service cost arising from the change in indexation from RPI to CPI, (Note 10).

The notes on pages 29 to 46 form part of these accounts.

**STATEMENT OF CASH FLOWS**

for the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Cash flows from operating activities</b>			
Net expenditure for the year		(11,709,857)	10,413,839
Adjustments for non-cash transactions		10,719,982	9,528,935
Decrease/(Increase) in receivables – principal arrangements <i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		903	(19,332)
(Increase)/Decrease in receivables – agency arrangements		(294)	(688)
(Decrease)/Increase in payables: pensions <i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		(12,434)	(1,237)
(Increase)/decrease in pension provision	18.5,19	5,804,070	(15,099,539)
Increase in pension provision – enhancements and transfers in	18.5	68,133	92,184
Use of provisions – pension liability	18.6,19	(7,813,865)	(7,364,477)
Use of provisions – refunds and transfers	18.7	(111,209)	(108,488)
<b>Net cash outflow from operating activities</b>		<b>(3,078,603)</b>	<b>(2,530,732)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		3,102,694	2,493,525
From the Consolidated Fund (Supply) – prior year		11,875	–
From the Consolidated Fund (non-Supply)		–	–
<b>Net Parliamentary financing</b>		<b>3,114,569</b>	<b>2,493,525</b>
<b>Net Financing</b>		<b>35,966</b>	<b>(37,207)</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
Payments of amounts due to the Consolidated Fund		(63)	(80)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>35,903</b>	<b>(37,287)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>(11,811)</b>	<b>25,476</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>24,092</b>	<b>(11,811)</b>

The notes on pages 29 to 44 form part of these accounts.



## NOTES TO THE SCHEME STATEMENT

### 1. BASIS OF PREPARATION

The financial statements of the Teachers' Pension Scheme (the Scheme) have been prepared in accordance with the relevant provisions of the 2011-12 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply international Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans* are of particular relevance to these statements.

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

#### 1.1 Teachers' Pension Scheme – principal arrangements

The Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Department for Education (DfE) and is open to 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 Scheme's Actuary and approved by the DfE. The contributions partially fund payments made by the Scheme, the balance of funding being provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the DfE and reported in DfE's financial statements.

The financial statements of the Scheme show the financial position of the Teachers' Pension 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 financial statements should be read in conjunction with that Report.

#### 1.2 Teachers' Pension Scheme – agency arrangements

The Scheme acts as an agent for employers in the payment of compensation benefits arising under the Teachers' Pension Compensation Scheme. Compensation payments paid out in the course of the year are generally recovered from the employer in advance, on a quarterly basis. The financial flows associated with these transactions are not brought to account in the financial statements. However, the financial statements recognise the liabilities arising from the central funding of compensation payments which amount to some £146 million (2010-11: £131 million) (see note 19).

### 2. STATEMENT OF ACCOUNTING POLICIES

The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the public sector context.

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 financial statements.

#### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

### 2.2 Pension contributions receivable

- a Employers' normal pension contributions are accounted for on an accruals basis.
- b Employers' special pension and compensation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, on a cash basis.
- c Employees' pension contributions which exclude amounts paid in respect of the purchase of added years (dealt with in 2.2.d below) and Additional Voluntary Contributions (dealt with in 2.16 below) are accounted for on an accruals basis.
- d Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the Scheme liability is recognised as expenditure.

### 2.3 Transfers in and out

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

### 2.4 Income received in respect of enhancements

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

### 2.5 Other income

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

### 2.6 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. It is calculated by factoring up the actual contribution rates charged (employer's 14.1%, employee's 6.4%) to the projected unit credit rate (24.7%) adopted by the Actuary.

### 2.7 Past service cost

Past service costs are increases/decreases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, change to, or improvement to, retirement benefits. Past service costs are recognised in the Statement of Comprehensive Net Expenditure in the year in which the increase in benefits vests.

The UK Budget Statement of 22 June 2010 announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension.

The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits has been recognised as a negative past service cost in 2010-11 in accordance with IAS 19. The use of CPI for uprating index-linked features was adopted by all central Government reporting entities from FY 2010-11 onwards, replacing RPI which has been used previously for inflation indexing.

### 2.8 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement. The cost is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a discount of 2.8% real rate (i.e. 4.85% including inflation).

### *2.9 Other expenditure*

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

### *2.10 Scheme liability*

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit credit method and is discounted at 2.8% real rate (i.e. 4.85% including inflation).

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The last formal actuarial valuation undertaken for the Teachers' Pension Scheme was completed in 2004. Consequently, a formal actuarial valuation would have been due by 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using full membership data as at 2008, such as would have been provided for a formal valuation, updated to reflect the current Scheme membership. In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

### *2.11 Pension benefits payable*

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

### *2.12 Pension payments to those retiring at their normal retirement age*

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

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

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

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

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

### *2.14 Lump sums payable on death in service*

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

### *2.15 Actuarial gains and losses*

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the reporting period end date are recognised in the Statement of Comprehensive Net Expenditure, Other Comprehensive Net Expenditure for the financial year.

*2.16 Additional Voluntary Contributions*

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

*2.17 Premature Retirement Compensation*

Compensation payments for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, compensation payments are paid initially by the Scheme throughout the year and recovered from employers on a quarterly basis, in advance. These transactions are not recorded in the 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 as a principal. Where the Scheme acts as a principal, the cost of the future liability in setting up and revising the provision is recorded as expenditure in the Statement of Comprehensive Net Expenditure, with offsetting income reflecting the reimbursements due from employers.

*2.18 Administration expenses*

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

*2.19 Changes to International Reporting Standards*

IFRSs in issue but not yet effective

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

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

There are two IFRS which will become effective in 2012-13 which may impact the Scheme.

Standard	Issued	Effective from	Impact
IAS 1 Presentation of Financial Statements	June 2011	1 July 2012	Amendments to revise the way other comprehensive income is presented
IAS 19 Employee Benefit	June 2011	1 January 2013	Revised requirements for pensions and other post retirement benefits, termination benefits and other changes.

IAS 1 does not impact on the Scheme due to the nature of the Schemes' income. IAS 19 is currently subject of a consultation on how it should be implemented in the public sector. The exact impact of IAS 19 on the Scheme accounts from 2012-13 is still to be determined.

## Note 2.19 continued

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

Standard	Issued	Effective from	Impact
IFRS 9 Financial Instruments and Classification	2009	1 January 2015	Introduces the requirement for classification and measurement of financial asset, together with elimination of two categories.
IFRS 11 Joint Arrangements	May 2011	1 January 2013	Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.
IFRS 12 Disclosure of Interest in Other Entities	May 2011	1 January 2013	Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
IFRS 13 Fair Value Measurement	May 2011	1 January 2013	Replaces current literature with one single standard, IFRS 13 does not change requirements regarding which item should be disclosed or measured at fair value.
IAS 27 Consolidated and Separate Financial Statement: Re-issued as IAS 27 Separate Financial Statement	May 2011	1 January 2013	The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 <i>Financial Instruments</i> .
IFRS 10 Consolidated Financial Statement	May 2011	1 January 2013	Requires parent entity to consolidate the group as a single economic entity based on control.

## IFRSs in issue but not adopted

The following IFRS have not been adopted for the Scheme account in 2011-12 as they do not apply to the Scheme:

Standard	Issued	Effective from	Impact
IFRS 1 First time Adoption of IFRS	Dec 2010	1 July 2011	Replacement of 'fixed dates' with the dates of transition to IFRS. Additional exemption for entities ceasing to suffer from severe hyperinflation.
IFRS 7 Financial Instruments Disclosures	May 2011	1 July 2011	Amendments enhancing disclosures about transfers of financial assets. The Scheme has no such assets.

### 2.20 Changes to the Financial Reporting Manual (FReM)

Chapter 12 of the FReM is applicable to the accounting for Pension Schemes and encompasses IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans.

The following significant *FReM* changes took place for 2011-12:

Parliamentary accountability – the structure of the Estimates from 2011-12 should reflect the split between the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME), with consequential adjustments to the Statement of Parliamentary Supply.

The funding for the Scheme all falls within Annually Managed Expenditure (AME).

### 3.1 ANALYSIS OF NET RESOURCE OUTTURN BY SECTION

							2011-12	2010-11
						Outturn £000	Estimate £000	Outturn £000
Administration			Programme				Net total compared to	
Gross Income	Net		Gross	Income	Net	Total	Net Total	Estimate
								Total
<b>Spending in Departmental Expenditure Limits (DEL)</b>								
<b>Voted expenditure</b>								
-	-	-	-	-	-	-	-	-
<b>Total spending in DEL</b>								
-	-	-	-	-	-	-	-	-
<b>Spending in Annually Managed Expenditure (AME)</b>								
<b>Voted expenditure</b>								
-	-	-	16,597,729	4,887,782	11,709,947	11,709,947	11,732,780	22,833 (10,413,781)
<b>Total spending in AME</b>								
			16,597,729	4,887,782	11,709,947	11,709,947	11,732,780	22,833 (10,413,781)
<b>Totals</b>								
-	-	-	16,597,729	4,887,782	11,709,947	11,709,947	11,732,780	22,833 (10,413,781)

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

The net resource outturn on the Scheme is £23 million lower than the net resource limit in the Supply Estimate. The underspend is the result of the Scheme income being £37 million below forecast, due to a slight fall off in contributions received. Resource expenditure was £60m below expectations, as pension expenditure and transfers were below those expected over the final 4 months of the year. At 2% within the Estimate figure this reflects the work which the Department and the Scheme administrator have put in to ensure that forecasts of expenditure and receipts are taut and realistic.

**3.2 RECONCILIATION OF NET RESOURCE OUTTURN TO NET EXPENDITURE**

			2011-12 £000	2010-11 £000
		Note	Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget		11,709,947	(10,413,781)
	Non-Budget		-	-
Net Resource Outturn			11,709,947	(10,413,781)
Add:	Non-supply Expenditure		-	-
	Prior Period Adjustments		-	-
			11,709,947	(10,413,781)
Less:	Income payable to the Consolidated Fund	5	(90)	(58)
	Prior Period Adjustments		-	-
			(90)	(58)
Net Expenditure in Consolidated Statement of Comprehensive Net Expenditure			11,709,857	(10,413,839)

**4. RECONCILIATION OF NET CASH REQUIREMENT TO INCREASE/(DECREASE) IN CASH**

			2011-12 £000	2010-11 £000
Net cash requirement			(3,078,689)	(2,533,448)
From the Consolidated Fund (Supply)				
	Current year		3,102,694	2,493,525
	Prior year		11,875	-
Amounts due to the Consolidated Fund received and not paid over			86	63
Amounts due to the Consolidated Fund received in prior year and paid over			(63)	(80)
Adjustment related to 2009-10 treatment of commercial bank overdraft			-	2,653
<b>Net Increase/(decrease) in cash held by Scheme</b>			<b>35,903</b>	<b>(37,287)</b>

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

The net cash requirement outturn was 2% within the forecast of £3,142,147,000 reflecting the close work between the Department, the administrator and the Government Actuary's Department (GAD), to produce realistic forecasts taking into account new emerging trends and anticipated changes in behaviour as a result of perceived and actual future changes to the pension scheme. This variation represents less than one weeks funding for the Scheme.

**5. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND**

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

	Note	Forecast 2011-12		Outturn 2011-12	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000		£000	
Operating income outside the ambit of the Estimate		–	–	90	<i>86</i>
Non-operating income outside the ambit of the Estimate		–	–	–	–
Excess cash surrenderable to the Consolidated Fund		–	–	–	–
Total income payable to the Consolidated Fund		–	–	90	<i>86</i>

**Statement of Comprehensive Net Expenditure: Principal arrangements via the Teachers' Pension Scheme, and principal and agency arrangements via the Teachers' Pension Compensation Scheme**

**6. PENSION CONTRIBUTIONS RECEIVABLE**

	Note	2011-12	2010-11
		£000	£000
Employers		(3,292,760)	(3,313,901)
Employees:			
Normal		(1,511,012)	(1,522,798)
Purchase of added years		(18,568)	(23,291)
		<b>(4,822,340)</b>	<b>(4,859,990)</b>

**7. PENSION INCOME – TRANSFERS IN**

	Note	2011-12	2010-11
		£000	£000
Group transfers in from other schemes	12	(1,264)	–
Individual transfers in from other schemes	12	(48,299)	(68,888)
		<b>(49,563)</b>	<b>(68,888)</b>

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.



**8. OTHER PENSION INCOME**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Contributions equivalent premiums		(2,051)	(880)
Recoveries of payments in lieu		(9)	(8)
Reinstatement of contributions		(2)	(5)
Other income		(90)	(58)
Premature retirement compensation		(13,817)	(8,913)
		<b>(15,969)</b>	<b>(9,864)</b>

**9. PENSION COST**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Current service cost	18.5	5,764,757	7,069,030
Past service costs	18.5	19,257	21,586
		<b>5,784,014</b>	<b>7,090,616</b>

**10. PENSION COST – NEGATIVE PAST SERVICE COSTS**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Past service costs	18.5	0	(22,200,000)
		<b>0</b>	<b>(22,200,000)</b>

The accounting treatment of the decision to uprate public service pensions using the Consumer Price Index rather than the Retail Price Index resulted in a one off credit to the negative past service costs in 2010-11.

**11. ENHANCEMENTS**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Employees:			
Purchase of added years		18,568	23,291
Reinstatements		2	5
	18.5	<b>18,570</b>	<b>23,296</b>

**12. PENSION COST – TRANSFERS IN**

	Note	2011-12 £000	2010-11 £000
Group transfers in from other schemes	7	1,264	–
Individual transfers in from other schemes	7	48,299	68,888
	18.5	<b>49,563</b>	<b>68,888</b>

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.

**13. INTEREST ON SCHEME LIABILITIES**

	Note	2011-12 £000	2010-11 £000
Interest charge for the year	18.5	<b>10,717,111</b>	<b>9,526,193</b>

**14. COMPENSATION BENEFITS PAYABLE**

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

	Note	2011-12 £000	2010-11 £000
<b>On retirement</b>			
Contributions equivalent premiums		3,292	1,617
Premature retirement compensation		21,713	11,032
Other		595	519
Unwinding of discount	19	2,871	2,742
		<b>28,471</b>	<b>15,910</b>

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

**15. RECEIVABLES – CONTRIBUTIONS DUE IN RESPECT OF PENSIONS**

**15.1 Analysis by type**

	Note	2011-12 £000	2010-11 £000
<b>Amounts falling due within one year:</b>			
Pension contributions due from employers		241,520	242,804
Employees' normal contributions		111,364	113,109
Other receivables		10,755	8,629
Pension contribution receivable – sub total		363,639	364,542
Recoverable compensation from employers (principal)		3,633	3,339
		<u>367,272</u>	<u>367,881</u>

Included within the 2011-12 figures is £6,000 (2010-11: £2,000) that will be due to the Consolidated Fund once the receivables are collected.

There are no receivables falling due after more than one year (2010-11: £nil)

**15.2 Analysis by organisation**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12 £000	2010-11 £000	2011-12 £000	2010-11 £000
Balances with other central government bodies	45,250	13,390	–	–
Balances with local authorities	225,644	256,417	–	–
Balances with NHS Bodies	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with public sector organisations	<u>270,894</u>	<u>269,807</u>	–	–
Balances with bodies external to government	96,378	98,074	–	–
<b>At 31 March</b>	<u>367,272</u>	<u>367,881</u>	–	–

**16. CASH AND CASH EQUIVALENTS**

Note	2011-12 £000	2010-11 £000
------	-----------------	-----------------

Balance at 1 April	(11,811)	25,476
Net change in cash balances	35,903	(37,287)
<b>Balance at 31 March</b>	<b>24,092</b>	<b>(11,811)</b>

The following balances at 31 March were held at:

Government Banking Service	25,446	–
Government Banking Service overdraft	–	(11,338)
Commercial banks and cash in hand	282	330
Commercial banks and cash in hand overdraft	(1,636)	(803)
Short term investments	–	–
<b>Balance at 31 March</b>	<b>24,092</b>	<b>(11,811)</b>

**17. PAYABLES – IN RESPECT OF PENSIONS****17.1 Analysis by type**

Note	2011-12 £000	2010-11 £000
------	-----------------	-----------------

**Amounts falling due within one year**

Pensions	(234,834)	(278,006)
HMRC and voluntary contributions	(68,408)	(60,840)
Other payables	(2,022)	(3,624)
Pension and other payables sub-total	<b>(305,264)</b>	<b>(342,470)</b>
Amounts issued from the Consolidated Fund for supply but not spent at year end	(24,006)	–
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	(86)	(63)
Receivable	(5)	(2)
Consolidated Fund payables sub-total	<b>(24,097)</b>	<b>(65)</b>
<b>Balance at 31 March</b>	<b>(329,361)</b>	<b>(342,535)</b>

**17.2 Contributions due – compensation payments agency**

	Note	2011-12 £000	2010-11 £000
Balance at 1 April		(883)	(2,152)
Receipts from employers		(27,492)	(26,698)
Payments to employees		26,752	27,967
<b>Balance at 31 March</b>		<b>(1,623)</b>	<b>(883)</b>

**17.3 Analysis by organisation**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12 £000	2010-11 £000	2011-12 £000	2010-11 £000
Balances with other central government bodies	(90,739)	(61,030)	–	–
Balances with local authorities	(679)	(424)	–	–
Balances with NHS Bodies	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with public sector organisations	<b>(91,418)</b>	<b>(61,454)</b>	–	–
Balances with bodies external to government	(239,566)	(281,964)	–	–
<b>At 31 March</b>	<b>(330,984)</b>	<b>(343,418)</b>	–	–

**18. PROVISIONS FOR PENSION LIABILITIES**

**18.1** The Teachers' Pension Scheme is an unfunded defined benefits scheme.

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The last formal actuarial valuation undertaken for the Teachers' Pension Scheme was completed in 2004. Consequently, a formal actuarial valuation would have been due by 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using full membership data as at 2008, such as would have been provided for a formal valuation updated to reflect the current Scheme membership.. In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

## Note 18.1 continued

The scheme managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the scheme managers should make available to the actuary in order to meet the expected requirements of the scheme auditor.

This information includes, but is not limited to, details of:

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

The major assumptions used by the actuary were:

	At 31 March 2012	At 31 March 2011	At 31 March 2010	At 31 March 2009	At 31 March 2008
	%	%	%	%	%
Rate of increase in salaries <sup>1</sup>	4.3	4.9	4.3	4.3	4.3
Rate of increase in pensions in payment and deferred pensions <sup>1</sup>	2.0	2.7	2.8	2.8	2.8
Nominal discount rate	4.8	5.6	4.6	6.0	5.3
Discount rate net of price inflation	2.8	2.9	1.8	3.2	2.5
Inflation assumption	2.0*	2.7	2.8	2.8	2.8
<b>Life expectancy for those retiring at 31 March aged 60</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>
Males	29.1	29.2	29.1	28.6	28.5
Females	32.7	32.7	32.6	31.8	31.7
<b>Retirements in 20 years time</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>
Males	31.5	31.1	31.0	30.2	30.1
Females	35.0	34.6	34.5	33.3	33.2

<sup>1</sup> The rates of increase shown above are the nominal increases in salaries and pensions. The rates of increase in the financial assumptions table in the Statement by the Actuary are based on the difference between the rate of return (discount rate) and the nominal increase. Inflation rates marked \* are based on CPI, earlier rates are based on the RPI.

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

*Note 18.1 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 discount rate net of price inflation is based on yields on high quality corporate bonds. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the CPI used in Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

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

**18.2 Analysis of the provision for pension liability**

<b>Value of liability in respect of</b>	<b>31 March 2012 £ billion</b>	<b>31 March 2011 £ billion</b>	<b>31 March 2010 £ billion</b>	<b>31 March 2009 £ billion</b>	<b>31 March 2008 £ billion</b>
Pensions in payment	104.7	94.0	105.1	79.8	78.8
Deferred members	16.9	15.7	19.8	15.2	16.8
Active members	79.0	82.7	99.0	73.6	80.9
<b>Total liabilities</b>	<b>200.6</b>	<b>192.4</b>	<b>223.9</b>	<b>168.6</b>	<b>176.5</b>

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

**18.4** The value of the liability on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation or increase in salaries, the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 18.5 and 18.8. The note also discloses "experience" gains and losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

**18.5 Analysis of movements in the Scheme liability**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Scheme liability at 1 April		(192,400,000)	(223,900,000)
Current service cost	9	(5,764,757)	(7,069,030)
Past service cost	9,10	(19,257)	22,178,414
Interest on scheme liability	13	(10,717,111)	(9,526,193)
Enhancements	11	(18,570)	(23,296)
Pension transfers in	12	(49,563)	(68,888)
Benefits payable	18.6	7,806,209	7,357,762
Pension payments to and on account of leavers	18.7	111,209	108,488
Actuarial gain/(loss)	18.8	451,840	18,542,743
<b>Scheme liability at 31 March</b>		<b>(200,600,000)</b>	<b>(192,400,000)</b>

**18.6 Analysis of benefits paid**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)		6,279,360	5,837,506
Commutations and lump sum benefits on retirement		1,526,849	1,520,256
Per Statement of Cash Flows	18.5	<b>7,806,209</b>	<b>7,357,762</b>

**18.7 Analysis of payments to and on account of leavers**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Refunds to members leaving service		2,925	2,555
Transfers to other schemes		108,284	105,933
Per Statement of Cash Flows		<b>111,209</b>	<b>108,488</b>



**18.8 Analysis of actuarial (gains)/losses**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Experience (gains) arising on the Scheme liabilities		(2,051,840)	(242,743)
Changes in assumptions underlying the present value of scheme liabilities		1,600,000	(18,300,000)
Per Statement of Changes in Taxpayers' Equity		<b>(451,840)</b>	<b>(18,542,743)</b>

**18.9 History of experience (gains)/losses**

	<b>2011-12</b>	<b>2010-11</b>	<b>2009-10</b>	<b>2008-09</b>	<b>2007-08</b>
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	(2,051,840)	(242,743)	40,240	3,936,023	(2,343,281)
Percentage of the present value of the Scheme liabilities	(1.0%)	(0.1%)	0.1%	2.3%	(1.3%)
Total amount recognised in Statement of Changes in Taxpayers Equity					
Amount (£000)	(451,840)	(18,542,743)	47,040,240	(16,763,977)	(14,043,281)
Percentage of the present value of the Scheme liabilities	(0.2%)	(9.6%)	21.0%	(9.9%)	(8.0%)

**19. PROVISION FOR EARLY RETIREMENT BENEFITS**

	<b>Note</b>	<b>2011-12</b>	<b>2010-11</b>
		<b>£000</b>	<b>£000</b>
Balance at 1 April		(130,519)	(124,646)
Additional provisions		(20,057)	(9,846)
Use of provision in year		7,656	6,715
Unwinding of discount	14	(2,871)	(2,742)
<b>Balance at 31 March</b>		<b>(145,791)</b>	<b>(130,519)</b>

**20. 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.

**21. CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37**

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

**22. LOSSES AND SPECIAL PAYMENTS**

During the year, losses arose in 1,915 cases (2010-11: 2,100 cases). The total loss was £100,057 (2010-11: £89,682).

**23. RELATED-PARTY TRANSACTIONS**

The Teachers' Pension Scheme falls within the ambit of the Department for Education, which is regarded as a related party, with which the Scheme has had various material transactions during the year. Additionally, the Scheme has had material transactions with the Ministry of Defence (MoD), where contributions amounting to £6.237 million were received from the MoD, some of whose employees are members of the Scheme. At the end of 2012 the MoD was a debtor of £745k to the Scheme. Membership of the Scheme is open to members of the teaching profession in England and Wales. None of the managers of the Scheme, key managerial staff or other related parties has undertaken any material transactions with the Scheme during the year.

**24. END OF YEAR CERTIFICATION**

The contributions received from employers have been certified through End of Year Certificates. At the date the 2011-12 accounts were signed, the End of Year Certificates had been received from all 174 Local Authorities (LAs), and from 3,582 non-LA employers of which 48.4% have been fully and independently audited.

**25. EVENTS AFTER THE REPORTING PERIOD**

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

These financial statements were authorised for issue on 27 June 2012 by Chris Wormald (Accounting Officer).





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