
Teachers' Pension Scheme (England and Wales)

Annual Accounts 2010–11

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(For the year ended 31 March 2011)

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

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

Accounts for the year ended 31 March 2011.

Introduction

The Teachers' Pension Scheme (TPS) is an unfunded, contributory, public service occupational pension scheme, governed by statutory regulations. The current regulations are the Teachers' Pensions Regulations 2010 (as amended).

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

The scheme is managed by the Department for Education and administered under contract by Capita Business Services Ltd.

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

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

MANAGERS, ADMINISTRATORS, ADVISERS AND EMPLOYERS**MANAGERS***Accounting Officer*

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ADMINISTRATOR OF THE SCHEME

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DL3 9EE

EMPLOYERS

Any organisation in England and Wales that employs teachers can join the TPS. There were 2,652 employers participating in 2010-11 split into the following categories:

174	Local Authorities (LAs)
401	Further Education institutions
81	Higher Education institutions
1,996	Independent establishments (including 438 Academies, 3 City Technology Colleges and 1,555 others)

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 2010-11, the net cash contribution from the exchequer was £2,533,447,935 (2009-10: £2,138,865,948).

Excess Vote

In 2010-11 the Department breached the net cash requirement limit in the Supply Estimate by £11.875 million (0.47% of the net cash budget). The net cash requirement is the amount of cash required from the consolidated fund in the year, for the Department to carry out its business as detailed in the Ambit, it is also subject to Parliamentary control.

Parliament expects forecasting to be based upon taut and realistic spending plans. The forecasts should be neither more nor less than is actually expected to be needed. This inevitably leads to a risk that the control totals voted by Parliament may be exceeded because of the fine margins that are involved. This is particularly so with pension schemes where the exact number and timing of payments and receipts can be difficult to predict accurately, leaving the Department with only limited ability to control the outturn.

In March 2011 a combination of unexpectedly low receipts from contributions and an unusually high level of expenditure due to the number of teachers retiring resulted in the net cash requirement being exceeded in the last few days of March. This was compounded by adjustments made for working capital (for example Receivables/Payables movements) and movement in provisions.

The Department will continue to work closely with the administrator, with input from 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.

Influences on performance in 2010-11

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

CHANGES TO THE TEACHERS' PENSION SCHEME

Pensions were not increased from 6 April 2010 as a consequence of the cost of living decreasing over the year to September 2009, based on the Retail Price Index (RPI) (-1.4%). From 11 April 2011 pension increases will be based on Consumer Price Index (CPI).

CHANGES TO THE PREMATURE RETIREMENT COMPENSATION (PRC) SCHEME

During the year, compensation payments were not increased as a consequence of the cost of living decreasing over the year to September 2009, based on the Retail Price Index (RPI) (-1.4%).

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 2010-11 the aggregate amounts of AVC investments are as follows:

The Prudential

	2010-11	2009-10
	£000	£000
Movements in the year:		
Balance at 1 April	1,843,028	1,846,057
New investments	187,344	181,370
Sales of investments to provide pension benefits	(251,868)	(184,522)
Changes in market value of investments	161	123
Balance at 31 March	1,778,665	1,843,028
Contributions received to provide life cover	1,395	1,526
Benefits paid on death	3,154	2,587

EVENTS AFTER THE REPORTING PERIOD

The decision to uprate public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been challenged by the teaching unions and is currently before the courts in judicial review proceedings. The Government is robustly defending the case and no adjustment has been made to the account for this matter.

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 2010 being the latest data available. As at 27 May 2011, 36,532 teachers' records had not yet been completely validated by employers. Of these records the majority relate to active members.

The figures for pensions in payment are for year ended 31 March 2011. 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 2009	611,972
	Adjustments due to data received post 31 March 2009	16,372
	Total active members at 1 April 2009	628,344
<i>Add:</i>	New entrants in the year	47,890
	Re-entrants in the year	43,796
	Transfers in	196
	Opted in	820
<i>Less:</i>	Premature retirements	(1,407)
	Age and infirmity retirements	(10,576)
	Actuarially reduced benefits	(6,257)
	Opted out	(3,562)
	Other exits (including transfers out)	(40,538)
	Deaths	(355)
	Active members at 31 March 2010	658,351

Deferred members

	Deferred members brought forward from 31 March 2009	422,784
	Adjustments due to data received post 31 March 2009	4,127
	Total deferred members at 1 April 2009	426,911
<i>Add:</i>	Previously active members no longer in the scheme	42,200
<i>Less:</i>	Deaths	(138)
	Return of contributions	(1,357)
	Re-entry to service	(31,412)
	Transfers out	(2,068)
	Awards out of service	(7,640)
	Deferred members at 31 March 2010	426,496

Pensions in payment

	Pensions at the start of the year – brought forward from 31 March 2010	
	– members	510,821
	– dependants	56,191
	Total	567,012
	Adjustments made to data received post 31 March 2010	
	– members	3,071
	– dependants	(2,412)
	Total	659

	Total pensioners in payment as 1 April 2010	
	– members	513,892
	– dependants	53,779
	Total	567,671
<i>Add:</i>	Members retiring in the year	
	– Age\Premature pensions	20,761
	– Infirmity pensions	600
	– Actuarially reduced benefits	10,570
		<u>31,931</u>
	– New dependants	3,919
	Total members retiring in year and dependants	35,850
<i>Less:</i>	Cessations in year – Members	(10,526)
	Age/Premature pensions	(1,875)
	Infirmity pensions	(645)
	Actuarially reduced benefits	(13,046)
	Cessations in year – Dependants	(2,034)
	Total cessations in year	(15,080)
	Pension in payment at 31 March 2011	
	– members	532,777
	– dependants	55,664
	Total	588,441

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 the information.

Sir David Bell
 Accounting Officer

4 July 2011

Teachers' Pension Scheme (England and Wales)
Accounting Year Ended 31 March 2011

STATEMENT BY 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 2010-11 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 2011 to reflect known changes.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2008 and 31 March 2011 used to prepare this statement.

Table A – Active members

	31 March 2008		31 March 2011	
	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 2011	
	Number (thousands)	Total deferred pension† (pa) (£ million)	Total deferred pension† (pa) (£ million)	
	334	830	920	

† Including increases applying in April of year

Table C – Pensions in payment

	31 March 2008		31 March 2011	
	Number (thousands)	Total pension† (pa) (£ million)	Total pension† (pa) (£ million)	
	523	4,980	6,150	

† 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 2010-11 Annual Accounts. The contribution rate for accruing costs in the year ended 31 March 2011 was determined using the PUCM and the principal financial assumptions applying to the 2009-10 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 2011, the assumed rate of return in excess of pension increases was increased to 2.9% a year, and the assumed rate of return in excess of earnings was increased from 0.3% a year to 0.7% a year. In addition, with effect from 31 March 2011, the assumed rate of future pension increases is 2.65% a year and the assumed nominal rate of salary growth is 4.9% a year (changed from 2.75% and 4.3% respectively as at 31 March 2010).

Table D – Principal financial assumptions

Assumption	31 March 2011	31 March 2010
Rate of return (discount rate)	5.6%	4.6%
Rate of return in excess of:		
Earnings increases	0.7%	0.3%
Pension increases	2.9%	1.8%*
Expected return on assets:	n/a	n/a

*Increased to 2.5% from 22 June 2010 following the Government's announcement that future pension increases would be based on CPI

8. The pension increase assumption as at 31 March 2011 is based on the Consumer Price Index (CPI) expectation of inflation rather than the Retail Prices Index (RPI). This is a consequence of the Government's announcement that CPI is to be used for the indexation of public service pensions from April 2011.

Demographic assumptions

9. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
10. The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2011 are those expected to be adopted for the 2008 funding valuation of the TPS.
11. 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 2008-based principal population projections for the United Kingdom. These assumptions are the same as adopted for the 2009-10 Annual Accounts.

12. The contribution rate used to determine the accruing cost in 2010-11 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2009-10 Annual Accounts.

Liabilities

13. Table E summarises the assessed value as at 31 March 2011 of benefits accrued under the scheme prior to 31 March 2011 based on the data, methodology and assumptions described in paragraphs 3 to 11. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

	£ billion				
	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(192.4)	(223.9)	(168.6)	(176.5)	(181.3)
Surplus/(Deficit)	(192.4)	(223.9)	(168.6)	(176.5)	(181.3)
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 2011 (the Current Service Cost) is based on a standard contribution rate of 32.8% up to 22 June 2010 and 29.3% thereafter. 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 2009-10 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay		
	22 June 2010 to 31 March 2011	1 April 2010 to 21 June 2010	1 April 2009 to 31 March 2010
Standard contribution rate	29.3%	32.8%	21.9%
Members' contribution rate	6.4%	6.4%	6.4%
Employers' estimated share of standard contribution rate	22.9%	26.4%	15.5%

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 was 1.8% pa for the 2010-11 Current Service Cost up to 22 June 2010 and 2.5% thereafter (3.2% pa for 2009-10) 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 2010-11 was £23.4 billion (derived from contributions payable by employers and members over the year). Based on this information, the accruing cost of pensions in 2010-11 (at 32.8% of pay up to 22 June 2010 and 29.3% thereafter) is assessed to be £7.0 billion.
17. The move to CPI (rather than RPI) indexation of pensions from April 2011 results in a past service cost of -£22.2 billion. The total pension cost (the current service cost plus the past service cost) for 2010-11 is therefore -£15.2 billion.

Sandra Bell
Government Actuary's Department
6 May 2011

APPENDIX: REVENUE ACCOUNT DISCLOSURES

Revenue Account disclosures for year ended 31 March 2011

	£ billion
	<u>Year ended 31 March 2011</u>
Analysis of amount charged to Pension cost	
Current service cost	7.0
Past service cost	-22.2
Total operating charge	<u>-15.2</u>
Analysis of the amount recognised in statement of Financial Position	
Expected return on scheme assets	0.0
Interest on pension liability	-9.5
Net return	<u>-9.5</u>
Analysis of amount recognised in Statement of Change in Taxpayers' Equity (SCITE)	
Actual return less expected return on scheme assets	0.0
Experience gains and losses arising on pension liabilities	0.1
Changes in mortality assumptions	0.0
Changes in demographic assumptions (other than mortality)	0.1
Changes to financial assumptions from 31 March 2011	18.3
Net actuarial gains/(losses) recognised in SCITE	<u>18.5</u>
Movement in surplus during the year	
Surplus at 31 March 2010	-223.9
Current service cost	-7.0
Benefits paid during the year	7.3
Past service costs	22.2
Net transfers in	0.0
Interest on pension liability	-9.5
Actuarial gains/(losses)	18.5
Surplus at 31 March 2011	<u>-192.4</u>

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 2010 (SI 2010 No.990).

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

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

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

- 1.1 As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of the Teachers' Pension Scheme's policies, aims and objectives, set by the Department's Ministers, whilst safeguarding public funds and Departmental assets, in accordance with the responsibilities assigned to me in Managing Public Money.
- 1.2 The Departmental Board includes four non-executive members and regularly meets to discuss all strategic policy management issues. This includes providing direction on major policy, delivery and operational issues, reviewing performance and ensuring that the Department is working economically, efficiently and effectively.
- 1.3 The Department has contracted out the administration of the Teachers' Pension Scheme (TPS) to Capita Business Services Limited. The TPS contract is managed by the Head of Terms & Conditions Division at Deputy Director level in the Department and operated in accordance with the Department's internal control framework. As Accounting Officer, I have overall responsibility for ensuring that the administrator is managing the risks effectively and for reviewing the effectiveness of the administrator's systems of internal control.

The purpose of the system of internal control

- 2.1 The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure, to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievements of the TPS policies aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place for the TPS for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to handle risk

- 3.1 The Board recognises the importance of leadership to create an environment where risk management is effective. Guidance on the identification, assessment and active management of risk in the Department is available to all staff. Risk management is embedded into the Department's corporate governance, financial management, business planning and assurance, and performance management arrangements and improvement activities.
- 3.2 The Deputy Director responsible for the management of the TPS has regular meetings with Capita's Managing Director. I also have regular meetings with the Capita's Chief Executive. Both provide a vehicle for escalating issues.
- 3.3 The day to day contact between the contract managers from the Department and the administrator enable any concerns to be identified and addressed quickly. These can be rapidly escalated where necessary. Risks are also regularly monitored and discussed as part of the monthly and quarterly contract meetings. To help facilitate this, the risk register and issues log have been incorporated into the contract reports.
- 3.4 The Finance Advice and Challenge Team in the Education Standards Directorate, the Government Actuary's Department and the Department's Internal Audit Unit are called upon to offer expert advice on processes, financial assumptions and risk management, in order to ensure procedures, forecasts and controls are sufficiently robust.

The risk and control framework

- 4.1 The Department's approach is to assign risks to those best placed to manage them. Therefore, individual managers are responsible to the risk owners (Directors General and Directors) for managing risk as they

have knowledge of the issues involved and can best mitigate the potential impact. The risk owner for the TPS is the Director General for Education Standards. Every quarter I discuss the key Departmental risks with the Secretary of State.

- 4.2 The risk management process is built into the TPS business planning and reporting processes. There is clear accountability and ownership of risk to ensure that it is managed at the appropriate level and there are frameworks in place to escalate risks to ensure that significant risks are reported to senior management and, if required, the Board. A joint Risk Register is in place between the Department's Contract and Finance Management Team (CFMT) and the TPS administrator. The Risk Register is presented to a Quarterly Strategy meeting between senior representatives of the administrator and the Department, where it is discussed and reviewed, with particular focus on high level risks to ensure that adequate countermeasures and/or contingencies are in place to mitigate risk.
- 4.3 The CFMT has a communications strategy which engages all key stakeholders through the scheme administrators. The Department also engages directly with employers' representatives and unions in the administration and management of the TPS to minimise the risks involved. These include a Teachers' Pension Administration Forum (TPAF) through which key stakeholders can raise issues about the administration of the Scheme.
- 4.4 The administrator has established robust budget forecasting mechanisms, using historic and operational information, along with assumptions provided by HM Treasury. The forecasts are tested by the Department, with high risk accounts forecasting methodology assessed by the Government Actuary's Department. All forecasts are documented, showing the forecasting methodology and assumptions, and are subject to challenge by the Office for Budget Responsibility (OBR) and Treasury throughout the financial year. The position of the Scheme is monitored on a monthly basis to allow appropriate management intervention should the forecast prove to be significantly inaccurate. Audits are undertaken by Capita's internal auditors, Group Risk Business Assurance (GRBA), to provide assurance that forecasting exercises are robust and outcomes are appropriate. The controls in place reduce the risks of account qualification.
- 4.5 The administrator participates in the National Fraud Initiative (NFI). This is an exercise, run by the Audit Commission, which matches electronic data within and between audited bodies to prevent and detect fraud. The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation. The exercise is conducted every two years. The NFI process is used across the public sector to successfully identify when fraud of this nature has occurred and, in all cases, appropriate action is taken up to and including Civil and Criminal prosecution. GRBA has embedded the risk of fraud as part of its 'Data Mining' review, which is due for completion within the next month.
- 4.6 To ensure TPS Information Security complies with the Department's and Cabinet Office's requirements on information assurance, Capita has implemented a formal information security strategy, approved by their Board, to identify, assess and appropriately mitigate any risks that may adversely impact on the security of any critical or sensitive information asset used within the service. This strategy, based on the international security management standard ISO/IEC 27001, together with the Treating Customers Fairly (TCF) initiative, produces an Information Security Management System (ISMS) that minimises the risk of security incidents, and their associated impacts, from significantly affecting core business operations.

Review of effectiveness

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

- 5.2 The Department's internal auditors undertake a work programme approved by me to review risk management, internal control and governance. CFMT review and challenge GRBA's Annual Plans, monthly progress reports, terms of references and draft reports. Internal auditors provide an additional review to ensure risks and controls are appropriately covered. This provides an independent view on whether risks are correctly considered in each audit review and that proposed management action is appropriate. GRBA is audited by the Department's internal auditors biennially with the next review due early in the 2011-12 financial year. 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 ARAC.
- 5.3 For 2010-11 ARAC supported me as the Accounting Officer by offering objective advice on issues concerning the control governance of the Department, which includes governance of the TPS. The ARAC was chaired by a non-executive board member and its role and composition was in line with HM Treasury's best practice guidance.
- 5.4 The Department takes seriously the potential impact that fraud can have on financial control and achievement of objectives. The Fraud Sub Committee meets on a regular basis. Their role is to give assurance to ARAC that the risks to the Department's business from fraud and financial irregularity are being managed and monitored effectively. ARAC was replaced on 1 April 2011 by the Delivery Assurance, Risk and Audit Committee (DARAC).
- 5.5 Both Capita and the Department have continued to be proactive in implementing changes which have enhanced the overall control framework for information security and a dedicated information security officer is in place in Capita to ensure TPS compliance with information security standards. No breaches have been reported in 2010-11.

Internal control issues

- 6.1 A new contract to administer the TPS has been negotiated with Capita Business Services Ltd. A transition team has been established within CFMT and the administrator to manage the process of moving to the new contract. This will reduce the impact on the management of the Scheme.
- 6.2 During the year the Department breached the net cash requirement limit in the Supply Estimate by £11.9 million (0.47% of the net cash budget). The net cash requirement is the amount of cash required from the consolidated fund in the year, for the Department to carry out its business as detailed in the Ambit, it is also subject to Parliamentary control. The net cash requirement is calculated from the net resource total, removing non-cash elements of the resource budget and taking account of the cash effects of adjustments to working capital changes (receivables and payables). The breach of the net cash requirement has resulted in a technical qualification of the Annual Account for 2010-11.
- 6.3 Parliament expects forecasting to be based upon taut and realistic spending plans. The forecasts should be neither more nor less than is actually expected to be needed. This inevitably leads to a risk that the control totals voted by Parliament may be exceeded because of the fine margins that are involved. This is particularly so with pension schemes where the exact number and timing of payments and receipts can be difficult to predict accurately. In March 2011 a combination of unexpectedly low receipts from contributions and an unusually high level of expenditure due to the number of teachers retiring resulted in the net cash requirement being exceeded in the last few days of March. This was compounded by adjustments made for working capital (for example Receivables/Payables movements) and movement in provisions. The Department will continue to work closely with the administrator, with input from 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. The new contract for administering the TPS places a greater responsibility on the administrator to provide better information to enable more accurate forecasts to be produced.

- 6.4 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. One significant factor will be the changes over the next few years with the implementation of the change from RPI to CPI, changes following recommendations made by the Independent Public Service Pensions Commission and changes to the Discount Rate following Treasury's consultation that ended 3 March 2011. The administrator and CFMT will continue to work together to manage the impact of these changes on the control of the TPS finances. This is being monitored closely to identify any emerging trends.
- 6.5 Following improvements to the system of controls around the identification of pensioners who have re-entered employment, the administrator has identified a number of cases where pensioners have failed to use the correct process to notify the administrator of their re-employment. In some instances this has resulted in over-payment of pensions over a number of years, which amount to significant sums for the individuals concerned. Debts are recovered from pensioners using proportionate and appropriate recovery procedures, and the vast majority of the debt is expected to be recovered. Where unrecovered debt is attributed to failings by the Scheme administrator, the contract provides for the contractor to make good any loss to the Exchequer. The level of recorded Scheme debt at the end of the current financial year is £5.2 million, which does not cause any material impact on the scheme finances and is a small percentage (less than 0.1%) of the annual scheme expenditure.
- 6.6 CFMT is working with the administrator to develop a system that will provide a quicker and more effective process for the submission, by employers, of the annual audited contributions return. This is being introduced 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 return.
- 6.7 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.

Sir David Bell
Accounting Officer

4 July 2011

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 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, 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.

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

Qualified Audit Opinion on Regularity arising from cash expenditure in excess of amounts authorised

Parliament authorised a Net Cash Requirement for the Scheme of £2,521,573,000.00. Against this limit, the Scheme incurred actual cash expenditure of £2,533,447,935.94, exceeding the authorised limit by £11,874,935.94 as shown in the Statement of Parliamentary Supply.

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

More details are set out in my Report on pages 20 to 21.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the scheme's affairs as at 31 March 2011, and of its net cash requirement, net resource outturn, and net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

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

Matters for which I report by exception

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

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

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
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Victoria
London
SW1W 9SP

7 July 2011

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

TEACHERS PENSION SCHEME (ENGLAND AND WALES)

EXCESS VOTE

Introduction

1. In 2010-11 the Teachers' Pension Scheme (England and Wales) (the Scheme) expended more cash than the authorised Net Cash Requirement limit set by Parliament. This represents an "excess" for which further Parliamentary authority is required. I have qualified my opinion on the Scheme's 2010-11 financial statements in this regard.
2. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard the breach of regularity

3. Under section 6(1) of the Government Resources and Accounts Act 2000, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the financial statements have been applied for the purposes intended by Parliament and conform to the authorities which govern them. In doing so, I have had regard, in particular, to Parliamentary authority and Supply limits Parliament has set on expenditure.

Breach of Net Cash Requirement

4. The Statement of Parliamentary Supply shows that the Net Cash Requirement outturn was £2,533,447,935.94 which is £11,874,935.94 in excess of the £2,521,573,000.00 authorised. The Scheme proposes to ask Parliament to authorise an additional grant of Supply from the Consolidated Fund of £11,874,935.94 by way of an Excess Vote.

Background to the Cash Excess

5. The Department prepares the Scheme's Parliamentary Estimates using cash forecasts supplied by Capita Business Services, who are contracted to manage the day to day administration of the Scheme on behalf of the Department. These forecasts are reviewed, challenged and revised by the Department during the year and requests made for changes to the authorised Net Cash Requirement through Supplementary Estimates.
6. The main cash flows of the scheme relate to receipts of contributions from employers and employees in respect of active members of the scheme and payments of pensions to retired members and dependants and lump sums on retirement. The forecasts of receipts and payments are based primarily on historical trend data.
7. The Scheme exceeded its Net Cash Requirement by £11,874,935.94 through a combination of receipts being lower than forecast and payments being higher than forecast.

Reasons for the Cash Excess

8. A number of factors led to the excess. As part of the Parliamentary Supply process, the Department made requests for additional cash of £168,493,000.00 in the Winter Supplementary Estimate and £101,665,000.00 in the Spring Supplementary Estimate. However, despite this additional Estimate, it still required cash in excess of voted provision by the year end.
9. Following approval of the Spring Supplementary Estimate, contributions collected in February and March were lower than forecast. The Department understands that this is due to an unexpected reduction in the number of active members.

10. Members taking retirement are entitled to take a lump sum which results in an increased level of payments. An unexpected increase in retirements in 2010-11 resulted in payments exceeding forecast. The timing of retirements is beyond the control of the Department and it is unable to delay payment of amounts that are due.
11. Once the Department identified a risk that the Net Cash Requirement may be breached it instructed Capita to undertake additional steps to maximise the collection of contributions and to delay any payments for transfers to other pension schemes that could legitimately be deferred to 2011-12.

Actions to be taken by the Department

12. In response to the Excess Vote, the Department has undertaken a number of actions to improve the forecasting of receipts and payments and to better understand the underlying trends. The Department has examined the forecast models used with Capita to understand whether these remain fit for purpose and has identified a need for all parties to have a better understanding of the factors affecting the cash management process. The Department also plans to further examine the robustness of trend data and quantify the impact of emerging trends.
13. The accuracy of forecasts will become even more important in 2011-12 due to a number of reforms and changes to public sector pension schemes which may impact on underlying trends.

Summary and Conclusion

14. In summary, the primary reason for the breach of the net cash requirement was that the Department's forecasts underestimated the number of active members that would retire in 2010-11 and overestimated the contributions that would be collected from employers. Forecasting the exact value and timing of receipts and payments will continue to be a challenge to the Department.
15. In light of the current reforms and changes to public sector pension schemes, the potential for volatility in the scheme will make it more challenging to forecast the outturn position. The Department will need to review and refine its forecasts more frequently during the course of the year to ensure that it can respond quickly to emerging trends that could impact upon the cash requirements of the Scheme.

Amyas C E Morse
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National Audit Office
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7 July 2011

STATEMENT OF PARLIAMENTARY SUPPLY

Summary of Resource Outturn 2010-11

Request for resources	Note	Estimate			Outturn			2010-11 £000	2009-10 £000
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
Teachers' pensions		18,325,345	(5,043,266)	13,282,079	(5,475,097)	(4,938,684)	(10,413,781)	23,695,860	10,457,574
Total resources	3	<u>18,325,345</u>	<u>(5,043,266)</u>	<u>13,282,079</u>	<u>(5,475,097)</u>	<u>(4,938,684)</u>	<u>(10,413,781)</u>	<u>23,695,860</u>	<u>10,457,574</u>

Summary of net cash requirement 2010-11

Net cash requirement	Note	Estimate		Outturn		2010-11 £000	2009-10 £000
		Estimate	Outturn	Estimate	Outturn	Net Total outturn compared with Estimate: saving/ (excess)	Outturn
	4	<u>2,521,573</u>	<u>2,533,448</u>	<u>2,521,573</u>	<u>2,533,448</u>	(11,875)	2,138,865

Summary of income payable to the Consolidated Fund

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

	Note	Forecast 2010-11 £000		Outturn 2010-11 £000	
		Income	Receipts	Income	Receipts
Total	5	<u>136</u>	<u>136</u>	<u>58</u>	<u>63</u>

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

The net resource outturn on the Scheme is £23.7 billion lower than the net resource limit in the Supply Estimate. The underspend is primarily the result of the change on basing the future increase in pensions from RPI to CPI. This was treated as a change to Past Service Costs which reduced the scheme expenditure by £22.2 billion.

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

The Scheme has incurred an Excess Vote of £11.875 million (0.47%) because the net cash requirement was exceeded, this was due to lower levels of contributions being received and higher levels of expenditure than forecast.

A more detailed explanation of the reason for variance is contained within the Report of the Managers.

The Scheme will seek Parliamentary approval for the Excess Vote in the next Appropriation Act.

The notes on pages 27 to 41 form part of these accounts.

STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Income			
Contributions receivable	7	(4,859,990)	(4,727,688)
Transfers in	8	(68,888)	(62,270)
Other pension income	9	(9,864)	(7,855)
		<u>(4,938,742)</u>	<u>(4,797,813)</u>
Expenditure			
Pension cost	10	7,090,616	5,021,450
Pension credit (Past Service Costs)	11	(22,200,000)	–
Enhancements	12	23,296	26,053
Transfers in	13	68,888	62,270
Interest on scheme liabilities	14	9,526,193	10,123,793
Compensation benefits payable	15	15,910	21,737
		<u>(5,475,097)</u>	<u>15,255,303</u>
Net expenditure	3	<u>(10,413,839)</u>	<u>10,457,490</u>
Net resource outturn	3	<u>(10,413,781)</u>	<u>10,457,574</u>
Other			
Other Comprehensive Net Expenditure		2010-11 £000	2009-10 £000
		<u></u>	<u></u>
Recognised (gains) and losses for the financial year			
Actuarial (gain)/loss	19.8	<u>(18,542,743)</u>	<u>47,040,240</u>
Total Comprehensive Net Expenditure for the year ended 31 March 2011		(28,956,582)	57,497,730

The notes on pages 27 to 41 form part of these accounts.

STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

	Note	2010-11 £000	2009-10 £000
Current assets:			
Receivables	16a	367,881	347,861
Cash and cash equivalents	17	330	28,129
		368,211	375,990
Cash and cash equivalents	17	(12,141)	(2,653)
Payables (within 12 months)	18a+b	(343,418)	(344,655)
		(355,559)	(347,308)
Net current assets, excluding pension liabilities		12,652	28,682
Pension liability	19.5	(192,400,000)	(223,900,000)
Provision for compensation payments where the Scheme acts as a principal	20	(130,519)	(124,646)
Net liabilities, including pension liabilities		(192,517,867)	(223,995,964)
Taxpayers' equity:			
General fund		(192,517,867)	(223,995,964)
		(192,517,867)	(223,995,964)

Sir David Bell
Accounting Officer

4 July 2011

The notes on pages 27 to 41 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For year ended 31 March 2011

	Note	General Fund	
		2010-11 £000	2009-10 £000
Balance at 1 April		(223,995,964)	(168,637,016)
Net parliamentary funding			
Drawn down		2,493,525	2,144,500
Deemed		28,048	22,414
Year end adjustment			
Supply payable – current year		–	(28,048)
Net transfers from operating activities			
Net Expenditure for the Year	3	10,413,839	(10,457,490)
Excess receipts payable to the Consolidated Fund	3	(58)	(84)
Actuarial gains/(loss)	19.8	18,542,743	(47,040,240)
Balance at 31 March		(192,517,867)	(223,995,964)

The notes on pages 27 to 41 form part of these accounts.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2011

	Note	2011 £000	2010 £000
Cash flows from operating activities			
Net expenditure for the year		10,413,839	(10,457,490)
Adjustments for non-cash transactions		9,528,935	10,126,296
(Decrease)/increase in receivables		(20,020)	26,386
(Decrease)/increase in payables: pensions		(1,237)	24,765
Short-term payables <i>less movements in payables relating to items not passing through the revenue account</i>		28,071	(5,714)
(Decrease)/increase in pension provision	19.5,20	(15,099,539)	5,036,182
Increase in pension provision – enhancements and transfers in	19.5	92,184	88,323
Use of provisions – pension liability	19.6,20	(7,364,477)	(6,836,482)
Use of provisions – refunds and transfers	19.7	(108,488)	(143,704)
Net cash outflow from operating activities		(2,530,732)	(2,141,438)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		2,493,525	2,144,500
Net Parliamentary financing		2,493,525	2,144,500
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(37,207)	3,062
Payments of amounts due to the Consolidated Fund		(80)	(5)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(37,287)	3,057
Cash and cash equivalents at the beginning of the period	17	25,476	22,419
Cash and cash equivalents at the end of the period	17	(11,811)	25,476

The notes on pages 27 to 41 form part of these accounts.

NOTES TO THE SCHEME STATEMENT

1. BASIS OF PREPARATION

The Scheme statement has been prepared in accordance with the relevant provisions of the 2010-11 *Government Financial Reporting Manual (FReM)* issued by HM Treasury, which reflect the requirements of IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

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

1.1 Teachers' Pension Scheme – principal arrangements

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

1.2 Teachers' Pension Scheme – agency arrangements

The Scheme acts as an agent for employers in the payment of compensation benefits arising under the Teachers' Pension Compensation Scheme. Compensation benefits paid out in the course of the year are generally recovered from the employer in advance, on a quarterly basis. These financial flows are not brought to account in the financial statements. However, they do recognise the liabilities arising from the central funding of compensation payments which amount to some £131 million (2009-10: £125 million) (see note 20).

2. STATEMENT OF ACCOUNTING POLICIES

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

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

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Pension contributions receivable

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

2.3 Transfers in and out

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

2.4 Income received in respect of enhancements

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

2.5 Other income

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

2.6 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the 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 (30.1%) 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.

In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer 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 accordance with IAS 19. This accounting treatment has been adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

The question of whether, as regards the main public service pension schemes, there is a legitimate expectation that RPI will be used for inflation indexing is currently before the courts in judicial review proceedings. The Government case is that no legitimate expectation exists and that, in any event, even if there was a legitimate expectation this was overridden by the clear public interest in making very substantial savings at a time when Government had adjudged that deficit reduction was a fundamental objective for the country. If the Government's case is proven, there would be no change to the accounting treatment adopted in these accounts.

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 2.9% real rate (i.e. 5.6% including inflation).

2.9 Other payments

All other payments 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 2.9% real rate (i.e. 5.6% including inflation).

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

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

2.11 Pension benefits payable

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

2.12 Pension payments to those retiring at their normal retirement age

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

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

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

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

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

2.14 Lump sums payable on death in service

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

2.15 Actuarial gains and losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the reporting period end date are recognised in the Statement of 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 are 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.

3. RECONCILIATION OF ESTIMATES, ACCOUNTS AND BUDGETS**Reconciliation of net resource outturn to net outgoings**

			2010-11 £000	2009-10 £000
			Outturn Compared	
	Note	Outturn	Supply Estimate with Estimate	Outturn
Net resource outturn		(10,413,781)	13,282,079	23,695,860
Non-supply income (CFERs)	5	(58)	(136)	(78)
Net outgoings		(10,413,839)	13,281,943	23,695,782

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
Net resource outturn	3	13,282,079	(10,413,781)	23,695,860
Accruals adjustments		–	–	–
Non-cash items		(18,321,091)	5,478,420	(23,799,511)
Changes in working capital other than cash		20,265	(4,156)	24,421
Changes in payables falling due after more than one year		–	–	–
Use of provision		7,540,320	7,472,965	67,355
Excess cash receipts surrenderable to the Consolidated Fund		–	–	–
Net cash requirement		2,521,573	2,533,448	(11,875)

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 2010-11 £000		Outturn 2010-11 £000	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
Operating income and receipts-excess A in A		–	–	–	–
Other operating income and receipts not classified as A in A		136	<i>136</i>	58	<i>63</i>
	3	136	<i>136</i>	58	<i>63</i>
Non-operating income and receipts – excess A in A		–	–	–	–
Other non-operating income and receipts not classified as A in A		–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
Excess cash surrenderable to the Consolidated Fund		–	–	–	–
Total income payable to the Consolidated Fund		136	<i>136</i>	58	<i>63</i>

6. RECONCILIATION OF INCOME RECORDED WITHIN THE STATEMENT OF COMPREHENSIVE NET EXPENDITURE TO OPERATING INCOME PAYABLE TO THE CONSOLIDATED FUND

	2010-11	2009-10
Note	£000	£000
Operating Income	4,938,742	4,797,813
Income authorised to be appropriated-in-aid	4,938,684	4,797,729
Operating income payable to the Consolidated Fund	5 58	84

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

7. PENSION CONTRIBUTIONS RECEIVABLE

	2010-11	2009-10
Note	£000	£000
Employers	(3,313,901)	(3,220,283)
Employees:		
Normal	(1,522,798)	(1,481,367)
Purchase of added years	(23,291)	(26,038)
	(4,859,990)	(4,727,688)

8. PENSION INCOME – TRANSFERS IN

	2010-11	2009-10
Note	£000	£000
Group transfers in from other schemes	13 –	(1,322)
Individual transfers in from other schemes	13 (68,888)	(60,948)
	(68,888)	(62,270)

9. OTHER PENSION INCOME

	2010-11	2009-10
Note	£000	£000
Contributions equivalent premiums	(880)	(1,508)
Recoveries of payments in lieu	(8)	(10)
Reinstatement of contributions	(5)	(15)
Other income	(58)	(84)
Premature retirement compensation	(8,913)	(6,238)
	(9,864)	(7,855)

10. PENSION COST

	Note	2010-11 £000	2009-10 £000
Current service cost	19.5	7,069,030	5,002,581
Past service costs	19.5	21,586	18,869
		<u>7,090,616</u>	<u>5,021,450</u>

11. PENSION COST – NEGATIVE PAST SERVICE COSTS

	Note	2010-11 £000	2009-10 £000
Past service costs	19.5	(22,200,000)	–
		<u>(22,200,000)</u>	<u>–</u>

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

12. ENHANCEMENTS

	Note	2010-11 £000	2009-10 £000
Employees:			
Purchase of added years		23,291	26,038
Reinstatements		5	15
	19.5	<u>23,296</u>	<u>26,053</u>

13. PENSION COST – TRANSFERS IN

	Note	2010-11 £000	2009-10 £000
Group transfers in from other schemes	8	–	1,322
Individual transfers in from other schemes	8	68,888	60,948
	19.5	<u>68,888</u>	<u>62,270</u>

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.

14. INTEREST ON SCHEME LIABILITIES

	2010-11	2009-10
Note	£000	£000
Interest charge for the year	19.5 <u>9,526,193</u>	<u>10,123,793</u>

15. COMPENSATION BENEFITS PAYABLE

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

	2010-11	2009-10
Note	£000	£000
On retirement		
Contributions equivalent premiums	1,617	3,072
Premature retirement compensation	11,032	15,646
Other	519	516
Unwinding of discount	20 <u>2,742</u>	<u>2,503</u>
	<u>15,910</u>	<u>21,737</u>

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

16. RECEIVABLES – CONTRIBUTIONS DUE IN RESPECT OF PENSIONS**16(a) Analysis by type**

	2010-11	2009-10
Note	£000	£000
Amounts falling due within one year:		
Pension contributions due from employers	242,804	230,686
Employees' normal contributions	113,109	105,990
Bringing forward the payment of accrued superannuation lump sums	–	–
Capitalised cost of enhancement to pension payable on departure	–	–
Group transfers	–	–
Overpaid pensions	–	–
Other receivables	<u>8,629</u>	<u>8,534</u>
Pension contribution receivable – sub total	364,542	345,210
Recoverable compensation from employers (principal)	<u>3,339</u>	<u>2,651</u>
	<u>367,881</u>	<u>347,861</u>

Included within the 2010-11 figures is £2,000 (2009-10: £8,000) that will be due to the Consolidated Fund once the receivables are collected.

16(b) Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2010-11 £000	2009-10 £000	2010-11 £000	2009-10 £000
Balances with other central government bodies	13,390	6,994	–	–
Balances with local authorities	256,417	246,892	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	98,074	93,975	–	–
At 31 March	367,881	347,861	–	–

17. CASH AND CASH EQUIVALENTS

	Note	2010-11 £000	2009-10 £000
Balance at 1 April		25,476	22,419
Net change in cash balances		(37,287)	3,057
Balance at 31 March		(11,811)	25,476
The following balances at 31 March were held at:			
Government Banking Service		–	27,422
Government Banking Service overdraft		(11,338)	–
Commercial banks and cash in hand		330	707
Commercial banks and cash in hand overdraft		(803)	(2,653)
Short term investments		–	–
Balance at 31 March		(11,811)	25,476

Unpresented cheques relating to payments to pensioners, which did not clear by 31 March, created an overdraft as disclosed above. The 2009-10 commercial bank overdraft has been reanalysed to disclose it consistently with the 2010-11 presentation.

18. PAYABLES – IN RESPECT OF PENSIONS**18(a) Analysis by type**

	Note	2010-11 £000	2009-10 £000
Amounts falling due within one year			
Pensions		(278,006)	(253,854)
HMRC and voluntary contributions		(60,840)	(57,545)
Other payables		(3,624)	(2,968)
Pension and other payables sub-total		(342,470)	(314,367)
Amounts issued from the Consolidated Fund for supply but not spent at year end		–	(28,048)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:			
Received		(63)	(80)
Receivable		(2)	(8)
Consolidated Fund payables sub-total		(65)	(28,136)
Balance at 31 March		(342,535)	(342,503)

18(b) Contributions due – compensation payments agency

	Note	2010-11 £000	2009-10 £000
Balance at 1 April		(2,152)	(1,748)
Receipts from employers		(26,698)	(27,169)
Payments to employees		27,967	26,765
Balance at 31 March		(883)	(2,152)

18(c) Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2010-11 £000	2009-10 £000	2010-11 £000	2009-10 £000
Balances with other central government bodies	(61,030)	(85,810)	–	–
Balances with local authorities	(424)	(395)	–	–
Balances with bodies external to government	(281,964)	(258,450)	–	–
At 31 March	(343,418)	(344,655)	–	–

19. PROVISIONS FOR PENSION LIABILITIES

19.1 The Teachers' Pension Scheme is an unfunded defined benefits scheme. A full valuation by a professionally qualified actuary is required at intervals not exceeding four years. The Government Actuary's Department carried its last full review as at 31 March 2004, an interim review as at 31 March 2006 and is currently undertaking a full revaluation of the scheme as at 31 March 2008. The Statement by the Actuary at pages 8 to 12, therefore includes updates since 2006 for known data movements.

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

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

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

The major assumptions used by the actuary were:

	At 31 March 2011 %	At 31 March 2010 %	At 31 March 2009 %	At 31 March 2008 %	At 31 March 2007 %
Rate of increase in salaries ¹	4.9	4.3	4.3	4.3	4.3
Rate of increase in pensions in payment and deferred pensions ¹	2.7	2.8	2.8	2.8	2.8
Discount rate	2.9	1.8	3.2	2.5	1.8
Inflation assumption	2.7	2.8	2.8	2.8	2.8
Life expectancy for those retiring at 31 March aged 60	Years	Years	Years	Years	Years
Males	29.2	29.1	28.6	28.5	25.6
Females	32.7	32.6	31.8	31.7	28.6

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

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

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the *FReM*, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the RPI used in Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

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

19.2 Analysis of the provision for pension liability

Value of liability in respect of	31 March 2011 £ billion	31 March 2010 £ billion	31 March 2009 £ billion	31 March 2008 £ billion	31 March 2007 £ billion
Pensions in payment	94.0	105.1	79.8	78.8	73.4
Deferred members	15.7	19.8	15.2	16.8	18.5
Active members	82.7	99.0	73.6	80.9	89.4
Total liabilities	192.4	223.9	168.6	176.5	181.3

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

19.4 The value of the liability on the 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 19.5 and 19.8. The note also discloses "experience" gains and losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

19.5 Analysis of movements in the scheme liability

	Note	2010-11 £000	2009-10 £000
Scheme liability at 1 April		(223,900,000)	(168,600,000)
Current service cost	10	(7,069,030)	(5,002,581)
Past service cost	10,11	22,178,414	(18,869)
Interest on scheme liability	14	(9,526,193)	(10,123,793)
Enhancements	12	(23,296)	(26,053)
Pension transfers in	13	(68,888)	(62,270)
Benefits payable	19.6	7,357,762	6,830,102
Pension payments to and on account of leavers	19.7	108,488	143,704
Actuarial gain/(loss)	19.8	18,542,743	(47,040,240)
Scheme liability at 31 March		(192,400,000)	(223,900,000)

During the year ended 31 March 2011, contributions represented an average of 20.5%, unchanged from 2009-10.

19.6 Analysis of benefits paid

	2010-11	2009-10
Note	£000	£000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	5,837,506	5,557,429
Commutations and lump sum benefits on retirement	1,520,256	1,272,673
Per Statement of Cash Flows	7,357,762	6,830,102

19.7 Analysis of payments to and on account of leavers

	2010-11	2009-10
Note	£000	£000
Refunds to members leaving service	2,555	2,548
Transfers to other schemes	105,933	141,156
Per Statement of Cash Flows	108,488	143,704

19.8 Analysis of actuarial (gains)/losses

	2010-11	2009-10
Note	£000	£000
Experience (gains)/losses arising on the Scheme liabilities	(242,743)	40,240
Changes in assumptions underlying the present value of scheme liabilities	(18,300,000)	47,000,000
Per Statement of Changes in Taxpayers' Equity	(18,542,743)	47,040,240

19.9 History of experience (gains)/losses

	2010-11	2009-10	2008-09	2007-08	2006-07
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	(242,743)	40,240	3,936,023	(2,343,281)	4,344,105
Percentage of the present value of the Scheme liabilities	(0.1%)	0.1%	2.3%	(1.3%)	2.4%
Total amount as per total recognised (gains) and losses					
Amount (£000)	(18,542,743)	47,040,240	(16,763,977)	(14,043,281)	30,944,105
Percentage of the present value of the Scheme liabilities	(9.6%)	21.0%	(9.9%)	(8.0%)	17.1%

20. PROVISION FOR ANNUAL COMPENSATION PAYMENTS

	2010-11	2009-10
Note	£000	£000
Balance at 1 April	(124,646)	(113,792)
Additional provisions	(9,846)	(14,731)
Use of provision in year	6,715	6,380
Unwinding of discount	15 (2,742)	(2,503)
Balance at 31 March	(130,519)	(124,646)

21. FINANCIAL INSTRUMENTS

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

21.1 Liquidity risk

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

21.2 Interest rate risk

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

21.3 Foreign currency risk

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

21.4 Credit risk

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

22. CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

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

23. LOSSES AND SPECIAL PAYMENTS

During the year, losses arose in 2,100 cases (2009-10: 1,590 cases). The total loss was £89,682 (2009-10: £182,923).

24. RELATED-PARTY TRANSACTIONS

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

25. END OF YEAR CERTIFICATION

The contributions received from employers have been certified through End of Year Certificates. At the date the 2010-11 accounts were signed, the End of Year Certificates had been received from all 174 Local Authorities (LAs), and from 2,461 non-LA employers of which 42.46% have been fully and independently audited.

26. EVENTS AFTER THE REPORTING PERIOD

As outlined in Notes 2.7 and 11, the decision to uprate public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been recognised in these accounts. The decision is currently before the courts in judicial review proceedings. The Government is robustly defending the case and therefore no adjustment has been made to the account for this matter. The financial implications consequent on the review finding against the Government have not been assessed.

These financial statements were authorised for issue on 7 July 2011 by Sir David Bell (Accounting Officer). There have been no events after the reporting period end date requiring an adjustment to the financial statements.



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