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

## **Annual Accounts 2012-13**

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## **Annual Accounts 2012-13**

**(For the year ended 31 March 2013)**

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 MANAGER

Accounts for the year ended 31 March 2013.

#### BACKGROUND TO THE SCHEME

The Teachers' Pension Scheme (TPS or Scheme) is a contracted out, unfunded, defined benefit occupational pension scheme operated by the Department for Education (DfE). The Scheme is governed by statutory regulations which are currently statutory instruments: The Teachers' Pensions Regulations (amended 2010) (SI2010/990). Membership of the Scheme is voluntary and is open to members of the teaching profession in England and Wales who satisfy the membership criteria.

Contributions to the Scheme by employers and employees are set at rates determined by the Secretary of State, taking advice from the Scheme's actuary. The Scheme's payments are partially funded by the employer and employee contributions, the balance of funding being provided by Parliament through the annual Supply Estimates process. The Scheme's administrative expenses are borne by the DfE and reported in DfE's financial statements. The Scheme is managed by the DfE and administered under contract by Capita Business Services Ltd (Capita).

The TPS is a statutory, contributory, defined benefit scheme with benefits based on final average salary and length of service. Pensions are increased annually in line with the consumer prices index. Retirement and other pension benefits are set out in regulations made under the Superannuation Act (1972) and are paid by public funds provided by Parliament. The TPS is an unfunded scheme and members contribute on a "pay as you go" basis – these contributions along with those made by employers are credited to the Exchequer under arrangements governed by the above Act.

The Annual Accounts 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, the change in the net liability analysed between the pension cost, enhancements and transfers in, and interest on the Scheme liabilities. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary. 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.

#### CORPORATE GOVERNANCE

The TPS administration is governed at two levels:

##### TPS Boards

Strategy Board (SB): meets quarterly, chaired by DfE Head of Pensions, for the purpose of determining the strategic direction of the administration services, and review delivery progress. The focus is on

Departmental/Government pension priorities;

- achievement of contractual outcomes;
- innovations and improvements that deliver improved customer service and/or service efficiencies; and
- discuss any escalations from Service Delivery Board.

Service Delivery Board (SDB): meets monthly, chaired by the DfE Senior Contract Manager. The Board is responsible for

- managing and monitoring delivery of the strategic direction on a “day-to-day” basis;
- monitoring core pension administration delivery (see below);

- reviewing performance against service levels and addressing delivery risks and issues; and
- discussing any escalation from Finance and Audit meetings.

### The Department's Boards

The Departmental Board (DB) provides strategic and operational leadership of the Department, bringing together Ministerial and official leaders with Non-Executive Members from outside Government. The Board is chaired by the Secretary of State and its membership includes Ministers, the Permanent Secretary, all Directors General, the Director of Finance and Commercial Group, the Director of Strategy, Performance and Private Office, the Director of People and Change, Chief Executive of the Education Funding Agency and the Non-Executive Members. The Board meets five times per year and operates collectively by advising on strategic issues and the deliverability of policies, as well as scrutinising and challenging the Department on its performance and on how well it is achieving its objectives.

The Management Committee (MC) has a core membership of the Permanent Secretary, the Directors General and the Director of Finance and Commercial Group. The MC 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.

The Audit and Risk Committee (ARC) is chaired by the lead Non-Executive Board Member and provides:

- scrutiny and challenge of risk areas in key delivery programmes;
- advice to the Accounting Officer and DB on risk management strategies, internal control, financial accounts, financial and performance management, and internal and external audit; and
- oversight of corporate governance arrangements.

## CHANGES TO THE TEACHERS' PENSION SCHEME

Tiered contribution rates were introduced to the Scheme from 1 April 2012. The rates applied for each salary band in 2012-13 were:

Salary band	Contribution rate	Salary band	Contribution rate
£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 5.2% from 9 April 2012 as a consequence of the cost of living increasing, based on the Consumer Price Index.

The rates applicable for the financial year 2013-14 are as follows:

Salary band	Contribution rate	Salary band	Contribution rate
£1 - £14,999	6.4%	£40,000 - £44,999	9.2%
£15,000 - £25,999	7.0%	£45,000 - £74,999	10.1%
£26,000 - £31,999	7.9%	£75,000 - £99,999	10.6%
£32,000 - £39,999	8.8%	£100,000 or more	11.2%

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

During the year, compensation payments were increased by 5.2% with effect from 9 April 2012 in line with pensions.

## 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 2012; this is the latest data available.

The figures for pensions in payment are for year ended 31 March 2013.

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

### Active members

	Active members brought forward from 31 March 2011	654,545
		(24,799)
	Adjustments	
	<b>Revised total active members at 1 April 2011</b>	<b>629,746</b>
Add:	New entrants in the year	44,733
	Re-entrants in the year	47,256
	Transfers in	197
	Opted in	1,421
Less:	Premature retirements	(1,702)
	Age and infirmity retirements	(13,129)
	Actuarially reduced benefits	(8,328)
	Opted out	(4,723)
	Other exits (including transfers out)	(48,791)
	Deaths	(315)
	<b>Active members at 31 March 2012</b>	<b>646,365</b>

### Deferred members

	Deferred members brought forward from 31 March 2011	439,723
		11,927
	Adjustments	
	<b>Total deferred members at 1 April 2011</b>	<b>451,650</b>
Add:	Previously active members no longer in service	51,201
Less:	Deaths	(171)
	Return of contributions	(1,435)
	Re-entry to service	(30,619)
	Transfers out	(1,089)
	Awards out of service	(10,237)
	<b>Deferred members at 31 March 2012</b>	<b>459,300</b>



**Pensions in payment**

Pensions brought forward from 31 March 2012		
	- members	556,224
	- dependants	59,486
	<b>Total</b>	<b>615,710</b>
Adjustments made to data received post 31 March 2012		
	- members	2,057
	- dependants	647
	<b>Total</b>	<b>2,704</b>
Total pensioners in payment as 1 April 2012		
	- members	558,281
	- dependants	60,133
	<b>Total</b>	<b>618,414</b>
Add:	Members retiring in the year	
	- Age/premature pensions	17,825
	- Infirmity pensions	480
	- Actuarially reduced benefits	10,307
		28,612
	- New dependants	4,035
	<b>Total members retiring in year and dependants</b>	<b>32,647</b>
Less:	Cessations in year – Members	
	Age/Premature pensions	(10,205)
	Infirmity pensions	(1,886)
	Actuarially reduced benefits	(382)
		(12,473)
	Cessations in year – Dependants	(2,326)
	<b>Total cessations in year</b>	<b>(14,799)</b>
<b>Pension in payment at 31 March 2013</b>		
	- members	574,420
	- dependants	61,842
	<b>Total</b>	<b>636,262</b>

Please note:

Due to the way in which annual service is reported by employers of Scheme members, the data contained within the Annual Accounts for active and deferred members is for the year prior to the reporting year. This is due to the annual service returns data for the Scheme membership not being fully processed until after the Annual Accounts are completed. For example, the information for active and deferred members in the 2012-13 Annual Accounts are actually for the period 1 April 2011 – 31 March 2012 as this would be the most complete dataset available.

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

One consequence of the two different years being used within the Annual Accounts is that the number of in year retirements for active and deferred members will not match the number of 'Members retiring in the year' data shown in the calculation of pensioner numbers.

## **ADMINISTRATION**

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

## **PERFORMANCE AND POSITION**

### *Net Cash Requirement*

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 2012-13, the net cash requirement was £3,301,649,000 (2011-12: £3,078,689,000), £136,804,000 (4.0%) within the net cash requirement limit in the Supply Estimate forecast of £3,438,453,000. The DfE continues to work closely with the administrator, with input from the GAD, to refine the forecasts to take into account new emerging trends and anticipated changes in behaviour as a result of perceived and actual future changes to the Scheme.

### *Resource Outturn to Supply Estimate*

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

The Statement of Parliamentary Supply shows that the Scheme has not breached any of the Parliamentary control totals. The Scheme is reporting a resource outturn of £10,542,341,000 (2011-12: £11,709,947,000) which was within the Supply Estimate net control total of £10,577,939,000. At 1% within the Estimate figure this reflects the work which the DfE and the administrator have put in to ensure that forecasts of expenditure and receipts are realistic.

### *Financial Position*

The Scheme had net liabilities of £225.0bn (2011-12: £200.7bn).

### *Scheme Valuation*

In order that the defined benefit obligations recognised in these Accounts 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 last formal actuarial valuation undertaken for the Scheme was completed in 2004. 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. The member contribution rates for 2012-13 were set by the Secretary of State.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. As the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2011, such as would have been provided for a formal valuation. 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.

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, e.g. members subject to a later normal pension 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 2012-13 Annual Accounts.

### *Influences on Performance in 2012-13*

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

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

### **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 24).

## FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS

The 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 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 2012-13 the aggregate amounts of AVC investments are as follows:

### The Prudential

	<b>2012-13</b>	<b>2011-12</b>
	<b>£000</b>	<b>£000</b>
<b>Movements in the year:</b>		
Balance at 1 April	1,695,686	1,778,665
New investments	169,254	182,134
Sales of investments to provide pension benefits	(258,067)	(264,902)
Changes in market value of investments	(103)	(211)
<b>Balance at 31 March</b>	<b>1,606,770</b>	<b>1,695,686</b>
Contributions received to provide life cover	1,055	1,243
Benefits paid on death	3,545	3,291

### EMPLOYERS

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

Local Authorities (LAs)	174
Further Education Institutions	415
Higher Education Institutions	76
Independent Establishments	1,250
Academies	2,725
City Technology Colleges	6
Others	345

**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)*

Neil Archbold  
Department for Education  
Mowden Hall  
Staindrop Road  
DARLINGTON  
DL3 9BG

**ACTUARY**

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

**BANKERS**

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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 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 auditor is unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

*Chris Wormald*  
Accounting Officer

3 July 2013

**Teachers' Pension Scheme (England and Wales)****Accounting Year Ended 31 March 2013****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 2012-13 Annual Accounts of the Teachers' Pension Scheme (TPS or 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 IAS19 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 2011, with an approximate updating to 31 March 2013 to reflect known changes.

**Membership data**

4. Tables A to C summarise the principal membership data as at 31 March 2011 and 31 March 2013 used to prepare this statement.

**Table A – Active members**

31 March 2011		31 March 2013
Number (thousands)	Total salaries* (pa) (£ million)	Total salaries* (pa) (£ million)
700	27,184	26,810

\* Full-time equivalent

**Table B – Deferred members**

31 March 2011		31 March 2013
Number (thousands)	Total deferred pension <sup>†</sup> (pa) (£ million)	Total deferred pension <sup>†</sup> (pa) (£ million)
372	947	1,050

<sup>†</sup> Including increases applying in April of year

**Table C – Pensions in payment**

	<b>31 March 2011</b>	<b>31 March 2013</b>
<b>Number (thousands)</b>	<b>Total pension<sup>†</sup> (pa) (£ million)</b>	<b>Total pension<sup>†</sup> (pa) (£ million)</b>
589	6,134	7,110

<sup>†</sup> Including increases applying in April of year

### Methodology

- 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 2012-13 Annual Accounts. The contribution rate for accruing costs in the year ended 31 March 2013 was determined using the PUCM and the principal financial assumptions applying to the 2011-12 Annual Accounts.
- 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

- The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2013, the assumed rate of return in excess of pension increases was decreased from 2.80% to 2.35% a year, and the assumed rate of return in excess of earnings was decreased from 0.60% a year to 0.15% a year. In addition, with effect from 31 March 2013, the assumed rate of future pension increases is 1.70% a year and the assumed nominal rate of salary growth is 3.95% a year (changed from 2.00% and 4.25% respectively as at 31 March 2012).

**Table D – Principal financial assumptions**

<b>Assumption</b>	<b>31 March 2013</b>	<b>31 March 2012</b>
Rate of return (discount rate)	4.10%	4.85%
Rate of return in excess of:		
Pension increases	2.35%	2.80%
Earnings increases	0.15%	0.60%
Expected return on assets:	n/a	n/a

- The pension increase assumption as at 31 March 2013 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 2011-12 Annual Accounts.
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, e.g. members subject to a later normal pension 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 2012-13 Annual Accounts.
12. The contribution rate used to determine the accruing cost in 2012-13 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2011-12 Annual Accounts.

**Liabilities**

13. Table E summarises the assessed value as at 31 March 2013 of benefits accrued under the Scheme prior to 31 March 2013 based on the data, methodology and assumptions described in paragraphs 4 to 12. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

£ billion

	<b>31 March 2013</b>	<b>31 March 2012</b>	<b>31 March 2011</b>	<b>31 March 2010</b>	<b>31 March 2009</b>
<b>Total market value of assets</b>	nil	nil	nil	nil	nil
<b>Value of liabilities</b>	(224.9)	(200.6)	(192.4)	(223.9)	(168.6)
<b>Surplus/(Deficit)</b>	(224.9)	(200.6)	(192.4)	(223.9)	(168.6)
<b>of which recoverable by employers</b>	n/a	n/a	n/a	n/a	n/a

**Pension cost**

14. The cost of benefits accruing in the year ended 31 March 2013 (the Current Service Cost) is based on a standard contribution rate of 25.5% of pensionable pay. Members contributed about 7.7% of pensionable pay on average with different rates for different tiers of pensionable salary. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account contributions paid by members. The corresponding figures for 2011-12 are also included in the table.

**Table F – Contribution rate**

	Percentage of pensionable pay	
	1 April 2012 to 31 March 2013	1 April 2011 to 31 March 2012
<b>Standard contribution rate</b>	25.5%	24.7%
<b>Members' contribution rate</b>	7.7%	6.4%
<b>Employers' share of standard contribution rate</b>	17.8%	18.3%

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% a year for the 2012-13 Current Service Cost compared with 3.5% a year for the existing Scheme funding rate (note that the discount rate for Scheme funding purposes has 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 2012-13 was £23.2 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2012-13 (at 25.5% of pay) is assessed to be £5.9 billion. There is no past service cost and so this is the total pension cost for 2012-13.

**Matt Wood**  
**Government Actuary's Department**  
**7 May 2013**

## Revenue Account disclosures for year ended 31 March 2013

£ billion

	Year ended 31 March 2013
<b>Analysis of amount charged to pension cost</b>	
Current service cost	5.9
Past service cost	-
<b>Total operating charge</b>	<b>5.9</b>
<b>Analysis of the amount recognised in Statement of Financial Position</b>	
Expected return on scheme assets	-
Interest on pension liability	(9.7)
<b>Net return</b>	<b>(9.7)</b>
<b>Analysis of amount recognised in Statement of Change in Taxpayers' Equity (SCITE)</b>	
Actual return less expected return on scheme assets	-
Experience gains and losses arising on pension liabilities	(1.3)
Changes in mortality assumptions	-
Changes in demographic assumptions (other than mortality)	-
Changes to financial assumptions from 31 March 2013	(15.8)
<b>Net actuarial losses recognised in SCITE</b>	<b>(17.1)</b>
<b>Movement in surplus during the year</b>	
Deficit at 31 March 2012	(200.6)
Current service cost	(5.9)
Benefits paid during the year	8.3
Past service costs	-
Net transfers in	0.1
Interest on pension liability	(9.7)
Actuarial losses	(17.1)
<b>Deficit at 31 March 2013</b>	<b>(224.9)</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 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 Scheme, are set out in *Managing Public Money* published by HM Treasury.

## GOVERNANCE STATEMENT - TEACHERS' PENSION SCHEME (England and Wales)

Covering the period 1 April 2012 to 31 March 2013

### 1 Scope of responsibility

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

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

### 2 Governance Structure

The TPS is governed at two levels:

#### a) TPS Boards

- Strategy Board (SB): meets quarterly, chaired by Richard Symms, DfE Head of Pensions, for the purpose of determining the strategic direction of the administration services, and review delivery progress. The focus is on
  - Departmental/Government pension priorities
  - achievement of contractual outcomes,
  - innovations and improvements that deliver improved customer service and/or service efficiencies, and
  - discuss any escalations from Service Delivery Board.

Board Member	Meetings attended	Out of a possible
<b>DfE</b>		
Richard Symms	4	4
Peter Springhall	1	1
Neil Archbold	4	4
Anthony Wilson	1	1
Karen Peacock	2	2
Richard Lees	1	1

<b>Board Member (continued)</b>	<b>Meetings attended</b>	<b>Out of a possible</b>
<b>Capita</b>		
Karen Clements	3	4
Nick Burns	1	1
Andrea Waller	4	4
Chris Barrett	3	3
James Fuller	1	1
Tim Moran	1	1
John Bailey	4	4
Ian Butcher	4	4
Claire Boston-Smithson	3	4
Pete Henderson	3	3
Karen Lewis	1	1
Ian Hall	2	3
Chris Dixon	2	3
Emma Cripps	1	1
Andrew Allwood	1	2
Kelly Wright	1	2
Josey Evans	4	4

- Service Delivery Board (SDB): meets monthly, chaired by Neil Archbold, DfE Senior Contract Manager. The SDB is responsible for
  - managing and monitoring delivery of the strategic direction on a “day-to-day” basis,
  - monitoring core pension administration delivery (see below),
  - reviewing performance against service levels and addressing delivery risks and issues, and
  - discussing any escalation from Finance and Audit meetings.

<b>Board Member</b>	<b>Meetings attended</b>	<b>Out of a possible</b>
<b>DfE</b>		
Neil Archbold	12	12
Peter Springhall	3	3
Harjit Guram	1	1
Anthony Wilson	1	6
Jeff Rogerson	2	12
Richard Lees	6	11
Karen Peacock	5	6
Sam Chapman	2	2

Board Member (continued)	Meetings attended	Out of a possible
<b>Capita</b>		
Andrea Waller	11	12
John Bailey	12	12
Mark Richardson	8	9
Elizabeth Ford	9	9
Samantha King	4	5
James Fuller	2	2
Karen Lewis	3	3
Ian Hall	6	7
Claire Boston-Smithson	12	12
Andrew Allwood	2	3
Keith Barker	5	6
Mark Johnston	2	2
Chris Barrett	1	2
Chris Dixon	5	8
Pete Henderson	12	12
Kelly Wright	1	1
Siraj Hague	1	1
Josey Evans	12	12

- TPS Reform Implementation Project Board: meets monthly, chaired by Richard Symms, for the purpose of managing implementation of the reformed Scheme by April 2015. The focus encapsulates policy, administration and communication requirements, with a key objective to minimise any impact on business as usual administration services and financial management.
- Executive Reviews: Stephen Baker, the Deputy Director for Teachers' Pensions and Deregulation Division has six-monthly meetings with a Capita Executive Director, which provides a vehicle for escalating and resolving issues.

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

#### b) The Department's Boards

The Departmental Board (DB) provides strategic and operational leadership of the Department, bringing together Ministerial and official leaders with Non-Executive Members from outside government. The Board is chaired by the Secretary of State and its membership includes Ministers, the Permanent Secretary, all Directors General, the Director of Finance and Commercial Group, the Director of Strategy, Performance and Private Office, the Director of People and Change, Chief Executive of the Education Funding Agency and the Non-Executive Members. The Board meets five times per year and operates collectively by advising on strategic issues and the deliverability of policies, as well as scrutinising and challenging the Department on its performance and on how well it is achieving its objectives.

The Management Committee (MC) has a core membership of the Permanent Secretary, the Directors General and the Director of Finance and Commercial Group. MC 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
- leading and overseeing the process of change and innovation to enable the Department to deliver.

The Audit and Risk Committee (ARC) is chaired by the lead Non-Executive Board Member and provides:

- scrutiny and challenge of risk areas in key delivery programmes
- advice to the Accounting Officer and Board on risk management strategies, internal control, financial accounts, financial and performance management, and internal and external audit, and
- oversight of corporate governance arrangements.

Further details on the Department's boards can be found in the Governance Statement published in the Department's Annual Report and Accounts which are due for publication in January 2014.

### **3 Risk Management and Controls**

The Department's approach is to assign risks to those best placed to manage them. Individual managers are responsible to the risk owners (Directors General and Directors) for managing risk given their knowledge of the issues and can best mitigate any potential impacts. I am the risk owner for the TPS. 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 are discussed on an exceptions basis by ARC, MC and are ultimately escalated to the DB. No issues were escalated in 2012-13.



The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk, whilst still enabling the achievement of the relevant policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

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

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

- Risk Registers: separate contract, policy, finance, reform and administration (strategic and service delivery) risk registers are in operation. The approach provides appropriate ownership for managing relevant risks, but each business aspect is required to take account of the impact on the other. The structure of the registers is reviewed to ensure compliance with risk management good practice.
- Contractual Audit Requirement: Capita's contract requires them to produce and implement an audit strategy, which complies with Government Internal Audit Standards (GIAS) and provides requisite assurance over TPS governance, risk management and controls. The requirement is delivered by Capita's internal audit division, Group Internal Audit (GIA).
- Annual Audit Plan: a risk based annual audit plan is delivered by GIA which is approved by the Department. The Department continually reviews plan delivery, as well as approving the scope of individual audit activity, and reviewing / challenging audit findings.

The 2012-13 audit plan included 17 separate reviews, with financial audits in the following areas:

- ♦ finance estimating (significant improvement required),
- ♦ re-employment Debt (improvement required),
- ♦ payroll (satisfactory) and
- ♦ contributions (significant improvement required).

There were 66 recommendations made within the reports. We have addressed 54 of these satisfactorily and are working to complete the final 12.

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

- Independent Audit Assurance: the Department's internal audit function engages regularly with contract managers and GIA to review and challenge contract, risk and audit management. Internal audit also audits GIAs on a bi-annual basis, most recently establishing that GIA is compliant with GIAS with sufficient controls in place to mitigate key risks.

The key financial controls are as described below:

- Income and expenditure forecasts: are calculated by Capita, with input from the Department. Expert advice is sought from the Government Actuary's Department in respect of financial and demographic assumptions. A monthly finance meeting enables the Department's finance managers to review and challenge the forecasts, with support provided by finance advice and challenge Team. The forecasts are subject to further challenge by Treasury and the Office for Budget Responsibility (OBR). This process ensures procedures and controls are sufficiently robust to provide forecasts that are as accurate as possible.
- Fraud Identification: Capita are required to develop and maintain effective controls to prevent, detect and deter fraud. Capita's internal systems are subject to regular audit reviews and are deemed satisfactory. In line with public sector best practice, Capita participate in the National Fraud Initiative (NFI) to identify potential fraudulent benefit claims. Capita further supplements 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.
- Debt Management: the Department meets with Capita through a working group to identify and improve existing processes for debt identification to reduce the overall debt position. The working group has recently re-assessed the end-to-end process, from identification to recovery, and developed a management information and forecasting model to better understand debt and improve recovery timescales.

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

#### **4 Key Issues**

##### Opt Out Rate and Contributions

The introduction of tiered employee contribution rates from 1 April 2012 and reform of the TPS increases the risk of an increase in the number of members opting out of the Scheme, which in turn would have a significant impact on the Scheme's income. Opt-out rates are being monitored monthly, but to date there is no evidence to suggest the risk warrants escalation.

The move to tiered contributions has led to some employers experiencing difficulty in providing accurate data to Capita. This increased the risk that end of year accounts could be qualified due to lack of assurance over the accuracy of forecasting and in year/end of year pension contributions. Capita have reviewed systems and process, and engaged directly with employers to mitigate these risks. Monthly analysis confirms that the Scheme is receiving the correct level of contributions. The review has also focused on mitigating risks associated with the closure of the Audit Commission, who support the current year-end assurance process by issuing instructions to local authorities to complete the annual audited contributions return.

### Pension Scheme Reform

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

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

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

### Financial Management

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

Overpayment of pensions resulting from the failure of pensioners to disclose they have returned to work continues to be a risk. Capita have been given greater control over the debt recovery processes, with new systems introduced to reduce the risk of future overpayments occurring, to identify potential overpayments and to significantly reduce the risk of long-term overpayments arising. The amount of unrecoverable debt will not have a material impact on the Scheme Accounts.

The system of internal control, which accords with HMT guidance, was in place for the TPS for the year ending 31 March 2013 and will continue up to the date of approval and publication of both the TPS and Department's Annual Report and Accounts.

### Information Management and Data Safeguarding

In December 2012 Capita concluded implementation of a secure data environment that complies with updated HMG Security Policy Framework (SPF), which describes the standards, best practice guidelines and approaches that are required to protect UK Government assets (people, information and infrastructure). An interim accreditation was granted by the Department's Data Accreditor and full accreditation was achieved in April 2013.

### People Management

There is a requirement in the administrator's contract which determines that Capita must ensure that it employs appropriately skilled and qualified practitioners, preferably with a sound pension background, to specialist posts within the organisation. Capita have confirmed that there is a robust recruitment programme using internal and external recruitment consultants who gather requirements expected of the candidates and match people against them, including professional qualification requirements. On appointment there is a probationary period for all employees (which varies in length according to grade) and an appraisal system to ensure individuals maintain performance against objectives, along with internal Learning & Development programmes to further develop skills and professional qualifications. Learning and Development Team within Capita do maintain a record of all individuals' skills and professional qualifications.

Within the Department, there is a breadth of experience across Teachers' Pensions and Deregulation Division, who are responsible for the management of the TPS. However proposed organisational changes prompted by the Departmental Review increase potential risks around the recruitment, and particularly the retention, of staff with the appropriate technical background, which could impact on the delivery of business objectives.

### Corporate Governance Code

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

## **5 Independent Assurance**

GIA are required to assess the governance arrangements in place between Capita and the Department on an annual basis, to ensure that it provides an effective governance framework and adequate processes to proactively manage risks. Their Annual Statement of Assurance for the year ending 31 March 2013 confirms that it did provide a satisfactory framework to enable effective risk management during that period.

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

## **6 Overall Assessment**

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

Chris Wormald  
Accounting Officer  
03 July 2013

**Teachers' Pension Scheme (England and Wales)****THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL  
TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Teacher's Pension Scheme (England and Wales) for the year ended 31 March 2013 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 2013 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 2013 and of its combined net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the information given in the Report of the 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

**Date 5 July 2013**



## Statement of Parliamentary Supply

### Summary of Resource and Capital Outturn 2012-13

£000		2012-13						2011-12
		Estimate			Outturn			Outturn
Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Vote Outturn compared with Estimate: saving/ (excess)	Total
<b>Departmental Expenditure Limit</b>								
- Resource	-	-	-	-	-	-	-	-
- Capital	-	-	-	-	-	-	-	-
<b>Annually Managed Expenditure</b>								
- Resource	3 10,577,939		10,577,939	10,542,341		10,542,341	35,598	11,709,947
- Capital								-
<b>Total Budget</b>	<b>10,577,939</b>		<b>10,577,939</b>	<b>10,542,341</b>		<b>10,542,341</b>	35,598	11,709,947
<b>Total</b>								11,709,947
Total Resources	10,577,939		10,577,939	10,542,341		10,542,341	35,598	11,709,947
Total Capital	-		-	-		-	-	-
<b>Total</b>	<b>10,577,939</b>		<b>10,577,939</b>	<b>10,542,341</b>		<b>10,542,341</b>	35,598	11,709,947

### Net cash requirement 2012-13

£000

Note	2012-13			2011-12
	Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
	<b>3,438,453</b>	<b>3,301,649</b>	136,804	3,078,689

Administration Costs  
£000

	Estimate	Outturn	2012-13 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 35 to 58 form part of these accounts.

**Statement of Comprehensive Net Expenditure**

for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
<b>Income</b>			
Contributions receivable	6	(5,095,095)	(4,822,340)
Transfers in	7	(45,613)	(49,563)
Other pension income	8	(8,118)	(15,969)
		<u>(5,148,826)</u>	<u>(4,887,872)</u>
<b>Expenditure</b>			
Pension cost	9	5,935,214	5,784,014
Enhancements	10	18,055	18,570
Transfers in	11	45,613	49,563
Interest on scheme liabilities	12	9,670,440	10,717,111
		<u>15,669,322</u>	<u>16,569,258</u>
<b>Net Expenditure</b>		<u>10,520,496</u>	<u>11,681,386</u>
Compensation benefits payable	13	<u>21,695</u>	<u>28,471</u>
<b>Combined Net Expenditure</b>		<u>10,542,191</u>	<u>11,709,857</u>
<b>Other Comprehensive Net Expenditure</b>			
		2012-13 £000	2011-13 £000
Recognised (gains) and losses for the financial year			
Actuarial loss/(gain)	17.8	<u>17,069,624</u>	<u>(451,840)</u>
<b>Total Comprehensive Net Expenditure for the year ended 31 March 2013</b>		<b>27,611,815</b>	<b>11,258,017</b>

The notes on pages 35 to 58 form part of these accounts.

**Statement of Financial Position**

as at 31 March 2013

	Note	2012-13	2011-12
		£000	£000
<b>Current assets:</b>			
Receivables	14.1	394,258	367,272
Cash and cash equivalents	15	73,055	25,728
<b>Total Current Assets</b>		<b>467,313</b>	<b>393,000</b>
<b>Current liabilities:</b>			
Cash and cash equivalents		(1,587)	(1,636)
Payables (within 12 months)	16	(404,790)	(330,984)
<b>Total Current Liabilities</b>		<b>(406,377)</b>	<b>(332,620)</b>
<b>Net current assets, excluding pension liabilities</b>		<b>60,936</b>	<b>60,380</b>
Pension liability	17.5	(224,900,000)	(200,600,000)
<b>Net liabilities, including pension liabilities</b>		<b>(224,839,064)</b>	<b>(200,539,620)</b>
Provision for compensation payments where the Scheme acts as a principal	18	(156,663)	(145,791)
<b>Combined Schemes – Total net liabilities</b>		<b>(224,995,727)</b>	<b>(200,685,411)</b>
<b>Taxpayers' equity:</b>			
General fund		(224,995,727)	(200,685,411)
		<b>(224,995,727)</b>	<b>(200,685,411)</b>

Chris Wormald  
Accounting Officer

3 July 2013

The notes on pages 35 to 58 form part of these accounts.

**Statement of Changes in Taxpayers' Equity**

For year ended 31 March 2013

	<b>General Fund</b>	
	<b>2012-13</b>	<b>2011-12</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April</b>	<b>(200,685,411)</b>	<b>(192,517,867)</b>
Net Parliamentary Funding – drawn down	3,349,000	3,102,694
Net Parliamentary Funding – deemed	24,006	-
Consolidated Fund Standing Services		
Supply (payable)/receivable adjustments	(71,357)	(24,006)
Excess Vote - Prior-Year	-	11,875
Excess Vote – Appropriations-in-Aid	-	-
CFERS Payable to the Consolidated Fund	(150)	(90)
Comprehensive Net Expenditure for the Year	(10,542,191)	(11,709,857)
Actuarial (loss)/gain	(17,069,624)	451,840
<b>Net change in Taxpayers' Equity</b>	<b>(24,310,316)</b>	<b>(8,167,544)</b>
<b>Balance at 31 March</b>	<b><u>(224,995,727)</u></b>	<b><u>(200,685,411)</u></b>

The notes on pages 35 to 58 form part of these accounts.

**Statement of Cash Flows**

for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
<b>Cash flows from operating activities</b>			
Net expenditure for the year		(10,542,191)	(11,709,857)
Adjustments for non-cash transactions		9,673,647	10,719,982
(Increase)/decrease in receivables – principal arrangements <i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		(26,985)	903
Increase/(decrease) in receivables – agency arrangements		182	(294)
Increase/(decrease) in payables: pensions <i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		73,623	(12,434)
Increase in pension provision	9 & 18	(47,415)	(24,032)
		5,951,201	5,804,070
Increase in pension provision – enhancements and transfers in	10 & 11	63,668	68,133
Use of provisions – pension liability	17.6	(8,327,918)	(7,806,209)
Use of provisions – early retirement	18	(8,322)	(7,656)
Use of provisions – refunds and transfers	17.7	(111,028)	(111,209)
<b>Net cash outflow from operating activities</b>		<b><u>(3,301,538)</u></b>	<b><u>(3,078,603)</u></b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		3,349,000	3,102,694
From the Consolidated Fund (Supply) – prior year		-	11,875
<b>Net Parliamentary financing</b>		<b><u>3,349,000</u></b>	<b><u>3,114,569</u></b>
<b>Net Financing</b>		<b><u>47,462</u></b>	<b><u>35,966</u></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		(86)	(63)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>	<b>15</b>	<b>47,376</b>	<b>35,903</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>15</b>	<b>24,092</b>	<b>(11,811)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>15</b>	<b><u>71,468</u></b>	<b><u>24,092</u></b>

The notes on pages 35 to 58 form part of these accounts.

## NOTES TO THE FINANCIAL STATEMENT'S

### 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 2012-13 *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) on behalf of members of the teaching profession in England and Wales who satisfy the membership criteria.

Contributions to the Scheme by employers and employees are set at rates determined by the Secretary of State after consultation with the Scheme's Actuary. The contributions partially fund payments made by the Scheme, the balance of funding being provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the 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, including transfers out; 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 £157 million (2011-12: £146 million) (see note 18).

## 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 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 7.7%) to the projected unit credit rate (25.5%) 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 2.35% real rate (i.e. 4.1% including inflation).

### *2.9 Other expenditure*

All other expenditure in the Statement of Comprehensive Net Expenditure is related to the compensation scheme and 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 2.35% real rate (i.e. 4.1% 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.

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, e.g. members subject to a later normal pension 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 2012-13 Accounts.

#### *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 provider.

#### *2.17 Premature Retirement Compensation*

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

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

#### *2.18 Administration expenses*

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

#### *2.19 Changes to International 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 three IFRS which will become effective in 2012-13 which may impact the Scheme.

Standard	Issued	Effective from	Impact
IAS 1 Presentation of Financial Statements (Other Comprehensive income)	Accounting periods commencing 1 July 2012	2013-14	The standard requires items of OCI to be grouped on the basis of whether they might at some point be reclassified from OCI to Profit or where they will not.
IFRS 9 Financial Instruments	Accounting periods commencing 1 January 2015	Subject to Consultation	The standard introduces new requirements that address three areas; the classification and measurement of financial instruments; the calculation and disclosure of financial assets impairments and further information on hedge accounting principles and hedging relationships
IFRS 13 Fair Value Measurement	Accounting periods commencing 1 January 2013	Subject to Consultation	<p>The standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.</p> <p>This standard defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.</p>

IAS 1 does not impact on the Scheme due to the nature of the Schemes' income.

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:

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
IAS 12 – Income Taxes (Amendment)	Accounting periods commencing 1 July 2012	Subject to Consultation	The standard requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount through use of sale
IAS 19 Employee benefits	Accounting periods commencing 1 January 2013	2013-14	This amended standard introduces changes in the recognition and presentation that arose from the corridor approach. This approach is not permitted by FReM and therefore will not be adopted by the Department.  It also introduces improved disclosure requirements that will better show the characteristics of defined benefit plans and risks rising from those plans
IAS 16 Property, Plant and Equipment	Accounting periods commencing 1 January 2013	2013-14	This standard states that the classification of servicing equipment (spare parts, service and stand by equipment) is recognised under IAS16 when they meet the definition of property, plant or equipment. They are otherwise classified as inventory under IAS2
IAS 27 Separate Financial Statements	Accounting periods commencing January 2013	Subject to Consultation	The standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments

Standard	Issued	Effective from	Impact
IAS 28 Investments in Associates and Joint Ventures	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.
IAS 32 Financial Instruments: Presentations	Accounting periods commencing 1 January 2013	2013-14	The standard identifies the tax effect of distribution to holders of equity instruments
IFRS 10 Consolidated Financial Statements	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.
IFRS 11 Joint Arrangements	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.
IFRS 12 Disclosure of Interest in Other Entities	Accounting periods commencing 1 January 2013	Subject to Consultation	The standard 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.

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

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

### 3. Net resource outturn by section

2012-13										2011-12
Outturn £000							Estimate £000			Outturn £000
Administration			Programme				Total	Net Total	Net total compared to Estimate	Total
Gross	Income	Net	Gross	Income	Net					
<b>Spending in Departmental Expenditure Limits (DEL)</b>										
Voted expenditure	-	-	-	-	-	-	-	-	-	-
<i>Total spending in DEL</i>	-	-	-	-	-	-	-	-	-	-
<b>Spending in Annually Managed Expenditure (AME)</b>										
Voted expenditure	-	-	-	15,691,017	(5,148,676)	10,542,341	10,542,341	10,577,939	<b>35,598</b>	11,709,947
<i>Total spending in AME</i>	-	-	-	15,691,017	(5,148,676)	10,542,341	10,542,341	10,577,939	<b>35,598</b>	11,709,947
<b>Totals</b>	-	-	-	<b>15,691,017</b>	<b>(5,148,676)</b>	<b>10,542,341</b>	<b>10,542,341</b>	<b>10,577,939</b>	<b>35,598</b>	<b>11,709,947</b>

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

The net resource outturn on the Scheme is £35.6 million lower than the net resource limit in the Supply Estimate. The under-spend is the result of the Scheme income being £12.1 million and other income being £6.7million above forecast. Resource expenditure was £16.8m below expectations, as pension expenditure and transfers were below those expected over the final 4 months of the year. The outturn was 3.3% under the Estimate which 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.

#### 4. Reconciliation of net resource outturn to net expenditure and against administration budget

	Estimate	Outturn	Net total outturn compared with Estimate saving/(excess)
	£000	£000	£000
Resource Outturn	10,577,939	10,542,341	35,598
Capital Outturn	-	-	-
Non-operating income	-	-	-
Accruals adjustments:			
Non-cash items	(15,705,227)	(15,688,513)	(16,714)
Changes in working capital other than cash	91,183	595	90,588
Changes in payables falling due after more than one year	-	-	-
Use of provisions	8,474,558	8,447,268	27,290
Excess cash receipts surrenderable to the Consolidated Fund	-	(44)	44
Net Cash Requirement	3,438,453	3,301,647	136,806



## 5. Analysis of income payable to the Consolidated Fund

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

	Forecast 2012-13		Outturn 2012-13	
	Income £000	<i>Receipts</i> £000	Income £000	<i>Receipts</i> £000
Operating income outside the ambit of the Estimate	-	-	150	<i>111</i>
Non-operating income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total income payable to the Consolidated Fund	-	-	150	<i>111</i>

## 6. Pension contributions receivable

	2012-13 £000	2011-12 £000
Employers	(3,270,743)	(3,292,760)
Employees:		
Normal	(1,806,343)	(1,511,012)
Purchase of added years	(18,009)	(18,568)
	<b><u>(5,095,095)</u></b>	<b><u>(4,822,340)</u></b>

£4,836 million contributions are expected to be payable to the scheme in 2013-14

## 7. Pension income – transfers in

	Note	2012-13 £000	2011-12 £000
Group transfers in from other schemes	11	-	(1,264)
Individual transfers in from other schemes	11	(45,613)	(48,299)
		<b><u>(45,613)</u></b>	<b><u>(49,563)</u></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>2012-13</b>	<b>2011-12</b>
	<b>£000</b>	<b>£000</b>
Contributions equivalent premiums	(1,401)	(2,051)
Recoveries of payments in lieu	(5)	(9)
Reinstatement of contributions	(46)	(2)
Other income	(150)	(90)
Premature retirement compensation	(6,516)	(13,817)
	<b>(8,118)</b>	<b>(15,969)</b>

**9. Pension cost**

	<b>Note</b>	<b>2012-13</b>	<b>2011-12</b>
		<b>£000</b>	<b>£000</b>
Current service cost	17.5	5,914,125	5,764,757
Past service costs	17.5	21,089	19,257
		<b>5,935,214</b>	<b>5,784,014</b>

**10. Enhancements**

	<b>Note</b>	<b>2012-13</b>	<b>2011-12</b>
		<b>£000</b>	<b>£000</b>
Employees:			
Purchase of added years		18,009	18,568
Reinstatements		46	2
	17.5	<b>18,055</b>	<b>18,570</b>

**11. Pension cost - transfers in**

	<b>Note</b>	<b>2012-13</b>	<b>2011-12</b>
		<b>£000</b>	<b>£000</b>
Group transfers in from other schemes	7	-	1,264
Individual transfers in from other schemes	7	45,613	48,299
	17.5	<b>45,613</b>	<b>49,563</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.

**12. Interest on scheme liabilities**

	<b>Note</b>	<b>2012-13</b>	<b>2011-12</b>
		<b>£000</b>	<b>£000</b>
Interest charge for the year	17.5	<b>9,670,440</b>	<b>10,717,111</b>

**13. Compensation benefits payable**

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

	Note	2012-13 £000	2011-12 £000
<b>On retirement</b>			
Contributions equivalent premiums		1,069	3,292
Premature retirement compensation		16,880	21,713
Other		539	595
Unwinding of discount	18	3,207	2,871
		<b>21,695</b>	<b>28,471</b>

**14. Receivables - contributions due in respect of pensions**

## 14.1. Analysis by type

	2012-13 £000	2011-12 £000
<b>Amounts falling due within one year:</b>		
Pension contributions due from employers	239,194	241,520
Employees' normal contributions	131,822	111,364
Other receivables	21,149	10,755
Pension contribution receivable – sub total	392,165	363,639
Recoverable compensation from employers (principal)	2,093	3,633
	<b>394,258</b>	<b>367,272</b>

Included within the 2012-13 figures is £44,000 (2011-12: £6,000) that will be due to the Consolidated Fund once the receivables are collected.

There are no receivables falling due after more than one year (2011-12: £nil)

## 14.2. Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2012-13	2011-12	2012-13	2011-12
Balances with other central government bodies	68,950	45,250	-	-
Balances with local authorities	209,248	225,644	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with public sector organisations	<b>278,198</b>	<b>270,894</b>	-	-
Balances with bodies external to government	116,060	96,378	-	-
<b>At 31 March</b>	<b>394,258</b>	<b>367,272</b>	-	-

## 15. Cash and cash equivalents

	2012-13 £000	2011-12 £000
Balance at 1 April	24,092	(11,811)
Net change in cash balances	47,376	35,903
<b>Balance at 31 March</b>	<b>71,468</b>	<b>24,092</b>
The following balances at 31 March were held at:		
Government Banking Service	72,483	25,446
Government Banking Service overdraft	-	-
Commercial banks and cash in hand	572	282
Commercial banks and cash in hand overdraft	(1,587)	(1,636)
Short term investments	-	-
<b>Balance at 31 March</b>	<b>71,468</b>	<b>24,092</b>

**16. Payables – in respect of pensions**

	<b>2012-13</b>	<b>2011-12</b>
Analysis by type - Note 16.1	(402,984)	(329,361)
Contributions due – compensation payments agency – Note 16.2	(1,806)	(1,623)
<b>Total</b>	<b>(404,790)</b>	<b>(330,984)</b>

## 16.1. Analysis by type

	<b>2012-13</b>	<b>2011-12</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year</b>		
Pensions	(254,217)	(234,834)
HMRC and voluntary contributions	(71,381)	(68,408)
Other payables	(5,874)	(2,022)
Pension and other payables sub-total	<b>(331,472)</b>	<b>(305,264)</b>
Amounts issued from the Consolidated Fund for supply but not spent at year end	(71,357)	(24,005)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	(111)	(86)
Receivable	(44)	(6)
Consolidated Fund payables sub-total	<b>(71,512)</b>	<b>(24,097)</b>
<b>Balance at 31 March</b>	<b>(402,984)</b>	<b>(329,361)</b>

## 16.2. Contributions due - compensation payments agency

	<b>2012-13</b>	<b>2011-12</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(1,623)	(883)
Receipts from employers	(26,219)	(27,492)
Payments to employees	26,036	26,752
<b>Balance at 31 March</b>	<b>(1,806)</b>	<b>(1,623)</b>

## 16.3. Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
	2012-13	2011-12	2012-13	2011-12
Balances with other central government bodies	(143,115)	(90,739)	-	-
Balances with local authorities	(438)	(679)	-	-
Balances with NHS Bodies	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with public sector organisations	<b>(143,553)</b>	<b>(91,418)</b>	-	-
Balances with bodies external to government	(261,232)	(239,566)	-	-
<b>At 31 March</b>	<b>(404,785)</b>	<b>(330,984)</b>	-	-

**17. Provisions for pension liabilities**

17.1. 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.

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, e.g. members subject to a later normal pension 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 Schemes 2012-13 Annual Accounts.

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:

	<b>At 31 March 2013</b>	<b>At 31 March 2012</b>	<b>At 31 March 2011</b>	<b>At 31 March 2010</b>	<b>At 31 March 2009</b>
Rate of increase in salaries <sup>1</sup>	3.95	4.3	4.9	4.3	4.3
Rate of increase in pensions in payment and deferred pensions <sup>1</sup>	1.70	2.0	2.7	2.8	2.8
Nominal discount rate	4.10	4.8	5.6	4.6	6.0
Discount rate net of price inflation	2.35	2.8	2.9	1.8	3.2
Inflation assumption	1.70*	2.0*	2.7	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	29.2	29.1	29.2	29.1	28.6
Females	32.8	32.7	32.7	32.6	31.8
<b>Retirements in 20 years time</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>
Males	31.6	31.5	31.1	31.0	30.2
Females	35.1	35.0	34.6	34.5	33.3

<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.

*Note 17.1 continued*

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses 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 CPI used in HM 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.

The audit identified that GAD's theoretical modelling of the Scheme liability excluded a proportion of the population of pensioners who were older than 70. This gives rise to a potential 0.3% understatement of the liability (maximum of £675m. As this is a theoretical calculation and the auditors were satisfied that it would not be material to the accounts should it be realised, no adjustments were required to be made to the accounts.

## 17.2. Analysis of the provision for pension liability

Value of liability in respect of	31 March				
	2013 £ billion	2012 £ billion	2011 £ billion	2010 £ billion	2009 £ billion
Pensions in payment	119.5	104.7	94.0	105.1	79.8
Deferred members	19.6	16.9	15.7	19.8	15.2
Active members	85.8	79.0	82.7	99.0	73.6
<b>Total liabilities</b>	<b>224.9</b>	<b>200.6</b>	<b>192.4</b>	<b>223.9</b>	<b>168.6</b>



### 17.3. Pension scheme liabilities

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.

### 17.4. Value of Liability

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 17.5 and 17.8. 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.

## 17.5. Analysis of movements in the Scheme liability

	Note	2012-13 £000	2011-12 £000
Scheme liability at 1 April		(200,600,000)	(192,400,000)
Current service cost	9	(5,914,125)	(5,764,757)
Past service cost	9	(21,089)	(19,257)
Interest on scheme liability	12	(9,670,440)	(10,717,111)
Enhancements	10	(18,055)	(18,570)
Pension transfers in	11	(45,613)	(49,563)
Benefits payable	17.6	8,327,918	7,806,209
Pension payments to and on account of leavers	17.7	111,028	111,209
Actuarial gain/(loss)	17.8	(17,069,624)	451,840
<b>Scheme liability at 31 March</b>		<b>(224,900,000)</b>	<b>(200,600,000)</b>

During the year ended 31 March 2013 members contributions represented an average 7.7% of pensionable pay. Employers currently contribute 14.1% of pensionable pay.

## 17.6. Analysis of benefits paid

	Note	2012-13 £000	2011-12 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)		6,880,538	6,279,360
Commutations and lump sum benefits on retirement		1,447,380	1,526,849
Per Statement of Cash Flows		<b>8,327,918</b>	<b>7,806,209</b>

## 17.7. Analysis of payments to and on account of leavers

	Note	2012-13 £000	2011-12 £000
Refunds to members leaving service		2,635	2,925
Individual Transfers to other schemes		108,393	108,284
Per Statement of Cash Flows		<b>111,028</b>	<b>111,209</b>

## 17.8. Analysis of actuarial losses/(gains)

	Note	2012-13 £000	2011-12 £000
Experience losses/(gains) arising on the Scheme liabilities		1,269,624	(2,051,840)
Changes in assumptions underlying the present value of scheme liabilities		15,800,000	1,600,000
Per Statement of Changes in Taxpayers' Equity		<b>17,069,624</b>	<b>(451,840)</b>

## 17.9. History of experience losses/(gains)

	2012-13	2011-12	2010-11	2009-10	2008-09
Experience losses/(gains) arising on the scheme liabilities					
Amount (£000)	1,269,624	(2,051,840)	(242,743)	40,240	3,936,023
Percentage of the present value of the Scheme liabilities	0.56	(1.0%)	(0.1%)	0.1%	2.3%
Total amount recognised in Statement of Changes in Taxpayers Equity					
Amount (£000)	17,069,624	(451,840)	(18,542,743)	47,040,240	(16,763,977)
Percentage of the present value of the Scheme liabilities	7.59	(0.2%)	(9.6%)	21.0%	(9.9%)

**18. Provision for early retirement benefits**

	Note	2012-13 £000	2011-12 £000
Balance at 1 April		(145,791)	(130,519)
Additional provisions		(15,987)	(20,057)
Use of provision in year		8,322	7,656
Unwinding of discount	13	(3,207)	(2,871)
<b>Balance at 31 March</b>		<b>(156,663)</b>	<b>(145,791)</b>

**19. 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.

**20. Contingent liabilities disclosed under IAS 37**

In the unlikely event of a default by the approved AVC provider, the Scheme will guarantee pension payments. The liability for 2012-13 is £68.5m (2011-12, £54.4m). This guarantee does not apply to members who make payments to institutions offering Free Standing AVCs.

**21. Losses and special payments**

During the year, losses arose in 1,614 cases (2011-12: 1,915 cases). The total loss was £136,957 (2011-12: £100,057).

**22. Related-party transactions**

The Teachers' Pension Scheme falls within the ambit of the Department for Education, which is regarded as a related party. There were no material transactions with the Department. 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.

**23. End of Year Certification**

The contributions received from employers have been certified through End of Year Certificates. All 174 Local Authorities (LAs), and 4,572 out of 4,819 non-LA employers had submitted their End of Year Certificates at the date these accounts were signed.

**24. 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 5 July 2013 by Chris Wormald (Accounting Officer).



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