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Department of Education - Teachers' Superannuation

ANNUAL SCHEME STATEMENTS

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for the year ended 31 March 2004

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DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

ANNUAL SCHEME STATEMENTS

For the year ended 31 March 2004

Laid before the Houses of Parliament by the
Department of Finance and Personnel in accordance with
Paragraph 36 of the Schedule to the Northern Ireland Act 2000
(Prescribed Documents) Order 2004

11 November 2004

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DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

ANNUAL SCHEME STATEMENTS
for the year ended 31 March 2004

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DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

REPORT OF THE MANAGERS
Accounts for the year ended 31 March 2004

Introduction

The *Teachers' Superannuation Scheme* is an unfunded contributory, voluntary membership scheme administered by the Department of Education. The current regulations under which the scheme operates are the *Teachers' Superannuation Regulations (NI) 1998 (as amended)*.

Further information about the scheme is given in the explanatory booklet dated December 1999, which is issued to all members.

The *Teachers' Premature Retirement Compensation Scheme*, which is administered by the Department of Education, provides a range of compensation benefits for teachers who leave service before their normal retirement age under an early retirement scheme. The current regulations under which the scheme operates are *The Teachers' (Compensation for Redundancy and Premature Retirement) Regulations (Northern Ireland) 1991 S.R. 1991 No 132*.

The Managers, Advisers and Employers for both schemes are listed below:

Managers

Accounting Officer

Mr Gerry McGinn
Permanent Secretary
Department of Education
Rathgael House
43 Balloo Road
BANGOR
BT19 7PR

Scheme Administrator

Mr Mervyn Gregg
Department of Education
Teachers' Pensions Branch
Waterside House
75 Duke Street
LONDONDERRY
BT47 6FP

Advisers

Pension Scheme Actuary

Government Actuary's Department
New King's Beam House
22 Upper Ground
LONDON
SE1 9RJ

Bankers

Northern Bank Ltd
Donegal Square North
BELFAST
BT1 5GB

Legal Advisers

Departmental Solicitors Office
Victoria Hall
12 May Street
BELFAST
BT1 4NL

Auditors

Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU

Employers

The Teachers' Superannuation Scheme and the Premature Retirement Compensation Scheme cover the majority of employers within the educational field. These include the Education and Library Boards, Voluntary and Maintained Schools, Further Education Colleges, Universities and a small number of other employers. A full list of employers currently within the scheme can be obtained from the Scheme Administrator.

Changes to the Scheme

During the year the following changes were made to both Schemes:

- Pensions and benefits, which began before 23 April 2002, were increased by 1.7% with effect from 7 April 2003.

- Pensions and benefits, which have begun on or after 23 April 2002, have been increased proportionately.

Notional Transfers

Transfers between the Teachers' Superannuation Scheme and both the Principal Civil Service Pensions Scheme (PCSPS) and the Health and Personal Social Services (Superannuation) Scheme (HPSS) are treated on a notional basis. The net effect of transfers between the schemes in the 2003-04 year was as follows:

Transfers in from HPSS	£19,697
Transfers out to PCSPS	£955,226

Additional Voluntary Contributions (AVCs), Free-Standing Additional Voluntary Contributions (FSAVCs) and Stakeholder Pensions.

The Prudential Assurance Company has been selected by the Department of Education to provide AVCs to members of the Teachers' Superannuation Scheme. Scheme members are made aware of the AVC arrangements and there is a facility which allows contributions through payroll. No contributions are made by the Managers of the Teachers' Superannuation Scheme or by employers. The only role of the Managers of the Teachers' Superannuation Scheme is to advise the Prudential of the date from which a member's pension is payable and of the maximum pension payable under Inland Revenue rules.

Members of the Teachers' Superannuation Scheme may make their own arrangements for making payments to institutions which offer FSAVC or Stakeholder Pensions. Where a member has a FSAVC, the only role of the Managers of the Teachers' Superannuation Scheme is to carry out a check at retirement to ensure that pension benefits do not exceed Inland Revenue limits.

Post Balance Sheet Events

There were no post balance sheet events.

Membership Statistics

Details of the current membership of the Department of Education Teachers' Pension Scheme is as follows:

A. Active members	
Active members at 1 April 2003	27,035
Add: New entrants in the year	1,448
Transfers in	144
Less: Retirements in the year	(831)
Transfers out	(104)
Deaths	(6)
Active members at 31 March 2004	**27,686**

B. Deferred members	
Deferred members at 1 April 2003	3,469
Add: Members leaving who have deferred pension rights	253
Less: Members taking up deferred pension rights	(264)
Deferred members at 31 March 2004	**3,458**

C. Pensioners in payment

	Members	**Dependants**	**Total**
Pensioners in payment at 1 April 2003	12,772	1,120	13,892
Members retiring in year at normal retirement age	831	-	831
Members retiring in year previously in receipt of compensation payments	-	-	-
New dependants	-	82	82
Deaths in year	(213)	-	(213)
Dependants leaving	-	(34)	(34)
Pensioners in payment at 31 March 2004	**13,390**	**1,168**	**14,558**

D. Compensation payments	
Members in receipt of compensation at 1 April 2003	6,221
Add: Members leaving under early retirement scheme during the year	466
Less: Members reaching normal retirement age during the year	-
Less: Deaths/Other leavers	(70)
Members in receipt of compensation payments at 31 March 2004	**6,617**

Further Information

Any enquiries about the Teachers' Superannuation Scheme or Teachers' Premature Retirement Compensation Scheme should be addressed to:

Mr Mervyn Gregg
The Scheme Administrator
Teachers' Superannuation Scheme
Department of Education
Waterside House
75 Duke Street
LONDONDERRY
BT47 6FP

TEACHERS' SUPERANNUATION SCHEME (NORTHERN IRELAND)

REPORT OF THE ACTUARY
Accounts for the year ended 31 March 2004

Liabilities

A. The capitalised value as at 31 March 2004 of expected future benefit payments under the Northern Ireland Teachers' Superannuation Scheme, for benefits accrued in respect of employment (or former employment) prior to 31 March 2004, has been assessed using the methodology and assumptions set out in Sections C and D below. Table 1 summarises the results.

Table 1

Past service liabilities

Value of liability in respect of	£ billion
Pensions in payment	2.10
Deferred pensions	0.11
Active members (past service)	2.10
Total	**4.31**

Accruing costs

B. The cost of benefits accruing for each year of service is met partly by a 6% contribution from members, with the employer meeting the balance of the cost. Table 2 shows the contribution rate used to assess the cost of benefits accruing in the year 2003/04.

Table 2

Contribution rate

Contribution rate	Percentage of pensionable pay
Standard contribution rate	20.0%
Members' contribution rate	6.0%
Employer's share of standard cost	14.0%
Actual rate charged to employers	7.85%

In relation to the pensionable payroll for the financial year, the actual charges made to employers in cash terms are assessed as £56.6 million for the financial year 2003/04. The actual rate charged to employers of 7.85% is less than the standard cost of 14.0% primarily because it excludes the cost of pensions increases (but includes a supplementary contribution of 0.25%).

Methodology

C. The value of the liabilities has been obtained using the projected accrued benefit method, with allowance for expected future pay increases in respect of active members. The standard contribution rate for accruing costs (of 20%) has been determined using the new entrant method. The standard contribution rate using the projected unit method would be expected to be about 0.5% higher, and a rate of 20.5% has been used in calculating the current service cost.

Assumptions

D. The principal financial assumptions adopted for the pension assessments in this statement are a rate of return in excess of price increases of 3.5% p.a. (most pension benefits under the scheme are increased in line with prices), and a rate of return in excess of earnings increases of 2% p.a. The demographic assumptions adopted for the assessments are derived from the specific experience of the scheme membership.

Notes

E. (1) Section A of this Statement is based on the results of an interim valuation carried out as at 31 March 2003 with an approximate updating for the subsequent financial year to reflect known changes. The cost of benefits accruing in the year 2003/04, shown in Section B, is also based on the results of the interim valuation as at 31 March 2003.

(2) The pension benefits taken into account in this assessment are those normally provided from the rules of the pension scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits), or future redundancy benefits in respect of current employees. However, some pensions already in payment in respect of such cases are included in the statement of liabilities in Section A above.

E I Battersby, FIA
Chief Actuary
Government Actuary's Department

28 October 2004

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (NI) 2001, the Accounting Officer is required to prepare a combined financial statement for pension and compensation in the form and on the basis determined by the Department of Finance and Personnel (DFP).

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

In preparing these financial statements, the Accounting Officer is required to satisfy himself that:

- suitable accounting policies have been selected and applied consistently;
- the combined financial statements have been prepared on a going-concern basis, unless it is inappropriate to presume that either of the schemes will continue in operation;
- reasonable and prudent judgements and estimates have been made;
- applicable accounting standards have been followed, in accordance with the guidelines set out by DFP, subject to any material departures disclosed in the financial statements.

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 Department's assets, are set out in the Accounting Officers' Memorandum issued by DFP and published in *Government Accounting Northern Ireland.*

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department of Education's policies, aims and objectives set by the Minister, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting Northern Ireland.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department of Education for the year ended 31 March 2004 and up to the date of approval the accounts, and accords with DFP guidance.

3. Capacity to handle risk

The Department's Senior Management Team (SMT) has collective responsibility for monitoring and reviewing the high-level risks recorded in the corporate risk register and for receiving reports on significant risks arising from divisional risk registers. SMT has procedures in place for verifying that risk management and internal control are regularly reviewed and reported on.

Staff within the Department, in particular Heads of Branches, have received training to ensure they understand the purpose and context of the risk management process and their responsibilities within it. Personal responsibility for risk management is emphasised through risk ownership at the appropriate level and a system of stewardship reporting.

4. The risk and control framework

The Department has set out its attitude to risk in a Risk Management Framework, which also outlines the mechanisms through which potential risks to the achievement of the Departmental objectives are identified and evaluated. We have carried out appropriate procedures to ensure that risks associated with the Department's key objectives have been assessed, and determined a control strategy for each of the significant risks. Risk ownership has been allocated to the appropriate staff.

The nature of the risk, the current level of control, any further action being taken, and risk owners, are recorded in divisional risk registers and, for higher-level or overarching risks, in the corporate risk register. The Department's Risk Management Framework includes guidance which helps ensure consistent evaluation of risk.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Senior Management Team, the Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The risk management arrangements currently in place have been assessed by Internal Audit against HM Treasury guidance. This review has confirmed a high level of compliance with the guidance and also indicated some areas for improvement and consolidation, including enhancing the integration of risk management with business planning and improved monitoring arrangements.

My review of the effectiveness of the system of internal control is also informed by:

- regular performance information provided by managers with executive responsibilities;
- the subsidiary statements of internal control presented by Heads of Branch and Heads of Division within the Department, who have responsibility for the development and maintenance of the internal control framework in their respective areas;
- comments made by the external auditors in their management letters and other reports.

6. Significant internal control problems

With the introduction of FRS 17 there is a risk associated with the provision of accurate data to the Government Actuary's Department (GAD) to allow for an accurate calculation of the pension scheme liability and associated movements to be reported in the Department of Education Teachers' Superannuation Resource Account. The whole process of generating GAD reports is complex. Teachers' Pensions Branch staff are liaising with Northgate Information Systems about enhancements to the software which would make it much easier to identify and rectify any discrepancies. An action plan has been drawn up and it is hoped that a full actuarial valuation as at 31 March 2001 based on accurate data will be available by mid 2005.

The complexities of applying FRS 17 to Estimates for the first time in 2003-04, including the calculation of a prior period adjustment for 2001-02 and 2002-03, resulted in the Department incurring an Excess vote. The Excess vote arose due to unfamiliarity with the implications of the FRS 17 requirements and the absence of information on future changes in liabilities. The preparation of Estimates under these new arrangements requires inputs from various parts of the Department, as well as contact with the Government Actuary's Department, and a greater appreciation of the nature, scope and inter-relationships between the various pieces of information required. To achieve this, the Department's Teachers' Superannuation, Financial Planning and Accounts Branches will in future be collaborating more closely to ensure that necessary information is provided and its implications appreciated. The Department will also be contacting the Government Actuary's Department to see if estimates of future changes in liabilities can be obtained in advance of Spring Supplementary Estimates being prepared.

Signed: Gerry McGinn **Date:** 28th October 2004

Accounting Officer

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS AND THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements on pages 17 to 43 under the Government Resources and Accounts Act (Northern Ireland) 2001. These financial statements have been prepared under the accounting policies set out on pages 24 to 27.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 9, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I report whether the contributions payable to the Scheme have been paid in accordance with the Scheme rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Scheme Manager is not consistent with the financial statements, if the Department has not kept proper accounting records for the Scheme, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 10 to 12 reflects the Department's compliance with the Department of Finance and Personnel's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Department of Finance and Personnel, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board except that the scope of my work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

However, the Northern Ireland Resource Accounting Manual, with which the resource accounts must comply, requires a full actuarial valuation for superannuation scheme accounts at least every four years. As the last full, completed actuarial valuation was done as at 31 March 1996 the Scheme was unable to comply with this requirement. Instead, the valuation reflected in the accounts is based on an interim valuation by the Scheme Actuary at 31 March 2003 updated for movements in the 2003-04 year. Consequently, the evidence available to me was limited because the last full actuarial valuation is more than four years old and the Department was unable to validate membership statistics provided to the Scheme Actuary to inform his valuations of scheme liabilities at 1 April 2003 and 31 March 2004 reflected at Schedule 3 of the financial statements.

In consequence, I was unable to carry out auditing procedures necessary to obtain adequate assurance on the amounts and disclosures included in the financial statements.

Any adjustments to the actuarial valuations of scheme liabilities would have a consequential effect on Schedules 1 and 2 and associated notes.

As explained more fully in the attached report, Parliament authorised a Request for Resources for the Scheme in the Budget (Northern Ireland) Orders 2003. Net resources of £533,794,000 were authorised for Request for Resources A. Against this authorised limit, the Scheme incurred net resource expenditure of £656,719,000 as shown in Schedule 1 to the Resource Accounts for 2003-04 and have thus exceeded the authorised limit.

Additionally, the actual employers' contribution rate for 2003-04 was based on the results of the full actuarial valuation as at 31 March 1986 as the Actuary's recommended rate from the last completed valuation at 31 March 1996 has not been implemented.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion: disclaimer on the view given by the financial statements, qualified opinion on the regularity of income and arising from expenditure in excess of amounts authorised and other matters on which I am required to provide an opinion.

Disclaimer on the view given by the financial statements

Because of the possible effect of the limitations in evidence available to me, I am unable to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Department of Education – Teachers' Superannuation Scheme for the year ending 31 March 2004, the net outgoings and cash requirement for the year and the amount and disposition at that date of its assets and liabilities, or whether they have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel.

Qualified opinion on the regularity of income and arising from expenditure in excess of amounts authorised

Except for:

- net resource expenditure of £122,925,000 in excess of the amount authorised for Request for Resource A; and,
- the employers' contribution rate differing from that specified by the Actuary; and,
- the potential effect of any adjustments to the financial statements arising from any mis-statement in the actuarial valuation of scheme liabilities on foot of unvalidated information provided to the Actuary by the Department, and the last full, completed actuarial valuation being more than four years old;

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

Other matters on which I am required to provide an opinion

In my opinion the contributions payable to the Scheme during the year ended 31 March 2004 have not been paid in accordance with the recommendation of the Scheme Actuary.

In the absence of validated membership statistics, and a reconciliation between these statistics and the information provided by the Department to the Scheme Actuary to inform his valuations, I am unable to form an opinion on whether the Report of the Managers is consistent in that regard with the valuations of scheme liabilities included in the accounts.

In respect of the limitation on my work relating to the validity of membership statistics, the absence of a full, complete actuarial valuation not more than four years old and the potential effect of these matters on the valuation of scheme liabilities and the regularity of expenditure:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and
- I was unable to determine whether proper accounting records had been maintained.

See also my report at pages 44 to 52.

J M Dowdall CB
Comptroller and Auditor General

Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

29 October 2004

SCHEDULE 1

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

SUMMARY OF RESOURCE OUTTURN 2003-04

	2003-04							2002-03
	Estimate			Outturn			Net Total Outturn compared to Estimate saving/(excess)	Prior Year Outturn
	Gross Expenditure	Accruing Resources	NET TOTAL	Gross Expenditure	Accruing Resources	NET TOTAL		
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources A: Providing for the payment of pensions, lump sums and premature retirement compensation to persons covered by the Teachers' Superannuation Scheme.								
Annually Managed Expenditure	375,606	104,812	270,794	393,966	104,812	289,154	(18,360)	79,987
Non-Budget	263,000	-	263,000	367,565	-	367,565	(104,565)	-
Total Resources	638,606	104,812	533,794	761,531	104,812	656,719	(122,925)	79,987
Net cash requirement (Schedule 4)	-	-	85,665	-	-	79,437	6,228	79,231

Summary of income payable to the Consolidated Fund

In addition to Accruing Resources the following income relates to the Department and is payable to the Consolidated Fund;
(cash receipts are shown in italics)

	Forecast 2003-04		Outturn 2003-04	
	Income £000	Receipts £000	Income £000	Receipts £000
Contributions not classified as ARs	-	-	684	*585*
Other CFERs	-	-	-	-
Excess AR to be applied towards request for Resources Excess	-	-	(684)	*(585)*
TOTAL	**-**	**-**	**-**	**-**

Income Excess AR is £684,085.97. Cash Excess AR to be applied towards the Request for Resources Excess is £584,710.63.

Actual CFER receipts were £202.22. This amount is surrenderable to the Consolidated Fund.

Reconciliation of resources to cash requirement

	Estimate		Outturn		
	Note	NET TOTAL £000	NET TOTAL £000	Net total outturn compared with Estimate saving/(excess) £000	Prior-year outturns £000
Net Total Resources		533,794	656,719	(122,925)	79,987
Accruals Adjustments:					
Non cash items	23	(375,606)	(393,966)	18,360	(363,008)
Changes in working capital other than cash	24	-	(2,392)	2,392	4,764
Use of provision	20.2 & 20.3	190,477	186,642	3,835	175,992
Prior year adjustment	22	(263,000)	(367,566)	104,566	181,496
Net cash requirement (Schedule 4)		**85,665**	**79,437**	**6,228**	**79,231**

SCHEDULE 1 ***(Continued)***

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

Outturn exceeded Estimate by £123 million due to:

(i.) a miscalculation of the amount of prior period adjustment recording the net increase in Superannuation Scheme liabilities in 2001-02 and 2002-03 - £104.6 million;

(ii.) the effect of a revised Scheme valuation, received in July 2004, which increased Scheme liabilities in 2003-04 by £14.4 million; and

(iii.) higher than expected outgoings of £4 million.

Explanation of the variation between Estimate net cash requirement and outturn (net cash requirement):

The variance is due mainly to lower than expected requirements in relation to lump sum payments and other superannuation benefits.

Prior year adjustment

(i.) The adoption of FRS17 in 2003-04 has resulted in a change of accounting policy. For Estimates purposes, the requests for resources included a figure of £263 million being the sum of the net movement in the pension liability (excluding any actuarial gains and losses) for 2001-02 and 2002-03. The outturn was £367,565,044.08.

(ii.) A prior year adjustment of £1,224.50 has been made in respect of an accounting error made in the 2002-03 account.

SCHEDULE 2

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

COMBINED REVENUE ACCOUNT
for the year ended 31 March 2004

Principal arrangements
Teachers' Superannuation Scheme

	Note	2003-04 £000	Restated 2002-03 £000
Contribution and Benefits:			
Contributions receivable	5	(101,908)	(99,281)
Transfers in	6	(3,588)	(2,610)
Other income	7	-	(1)
		(105,496)	(101,892)
Pension cost	8 & 20.1	150,000	140,000
Enhancements	9	378	398
Transfers in	10	3,588	2,610
Interest on scheme liabilities	11 & 20.1	240,000	220,000
		393,966	363,008
Net outgoings for the year	12	**288,470**	**261,116**
Net resource outturn	12	**656,719**	**79,987**

STATEMENT OF RECOGNISED GAINS AND LOSSES			
Actuarial (gain)/loss	20.4	200,000	70,000
Total recognised (gains) and losses for the financial year		**200,000**	**70,000**
Prior year adjustment	22	3,907,016	-
Total (gains) and losses recognised since last annual report		**4,107,016**	**70,000**

SCHEDULE 3

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

COMBINED BALANCE SHEET
as at 31 March 2004

	Note	2003-04 £000	Restated 2002-03 £000
Current Assets			
Debtors	16	6,591	10,617
		6,591	10,617
Creditors: amounts falling due within one year			
Cash at Bank	17	(3,836)	(2,585)
Pensions	18	(4,557)	(2,239)
Amounts due to the Consolidated Fund - Excess Accruing Resources	19	(684)	(5,887)
		(9,077)	(10,711)
Net Current Liabilities		**(2,486)**	**(94)**
Provisions for Liabilities and Charges			
Pensions	20.1	(4,314,340)	(3,907,016)
Net Liabilities		**(4,316,826)**	**(3,907,110)**
Financed by:			
Revenue Account			
Balance brought forward		(3,907,110)	(4,858)
Prior year adjustment		1	(3,650,000)
Financing from the Consolidated Fund	25	79,437	84,751
Combined net outgoings for the year (Schedule 2)		(288,470)	(261,116)
Actuarial gain (loss) (SRGL)		(200,000)	(70,000)
Income not Accruing Resource, payable to the Consolidated Fund	19	(684)	(5,887)
Balance carried forward		**(4,316,826)**	**(3,907,110)**

Signed: Gerry McGinn **Date:** 28th October 2004

SCHEDULE 4

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

CASH FLOW STATEMENT
for the year ended 31 March 2004

	Note	2003-04 £000	Restated 2002-03 £000
Net cash outflow from operating activities (note A)		(78,853)	(78,864)
Receipts due to the Consolidated Fund		1	2
Payments of amounts due to the Consolidated Fund		(5,889)	(5,661)
Financing (note B)		83,490	81,169
Increase/(Decrease) in cash in the period		**(1,251)**	**(3,354)**

Note A – Reconciliation of net outgoings to operating cash flows

	Note	2003-04 £000	Restated 2002-03 £000
Net outgoings for the year (Schedule 2)		(288,470)	(261,116)
Adjustment for movements in working capital other than cash	24	2,293	(4,764)
Increase in pension provision	23	390,000	360,000
Increase in pension provision – enhancements and transfers	23	3,966	3,008
Use of provisions – pension liability	20.2	(184,142)	(172,999)
Use of provisions – refunds and transfers	20.3	(2,500)	(2,993)
Net cash outflow from operating activities		**(78,853)**	**(78,864)**

SCHEDULE 4 ***(Continued)***

Note B – Analysis of financing and reconciliation to net cash requirement

	Note	2003-04 £000	Restated 2002-03 £000
From Consolidated Fund (Supply): current year	25	75,015	70,756
Prior year supply	25	8,475	10,413
Net financing		**83,490**	**81,169**
(Increase)/Decrease in cash	17	1,251	3,354
Net cash flows other than financing		**84,741**	**84,523**
Adjustments for payments and receipts not related to Supply			
Amounts due to the Consolidated Fund – received in a prior year and paid over – Excess Accruing Resources relating to prior year		(5,887)	(5,659)
Amounts due to the Consolidated Fund - received and not paid over – Excess Accruing Resources relating to current year (Schedule 3)	19	585	5,887
Receipts due to the Consolidated Fund		1	2
Payments of amounts due to Consolidated Fund		(2)	(2)
Prior period adjustment		(1)	(5,520)
Net cash requirement (Schedule 1)		**79,437**	**79,231**

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION

NOTES TO THE SCHEME STATEMENT
Accounts for the year ended 31 March 2004

1. Basis of preparation of the scheme statement

1.1 The combined scheme statements have been prepared in accordance with the relevant provisions of *the Northern Ireland Resource Accounting Manual* for 2003-04 issued by the Department of Finance and Personnel, which reflect the requirements of Financial Reporting Standard (FRS) 17 *Retirements Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice entitled *Financial Reports of Pension Schemes* to the extent that these are appropriate. The current regulations under which the Teachers' Superannuation Scheme operates are the Teachers' Superannuation Regulations (NI) 1998 (as amended). The current regulations under which the Teachers' Premature Retirement Compensation Scheme operates are the Teachers' (Compensation for Redundancy and Premature Retirement) Regulations (Northern Ireland) 1991 S.R. 1991 No 132. The basis on which these scheme statements has been prepared represents a change of accounting policy the effects of which, in accordance with paragraph 96 of FRS 17, have been treated as a prior year adjustment. Further details of the effect of the adoption of FRS 17 are given in note 22 below.

Department of Education – Teachers' Superannuation Scheme and Teachers' Premature Retirement Scheme

1.2 The scheme statement summarises the transactions of the Department of Education - Teachers' Superannuation Scheme and the Teachers' Premature Retirement Compensation Scheme where the Department of Education acts as a principal. The balance sheet shows the deficit on the scheme; the Revenue Account shows, inter alia, the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that Report.

1.3 The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the Scheme statements.

2. Accounting Policies for the Department of Education - Teachers' Superannuation Scheme and Teachers' Premature Retirement Scheme

2.1 Contributions receivable

2.1.1 Contributions made by employers and employees in respect of pension and premature compensation are combined.

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

2.1.3 Employers' special contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.

2.1.4 Employees' contributions and amounts received in respect of the purchase of added years service are accounted for on an accruals basis. Neither Additional Voluntary Contributions (AVCs) (note 14) nor payments to providers of Stakeholder Pensions (see the Report of the Managers) are brought into account in these statements.

2.2 Transfers in and out

2.2.1 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. Transfers of members to and from the following schemes are accounted for on a notional basis, with no cash transfers:

Principal Civil Service Pension Scheme (Northern Ireland)
Northern Ireland Health and Personal Social Services Superannuation Scheme

2.3 Other income

2.3.1 Other income, including refunds of benefits, 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.

2.4 Current service cost

2.4.1 The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue account. The cost is based on a discount rate of 3.5 % real (ie 6 % including inflation).

2.5 Past service costs

2.5.1 Past service costs are increases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

2.5.2 Past service costs are recognised in the Revenue account on a straight line basis over the period in which increase in benefit vest.

2.6 Interest on scheme liabilities

2.6.1 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, and is recognised in the Revenue account. The interest cost is based on a discount rate of 3.5 % real (ie 6 % including inflation).

2.7 Other payments

2.7.1 Other payments are accounted for on an accruals basis.

2.8 Scheme liability

2.8.1 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 method and is discounted at 3.5% real (ie 6% after inflation).

2.8.2 Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions.

2.9 Pension benefits payable

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

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

2.10.1 Refunds of employees' contributions are accounted for on an accruals basis. Refunds include amounts payable both at the time of leaving or at normal retirement age (or earlier death).

2.11 Pension payments to those retiring at their normal retirement age

2.11.1 Lump sum and the annual pension payments are accounted for on an accruals basis. Recognition is based on the pension liability accruing from the day following the date of retirement.

2.12 Lump sums payable on death in service

2.12.1 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.

2.13 Actuarial gains / losses

2.13.1 Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

2.14 Additional Voluntary Contributions

2.14.1 Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the Department of Education to the approved AVC providers.

Schedule 1 – Summary of Resource Outturn

3. Details of actual outturn – resources and cash

Actual Outturn – Resources:

Request for Resources: Actual amount net resources outturn £656,719,110.65. Actual amount of overspend in resources over Estimate £122,925,110.65.

Actual Outturn – Cash:

Net cash requirement: Outturn net requirement £79,436,197.94 which is £6,228,802.06 less than Estimate.

4. (This note has been deleted.)

5. Pension contributions receivable

	2003-04 £000	2002-03 £000
Employers	56,774	55,195
Employees:		
Normal	43,205	42,291
Premature retirement compensation receipts from DEL	1,551	1,397
Purchase of added years	378	398
	101,908	**99,281**

6. Pension transfers in

	2003-04 £000	2002-03 £000
Individual transfers in from other schemes	3,588	2,610

7. Other pension income

	2003-04 £000	2002-03 £000
Other income	-	1

8. Pension cost

	2003-04 £000	2002-03 £000
Current service cost	150,000	140,000

9. Enhancements

	2003-04 £000	2002-03 £000
Employees:		
Purchase of added years	378	398

10. Transfer in

(see also note 6)

	2003-04 £000	2002-03 £000
Individual transfers in from other schemes	3,588	2,610

11. Interest charge

	2003-04 £000	2002-03 £000
Interest charge for the year	240,000	220,000

12. Reconciliation of net outgoings for the year to control total and net resource outturn

	Note	2003-04 £000	2002-03 £000
Net outgoings (Schedule 2)		288,470	261,116
Add: Income scored as Consolidated Fund Extra Receipts	19	684	5,887
Add/(Less): Prior year adjustment	22	367,565	(187,016)
Net Resource Outturn (Schedule 1)		**656,719**	**79,987**

13. Administration fees and expenses

All costs of administering the Teachers' Superannuation Scheme and the Teachers' Premature Retirement Scheme are borne by the Department of Education.

14. Additional Voluntary Contributions

The Department of Education – Teachers' Superannuation 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, namely Prudential Plc. The Managers of the Department of Education - Teachers' Superannuation Scheme have responsibility only for the onward payment by employers of members' contributions to the

Scheme's approved provider. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the approved provider as at 31 March confirming the amounts held to their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

Prudential Teachers' AVC Facility (Northern Ireland)	2003-04 £000	2002-03 £000
Movements in the year		
Balance at 1 April	34,841	31,164
New investments	5,303	5,904
Sales of investments to provide pension benefits	(2,127)	(2,147)
Changes in market value of investments	18	(80)
Balance at 31 March	**38,035**	**34,841**

15. Contingent Liabilities

In the unlikely event of a default by the Prudential Plc, the Department of Education will guarantee pension payments. This guarantee does not apply to members who make payments to institutions offering Free Standing Additional Voluntary Contribution Schemes.

The Department is currently processing the claims of part-time teachers who are pursuing the possibility of having their part-time teaching service prior to 1 May 1995 considered for pension purposes. It is not possible to estimate the value of these claims at the present time as a number of cases are expected to be out of time.

16. Debtors

	Note	2003-04 £000	2002-03 £000
Contributions due:			
Employers		1,017	975
Employees		828	939
Overpaid pensions		289	272
DEL debtor		99	-
Provision for Bad Debt		(63)	(43)
		2,170	2,143
Consolidated Fund Debtor	25	4,421	8,474
Total Debtors		**6,591**	**10,617**

Included within these figures is £99,375.34 that will be due to the Consolidated Fund once the debts are collected.

17. Cash at bank

	Note	2003-04 £000	2002-03 £000
Balance at 1 April		(2,585)	769
Net change in cash balances		(1,251)	(3,354)
Balance at 31 March		**(3,836)**	**(2,585)**
The following balances at 31 March are held at:			
Commercial Banks		(3,836)	(2,585)
		(3,836)	**(2,585)**
The balance at 31 March comprises:			
Income not Accruing Resources received and payable to the Consolidated Fund		585	5,887
Amounts owed from the Consolidated Fund for supply		(4,421)	(8,474)
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund		-	2
		(3,836)	**(2,585)**

18. Creditors

	Note	2003-04 £000	2002-03 £000
Amounts due within one year for pensions			
Pensions:			
Members		384	422
Inland Revenue and voluntary contributions		1,964	1,776
DE Creditor		2,178	-
Other		31	39
		4,557	2,237
Consolidated Fund Extra Receipts		-	2
		4,557	**2,239**

19. Creditors – amounts falling due within one year for Consolidated Fund excess Accruing Resource

	Note	2003-04 £000	2002-03 £000
Accruing Resource realised (Schedule 2)		105,496	101,892
Less: Accruing Resource authorised (Schedule 1)		104,812	96,005
Income not Accruing Resource, payable to the Consolidated Fund	12	**684**	**5,887**

20. Provision for pension liability

20.1.1 The Department of Education – Teachers' Superannuation Scheme is an unfunded defined benefit scheme. A full actuarial valuation was carried out as at 31 March 1996 and an interim actuarial review was carried out as at 31 March 2003 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2004	At 31 March 2003	At 31 March 2002
Rate of return (discount rate)	7.0%	8.5%	8.5%
Rate of return in excess of:			
Pension increases	3.5%	3.5%	3.5%
Earnings increases	2.0%	2.0%	2.0%

20.1.2 The scheme managers are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. 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;
- income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

20.1.3 Pension scheme liabilities accrue over employees' 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 far into the future. These 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.

20.1.4 The value of the liability included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. 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 20.4 and 20.5. The note also discloses 'experience' gains or 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.

20.1 Analysis of movement in scheme liability

	Note	2003-04 £000	2002-03 £000
Scheme liability at 1 April		**(3,907,016)**	**(3,650,000)**
Current service cost	8	(150,000)	(140,000)
Past service cost		-	-
Interest on pension scheme liability	11	(240,000)	(220,000)
		(390,000)	(360,000)
Enhancements	9	(378)	(398)
Pension transfers in	6	(3,588)	(2,610)
		(3,966)	(3,008)
Benefits paid	20.2	184,142	172,999
Pension payments to and on account of leavers	20.3	2,500	2,993
		186,642	175,992
Actuarial gain/(loss)	20.4	(200,000)	(70,000)
Scheme liability at 31 March		**(4,314,340)**	**(3,907,016)**

During the year ended 31 March 2004 contributions were 7.85% of pensionable pay.

20.2 Analysis of benefits paid

	Note	2003-04 £000	2002-03 £000
Pensions or annuities to retired employees and dependants		152,871	141,637
Commutations and lump sum benefits on retirement		30,266	29,686
Lump sum benefits on death in service		1,005	1,676
Per cash flow statement (Schedule 4)		**184,142**	**172,999**

20.3 Analysis of payments to and on account of leavers

	Note	2003-04 £000	2002-03 £000
Refunds to members leaving service		119	72
Individual transfers to other schemes		2,381	2,921
Per cash flow statement (Schedule 4)		**2,500**	**2,993**

20.4 Analysis of actuarial gain/(loss)

	Note	2003-04 £000	2002-03 £000
Experience gains/(losses) arising on the scheme liabilities		100,000	(270,000)
Changes in assumptions underlying the present value of the scheme liabilities		(300,000)	200,000
Per Statement of Recognised Gains and Losses		**(200,000)**	**(70,000)**

20.5 History of experience gains and losses

	Note	2003-04	2002-03
Experience (gains) and losses on scheme liabilities:			
Amount (£000)		(100,000)	270,000
Percentage of the present value of the scheme liabilities		(2.3%)	6.9%
Total actuarial loss/(gain):			
Amount (£000)		200,000	70,000
Percentage of the present value of the scheme liabilities		4.6%	1.8%

20.6 Sensitivity analysis

20.6.1 The Government Actuary's Department was asked to indicate the approximate effects on the standard contribution rate and the past service liabilities at 31 March 2003 of changes to the main assumptions adopted for the interim review.

20.6.2 The standard contribution rate and past service liabilities are linked predominantly to increases in earnings and prices, although Guaranteed Minimum Pensions (GMPs) accrued prior to 1997 are an exception.

20.6.3 There is an element of doubt regarding some elements of the membership data. This paragraph indicates the degree to which the past service liabilities are sensitive to the three possible areas of uncertainty in the data provided.

(i.) If the total salary roll of active members were 1% higher (lower), then this would increase (reduce) the active members liabilities by about £20 million, or about 0.5% of the total liabilities.

(ii.) If the total spouses' pensions in payment were 20% higher (lower), then this would increase (reduce) the pensions in payment liabilities by about £10 million, or about 0.25% of the total liabilities.

(iii.) If the total amount of deferred pensions were 50% higher (lower), then this would increase (reduce) the deferred pension liabilities by about £50 million, or about 1.25% of the total liabilities.

20.6.4 Unless there were any significant errors in the membership data, the overall effect on the past service liabilities is unlikely to be material.

Changes in financial assumptions

20.6.5 The principle financial assumptions are the real rates of return in excess of increases in earnings and prices, and the rate of real earnings growth (in excess of prices). The assumed nominal rate of inflation is less important although it does affect the past service liabilities in respect of GMPs.

20.6.6 The Actuary was asked to consider the effect of independent changes of +/– 0.5% in each of the main financial assumptions. Table 1 summarises the variant financial assumptions considered.

Table 1

Variant financial assumptions

Variant	Assumed annual rates (%)					
	Nominal return	Real return in excess of prices	Real return in excess of earnings	Real earnings growth	Price inflation	Earnings inflation
Central	7.0	3.5	2.0	1.5	3.4	4.9
(ia)	7.5	3.5	2.0	1.5	3.9	5.4
(ib)	6.5	3.5	2.0	1.5	2.9	4.4
(iia)	7.5	4.0	2.5	1.5	3.4	4.9
(iib)	6.5	3.0	1.5	1.5	3.4	4.9
(iiia)	7.0	4.0	2.5	1.5	2.9	4.4
(iiib)	7.0	3.0	1.5	1.5	3.9	5.4
(iva)	7.0	3.5	1.5	2.0	3.4	5.4
(ivb)	7.0	3.5	2.5	1.0	3.4	4.4

Changes in demographic assumptions

20.6.7 The Actuary assumed lower mortality rates for the interim review as at 31 March 2003 than those adopted for the full actuarial review as at 31 March 1996. Variant (v) shows the impact on the results if the mortality basis had not been changed for the interim review.

20.6.8 The Actuary was not provided with sufficient data on movements to consider suitable alternative assumptions bases for the other demographic elements of the basis. However, the effects of minor changes to these assumptions tend to be less significant than changes to the financial and mortality assumptions.

Sensitivity analysis of results

20.6.9 Table 2 summarises the approximate effects on the standard contribution rate and past service liabilities of changes to the main assumptions.

Table 2

Results of sensitivity analysis

Variant	Standard contribution rate	Past service liabilities (£ million)			Change in total liabilities (£ million)
		Pensions in payment	Deferred pensions	Active members	
Central	20.0%	1,930	100	2,050	–
(ia) (ib)	20.0% 20.0%	1,910 1,940	100 100	2,030 2,070	–40 +30
(iia) (iib)	16.3% 24.3%	1,860 1,990	90 110	1,740 2,410	–390 +430
(iiia) (iiib)	16.3% 24.3%	1,860 1,990	90 110	1,770 2,380	–360 +400
(iva) (ivb)	22.7% 17.7%	1,930 1,930	100 100	2,270 1,860	+220 –190
(v)	19.0%	1,820	100	1,950	–210

20.6.10 Variants (ia) and (ib) show little change from the central assumptions because the real rates of return are unchanged. There is no change in the standard contribution rate because GMPs no longer accrue and only minor changes to the past service liabilities arising from the valuation of GMPs.

20.6.11 Variants (iia) to (ivb) show more significant effects because either the real rates of return or real earnings growth differ from the central assumptions.

20.6.12 Variant (v) indicates that if the mortality basis had not been changed for the interim review, then the standard contribution rate would have been lower by 1.0% of salary (from 19.0% to 20.0%) and the liabilities by about 5% (from £3,870 million to £4,080 million).

21. Transfers in and out

Transfers in amounting to £86,533.51 which had been agreed in March 2004 were received in April 2004.

Transfers out amounting to £4,347.92 which had been agreed in March 2004 were paid in April 2004.

As a result of the merger between the Northern Ireland Hotel and Catering College with the University of Ulster, negotiations are currently taking place for a group transfer from the Department of Education: Teachers' Superannuation Scheme to the University Superannuation Scheme. The exact cost of this transfer has still to be determined by the Government Actuary's Department.

22. Prior period adjustments

FRS 17 *Retirement Benefits* has been fully implemented for 2003-04. As a result, the Revenue Account (Schedule 2) now recognises the movements in the scheme liability (other than those arising from actuarial gains and losses) analysed between the current service cost and the interest on the scheme liabilities. Hitherto, the Revenue Account recognised the pensions payable in the year. The results for 2002-03 have been restated to reflect the new accounting policies. The estimated effect of the change in accounting policy on the results for both 2003-04 and 2002-03 is to increase the net outgoings for each year by some £185 million.

As a result of recognising the scheme liabilities, there has been a movement in the reserves as at 31 March 2003 of £3,907,016,074.71 which has been noted in the analysis of movements in reserves.

For the purposes of the **Estimate**, a prior year adjustment equivalent to the movement in the pension liability in 2001-02 and 2002-03 was recognised. The estimated amount was £263 million; the outturn figure was £367,565,044.08 - see also Schedule 1 (Summary of Resource Outturn 2003-04) and Note 12.

23. Non cash items

	Note	2003-04 £000	2002-03 £000
Non cash items per cash flow statement (Schedule 4)			
Increase in pension provision	20.1	390,000	360,000
Increase in pension provision – enhancements and inward transfers	20.1	3,966	3,008
Non cash items per Schedule 1		**393,966**	**363,008**

24. Movements in working capital, other than cash (see Schedules 1 and 4)

	Note	2003-04 £000	2002-03 £000
(Increase)/Decrease in debtors – pensions	16	(27)	(700)
Increase/(Decrease) in creditors falling due within one year – pensions	18	2,320	(4,064)
Working capital movement per Schedule 1		**2,293**	**(4,764)**
Adjustment for increase in debtor of amounts due to the Consolidated Fund		99	-
Per Schedule 1		**2,392**	**(4,764)**

25. Reconciliation of net financing from Consolidated Fund

	Note	2003-04 £000	2002-03 £000
From Consolidated Fund (Supply): current year		75,015	70,756
Prior year supply		8,475	10,413
Net financing (Schedule 4)		**83,490**	**81,169**
Consolidated Fund debtor	16	4,421	8,474
Receipt of Consolidated Fund debtor		(8,475)	(4,892)
Financing from the Consolidated Fund (Schedule 3)		**79,436**	**84,751**

26. Related party transactions

The Teachers' Superannuation Scheme and the Teachers' Premature Retirement Scheme fall within the ambit of the Department of Education, which is regarded as a related party. During the year, the schemes have had material transactions with the Department, Non-Departmental Public Bodies and other bodies whose employees are members of the schemes. None of the Managers of the schemes, key managerial staff or other related parties have undertaken any material transactions with the schemes during the year.

27. Financial instruments

FRS 13 *Derivatives and Other Financial Instruments* requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the Department of Education - Teachers' Superannuation Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Liquidity risk

Resources voted by Parliament finance the Department of Education – Teachers' Superannuation Scheme's net revenue resource requirements. The Department of Education – Teachers' Superannuation Scheme is not therefore exposed to significant liquidity risks.

Interest rate risk

All of the Department of Education – Teachers' Superannuation Scheme's financial assets and liabilities carry nil or fixed rates of interest. The Scheme is not therefore exposed to any interest rate risk.

28. Losses

During the year losses arose in 79 cases. The total loss was £112,785.

29. Premature retirement compensation

The Teachers' Premature Retirement Compensation Scheme recovers compensation costs via increased employer contributions. Compensation costs are borne by the Scheme and are disclosed as obligations in the Report of the Actuaries (pages 6 - 8).

The number of compensation cases for the current year and in total broken down by employer group, are:

Number of teachers retiring on grounds of premature retirement in the year to 31 March 2004

	Efficient Discharge	Redundancy
Belfast Education and Library Board	8	49
North-Eastern Education and Library Board	8	66
Southern Education and Library Board	8	67
South-Eastern Education and Library Board	8	30
Western Education and Library Board	7	53
Voluntary Grammar Schools	4	49
Further Education Colleges	9	69
Other Grant-Maintained Schools	-	1
Other Bodies	1	3
TOTAL	**53**	**387**

Total number of teachers retired on grounds of premature retirement as at 31 March 2004

	Efficient Discharge	Redundancy
Belfast Education and Library Board	211	832
North-Eastern Education and Library Board	260	896
Southern Education and Library Board	412	615
South-Eastern Education and Library Board	316	589
Western Education and Library Board	276	675
Voluntary Grammar Schools	162	349
Further Education Colleges	170	614
Other Grant-Maintained Schools	3	2
Other Bodies	30	72
TOTAL	**1,840**	**4,644**

30. Discrepancies in data

Data provided to the Government Actuary's Department for the purposes of an interim valuation as at 31 March 2001 differs from that laid before Parliament with the 2003-04 resource accounts due to the complexities of extracting information from the Teachers' Pensions Computer System in the format specified by the Actuary. The Department has allocated staff to reconcile the discrepancies and has asked the software provider to enhance the software so that reports capable of meeting the Actuary's specifications can, in future, be more easily produced. In addition, a replacement computer system for the current system, which is 18 years' old, should be in place by June 2006.

DEPARTMENT OF EDUCATION - TEACHERS' SUPERANNUATION RESOURCE ACCOUNT 2003-04

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

General and accounting background

1. The Teachers' Superannuation Scheme is an unfunded contributory pension scheme for (mainly) teachers in Northern Ireland. It is managed by the Department of Education and operates under the Teachers' Superannuation Regulations (Northern Ireland) 1998.

2. The Department prepared cash-based appropriation accounts for the Scheme annually until 31 March 2001. From 2001-02 onwards, it has produced annual resource accounts. In 2001-02 and 2002-03 these resource accounts were not required to take account of obligations to pay pensions and compensation benefits which fell due after the relevant year ends. However, central government adopted Financial Reporting Standard 17, "Retirement Benefits", for application in 2003-04 and subsequent resource accounts. The requirements of this Standard are reflected in the Northern Ireland Resource Accounting Manual with which resource accounts must comply. Consequently, in accordance with the Standard, Scheme liabilities are required to be reflected in the 2003-04 account.

3. The effect of the change is that the accounts now provide information on the valuation of unfunded pension liabilities to be met in future years, the movement in those liabilities over the year and their interest cost. In previous years, the accounts focused on reporting the costs of pensions and other benefits paid and income from contributions received from members and their employing authorities. Prior year comparative amounts have been re-stated on foot of this change.

4. I disclaimed my opinion on the 2001-02 resource account (for reasons which the Department subsequently resolved in 2002-03). I also qualified my opinion on the regularity of income in 2001-02 as the employers' contribution rate was not in accordance with the rate recommended by the Scheme's Actuary. I qualified my opinion on the regularity of income in the 2002-03 resource account for the same reason.

Contribution rate and actuarial valuations

5. The employers' contribution rate for 2003-04 (7.85%) was based on the results of the actuarial valuation as at 31 March 1986.

6. The Department did not implement the 1991 actuarial valuation (which recommended an employers' contribution rate of 7.35% from 1 April 2000) for the reasons set out in my report on the 2001-02 accounts. I have included the relevant extract as an annex to this report.

7. Regulations (The Teachers' Superannuation Regulations (Northern Ireland) 1998) require employers to pay contributions in line with the rate specified by the Actuary.

8. Since my report on the 2001-02 accounts, the Actuary has finalised his valuation at 31 March 1996 and has recommended an employers' contribution rate of 7.0% from 1 April 2004. The Department has told me that it has implemented the recommended rate from that date.

9. I reported last year that the actuarial valuation at 31 March 2001 remains to be finalised. This is still the case. The Department told me the valuation will be finalised by 30 September 2005.

10. The Department does not yet have its 2001 actuarial valuation completed and I asked the Department what steps it is taking to ensure that actuarial valuations are completed on a more timely basis. I was told that the Department has allocated extra staffing resources to expedite the production of actuarial data. Furthermore, the Department intends to enhance further the links with the Scheme Actuary and also strengthen procedures in dealing with potential discrepancies in actuarial data. These procedures will include a range of checks which will focus on the problem areas highlighted by the Scheme Actuary. The Department told me these initiatives will ensure the production of timely and accurate actuarial information.

Quantification of the amount of Scheme liabilities

11. The Northern Ireland Resource Accounting Manual for 2003-04 requires that full actuarial valuations of Scheme liabilities by a professionally qualified Actuary should be obtained at intervals not exceeding four years. The Actuary should review the most recent actuarial valuation at the balance sheet date and update it to reflect current conditions.

12. The last full and complete valuation was done at 31 March 1996 rather than within the last four years as now required by NIRAM. As it was not possible to produce a full valuation in time for the 2003-04 resource accounts, the Department consulted extensively with the Scheme Actuary to agree a way forward. The Scheme Actuary recommended that the best way to proceed was to produce an interim valuation as at 31 March 2003 updated for movements in 2003-04. The Scheme Actuary's interim

valuation takes into account the following membership data provided by the Department as at 31 March 2003:

(i.) members in service and salaries payable;

(ii.) numbers and amounts (including pension increases) of pensions in payment, including pensions in payment in respect of premature retirements; and,

(iii.) numbers of members with deferred benefits and amount of deferred benefits for those who left with more than five years service.

13. The Scheme Actuary commented on aspects of the information with which the Department had provided him. However, he also reported that he had been advised by the Department that the data as at 31 March 2003, on which the interim valuation of the liabilities is based, was reliable. For the reasons stated at paragraph 15 below, the Department was unable to resolve the Actuary's concerns.

14. Notwithstanding the Department's assurance to the Actuary on the quality of data provided, I reviewed the reliability of that data. I noted discrepancies between this data and the membership statistics provided with the 2002-03 and 2003-04 accounts. For example:

- 27,281 active members at 1 April 2003 were reported to the Actuary. This compared with 27,035 active members at 31 March 2003 stated in membership statistics included with the 2002-03 resource accounts.

- 3,000 deferred members were reported to the Actuary, compared with 3,469 reported with the 2002-03 accounts.

- Nil dependants' pensions in payment as at 1 April 2003 were reported to the Actuary, compared with 1,120 reported in the 2002-03 membership statistics.

15. In the absence of validated membership statistics, and a reconciliation between these statistics and the information provided by the Department to the Scheme Actuary to inform his valuations, I am unable to form an opinion on whether the Report of the Managers is consistent in that regard with the valuations of Scheme liabilities included in the accounts. The membership statistics included with the 2002-03 accounts had already been laid before Parliament. I asked the Department why discrepancies arose between the information provided to the Actuary and that included with previous years' accounts. The Department told me that the nature of such errors is often difficult to uncover and substantial resources in terms of staff time and usage of the software provider would be required to reconcile them. The

Department also told me that industrial action occurred from 4 May until 28 May 2004 with 16 key staff (including staff who were liaising with the Scheme Actuary on the Interim Valuation) remaining on strike until 6 August 2004. Throughout this period management focused on maintaining the salaries and pensions payrolls. On return to work the key staff were required to deal with the vast range of high priority work that had built up over the previous four months.

16. I note that the Actuary had previously commented adversely on the quality of information the Department had provided to him for his 1986, 1991 and 1996 valuations. I regard it as unacceptable that the Department cannot readily provide verifiable membership and other statistics for the Superannuation Scheme.

17. In the absence of, firstly, a full and complete actuarial valuation within four years preceding 31 March 2004 and, secondly, a quantification of the potential effect of the discrepancies in membership data on the valuation of Scheme liabilities, I was unable to confirm whether the following are stated fairly:

- The pensions provision at 31 March 2004 and 31 March 2003 in Schedule 3 (£4,314,340,000 and £3,907,016,000 respectively).
- The net liabilities at 31 March 2004 and 31 March 2003 (£4,316,826,000 and £3,907,110,000 respectively).
- The pension cost for 2003-04 and 2002-03 as stated at Schedule 2 (£150,000,000 and £140,000,000 respectively).
- The interest in Scheme liabilities for 2003-04 and 2002-03 (£240,000,000 and £220,000,000 respectively).
- The net outgoings for 2003-04 and 2002-03 in Schedule 2 (£288,470,000 and £261,116,000) respectively.
- The Net Resource Outturn for 2003-04 and 2002-03 (£656,719,000 and £79,987,000 respectively).
- The Outturn Gross Expenditure and the Outturn Net Total for the 2003-04 year (£761,531,000 and £656,719,000 respectively) shown in Schedule 1.
- The comparison between Net Total Outturn and Estimate.
- The Statement of Recognised Gains and Losses.
- Associated disclosures in the notes to the 2003-04 accounts.

18. The Department told me it intends to take the following steps to verify information provided to the Scheme Actuary and to ensure that such information is readily available for 2004-05 and subsequent years:

- Carry out a detailed analysis of the Scheme Actuary's report specifications and ensure that the production of information from the Teachers' Pensions computer system is compatible with these specifications; and
- Improve the production of actuarial data by introducing a range of checks on member records; and
- Carry out a comprehensive reconciliation of actuarial data prior to dispatch to the Scheme Actuary; and
- Instigate remedial action in order to ensure that issues do not recur; and
- Allocate additional staffing resources to ensure that valuation data is forwarded to the Scheme Actuary on an annual basis.

Excess Vote

Purpose of Report

19. In 2003-04, the Teachers' Superannuation resource account reflects that it expended more resources than Parliament had authorised. By so doing, it breached Parliament's control of expenditure and incurred what is termed an "excess" for which further parliamentary authority is required. I have qualified my opinion on the regularity of expenditure in the Teachers' Superannuation 2003-04 resource accounts in this regard. The purpose of this part of my report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard to the breach of regularity

20. As part of my audit of the Teachers' Superannuation financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the resource accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard to Parliamentary authority and in particular the supply limits Parliament has set on expenditure.

21. By incurring expenditure that is unauthorised and is thus not regular, the Scheme has breached Parliament's controls.

Background to the excess

22. Parliament authorises and sets limits on departmental expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in Supply Estimates for which Parliament's approval and authority is given in annual Budget Orders.

23. By this means, Parliament has authorised a Request for Resources for the Scheme. It thereby authorises amounts for current expenditure which are net of forecast income, known as operating Accruing Resources. Parliament sets limits on the amount of operating Accruing Resources that can be applied towards meeting expenditure. The amounts authorised for Requests for Resources and operating Accruing Resources together represent a limit on the gross current expenditure that may be incurred.

Limits

24. The limits described above for the Scheme were set out in the Northern Ireland Main Estimates for 2003-04, as amended by the Northern Ireland Spring Supplementary Estimates. The limit for Request for Resources A was set at net expenditure of £533,794,000 together with a limit on Accruing Resources of £104,812,000. These limits were authorised in the Budget (Northern Ireland) Order 2003 and the Budget (Northern Ireland) (No. 2) Order 2003. The breach reported below is against the limit on net expenditure.

Amount of Excess – breach of limit on Request for Resources

25. Schedule 1 to the accounts shows net expenditure on Request for Resources A of £656,719,110.65, which is £122,925,110.65 (23.03%) in excess of the amount authorised. Accruing Resources authorised to be applied in aid of expenditure on this Request for Resources was limited to £104,812,000. This amount was wholly earned and applied. The Department also earned during the year from these income sources an additional £684,085.97 (of which £99,375.34 is included in debtors as at 31 March 2004). This is shown as Income not Accruing Resource, payable to the Consolidated Fund at Note 19 on page 32. It is proposed to ask Parliament to increase the limit on Accruing Resources by this amount to allow it to be applied towards meeting the excess on this Request for Resources, and to authorise the balance of £122,241,024.68 as additional use of resources by an Excess Vote.

Details and causes

26. As explained by the Department in the footnote to Schedule 1 at page 19 of the accounts, the Excess arose due to:

(i.) a miscalculation of the amount of prior period adjustment recording the net increase in Superannuation Scheme liabilities in 2001-02 and 2002-03 (£104.6 million); and

(ii.) the effect of a revised Scheme valuation, received in July 2004, which increased Scheme liabilities by £14.4 million; and

(iii.) higher than expected outgoings of £4 million.

I asked the Department why the miscalculation at (i.) had arisen. I was told that the increase in Superannuation Scheme liabilities in 2001-02 and 2002-03 had been mistakenly calculated as the total of the current service cost for each of those years, whereas it should also have included interest on Scheme liabilities and been offset by the use of provision. In respect of item (ii.), I asked why the Scheme valuation had required to be revised in July 2004. The Department told me that under paragraph 15.5.3b of the Northern Ireland Resource Accounting Manual it is required to obtain a report of the Scheme Actuary which includes the results of the Actuary's investigation into the value of the Scheme's total future pension liabilities.

The Department also told me that outgoings were £4 million more than expected because, when estimating the outgoings, the Department had been unaware that a provision for transfers and enhancements should also have been included in this figure.

Action taken by the Department to help prevent a recurrence

27. The Department told me it had taken the following steps to help prevent a recurrence:

- The three elements of the excess arose due to unfamiliarity with the complexities of applying the Financial Reporting Standard 17 requirements to Estimates for the first time in 2003-04. The preparation of the estimates under these new arrangements requires inputs from various parts of the Department (including contact with the Scheme Actuary) and an appreciation of the nature, scope and inter-relationships between the various pieces of information required. To achieve this in the future, the Department's Teachers' Superannuation, Financial Planning and Accounts Branches will be collaborating more closely to ensure that all necessary information is provided and its implications appreciated.

- The receipt of an interim valuation after the end of the Estimates year, and well after the Spring Supplementary Estimates had to be prepared, increased Scheme liabilities and gave rise to part of the 2003-04 excess. As future annual valuations may well have an impact of liabilities, the Department will be contacting the Scheme Actuary to see if estimates of future changes in liabilities can be obtained in advance of Spring Supplementary Estimates being prepared.

- As the prior year element of the Estimate was specific to the first year of Financial Reporting Standard 17 Estimates, the associated element of the excess is specific to 2003-04. However, the above action is aimed at ensuring that any future period adjustments reflect the appropriate requirements.

Conclusion

28. On the basis of my findings at paragraphs 11 to 17, I am unable to form an opinion on the Department of Education – Teachers' Superannuation resource account. I disclaimed my audit opinion because of this. In these respects I am unable to determine if proper accounting records had been kept and I did not receive all the information and explanations I required for my audit.

29. In respect of the matters reported at paragraphs 5 to 7, I concluded that the rate of employers' contributions payable to the Scheme during the year ended 31 March 2004 were not paid in accordance with the recommendation of the Scheme Actuary and I qualified my opinion on the regularity of income accordingly.

30. In respect of the matters reported at paragraphs 19 to 25, I concluded that net resource expenditure of £122,925,110.65 was in excess of the amount authorised by Parliament for Request for Resources A and that it was therefore irregular. I qualified my opinion on the regularity of expenditure accordingly.

J M DOWDALL CB
Comptroller and Auditor General
29 October 2004

Northern Ireland Audit Office
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ANNEX

With reference to paragraph 6 of my report, the relevant extract from my report on the 2001-02 resource account setting out the reasons given to me by the Department for not implementing the Actuary's recommended employers' contribution rate from that year is set out below.

"12. Current regulations (The Teachers' Superannuation Regulations (Northern Ireland) 1998) require employers to pay contributions in line with the rate specified by the Actuary. I understand the Department did not implement the recommended rate on grounds that:

- the 1991 actuarial valuation contained caveats regarding the patchiness and reliability of the data provided by the Department on which it was based; and
- the Department expected the 1996 actuarial valuation to be completed for implementation by April 2001 at the latest, and any change to the contribution rate would best be decided on the basis of both valuations, particularly as the data underlying the 1996 valuation was regarded as more reliable by the Department."

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