

Teachers' Pension Scheme (England & Wales)

Resource Accounts 2002-03

Teachers' Pension Scheme (England & Wales) Resource Accounts 2002 - 03

(For the year ended 31 March 2003)

*Ordered by the House of Commons to be printed
19 January 2004*

Contents

	Page
Report of the Managers	3
Report of the Actuary	8
Statement of Accounting Officer's Responsibilities	10
Statement on Internal Control	11
Certificate and Report of the Comptroller and Auditor General	12
The Accounting Schedules:	
Schedule 1 – Summary of Resource Outturn	14
Schedule 2 – Revenue Account	15
Schedule 3 – Balance Sheet	16
Schedule 4 – Cash Flow Statement	17
Notes to the Accounts	18-26

REPORT OF THE MANAGERS

Accounts for the year ended 31st March 2003.

Introduction

The Teachers' Pension Scheme is an unfunded, contributory, public service occupational pension scheme, governed by statutory regulations. The current regulations are the Teachers' Pension Regulations 1997 (as amended).

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

The scheme is managed by The Department for Education and Skills and administered under contract by Capita Teachers' Pensions.

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 managed by the Department for Education and Skills and administered under contract by Capita Teachers' Pensions.

The Managers, Advisers and employers for both are as listed below.

MANAGERS, ADMINISTRATORS, ADVISERS AND EMPLOYERS

MANAGERS

Accounting Officer

David Normington
DfES
SANCTUARY BUILDINGS
Great Smith Street
London
SW1P 3BT

Scheme manager (contact)

Richard Symms
DfES
Mowden Hall
Staindrop Road
DARLINGTON
DL3 9BG

Premature Retirement Scheme Manager (contact)

Richard Symms
DfES
Mowden Hall
Staindrop Road
DARLINGTON
DL3 9BG

ADVISERS

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

BANKERS

Paymaster (1836) Ltd

LEGAL ADVISERS

Legal Advisers
Caxton House
London

AUDITORS

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
Co Durham
DL3 9EE

EMPLOYERS

All organisations in England and Wales that employ teachers.

CHANGES TO THE TEACHERS' PENSION SCHEME

During the year the following changes were made to the Scheme.

Pensions were increased by 1.7 per cent with effect from 8 April 2002 in line with increases in the cost of living.

From 31 March 2001 Actuarially Reduced Benefits became part of the Teachers' Pension Scheme.

CHANGES TO THE PRC SCHEME

During the year, compensation payments to certain individuals were increased by 1.7 per cent in line with the increases in pensions.

FREE-STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS

The Teachers' Pension Scheme England and Wales does not have any arrangements to offer members free-standing additional voluntary contributions or stakeholder pensions.

POST-BALANCE SHEET EVENTS

There have been no post-balance sheet events that would have a material impact on the accounts.

MEMBERSHIP STATISTICS

Detail of the current membership of the Teachers' Pension Scheme England and Wales is as follows:-

Please note that the figures for Active Members are for year ending March 2002. The figures for Pensions in payment are for year ending March 2003. This is the latest data available.

Active Members

	Active members brought forward from 31 March 02	578,202
	Additions due to data received post-31 March 02	9,434
	Total Active members at the start of the year	<u>587,636</u>
Add:	New entrants in the year	35,970
	Re-Entrants in the year	21,536
	Transfers in	1,223
	Opted In	690
Less:	Premature Retirements	(2,492)
	Age and Infirmary Retirements	(9,882)
	Opted Out	(1,094)
	Other exits (including Transfers out)	(40,350)
	Deaths	(644)
	Active members at the end of year	<u>592,593</u>

Deferred members

	Deferred members brought forward from 31 March 02	323,494
	Additions due to data received post 31 March 02	<u>6,839</u>
	Total Deferred members at the start of the year	330,333
Add:	Exits with no benefits payable	41,180
	Optants out with service remaining in scheme	1,092
	Transfers in	119
Less:	Deaths	(139)
	Return of Contributions	(1,228)
	Re-entry to service	(19,706)
	Transfers out	(2,300)
	Awards out of service	<u>(4,995)</u>
	Deferred members at the end of the year	<u>344,356</u>

Pensions in payment

	Pensions at the start of the year – Members brought forward from 31 March 02	386,912
	Additions due to data received post 31 March 02 – members	<u>12,142</u>
	Total Pensions at the start of the year - Members	399,054
	Pensions at the start of the year – Dependants brought forward from 31 March 02	29,072
	Additions due to data received post 31 March 02	<u>8,176</u>
	Total Pensions at the start of the year - Dependants	<u>37,248</u>
	Total Pensions at the start of the year	<u>436,302</u>
Add:	Members retiring in the year	
	- Age\Premature Pensions	10,304
	- Infirmity Pensions	2,695
	- Actuarially Reduced Benefits	<u>3,193</u>
		16,192
	New dependants	<u>3,185</u>
		<u>19,377</u>
Less:	Cessations in Year - Members	
	Age\Premature Pensions	(8,353)
	Infirmity Pensions	(1,414)
	Actuarially Reduced Benefits	<u>(9)</u>
		(9,776)
	Cessations in Year - Dependants	<u>(1,225)</u>
		(11,001)
	Pensioners at the end of year - Members	405,470
	- Dependants	<u>39,208</u>
		<u>444,678</u>

Further information

Any enquiries about Teachers' Pension Scheme in England and Wales should be addressed to:-

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

Any enquiries about the PRC Scheme should be addressed to:-

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

David Normington
Accounting Officer

27 November 2003

REPORT OF THE ACTUARY

Liabilities

- A. The capitalised value as at 31 March 2003 of expected future benefit payments under the Teachers Pension Scheme (England and Wales), for benefits accrued in respect of employment (or former employment) prior to 31 March 2003, has been assessed using the methodology and assumptions set out in Sections C and D below. The results are as follows:

Value of liability in respect of	£ billion
Pensions in payment	49
Deferred pensions	8
Active members (past service)	51
Total	108

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. The cost of benefits accruing in the year 2002/03 has been assessed as follows:

Contribution rate	Percentage of pensionable pay
Standard contribution rate	19.5%
Members' contribution rate	6.0%
Employer's share of standard cost	13.5%
Actual rate charged to employers	8.35%

In relation to the pensionable payroll for the financial year, the actual charges made to employers in cash terms are assessed as £1.42 billion for the financial year 2002/03. The actual rate charged to employers of 8.35% is less than the standard cost of 13.5% primarily because it excludes the cost of pensions increases. However, the actual rate charged does include two additional elements of contribution. The first is a supplementary charge of 1.35% as determined by the Supplementary Report by the Government Actuary issued in March 2000, in order to eliminate a (notional) deficiency in the Scheme based on the experience of the Scheme in relation to previous charges. The second is an increase of 0.2% in respect of benefit improvements which came into effect from 1 April 2000.

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 19.5%) has been determined using the new entrant method. The standard contribution rate assessed using the projected unit method is 20.0%.

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 3½% 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 a full actuarial valuation carried out as at 31 March 2001 with an approximate updating for subsequent financial years to reflect known changes. The cost of benefits accruing in the year 2002/03, shown in Section B, is also based on the results of the valuation as at 31 March 2001, but the actual contribution rate in force was determined at the valuation as at 31 March 1996 and the subsequent supplementary report by the Government Actuary. With effect from 1 April 2003, employers will pay contributions at the rate of 13.5%.
- (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 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

27 June 2003

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the Accounting Officer is required to prepare a combined financial statement for pension and compensation in the form and on the basis determined by HM Treasury.

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accrual basis and must 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 3, "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 the 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; and
- applicable accounting standards have been followed, in accordance with the guidelines set out by HM Treasury, 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 HM Treasury and published in *Government Accounting*.

STATEMENT ON INTERNAL CONTROL

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Teachers' Pensions scheme's [see footnote] policies, aims and objectives, set by Ministers, 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.

The system of internal control is designed to manage rather than eliminate the 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 the principal risks to the achievement of Teachers' Pensions scheme's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2003 and accords with Treasury guidance.

The Department has contracted out the administration of the Teachers' Pensions scheme. The Teachers' Pensions scheme contract is managed by the Department and operated within the Department's internal control framework. As Accounting Officer, I have overall responsibility for ensuring that the contractor is managing risks effectively and for reviewing the effectiveness of the contractor's systems of internal control.

The Department has established the following processes to maintain and review the effectiveness of the system of internal control:

- a management board which meets every month to consider plans and the strategic direction of the Department (the Board consists of senior managers in the Department and two non-executive members);
- periodic reports from the chairman of the Audit Committee, to the board, concerning internal control;
- enhanced the risk framework for the Department including setting up a forum chaired by the Director General for Finance and Analytical Services looking at significant risks;
- regular reports by internal audit, to standards defined in the Government Internal Audit Manual, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's systems of internal control together with recommendations for improvement;
- maintained an organisation-wide register of generic risk and embedded the management of business risk at Divisional level;
- embedded project management methodology including risk management and developed risk management guidance for general application across the Department;
- developed a framework for all the Department's Directorates to provide assurance on the internal financial operation;
- embedded risk identification and management into the corporate planning process.

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 Teachers' Pensions contract management team 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.

Footnote

The Teacher's Pension scheme is an unfunded contributory pension scheme for teachers in England and Wales. The scheme is managed by the Department, however, the Department has contracted with Capita business services to undertake the administration of the Scheme under the name of 'Teachers' Pensions'.

David Normington
Accounting Officer

27 November 2003

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

I certify that I have audited the financial statements on page 14 to 26 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 18 to 19.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 2000 and Treasury 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, in all material respects, 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 Managers 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 report of the Scheme Managers, 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 page 11 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 Department'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 misstatement, 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. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Scheme for the year ending 31 March 2003, the net outgoings, cash requirement and cash flows for the year and the amount and disposition at that date of its assets and liabilities other than liabilities to pay pensions after the end of the Scheme year, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury;
- 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; and
- the contributions payable to the Scheme during the year ended 31 March 2003 have, in all material respects, been paid in accordance with the Scheme rules and the recommendations of the actuary.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

1st December 2003

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

SCHEDULE 1**Summary of Resource Outturn**

2002-03

	2002-03			2002-03			2001-02	
	Estimate		Net Total	Outturn		Net Total	Net total outturn compared with estimate saving/ (excess)	Prior year outturn
	Gross Expenditure	A in A		Gross Expenditure	A in A			
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resource	4,260,001	2,500,000	1,760,001	4,204,938	2,500,000	1,704,938	55,063	1,715,187
Net Cash Requirement			1,760,001			1,738,111	21,890	1,617,631
Reconciliation of resource to cash requirement								
		Note	£000			£000	£000	£000
Net Total Resources			1,760,001			1,704,938	55,063	1,715,187
Less non operating A in A								
Non Cash items		19				(12,672)	12,672	(11,662)
Changes in working capital other than cash		20	-			42,999	(42,999)	(87,862)
Use in provisions		18	-			2,846	(2,846)	1,968
Net Cash Requirement			1,760,001			1,738,111	21,890	1,617,631

Explanation of variance between Estimate and outturn

There is a 3.1 per cent variance between the Net Total Estimate and the Net Total Outturn for the financial year and does not require explanation.

Explanation of the variance between Estimate net cash requirement and outturn net cash requirement

There is a 1.2 per cent variance between the Net Cash requirement estimate and actual outturn and does not require explanation.

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid the following income relates to the Pension Scheme and is payable to the Consolidated Fund. Cash receipts are shown in italics

	2002-03 Forecast		2002-03 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Excess Appropriations in Aid	40,000	<i>55,000</i>	128,175	<i>96,490</i>
Other CFERs			210	<i>214</i>
	40,000	<i>55,000</i>	128,385	<i>96,704</i>

Actual outturn-resources:

Request for resources 1: Actual amount net resources outturn £1,704,937,530.72. Actual of excess in resources over Estimate £55,063,469.28.

Actual outturn-cash:

Net cash requirement: Outturn net requirement £1,738,110,664.43 which is £21,890,335.57 less than Estimate. The actual receipts surrenderable to the Consolidated Fund £96,703,548.66

SCHEDULE 2**Revenue Account**

for the year ended 31 March 2003

		<u>2002-03</u>	<u>2001-02</u>
	Note	<u>£000</u>	<u>£000</u>
Contributions and Benefits			
Contributions receivable	4	(2,525,837)	(2,219,265)
Transfers in	5	(89,249)	(86,134)
Other Income	6	(13,299)	(19,136)
		<u>(2,628,385)</u>	<u>(2,324,535)</u>
Benefits Payable	7	4,008,340	3,809,096
Leavers	8	178,530	134,412
Other Expenditure	9	18,068	21,701
		<u>4,204,938</u>	<u>3,965,209</u>
Net Outgoing for the year		<u>1,576,553</u>	<u>1,640,674</u>
Non Vote Revenues payable to the Consolidated Fund	17	128,385	74,513
Net Resource Outturn		<u>1,704,938</u>	<u>1,715,187</u>

SCHEDULE 3**Balance Sheet**

as at 31 March 2003

	Note	<u>2002-03</u> £000	<u>2001-02</u> £000
Debtors			
Cash at Bank	15	6,678	102,577
Contributions due in respect of pensions	14a	143,015	111,920
Other debtors	14b	7,252	3,528
Consolidated Fund Debtors		<u>90,026</u>	<u>-</u>
		246,971	218,025
Creditors – amounts falling due within one year			
Pensions and other creditors	16	(173,455)	(266,629)
Consolidated fund – excess appropriations in aid	17	<u>(230,302)</u>	<u>(74,513)</u>
		(403,757)	(341,142)
Net current liabilities			
		(156,786)	(123,117)
Provision for Compensation Payments where the scheme acts as a principal	18	(40,482)	(30,656)
Net Liabilities			
		<u>(197,268)</u>	<u>(153,773)</u>
Financed by:			
Revenue account			
Balance brought forward		(153,773)	(18,973)
Financing from the Consolidated Fund		1,648,085	1,671,937
Net outgoings during the year (Schedule 2)	11	(1,576,553)	(1,640,674)
Adjustment for Prior Year Accrual only Excess A-in-A			10,855
Consolidated fund debtor		90,026	(102,405)
Transitional adjustment		20,036	
Less: adjustment for income received due to Consolidated fund		(96,704)	
less: Income not appropriated in aid payable to the Consolidated Fund	17	<u>(128,385)</u>	<u>(74,513)</u>
		(115,027)	(166,063)
Balance carried forward			
		<u>(197,268)</u>	<u>(153,773)</u>

David Normington
Accounting Officer

27 November 2003

SCHEDULE 4**Cash Flow Statement**

for the year ended 31 March 2003

	<u>2002-03</u>	<u>2001-02</u>
Note	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities (Note a)	(1,592,317)	(1,617,631)
Receipts due to Consolidated Fund		
Payments of amounts due to the Consolidated Fund	(69,299)	(73,923)
Financing (Note b)	<u>1,565,717</u>	<u>1,764,026</u>
Increase/(decrease) in cash in the period	<u>(95,899)</u>	<u>72,472</u>

Note a: Reconciliation of net outgoings to operating cash flows

Net outgoings for the year (Schedule 2)	(1,576,553)	(1,640,674)
Non cash items	19 12,672	11,662
Adjustment for movements in working capital other than cash	20 (25,590)	13,349
Utilisation of provision	18 <u>(2,846)</u>	<u>(1,968)</u>
Net cash outflow from operating activities	<u>(1,592,317)</u>	<u>(1,617,631)</u>

Note b: Analysis of financing, and reconciliation to the net cash requirement

From the Consolidated Fund (Supply) – current year ¹	1,565,717	1,700,000
From the Consolidated Fund (Supply) – prior year ²		<u>64,026</u>
Net financing	<u>1,565,717</u>	<u>1,764,026</u>
Increase (-)/decrease (+) in cash	<u>95,899</u>	<u>(72,472)</u>
Net cash flows other than financing	<u>1,661,616</u>	<u>1,691,554</u>

Adjustment for payments and receipts not related to supply:

Amounts due to the Consolidated Fund, received in a prior year and paid over – excess appropriations in aid relating to prior year CFER creditor retained	(69,299)	(73,923)
Amounts due to the Consolidated Fund, received but not paid over – excess appropriations in aid relating to current year (Schedule 3)	96,704	
Transitional adjustment for working capital	49,090	
Net cash requirement (Schedule 1)	<u><u>1,738,111</u></u>	<u><u>1,617,631</u></u>

¹ Amount of grant actually issued to the department to support the net cash requirement = £1,565,716,614.00 (2001-02 £1,700,000,000.00)

² Amount of grant actually issued to the department to support the prior year net cash requirement is nil (2001-02 £64,026,090.82)

Experience gains and losses

	<u>2002-03</u>
Experience gains and losses arising on the scheme liabilities: amount (£000)	500,000
percentage of the present value of the scheme liabilities	0.5%
Total actuarial loss: amount (£000)	500,000
percentage of the present value of the scheme liabilities	0.5%

2. Basis of preparation

2.1 The scheme statement has been prepared in accordance with the relevant provisions of the Resource Accounting Manual for 2002-03 issued by the Treasury, which in turn, are based on the recommendations of the Statement of Recommended Practice entitled *Financial Reports of Pension Schemes*.

2.2 Teachers' Pension Scheme: Principal Arrangements

2.2 The scheme statement summaries the transactions of the Teachers' Pensions Scheme where the Department for Education and Skills acts as principal. It does not take account of obligations to pay pensions that fall due after the end of the current year. The actuarial position of the pension scheme, which does take account of pension obligations, is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

2.3 Teachers' Pension Scheme: Agency Arrangements

2.3 The scheme acts as an agent for employers in the payment of compensation benefits arising under the Teachers' Pension Compensation Scheme. Compensation benefits paid out in the course of the month are generally recovered from the employer in advance, on a quarterly basis. These financial flows are not brought to account in the financial statements.

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

3. Accounting policies for the Teachers' Pension Scheme: principal arrangements**3.1 Pensions contributions receivable**

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

3.1.2 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.

3.1.3 Employees' pension contributions and amounts received in respect of the purchase of added years of service are accounted for on an accruals basis. Neither additional voluntary contributions (AVCs) nor payments to providers of stakeholder pensions are brought into account in this statement.

3.2 Transfers

3.2.1 Transfers in and out are accounted for on an accruals basis where the scheme has formally accepted or transferred a liability in respect of a group transfer. Transfers in and out in respect of individual members are accounted for on a cash basis.

3.3 Other income

3.3.1 Amounts receivable from employers 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 on an accruals basis.

3.3.2 The remaining elements of "other income", including repayments of gratuities and overpayments recovered other than by deduction from future benefits, are accounted for on an accruals basis.

3.4 Benefits payable

3.4.1 Pensions payable including income tax and voluntary deductions are accounted for on an accruals basis. Pensions are paid monthly in arrears throughout the month. The amount of pension arrears due at year end is estimated by apportioning some of the payments made during April to March. The estimate takes into account pension uprating payable from the first Monday on or after 6 April, and any movement in the number of pensions in payment during March and April.

3.4.2 Income tax and voluntary deductions are deducted from pensions. Deductions from payments made from the sixth day of one month to the fifth of the next month are paid to the Inland Revenue and other appropriate bodies on the nineteenth day of the second month. Apportioning 26/31 of the payments made to these organisations on 19 April derives the amounts owing to the Inland Revenue and other relevant bodies at year-end.

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

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

3.5.2 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 on a cash basis.

3.6 Accounting policies for Premature Retirement Compensation

3.6.1 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 month and recovered from employers on a quarterly basis, in advance. These transactions are not recorded in the revenue account (Schedule 2).

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

4. Pension contributions receivable

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Employers	1,447,375	1,207,778
Employees:		
Normal	1,060,698	993,836
Purchase of added years	17,764	17,651
	<u>2,525,837</u>	<u>2,219,265</u>

5. Pensions transfers-in

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Individual transfers in from other schemes	89,249	86,134
	<u>89,249</u>	<u>86,134</u>

6. Other pension income

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Contributions Equivalent Premiums	1,849	1,451
Recoveries of Payments In Lieu	7	7
Other income	210	172
Premature Retirement Compensation	11,233	17,506
	<u>13,299</u>	<u>19,136</u>

7. Pension benefits payable

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Pensions or Annuities to:		
Retired Employees	3,374,305	3,261,393
Dependants	115,288	104,828
Compensations or lump sum benefits:		
On retirement	482,554	409,782
On death	36,193	33,093
	<u>4,008,340</u>	<u>3,809,096</u>

8. Pension payments to and on account of leavers

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Refunds to members leaving service	1,708	1,333
Individual transfers to other schemes	176,822	133,079
	<u>178,530</u>	<u>134,412</u>

9. Other pension expenditure

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Contributions Equivalent Premiums	4,216	3,066
Other	329	300
Premature Retirement Compensation	11,684	18,335
Unwinding of discount	1,839	
	<u>18,068</u>	<u>21,701</u>

10. Administrative fees and expenses

All costs of administering the Teachers' Pensions Scheme and the Teachers' Pension Compensation Scheme are borne by the Department for Education and Skills (DfES).

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

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Net outgoings (Schedule 2)	1,576,553	1,640,674
Add: Income scored as Consolidated Fund Extra Receipts (note 17)	<u>128,385</u>	<u>74,513</u>
Net resource outturn (Schedule 1)	<u>1,704,938</u>	<u>1,715,187</u>

12. Additional Voluntary Contributions

12.1 The Teachers' Pensions 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, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution Schemes (FSAVCs). The individual's employer is responsible only for the onward payment 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 made up to 31 March each year confirming the amounts held to their account and the movements in the year.

12.2 The aggregate amounts of AVC investments are as follows:

The Prudential

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Movements in the year were as follows:		
Balance at 1 April	1,293,956	1,085,563
New investments	251,255	258,745
Sales of investments to provide pension benefits	(74,415)	(49,907)
Changes in market value of investments	<u>(239)</u>	<u>(445)</u>
Balance at 31 March	<u>1,470,557</u>	<u>1,293,956</u>

13. Contingent Liabilities

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

Balance Sheet: Principal arrangements via the Teachers' Pension Scheme, and principal and agency arrangements via the Teachers' Pension Compensation Scheme

14. Debtors**14a. Debtors: contributions due in respect of pensions**

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Pension contributions from employers	82,683	61,336
Employees' contributions	<u>60,332</u>	<u>50,584</u>
	<u>143,015</u>	<u>111,920</u>

The 2002-03 debtors figure of £143,015,000 includes £133,599,000 (2001-02: £74,522,000) which will be payable to the Consolidated Fund on receipt.

14b. Other debtors

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Other debtors	6,198	3,063
Recoverable compensation funding from employers (principal)	1,051	465
Recoverable compensation payments (agency)	<u>3</u>	<u>-</u>
	<u>7,252</u>	<u>3,528</u>

15. Cash at bank and in hand

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
The balance at 31st March comprises:		
Cash due to be paid to the Consolidated Fund:	<u>£000</u>	<u>£000</u>
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	102,405
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	214	172
Excess A in A received due to be paid to the Consolidated Fund	<u>6,464</u>	<u>-</u>
	<u>6,678</u>	<u>102,577</u>

16. Creditors: amounts falling due within one year

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Other creditors	661	284
Due to Inland Revenue	34,446	31,631
Pensions payable	<u>138,348</u>	<u>132,309</u>
Creditors included in movement in working capital (Schedule 4)	173,455	164,224
Payable to the Consolidated Fund	<u>-</u>	<u>102,405</u>
	<u>173,455</u>	<u>266,629</u>

17. Creditors: amounts falling due within one year for Consolidated Fund Extra Receipts and excess appropriations in aid

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Appropriations in aid realised (Schedule 2)	2,628,385	2,324,535
Less: appropriations in aid authorised (Schedule 1)	<u>2,500,000</u>	<u>2,250,022</u>
Income not appropriated in aid, payable to the Consolidated Fund (note 11)	128,385	74,513
Receipt of prior year income not yet paid to Consolidated Fund	96,704	
Consolidated Fund CFER creditor	<u>5,213</u>	<u>-</u>
	<u>230,302</u>	<u>74,513</u>

18. Provision for annual compensation payments

	<u>2002-03</u>
	£000
Balance at 1 April	30,656
Additional Provisions	10,833
Use of provision in year	(2,846)
Unwinding of discount	<u>1,839</u>
Balance at 31 March	<u>40,482</u>

Employers have the option to make lump sum or actuarial payments in order to discharge their liabilities under the compensation scheme. A provision has been made to recognise that the Teachers' Pension Scheme has a liability to make compensation payments on behalf of employers who have opted to pre-fund contributions payments to the scheme. The movement in the balance of the provision in respect of the amounts receivable for these liabilities is shown above.

19. Non-cash items

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Increase in annual compensation payment provision (note 18)	(10,833)	(11,662)
Unwinding of discount (note 18)	<u>(1,839)</u>	<u>-</u>
Total	<u>(12,672)</u>	<u>(11,662)</u>

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

	<u>2002-03</u>	<u>2001-02</u>
	£000	£000
Movement in debtors (note 14)	34,819	1,481
Movement in creditors (note 16)	<u>(9,229)</u>	<u>(14,830)</u>
Per Schedule 4	<u>25,590</u>	<u>(13,349)</u>
Adjustment for non-appropriations in aid debtor	(128,385)	(74,513)
Adjustment for non-appropriations in aid creditor	96,704	
Transitional adjustment for working capital	<u>49,090</u>	<u>-</u>
Per schedule 1	<u>42,999</u>	<u>(87,862)</u>

21. Related Party Transactions

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

22. Losses

During the year, losses arose in 2998 cases (2001-02: 5,064 cases). The total loss was £195,641 (2001-02: £609,000).

23. Other notes

Included in this figure is a total of 223 Guaranteed Minimum Pension (GMP) overpayment cases totalling £39,767.84 which occurred as a result of the failure of National Insurance Contributions Office (NICO) to provide information to public service pension schemes about entitlement of the individual's pension and hence did not prevent the further updating (indexing) of the GMP entitlement by the scheme administrators.

24. 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 largely non-trading nature of its activities and the way in which government departments are financed, The Teachers' Pension Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The scheme has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the scheme in undertaking its activities.

Liquidity risk

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

Interest-rate risk

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

Foreign currency risk

The Scheme's exposure to foreign currency is negligible. Teacher's living abroad may be paid in the currency of the country of residence however, the funding to cover such payments is made in sterling to Capita the scheme administrator.

	Book Value	Fair Value	Basis of fair valuation
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Primary financial instruments:			
<i>Financial assets</i>			
Cash at Bank	6,678	6,678	
<i>Financial liabilities</i>			
Provisions	40,482	40,482	note a

Notes:

- a The fair value of the provisions is not significantly different from the book value since, in the calculation of the book value, the expected cash flows have been discounted by the Treasury discount rate of 6 per cent in real terms.

25. Independent Audit Certification

The contributions received from employers are validated by independent auditors. At the date the 2002-03 accounts were signed there were 4 LEA TR17s audit certificates outstanding accounting for £21.2 million of contributions received and there were 100 Non-LEA TR17As audit certificates outstanding, covering £30.6 million of contributions received. This represents 2.1% of total contributions received. The Department is continuing to actively chase up all outstanding returns and by the end of December expects to have received all LEA TR17s and a significant proportion of the remaining Non-LEA returns.

Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers

