Teachers' Pension Scheme (England and Wales)

Annual Report and Accounts

For the year ended 31 March 2016

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

Annual Report presented to the House of Commons by Command of Her Majesty

Annual Report and Accounts presented to the House of Lords by Command of Her Majesty

Ordered by the House of Commons to be printed on 18 July 2016

HC 371

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at Department for Education, Piccadilly Gate, Store Street, Manchester, M1 2WD.

Print ISBN 9781474132411
Web ISBN 9781474132428
ID P002808584 07/16

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

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Accountability Report

1. Report of the manager

Background to the scheme

1.1 This report covers the financial year 2015-16.

1.2 The Teachers' Pension Scheme (TPS or Scheme) is a statutory, unfunded, defined benefit occupational pension scheme split into three distinct sections. The Normal Pension Age (NPA) 60 section caters for those who entered the Scheme before 1 January 2007 and has a normal pension age of 60. The NPA 65 section caters for those who entered the Scheme for the first time on or after 1 January 2007 but before 1 April 2015 or who transitioned from the NPA 60 section following Scheme reform and has a normal pension age of 65. Both of these sections provide benefits based on final salary and length of service. The 2015 section caters for those who entered the Scheme for the first time on or after 1 April 2015 and those who transitioned from the NPA 60 and NPA 65 sections following the latest Scheme reforms. The 2015 section provides benefits based on career average earnings and has a normal pension age equal to state pension age.

1.3 The Scheme is governed by statutory regulations (currently statutory instruments), these being: The Teachers' Pensions Regulations 2010 (as amended) and The Teachers' Pension Scheme Regulations 2014.

1.4 Membership of the Scheme is voluntary and is open to members of the teaching profession in England and Wales who satisfy the membership criteria set out below:

- teacher or lecturer (between the ages of 16 and 75) in pensionable service employed by:
  - a local authority or an academy trust;
  - an independent school;
  - a further or higher education establishment that has been accepted into the Scheme;
  - a function provider (a company awarded a contract to perform functions on behalf of a local authority); or
  - other approved Scheme employer.

1.5 Contributions to the Scheme by employees are set at rates determined by the Secretary of State, taking advice from the Scheme's Actuary. The balance of funding is provided by Parliament. The Scheme's administrative expenses are borne by Scheme employer's, payable as a percentage of pensionable earnings. It is envisaged that this charge will be reviewed alongside Scheme valuations to ensure that the income raised is equal to the cost.

1.6 Pensions are increased in accordance with the Pensions (Increase) Act 1971 and the Social Security Pensions Act 1975, with annual increases being determined by the prevailing Pensions (Increase) Order. Retirement and other pension benefits are set out in regulations made under the Superannuation Act (1972) and Public Service Pensions Act (2013) and are paid by public funds provided by Parliament. Members contribute on a "pay as you go" basis, with these contributions (along with those made by employers) being credited to the Exchequer under arrangements governed by the above Acts.

1.7 The Annual Report and Accounts of the Scheme show the financial position of the TPS at the year end and the income and expenditure during the year, as follows:

- the Statement of Financial Position shows the unfunded net liabilities of the Scheme; and
- The Statement of Comprehensive Net Expenditure shows, amongst other things, the change in the net liability analysed between the pension cost, enhancements and transfers in, and interest on the Scheme liabilities.

1.8 Further information about the actuarial position of the Scheme is set out in the Report of the Actuary. Outside the Scheme, there are provisions for premature retirement compensation payments made on behalf of employers and for the recovery of the costs of those payments from employers. Those provisions are also managed by the Department for Education (Department) and administered under contract by Capita Business Services Ltd (Capita).

1.9 The Scheme is managed by the Department and administered under contract by Capita.

Corporate Governance

1.10 The Scheme is governed at three levels; day to day service delivery, strategy, and oversight by the newly established, independently chaired Teachers' Pension Scheme Pension Board. Where appropriate, issues are escalated to the Department for further consideration through the governance structure outlined on page 27.

1.11 Details of the Boards and their membership, together with attendance details, can be found in the Governance Statement on page 27.

Changes to the Teachers' Pension Scheme

1.12 Tiered employee contributions (and an increase in the average contribution rate) were introduced to the TPS in April 2012 following recommendations by Lord Hutton, chair of the Independent Public Service Pensions Commission, in his interim report reviewing the sustainability and affordability of public sector pension schemes.

1.13 There are no changes to the salary bands and rates from 2015-16 to 2016-17. The following table shows the rates applied for each salary band

2016-2017		2015-2016	
Actual Salary band	Actual Contribution rate	Actual Salary band	Actual Contribution rate
£1 - £25,999	7.4%	£1 - £25,999	7.4%
£26,000 - £34,999	8.6%	£26,000 - £34,999	8.6%
£35,000 - £41,499	9.6%	£35,000 - £41,499	9.6%
£41,500 - £54,999	10.2%	£41,500 - £54,999	10.2%
£55,000 - £74,999	11.3%	£55,000 - £74,999	11.3%
£75,000 or more	11.7%	£75,000 or more	11.7%

1.14 Employer contributions increased on 1 September 2015 from 14.1% to 16.4%. In addition, and on the same date, employers commenced payment of a 0.08% contribution to cover administration expenses.

1.15 The government announced on 8 July 2015, that for 2016 to 2017 onwards the annual allowance for tax relieved pension savings will be reduced for those with incomes of over £150,000. Their annual allowance will be reduced by £1 for every £2 of adjusted income they have over £150,000 with a maximum reduction of £30,000.

1.16 In accordance with the Scheme regulations, pension payments were increased by 1.2% from 6 April 2015-16 (2014-15: 2.7% increase) reflecting the change in CPI for the year ended September 2014.

1.17 The arrangements for a reformed TPS, in line with the remainder of the recommendations made by Lord Hutton, have now been implemented. The Career Average Revalued Earnings (CARE) scheme was implemented from 1 April 2015, whereby benefits will accrue on a career average basis and there is a normal pension age aligned to the state pension age.

Changes to the Premature Retirement Compensation (PRC) scheme

1.18 During the year, compensation payments were increased by 1.2% with effect from 6 April 2015 in line with pensions. Compensation payments were increased by nil on 7th April 2016 for 2016-17.

Membership statistics

1.19 These statistics are provided by employers via a statutory return to the Scheme administrator. The figures for active and deferred members relate to the financial year ended 31 March 2015; due to the way in which annual service is reported by employers of Scheme members not being fully processed until after the Annual Accounts are completed.

1.20 The figures for pensions in payment are for the year ended 31 March 2015 and 31 March 2016.

1.21 Details of the membership of the TPS in England and Wales are as follows:

Active members

		2014-15 Number
	Number of members in 2014-15 accounts	670,543
	Adjustment to prior year accounts[1]	12,168
	Actual number at 31 March 2014[2,5]	**682,711**
Add:	New entrants in the year	56,668
	Re-entrants from deferred status in the year	67,693
	Further employment	5,684
	Total joiners	**130,045**
Less:	**Initial Awards**	
	Age and infirmity retirements	(10,335)
	Early retirements (actuarially reduced)	(7,327)
	Premature retirements	(583)
	Total initial awards	(18,245)
	Further Awards[3]	
	Age and infirmity retirements	(1,023)
	Early retirements (actuarially reduced)	(77)
	Premature retirements	(2)
	Total further awards	(1,102)
	Opted Out	(4,964)
	Deaths	(383)
	Withdrawals to deferred status	(109,740)
	Other exits (transfers out, refunds of contributions)	(1,254)
	Other exits (not identified)[4]	(3,373)
		(119,714)

		2014-15 Number
	Total leavers	**(139,061)**
	Actual number at 31 March 2015[2]	**673,695**

Notes

1 An adjustment has been made to the active membership of the Scheme as at 31 March 2014, as contained in the 2014/15 accounts, to reflect two changes. Firstly, we have more up-to-date membership data through the receipt of new information from Scheme employers, compared to when the 2014/15 accounts were prepared. Secondly, we have agreed with the Government Actuary's Department a new approach to how we determine the membership of the Scheme. The key changes with regards the active membership statistics are the inclusion of re-employed pensioner members as both active and pensioner members (our previous approach was to only include such members as pensioner members), a revised approach to determining who is an active member and who is a deferred member of the Scheme and the inclusion of members who have less than two years' pensionable service.

The 12,168 above reflects the net effect of changes to the membership data and changes to the methodology for deriving the membership statistics for the Scheme.

2 Data captured within the membership tables for active and deferred members is reliant upon Annual Service Returns to determine the member position at the end of the reporting period.

3 If a member returns to teaching and accrues additional pensionable after they have already taken a retirement award from the Scheme, they are able to take a further award when they decide to retire following the completion of this additional service. These members do not have a corresponding entry in the pensioner member reconciliation as they are already pensioners before the application for a further award.

4 A number of members have multiple events in any given year, for example re-joining or leaving active service, taking a retirement award or entering further employment. The other exits from active status will include any such members who we are not able to trace accurately during the year.

5 The membership statistics above show the number of active members at 31 March 2014 to be 682,711. This compares with 730,000 in the Report of the Actuary. This apparent difference is due to the Actuary making an estimate of the additional number of members who may be active due to either the late provision of membership data from Scheme employers (15,000 members) or the number of members who appear to be deferred members as at 31 March 2014 but who are in active service on 1 April 2014 (32,000). This may be due to fixed term contracts or members moving employer at the end of the Scheme year, tax year or coninciding with Easter holidays. The Actuary includes these members as active members to ensure that a reserve in respect of salary link for accrued benefits is included within the Scheme liabilities.

Deferred members - number

		2014-15
	Number of members in 2014-15 Accounts	492,683
	Adjustment to prior year accounts[1]	14,012
	Actual number at 31 March 2014[2]	**506,695**
Add:	Previously active members no longer in service	109,740
	Opted Out from active service	4,964
	Other entrants to deferred service status (not identified)[3]	1,749
	Total joiners	**116,453**
Less:	Awards out of service – initial awards	(7,589)
	Awards out of service – further awards[4]	(99)
	Transfers out	(1,576)
	Deaths	(458)
	Return of contributions	(81)
	Re-entry to service	(67,693)
	Other exits (not identified)	(23)
	Total leavers	**(77,519)**
	Deferred members at 31 March 2015[1,2]	**545,629**

Note

1 An adjustment has been made to the deferred membership of the Scheme as at 31 March 2014, as contained in the 2014/15 accounts, to reflect two changes. Firstly, we have more up-to-date membership data through the receipt of new information from Scheme employers, compared to when the 2014/15 accounts were prepared. Secondly, we have agreed with the Government Actuary's Department a new approach to how we determine the membership of the Scheme. The key changes with regards the deferred membership statistics are the inclusion of re-employed pensioner members as both deferred and pensioner members (our previous approach was to only include such members as pensioner members), a revised approach to determining who is an active member and who is a deferred member of the Scheme, the inclusion of members who have less than two years' pensionable service and the exclusion of older members (above Normal Pension Age) who only retain an entitlement to a refund of contributions. The number of older members who fall into this category are 39,416 and 39,401 (as at 31 March 2014 and 31 March 2015 respectively). These individuals are included in the deferred member tracing exercise.The 14,012 above reflects the net effect of changes to the membership data and changes to the methodology for deriving the membership statistics for the Scheme.

2 Data captured within the membership tables for active and deferred members is reliant upon Annual Service Returns to determine the member position at the end of the reporting period.

3 A number of members have multiple events in any given year, for example re-joining or leaving active service, taking a retirement award or entering further employment. The other entrants to deferred status will include any such members who we are not able to trace accurately during the year.

4 If a member returns to teaching and accrues additional pensionable after they have already taken a retirement award from the Scheme, they are able to take a further award when they decide to retire following the completion of this additional service. These members do not have a corresponding entry in the pensioner member reconciliation as they are already pensioners before the application for a further award.

Pensions in payment

		2014-15 Number
	Pensioners brought forward 31 March 2014	
	- Members	595,714
	- Dependants	63,557
	Total number at 31 March 2014	**659,271**
	Adjustments made to data received following the 2014-15 accounts[1]	
	- members	(1,905)
	- dependants	2,252
	Total number of adjustments	**347**
	Total pensioners in payment as 1 April 2014	
	- members	593,809
	- dependants	65,809
	Actual number at 1 April 2014	**659,618**
Add:	Members retiring in the year	
	- Age\premature pensions	15,454
	- Ill Health pensions	605
	- Early retirement (actuarially reduced) pensions	9,775
	- Phased pensions	955
	- Other (unallocated)[2]	3,734
		30,523
	New dependants	6,185
	- Other new dependants (unidentified)[2]	445
	Total members retiring in year and dependants	**37,153**

		2014-15 Number
Less:	Cessations in year – Members	
	- Age/Premature pensions	(11,391)
	- Ill Health pensions	(2,056)
	- Early retirement (actuarially reduced pensions)	(426)
	- Other	-
		(13,873)
	Cessations in year – Dependants	(4,948)
	- Other dependant cessations	-
	Total cessations in year	**(18,821)**
	Pension in payment at 31 March 2015	
	- members	610,459
	- dependants	67,491
	Total	**677,950**

		2015-16 Number
	Pensioners brought forward 31 March 2015	
	- Members	610,459
	- Dependants	67,491
	Total number at 31 March 2015	**677,950**
Add:	Members retiring in the year	
	- Age/premature pensions	17,322
	- Ill Health pensions	724
	- Early retirement (actuarially reduced) pensions	9,405
	- Phased pensions	959
	- Other	1,558
		29,968
	New dependants	5,294
	- Other new dependants (unidentified)	1,646
	Total members retiring in year and dependants	**36,908**
Less:	Cessations in year – Members	
	- Age/premature pensions	(11,782)
	- Ill Health pensions	(2,155)
	- Early retirement (actuarially reduced) pensions	(517)
	- Other (unidentified)	(126)
		(14,580)
	Cessations in year – Dependants	(5,234)
	- Other dependant cessations (unidentified)	-
	Total cessations in year	**(19,814)**

	2015-16 Number
Pension in payment at 31 March 2016	
- members	625,847
- dependants	69,197
Total	**695,044**

Note

1 1 An adjustment has been made to the pensioner membership of the Scheme as at 31 March 2014, as contained in the 2014/15 accounts, to reflect the more up-to-date data available at the date of these accounts.

2 These members are primarily members whose retirement award has been authorised by the Scheme's administrator in the reporting year but whose payment date falls into a different year.

3 Phased retirement awards do not have a corresponding exit from the non-pensioner movements as they are only drawing part of their retirement benefits. Therefore, they remain a non-pensioner member as well as becoming a pensioner.

Administration

1.22 Following a competitive tendering exercise, Capita were awarded a new contract to administer the TPS for seven years from 1 October 2011. In November 2014 the contract was extended by three years bringing the contract end date to September 2021.

Performance and position

Net cash requirement

1.23 In 2015-16, the net cash requirement was £3,549.5million (2014-15: £3,591.9 million), £126.3 million (2014-15: £60.2 million) less than the amount authorised via the Supplementary Estimate. This is 3.4% within the net cash requirement limit in the Supply Estimate forecast of £3,675.8 million (2014-15: £3,652.1 million).

1.24 The Department continues to work closely with the administrator, with input from GAD, to refine the forecasts to take into account new emerging trends and anticipated changes in behaviour as a result of perceived and actual future changes to the Scheme.

Resource Outturn to Supply Estimate

1.25 The Statement of Parliamentary Supply provides information on how the Scheme has performed against the Parliamentary control totals on resources and cash expenditure. An explanation of variances is on page 42.

Financial position

1.26 The Scheme had net liabilities of £271.9 billion (2014-15: £275.6 billion) at 31 March 2016.

Scheme valuation

1.27 The primary purpose of a formal actuarial valuation is to set the employer contribution rate.

1.28 The latest actuarial valuation of the TPS was carried out as at 31 March 2012 and in accordance with *The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014* (the Directions). The valuation determines the rate of employer contribution payable and the initial employer cost cap (both of which are set out in the TPS regulations). The Directions also require results relating to scheme liabilities, notional assets and contribution rates to be reported.

1.29 The funding valuation report was published by the Department on 9 June 2014. The key results of the valuation are:

- employer contribution rates were set at 16.40% of pensionable pay, in line with current regulations, not including the additional 0.08% employers pay for the cost of Scheme administration;
- at the effective date, total Scheme liabilities for service of £191.5 billion, and notional assets of £176.6 billion, giving a notional past service deficit of £15.0 billion; and
- an employer cost cap of 10.9% of pensionable pay.

1.30 Actuarial assessments are undertaken in intervening years between formal valuations using updated membership data for financial reporting purposes. The amounts recognised in these Accounts have been prepared using full membership data as at 31 March 2014.

1.31 The funding valuation uses a different set of assumptions than those used to inform the IAS 19 valuation. Therefore the Scheme liability is reported as two different values.

1.32 The new employer contribution rate for the TPS was implemented in September 2015. A full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website[1].

Influences on performance in 2015-16

1.33 These Annual Report and Accounts are influenced by changes in the Scheme's membership numbers, their salary levels, mortality rates, and the age profile of the members and their pension increases.

[1] The full address of the website is:
https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx

Free-standing additional voluntary contributions and stakeholder pensions

1.34 The Department provides for employees to make additional voluntary contributions (AVCs) to an approved provider (Prudential) 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 Prudential, with employers being responsible only for ensuring the payment is made, not for the pension pot ultimately provided by Prudential. Members participating in this arrangement receive an annual statement from Prudential, confirming the amounts held in their account and the movements in the year.

1.35 Although the Secretary of State will guarantee pension payments in the unlikely event of a default by Prudential, the transactions and related assets and liabilities connected with the AVC scheme are private arrangements between Prudential and those members contributing to the AVC scheme. Members can take a pension or lump sum from their AVC fund independently of any TPS benefits. HMRC also regards the two schemes as being separate schemes for tax purposes.

1.36 This being the case, the AVC data does not form part of these Annual Report and Accounts; it is included here for completeness only.

1.37 In 2015-16, the aggregate amounts of AVC investments are as follows:

Prudential

	2015-16 £000	2014-15 £000
Movements in the year:		
Balance at 1 April	1,527,344	1,520,937
New investments	142,060	123,458
Sales of investments to provide pension benefits	(190,139)	(117,605)
Changes in market value of investments	241	554
Balance at 31 March	**1,479,506**	**1,527,344**
Contributions received to provide life cover	638	765
Benefits paid on death	3,069	2,655

Note: The 2015-16 figures are taken from the AVC final Accounts.

Employers

1.38 Any employer in England and Wales that meets the requirements of the Scheme qualifies as a TPS employer – further details on qualification requirements can be found in the *Teachers' Pensions Regulations 2010 and the Teachers' Pension Scheme Regulations 2014*. There were 7,722 (2014-15: 7,141) contributing employers participating in 2015-16 split into the following categories:

	2015-16 Number	2014-15 Number
Local authorities	174	174
Further education institutions	371	381
Higher education institutions	65	65
Independent establishments	1,474	1,523
Academies	5,222	4,613
Free Schools	323	282
Others	93	103
	7,722	**7,141**

Issues arising in 2015-16

1.39 The Scheme administrator instigated quarterly meetings with the Pension Regulator which has been supplemented with monthly data sharing in-line with Code of Practice 14. This has facilitated the Pension Regulator to write to employers who are more than 90 days in arrears to remind them of their responsibilities.

Events after the reporting period.

1.40 There have been no events between the Statement of Financial Position date and the date the accounts were authorised for issue requiring an adjustment to accounts.

1.41 On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made. Sensitivity analysis around the key financial assumptions underpinning the actuarial valuation of the scheme liabilities that may potentially be affected by this decision may be found on page 64.

Jonathan Slater **11 July 2016**
Accounting Officer

The managers, administrators and actuary are listed below

Managers

Accounting officer

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Sanctuary Buildings
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SW1P 3BT

Scheme manager and premature retirement scheme manager (contact)

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Department for Education
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DL1 5QE

Actuary

Teachers' Pension Scheme Actuary
Government Actuary's Department
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LONDON
EC4A 1AB

Bankers

Citibank N.A. (Until February 2016)
Citigroup Centre
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Canary Wharf
LONDON
E14 5LB

Bankers (continued)

Royal Bank of Scotland plc, (from February 2016)
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London.
EC2M4RB

Royal Bank of Scotland plc
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Deutsche Bank
Winchester House
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Legal advisers

Legal Advisor's Office
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LONDON
SW1P 3BT

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National Audit Office
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LONDON
SW1W 9SP

Administrator of the Scheme

Capita Business Services Ltd
Teachers' Pensions
11b Lingfield Point
Darlington
DL1 1AX

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

Capita Business Services Ltd
Teachers' Pensions
11b Lingfield Point
Darlington
DL1 1AX

2. Report of the actuary

Introduction

2.1 A.1This statement has been prepared by the Government Actuary's Department at the request of the Department for Education ('the Department'). It summarises the pensions disclosures required for the 2015-16 Annual Accounts of the Teachers' Pension Scheme ('the Scheme', or 'TPS').

2.2 The TPS is a defined benefit scheme. It has a final salary section which applies to benefits accrued before 1 April 2015 and to future accrual for older members who have fully protected status or tapered protection. There is also a new career average section applying to future accrual after 1 April 2015 for members without protected status. The rules of the final salary section are set out in The Teachers' Pensions Regulations 2010 (SI 2010/990) and the rules of the career average section are set out in The Teachers' Pension Scheme Regulations 2014 (SI 2014/512). The Scheme is wholly unfunded. I am not aware of any informal practices operated within the Scheme which lead to a constructive obligation. (Under IAS19 constructive obligations should be included in the measurement of the actuarial liability).

2.3 The statement is based on an assessment of the liabilities as at 31 March 2014, with an approximate updating to 31 March 2016 to reflect known changes.

Membership data

2.4 Tables A to C summarise the principal membership data as at 31 March 2014 used to prepare this statement.

Table A – Active members

	Number (000s)	Total pensionable pay* (pa) (£ million)
Males	210	8,420
Females	519	19,101
Total	**730**	**27,522**

* Full time equivalent as at 31 March 2014.

Table B – Deferred members[2]

	Number (000s)	Total deferred pension* (pa) (£ million)
Males	144	326
Females	319	648
Total	**463**	**974**

* Pension amounts include the pension increase granted on 7 April 2014.

Table C – Pensions in payment

	Number (000s)	Annual pension* (pa) (£ million)
Males	219	3,306
Females	373	3,981
Spouses & dependants	68	301
Total	**660**	**7,588**

* Pension amounts include the pension increase granted on 7 April 2014.

Methodology

2.5 The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal assumptions applying to the 2015-16 Annual Accounts. The contribution rate for accruing costs in the year ending 31 March 2016 was determined using the PUCM and the principal assumptions applying to the 2014-15 Annual Accounts.

2.6 This statement takes into account the benefits normally provided under the Scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

[2] Excludes 39,416 deferred members who didn't complete enough service to become entitled to deferred benefits. These individuals would instead only be eligible for a refund of their contributions. The youngest member in this group is aged 70 and the average age is 95. These members would not have been included in the liability calculations, as it is assumed that members over age 70 are unlikely to claim their benefits.

Principal financial assumptions

2.7 The principal financial assumptions adopted to prepare this statement are shown in Table D.

Table D – Principal financial assumptions

Assumption	31 March 2016	31 March 2015
Rate of return (discount rate)	3.60%	3.55%
Rate of earnings increases*	4.20%	4.20%
Rate of future pension increases	2.20%	2.20%
Rate of return in excess of:		
Pension increases (CPI)	1.37%	1.30%
Earnings increases*	-0.60%	-0.65%
Expected return on assets:	n/a	n/a

* short-term adjustments have been made to this assumption

2.8 The pension increase assumption as at 31 March 2016 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

2.9 The demographic assumptions adopted to prepare this statement were derived from the specific experience of the Scheme membership.

2.10 The 'S1' series of standard tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) are used but with adjustments derived from recent scheme experience. For current and future male normal-health pensioners, a 107% loading has been applied (that is mortality rates are assumed to be 7% heavier than those in the standard table) relative to the S1NMA_L table. For current and future female normal health pensioners, age dependent loadings (74% up to age 79, 84% at ages 80-84, 98% at 85-89, 106% from age 90) have been applied relative to the S1NFA_L table. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. The tables adopted and the loadings applied are the same as were adopted for the 2014-15 Annual Accounts but the mortality improvement assumption has been updated following publication of the 2014 based principal population projections on 29 October 2015.

2.11 Reforms to the TPS which were implemented in April 2015 may affect the behaviour of members, i.e. members subject to a later normal pension age for accrual after 2015 might be expected to retire later. The Department has assumed age retirement rates are based on recent experience but make allowance for later retirements for members who transfer to the new scheme on or after 1 April 2015. The assumptions are the same as for the 2014-15 Annual Accounts.

2.12 The contribution rate used to determine the accruing cost in 2015-16 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2014-15 Annual Accounts.

Liabilities

2.13 Table E summarises the assessed value of the liabilities as at 31 March 2016 of benefits accrued under the Scheme prior to 31 March 2016 based on the data, methodology and assumptions described in paragraphs 2.4 to 2.12. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ billion	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(271.7)	(275.5)	(250.2)	(224.9)	(200.6)
Surplus/(Deficit)	(271.7)	(275.5)	(250.2)	(224.9)	(200.6)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Pension cost

2.14 The cost of benefits accruing in the year ending 31 March 2016 (the current service cost) is based on a standard contribution rate of 33.8%. Members were expected to contribute about 9.6% of pensionable pay on average, with different rates for different tiers of pensionable salary. Table F shows the employers' share of the contribution rate used to determine the current service cost taking into account expected contributions payable by members. The corresponding figures for 2014-15 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	1 April 2015 to 31 March 2016	**1 April 2014 to 31 March 2015**
Standard contribution rate	33.8%	33.8%
Members' estimated average contribution rate	(9.6%)	(9.6%)
Employers' estimated share of standard contribution rate	24.2%	24.2%

2.15 For the avoidance of doubt, the actual rate of contributions payable by employers for 2015-16 (14.1% of pensionable pay between 1 April 2015 and 31 August 2015, and 16.4%[3] of pensionable pay from 1 September 2015), is not the same as the employers' share of the standard contribution rate as above (24.2% for 2015-16). This is because the actual employer contribution rates were determined as part of funding valuations using different assumptions. The key difference between the assumptions used for funding valuations and Annual Accounts is the discount rate. The discount rate for Annual Accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS19.

[3] Excludes contributions of 0.08% of pensionable salary in respect of the administration levy.

2.16 The estimated pensionable payroll for the financial year 2015-16 was £23.9 billion (derived from the contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2015-16 (at 33.8% of pay) is assessed to be £8.1 billion. There is also a past service cost for 2015-16 of £0.2 billion in respect of HMT's announcement in March 2016 that Guaranteed Minimum Pension (GMP) would be fully indexed in line with CPI for a transitional cohort following the abolition of the second state pension in April 2016. Thus the total pension cost for 2015-16 is £8.3 billion.

Sensitivity analysis

2.17 The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have indicated the approximate effects on the actuarial liability as at 31 March 2016 of changes to the significant actuarial assumptions.

2.18 The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

2.19 As a result of the Scheme reform, there is significant uncertainty associated with how members will retire in future for those members who move across to the new scheme. Assumed age retirement rates can have a significant impact on the Scheme liabilities and so I have included an indication of the approximate effect (on the total past service liability) of all members who move to the new Scheme retiring one year later than assumed in the main liability calculations.

2.20 There was uncertainty around the actual level of withdrawals experienced by the Scheme over the analysis period used to determine the Scheme-specific withdrawal assumption adopted. To illustrate the possible impact of this uncertainty we have included an indication of the approximate effect of withdrawal rates being a third higher than assumed.

2.21 Table G shows the indicative effects on the total liability as at 31 March 2016 of changes to these assumptions (rounded to the nearest ½%).

Table G: Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i) discount rate*	+½% a year	- 9½%	- £26 billion
(ii) earnings increases*	+½% a year	+ 1½%	+ £4 billion
(iii) pension increases*	+½% a year	+ 8%	+ £22 billion
Demographic assumptions			
(iv) additional one year increase to life expectancy at retirement*		+ 3%	+ £8 billion
(v) all active members who move to the new scheme retire (on average) 1 year later		+ 0%	+ £0 billion
(vi) withdrawal rates a third higher		- ½%	- £1 billion

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

Matt Wood
Government Actuary's Department
6 July 2016

Revenue Account disclosures for year ended 31 March 2016

£ billion

	Year ended 31 March 2016
Analysis of amount charged to Pension cost	
Current service cost	8.1
Past service cost	0.2
Total operating charge	**8.3**
Analysis of the amount recognised in statement of financial position	
Expected return on scheme assets	-
Interest on pension liability	(9.8)
Net return	**(9.8)**
Analysis of amount recognised in Statement of Changes to Taxpayers Equity (SCITE)	
Actual return less expected return on scheme assets	-
Experience gains and losses arising on pension liabilities	3.3
Changes in mortality assumptions	5.9
Changes in demographic assumptions (other than mortality)	-
Changes to financial assumptions from 31 March 2015	3.2
Net actuarial gains/(losses) recognised in SCITE	**12.4**
Movement in surplus during the year	
Surplus at 31 March 2015	(275.5)
Current service cost	(8.1)
Benefits paid during the year	9.4
Past service costs	(0.2)
Net transfers in	0.1
Interest on scheme liability	(9.8)
Actuarial gains/(losses)	12.4
Surplus at 31 March 2016	**(271.7)**

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

3. Statement of accounting officer’s responsibilities

3.1 Under Section 5 of the *Government Resources and Accounts Act 2000*, HM Treasury has directed the Scheme to prepare, for each financial year, a statement of Accounts in the form and on the basis set out in the Accounts Direction. The financial statement also satisfies the requirements of the *Teachers’ Pensions Regulations* (as amended) 2010 and *The Teachers’ Pension Scheme Regulations 2014*.

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

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

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

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

3.5 As Accounting Officer, as far as I am aware there is no relevant audit information of which the Scheme's auditor is unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

3.6 As Accounting Officer, I confirm that the annual report and Accounts as a whole are fair, balanced and understandable. I take personal responsibility for the annual reports and Accounts and the judgments required to determine that they are fair, balanced and understandable.

4. Governance statement

Scope of responsibility

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

4.2 On 3 May 2016 I was appointed as Accounting Officer for the Scheme from the outgoing Permanent Secretary, Chris Wormald. In doing so, I have taken assurance from an interim governance statement declaring he had reviewed the assurance frameworks within his areas of responsibility. He confirmed that he was satisfied with the governance, internal control and risk management of the Scheme at the time of his departure. This letter covered the period 1 April 2015 to 2 May 2016.

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

Governance structure: TPS boards

4.4 Strategy Board (SB): meets quarterly, chaired by Richard Symms the Department's Head of Pensions (until November 2015) and latterly Stephen Baker (Deputy Director, Teachers' and Teaching), for the purpose of determining the strategic direction of the administration services, and reviewing delivery progress. The focus is on:

- Departmental/government pension priorities;
- achievement of contractual outcomes;
- innovations and improvements that deliver improved customer service and/or service efficiencies, and
- discussion of any escalations from Service Delivery Board.

4.5 Strategy Board Membership

Board Member	Meetings attended	Out of a possible
Department		
Stephen Baker (from December 2015)	1	1
Richard Symms (to November 2015)	3	3
Jeff Rogerson (from December 2015)	1	1
Sue Crane	4	4
Peter Springhall (from November 2015)	1	1
Karen Peacock (to April 2015)	-	-
Capita		
Susan Ring	4	4
Ian Butcher	4	4
David Heslop	4	4
Neil Brady	4	4

4.6 Service Delivery Board (SDB): meets monthly, chaired by Sue Crane, the Department's Senior Contract Manager. The SDB is responsible for:

- managing and monitoring delivery of the strategic direction on a "day-to-day" basis,
- monitoring core pension administration delivery (see below),
- reviewing performance against service levels and addressing delivery risks and issues, and
- discussing any escalation from Finance and Audit meetings.

Board Member	Meetings attended	Out of a possible
DfE		
Sue Crane	12	12
Peter Springhall (from November 2015)	3	4
Richard Lees	12	12
Karen Peacock	2	3
Karen Cammack	9	12
Capita		
David Heslop	12	12
Neil Brady (from April 2015)	11	12
Mark Richardson	9	12
Claire Boston-Smithson	3	5
Kerry Tate-Maskill	5	6
Neil Crombie (from July 2015)	9	9
Keith Barker	12	12
Pete Henderson	11	12

4.7 The TPS Risk Committee: meets monthly, chaired by Pete Henderson (Capita), TPS Governance Manager, for the purpose of reviewing current Strategic and Service Delivery risks, identifying emerging risks in period, and assigning ownership and management of mitigating actions.

4.8 Executive Reviews: Stephen Baker, the Deputy Director for Teachers' and Teaching has six-monthly meetings with the Capita Executive Director, which provides a vehicle for escalating and resolving issues.

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

The Department's boards and committees

4.10 The DfE Department Board (DB) provides strategic and operational leadership for the Department, by bringing together Ministerial and official leaders with non-executive Board Members from outside government. The Board is chaired by the Secretary of State and its membership includes Ministers, the Permanent Secretary, all Directors General, the Chief Executive of the Education Funding Agency, the Director of Strategy, and the non-executive board members.

4.11 The DB meets several times a year and advises on strategic issues and the deliverability of policies, as well as scrutinising and challenging the Department on its performance and on how well it is achieving its objectives.

4.12 The DB is supported in the delivery of its functions by three sub-committees – the Performance Committee, the Audit and Risk Committee and the Management Committee.

4.13 Further details on the DB can be found in the Department's Governance Statement published in the Department's Consolidated Annual Report and Accounts, which are due for publication in November 2016.

4.14 Sub-committees report or escalate relevant issues to the Board. This may take the form of routine reports to board members, but may, if considered necessary or appropriate by the sub-committee Chair, form the subject of a full agenda item for discussion at the Board. Although TPS issues were discussed a number of times at Audit and Risk Committee meetings, no issues were escalated to the DB in 2015-16.

4.15 Management Committee (MC): meets monthly and focuses on the Department's capacity and capability to achieve its strategic aims and objectives. It is chaired by the Permanent Secretary and includes non-executive board members.

4.16 Performance Committee (PC): meets monthly and scrutinises progress against the performance and delivery of Departmental objectives. It is chaired by one of the non-executive board members.

4.17 Audit and Risk Committee (ARC): meets quarterly and provides assurance to the Board and Accounting Officer on audit, risk and control issues. It is chaired by the lead non-executive board member and its membership includes two independent financial specialists and the Chair of the Education Funding Agency Audit Committee.

Joint Department and Capita Reform Project Board

4.18 The Pension Reform Project Board was responsible for the delivery of the implementation of the TPS reforms on 1 April 2015. The Board was chaired by the Department's Deputy Director for Teachers' and Teaching as Senior Responsible Officer (SRO) and was made up of Departmental and Capita senior managers. The project closure meeting took place on 6 May 2015. Responsibility for ongoing governance will fall under the existing governance structure now that the project is complete.

4.19 The key provisions of a reformed TPS are:

- a pension based on career average earnings;
- an accrual rate of 1/57th with a revaluation rate of CPI +1.6% whilst the member is in pensionable service;
- Normal Pension Age (NPA) equal to State Pension Age (SPA);
- additional flexibilities, including beneficial early retirement factors for those with an NPA above 65 (of 3% per year for a maximum of 3 years in respect of the period from age 65 to their NPA) to provide more options to help members plan and save for their retirement; and
- accrued rights fully protected, with additional protection for those closest to retirement.

Teachers' Pension Scheme Pensions Board (TPSPB)

4.20 A new TPS Pension Board was established on 1 April 2015 in accordance with the Public Services Pensions Act 2013. The TPSPB is responsible for assisting the Scheme manager in ensuring compliance with the TPS Regulations, any other legislation relating to the governance and administration of this Scheme and any requirements imposed by the Pensions Regulator. The role of the Board is to assist the Scheme manager by delivering challenge and oversight to the Department and the administrators, and thereby provide additional assurance that the Scheme is being administered effectively. The Board, whose members are appointed by the

Secretary of State for Education, consists of 4 Member Representatives, 4 Employer Representatives, one independent Pensions Specialist, 2 senior DFE officials, and an independent Chairman. Details and biographies of Board members can be found on the Teachers' Pensions website.[4]

4.21 The Board met formally 4 times in 2015-16 and will continue to meet on a quarterly cycle with meetings aligned to service delivery milestones and financial and assurance timelines.

Board Member		Meetings attended April 2015-March 2016	Out of a possible
Geoff Ashton	Independent Pensions Specialist	4	4
Marcus Bell	DfE	2	4
Jerry Glazier	Member Representative	4	4
Naomi Holloway	Employer Representative	3	4
Simon Judge	DfE	4	4
Trefor Llewellyn	Employer Representative	4	4
Lee Probert	Employer Representative	3	4
Michael Richardson CB	Chair	4	4
Alice Robinson	Member Representative	3	4
David Simmonds CBE	Employer Representative	3	4
David Trace	Member Representative	4	4
Dave Wilkinson	Member Representative	3	4
Secretariat (DfE)			
Stephen Baker		2	2
Karen Cammack		4	4
Fiona Laundy		3	3
Jeff Rogerson (from December 2015)		1	1
Richard Symms (to November 2015)		3	3

[4] Full website address is https://www.teacherspensions.co.uk/public/governance/the-board.aspx

4.22 From its formal establishment in April 2015 the TPSPB has started to provide extra assurance to the Accounting Officer and Scheme members and employers on the effective management of the TPS. This is done through oversight of regular financial administration and risk management reporting, and through challenge to both Teachers' Pensions and the DFE, reinforcing existing mechanisms to ensure the voices of members and employers are at the centre of all of what Teachers' Pensions and the DFE as the Scheme Manager do.

4.23 For 2016-17, building on knowledge gained from the TPSPB's first year in office and from the Chairman's membership of the Pensions Regulator's Public Sector Consultative Forum, the TPSPB is proposing to develop its challenge role further with the creation of three sub committees:

- Managing Risk and Internal Controls;
- Service Delivery and Maintenance of Data; and
- Information for Members and Communications.

These sub-committees will provide extra focus on the key aspects of the TPS which matter most to members and employers. The TPSPB has also agreed with the DFE a revision to its original terms of reference which better reflects its role outside the formal assurance framework of the TPS but with a key role to play in ensuring that the TPS is managed effectively and in the best interests of its members and their employers. The TPSPB is also in the process of reviewing with the DFE its place in the wider governance framework for the TPS and appropriate links with other Boards listed in earlier paragraphs. The outcome of this review and any changes which result from it will be reported in the Corporate Governance section of the TPS 2017 Annual Report.

Risk management and controls

4.24 The Department's approach is to assign risks to those best placed to manage them. While the Accounting Officer is the risk owner for the TPS, individual managers are responsible for managing risks associated with Scheme management and accounting, given their knowledge of the issues and being best placed to mitigate any potential impacts. The Director of Teachers' Group is responsible for the delivery of Scheme policy objectives, governance and administration of the Scheme; responsibility for the financial reporting and Scheme accounting lies with the Director of Finance and Commercial Group.

4.25 Risk management is built into the TPS business planning and reporting processes, evident in the governance and audit mechanisms that monitor compliance with risks associated with policy, administration and financial requirements. There is clear accountability and ownership of risk to ensure that it is managed at the appropriate level. Risks relating to the TPS are discussed on an exceptions basis by the ARC and MC and, if necessary, escalated to the DB. No issues were escalated in 2015-16.

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

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

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

- <u>Risk registers</u>: one risk register is in operation that covers all sections: contract, policy, finance, reform and administration (strategic and service delivery). Each area has appropriate ownership for managing their relevant risks, and therefore each business aspect is required to take account of the impact on the other. The structure of the register is reviewed to ensure compliance with risk management good practice. The Risk Committee, incorporating membership from both the Department and the Scheme administrator, is responsible for the management of this register.
- <u>Contractual audit requirement</u>: Capita's contract requires them to produce and implement an audit strategy, which complies with the Public Sector Internal Audit Standards (PSIAS) and provides requisite assurance over TPS governance, risk management and controls. The requirement is delivered by Capita's internal audit division, Group Internal Audit (GIA).
- <u>Annual audit plan</u>: a risk-based annual audit plan is delivered by GIA which is agreed with the Department. The Department continually reviews plan delivery, as well as approving the scope of individual audit activity, and reviewing/challenging audit findings.

- During 2015-16 there were 9 GIA reviews:
  - SLA & Performance MI – Improvement Required;
  - Monthly Data Collection – Effective;
  - Fraud Data Mining – Not Graded;
  - Scheme Reform – Training and Procedures – Effective;
  - Scheme Reform – Flexibilities – Improvement Required;
  - Hartlink Change Management – Significant Improvement Required;
  - Internal Fraud Investigation – Not Graded;
  - Deferred Members Project – Effective
  - Scheme Reform – Operational Effectiveness – Improvement Required

  There were 35 findings (6 High, 20 Medium and 9 Low risk rated findings) made within the GIA reports released during the period April 2015 to March 2016. At 31 March 2016, there were 6 Medium and 3 Low rated actions that were open, of which 3 Medium are overdue. Revised timescales for completion have been agreed.

  For the areas reviewed during the period, GIA confirmed that the overall effectiveness of governance and risk management to be generally effective with only minor areas for improvement noted.

  Where GIA identified weaknesses, they have confirmed that Capita management has taken appropriate measures to agree and remediate the identified weaknesses in the control environment and there is appropriate governance and oversight at risk committee fora.

- <u>Monitoring</u>: risks and audit finding resolutions are monitored and discussed at the SDB and SB meetings, with strategic/service delivery risk registers and audit updates incorporated into contract reports. Additionally, Capita ensures that the TPS is given prominence within their business-wide Risk Management and Audit Committee, which meets monthly.
- <u>Independent audit assurance</u>: the Government's Internal Audit Agency function (GIAA) relies on the work of Capita's internal audit function, GIA. GIAA can engage regularly with contract managers and GIA to review and challenge contract, risk and audit management. Where specific concerns are raised, GIAA will intervene to support GIA and to provide independent assurance for the department.

4.28 The key financial controls are as described below:

- Income and expenditure forecasts: are calculated by TP, with input and agreement from the Department. Expert advice is sought from the Scheme actuary in respect of financial and demographic assumptions. A monthly finance meeting enables the Department's finance manager to review and challenge the forecasts, with input from the Department's teacher workforce and pay colleagues. The forecasts are subject to further challenge by HM Treasury and the Office for Budget Responsibility (OBR). This process ensures procedures and controls are sufficiently robust to provide forecasts that are as accurate as possible.
- Fraud identification: Capita is required to develop and maintain effective controls to prevent, detect and deter fraud and its internal systems are subject to regular audit reviews. Monthly screening using data available through the Disclosure of Death Register Information was implemented on 1 May 2015 to identify potential. This replaces annual screening exercises.
- Debt Management: Scheme debt is reviewed as part of the monthly finance meetings between the Department and Capita to identify and improve existing processes for debt identification to reduce the overall debt position. Casework is managed through Capita's secure Hartlink system, with the Department receiving monthly reports on the status of all debt cases, and profile and trend analysis data outlining the wider debt position.

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

4.30 In August 2015, whilst the audit of the 2014-15 Accounts was in progress, GIA identified suspicious activity relating to benefit payments which suggested a case of theft. This was immediately reported to the police who undertook a full criminal investigation into the allegations and pursued prosecution of the individual concerned.

4.31 There has been no financial loss to the Scheme or individual Scheme members as Capita indemnified the Scheme in full.

4.32 Following a review of internal processes, a number of recommendations made by GIA and GIAA have been implemented to address procedural and control weaknesses. GIAA is content that the revised controls reduce the risk of further fraudulent activity to an acceptable level. To provide additional assurance, the new operating model implemented as part of the mitigating controls will be subject to review in financial year 2016-17 by GIA.

Financial management

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

People management

4.34 There is a requirement in the administrator's contract which determines that Capita must ensure that it employs appropriately skilled and qualified practitioners, preferably with a sound pension background, to specialist posts within the organisation.

4.35 Capita has confirmed that there is a robust recruitment programme in place, which uses internal and external recruitment consultants to identify the necessary skills and experience (including professional qualifications) expected of the candidates and then matches people against them.

4.36 All employees are subject to a probationary period (which can vary in length according to grade) and an appraisal system, to ensure that they maintain performance against objectives and undertake internal Learning & Development training to maintain and further develop their skills and professional qualifications. The Learning and Development Team within Capita maintain a record of all individuals' skills and professional qualifications.

Corporate governance code

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

Independent assurance

4.38 GIA is required to assess the governance arrangements in place between Capita and the Department on an annual basis, to ensure that it provides an effective governance framework and adequate processes to proactively manage risks. Their Annual Statement of Assurance for the year ending 31 March 2016 confirms that it did provide a satisfactory framework to enable effective risk management during that period. GIAA are assessing what additional support they might provide in 2016-17 to ensure the provision of independent assurance for the department.

4.39 They conclude that; other than the fraud noted in paragraph 4.30, they have not identified any errors, breaches or fraud, actual or impending, which may cause material financial or reputational damage to the Department. As noted in paragraph 4.30 above, whilst the audit of the 2014-15 Accounts was in progress, GIA investigated a suspicious transaction which identified a case of theft. This has been prosecuted in the courts and did not result in any financial loss to the Scheme

4.40 During the course of 2015-16, Teachers' Pensions recorded 38 minor breaches of data security, mostly (29) where member service information was accidentally included in correspondence addressed to another person/address. Other instances included member information applied to incorrect record (7) and incorrect information being supplied by an employer (1). 1 incident of password sharing was identified in year, this did not result in a data protection breach as the member of staff was authorised to access the system they were using. The staff involved were given a warning and all staff were given a reminder of information security policies. All breaches have been investigated and resolved.

Jonathan Slater **11 July 2016**
Accounting Officer

Parliamentary accountability and audit report

Statement of Parliamentary Supply

for the year ended 31 March 2016

Summary of Resource and Capital Outturn 2015-16

		2015-16							2014-15
		Estimate			Outturn				Outturn
	Note	Voted £000	Non-Voted £000	Total £000	Voted £000	Non-Voted £000	Total £000	Voted Outturn compared with Estimate: saving/ (excess) £000	Total £000
Departmental Expenditure Limit									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
Annually Managed Expenditure									
- Resource	S1.1	12,293,509	-	12,293,509	12,125,167	-	12,125,167	168,342	13,286,501
- Capital		-	-	-	-	-	-	-	-
Total Budget		12,293,509	-	12,293,509	12,125,167	-	12,125,167	168,342	13,286,501
Non-Budget									
-Resource		-	-	-	-	-	-	-	-
Total		**12,293,509**	**-**	**12,293,509**	**12,125,167**	**-**	**12,125,167**	**168,342**	**13,286,501**
Total Resources		**12,293,509**	**-**	**12,293,509**	**12,125,167**	**-**	**12,125,167**	**168,342**	13,286,501
Total Capital		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**12,293,509**	**-**	**12,293,509**	**12,125,167**	**-**	**12,125,167**	**168,342**	**13,286,501**

Net cash requirement

	2015-16	2015-16		2014-15
Note	Estimate £000	Outturn £000	Outturn compared with Estimate: saving/(excess) £000	Outturn £000
S4	3,675,805	3,549,479	126,326	3,591,880

Administration costs

	2015-16		2014-15
Note	Estimate £000	Outturn £000	Outturn £000
	-	-	-

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

Explanations of variances between Estimate and Outturn are given in SoPS Note S2.1.1.

The notes on pages 39 to 43 form part of these Statements.

Notes to the Statement of Parliamentary Supply

S1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury (HMT). The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2015-16 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

S1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with HMT budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework European System of Accounts (ESA2010). ESA2010 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based Accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

S1. Statement of accounting policies (continued)

S1.2 Comparison with IFRS-based Accounts

Many transactions are treated in the same way in National Accounts and IFRS-based Accounts, but there are a number of differences as detailed below. A reconciliation of the Scheme's outturn as recorded in SoPS compared to the IFRS-based Accounts is provided in SoPS note S3.

S1.1.1 Receipts in excess of HM Treasury agreement

This applies where HMT has agreed a limit to income retainable by the Department, with any excess income scoring outside of budgets, and consequently outside of the Statement of Parliamentary Supply. IFRS-based Accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas:

- profit on disposal of assets;
- income generation above department Spending Review settlements; and
- income received above netting-off agreements.

S2. Net outturn

S2.1 Analysis of net resource outturn by section

	2015-16										2014-15
	Outturn							Estimate			Outturn
	Administration			Programme							
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000	Total £000	Net Total £000	Net total compared to Estimate £000	Net Total Compared to Estimate, Adjusted for Virements £000	Total £000
Spending in Departmental Expenditure Limits (DEL)											
Voted expenditure											
Section A	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Non -voted expenditure											
Section A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total spending in DEL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Spending in Annually Managed Expenditure (AME)											
Voted expenditure											
Section A	-	-	-	18,136,746	(6,011,579)	12,125,167	12,125,167	12,293,509	168,342	168,342	13,286,501
Non -voted expenditure											
Section A	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Total spending in AME	**-**	**-**	**-**	**18,136,746**	**(6,011,579)**	**12,125,167**	**12,125,167**	**12,293,509**	**168,342**	**168,342**	**13,286,501**
Total Spending	**-**	**-**	**-**	**18,136,746**	**(6,011,579)**	**12,125,167**	**12,125,167**	**12,293,509**	**168,342**	**168,342**	**13,286,501**

S2. Net outturn (continued)

S2.1 Analysis of net resource outturn by section (continued)

S2.1.1 Explanation of the variation between Estimate and Outturn (net total resources)

The net resource outturn is £168 million (2014-15: £74 million underspend) lower than the net resource limit in the Supply Estimate. The underspend is the result of Scheme expenditure being £252m lower than forecast and Scheme income being £84m less than forecast. The outturn was 1.4% under the estimate. This reflects the work of the Department and Scheme administrator in order to ensure that the budget is taut and realistic and that there was not a breach of the Estimate.

S2.2 Analysis of net capital outturn by section

The Scheme does not have any capital expenditure.

S3. Reconciliation of net resource outturn to net expenditure

	SoPS Note	2015-16 Outturn £000	2014-15 Outturn £000
Total resource outturn in Statement of Parliamentary Supply	S2.1	12,125,167	13,286,501
Less: Income payable to the Consolidated Fund	S5	41	68
Combined net expenditure in Combined Statement of Comprehensive Net Expenditure		**12,125,126**	**13,286,433**

S4. Reconciliation of net resource outturn to net cash requirement

	SoPS Note	Estimate £000	Outturn £000	2015-16 Net total outturn compared with Estimate savings/ (excess) £000	2014-15 Outturn £000
Resource Outturn	S2.1	**12,293,509**	**12,125,167**	**168,342**	**13,286,501**
Capital Outturn		**-**	**-**	**-**	**-**
Accruals to cash adjustments:					
Adjustments to remove non-cash items:					
New provisions and adjustments to previous provisions		(18,351,184)	(18,112,444)	(238,740)	(19,024,057)
Adjustments to reflect working balances:					
Increase/(decrease) in receivables		88,466	26,741	61,725	7,592
(Increase)/decrease in payables		31,000	(14,539)	45,539	(22,142)
Use of provisions		9,614,014	9,524,554	89,460	9,343,986
Net cash requirement		**3,675,805**	**3,549,479**	**126,326**	**3,591,880**

S5. Analysis of income payable to the consolidated fund

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

	Outturn 2015-16		Outturn 2014-15	
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Operating income outside the ambit of the Estimate	41	*41*	68	*76*
Non-operating income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total amount payable to the Consolidated Fund	**41**	***41***	**68**	***76***

5. Parliamentary accountability disclosures

Audited information

Losses statement

	2015-16	2014-15
Total number of losses	3,757	2,465
Total value of losses £000	184	64

There were no individual losses in excess of £300,000.

Special payments

	2015-16	2014-15
Total number of special payments	-	-
Total value of special payments £000	-	-

Auditor's remuneration

The Comptroller & Auditor General is appointed by statute to audit these accounts and his certificate and report appears on pages 45 to 46. The notional fee incurred for the year is £86,000 (2014-15 £86,000) and relates to the statutory audit of the Scheme's accounts. The NAO, as the Scheme's external auditors, provided no other services during this year.

Jonathan Slater **11 July 2016**
Accounting Officer

The certificate and report of the Comptroller and Auditor General to The House of Commons

I certify that I have audited the financial statements of the Teachers' Pension Scheme (England and Wales) for the year ended 31March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and related notes, and the information in the Parliamentary Accountability Disclosures that is described in those disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Managers, the Governance Statement and Report of the Actuary to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity
In my opinion, in all material respects:
- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements
In my opinion:
- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2016 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters
In my opinion:
- the parts of the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception
I have nothing to report in respect of the following matters which I report to you if, in my opinion:
- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff or
- the financial statements and the parts of the Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report
I have no observations to make on these financial statements

Sir Amyas C E Morse **14 July 2016**
Comptroller and Auditor General

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

Accounts

Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Principal arrangements			
Income			
Contributions receivable	3	(5,967,705)	(5,699,697)
Transfers in	4	(27,083)	(30,615)
Other pension income	5	(5,661)	(9,548)
Other pension income - Administration Fee		(11,171)	-
		(6,011,620)	**(5,739,860)**
Expenditure			
Service cost	6	8,234,301	8,105,823
Enhancements	7	10,178	10,656
Transfers in	8	27,083	30,615
Pension financing cost	9	9,762,105	10,858,336
Administration Expenses		19,515	-
		18,053,182	**19,005,430**
Net expenditure		**12,041,562**	**13,265,570**
Compensation arrangements			
Benefits payable	10	83,564	20,863
Net expenditure		**83,564**	**20,863**
Combined net expenditure		**12,125,126**	**13,286,433**

Other comprehensive net expenditure

		2015-16 £000	2014-15 £000
Recognised losses for the year			
Actuarial (gain)/loss	14.7	(12,318,660)	15,629,202
Total comprehensive net (income)/expenditure		**(193,534)**	**28,915,635**

The notes on pages 51 to 67 form part of these Accounts.

Combined Statement of Financial Position

as at 31 March 2016

	Note	2016 £000	2015 £000
Principal arrangements			
Current assets			
Receivables	11.1	476,642	450,238
Cash and cash equivalents	12	55,377	62,136
Total current assets		**532,019**	**512,374**
Current liabilities			
Overdraft	12	(66)	(1,811)
Payables	13	(465,033)	(455,508)
Total current liabilities		**(465,099)**	**(457,319)**
Net current assets, excluding pension liability		**66,920**	**55,055**
Provision for pension liability	14	(271,700,000)	(275,500,000)
Net liabilities, including pension liability		**(271,633,080)**	**(275,444,945)**
Compensation arrangements			
Receivables	11.2	345	8
Provision for compensation payments	15	(240,180)	(170,949)
Net liabilities		**(239,835)**	**(170,941)**
Combined Schemes -Total net liability		**(271,872,915)**	**(275,615,886)**
Taxpayers' equity			
General Fund		(271,872,915)	(275,615,886)
Total equity		**(271,872,915)**	**(275,615,886)**

Jonathan Slater
Accounting Officer

11 July 2016

The notes on pages 51 to 67 form part of these Accounts.

Combined Statement of Changes in Taxpayers' Equity

for year ended 31 March 2016

	Note	2015-16 General Fund £000	2014-15 General Fund £000
Balance at 1 April		(275,615,886)	(250,292,063)
Net Parliamentary Funding			
– drawn down		3,544,500	3,602,913
– deemed		60,248	49,215
Consolidated Fund Standing Services		-	-
Supply payable adjustments		(55,270)	(60,248)
CFERs payable to the Consolidated Fund	S5	(41)	(68)
Comprehensive net expenditure for the year		(12,125,126)	(13,286,433)
Actuarial gain/(loss)	14.7	12,318,660	(15,629,202)
Net Change in Taxpayer's equity		3,742,971	(25,323,823)
Balance at 31 March		**(271,872,915)**	**(275,615,886)**

The notes on pages 51 to 67 form part of these Accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Cash flows from operating activities			
Net expenditure		(12,125,126)	(13,286,433)
Adjustments for non-cash transactions	9 & 15	9,765,866	10,861,893
Increase in receivables – principal arrangements	11.1	(26,404)	(7,592)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure			
Increase in receivables – agency arrangements	11.2	(337)	(312)
Increase in payables: pensions	13	9,525	33,403
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	13	5,013	(10,941)
Increase in pension provision	6 & 15	8,309,317	8,120,894
Increase in pension provision – enhancements and transfers in	7 & 8	37,261	41,271
Use of provisions – pension liability	14.5	(9,415,086)	(9,212,238)
Use of provisions – early retirement	15	(9,546)	(9,354)
Use of provisions – refunds and transfers	14.6	(99,921)	(122,394)
Net cash outflow from operating activities		**(3,549,438)**	**(3,591,803)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		3,544,500	3,602,913
Net Parliamentary financing		**3,544,500**	**3,602,913**
Net financing		**(4,938)**	**11,110**
Net (decrease)/ increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(4,938)**	**11,110**
Payments of amounts due to the Consolidated Fund	13	(76)	(160)
Net (decrease)/increase) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(5,014)	10,950
Cash and cash equivalents at the beginning of the year	12	60,325	49,375
Cash and cash equivalents at the end of the year	12	**55,311**	**60,325**

The notes on pages 51 to 67 form part of these Accounts.

Notes to the Accounts

1. Basis of preparation

The Accounts of the Teachers' Pension Scheme (England and Wales) have been prepared in accordance with the relevant provisions of the 2015-16 *Government Financial Reporting Manual* (FReM) issued by HM Treasury (HMT). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector. *IAS 19 Employee Benefits* (IAS 19) and *IAS 26 Accounting and Reporting by Retirement Benefit Plans* (IAS 26) are of particular relevance to these Accounts.

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

1.1 Teachers' Pension Scheme - principal arrangements

The Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Department for Education on behalf of members of the teaching profession in England and Wales who satisfy the membership criteria.

Contributions to the Scheme by employers and employees are set at rates determined by the Secretary of State after consultation with the Scheme's actuary. The contributions partially fund payments made by the Scheme, the balance of funding being provided by Parliament through the annual Supply Estimates process.

From 2015-16 the administrative expense associated with operating the Scheme are borne by the Scheme and reported in these Accounts. For 2014-15 the administrative expenses associated with the operation of the Scheme were borne by the Department for Education and reported in the Department for Education consolidated Accounts.

The Accounts of the Scheme show the financial position of the Scheme at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme Accounts should be read in conjunction with that report.

1. Basis of preparation (continued)

1.2 Teachers' Pension Scheme - agency arrangements

The Scheme acts as an agent for employers in the payment of compensation benefits arising under the Scheme. Compensation payments are generally recovered from the employer in advance, on a quarterly basis. The financial flows associated with these transactions are not brought into account in the Accounts. However, the Accounts recognise the liabilities arising from the central funding of compensation payments which amount to some £240 million (2014-15: £171 million) (see Note 15).

2. Accounting Policies

The accounting policies contained in the FReM follow IFRSs to the extent that they are meaningful and appropriate to the public sector context and to an unfunded Scheme, with a separate vote. The Accounts therefore include contributions receivable as income, as a pension scheme would. The position showing its liabilities and expenditure represents the employer position showing increase in liabilities suffered in year and 'net service cost', rather than pensions payable as in pension scheme Accounts.

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

2.1 Accounting convention

These Accounts have been prepared under the historical cost convention.

2.2 Pension contributions receivable

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

b Employers' special pension and compensation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, on a cash basis.

c Employees' pension contributions which exclude amounts paid in respect of the purchase of added years (dealt with in 2.2d below) and Additional Voluntary Contributions (dealt with in 2.16 below) are accounted for on an accruals basis.

d Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the Scheme liability is recognised as expenditure.

2. Accounting policies (continued)

e Income received from employers in respect of administration expenses are accounted for on an accruals basis.

2.3 Transfers in and out

Transfers in are normally accounted for as income and expenditure (representing the associated increase in the Scheme liability) on a cash basis. Transfers out reduce the liability and are shown on a cash basis.

2.4 Income received in respect of enhancements

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

2.5 Other income

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

2.6 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. It is calculated by factoring up the actual contribution rates charged (employers 15.44%, employees 9.6%) to the projected unit credit rate (33.8%) adopted by the Actuary.

2.7 Past service cost

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

2. Accounting policies (continued)

2.8 Interest on Scheme liabilities

The interest cost is the increase during the year in the present value of the Scheme liabilities because the benefits are one period closer to settlement. The cost is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a discount of 1.37% (2014-15: 1.30%), real rate i.e. 3.60% (2014-15: 3.55%) including inflation.

2.9 Other expenditure

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

2.10 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at 1.37% real (3.60% gross). The actuary reviews the most recent actuarial valuation at the date of the Statement of Financial Position and updates it to reflect current conditions. Differences between the Actuary's figures shown on page 24 and the Annual Accounts are due to rounding.

2.11 Pension benefits payable

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

2.12 Pension payments to those retiring at their normal retirement age

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

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

2. Accounting policies (continued)

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

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

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

2.14 Lump sums payable on death in service

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

2.15 Actuarial gains and losses

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

2.16 Additional voluntary contributions

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

2.17 Premature retirement compensation

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

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

2. Accounting policies (continued)

2.18 Administration expenses

The budget for all the administration expenses related to the Scheme in 2015-16 is included in the Supply Estimate. Administration expenses include all staff costs, overheads and general administration costs and more specifically for the Scheme, the cost of fees paid for medical examinations. These are collated by the Department and recharged to the Scheme on a quarterly basis. In 2014-15 the budget for all administrative expenses related to the Scheme was included in the Supply Estimate for the Department for Education. Employers pay a contribution to cover administrative expenses and this is covered in note 2.2e.

2.19 Changes to International Financial Reporting Standards

No changes to International Financial Reporting Standards have impacted on the Scheme Accounts.

2.20 Changes to the Financial Reporting Manual

The Scheme has adopted the amendments to FReM in this financial year. The most significant of these is that the Statement of Parliamentary Supply is now in the Accountability Report.

3. Contributions receivable

	2015-16 £000	2014-15 £000
Employers	3,686,474	3,350,342
Employees:		
Normal	2,271,052	2,339,720
Purchase of added years	10,179	9,635
	5,967,705	**5,699,697**

£6,298 million contributions are expected to be payable to the Scheme in 2016-17.

4. Transfers in

	Note	2015-16 £000	2014-15 £000
Transfers in from other schemes		27,083	30,615
		27,083	**30,615**

Amounts in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

5. Other pension income

	2015-16 £000	2014-15 £000
Contributions equivalent premiums	886	673
Recoveries of payments in lieu	4	5
Reinstatement of contributions	-	1,021
Other income	41	68
Premature retirement compensation	4,730	7,781
	5,661	**9,548**

6. Service cost

	Note	2015-16 £000	2014-15 £000
Current service cost	14.4	8,013,126	8,084,424
Past service cost	14.4	221,175	21,399
		8,234,301	**8,105,823**

2015-16 Past service costs include a one off charge of £200million relating to HMT's announcement in March 2016 that Guaranteed Minimum Pension (GMP) would be fully indexed in line with CPI for a transitional cohort following the abolition of the second state pension in April 2016.

7. Enhancements

	Note	2015-16 £000	2014-15 £000
Employees:			
Purchase of added years		10,178	9,635
Reinstatements		-	1,021
	14.4	**10,178**	**10,656**

8. Transfers in - additional liability

	Note	2015-16 £000	2014-15 £000
Transfers in from other schemes		27,083	30,615
	14.4	**27,083**	**30,615**

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

9. Pension financing cost

	Note	2015-16 £000	2014-15 £000
Net interest charge for the year		9,762,105	10,858,336
	14.4	**9,762,105**	**10,858,336**

10. Compensation benefits

The following amounts represent annual compensation payments and compensation lump sums payable to former employees, but which are not recoverable from employers. These sums are brought to account in the Statement of Comprehensive Net Expenditure.

	Note	2015-16 £000	2014-15 £000
On retirement			
Contributions equivalent premiums		2,983	543
Premature retirement compensation[1]		75,774	15,964
Other		1,046	799
Unwinding of discount	15	3,761	3,557
		83,564	**20,863**

1 change is due to the difference in interest rates between years (2015-16 -0.8%, 2014-15 2.2%)

11. Receivables

11.1 Receivables – Principal Arrangements

	2016 £000	2015 £000
Amounts falling due within one year:		
Pension contributions due from employers	287,396	254,494
Employees' normal contributions	166,006	177,441
Other receivables	21,001	15,718
	474,403	447,653
Recoverable compensation from employers (principal)	2,239	2,585
Total amounts falling due within one year	**476,642**	**450,238**

Included within the 2015-16 figures is £nil (2014-15: £nil) that will be due to the Consolidated Fund once the debts are collected.

There are no receivables falling due after more than one year (2014-15: £nil).

11.2 Receivables - compensation payments agency

	2016 £000	2015 £000
Balance at 1 April	8	(304)
Receipts from employers	(27,091)	(26,831)
Payments to employees	27,428	27,143
Balance at 31 March	**345**	**8**

12. Cash and cash equivalents

	2016 £000	2015 £000
Balance at 1 April	60,325	49,375
Net change in cash balances	(5,014)	10,950
Balance at 31 March	**55,311**	**60,325**
The following balances at 31 March were held at:		
Cash at bank and in hand:		
Government Banking Service	54,327	59,630
Commercial banks and cash in hand	1,050	2,506
	55,377	**62,136**
Overdrafts:		
Commercial banks and cash in hand overdraft	(66)	(1,811)
	(66)	**(1,811)**
Balance at 31 March	**55,311**	**60,325**

13. Payables

	2016 £000	2015 £000
Pensions	325,634	315,118
HMRC and voluntary contributions	78,498	77,599
Other payables	5,590	2,467
	409,722	**395,184**
Amounts issued from the Consolidated Fund for supply but not spent at year end	55,270	60,248
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	41	76
Receivable	-	-
	55,311	**60,324**
Total payable at 31 March	**465,033**	**455,508**

14. Provisions for pension liabilities

14.1 Assumptions underpinning the pension liability

The Teachers’ Pension Scheme (England and Wales) is an unfunded defined benefits scheme. The Government Actuary’s Department carried out an assessment of the Scheme liabilities as at 31 March 2016. The Report of the Actuary on pages 17 to 23 sets out the scope, methodology and results of the work the actuary has carried out.

The Scheme managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Scheme managers should make available to the actuary in order to meet the expected requirements of the Scheme auditor. This information includes but is not limited to details of:

- Scheme membership, including age and gender profiles, 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.

14. Provisions for pension liabilities (continued)

14.1 Assumptions underpinning the pension liability (continued)

The key assumptions used by the actuary were:

	2016 %	2015 %	2014 %	2013 %	2012 %
Rate of increase in salaries[5]	4.2	4.2	4.5	3.95	4.3
Rate of increase in pensions in payment and deferred pensions	2.2	2.2	2.5	1.70	2.0
Inflation assumption[6]	2.2	2.2	2.5	1.70	2.0
Nominal discount rate	3.60	3.55	4.35	4.10	4.8
Discount rate net of price inflation	1.37	1.3	1.8	2.35	2.8

	2016 Years	2015 Years	2014 Years	2013 Years	2012 Years
Life expectancy for those retiring at 31 March aged 60					
Males	29.3	29.5	29.4	29.2	29.1
Females	31.6	32.2	32.1	32.8	32.7
	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	31.3	31.6	31.5	31.6	31.5
Females	33.5	34.2	34.1	35.1	35.0
	Years	Years	Years	Years	Years
Life expectancy for those retiring at 31 March aged 65					
Males	24.3	24.5	24.4	24.4	24.3
Females	26.5	27.1	27.0	27.8	27.7
	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	26.2	26.5	26.4	26.6	26.5
Females	28.3	29.1	29.0	30.0	26.9

[5] Short term adjustments have been made to this assumption
[6] The inflation assumptions shown are based on CPI

14. Provisions for pension liabilities (continued)

14.1 Assumptions underpinning the pension liability used (continued)

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

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the nominal discount rate is based on yields on high quality corporate bonds. The rates are set out in the above table. Any decrease in the discount rate net of price inflation leads to a significant increase in the reported liability.

In accordance with IAS 19 the Scheme managers are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

14.2 Analysis of the provision for pension liability

	2016 £bn	2015 £bn	2014 £bn	2013 £bn	2012 £bn
Value of liability in respect of:					
Pensions in payment	136.5	143.3	128.5	119.5	104.7
Deferred members	21.0	27.7	24.3	19.6	16.9
Active members	114.2	104.5	97.4	85.8	79.0
Total liabilities	**271.7**	**275.5**	**250.2**	**224.9**	**200.6**

14. Provisions for pension liabilities (continued)

14.2 Analysis of the provision for pension liability (continued)

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

The value of the liability on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation or increase in salaries, the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 14.4 and 14.7. The note also discloses "experience" gains and losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

14.3 Sensitivity analysis

Table showing the indicative effects on the total liability as at 31 March 2016 of changes to assumptions (rounded to the nearest ½%).

Change in Assumption		Approximate effect on total liability	
Financial Assumptions			
Discount rate*	+ ½% a year	(9.5%)	(£26 billion)
Earnings increases*	+ ½% a year	1.5%	£4 billion
Pension increases*	+ ½% a year	8%	£22 billion
Demographic assumptions			
Additional one year increase to life expectancy at retirement*		3%	£8 billion
All active members who move to new scheme retire (on average) 1 year later		0%	£0 billion
Withdrawal rates a third higher		(0.5%)	(£1 billion)

*Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

14. Provisions for pension liabilities (continued)

14.4 Analysis of movements in the Scheme liability

	Note	2015-16 £000	2014-15 £000
Scheme liability at 1 April		275,500,000	250,200,000
Current service cost	6	8,013,126	8,084,424
Past service cost	6	221,175	21,399
Pension financing cost	9	9,762,105	10,858,336
Enhancements	7	10,178	10,656
Pension transfers in	8	27,083	30,615
Benefits payable	14.5	(9,415,086)	(9,212,238)
Pension payments to and on account of leavers	14.6	(99,921)	(122,394)
Actuarial (gain)/loss	14.7	(12,318,660)	15,629,202
Scheme liability at 31 March		**271,700,000**	**275,500,000**

During the year ended 31 March 2016, members' were expected to contribute an average 9.6% of pensionable pay (2014-15: 9.6%). Employers currently contribute on average 15.44% of pensionable pay, being 14.1% from 1st April 2015 to 31st August 2015 and 16.4% from 1st September (2014-15: 14.1%).

14.5 Analysis of benefits paid

	2015-16 £000	2014-15 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	8,034,065	7,729,216
Commutations and lump sum benefits on retirement	1,381,021	1,483,022
Total benefits paid	**9,415,086**	**9,212,238**

14.6 Analysis of payments to and on account of leavers

	2015-16 £000	2014-15 £000
Refunds to members leaving service	4,894	3,749
Individual Transfers to other schemes	95,027	118,645
Total payments to and on account of leavers	**99,921**	**122,394**

14.7 Analysis of actuarial (gains)/losses

	2015-16 £000	2014-15 £000
Experience gain arising on the Scheme liabilities	(3,218,660)	(1,870,798)
Changes in mortality assumptions underlying the present value of Scheme liabilities	(5,900,000)	-
Changes in demographic assumptions (other than mortality) underlying the present value of Scheme liabilities	-	-
Changes in financial assumptions underlying the present value of Scheme liabilities	(3,200,000)	17,500,000
Total actuarial (gain)/loss	**(12,318,660)**	**15,629,202**

14.8 History of experience (gains)/losses

£000	2015-16	2014-15	2013-14	2012-13	2011-12
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	(3,218,660)	(1,870,798)	2,208,156	1,269,624	(1,451,840)
Percentage of the present value of the Scheme liabilities	(1.18%)	(0.68%)	0.88%	0.56%	(0.7%)
Total amount recognised in Statement of Changes in Taxpayers' Equity Amount (£000)	(12,318,660)	15,629,202	18,008,156	17,069,624	(451,840)
Percentage of the present value of the Scheme liabilities	(4.53%)	5.67%	7.20%	7.59%	(0.2%)

15. Provision for compensation payments

	Note	2015-16 £000	2014-15 £000
Balance at 1 April		170,949	161,675
Additional provisions		2,332	15,071
Use of provision in year		(9,546)	(9,354)
Unwinding of discount	10	3,761	3,557
Step change in discount rate		72,684	-
		240,180	**170,949**

16. Financial instruments

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. The Scheme's purchase and usage requirements do not expose the Scheme to financial risks as defined under IFRS 7.

17. IAS 37 contingent liabilities

In the unlikely event of a default by the approved Additional Voluntary Contributions provider, the Scheme will guarantee pension payments. The liability for 2015-16 is £71.1 million per annum (2014-15: £73.1 million). This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

18. Related party transactions

The Teachers' Pension Scheme falls within the ambit of the Department for Education. The Department is regarded as a related party with which the Scheme has various material transactions during the year.

In addition, the Scheme has had material transactions with other government departments, and other central government bodies whose employees are members of the Scheme.

None of the managers of the Scheme, key managerial staff or other related parties have undertaken any material transactions with the Scheme during the year.

19. Events after the reporting period

There have been no events between the Statement of Financial Position date and the date the accounts were authorised for issue requiring an adjustment to accounts.

On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made. Sensitivity analysis around the key financial assumptions underpinning the actuarial valuation of the scheme liabilities that may potentially be affected by this decision may be found on page 64.

The accounts were authorised for issue by Jonathan Slater (Accounting Officer) on the date they were certified by the Comptroller & Auditor General.

ISBN 978-1-4741-3241-1

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