Teachers' Pension Scheme (England and Wales)

Annual Report and Accounts

For the year ended 31 March 2018

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

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Accountability Report

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Background to the scheme

This report covers the financial year 2017-18.

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 2007 Scheme reform and have 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.

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 (as amended).

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 which has been accepted into the Scheme;
  - a further or higher education establishment that has been accepted into the Scheme;
  - an accepted function provider (a company awarded a contract to perform functions on behalf of a local authority); or
  - other approved Scheme employer.

Contributions to the Scheme are set at rates determined by the Secretary of State, taking advice from the Scheme's Actuary. The contributions partially fund payments made by the Scheme with the balance of funding provided by Parliament. The Scheme's administrative expenses are borne by Scheme employers, 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.

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.

The TPS Annual Report and Accounts (ARA) shows the movements in scheme fund and the financial position of the Scheme at the year end 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, interest on the Scheme liabilities and actuarial adjustments.

Further information about the actuarial position of the Scheme is set out in the Report of the Actuary on page 16.

The Scheme is managed by the Department and administered under contract by Capita. See page 3 for further information.

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. These provisions are also managed by the Department for Education (Department or DfE) and administered under contract by Capita Business Services Ltd (Capita).

Corporate Governance

The Scheme is governed at three levels; day to day service delivery, strategy, and oversight by the independently chaired Teachers' Pension Scheme Pension Board. Where appropriate, issues are escalated through the governance structure outlined on page 23.

Details of the Governance Structure, the Boards and their membership, together with attendance details, can be found in the Governance Statement on page 23.

Administration

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. The Department is currently undertaking a project to define the administration model post September 2021.

Changes to the Teachers' Pension Scheme

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.

Whilst the employee contribution rates for each band level remain static in 2018-19 when compared to 2017-18, the salary bands will increase in line with the change in the Consumer Prices Index. The following table shows the rates applied for each salary band.

2018-2019		2017-2018	
Actual Salary band	Actual Contribution rate	Actual Salary band	Actual Contribution rate
£1 - £27,047	7.4%	£1 - £26,259	7.4%
£27,048 - £36,410	8.6%	£26,260 - £35,349	8.6%
£36,411 - £43,171	9.6%	£35,350 - £41,914	9.6%
£43,172 - £57,216	10.2%	£41,915 - £55,549	10.2%
£57,217 - £78,022	11.3%	£55,550 - £75,749	11.3%
£78,023 or more	11.7%	£75,750 or more	11.7%

Employer contributions remain static at 16.40%. with a charge equivalent to 0.08% of their pensionable salary costs to cover administration expenses.

Pension payments were reviewed in accordance with the Scheme regulations, and were increased by 1.0% from 10 April 2017 (2016-17: 0.0% increase).

Changes to the Premature Retirement Compensation (PRC) scheme

During the year, compensation payments were reviewed and in keeping with pension payments pensions were increased by 1.0% with effect from 10 April 2017 (2016-17: 0.0%).

Membership statistics

Membership information is provided by employers via statutory returns to the Scheme administrator. Due to the way that Employers submit data, this is reported a year in retrospect, therefore the figures for active and deferred members relate to the financial year ended 31 March 2017.

The figures for pensions in payment are provided for both the year ended 31 March 2017 and the year ended 31 March 2018.

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

Active members[1]

		2016-17
	Number of members in 2016-17 accounts	671,320
	Adjustment to prior year accounts[2]	20,790
	Actual number at 31 March 2016[3]	692,110
Add:	New entrants in the year	52,864
	Further employment	5,034
	Total joiners	**57,898**
Leavers:	**Initial Awards**	
	Age and infirmity retirements	7,877
	Early retirements (actuarially reduced)	4,960
	Premature retirements	327
	Total initial awards	13,164
	Further Awards[4]	
	Age and infirmity retirements	617
	Early retirements (actuarially reduced)	51
	Total further awards	668
	Other Leavers	
	Opted Out	5,629
	Deaths	326
	Net Withdrawals from active to deferred status [5]	58,716
	Other exits (transfers out, refunds of contributions)	1,765
	Other exits (not identified)[6]	1,931
	Total Other Leavers	68,367
	Total leavers	**82,199**
	Actual number at 31 March 2017[3]	**667,809**

Notes

1 An active member is defined as an individual who is in pensionable service and where the employer has not provided a withdrawal indicator.

2 An adjustment is required to the beginning of year active membership statistics to reflect late submissions of service and salary information by employers, which changes the classification of the member. This occurs where information is received between the date that the previous accounts were prepared and the date that the current accounts have been prepared.

3 Data captured within the membership tables for active and deferred members is reliant upon the information received from employers at the time that membership reports are run (for the purposes of the active member reconciliation set out above, this reflected data held on the administration system at 30 November 2017)..

4 If a member returns to teaching and accrues additional pensionable service 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.

5 Prior year accounts have shown separately the number of members withdrawing from active service and the number re-joining from deferred status. A withdrawal from active to deferred status is any member who has a break in service or any member where an employer has provided a leaver indicator. A re-joiner to active status is then any member who returns to pensionable service following a break in service or a leaver indicator.

The above table now incorporates net withdrawals from active to deferred status which is the difference between the number of withdrawals and the number of re-joiners. This approach more accurately reflects the number of teachers leaving the Scheme in any year (the previous presentation included a high number of teachers who left one employment and started another the following day, without leaving the Teachers' Pension Scheme).

6 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 can not be accurately traced during the year.

Deferred members[1]

		2016-17
	Number of members in 2016-17 accounts	578,205
	Adjustment to prior year accounts[2]	(22,515)
	Actual number at 31 March 2016[3]	**555,690**
Add:	Net withdrawals from active to deferred status[4]	58,716
	Opted Out from active service	5,629
	Other entrants to deferred service status (not identified)[5]	2,752
	Total joiners	**67,097**
Leavers:	Awards out of service – initial awards	12,277
	Awards out of service – further awards[6]	889
	Transfers out	715
	Deaths	933
	Return of contributions	803
	Other exits (not identified)	70
	Total leavers	**15,687**
	Actual number at end of year[3]	**607,100**

1 A deferred member is defined as a member who has previously been in pensionable service, or who was in pensionable service but their employer has provided a withdrawal indicator. These members have yet to claim retirement benefits.

2 An adjustment is required to the beginning of year deferred membership statistics to reflect late submissions of service and salary information by employers, which changes the classification of the member. This occurs where information is received between the date that the previous accounts were prepared and the date that the current accounts have been prepared.

3 Data captured within the membership tables for active and deferred members is reliant upon the information received from employers at the time that membership reports are run (for the purposes of the 2016/17 deferred member reconciliation set out above, this reflected data held on the administration system at 30 November 2017).

4 Prior year accounts have shown separately the number of members withdrawing from active service and the number re-joining from deferred status. A withdrawal from active to deferred status is any member who has a break in service or any member where an employer has provided a leaver indicator. A re-joiner to active status is then any member who returns to pensionable service following a break in service or a leaver indicator.

The net withdrawals from active to deferred status is the difference between the number of withdrawals and the number of re-joiners. This year, a change has been made to the presentation of the membership reconciliation to accurately reflect the number of teachers leaving the Scheme in any year (the previous presentation included a high number of teachers who left one employment and started another the following day, without leaving the Teachers' Pension Scheme).

5 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 includes members who cannot be accurately traced during the year.

6 If a member returns to teaching and accrues additional pensionable service 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

		2016-17 Number
	Total pensioners in payment as 1 April 2016	
	- members	625,847
	- dependants	69,197
	Actual number at 1 April 2016	**695,044**
Add:	Members retiring in the year	
	- Age/Premature pensions[1]	16,158
	- Ill Health pensions[1]	642
	- Early retirement (actuarially reduced) pensions[1]	8,641
	- Phased pensions[2]	906
	- Other[3]	1,263
	Total members retiring in the year	27,610
	New dependants	6,719
	Total members retiring in year and dependants	**34,329**
Less:	Cessations in year – Members	
	- Age/Premature pensions	11,078
	- Ill Health pensions	1,958
	- Early retirement (actuarially reduced pensions)	508
	- Other (unidentified) [4]	2,974
	Total member cessations in year	16,518
	Cessations in year – Dependants	6,811
	- Other dependant cessations [4]	1,572
	Total dependant cessations	8,383
	Total cessations in year	**24,901**
	Total pensions in payment at 31 March 2017	**704,472**
	Pension in payment at 31 March 2017	
	- members	636,939
	- dependants	67,533
	Total	**704,472**

		2017-18 Number
	Pensioners brought forward 31 March 2017	
	- Members	636,939
	- Dependants	67,533
	Total number at 31 March 2017	**704,472**
Add:	Members retiring in the year[5]	
	- Age/premature pensions[1]	16,378
	- Ill Health pensions	701
	- Early retirement (actuarially reduced) pensions	8,396
	- Phased pensions[2]	791
	- Other[3]	1,330
	Total members retiring in year	27,596
	New dependants	7,902
	- Other new dependants (unidentified)[3]	350
	Total dependants retiring in year	8,252
	Total members retiring in year and dependants	**35,848**
Less:	Cessations in year – Members	
	- Age/premature pensions	13,095
	- Ill Health pensions	2,458
	- Early retirement (actuarially reduced) pensions	725
	- Other (unidentified) [3]	120
	Total member cessations in year	16,398
	Cessations in year – Dependants	6,885
	Total cessations in year	**23,283**
	Total pensions in payment at 31 March 2018	**717,037**
	Pension in payment at 31 March 2018	
	- members	648,137
	- dependants	68,900
	Total	**717,037**

Notes

1 These members have corresponding retirements in the active and deferred member reconciliations.

2 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 member.

3 These members are primarily members whose retirement award had been suspended by the Scheme's administrator in a prior reporting year due to uncertainty around continued entitlement, but where the pension has been put back into payment in the reporting year. For example, where issues such as a bank payment rejection or a failure to return the necessary certification for payment to continue have then been rectified.

4 Other cessations include cases where we have suspended payment of pension as a result of uncertainty around continued entitlement to the pension.

5 Following publication of the accounts for the year to 31 March 2017, the new additions to pensioner status for the 2016-17 year have since been matched with those in the active and deferred membership movements. This has resulted in a revised allocation of retirements between the various groups.

The above table categorises a member as active if the last recorded service date provided by their employer is 31 March and the employer has not informed TPS that they have left service by that date.

Analysis of the membership data suggests there are a number of members who have been classified as a deferred member, due to employers providing a leaving service notification and the member has returned to pensionable service the following day. The membership figures quoted within the Report of the Actuary on page 16 show these members as active members, in addition to and including an estimate of the number of active members where the employer has yet to provide the relevant service data to the Scheme.

Performance and position

Net cash requirement

In 2017-18, the net cash requirement was £3,391.5 million (2016-17: £3,306.3 million), £123.8 million (2016-17: £93.2 million) less than the amount authorised via the Supplementary Estimate. This is 3.5% within the net cash requirement limit in the Supply Estimate forecast of £3,515.4 million (2016-17: £3,399.6 million).

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

Resource Outturn to Supply Estimate

The Statement of Parliamentary Supply provides information on how the Scheme has performed against the Parliamentary control totals on resources and cash expenditure. An explanation of variances is on page 34.

Financial position

Comprehensive net expenditure for the year amounted to £17.7 billion (£78.7 billion in 2016-17). The variance between the two years can be attributed to two factors;

- Actuarial adjustment movement of £65.3 billion: the Actuaries take a number of different factors into account when determining the scheme valuation. The most significant were:
    - changes to mortality assumptions which amounted to a decrease of £16.5 billion (2016-17: £nil) and
    - changes to financial assumptions, which led to an off-setting increase of £12.9 billion (2016-17: £70.2 billion increase).

- Service cost movement of £4.3 billion: this arose from
  - changes in the current service cost to 49.1% from 32.3% at the 1 April 2017, which resulted in an increase of £4.0 billion. The change in current service cost was influenced by a change in the discount rate determined by HM Treasury;
  - a new provision for past service cost in relation to Guaranteed Minimum Pension (GMP).

The Scheme had net liabilities of £361.7 billion (2016-17: £347.3 billion) at 31 March 2018.

Scheme valuation

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

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.

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;
- an employer cost cap of 10.9% of pensionable pay which is a measure of the cost of providing pensions in the career average scheme to all members from April 2015. The employer contribution rate of 16.4% of pay principally is different because it also includes contributions of 5.6% of pay to address the pre-April 2015 deficit in the scheme, and also because it measures the cost of providing pensions based on members' actual scheme entitlements, and so reflects that some current active members remain protected in the final salary scheme; and
- Actuarial assessments are undertaken in intervening years between formal valuations for financial reporting purposes, using updated membership data. The amounts recognised in these Accounts have been prepared using full membership data as at 31 March 2014.

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.

The new employer contribution rate and administration levy 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].

A formal valuation is currently in progress with the results expected to be implemented in 2019.

Influences on performance in 2017-18

The ARA is influenced by changes in the Scheme's membership numbers, their salary and service levels, mortality rates, and the age profile of the members and their pension increases.

Free-standing additional voluntary contributions and stakeholder pensions

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.

Although the Secretary of State has guaranteed 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 purchase an annuity or take a lump sum from their AVC fund independently of any TPS benefits. HM Revenue and Customs (HMRC) also regards the two schemes as being separate schemes for tax purposes.

This being the case, the AVC data does not form part of the ARA; it is included here for completeness only.

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

In 2017-18, the aggregate amounts of AVC investments are as follows:

Prudential

	2017-18 £million	2016-17 £million
Movements in the year:		
Balance at 1 April	1,451	1,480
New investments	148	141
Sales of investments to provide pension benefits	(187)	(170)
Changes in market value of investments	-	-
Balance at 31 March	**1,412**	**1,451**
Contributions received to provide life cover	-	-
Benefits paid on death	3	4

Employers

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 (as amended) and the Teachers' Pension Scheme Regulations 2014 (as amended). There were 10,177 (2016-17: 8,762) contributing employers participating in 2017-18 split into the following categories:

	2017-18 Number	2016-17 Number
Local authorities	174	174
Further education institutions	335	369
Higher education institutions	65	65
Independent establishments	1,477	1,465
Academies	7,221	6,194
Free Schools	373	355
Others	532	140
	10,177	**8,762**

Issues arising in 2017-18

In August 2016, it was identified that a population of TPS members who retired during the period April 2011 to April 2015 received a small underpayment of benefits. In the 2016-17 Annual Report and Accounts it was reported that a formal rectification project was underway, with provision for the exercise being made in the 2016-17 accounts. This rectification has now been completed, with £38 million paid out to members, which was in line with the original provision.

A reconciliation project is underway to reconcile Scheme data with that held by HM Revenue & Customs in relation to GMP (GMP reconciliation project). This project has identified that inaccurate GMP data is held by the Scheme for some members, which may have resulted in small under and overpayments being made. The Department has worked with HM Treasury on the issue of under and overpayments to pensioners arising from incorrect GMP information. Taking the considerations set out in Managing Public Money into account, the Department has decided that any such overpayments should be written-off. The reconciliation project is due to complete in December 2018, at which time the number of affected members and the value of under and overpayments will be known.

Between 28 November 2016 and 20 February 2017, the government also consulted on how to continue to meet its obligations to index (price-protect) and equalise (make equal payments to men and women) the pension entitlements of a certain group of public servants with a GMP entitlement. The outcome of that consultation is that the current interim solution, whereby the Scheme provides full pension increases in respect of GMP entitlements, will be extended for a further two years and four months. A charge of £250 million has been recognised in this year's 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. The Government triggered Article 50 of the Lisbon Treaty on 29 March 2017. The negotiations to leave the EU will need to be completed within two years of this date. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding 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 56.

Jonathan Slater **5 July 2018**

Accounting Officer

The managers, administrators and actuary are listed below

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Any enquiries about either the Scheme or the Premature Retirement Compensation Scheme in England and Wales should be addressed to Capita Business Services Ltd at the address above.

Report of the actuary

Introduction

This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Department for Education (DfE). It provides a summary of GAD's assessment of the scheme liability in respect of the Teachers' Pension Scheme (TPS) as at 31 March 2018, and the movement in the scheme liability over the year 2017-18, prepared in accordance with the requirements of Chapter 9 of the 2017-18 version of the Financial Reporting Manual.

The TPS is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.

The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2018.

Membership data

Tables A to C summarise the principal membership data as at 31 March 2016 used to prepare this statement.

Table A – Active members

	Number (000's)	Total actual pay* (pa) £million
Males	209	7,670
Females	519	16,308
Total	728	23,978

* Pensionable pay is the actual amount received by members of the scheme.

Table B – Deferred members

	Number (000's)	Total deferred pension* (pa) £m
Males	162	359
Females	361	743
Total	523	1,102

* Pension amounts include the pension increase granted in April 2016 (2016 : increase was 0%).

Table C – Pensions in payment

	Number (000's)	Annual pension* (pa) £m
Males	226	3,446
Females	397	4,320
Spouses & dependants	69	322
Total	692	8,088

* Pension amounts include the pension increase granted in April 2016 (2016 : increase was 0%).

Methodology

The present value of the liabilities as at 31 March 2018 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2018. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2018 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2017 in the 2016-17 accounts.

This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include 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.

Financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2018 pa	31 March 2017 Pa
Nominal discount rate	2.55%	2.80%
Rate of pension increases	2.45%	2.55%
Rate of general pay increases	3.95%	4.55% from 2020/21
Rate of short-term general pay increase	n/a	1.0% pa to 2019/20
Real discount rate in excess of:		
• Pension increases	0.10%	0.24%
• Long–term pay increases	(1.35%)	(1.67)%
Expected return on assets	n/a	n/a

The assessment of the liabilities allows for the known pension increases up to and including April 2018.

Demographic assumptions

Table E summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S2 tables', and previous 'S1 tables', with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

	Standard table and adjustments
Males	
Retirements in normal health	106% of S2NMA_L
Current ill-health pensioners	Age-dependent assumption ≤75: 70% of S2IMA >75: 119% of S2NMA
Future ill-health pensioners	100% of S2IMA
Dependants	120% of S2NMA

	Standard table and adjustments
Females	
Retirements in normal health	Age-dependent adjustments to S1NFA_L ≤79: 75% 80-84: 86% 85-89: 100% ≥90: 108%
Current ill-health pensioners	Age-dependent assumption: ≤75: 85% of S2IFA >75: 114% of S2NFA
Future ill-health pensioners	100% of S2IFA
Dependants	95% of S2DFA

These assumptions are the same as those recommended for the 31 March 2016 funding valuation of the scheme. Note that the accounts as at 31 March 2017 were based on the assumptions adopted for the 2012 valuation.

Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017. Note that the accounts as at 31 March 2017 were based on the previous 2014-based projections.

Liabilities

Table F summarises the assessed value as at 31 March 2018 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described earlier. The corresponding figures for the previous year are shown for comparison.

Table F – Statement of Financial Position

£ billion

	31 March 2018	31 March 2017
Total market value of assets	nil	nil
Value of liabilities	361.5	347.2
Surplus/(Deficit)	(361.5)	(347.2)
of which recoverable by employers	n/a	n/a

Accruing costs

The cost of benefits accrued in the year ended 31 March 2018 (the current service cost) is assessed as 49.1% of pensionable pay.

For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members contributed between 7.4% and 11.7% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2017-18 as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2017-18 accounts.

Table G – Contribution rate

	2017-18 % of pay	2016-17 % of pay
Employer contributions[2]	16.4%	16.4%
Employee contributions (average)	9.5%*	9.5%*
Total contributions	**25.9%**	**25.9%**
Current service cost (expressed as a % of pay)	**49.1%**	**32.3%**

* Employee contributions are payable at rates between 7.4% and 11.7%, depending on members' salaries. The contribution rate tier structure is updated annually to reflect changes in the Consumer Price Index, and reviewed more generally as part of the quadrennial actuarial valuation to target a yield of 9.6% of actual pensionable pay. The figures above show actual contribution yields, based on the amounts received during each period. Previous years' statements have shown the target yield of 9.6%

The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

The pensionable payroll for the financial year 2017-18 was £24.3 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2017-18 (at 49.1% of pay) is assessed to be £11.9 billion.

Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018[3]. This resulted in a past service cost in respect of these members of £250 million. A further amount, of approximately £25 million, has been recognised as a past service cost over the period. This relates to payments made into the scheme to provide past added years contracts, and similar arrangements, which the Department have notified should be treated as past service costs, and a provision in respect of an exercise to make corrective "second bite" lump sum payments to some recent retirees. I am not aware of any other events that have led to a material past service cost over 2017-18.

I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2017-18.

[2] In addition, employers contributed 0.08% pay in respect of expenses.
[3] https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

Sensitivity analysis

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2018 of changes to the most significant actuarial assumptions.

The most significant financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

Table H shows the indicative effects on the total liability as at 31 March 2018 of changes to these assumptions (rounded to the nearest ½%).

Table H - Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i) discount rate*:	+½% a year	- 11.5%	- £42 billion
(ii) (long-term) earnings increase*:	+½% a year	+ 2.0%	+ £7 billion
(iii) pension increases*:	+½% a year	+ 7.0%	+ £26 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 3.0%	+ £11 billion

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

Garth Foster FIA
Actuary

Government Actuary's Department
14 June 2018

Statement of accounting officer’s responsibilities

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

The combined Accounts are prepared on an accruals basis and 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, application of resources, changes in taxpayers’ equity and cash flows for the year then ended.

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.

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 the Accounting Officer is answerable, for keeping proper records and safeguarding the Scheme assets, are set out in Managing Public Money published by HM Treasury.

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.

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.

Governance statement

Scope of responsibility

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

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

Strategy Board (SB): meets quarterly, chaired by Jeffrey Rogerson (Head of Pensions, School Employment and Teacher Retention Division), 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.

Board Member	Meetings attended	Out of a possible
Department		
Jeffrey Rogerson (Chair)	3	4
Stephen Baker	3	4
Neneh Binning (from January 2018)	2	2
Sue Crane	4	4
Peter Springhall (left January 2018)	3	3
Capita		
Ian Butcher	4	4
Neil Crombie	4	4
David Heslop	4	4
Susan Ring	4	4

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) and providing a resolution forum for any service related issues;
- reviewing contractual performance measures and key client management issues, addressing delivery risks and issues; and
- discussing any escalation from Finance, Operations, Engagement, Governance and Audit meetings.
- promote collaboration in developing best practice operational discipline. This includes joint initiatives to promote more effective change.

Board Member	Meetings attended	Out of a possible
DfE		
Sue Crane	12	12
Anna-Marie Alderson (from May 2017)	10	11
Neneh Binning (from January 2018)	4	4
Richard Lees (left June 2017)	3	3
Peter Springhall (left January 2018)	7	9
Capita		
Keith Barker	10	12
Neil Crombie	10	12
Amy Gibbs (from June 2018)	10	10
Paula Graham	11	12
David Heslop	11	12
Mark Richardson (left May 2017)	1	1
Kerry Tate-King (formerly Tate-Maskill)	11	12
Governance Secretary	9	12

The TPS Risk Committee: meets monthly, chaired by the TPS Analytics and Risk 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.

Executive Reviews: Stephen Baker, the Deputy Director for School Employment and Teacher Retention Division has six-monthly meetings with Susan Ring, the Capita Executive Director, provides a vehicle for escalating and resolving issues.

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

The Department's boards and committees

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 DB is chaired by the Secretary of State and its membership includes Ministers, the Permanent Secretary, departmental senior officials and the non-executive board members.

The DB meets at least four 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.

The DB is supported in the delivery of its functions by the Audit and Risk Committee (ARC), the Nominations Committee, the Implementation Committee and the Leadership Team.

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 July 2018.

The committees report or escalate relevant issues to the DB. This may take the form of routine reports to board members, but may, if considered necessary or appropriate by the Chairs, form the subject of a full agenda item for discussion at the DB. Although TPS issues were discussed a number of times at ARC meetings, no issues were escalated to the DB in 2017-18.

Audit and Risk Committee: meets up to 6 times a year and provides assurance to the Permanent Secretary, in his role as Principal Accounting Officer on audit, risk and control issues and is responsible for scrutinising the TPS annual accounts. It is chaired by a non-executive board member and its members are independent of the department.

The Nominations Committee meets at least four times a year and provides support and challenges the Department's arrangements for senior appointments, talent and pay. It advises the Permanent Secretary on senior talent and succession planning, and remuneration. It also supports ministers by scrutinising the Department's processes for public appointments. The committee is chaired by the lead non-executive board member and consists of non-executive board members, the Permanent Secretary and the HR Director.

The Implementation Committee: meets up to 6 times a year and provides advice and assurance to the DB on the Department's delivery and performance. It supports and advises senior managers in addressing complex implementation challenges. The membership combines external (non-executive) and internal perspectives and is chaired by the lead non-executive board member.

The Leadership Team meets around monthly and ensures that the department is as effective as possible in delivering its business and government policy. It sets the direction for the department's organisational strategy and business plans, and provides the day-to-day executive leadership and management of the department. It provides the departmental board with management information to enable it to fulfil its role.

Teachers' Pension Scheme Pensions Board (TPSPB)

The TPS Pension Board was established in April 2015 in accordance with the Public Services Pensions Act 2013. The Board is responsible for assisting the Scheme manager in ensuring compliance with the TPS Regulations, any other legislation relating to the governance and administration of the Scheme, and any requirements imposed by the Pensions Regulator. The Board provides additional assurance to members, employers, the Secretary of State for Education and taxpayers that the TPS is being administered efficiently, effectively and in accordance with the scheme rules.

In October 2017, the TPSPB membership increased from four to five member and employer representatives. The Board membership also includes an independent Chair, an independent pensions specialist and two senior DfE officials. Details and biographies of Board members can be found on the Teachers' Pensions website.[4]

The TPSPB met formally four times in 2017-18. It will continue to meet on a quarterly cycle with meetings aligned to service delivery milestones and financial and assurance timelines.

The TPSPB provides extra assurance to the Accounting Officer, Scheme members and their employers on the effective management of the TPS. This is done through scrutiny of financial, operational and risk management reports, and through challenge to both the administrator and the DfE.

To help them in their role, in 2016, the TPSPB created three sub-committees which met quarterly in 2017-18:

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

In September 2017 a fourth sub-committee, the Commercial sub-committee was formed to deliver governance and challenge to the project which will secure continued delivery of the Scheme's administration from October 2021. The focus of the sub-committee's work is to ensure that employer and member views are reflected in the decision-making processes around any future administration delivery model, alongside ensuring that the project processes and governance are robust.

The TPSPB's assurance role is fully integrated within the wider governance structure, with the Board and its sub-committees established within it. The Board has consolidated its

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

capacity to undertake its role and is focussing on specific elements of the administration, whilst challenging and pressing TP and the Department. All four sub-committees provide additional scrutiny on the key aspects of the TPS which matter most to members and employers.

Board Member		Meetings attended	Out of a possible
Michael Richardson CB (until February 2018)	Chair	4	4
Neville Mackay (appointed March 2018)	Chair	-	-
Geoff Ashton	Independent Pensions Specialist	3	4
Jerry Glazier	Member Representative	3	4
Julie Huckstep (appointed October 2017)	Member Representative	2	2
Christopher Jones (appointed October 2017)	Member Representative	3	4
David Trace	Member Representative	4	4
Dave Wilkinson	Member Representative	4	4
Roy Blackwell (appointed October 2017)	Employer Representative	2	2
David Butcher	Employer Representative	4	4
Trefor Llewellyn	Employer Representative	4	4
Lee Probert	Employer Representative	4	4
Jackie Wood (appointed March 2017)	Employer Representative	3	4
Stephen Baker (appointed April 2017)	DfE	4	4
Paul Kett (until April 2017)	DfE	-	-
Iain King (appointed June 2017)	DfE	2	3

Risk management and controls

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.

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, if necessary, escalated to the DB. No issues were escalated in 2017-18.

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

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

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

- Risk registers: two risk registers are maintained that cover all aspects of strategic and operational delivery, including: contract, policy, finance, compliance, governance, IT systems and processes and administration. Each business area has overall ownership and accountability 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 registers is continually reviewed to ensure compliance with risk management best practice. The Risk Committee, incorporating membership from both the Department and the Scheme administrator, is responsible for the management and oversight of the risks recorded in the registers.
- Contractual audit requirement: 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).
- Annual audit plan: a risk-based annual audit plan is delivered by GIA which is agreed with the Department and TPSPB. The Department continually reviews plan delivery, as well as approving the scope of individual audit activity, and reviewing/challenging audit findings.
- During 2017-18 there were 5 GIA reviews undertaken:
  - ➢ Change Management (Hartlink) – Effective;
  - ➢ Customer Communications / Events – Improvement Required;
  - ➢ Staff Vetting – Effective;
  - ➢ Payment Out Controls – Effective; and

➢ GDPR Project (Capita) – Improvement Required.

There were 9 findings (4 Medium and 5 Low risk rated findings) made within the GIA reports released during the period April 2017 to March 2018. At 31 March 2018, there are 1 Medium and 4 Low findings that are open and being remediated in accordance with agreed timescales. There are no overdue findings.

For the areas reviewed during the period, GIA confirmed the overall adequacy and effectiveness of governance and risk management to be generally effective. This is supported by the fact there have been no 'Critical' or 'High' issues identified during the course of the year.

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.

- <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 and also reported through to the TPSPB Managing Risk and Controls subcommittee. 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 Department's internal audit function provided by the Government Internal Audit Agency (GIAA) engages regularly with contract managers and GIA to review and challenge contract, risk and audit management.

The key financial controls are as described below:

- <u>Fraud identification</u>: 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 is carried out using data available through the Disclosure of Death Register Information.
- <u>Debt Management</u>: 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.
- <u>Cash forecasts</u>: are provided by Capita, using financial models based on historic data. The forecasts are subject to challenge by the Department and further challenge by HM Treasury and the Office for Budget Responsibility (OBR).

- Income and Expenditure forecasts: The Departmental finance team produce the Main and Supplementary Estimates (estimates) in line with the Spending Review requirements. The estimates are based upon the cash data provided by TP and modified to include information from the Scheme Actuary in respect of financial and demographic assumptions, and HMT in respect of interest rates and other fiscal assumptions. HMT provide further challenge to the estimates before they are approved by Parliament.
- Monthly Management Reports: show the movement between actual outturn and forecast movement are prepared by the department finance team and submitted for scrutiny to the department management board and HMT.

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. TP also attends various forums with other public sector pension schemes to discuss good practice.

People management

The administrator is contractually required to ensure that it employs appropriately skilled and qualified practitioners, preferably with a sound pension background, to specialist posts within the organisation.

There is a robust recruitment and screening 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.

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 maintains a record of all individuals' skills and professional qualifications.

Corporate governance code

The Scheme complied with the HMT 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

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 2018 confirms that it did provide a satisfactory framework to enable effective risk management during that period.

GIA conclude they have not identified any errors, breaches or fraud which may cause material financial or reputational damage to the Department.

During 2017-18, Teachers' Pensions recorded 11 minor breaches of data security. The majority of cases (8) where member service information was included in correspondence addressed to another person/address in error. Two of the remaining cases were as a result of updates being made to the wrong member record; and the final case was resulting from member data being left on a template file and sent to the incorrect employer. All breaches have been investigated with mitigating actions implemented to strengthen the controls.

As Accounting Officer, as far as I am aware the governance and internal controls arrangements are working effectively and there is no information about them which the Scheme's auditor is unaware of. I have taken all the steps that I ought to have taken to make myself aware of any relevant governance and internal controls related information and to establish that the Scheme's auditor is aware of that information.

Jonathan Slater **5 July 2018**

Accounting Officer

Parliamentary accountability and audit report

Statement of Parliamentary Supply

for the year ended 31 March 2018

Summary of Resource and Capital Outturn 2017-18

	Note	Estimate Voted £000	Estimate Non-Voted £000	Estimate Total £000	Outturn Voted £000	Outturn Non-Voted £000	Outturn Total £000	2017-18 Voted Outturn compared with Estimate: saving/ (excess) £000	2016-17 Outturn Total £000
Departmental Expenditure Limit									
- Resource		-	-	-	-	-		-	-
- Capital		-	-	-	-	-		-	-
Annually Managed Expenditure									
- Resource	S1.1	15,766,455	-	15,766,455	15,671,163	-	15,671,163	95,292	11,342,029
- Capital		-	-	-	-	-	-	-	-
Total Budget		15,766,455	-	15,766,455	15,671,163	-	15,671,163	95,292	11,342,029
Non-Budget									
-Resource		-	-	-	-	-	-	-	-
Total		**15,766,455**	**-**	**15,766,455**	**15,671,163**	**-**	**15,671,163**	**95,292**	**11,342,029**

Total Resources		**15,766,455**	**-**	**15,766,455**	**15,671,163**	**-**	**15,671,163**	**95,292**	**11,342,029**
Total Capital		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**15,766,455**	**-**	**15,766,455**	**15,671,163**	**-**	**15,671,163**	**95,292**	**11,342,029**

Net cash requirement

Note	2017-18 Estimate £000	2017-18 Outturn £000	2017-18 Outturn compared with Estimate: saving/(excess) £000	2016-17 Outturn £000
S3	3,515,368	3,391,542	123,826	3,306,342

Administration costs

Note	2017-18 Estimate £000	2017-18 Outturn £000	2016-17 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 S1.1.1.

The notes on pages 33 to 35 form part of these Statements.

Notes to the Statement of Parliamentary Supply

S1. Net outturn

S1.1 Analysis of net resource outturn by section

	2017-18										2016-17 Outturn
	Outturn							Estimate			
	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	-	-	-	22,030,852	(6,359,689)	15,671,163	15,671,163	15,766,455	95,292	95,292	11,342,029
	-	-	-	22,030,852	(6,359,689)	15,671,163	15,671,163	15,766,455	95,292	95,292	11,342,029
Non-voted expenditure											
Section A	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Total spending in AME	**-**	**-**	**-**	**22,030,852**	**(6,359,689)**	**15,671,163**	**15,671,163**	**15,766,455**	**95,292**	**95,292**	**11,342,029**
Total Spending	**-**	**-**	**-**	**22,030,852**	**(6,359,689)**	**15,671,163**	**15,671,163**	**15,766,455**	**95,292**	**95,292**	**11,342,029**

S1. Net outturn (continued)

S1.1 **Analysis of net resource outturn by section (continued)**

S1.1.1 Explanation of the variation between Estimate and Outturn (net total resources)

The net resource outturn is £95 million (2016-17: £90 million underspend) lower than the net resource limit in the Supply Estimate. The underspend is the result of Scheme expenditure being £80 million lower than forecast and Scheme income being £15 million higher than forecast. The outturn was 0.60% 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.

S1.2 Analysis of net capital outturn by section

The Scheme does not have any capital expenditure.

S2. Reconciliation of net resource outturn to net expenditure

		SoPS Note	2017-18 Outturn £000	2016-17 Outturn £000
Total resource outturn in Statement of Parliamentary Supply		S1.1	15,671,163	11,342,029
Less:	Income payable to the Consolidated Fund	S4	171	122
Combined net expenditure in Combined Statement of Comprehensive Net Expenditure			**15,670,992**	**11,341,907**

S3. Reconciliation of net resource outturn to net cash requirement

	SoPS Note	2017-18 Estimate £000	2017-18 Outturn £000	2017-18 Net total outturn compared with Estimate savings/ (excess) £000	2016-17 Outturn £000
Resource Outturn	S1.1	**15,766,455**	**15,671,163**	**95,292**	**11,342,029**
Capital Outturn		**-**	**-**	**-**	**-**
Accruals to cash adjustments:					
Adjustments to remove non-cash items:					
New provisions and adjustments to previous provisions		(22,090,098)	(22,010,586)	(79,512)	(17,651,526)
Adjustments to reflect working balances:					
Increase / (decrease) in receivables		(12,770)	12,322	(25,092)	25,162
(Increase)/Decrease in payables		(14,551)	(63,144)	48,593	30,673
Use of provisions		9,866,332	9,781,787	84,545	9,560,004
Net cash requirement		**3,515,368**	**3,391,542**	**123,826**	**3,306,342**

S4. 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 2017-18 Income £000	Outturn 2017-18 Receipts £000	Outturn 2016-17 Income £000	Outturn 2016-17 Receipts £000
Operating income outside the ambit of the Estimate	171	*171*	122	*122*
Non-operating income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total amount payable to the Consolidated Fund	**171**	***171***	**122**	***122***

Parliamentary accountability disclosures

Audited information

Losses statement

	2017-18	2016-17
Total number of losses	2,800	2,747
Total value of losses £000	464	226

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

Special payments

	2017-18	2016-17
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 37 to 40. The notional fee incurred for the year is £93,800 (2016-17: £93,800) and relates to the statutory audit of the Scheme's accounts, this notional fee is shown in the Departmental Accounts. The National Audit Office (NAO), as the Scheme's external auditors, provided no other services during this year.

Jonathan Slater **5 July 2018**
Accounting Officer

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

Opinion on financial statements

I certify that I have audited the financial statements of the Teachers' Pension Scheme (England and Wales) for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2018 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on 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 2018 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Teachers' Pension Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Teachers' Pension Scheme's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Teachers' Pension Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of

my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Accountability Report, other than the parts of the Parliamentary Accountability Disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- 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;
- in the light of the knowledge and understanding of the Teachers' Pension Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the Accountability Report; 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 **11 July 2018**
Comptroller and Auditor General

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

Financial Statements

Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2018

	Note	2017-18 £million	2016-17 £million
Principal arrangements			
Income			
Contributions receivable	3	(6,315)	(6,286)
Transfers in	4	(22)	(21)
Other pension income	5	(4)	(5)
Other pension income - Administration Fee		(19)	(19)
		(6,360)	**(6,331)**
Expenditure			
Service cost	6	12,207	7,866
Enhancements	7	7	8
Transfers in	8	22	21
Pension financing cost	9	9,759	9,752
Administration Expenses	10	17	18
		22,012	**17,665**
Net expenditure		**15,652**	**11,334**
Compensation arrangements			
Benefits payable	11	19	8
Net expenditure		**19**	**8**
Combined net expenditure		**15,671**	**11,342**
Other comprehensive net expenditure			
Recognised losses for the year			
Actuarial loss	15.7	2,077	67,403
Total comprehensive net expenditure		**17,748**	**78,745**

The notes on pages 45 to 59 form part of these Accounts.

Combined Statement of Financial Position

as at 31 March 2018

	Note	2018 £million	2017 £million
Principal arrangements			
Current assets			
Receivables	12	514	502
Cash and cash equivalents	13	106	87
Total current assets		**620**	**589**
Current liabilities			
Payables	14	(547)	(466)
Total current liabilities		**(547)**	**(466)**
Net current assets, excluding pension liability		**73**	**123**
Provision for pension liability	15	(361,500)	(347,200)
Net liabilities, including pension liability		**(361,427)**	**(347,077)**
Compensation arrangements			
Provision for compensation payments	16	(241)	(235)
Net liabilities		**(241)**	**(235)**
Combined Schemes - Total net liability		**(361,668)**	**(347,312)**
Taxpayers' equity			
General Fund		(361,668)	(347,312)
Total equity		**(361,668)**	**(347,312)**

Jonathan Slater **5 July 2018**
Accounting Officer

The notes on pages 45 to 59 form part of these Accounts.

Combined Statement of Changes in Taxpayers' Equity

for year ended 31 March 2018

	Note	General Fund £million
Balance at 31 March 2016		**(271,873)**
Net Parliamentary Funding		
– drawn down		3,339
– deemed		55
Supply payable adjustments		(88)
Comprehensive net expenditure for the year		(11,342)
Actuarial (loss)/gain	15.7	(67,403)
Net Change in Taxpayer's equity		(75,439)
Balance at 31 March 2017		**(347,312)**
Net Parliamentary Funding		
– drawn down		3,410
– deemed		88
Supply payable adjustments		(106)
Comprehensive net expenditure for the year		(15,671)
Actuarial (loss)/gain	15.7	(2,077)
Net Change in Taxpayer's equity		(14,356)
Balance at 31 March 2018		**(361,668)**

The notes on pages 45 to 59 form part of these Accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2018

	Note	2017-18 £million	2016-17 £million
Cash flows from operating activities			
Net expenditure		(15,671)	(11,342)
Adjustments for non-cash transactions	9 & 16	9,757	9,750
Increase in receivables – principal arrangements	12	(12)	(26)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure			
Increase in payables – pensions	14	81	1
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	14	(18)	(32)
Increase in pension provision	6 & 16	12,224	7,873
Increase in pension provision – enhancements and transfers in	7 & 8	29	29
Use of provisions – pension liability	15.5	(9,742)	(9,513)
Use of provisions – early retirement	16	(9)	(10)
Use of provisions – refunds and transfers	15.6	(30)	(37)
Net cash outflow from operating activities		**(3,391)**	**(3,307)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		3,410	3,339
Net Parliamentary financing		**3,410**	**3,339**
Net financing		**19**	**32**
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**19**	**32**
Payments of amounts due to the Consolidated Fund	14	-	-
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		19	32
Cash and cash equivalents at the beginning of the year	13	87	55
Cash and cash equivalents at the end of the year	13	**106**	**87**

The notes on pages 45 to 59 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 2017-18 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 an 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. The costs of administering the Scheme is met by Employers via a levy on Contributions and reported in these 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.

1.2 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 £241 million (2016-17: £235 million) (see Note 16).

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 2.18 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.

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 Administration fee and expenses

The costs of administering the Scheme are ultimately met by Employers via a levy of 0.08% of pensionable salary. This levy is shown as Income in the Statement of Comprehensive Net Expenditure and accounted for on an accruals basis. The expenses are paid for by DfE and recharged to the Scheme on a quarterly basis. These charges are shown under Expenditure in the Statement of Comprehensive Net Expenditure and are accounted for on an accruals basis.

2.7 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 rate charged (employers 16.4%) to the projected unit credit rate (49.1%) adopted by the Actuary.

2.8 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.

2.9 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 rate of 0.24% (2016-17: 1.37%), real rate i.e. 2.80% (2016-17: 3.60%) including inflation.

2.10 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.

2.11 Bad Debt Provision

A bad debt provision has been made in respect of contributions receivable from employers who are either in administration or are notified insolvent. The provision is released once Scheme managers are satisfied that there is no possibility of recovery from any source.

2.12 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 credit method and are discounted at 0.10% real (2.55% 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.

2.13 Pension benefits payable

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

2.14 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.

2.15 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 cash basis.

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

2.16 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.

2.17 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.

2.18 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.

2.19 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.

2.20 Administration expenses

The budget for all the administration expenses related to the Scheme in 2017-18 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. Employers pay a contribution to cover administrative expenses and this is covered in note 2.2e.

2.21 Changes to International Financial Reporting Standards

IFRS 15 Revenue from Contracts with Customers (IFRS 15) and IFRS 16 Leases (IFRS 16) are new significant accounting standards which have been issued and adopted by the EU but are not yet effective. IFRS 15 is effective for accounting periods beginning on or after 1 January 2018, whereas IFRS 16 is effective after 1 January 2019. The TPS does not generate revenue from contracts with customers, and nor does it hold finance or operating leases. Consequently, the TPS does not expect the adoption of these new standards to have any effect on the TPS.

Another new standard, IFRS 9 Financial Instruments (IFRS 9) will become effective on or after 1 January 2018. The main effects of IFRS 9 are to change how some classes of financial assets are recognised and measured, along with moving impairment to an expected losses model from an incurred losses model. Whilst the activities of the TPS do not generate complex financial assets or liabilities, some simple financial assets and liabilities (such as operational receivables and payables) are recognised. Owing to the immaterial size of such receivables balances and losses thereon, TPS do not expect the impact of moving to an expected credit loss model to be material.

3. Contributions receivable

	2017-18 £million	2016-17 £million
Employers	3,985	3,965
Employees:		
Normal	2,323	2,313
Purchase of added years	7	8
	6,315	**6,286**

£6,414 million contributions are expected to be payable to the Scheme in 2018-19.

4. Transfers in

	Note	2017-18 £million	2016-17 £million
Transfers in from other schemes		22	21
	0	**22**	**21**

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

	2017-18 £million	2016-17 £million
Contributions equivalent premiums	1	1
Premature retirement compensation	3	4
	4	**5**

6. Service cost

	Note	2017-18 £million	2016-17 £million
Current service cost	0	11,932	7,810
Past service cost	0	275	56
		12,207	**7,866**

An explanation of the movement is given on page 10.

7. Enhancements

	Note	2017-18 £million	2016-17 £million
Employees:			
Purchase of added years		7	8
	0	**7**	**8**

8. Transfers in - additional liability

	Note	2017-18 £million	2016-17 £million
Transfers in from other schemes		22	21
	0	**22**	**21**

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	2017-18 £million	2016-17 £million
Net interest charge for the year		9,759	9,752
	0	**9,759**	**9,752**

10. Administration Expenses

	Note	2017-18 £million	2016-17 £million
Administration Fees		17	18
		17	**18**

11. 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	2017-18 £million	2016-17 £million
On retirement			
Contributions equivalent premiums		1	2
Premature retirement compensation		18	7
Other		2	1
Unwinding of discount	16	(2)	(2)
		19	**8**

12. Receivables

	2018 £million	2017 £million
Amounts falling due within one year:		
Pension contributions due from employers	301	298
Employees' normal contributions	174	172
Other receivables	38	30
	513	500
Recoverable compensation from employers (principal)	1	2
Total amounts falling due within one year	**514**	**502**

Included within the 2017-18 figures is £nil (2016-17: £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 (2016-17: £nil).

13. Cash and cash equivalents

	2018 £million	2017 £million
Balance at 1 April	87	55
Net change in cash balances	19	32
Balance at 31 March	**106**	**87**
The following balances at 31 March were held at:		
Cash at bank and in hand:		
Government Banking Service	105	86
Commercial banks and cash in hand	1	1
Balance at 31 March	**106**	**87**

14. Payables

	2018 £million	2017 £million
Pensions	347	290
HMRC and voluntary contributions	88	83
Other payables	6	5
	441	**378**
Amounts issued from the Consolidated Fund for supply but not spent at year end	106	88
	106	**88**
Total payable at 31 March	**547**	**466**

15. Provisions for pension liabilities

15.1 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 2018. The Report of the Actuary on pages 16 to 21 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.

The key assumptions used by the actuary were:

	2018 %	2017 %	2016 %	2015 %	2014 %
Rate of increase in salaries[1]	3.95	4.55	4.2	4.2	4.5
Rate of increase in pensions in payment and deferred pensions	2.45	2.55	2.2	2.2	2.5
Inflation assumption[2]	2.45	2.55	2.2	2.2	2.5
Nominal discount rate	2.55	2.80	3.60	3.55	4.35
Discount rate net of price inflation	0.10	0.24	1.37	1.3	1.8

	2018 Years	2017 Years	2016 Years	2015 Years	2014 Years
Life expectancy for those retiring at 31 March aged 60					
Males	28.5	29.4	29.3	29.5	29.4
Females	30.5	31.7	31.6	32.2	32.1

	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	30.4	31.4	31.3	31.6	31.5
Females	32.3	33.6	33.5	34.2	34.1

[1] Short term adjustments have been made to this assumption.
[2] The inflation assumptions shown are based on CPI.

	Years	Years	Years	Years	Years
Life expectancy for those retiring at 31 March aged 65					
Males	23.5	24.4	24.3	24.5	24.4
Females	25.5	26.6	26.5	27.1	27.0

	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	25.4	26.3	26.2	26.5	26.4
Females	27.2	28.4	28.3	29.1	29.0

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.

15.2 Analysis of the provision for pension liability

	2018 £bn	2017 £bn	2016 £bn	2015 £bn	2014 £bn
Value of liability in respect of					
Pensions in payment	153.6	151.6	136.5	143.3	128.5
Deferred members	33.7	28.2	21.0	27.7	24.3
Active members	174.3	167.4	114.2	104.5	97.4
Total liabilities*	**361.5**	**347.2**	**271.7**	**275.5**	**250.2**

*Figures in this report have in general been rounded for presentational purposes, so the totals may not add up

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 15.4 and 15.7. 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.

15.3 Sensitivity analysis

Table showing the indicative effects on the total liability as at 31 March 2018 of changes to assumptions (rounded to the nearest ½%).

Change in Assumption		Approximate effect on total liability[2]	
Financial Assumptions			
Discount rate [1]	+ ½% a year	(11.5%)	(£42 billion)
Earnings increases[1]	+ ½% a year	2.0%	£7 billion
Pension increases[1]	+ ½% a year	7.0%	£26 billion
Demographic assumptions			
Additional one year increase to life expectancy at retirement[1]		3.0%	£11 billion

1 opposite changes in the assumptions will produce approximately equal and opposite changes in the liability

2 where the effect on total liability is shown as a (negative) figure there is a reduction in the liability, a positive figure shows an increase.

15.4 Analysis of movements in the Scheme liability

	Note	2017-18 £million	2016-17 £million
Scheme liability at 1 April		347,200	271,700
Current service cost	6	11,932	7,810
Past service cost	6	275	56
Pension financing cost	9	9,759	9,752
Enhancements	7	7	8
Pension transfers in	8	22	21
Benefits payable	15.5	(9,742)	(9,513)
Pension payments to and on account of leavers	15.6	(30)	(37)
Actuarial loss	15.7	2,077	67,403
Scheme liability at 31 March		**361,500**	**347,200**

During the year ended 31 March 2018, members' contributed an average of 9.5% of pensionable pay (2016-17: 9.5%). Employers currently contribute 16.4% of pensionable pay, (2016-17: 16.4%).

15.5 Analysis of benefits paid

	2017-18 £million	2016-17 £million
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	8,471	8,231
Commutations and lump sum benefits on retirement	1,271	1,282
Total benefits paid	**9,742**	**9,513**

15.6 Analysis of payments to and on account of leavers

	2017-18 £million	2016-17 £million
Refunds to members leaving service	8	5
Individual Transfers to other schemes	22	32
Total payments to and on account of leavers	**30**	**37**

15.7 Analysis of actuarial losses/(gains)

	2017-18 £million	2016-17 £million
Experience gain arising on the Scheme liabilities	7,277	(2,797)
Changes in mortality assumptions underlying the present value of Scheme liabilities	(16,500)	-
Changes in demographic assumptions (other than mortality) underlying the present value of Scheme liabilities	(1,600)	-
Changes in financial assumptions underlying the present value of Scheme liabilities	12,900	70,200
Total actuarial (gain)/loss	**2,077**	**67,403**

15.8 History of experience losses/(gains)

	2017-18	2016-17	2015-16	2014-15	2013-14
Experience losses/(gains) arising on the scheme liabilities					
Amount (£million)	7,277	(2,797)	(3,219)	(1,871)	2,208
Percentage of the present value of the Scheme liabilities	(2.01%)	0.81%	(1.18%)	(0.68%)	0.88%
Total amount recognised in Statement of Changes in Taxpayers' Equity Amount (£million)	2,077	67,403	(12,319)	15,629	18,008
Percentage of the present value of the Scheme liabilities	(0.57%)	(19.41%)	(4.53%)	5.67%	7.20%

16. Provision for compensation payments

	Note	2017-18 £million	2016-17 £million
Balance at 1 April		235	240
(Release of)/Additional provisions		(4)	7
Use of provision in year		(9)	(10)
Unwinding of discount	11	(2)	(2)
Step change in discount rate		21	-
		241	**235**

17. 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.

18. 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 2017-18 is £37.9 million per annum (2016-17: £47.1 million). This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

19. 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.

20. 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.

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

Glossary of terms

Abbreviation or term	Description
ARA	The Teachers' Pension Scheme Annual Report and Accounts
AVCs	Additional Voluntary Contributions
Capita	Capita Business Services Ltd
CPI	Consumer Price Index
DB	Department for Education Board
The Department	Department for Education
DfE	Department for Education
The Directions	The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014
FReM	Financial Reporting Manual
GAD	Government Actuary's Department
GDPR	General Data Protection Regulation
GIA	Capita Group Internal Audit
GIAA	Government Internal Audit Agency
GMP	Guaranteed Minimum Pension
HMT	Her Majesty's Treasury
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NAO	National Audit Office
OBR	Office for Budget Responsibility
PSIAS	Public Sector Internal Audit Standards
PUCM	Projected Unit Credit Method
SB	Strategy Board
The Scheme	Teachers' Pension Scheme
SDB	Service Delivery Board
TPS	Teachers' Pension Scheme
TPSPB	Teachers' Pension Scheme Pension Board
2016-17 & 2017-18	Financial years, ending on 31 March
2016/17 & 2017/18	Academic years, ending on 31 August

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