PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

Department for Education

Teachers' Pension Scheme (England and Wales)

Annual Report and Accounts

For the year ended 31 March 2021

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Accountability Report

Report of the Managers

Background to the scheme

Statutory basis for the Scheme

This report covers the financial year 2020-21.

The Teachers' Pension Scheme (England and Wales) (TPS or Scheme) is a statutory, unfunded, multi-employer, 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 have 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 the 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 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).

Eligibility to join the Scheme

Membership of the Scheme is voluntary and is open to members of the teaching profession in England and Wales who are a 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 accepted by the scheme
- an accepted function provider (a company awarded a contract to perform functions on behalf of a local authority)
- another approved scheme employer

Main features of the Scheme, including benefits and how they are funded

Contributions to the Scheme are set at rates determined by the Secretary of State for Education, taking advice from the Scheme's actuary. Employers and members contribute on a "pay as you go" basis with contributions received used to offset payments to current pensioners 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.

The Annual Report and Accounts (ARA) shows the movements in Scheme funds and the financial position of the Scheme at the year-end as follows:

- 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 Scheme liabilities and actuarial adjustments
- the Statement of Financial Position shows the unfunded net liabilities of the Scheme

Further information about the actuarial position of the Scheme is set out in the Report of the Actuary on page 18.

Management of the Scheme

The Scheme is managed by the Department for Education (Department) and administered under contract by Capita Business Services Ltd (Capita).

Annex B provides details of the organisations responsible for managing and advising the Scheme.

Organisations responsible for managing the Scheme

Capita secured the contract to administer the Scheme from October 2011 following a competitive tendering exercise. In April 2020 the contract was extended to September 2025. This was due to delays outside the control of the scheme, including the ruling by the Court of Appeal in 2018 regarding the McCloud-Sargeant case. The decision to extend the contract was approved by the Cabinet Office in October 2019.

Key developments in year

Employee contributions

Contributions from active scheme members are used to offset payments to current members and are levied on a tiered basis dependent upon salary. Whilst employee contribution rates for each band level will remain static in 2021-22, when compared to 2020-21, the salary bands will increase in line with the change in the Consumer Prices Index (CPI). The following table shows the rates applied for each salary band.

	2021-22		2020-21
Actual salary band	Actual contribution rate	Actual salary band	Actual contribution rate
£1 – £28,309	7.4%	£1 – £28,168	7.4%
£28,310 – £38,108	8.6%	£28,169 – £37,918	8.6%
£38,109 – £45,185	9.6%	£37,919 – £44,960	9.6%
£45,186 – £59,885	10.2%	£44,961 – £59,587	10.2%
£59,886 – £81,661	11.3%	£59,588 – £81,254	11.3%
£81,662 or more	11.7%	£81,255 or more	11.7%

Employer contributions

As a result of the latest scheme valuation as at 31 March 2016 employer contributions were increased in September 2019 from a rate of 16.4% to 23.6%. The next valuation, based on data as at 31 March 2020, is underway and any changes to contributions will take effect in April 2024. Employers also pay a charge equivalent to 0.08% of pensionable salary costs to cover administration expenses.

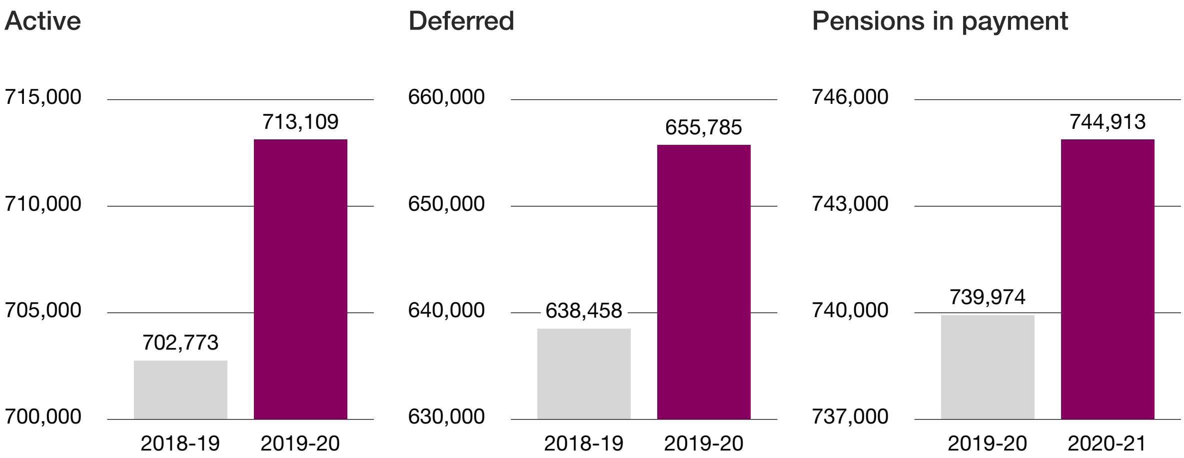
Pension payments

Pension payments were reviewed in accordance with the Scheme regulations and were increased by 1.7% from 6 April 2020 (2019: 2.4% increase).

Changes to the Premature Retirement Compensation (PRC) scheme

During the year compensation payments were reviewed and were increased by 1.7% with effect from 6 April 2020 (2019: 2.4%) in keeping with pension payments above.

Increase in active, deferred and pensions in payment members



Membership statistics

Membership information is provided by employers via statutory returns to the Scheme administrator. Due to the way that employers submit data, and it is collated and reviewed, this is reported a year in retrospect, therefore the figures for active and deferred members relate to the year ended 31 March 2020.

The figures for pensions in payment are provided for both the year ended 31 March 2020 and the year ended 31 March 2021. More detail is provided in Annex A.

Financial review of the year

Introduction

2020-21 has been a relatively stable year for the Scheme. Recent years have seen significant provisions due to legal challenges to public sector pension schemes, however there are no changes to these provisions or new provisions in this financial year.

Significant events

Legal Cases

In recent years there have been a number of legal challenges which have impacted all public sector pension schemes. The two that have had the most significant impact on TPS were the McCloud-Sargeant and Goodwin cases noted on page 17. Provisions were made in previous years in respect of these cases. There have been no significant developments in either case in 2020-21 and therefore there has been no change to the provisions.

There have been no further legal cases in 2020-21 which are expected to impact on the Scheme.

EU Exit

Following the UK's withdrawal from the EU in January 2020 and the subsequent ending of the transition period in December 2020, Scheme managers have continued to monitor any changes in arrangements with EU partners to ensure there is minimal impact on Scheme access for those members residing in EU member states. There has been no financial impact on the Scheme caused by the end of the transition period.

The Scheme continues to calculate and pay member benefits in British pound sterling (GBP).

COVID-19

The Scheme is working with the unprecedented challenges of the COVID-19 global pandemic.

In March 2020, the Department took the decision to close all offices and staff were required to work from home. Capita took a similar decision with the majority of staff working remotely by the end of March 2020 and the remaining staff in the member contact centre following in early April. A small number of mail room staff remained onsite with protective measures in place. All staff have adapted positively to this change and have continued to perform their duties, with service levels having been maintained at or close to near normal levels as a result.

Outturn by budget type

The TPS budgets sit within a category of spending known as Resource Annually Managed Expenditure (AME), which are revised annually through the Main and Supplementary Estimates process. The Scheme budgets sit within AME as net expenditure and cash payments are largely outside the control of the Scheme and are affected by factors such as membership numbers; salary levels; mortality rates; age profile of members, and annual pension increases.

The AME sought under Scheme's Estimate is the amount by which the Scheme's liabilities are estimated to increase during the year, less the contributions paid by employers and employees towards those liabilities.

In addition, the net cash requirement represents the estimated net cash required for the year to cover payments of pensions, after taking account of estimated contributions and transfer values paid to the Scheme by employees and employers.

For more detailed explanations see *HMT's Consolidated Budgeting Guidance.* [1]

2020-21 financial outturn

In 2020-21 the Scheme's AME limit was £16,481 million (2019-20: £18,509 million) against which the Scheme spent a total of £16,408 million (2019-20: £15,592 million). The table below shows the Scheme's performance against its 2020-21 control totals as agreed by Parliament in the 2020-21 Supplementary Estimates. [2]

		2020-21			2019-20	
	Estimate	Outturn	Variance	Estimate	Outturn	Variance
Type of spend	£m	£m	£m	£m	£m	£m
Annually Managed Expenditure	16,481	16,385	96	18,509	15,592	2,917
Net Cash	1,764	1,692	72	2,836	2,755	81

The table above is a summary of the more detailed analysis of outturn to Estimate presented in the audited Statement of Outturn against Parliamentary Supply (SOPS), and associated notes (see page 41 to page 46). The SOPS is the primary element of Parliamentary accountability which compares actual performance (outturn) with expected activities (Estimate) authorised through the Parliamentary voted totals (controls totals) process.

1 https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2020-to-2021
2 https://www.gov.uk/government/publications/supplementary-estimates-2020-21

Variance analysis

Resource AME

In 2020-21 outturn was £96 million lower than forecast (2019-20: £2,917 million lower), less than 1.0% of the Estimate. The main source of the variance was the interest which was £104 million lower than the forecast cost of £7,945 million, a 1.3% variance.

Net cash

Net cash was £72.4 million lower than forecast (2019-20: £80.6 million lower), 4.1% of the Estimate. This was driven by the pension benefits payments which were £23 million lower than forecast of £10,454 million. Movement in debtors and creditors also impacted the cash by £54 million, mainly due to March 2021 contributions being received earlier than forecast.

Reconciliation to financial statements

The SOPS shows outturn of £16,385 million, whereas the Statement of Comprehensive Net Expenditure (SoCNE) shows £50,565 million. The main difference is the actuarial loss of £34,180 million which is not included in SOPS. This actuarial loss is the revaluation of the prior year's pension liability and is affected by changes to financial assumptions and membership movements and mortality rates.

The remaining variance is due to Consolidated Fund Extra Receipt's (CFERs) which are receipts that are collected that sit outside the ambit of the Estimate and are refunded directly to HMT. For the TPS, these receipts are primarily fines, interest for late contributions levied on employers and bank interest.

A reconciliation of outturn to operating expenditure is provided in note S2.

Year-on-year outturn variance

The Scheme expenditure increased by £793 million from £15,592 million in 2019-20 to £16,385 million in 2020-21.

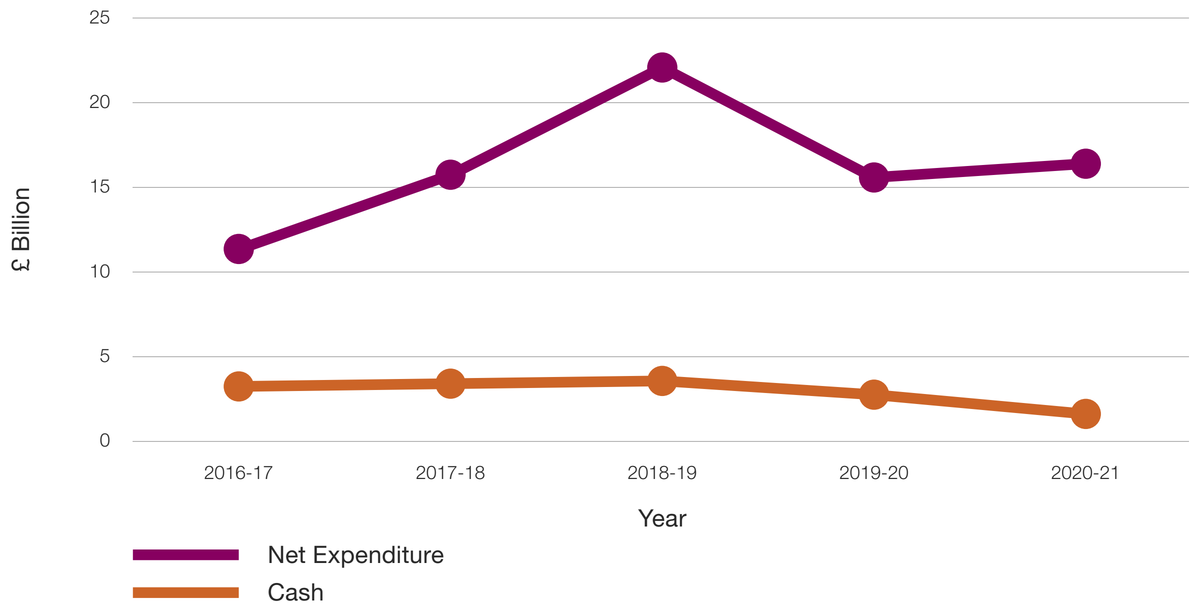
The increase is primarily due to the following factors:

- Current service costs are £4,455 million higher. The rate used for accruing current service costs has increased from 54.2% in 2019-20 to 65.8% in 2020-21, upon advice from Government Actuary's Department.
- Interest on Scheme liabilities decreased by £2,624 million due to a change in the interest rate set by HM Treasury from 2.90% in 2019-20 to 1.80% in 2020-21.
- Employer's contributions are £910 million higher. The 2016 scheme valuation determined that the employer's contribution rate should be increased from 16.4% to 23.6% of pensionable pay from 1 September 2019 meaning that for part of the previous year, contributions were received at a lower rate.

Trends in Outturn

The table and graph below represents a five year summary of the movements in the Scheme's outturn analysed by budget type.

Type of spend	2020-21 Outturn	2019-20 Outturn	2018-19 Outturn	2017-18 Outturn	2016-17 Outturn
	£m	£m	£m	£m	£m
Net expenditure	16,385	15,591	22,051	15,681	11,342
Net cash	1,692	2,755	3,577	3,392	3,306



Movements in outturn

Net expenditure

Net expenditure has fluctuated over the last few years. In 2018-19 there was a significant increase in expenditure due to a provision in respect of the McCloud-Sargeant legal case of £7.0 billion. In 2019-20, the provision was reduced to £3.6 billion and two further provisions totalling £3.4 billion were made in respect of the Goodwin legal case and the Guaranteed Minimum Pension, which offset the changes to the McCloud-Sargeant provision.

The current service charge rate has changed annually since 2016-17. This has led to significant changes in current service costs and net expenditure. The current service costs are based on the contributions received and movement can be seen in the following table:

	2020-21	2019-20	2018-19	2017-18	2016-17
Current service cost rate	65.8%	49.9%	49.3%	49.1%	32.7%
	£m	£m	£m	£m	£m
Current service cost	17,176	12,772	19,209	12,207	7,866
Contributions received	8,639	7,660	6,410	6,315	6,286

Net cash

The net cash requirement has reduced in the last two years. This is mainly due to the increase of the employers' contributions rate from 16.4% of pensionable pay to 23.6% in September 2019.

Future plans

The Main Estimate for 2021-22 is in line with outturn for 2020-21 and shown in the table below.

Type of spend	2021-22 Main Estimate	2020-21 Outturn
	£m	£m
Net resource requirement	17,874	16,408
Net cash	1,883	1,692

Whilst there are no further significant reforms planned for the Scheme, the remedy for the McCloud-Sargeant legal case is likely to be finalised in 2021-22 and we await the outcome of the Goodwin case. When we know the remedy for each case the provision will be adjusted to correctly reflect the outcome. Where required, those members affected by the decisions will be reimbursed leading to an increase in future cash requirements.

Scheme valuation

The primary purpose of a formal actuarial valuation is to set the employer contribution rate. For the TPS the valuation usually takes place every four years.

The actuarial valuation of the TPS pertaining to the financial periods including September 2019 to March 2023 was carried out as at 31 March 2016 and in accordance with *The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014* (the Directions). The valuation determines the rate of employer contributions 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.

As a result of this valuation the TPS employer contribution rate increased from 16.4% to 23.6% from September 2019. The timing of the implementation is to align it with employers' budget planning cycles.

The funding valuation report was published by the Department on 5 March 2019 and a full copy of the valuation report and supporting documentation can be found on the Teachers' Pension Scheme website[3]. The key results of the valuation were:

- employer contribution rates were set at 23.6% of pensionable pay, in line with current regulations, plus an additional 0.08% of pensionable pay for the cost of scheme administration
- at 31 March 2016, total Scheme liabilities for service of £218.1 billion, and notional assets of £196.1 billion, giving a notional past service deficit of £22.0 billion. The funding valuation (noted above) uses a different set of assumptions than those used to inform the valuation used in this ARA, which uses *International Accounting Standard IAS 19 Employee Benefits* (IAS 19) as its basis. Therefore, the Scheme financial position is reported as two different values between the valuation and the ARA
- for the purpose of financial reporting actuarial assessments are undertaken in the intervening years between formal valuations.

The scheme will next be subject to actuarial valuation as at 31 March 2020 in accordance with the updated version of the Directions, the results of which are expected to take effect from September 2023. The valuation will determine a revised employer contribution rate payable from this date which is likely to impact on the level of receipts outlined in this forecast for financial years 2023-24 onwards.

3 https://www.teacherspensions.co.uk/news/employers/2019/04/teachers-pensions-valuation-report.aspx

Issues arising for 2020-21

McCloud-Sargeant

In December 2018, the Court of Appeal held that transitional protection provisions contained in reformed judicial and firefighter pension schemes – introduced as part of public service pension reforms in 2015 – gave rise to direct age discrimination and were therefore unlawful. The policy allowed some older workers to stay in their legacy pension schemes instead of being moved in 2015 to new career-average schemes with higher pension ages.

Whilst the Court of Appeal decision was made in respect of the Judicial and Firefighters' pension schemes (the McCloud and Sargeant cases), HM Treasury concluded that the judgment applied to all main public service schemes, including the TPS, and committed to address the discrimination and ensure equal treatment from a future date.

The Court of Appeal remitted the McCloud and Sargeant cases back to the Employment Tribunals to determine the remedy. Since then, claims have also been lodged against the main public service schemes including the TPS. The Department has conceded these in line with the rest of the government.

In July 2020 HM Treasury launched a 12 week public consultation which will provide evidence to support the delivery of an appropriate remedy for the affected schemes, including TPS. The outcome of that consultation was published by the Government in February 2021, confirming that the remedy would take the form of a deferred choice underpin and the members in scope. That has allowed the estimate of the past service cost involved to be solidified, and as a result the refined provision of £3.6 billion recognised in 2019-20 accounts is now final.

The Department is now working with stakeholders on the detail of TPS specific changes to deliver the remedy and with the scheme administrator to put in place arrangements for implementation.

2016 Cost Cap

Following the public consultation on the remedy for the McCloud-Sargeant cases, HMT announced that the Cost Cap part of the 2016 Scheme Valuations could now be completed, with costs relating to the remedy being regarded as member related costs within the calculations.

The final directions are not yet available and it is not possible to calculate the final result, consequently no provision has been made in these accounts in respect of the 2016 TPS Cost Cap results.

Goodwin legal challenge

In December 2019 a further legal challenge was made against the scheme relating to an identified equalities issue whereby male survivors of opposite-sex marriages and civil partnerships are treated less favourably than survivors in same-sex marriages and civil partnerships. The Secretary of State for Education agreed not to defend the case. In June 2020 the employment tribunal recorded its findings in respect of the claimant. The Department subsequently consulted on regulatory changes to make the appropriate amendments to scheme arrangements and these are expected to take effect in late Summer 2021. A past service cost provision of £1.7 billion was recognised in 2019-20 in respect of this claim.

Information for Members

Please see annex B on page 76 for information for members.

Susan Acland-Hood
12 July 2021
Accounting Officer

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 2021, and the movement in the scheme liability over the year 2020-21, prepared in accordance with the requirements of Chapter 9 of the 2020-21 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 2019 based on the data provided as at 31 March 2019 and rolling forward that liability to 31 March 2021.

Membership data

Tables A to C summarise the principal membership data as at 31 March 2019 used to prepare this statement.

Table A – Active members

	Number	Total pensionable pay* (p.a.)
	thousands	£ millions
Males	208	7,266
Females	523	17,118
Total	**731**	**24,384**

* Pensionable pay is the full-time equivalent figure. Note that full-time equivalent pay is only provided for final salary section members.

Table B – Deferred members

	Number	Total deferred pension* (p.a.)
	thousands	£ millions
Males	192	421
Females	418	883
Total	**610**	**1,304**

* Pension amounts include the pension increase granted in April 2019

Table C – Pensions in payment

	Number	Annual pension* (p.a.)
	thousands	£ millions
Males	232	3,720
Females	425	4,922
Spouses & dependants	72	380
Total	**729**	**9,022**

* Pension amounts include the pension increase granted in April 2019

Methodology

The present value of the liabilities as at 31 March 2021 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 2021. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2021 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 2020 in the 2019-20 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

	31 March 2021	31 March 2020
	p.a.	p.a.
Nominal discount rate	1.25%	1.80%
Rate of increase in pensions in payment and deferred pensions (assuming CPI inflation)	2.22%	2.35%
Rate of general pay increases	3.72%	4.10%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
- CPI inflation	(0.95%)	(0.5%)
- Long–term pay increases	(2.38%)	(2.20%)
Expected return on assets	n/a	n/a

The assessment of the liabilities allows for the known pension increases up to and including April 2021.

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' 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 with an underpin of 119% of S2NMA >75: 119% of S2NMA
Future ill-health pensioners	100% of S2IMA
Dependants	120% of S2NMA
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 with an underpin of 114% of S2NFA >75: 114% of S2NFA
Future ill-health pensioners	100% of S2IFA
Dependants	95% of S2DFA

* Age at the date of the individual membership data used in the calculations.
** Age at time assumption is applied.

The assumptions in Table E above are the same as those adopted for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2020.

Mortality improvements are assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019. This is the same assumption as that used for the 2019-20 accounts.

The other demographic assumptions, such as for commutation and family statistics, are unchanged from the 2019-20 accounts.

Liabilities

Table F summarises the assessed value as at 31 March 2021 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. The liabilities at 31 March 2020 and 2021 both include an allowance for the higher cost of benefits accruing under McCloud [4].

Table F – Statement of Financial Position

	31 March 2021	31 March 2020
	£ billion	£ billion
Total market value of assets	nil	nil
Value of liabilities	481.0	432.2
Surplus/(Deficit)	(481.0)	(432.2)
of which recoverable by employers	n/a	n/a

Accruing costs

The cost of benefits accrued in the year ended 31 March 2021 (the current service cost) is assessed as 65.8% 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 2020-21 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2020-21 accounts.

Table G – Contribution rate

	2020-21	2019-20
	% of pay	% of pay
Employer contributions*	23.6%	20.6%
Employee contributions (average)	9.5%	9.5%
Total contributions	**33.1%**	**30.1%**
Current service cost (expressed as a % of pay)	**65.8%**	**49.9%**

* In addition, employers contributed 0.08% pay in respect of expenses.

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 and the assumption for future improvements in life expectancy has been updated. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

4 Refer to Appendix B

The pensionable payroll for the financial year 2020-21 was £26.1 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2020-21 (at 65.8% of pay) is assessed to be £17.1 billion. This includes an allowance for the higher cost of benefits accruing over the year under McCloud.

Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. A past service cost of £19 million has been determined in respect of the additional liabilities. I am not aware of any other events that have led to a material past service cost over 2020-21.

I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2020-21.

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 2021 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 2021 of changes to these assumptions (rounded to the nearest 0.5%).

Table H – Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i) discount rate*:	+0.5% p.a.	- 11.0%	- £53 billion
(ii) (long-term) earnings increase*:	+0.5% p.a.	+ 1.5%	+ £7 billion
(iii) pension increases*:	+0.5% p.a.	+ 9.5%	+ £46 billion
Demographic assumptions			
(iv) additional 1-year increase in life expectancy at retirement		+ 4.5%	+ £22 billion

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

COVID-19 implications

As with the accounts last year, the 2020-21 Resource Accounts are being produced when the UK continues to deal with the COVID-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.

The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2020) 12 Revised, dated 18 December 2020, and remain unchanged for these accounts. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.

The long-term salary assumption is set by DfE, having taken actuarial advice, and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The assumption allows for a reduction in our view of the long-term salary increases as well as lower short-term forecasts from the Office for Budget Responsibility.

The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short-term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it remains too early in the pandemic to determine whether COVID-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from COVID-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

Neil Crombie FIA
Actuary
Government Actuary's Department
21 June 2021

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
- prepare the accounts on a going concern basis
- confirm that the ARA as a whole is fair, balanced and understandable and take personal responsibility for the ARA and the judgements required for determining that it is fair, balanced and understandable

HM Treasury has appointed 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, 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 TPS auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware. I take personal responsibility for the ARA and the judgements required for determining that they are fair, balanced and understandable. I can confirm the ARA as a whole are fair, balanced and understandable.

Governance statement

Scope of responsibility

As Accounting Officer of the Teachers' Pension Scheme, I am required to provide assurances about the stewardship of the TPS. These assurances are provided in this Governance Statement, in line with HM Treasury guidance. I also have responsibility for maintaining a sound system of internal control and risk management that supports the achievement of the Scheme's policies, aims and objectives, whilst safeguarding public funds and Scheme assets for which I am personally responsible. This includes the management of budgets and assets associated with the TPS, of which I am Accounting Officer.

On 1 September 2020 Jonathan Slater stepped down from his role as the Department's Permanent Secretary. I took over as Acting Permanent Secretary and Acting Accounting Officer until my appointment was confirmed on 7 December 2020. I took assurance from Jonathan that there was a sound system of internal controls during the period 1 April 2020 to 1 September 2020. 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

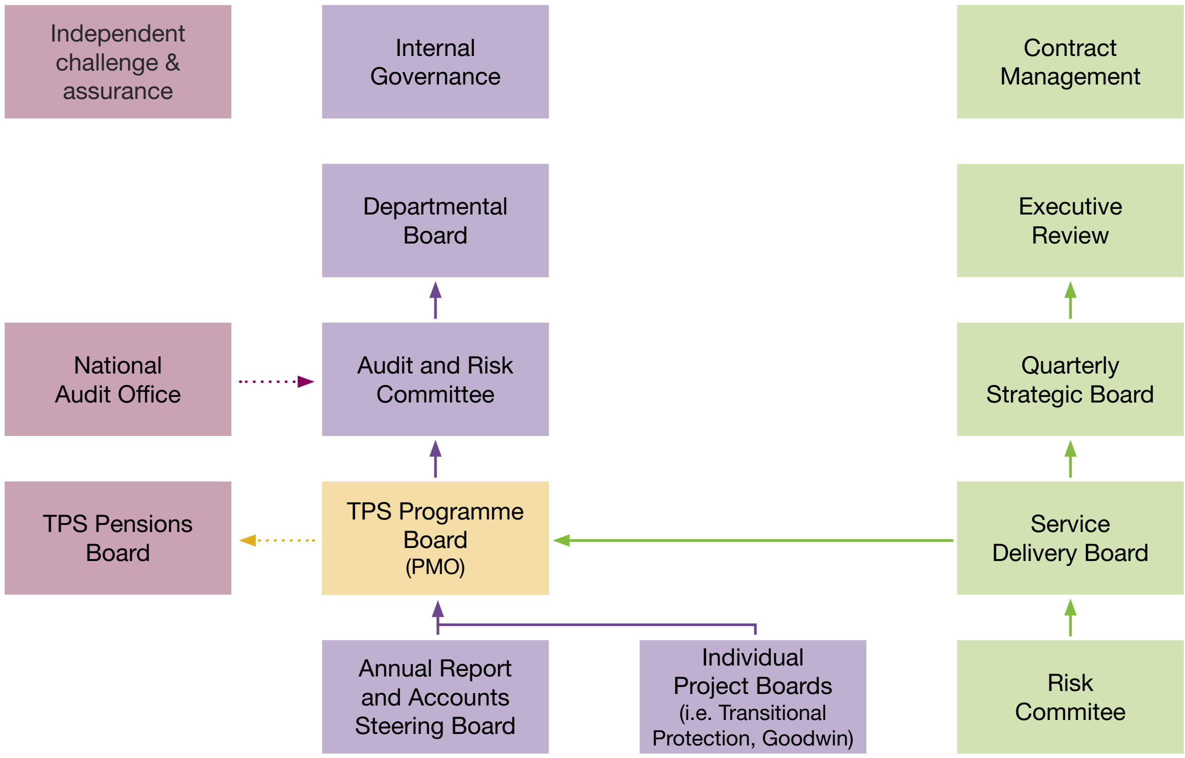
The Scheme is governed at three levels:

- management of day-to-day service delivery
- oversight and monitoring
- assurance

The overall approach is based on delegating management of risks and issues to those best placed to deal with them, with oversight and monitoring arrangements in place to help with the setting of strategic direction and identify/deal with any wider risks and issues, including those that are escalated through the governance structure.

Details of the governance structure, the boards and their membership, together with attendance details, can be found below.

The diagram below illustrates the key governance arrangements in place.



The Department's boards and committees

The Departmental Board (DB)

The DB provides strategic and operational leadership for the Department, by bringing together Ministerial and official leaders with non-executive board members from outside government and is chaired by the Secretary of State. The DB's remit encompasses the TPS, maintaining oversight on the way in which the Scheme is operating and considering TPS-related matters, including those escalated to it.

Further details on the DB and the sub-committees that support it can be found in the Department's Governance Statement published in the Department's Consolidated Annual Report and Accounts, which are due for publication in November 2021.

The sub-committees of the DB report or escalate relevant issues to the main DB. No TPS-related issues were escalated to the DB in 2020-21.

Audit and Risk Committee (ARC)

The DB is supported in the delivery of its functions by the Department's ARC, a sub-committee of the Board. It met six times during the year. Membership consists of two non-executive board members, one of whom is the Chair, and four independent members.

Internal audit (Government Internal Audit Agency), external audit (the National Audit Office), the Permanent Secretary, the Chief Operating Officer, the Chief Executive of the ESFA and the Operational Finance Director and Director of Strategic Finance also regularly attend but are not members.

ARC supports the Board and the TPS's Accounting Officer by providing independent scrutiny, support and challenge of the TPS arrangements for governance, risk management and internal controls. ARC also provides support, guidance and advice to the executive and monitors progress on the delivery of key statutory and legislative requirements. In particular, it provides scrutiny of this ARA, and reviews the work of the Scheme's internal and external auditors.

TPS Programme Board (TPS PrB)

The TPS PrB is a Departmental Board, it meets monthly and is chaired by the Deputy Director in the Department for Teacher Reward and Incentives Division and Senior Responsible Officer for the TPS. It encompasses senior managers from the Department's Pensions Team and is supported by the TPS programme management team, a separate arm of the Department's pensions team, and the Capita team responsible for managing Capita's input into the programme.

The TPS PrB is responsible for managing all aspects of delivery of the service, under delegated authority from the Secretary of State (as scheme manager). This includes managing contract delivery to ensure effective administration, overseeing the progress of individual projects set up to deliver specific products/activities, overseeing and managing the effectiveness of the TPS control environment and the production of this ARA.

The TPS PrB receives and considers reports from the TPS Service Delivery Board on contract related issues and from individual project boards within the TPS programme, including the Annual Report and Accounts Steering Board on finance and accounts related issues. It also considers input from the full range of expert partners and assurance bodies involved in securing the successful delivery of the TPS, for example, the Government Actuary's Department, Capita Group Internal Audit, the GIAA, the Teachers' Pension Scheme Pension Board, and the National Audit Office.

The TPS PrB provides direction to the groups and boards involved in delivery of the Scheme, and reports into and takes direction from the DB, and its sub-committees as appropriate, including ARC.

TPS Pension Board (TPSPB)

The TPSPB was established 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 Scheme members and employers; the Secretary of State; and taxpayers that the TPS is being administered efficiently, effectively and in accordance with the Scheme regulations.

The Board comprises an independent Chair, an independent pensions specialist, five member and five employer representatives, and two senior Department officials. Details and biographies of Board members can be found on the Teachers' Pensions website[5] .

5 https://www.teacherspensions.co.uk/public/governance/pension-board/the-board.aspx

The TPSPB typically meets four times a year. However, in 2020-21 as well as holding the usual quarterly meetings, the Board initiated a series of additional extraordinary meetings during the period 8 April to 17 June 2020, to satisfy itself that the emergency working model put in place in response to COVID-19 requirements had been delivered in a timely and robust manner, and that service levels had been maintained. During the series of meetings, the Board was able to take assurance on the range of measures implemented and assure itself that effective progress was being made in line with the business continuity plan, and that associated risks were being appropriately managed.

Going forward, the TPSPB will continue to meet on a quarterly basis with meetings aligned to service delivery milestones and financial and assurance timelines.

The TPSPB provides further assurance to the Accounting Officer, Scheme members and their employers on the effective management of the TPS through scrutiny of quarterly reporting setting out key financial, operational and risk management information, as well as reports it has commissioned on key aspects of the Scheme. The board also provides direct challenge to both the administrator and the Department's Scheme managers on those reports and any aspect of administration/delivery – this feedback is ultimately considered by and acted upon, as appropriate, by the TPS PrB.

The TPSPB is supported by four sub-committees which provide additional analysis and challenge on the key aspects of the TPS which have been identified as priorities for members and employers:

- managing risk and internal controls
- service delivery and maintenance of data
- information for members and communications
- TPS commercial projects

The TPSPB has focussed on specific elements of administration whilst challenging and pressing Capita and the Department on matters where it considers improvements should be made. The board will continue to focus its efforts to ensure that members' and employers' needs, and expectations continue to be met, and on thereby providing the scheme manager and the scheme's accounting officer with assurance that the scheme continues to be administered effectively.

The TPSPB's assurance role is fully integrated within the wider scheme governance structure.

Board member		Meetings attended	Out of a possible
Neville Mackay	Chair	4	4
Susan Anyan	Independent pensions specialist	4	4
Kate Copley	Department	3	4
Iain King	Department	3	4
David Butcher	Employer representative	4	4
Simon Lowe	Employer representative	3	4
Ian Payne	Employer representative	3	4
John Pratten	Employer representative	3	4
Jackie Wood	Employer representative	4	4
Kate Atkinson	Member representative	3	4
Julie Huckstep	Member representative	4	4
Christopher Jones	Member representative	4	4
Heather McKenzie	Member representative	4	4
Peter Strike (from January 2021)	Member representative	1	1

TPS Delivery Boards

Strategy Board (SB)

SB meets quarterly, chaired by the Department's Head of Assurance and Planning for Teachers' Pensions, for the purpose of determining the strategic direction of the administration services, and reviewing delivery progress. It provides a forum for discussions between senior managers from the Department's Pensions Team and Capita on contract delivery and the focus is on:

- Departmental/government pension priorities
- achievement of contractual outcomes
- innovations and improvements that deliver improved customer service and/or service efficiencies
- achievement of agreed strategic objectives for the TPS
- discussion of any escalations from Service Delivery Board

Service Delivery Board (SDB)

The management and monitoring of contract deliverables and emerging risks is delivered by the SDB which meets monthly and is chaired by the Department's TPS Senior Contract Manager, Teacher Reward and Incentive Division. The SDB is made up of staff and managers from the Department's pensions team and Capita and is responsible for:

- managing and monitoring delivery of the strategic direction on a day-to-day basis
- monitoring core pension administration delivery and providing a resolution forum for any service-related issues
- reviewing contractual performance measures via defined service level agreements, key performance indicators and outcome measures and key client management issues, addressing delivery risks and issues
- discussing any escalation from Department/Capita Finance, Operations, Engagement, Governance and Audit meetings
- promoting collaboration in developing best practice operational discipline; this includes joint initiatives to promote more effective change

The Department, therefore, challenges contract performance issues via SDB and SB and seeks resolution of those issues. SDB reports into and takes direction from TPS PrB, including on matters it needs to escalate for resolution where that has not been possible via SDB or SB.

TPS Risk Committee

This committee consists of Department and Capita staff and supports the contract management governance boards (particularly SDB), ensuring a robust infrastructure is in place to provide a clear, consistent, and sustainable approach to risk management. The committee also provides oversight and advice to the relevant governance and stakeholder boards on current risk exposures and future risk strategy.

Meetings are held monthly and are 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.

In addition to the above, there are scheme executive reviews led by the Department's Deputy Director for Teacher Reward and Incentives Division, who has six-monthly meetings with the executive committee member for Capita. These reviews provide a vehicle for escalations and resolving issues.

Where appropriate, issues are reported to the TPS PrB and escalated to the DB and its sub-committees.

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 General of Early Years and Schools 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 Operational Finance.

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 exception's basis by the Department's ARC and, if necessary, escalated to the DB. No TPS-related issues were escalated in 2020-21.

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
- 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: risk registers are maintained which cover all aspects of strategic and service delivery, including: contract, policy, finance, compliance, governance, IT systems and processes and administration. Each business area has overall ownership and accountability for managing their own 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 delivery risks recorded in the registers. Strategic/programme level risks are captured on a separate risk level, which is considered each month by the TPS PrB.
- Contractual audit requirement: Capita's contract requires them to produce and implement an audit strategy, which complies with Public Sector Internal Audit Standards and provides requisite assurance over TPS governance, risk management and controls. The requirement is delivered by Capita's internal audit division, Group Internal Audit (CGIA), who provide audit reports to the TPS contract management team and wider assurance via monthly contract management risk committee meetings.
- Annual audit plan: a risk-based annual audit plan is delivered by CGIA which is agreed with the Department's TPS contract management team in consultation with GIAA and TPSPB. The Department's TPS contract team continually reviews plan delivery, as well as approving the scope of individual audit activity, and reviewing/challenging audit findings.

- Key risks under management during 2020-21 included those relating to: maintenance of the service during COVID restrictions; delivery of remedies in respect of the McCloud-Sargeant (transitional protection) and Goodwin (equalities) legal challenges; and managing an expanding programme of work – in particular the need to ensure work on McCloud-Sargeant and Goodwin remedies does not negatively impact business as usual service delivery performance. The mitigations in place were effective in ensuring service delivery has been maintained at near normal levels, whilst expected progress has been made on designing and preparing for delivery of remedies to McCloud-Sargeant and Goodwin. Mitigations employed including closely monitoring staff welfare; commissioning CGIA to review control arrangements in the light of remote working; reviewing and enhancing programme management arrangements; and working closely with HM Treasury and the other public service schemes to develop effective policy solutions that take account of delivery challenges.

Independent assurance

In administering the TPS on behalf of the Department, Capita is required to establish and maintain appropriate systems of internal control and to review its effectiveness. The remit of the CGIA function is to review and report on the adequacy and effectiveness of internal processes, systems and controls. This includes risk management, control and governance systems and processes.

CGIA 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 TPS related risks. Their Annual Statement of Assurance for the year ending 31 March 2021 confirmed the governance, risk management and internal control arrangements during the reporting period had been effective.

CGIA confirmed that they have not identified any errors, breaches or fraud which may cause material financial or reputational damage to the TPS or the Department.

During 2020-21 two CGIA reviews were undertaken:

- Azure (Cloud) environment – improvement required
- TPS COVID-19 assurance response – effective

For the areas reviewed during the year CGIA confirmed that the overall adequacy and effectiveness of governance, risk management and internal control arrangements remain generally effective, with no 'Critical' issues identified during their work.

Where weaknesses were identified, CGIA has confirmed that Capita management took appropriate measures to agree and remediate the identified weaknesses in the control environment. All audit actions have been subsequently tracked by CGIA through to closure, with CGIA independently verifying that the actions have been adequately completed.

- <u>Monitoring</u>: risks and audit finding resolutions are monitored and discussed at the SDB meetings, with further oversight undertaken at the QSB meeting and ultimately at TPS PrB. Strategic/operational delivery risk registers and audit updates are incorporated into contract reports and reports for consideration at the TPSPB Managing Risk and Internal Controls sub-committee. Additionally, Capita ensures that the TPS is given prominence within its business-wide Risk Management and Audit Committee, which meets monthly.

Independent audit assurance: in line with their charter and best practice, CGIA are subject to independent reviews of their practices and procedures. The next review is due to take place in 2022. CGIA also finalised two further reviews in June 2021:

- TPS IT User Access management: Core administration services – improvement required (2 Medium findings; 1 High finding)
- TPS Debtor control account remediation – significant improvement required (1 Medium finding; 1 High finding)

Management action plans to address the findings for each audit have been agreed and these will be monitored and managed through the risk management governance structure to ensure all identified actions are effectively delivered.

The key financial controls are as described below:

- Fraud identification: Capita is required to develop and maintain effective controls to prevent, detect and deter fraud and its internal systems are subject to regular audit reviews.
- Debt management: Scheme debt is reviewed as part of the monthly finance meetings between the Department and Capita to identify emerging trends, risks and issues, and improve existing processes for debt identification to reduce the overall debt position. Casework is managed through a secure Capita 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.
- Income and expenditure forecasts: the Department's finance team produces the Scheme's Main and Supplementary Estimates. These are based upon the cash data provided by Capita to inform the information requirements of the Office for Budget Responsibility and updated to include information which in turn creates resource based accounts – taking into account, amongst other things, information from the Scheme actuary in respect of financial and demographic assumptions, and HM Treasury in respect of interest rates and other fiscal assumptions. HM Treasury provide further challenge to the Estimates before they are submitted for consideration and approval by Parliament.
- Monthly management reports: prepared by the Department finance team to show the movement between actual outturn and forecast movement and submitted for scrutiny to the Departmental Senior Leadership Team and HM Treasury. Although there is no inherent risk to Scheme operation or solvency, effective monitoring of ongoing net costs against the Estimates ensures transparency and allows appropriate challenge by those charged with Scheme funding and management.

Pension policy changes which impact 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. The Department and Capita also attend 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 match candidates against the necessary professional qualifications, skills and experience required to fulfil the role criteria. Appointments to key posts are subject to approval. All employees are subject to a probationary period, which can vary in length according to grade.

The administrator has a strategic objective in relation to staffing. Staff must be flexible, skilled and responsive. An appraisal system is in operation to ensure that staff performance is maintained against individual and organisational objectives. Staff are required to undertake internal learning and development training in order 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.

Information management

A key strategic objective for the scheme administrator is to understand scheme stakeholder needs and in response, to invest in the necessary capabilities required to increase scheme visibility for members.

This includes delivery of a Data Strategy aimed at covering the following core objectives:

- Completeness of data
- Accuracy and reliability of data
- Protection/security of data
- Timeliness of data

Progress against the data strategy is monitored by the joint Department/Capita Service Delivery Board and the Department's TPS Programme Board, with further assurance provided via the TPS Pension Board who receive regular reports on progress. Data quality is also covered by a specific performance measure within the contract for scheme administration, relating directly to the Pension Regulator's measures of data quality – this sets a very high bar for the quality of scheme data and Capita's performance continues to exceed that.

The strategy nevertheless continues to develop, in a drive to continue to improve data quality. The Scheme is currently working with employers and payroll providers to transition to a process of monthly contribution reconciliation (MCR), which is a natural progression from the successful rollout of the monthly data collection process and will further improve the level of contemporary member data and reduce the potential for errors.

Data security

Scheme data security is overseen by the TP Security and Data Privacy Working Group, involving Capita's Head of Information Security and the DfE's Information Security Officer. This Groups feeds into the Department's TPS Programme Board and the joint Departmenal/ Capita Service Delivery Board.

The Group provides a shared management strategic forum to review progress on security related aspects of the TPS Data Strategy.

The group has responsibility for:

- directing managing and controlling security matters for TPS in support of key stakeholders
- engagement with the appropriate accreditor to ensure relevant security standards are identified and are in operation
- reviewing the effectiveness of security operation of the TPS system, including policies, processes and procedures
- identifying and managing opportunities to improve data privacy

It also provides a shared management forum to review issues relating to security and data privacy in delivering the TP Data Strategy.

COVID-19

COVID-19, and specifically the move to remote working has brought about additional challenges since March 2020. Whilst there has been a focus on maintaining delivery there has also been an equal focus on maintaining the integrity of the systems and control environment, in line with arrangements set out above. Where needed, appropriate adjustments have been made and additional testing of those adjustments undertaken by CGIA. That has not raised anything to change the above findings. There has also been additional oversight and monitoring from, for example, the TPSPB, to provide additional assurance on the maintenance of performance and controls.

Audit

The Comptroller & Auditor General is appointed by statute to audit the ARA, the National Audit Office perform the audit on his behalf and report their findings to him. A copy of his certificate appears on page 35 to page 39. The notional fee incurred for the year is £102,000 (2019-20: £98,000) and is shown in the Statement of Comprehensive Net Expenditure.

The National Audit Office provided no other services during this year.

Conclusion

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.

Susan Acland-Hood
12 July 2021
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 & Wales) ("the Scheme") for the year ended 31 March 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

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 that report 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 2021 and of its total comprehensive 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 2021 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), Practice Note 15 (revised) 'The Audit of Occupational Pension Schemes in the United Kingdom' and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Scheme in accordance with the ethical requirements that are relevant to my audit of 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Scheme's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Scheme is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the parts of the Parliamentary Accountability Disclosures described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 parts of the *Parliamentary Accountability Disclosures* to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the *Parliamentary Accountability Disclosures* to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Scheme will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Scheme's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Scheme's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Scheme's controls relating to the Teachers' Pensions Regulations 2010 (as amended), the Teachers' Pension Scheme Regulations 2014 (as amended), the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator.
- discussing among the engagement team and involving relevant internal and external specialists, including actuarial specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, significant or unusual transactions and selection of inappropriate assumptions underpinning significant estimates.
- obtaining an understanding of the Scheme's framework of authority as well as other legal and regulatory frameworks that the Scheme operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Scheme. The key laws and regulations I considered in this context included the Teachers' Pensions Regulations 2010 (as amended), the Teachers' Pension Scheme Regulations 2014 (as amended), the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator; and
- obtaining an understanding of the control environment in place at the Scheme, the administrator and the scheme actuary in respect of membership data, the pension liability, contributions due and benefits payable.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- performing substantive testing of contributions received and benefits paid in the year to ensure compliance with laws and regulations and regularity;
- engaging an auditor's expert to review the actuarial methods and assumptions used by the scheme actuary, reviewing the expert's report and undertaking any further procedures as necessary; and
- reviewing any significant correspondence with the Pensions Regulator.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted 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.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Date 15 July
Comptroller and Auditor General

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

Statement of Outturn against Parliamentary Supply: audited

Overview

In addition to the primary statements prepared under IFRS, the Government *Financial Reporting Manual* (FReM) requires the Scheme to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details Supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on GOV.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note S1); a reconciliation of outturn to net operating expenditure in the SoCNE, to tie the SOPS to the financial statements (note S2); a reconciliation of outturn to net cash requirement (note S3); and, an analysis of income payable to the Consolidated Fund (note S4).

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different to, IFRS. An understanding of the budgeting framework and an explanation of key terms is provided on page 11, in the financial review section of the Accountability Report. Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the *Consolidated Budgeting Guidance.*

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The financial review, in the Accountability Report, provides a summarised discussion of outturn against Estimate and functions as an introduction to the SOPS disclosures.

for the year ended 31 March 2021

Summary tables – mirrors part 1 of the Estimate
Summary table, 2020-21, all figures presented in £000s

		Outturn			Estimate			Outturn vs Estimate, savings/ (excess)		Prior Year Outturn Total
Type of Spend	**SoPS note**	**Voted**	**Non-Voted**	**Total**	**Voted**	**Non-Voted**	**Total**	**Voted**	**Total**	**2019-20**
Departmental Expenditure Limit										
- Resource		-	-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-	-
Total		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Annually Managed Expenditure										
- Resource	S1.1	16,385,009	-	16,385,009	16,481,367	-	16,481,367	96,358	96,358	15,591,672
- Capital		-	-	-	-	-	-	-	-	-
Total		**16,385,009**	**-**	**16,385,009**	**16,481,367**	**-**	**16,481,367**	**96,358**	**96,358**	**15,591,672**
Total Budget										
- Resource		16,385,009	-	16,385,009	16,481,367	-	16,481,367	96,358	96,358	15,591,672
- Capital		-	-	-	-	-	-	-	-	-
Total Budget Expenditure		**16,385,009**	**-**	**16,385,009**	**16,481,367**	**-**	**16,481,367**	**96,358**	**96,358**	**15,591,672**
Non-budget Expenditure		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Budget and Non-budget		**16,385,009**	**-**	**16,385,009**	**16,481,367**	**-**	**16,481,367**	**96,358**	**96,358**	**15,591,672**

Figures in the areas outlined in thick line are the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on GOV.UK, for detail on the control limits voted by Parliament.

Net cash requirement 2020-21, all figures presented in £000s

Item	SoPS note	Outturn	Estimate	Outturn compared to Estimate: savings/ (excess)	Prior Year Outturn Total 2019-20
Net cash requirement	S3	**1,691,988**	**1,764,397**	72,409	2,755,299

Administration costs 2019-20, all figures presented in £000s

Type of spend	SoPS note	Outturn	Estimate	Outturn compared to Estimate: savings/ (excess)	Prior Year Outturn Total 2019-20
Administration costs	-	**-**	**-**	-	-

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Explanation of variances between Estimate and outturn are given in the commentary on significant variances between Estimate and outturn in the financial review of the year on page 11.

The notes on page 43 to page 46 form part of these statements.

Notes to the Statement of Parliamentary Supply: audited

S1. Outturn detail, by Estimate Line

S1.1 Analysis of resource outturn by Estimate line, all figures presented in £000s

Type of spend (Resource)	Resource outturn							Estimate			Outturn vs Estimate savings/ (excess)	Prior Year Outturn Total, 2019-20
	Administration			Programme			Total					
	Gross	Income	Net	Gross	Income	Net		Total	Virements	Total inc. virements		
Spending in Department Expenditure Limits (DEL)												
Voted expenditure												
A – Estimate line 1	-	-	-	-	-	-	-	-	-	-	-	-
Non-voted expenditure												
A – Estimate line 1	-	-	-	-	-	-	-	-	-	-	-	-
Total spending in DEL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Spending in Annually Managed Expenditure (AME)												
Voted expenditure												
A – Estimate line 1	-	-	-	25,064,465	(8,679,456)	16,385,009	16,385,009	16,481,367	-	16,481,367	96,358	15,591,672
Non-voted expenditure												
A – Estimate line 1	-	-	-	-	-	-	-	-	-	-	-	-
Total spending in AME	**-**	**-**	**-**	**25,064,465**	**(8,679,456)**	**16,385,009**	**16,385,009**	**16,481,367**	**-**	**16,481,367**	**96,358**	**15,591,672**
Total resource	**-**	**-**	**-**	**25,064,465**	**(8,679,456)**	**16,385,009**	**16,385,009**	**16,481,367**	**-**	**16,481,367**	**96,358**	**15,591,672**

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HMT). Further information on virements are provided in the Supply Estimates Manual, available on GOV.UK.

The outturn vs Estimate column is based on the total including virements. The Estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

S1. Outturn detail, by Estimate Line (continued)

S1.1 Analysis of resource outturn by Estimate line (continued)

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

The underspend of £96 million is largely due to the interest on Scheme liabilities which was £104 million lower than forecast.

The underspend of £72 million on the net cash net requirement was due to lower than forecast pension benefits and higher than expected March 2021 contributions received before the year end.

Further commentary of the variances of outturn to Estimate are provided in the financial review of the year starting on page 11.

S2. Reconciliation of net resource outturn to net expenditure

All figures presented in £000s

Item	Reference	Outturn total	Prior Year outturn total, 2019-20
Total resource outturn	S1.1	16,385,009	15,591,672
Less: income payable to the Consolidated Fund	S4	202	173
Combined net expenditure in Combined SoCNE	**SOCNE**	**16,384,807**	**15,591,499**

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements.

S3. Reconciliation of net resource outturn to net cash requirement

All figures presented in £000s

Item	Reference	Outturn total	Estimate	Outturn vs Estimate, savings/ (excess)	Prior Year outturn total, 2019-20
Total Resource outturn	**S1.1**	**16,385,009**	**16,481,367**	**96,358**	**15,591,672**
Total Capital outturn		-	-	-	-
Adjustments to remove non-cash items:					
New provisions and adjustments to previous provisions		(25,044,055)	(25,145,119)	(101,064)	(23,257,880)
Adjustments to reflect working balances:					
Increase/(decrease) in receivables		(60,918)	(17,837)	43,081	161,298
(Increase)/decrease in payables		(19,327)	(8,217)	11,110	(38,560)
Use of provisions		10,431,279	10,454,203	22,924	10,298,699
Net cash requirement		**1,691,988**	**1,764,397**	**72,409**	**2,755,229**

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

S4. Analysis of income payable to the Consolidated Fund

In addition to income retained by the Scheme, the following income is payable to the Consolidated Fund (cash receipts being shown in italics). All figures presented in £000s.

	Outturn total		Prior Year, 2019-20	
Item	**Accruals**	**Cash basis**	**Accruals**	**Cash basis**
Income outside the ambit of the Estimate	202	*202*	173	*173*
(Excess) cash surrenderable to the Consolidated Fund	-	-	-	-
Total amount payable to the Consolidated Fund	**202**	***202***	**173**	***173***

Parliamentary accountability disclosures: audited

Losses statement

	2020-21	2019-20
Total number of losses	3,183	24,559
Total value of losses (£000)	143	15,557

There were no individual losses in excess of £300,000 in 2020-21.

Special payments

There were no special payments made in the year (2019-20: nil).

Susan Acland-Hood
12 July 2021
Accounting Officer

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Financial Statements

Financial Statements

Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2021

	Note	2020-21 £m	2019-20 £m
Principal arrangements			
Income			
Contributions receivable	2	(8,639)	(7,660)
Transfers in	3	(19)	(19)
Other pension income	4	(1)	(3)
Other pension income – administration fee		(21)	(20)
		(8,680)	**(7,702)**
Expenditure			
Service cost	5	17,176	12,772
Enhancements	6	5	5
Transfers in	7	19	19
Pension financing cost	8	7,841	10,464
Administration expenses	9	19	17
GMP write off		-	15
		25,060	**23,292**
Net expenditure		**16,380**	**15,590**
Compensation arrangements			
Benefits payable	10	5	1
Net expenditure		5	1
Combined net expenditure		**16,385**	**15,591**
Other comprehensive net expenditure			
Recognised losses for the year			
Actuarial loss	15.7	34,180	59,629
Total comprehensive net expenditure		**50,565**	**75,220**

The notes on page 54 to page 69 form part of these accounts.

Combined Statement of Financial Position

as at 31 March 2021

	Note	2021 £m	2020 £m
Principal arrangements			
Current assets			
Receivables	12	655	716
Cash and cash equivalents	13	72	53
Total current assets		**727**	**769**
Current liabilities			
Payables	14.1	(631)	(592)
Total current liabilities		**(631)**	**(592)**
Net current assets, excluding pension liability		**96**	**177**
Provision for pension liability	15	(481,000)	(432,200)
Net liabilities, including pension liability		**(480,904)**	**(432,023)**
Compensation arrangements			
Payable	14.2	(1)	(1)
Provision for compensation payments	16	(189)	(196)
Net liabilities		**(190)**	**(197)**
Combined schemes – total net liability		**(481,094)**	**(432,220)**
Taxpayers' equity			
General Fund		(481,094)	(432,220)
Total equity		**(481,094)**	**(432,220)**

Susan Acland-Hood
12 July 2021
Accounting Officer

The notes on page 54 to page 69 form part of these accounts.

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Combined Statement of Changes in Taxpayers' Equity

for year ended 31 March 2021

	Note	General Fund £m
Balance at 31 March 2019		**(359,755)**
Net Parliamentary Funding		
– drawn down		2,764
– deemed		44
Supply payable adjustments		(53)
Comprehensive net expenditure for the year		(15,591)
Actuarial loss	15.7	(59,629)
Net change in taxpayers' equity		(72,465)
Balance at 31 March 2020		**(432,220)**
Net Parliamentary Funding		
– drawn down		1,711
– deemed		53
Supply payable adjustments		(73)
Comprehensive net expenditure for the year		(16,385)
Actuarial loss	15.7	(34,180)
Net change in taxpayers' equity		(48,874)
Balance at 31 March 2021		**(481,094)**

The notes on page 54 to page 69 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2021

	Note	2020-21 £m	2019-20 £m
Cash flows from operating activities			
Net expenditure		(16,385)	(15,591)
Adjustments for non-cash transactions	8 & 16	7,840	10,464
Increase / (decrease) in receivables – principal arrangements	12	61	(162)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure			
Increase in Payables agency arrangement	14.2	-	-
Increase in payables – pensions	14.1	39	48
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	14.1	(19)	(9)
Increase in pension provision	5 & 15	17,179	12,770
Increase in pension provision – enhancements and transfers in	6 & 7	24	24
Use of provisions – pension liability	15.5	(10,402)	(10,259)
Use of provisions – early retirement	16	(10)	(10)
Use of provisions – refunds and transfers	15.6	(19)	(30)
Net cash outflow from operating activities		**(1,692)**	**(2,755)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		1,711	2,764
Net Parliamentary financing		**1,711**	**2,764**
Net increase in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund		**19**	**9**
Payments of amounts due to the Consolidated Fund	14.1	-	-
Net increase in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund		**19**	**9**
Cash and cash equivalents at the beginning of the year	13	**53**	**44**
Cash and cash equivalents at the end of the year	13	**72**	**53**

The notes on page 54 to page 69 form part of these accounts.

Notes to the Accounts

1. Accounting policies

The accounting policies contained in the FReM follow International Financial Reporting Standards (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.

1.1 Basis of preparation

These accounts have been prepared in accordance with the relevant provisions of the 2020-21 FReM issued by HMT. The accounting policies contained in the FReM apply 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 Outturn against Parliamentary Supply. This statement, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

Management has considered the financial reporting implications for each scheme and the premature retirement compensation schemes. A decision was made to produce a single combined ARA to cover all schemes; the NPA 60 section, the NPA 65 section and the 2015 section. Consequently, the primary statements are combined in that they present balances across all schemes. Further details of the schemes can be found in the background to the Scheme on page 8.

1.1.1 Teachers' Pension Scheme – principal arrangements

The Scheme is an unfunded, multi-employer, defined benefit pay-as-you-go occupational pension scheme operated by the Department 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 are met by employers via an administration fee collected alongside contributions and reported in the ARA.

These accounts of the Scheme show the financial position of the Scheme at the year end and the income and expenditure during the year. The Combined Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Combined 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 these Scheme accounts should be read in conjunction with that report.

1.1.2 Teachers' Pension Scheme – compensation 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 recognised in these accounts other than to recognise a payable in respect of monies recovered from employers but not yet paid to members. However, the Scheme does recognise the liabilities arising from the central funding of compensation payments where the employer has transferred its liability to the Scheme through payment of an actuarially assessed amount. This amounts to £189 million (2019-20: £196 million) (see note 16).

1.2 Going Concern

The Statement of Financial Position as at 31 March 2021 shows a combined pension and compensation liability of £481.1 billion (2019-20: £432.2 billion). Other movements in the liability reflect the inclusion of liabilities falling due in the long-term, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be grants of Supply approved annually by Parliament to meet the Scheme's pension benefits, which come into payment each year. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than as required for the service of the specified year or retained in excess of that need. In common with other public service pension schemes, the future financing of the Scheme's liabilities is to be met by future grants of supply to be approved annually by Parliament. Such approval for amounts required for 2021-22 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.3 Accounting convention

These accounts have been prepared under the historical cost convention.

1.4 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis. These estimates have the most significant impact on the current service cost and pension scheme liability. Further details of these assumptions can be found in notes 15.1 and 15.2.

1.4.1 McCloud-Sargeant

A provision of £7 billion was made in the 2018-19 ARA in respect of the McCloud-Sargeant case, on the assumption that all members could be affected by a potential remedy. Following the Court of Appeal ruling against the Judicial and Firefighters pension schemes, claims have been lodged against the main public sector schemes including the TPS. The Department has conceded those in line with the rest of the government. In July 2020 HM Treasury launched a 12-week public consultation which to support the delivery of an appropriate remedy for the affected schemes, including TPS. The consultation proposed that a remedy would affect members in scope if they met the following criteria:

- Were members, or eligible to be members, of a public service pension scheme on 31 March 2012
- Were members of a public service pension scheme between 1 April 2015 and 31 March 2022
- The two periods above were continuous (or treated as continuous under the scheme regulations, including those with a qualifying break in service of less than 5 years)

The proposals enabled the actuary to revise their estimate of the provision to £3.6 billion and so there was a negative past service cost of £3.4 billion in the 2019-20 ARA.

The outcome of the consultation was announced in February 2021 and confirms the position on members in scope, meaning the revised estimate continues to be appropriate and therefore there is no past service cost recognised in 2020-21 accounts.

1.4.2 Goodwin legal challenge

In December 2019 a legal challenge was made against the TPS for which the Secretary of State, having sought legal counsel, agreed not to defend. In June 2020 the employment tribunal recorded its findings in respect of the claimant. The actuary calculated that a past service cost provision of £1.7 billion should be recognised in 2019-20. The Department has subsequently consulted on regulatory amendments to address the changes needed and expects to implement those in late September 2021. There is no change to the expected costs or to the provision therefore.

1.4.3 Administration fee

Non-contributory income such as the administration fee will be recognised in the same period as the pay bill to which it relates. As there are no discernible timings to any customer rights arising from the fee, there is no deferral of fee revenue.

1.5 IFRSs in issue but not yet effective

In order to comply with the requirements of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors,* the Scheme must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The Scheme has carried out a review of the IFRSs in issue but not yet effective, to assess their impact on its accounting policies and treatment and found that none of the updates have any material impact on the accounts.

There are two standards in issue but not effective:

- *IFRS 16 Leases,* annual periods beginning on or after 1 January 2021, with FReM application from 1 April 2022
- *IFRS 17 Insurance Contracts,* annual periods beginning on or after 1 January 2023, FReM application unknown

TPS has carried out a review of the above IFRSs, to assess their impact on its accounting policies and treatment and have deemed that they are not material to the accounts.

1.6 Pension contributions receivable

Pension's contributions are mainly outside the scope of *IFRS 15 Revenue from Contracts with Customers.* The only element that is within scope is the employer administration fee, which is immaterial to the financial statements:

- employers' normal pension contributions are accounted for on an accruals basis in the period to which the associated salaries relate
- employers' special pension and compensation contributions are accounted for in accordance with the agreement under which they are paid
- employees' pension contributions which exclude amounts paid in respect of the purchase of added years (dealt with in the next bullet point) are accounted for on an accruals basis in the period to which the associated salaries relate
- 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
- income received from employers in respect of administration expenses is accounted for on an accruals basis in the period to which the associated salaries relate

1.7 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.

1.8 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.

1.9 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.

1.10 Administration fee and expenses

The costs of administering the scheme are ultimately met by employers via a fee of 0.08% of pensionable salary. This fee is shown as income in the SoCNE and accounted for on an accruals basis.

The expenses are paid for by the Department and recharged to the scheme on a quarterly basis. These charges are shown under expenditure in the SoCNE and are accounted for on an accruals basis.

1.11 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 SoCNE. It is calculated by factoring up the actual contribution rate charged of 23.6% (2019-20: 16.4% April-August, 23.6% September-March) to the projected unit credit rate of 65.8% (2019-20: 49.9%) adopted by the actuary.

1.12 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 SoCNE in the year in which the increase in benefits vests. Past service costs accrue based on additional contributions received from members. In 2020-21 this charge amounted to £0.02 billion.

1.13 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 SoCNE. The interest cost is based on a discount rate of (0.50)% (2019-20: 0.29%), real rate 1.80% (2019-20: 2.90%) including inflation.

1.14 Other expenditure

All other expenditure in the SoCNE is related to the compensation scheme and accounted for on an accruals basis.

1.15 Impairment of assets

The receivables have been impaired in respect of contributions receivable from employers who are either in administration or are notified insolvent. The debt is written off and the provision is released once scheme managers are satisfied that there is no possibility of recovery from any source. All cash, receivables and payables are classified as amortised cost for *IFRS 9 Financial Instruments* purposes. The receivables balances and losses thereon are immaterial.

1.16 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 (0.95%) real (1.25%) 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.

1.17 Pension benefits payable

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

1.18 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.

Alternatively, where a retiring member does have a choice between the value of the lump sum and the annual pension received, the transaction is accounted for as a decrease in the Scheme liability on a cash basis.

1.19 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 a 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 if a refund is eventually taken. If the member acquires additional service to qualify for a deferred pension the transaction is accounted for on an accruals basis.

1.20 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.

1.21 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 other comprehensive net expenditure for the year.

1.22 Premature retirement compensation

Ongoing compensation payments for staff leaving before their normal retirement age are met by employers. Employers are able to opt for the Scheme to pay pensioners throughout the year and reimburse the Scheme on a quarterly basis, in advance. These transactions are not recorded in the SoCNE.

Some employers choose to extinguish their liability by providing the Scheme administrators with an actuarially calculated lump sum to meet the liabilities which have yet to be discharged, and for which the Scheme accepts responsibility. The Scheme then acts as a principal, the cost of the future liability in setting up and revising the provision is recorded as expenditure in the SoCNE, with offsetting income reflecting the reimbursements due from employers.

1.23 Administration expenses

The budget for all the administration expenses related to the Scheme in 2020-21 is included in the Main and Supplementary Estimates. Administration expenses include all staff costs, overheads and general administration costs and 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 1.6.

2. Contributions receivable

	2020-21	2019-20
	£m	£m
Employers	6,153	5,244
Employees:		
Normal	2,481	2,411
Purchase of added years	5	5
	8,639	**7,660**

£8,821 million contributions are expected to be payable to the scheme in 2021-22.

3. Transfers in

		2020-21	2019-20
	Note	£m	£m
Transfers in from other schemes		19	19
	15.4	**19**	**19**

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.

4. Other pension income

	2020-21	2019-20
	£m	£m
Premature retirement compensation	1	3
	1	**3**

5. Service cost

		2020-21	2019-20
	Note	£m	£m
Current service cost	15.4	17,157	12,702
Past service cost	15.4	19	70
		17,176	**12,772**

6. Enhancements

	Note	2020-21 £m	2019-20 £m
Employees:			
Purchase of added years		5	5
	15.4	**5**	**5**

7. Transfers in – additional liability

	Note	2020-21 £m	2019-20 £m
Transfers in from other schemes		19	19
	15.4	**19**	**19**

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

8. Pension financing cost

	Note	2020-21 £m	2019-20 £m
Net interest charge for the year		7,841	10,464
	15.4	**7,841**	**10,464**

9. Administration expenses

	Note	2020-21 £m	2019-20 £m
Administration Fees		19	17
		19	**17**

10. Compensation benefits payable

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	2020-21 £m	2019-20 £m
On retirement			
Premature retirement compensation		4	-
Other		1	1
		5	**1**

11. Additional voluntary contributions

The Scheme allows for members 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, and not for the management of investments or provision of benefits which is the responsibility of 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 their AVC scheme. HM Revenue and Customs (HMRC) also regards the two schemes, TPS and Prudential, as being separate schemes.

This being the case, the AVC data does not form part of the ARA since it is not a cost or obligation of the Scheme; it is included here for completeness only.

In 2020-21, the aggregate amounts of AVC investments are as follows:

	Note	2020-21 £m	2019-20 Restated* £m
Movements in the year:			
Balance at 1 April		1,340	1,386
New investments		96	167
Sales of investments to provide pension benefits		(79)	(213)
Change of market value of investments		-	-
Balance at 31 March		**1,357**	**1,340**
Contributions received to provide life cover		-	-
Benefits paid on death		2	5

*2019-20 figures have been restated as those presented in the 2019-20 were from the provisional accounts

12. Receivables – contributions due in respect of pensions

	2021 £m	2020 £m
Amounts falling due within one year:		
Pension contributions due from employers	450	460
Employees' normal contributions	181	185
Other receivables	23	70
	654	715
Recoverable compensation from employers (principal)	1	1
Total amounts falling due within one year	**655**	**716**

Included within the 2020-21 figures is £nil (2019-20: £nil) that will be due to the Consolidated Fund once the debts are collected.

There have been employer related investments during the year by virtue of the fact that certain participating employers have paid contributions later than the statutory time limit, and therefore under applicable regulations these are employer related investments for the period they remain unpaid past due.

13. Cash and cash equivalents

	2021 £m	2020 £m
Balance at 1 April	53	44
Net change in cash balances	19	9
Balance at 31 March	**72**	**53**
The following balances at 31 March were held at:		
Cash at bank and in hand:		
Government Banking Service	69	51
Commercial banks and cash in hand	3	2
Balance at 31 March	**72**	**53**

14. Payables in respect of pensions

14.1 Payables – Principal arrangements

	2021	2020
	£m	£m
Amounts falling due within one year:		
Pensions	464	450
HMRC and voluntary contributions	87	82
Other payables	8	7
	559	**539**
Amounts issued from the Consolidated Fund for supply but not spent at year end	72	53
Total amounts falling due within one year	**631**	**592**

14.2 Payables – Agency arrangements

	2021	2020
	£m	£m
Amounts falling due within one year:		
Balance at 1 April	1	1
Receipts from employers	28	28
Payments to employees	(28)	(28)
Total amounts falling due within one year	**1**	**1**

15. Provisions for pension liabilities

15.1 Assumptions underpinning the pension liability

The TPS is an unfunded defined benefits scheme. The GAD carried out an assessment of the Scheme liabilities as at 31 March 2021. The Report of the Actuary on page 18 to page 23 sets out the scope, methodology and results of the work the actuary has carried out.

The Scheme managers together with the actuary and the auditor have signed a memorandum of understanding that identifies, as far as practicable, the range of information that the Scheme managers should make available to the actuary in order to meet the expected requirements of the Scheme auditor.

This information includes but is not limited to details of:

- Scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme
- income and expenditure, including details of expected bulk transfers into or out of the Scheme
- 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:

	2021	2020	2019	2018	2017
	%	%	%	%	%
Rate of increase in salaries	3.72	4.10	4.10	3.95	4.55
Rate of increase in pensions in payment and deferred pensions	2.22	2.35	2.60	2.45	2.55
Inflation assumption	2.22	2.35	2.60	2.45	2.55
Nominal discount rate	1.25	1.80	2.90	2.55	2.80
Discount rate net of price inflation	(0.95)	(0.50)	0.29	0.10	0.24

	2021	2020	2019	2018	2017
	Years	Years	Years	Years	Years
Life expectancy for those retiring at 31 March aged 60					
Males	27.8	27.7	28.6	28.5	29.4
Females	29.8	29.7	30.6	30.5	31.7

	2021	2020	2019	2018	2017
	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	29.4	29.3	30.5	30.4	31.4
Females	31.4	31.3	32.5	32.3	33.6

	2021	2020	2019	2018	2017
	Years	Years	Years	Years	Years
Life expectancy for those retiring at 31 March aged 65					
Males	22.9	22.8	23.6	23.5	24.4
Females	24.8	24.8	25.6	25.5	26.6

	2021	2020	2019	2018	2017
	Years	Years	Years	Years	Years
Retirements in 20 years' time					
Males	24.5	24.4	25.5	25.4	26.3
Females	26.3	26.2	27.3	27.2	28.4

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 HMT 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.

The assumptions reflect the outcomes in the case of the McCloud-Sargeant ruling.

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

	2021	2020	2019	2018	2017
	£bn	£bn	£bn	£bn	£bn
Value of liability in respect of					
Pensions in payment	259.6	238.0	179.8	153.6	151.6
Deferred members	48.2	38.3	32.5	33.7	28.2
Active members	173.2	155.8	147.3	174.3	167.4
Total liabilities*	**481.0**	**432.2**	**359.6**	**361.5**	**347.2**

*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 on page 66 and 15.7 on page 67. 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 2021 of changes to assumptions (rounded to the nearest ½%).

Change in Assumption		Approximate effect on total liability*	
Financial Assumptions			
Discount rate*	+ ½% a year	(11.0%)	(£53 billion)
Earnings increases*	+ ½% a year	1.5%	£7 billion
Pension increases*	+ ½% a year	9.5%	£46 billion
Demographic assumption			
Additional one year increase to life expectancy at retirement*		4.5%	£22 billion

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

15.4 Analysis of movements in the scheme liability

	Note	2020-21 £m	2019-20 £m
Scheme liability at 1 April		432,200	359,600
Current service cost	5	17,157	12,702
Past service cost	5	19	70
Pension financing cost	8	7,841	10,464
Enhancements	6	5	5
Pension transfers in	7	19	19
Benefits payable	15.5	(10,402)	(10,259)
Pension payments to and on account of leavers	15.6	(19)	(30)
Actuarial (gain)/loss	15.7	34,180	59,629
Scheme liability at 31 March		**481,000**	**432,200**

During the year ended 31 March 2021, members contributed an average of 9.5% of pensionable pay (2019-20 average: 9.5%). Employers contributed 23.6% of pensionable pay (2019-20: 16.4% April – August and 23.6% September – March).

15.5 Analysis of benefits paid

	2020-21	2019-20
	£m	£m
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	9,412	9,129
Commutations and lump sum benefits on retirement	990	1,130
Total benefits paid	**10,402**	**10,259**

15.6 Analysis of payments to and on account of leavers

	2020-21	2019-20
	£m	£m
Refunds to members leaving service	4	6
Individual Transfers to other schemes	15	24
Total payments to and on account of leavers	**19**	**30**

15.7 Analysis of actuarial losses/(gains)

	2020-21	2019-20
	£m	£m
Experience gain arising on the scheme liabilities	(8,220)	(3,571)
Changes in projected improvements in mortality	-	(12,900)
Changes in financial assumptions	42,400	76,100
Total actuarial loss	**34,180**	**59,629**

The loss incurred from the change in financial assumptions is due to changes in the HMT nominal discount rate from 1.80% in 2019-20 to 1.25% in 2020-21, which increases the liability. This was offset by a decrease in the assumed rate of future pension increases from 2.35% in 2019-20 to 2.22% in 2020-21, which reduces the liability.

The experience gain was influenced by two factors being payments to current pensioners and payments to new pensioners. These were lower than anticipated due to lower interest rates, fewer retirements and/or members with smaller pension funds.

15.8 History of experience losses/(gains)

	2020-21	2019-20	2018-19	2017-18	2016-17
Experience losses/(gains) arising on the scheme liabilities Amount (£m)	(8,220)	(3,571)	(3,887)	7,277	(2,797)
Percentage of the present value of the scheme liabilities	1.71%	0.83%	1.08%	(2.01%)	0.81%
Total amount recognised in Statement of Changes in Taxpayers' Equity Amount (£m)	34,180	59,629	(20,387)	2,077	67,403
Percentage of the present value of the scheme liabilities	(7.11%)	(13.80%)	5.67%	(0.57%)	(19.41%)

16. Provision for compensation payments

		2020-21	2019-20
	Note	**£m**	**£m**
Balance at 1 April		196	208
Additional/(release of) provisions		1	(3)
Use of provision in year		(10)	(10)
Step change in discount rate		2	1
		189	**196**

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 expose the scheme to financial risks as defined under IFRS 7, due to the risk of employer insolvency. However, the value of financial risk is immaterial.

18. IAS 37 contingent liabilities

In the unlikely event of a default by the approved AVC provider, the Scheme will guarantee pension payments. The liability for 2020-21 is £23 million per annum (2019-20: £31.6 million), which is the value of the first year of payments. The AVC provider is unable to confirm the total liability for all future years. This does not apply to members who make payments to other institutions offering free standing AVCs.

19. Related party transactions

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.

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

20.1 Authorisation

The accounts were authorised for issue by Susan Acland-Hood (Accounting Officer) on the date they were certified by the Comptroller & Auditor General.

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Annexes

Annex A – Scheme statistics

Employers

An employer in England or 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 11,221 (2019-20: 11,221) contributing employers participating in 2020-21 split into the following categories[6 7].

	2020-21	2019-20	2018-19	2017-18	2016-17
Contributing Employers	**Number**	**Number**	**Number**	**Number**	**Number**
Local authorities	172	173	174	174	174
Further education institutions	274	285	312	335	369
Higher education institutions	63	65	64	65	65
Independent establishments	1,248	1,319	1,396	1,477	1,465
Academies	8,930	8,185	8,035	7,221	6,194
Free Schools	322	398	430	373	355
Others	876	796	717	532	140
	11,885	**11,221**	**11,128**	**10,177**	**8,762**

Membership statistics

Membership information is provided by employers via statutory returns to the scheme administrator. Due to the way that employers submit data and it is collated and reviewed, this is reported a year in retrospect, therefore the figures for active and deferred members relate to the financial year ended 31 March 2020.

The figures for pensions in payment are provided for both the year ended 31 March 2020 and the year ended 31 March 2021.

The following tables provide details of the Scheme membership. Due to the complexity of members moving between active, deferred and pensioner, one movement may be aggregated in multiple lines across the three categories. Therefore, it may not be possible to identify equivalent movements between each category.

6 http://www.legislation.gov.uk/uksi/2010/990/contents/made
7 http://www.legislation.gov.uk/uksi/2014/512/contents/made

Active members [1]

		2019-20	2018-19	2017-18
	Number of members in prior year's ARA	702,773	674,067	667,809
	Adjustment to prior year ARA[2]	6,240	27,983	15,091
	Actual number at 31 March 2019	**709,013**	**702,050**	**682,900**
Add:	New entrants in the year	51,867	52,385	58,052
	Further employment	4,421	4,893	5,521
	Other joiners	-	94	-
	Total joiners	**56,288**	**57,372**	**63,573**
Leavers:	**Initial awards**			
	Age and ill-health retirements	6,171	6,398	7,098
	Early retirements (actuarially reduced)	4,193	4,276	4,624
	Premature retirements	145	192	210
	Total initial awards	**10,509**	**10,866**	**11,932**
	Further awards[3]			
	Age and infirmity retirements	462	483	446
	Early retirements (actuarially reduced)	58	68	102
	Premature retirements	1	-	1
	Total further awards	**521**	**551**	**549**
	Other leavers			
	Opted out	6,971	6,439	6,080
	Deaths	341	326	312
	Net withdrawals from active to deferred status	31,696	35,871	49,443
	Other exits (transfers out, refunds of contributions)	2,154	2,596	3,110
	Other exits (not identified)	-	-	980
	Total other leavers	**41,162**	**45,232**	**59,925**
	Total leavers	**52,192**	**56,649**	**72,406**
	Actual number at 31 March 2020	**713,109**	**702,773**	**674,067**

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 has been made to the active membership of the Scheme as at 31 March 2019, as contained in the 2019-20 accounts. This adjustment reflects changes to the membership data since the 2019-20 reconciliation was compiled.

3 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.

Deferred members[1]

		2019-20	2018-19	2017-18
	Number of members in prior year's ARA	638,458	629,125	607,100
	Adjustment to prior year ARA[2]	(5,502)	(19,788)	(19,798)
	Actual number at 31 March 2020, 2019, 2018	**632,956**	**609,337**	**587,302**
Add:	Net withdrawals from active to deferred status	31,696	35,871	49,443
	Opted out from active service	6,971	6,439	6,080
	Other entrants to deferred service status (not identified)	-	3,270	3,207
	Total joiners	**38,667**	**45,580**	**58,730**
Leavers:	Awards out of service – initial awards	13,063	13,151	13,543
	Awards out of service – further awards[3]	1,257	1,424	768
	Transfers out	586	660	898
	Deaths	782	1,088	1,089
	Return of contributions	88	76	548
	Other exits (not identified)	62	60	61
	Total leavers	**15,838**	**16,459**	**16,907**
	Actual number at 31 March 2021, 2020, 2019	**655,785**	**638,458**	**629,125**

Notes

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 has been made to the deferred membership of the scheme as at 31 March 2019, as contained in the 2019-20 accounts. This adjustment reflects changes to the membership data since the 2019-20 reconciliation was compiled.

3 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.

The above tables categorise 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.

Pensions in payment

		2020-21	2019-20	2018-19
	Total pensioners in payment as 1 April 2020			
	members	666,503	658,205	648,137
	dependants	73,471	71,266	68,900
	Actual number at 1 April 2020, 2019, 2018	**739,974**	**729,471**	**717,037**
Add:	Members retiring in the year			
	age/premature pensions [1]	12,626	14,555	15,038
	ill health pensions	600	735	638
	early retirement (actuarially reduced) pensions	5,102	8,281	8,341
	phased pensions [2]	520	677	780
	Mixed pensions	2,570	-	-
	Total members retiring in the year	**21,418**	**24,248**	**24,797**
	New dependents			6,842
	other new dependents (unidentified)			439
	Total dependants retiring in year	**8,480**	**8,157**	**7,281**
	Total members retiring in year and dependants	**29,898**	**32,405**	**32,078**
Less:	Cessations in year – members			
	age/premature pensions	14,680	12,211	11,007
	ill health pensions	2,735	2,273	2,045
	early retirement (actuarially reduced) pensions	914	761	681
	Phased pensions	8	6	-
	other (unidentified) [4]	555	699	996
	Total member cessations in year	**18,892**	**15,950**	**14,729**
	Cessations in year – dependants	5,770	5,473	4,915
	other (unidentified) cessations – dependants	297	479	-
	Total dependant cessations in year	**6,067**	**5,952**	**4,915**
	Total cessations in year	**24,959**	**21,902**	**19,644**
	Total pensions in payment at 31 March 2020	**744,913**	**739,974**	**729,471**
	Pension in payment at 31 March 2020			
	members	669,029	666,503	658,205
	dependants	75,884	73,471	71,266
	Total	**744,913**	**739,974**	**729,471**

Notes
1 These members have corresponding retirements in the active and deferred member.
2 Phased retirement awards do not have a corresponding exit from the non-pensioner.
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.

Annex B – Advisors

The managers, administrators and other advisors of the Scheme are listed below:

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Susan Acland-Hood
Department for Education
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Comptroller and Auditor General
157-197 Buckingham Palace Road
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SW1W 9SP

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.

Annex C – Glossary of key 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
CGIA	Capita Group Internal Audit
DB	Department for Education Board
The Department	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
GIAA	Government Internal Audit Agency
GMP	Guaranteed Minimum Pension
HMT	Her Majesty's Treasury
IAS	International Accounting Standards
IFRS	International Financial Reporting 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
2019-20 & 2020-21	Financial years, ending on 31 March
2019/20 & 2020/21	Academic years, ending on 31 August

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Department for Education

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