Presented pursuant to the GRA Act 2000 c.20. s.6

Teachers' Pension Scheme (England and Wales)

Resource Accounts 2006-07

LONDON: The Stationary Office
HC 872

18 July 2007
£9.00

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(For the year ended 31 March 2007)

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TEACHERS' PENSION SCHEME: ENGLAND AND WALES

REPORT OF THE MANAGERS

Accounts for the year ended 31st March 2007.

Introduction

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

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

During 2006-07 the scheme was managed by the Department for Education and Skills and administered under contract by Capita Teachers' Pensions. On 28 June 2007 the Prime Minister announced a series of machinery of government changes including the creation of two new Departments to replace the Department for Education and Skills. References to the Department in this report and accounts should be read as the former Department for Education and Skills (DfES).

Following the machinery of government changes responsibility for the pension scheme transferred to the Department for Children, Schools and Families with effect from 1 April 2007.

Outside the scheme, are provisions for premature retirement compensation payments made on behalf of employers and for the recovery of the costs of those payments from employers. Those provisions are managed by the Department for Education and Skills and administered under contract by Capita Teachers' Pensions.

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

Managers, Adminstrators, Advisers and Employers

Managers

Accounting Officer

David Bell
Department for Children, Schools and Families
Sanctuary Buildings
Great Smith Street
London
SW1P 3BT

Scheme Manager and Premature Retirement Scheme Manager (contact)

Richard Symms
Department for Children, Schools and Families
Mowden Hall
Staindrop Road
Darlington
DL3 9BG

Advisers

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

Bankers

Paymaster (1836) Ltd

Legal Advisers

Legal Directorate: Academies and School Workforce Group
Department for Children, Schools and Families
Caxton House
Tothill Street
London
SW1H 9NA

Auditors

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

Administrators of the Scheme

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

Employers

Any organisation in England and Wales that employs teachers can join the TPS. There were 2,293 employers participating in 2006-07 split into the following categories:

172 Local Authorities (LAs)
427 Further Education institutions
90 Higher Education institutions
1,604 Independent establishments (including 48 City Academies, 11 City Technology Colleges and 1,545 others)

Changes to the Teachers' Pension Scheme During 2006-07

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

From 1 January 2007 changes to the TPS were made including: raising the normal pension age (NPA) to 65 for new entrants; a faster accrual rate for members with NPA of 65; introduction of two-tier ill health arrangements; replacement of past added years with an additional pension provision; and the introduction of a cost sharing arrangement on the scheme's funding between employers and employees when determining changes in the contribution rate.

At the same time the outcome of the 2004 scheme valuation was implemented which led to an increase, in line with the cost sharing agreement, of employers' actual contributions being increased from 13.5% from April to December 2006, to 14.1% with effect from 1 January 2007. Employees' actual contribution rate was increased from 6% to 6.4% over the same timescale.

The changes to the scheme have also resulted in a change in the standard contribution rate (also known as the projected unit contribution rate) which is used by the actuary to calculate the current service cost for the year. In 2005-06, the actuary estimated that the standard contribution rate for 2006-07 to be 24.3% of salaries. The employers' share of the estimated standard contribution rate is 18.3% (24.3% less the 6% employees' actual contribution). In calculating the 2006-07 service cost, the actuary has revised this estimate to take into account the revised benefit structure from 1 January 2007. The revised standard contribution rate was set at 23.9%, consisting of 6.4% employees actual contribution rate and the employers' share of the standard contribution rate being 17.5% (23.9% less 6.4%).

Pensions were increased by 2.7% with effect from 10 April 2006 in line with increases in the cost of living.

Changes to the PRC Scheme During 2006-07

During the year, compensation payments to certain individuals were increased by 2.7% in line with the increases in pensions.

Free-Standing Additional Voluntary Contributions and Stakeholder Pensions

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

Performance and Position

Excess Vote

In 2006-07 the Department breached the gross spending control limit in the Supply Estimate by £81.9 million (0.65% of the gross budget). There are two key factors contributing to the breach:

A. Income from both employer and employee contributions was £53.7 million higher than expected and as a result, the actuarial assessment of how much should set aside in the provision to meet future pension payments was £69 million higher than the Supply Estimate budget. The value of income from pensions transferred in was £5.4 million higher than expected would also have had an effect on the pension provision, but to a lesser degree.

B. Expenditure on other in-year scheme expenses (most significantly lump sum payments on retirement) was £13 million higher than estimated in the budget. The expenditure on lump sum payments was higher than budgeted because more teachers than expected opted to commute their pension into a lump sum on retirement.

In accordance with HM Treasury rules the Department has to work within a very tight budgetary regime in managing this Account. Expenditure is dependent on a number of cost factors outside the control of the department, leaving the Department with only limited ability to control the outturn. Despite the variance being less than 1% of the net budget, it has resulted in an excess vote.

Influences on performance in 2007-08

The TPS account is influenced by changes in membership numbers, salary levels, mortality rates, the age profile of the scheme and pensions increases. Of these elements, membership numbers are likely to change in 2007-08 with the introduction of automatic scheme membership for part-time teachers either on first appointment or when they receive a new contract, which took effect on 1 January 2007. Such teachers still retain the right to opt out of the scheme as is the case with full-time teachers.

Post-Balance Sheet Events

The transfer of the administration of the scheme to the newly created Department for Children, Schools and Families under the machinery of government changes does not affect the assets and liabilities of the pension scheme. There have been other no post balance sheet events that would have a material impact on the accounts.

Membership Statistics

Please note that the figures for Active and Deferred Members relate to the financial year ending March 2006, the latest data available. These statistics rely on data provided by employers via a statutory return to the Scheme administrator. As at 9 May 2007, 15,667 teachers' records had not yet been completely verified by employers. Of these records approximately 14,700 will relate to Active Members and the balance Deferred Members which are not included in the figures provided below.

The figures for Pensions in payment are for year ending March 2007. This is the latest data available.

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

Active Members

	Active members brought forward from 31 March 2005	590,032
	Adjustments due to data received post-31 March 2005	(4,806)
	Total active members at 1 April 2005	**585,226**
Add:	New entrants in the year	38,957
	Re-entrants in the year	34,999
	Transfers in	587
	Opted In	326
Less:	Premature Retirements	(2,196)
	Age and Infirmity Retirements	(8,566)
	Actuarially Reduced Benefits	(5,586)
	Opted Out	(1,262)
	Other exits (including transfers out)	(41,943)
	Deaths	(418)
	Active members at 31 March 2006	**600,124**

Deferred members

	Deferred members brought forward from 31 March 2005	391,016
	Adjustments due to data received post-31 March 2005	5,207
	Total deferred members at 1 April 2005	**396,223**
Add:	Exits with no benefits payable (including optants out with service remaining in scheme and transfers in)	45,398
Less:	Deaths	(166)
	Return of contributions	(1,176)
	Re-entry to service	(22,750)
	Transfers out	(2,496)
	Awards out of service	(5,342)
	Deferred members at 31 March 2006	**409,691**

Pensions in payment

	Pensions at the start of the year – brought forward from 31 March 2006		
		– Members	438,552
		– Dependants	49,580
		Total	488,132
	Adjustments made to data received post-31 March 2006		
		– Members	1,848
		– Dependents	(49)
		Total	1,799
	Total pensioners in payment as 1 April 2006		
		– Members	440,400
		– Dependents	49,531
		Total	**489,931**
Add:	Members retiring in the year		
	Age\Premature Pensions		16,005
	Infirmity Pensions		1,451
	Actuarially Reduced Benefits		7,737
	New dependants		3,261
	Total members and dependents retiring in year		**28,454**
Less:	Cessations in Year – Members		
	Age\Premature Pensions		(8,398)
	Infirmity Pensions		(1,695)
	Actuarially Reduced Benefits		(139)
			(10,232)
	Cessations in Year – Dependants		(1,606)
	Total cessations in year		**(11,838)**
	Pension in payment at 31 March 2007		
		– Members	455,361
		– Dependants	51,186
			506,547

Further information

Any enquiries about either the Teachers' Pension Scheme or the Premature Retirement Compensation Scheme in England and Wales should be addressed to:-

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

David Bell
Accounting Officer
2 July 2007

TEACHERS' PENSION SCHEME (ENGLAND AND WALES)
ACCOUNTING YEAR ENDED 31 MARCH 2007

STATEMENT BY THE ACTUARY

Introduction

This statement has been prepared by the Government Actuary's Department at the request of the Department for Education and Skills ("the Department"). It summarises the pensions disclosures required for the Resource Accounts of the Teachers' Pension Scheme ("the Scheme") as at 31 March 2007.

The statement (other than the cost of benefits accruing in the year) is based on the results of an interim valuation carried out as at 31 March 2006, with an approximate updating for the subsequent financial year to reflect known changes. The contribution rate used to determine the accruing costs is based on the valuation as at 31 March 2004 (using the methodology and assumptions applicable to the Resource Accounts).

Membership data

Tables A1 to A3 summarise the principal membership data as at 31 March 2006 and 31 March 2007 used to prepare this statement.

Methodology

The value of the liabilities has been determined using the projected accrued benefit method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the Resource Accounts as at 31 March 2007. The contribution rate for accruing costs in the year ended 31 March 2007 was determined using the projected unit method and the principal financial assumptions applying to the Resource Accounts as at 31 March 2006.

This statement takes into account the benefits normally provided under the Scheme (taking account of the new provisions effective from 1 January 2007), 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), premature retirements or redundancy benefits in respect of current members, although the assessment of liabilities includes some pensions already in payment in respect of such cases.

Financial assumptions

Table A4 (in Appendix) shows the principal financial assumptions adopted to prepare this statement. With effect from 31 March 2007, the assumed rate of return in excess of prices was reduced from 2.8% a year to 1.8% a year, and the assumed rate of return in excess of earnings was reduced from 1.3% a year to 0.3% a year.

Demographic assumptions

The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership. The past service liabilities as at 31 March 2007 were calculated using the demographic assumptions adopted for the interim valuation as at 31 March 2006 (which were the same as those adopted for the valuation as at 31 March 2004). The contribution rate used to determine the accruing cost in 2006/07 was based on the demographic assumptions applicable at the start of the year, which were also those adopted for the valuation as at 31 March 2004.

Liabilities

Table 1 summarises the capital value as at 31 March 2007 of benefits accrued under the Scheme prior to 31 March 2007 based on the data, methodology and assumptions described in paragraphs 3 to 7.

Table 1 Past service liabilities as at 31 March 2007

Value of liability in respect of	£ billion
Pensions in payment	73.4
Deferred pensions	18.5
Active members (past service)	89.4
Total	**181.3**

Accruing costs

The cost of benefits accruing in the year ended 31 March 2007 is based on an average standard contribution rate of 24.2%, based on the rate of 24.3% determined at the start of the year but adjusted to take account of the new provisions applying from 1 January 2007. The rate is met partly by a contribution from members (of 6% until 31 December 2006 and 6.4% from 1 January 2007), with employers meeting the balance of the cost. Table 2 shows the contribution rate used to assess the cost of benefits accruing in the year ended 31 March 2007.

Table 2 Contribution rate 2006/07

Contribution rate	Percentage of pensionable pay	
	Until 31/12/2006	**From 1/1/2007**
Standard contribution rate	24.3%	23.9%
Members' contribution rate	6.0%	6.4%
Employers' share of standard rate	18.3%	17.5%
Actual rate charged to employers	13.5%	14.1%

The employers' share of the standard rate determined for the purposes of the Resource Accounts is not the same as the actual rate charged to employers (which is based on the methodology and the financial and demographic assumptions adopted for the funding of the Scheme).

In relation to the pensionable payroll for the financial year 2006/07, the contributions actually paid by members and employers were £4,021 million (from data provided by the Department). Based on this information, the accruing cost of pensions in 2006/07 (at 24.2% of pay, including member contributions) is estimated to be £4,927 million.

Disclosures

Tables A5 and A6 (in Appendix) show the Balance sheet and the Profit and loss disclosures as at 31 March 2007.

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

June 2007

APPENDIX

Table A1 – Active members

	31 March 2006 Number (thousands)	31 March 2006 Total salaries* (£ million)	31 March 2007 Total salaries* (£ million)
Males	191	7,140	7,380
Females	424	14,290	14,760
Total	615	21,430	22,140

*Full-time equivalent

Table A2 – Deferred members

	31 March 2006 Number (thousands)	31 March 2006 Total deferred pension (pa)* (£ million)	31 March 2007 Total deferred pension (pa) † (£ million)
Males	102	300	315
Females	249	550	580
Total	351	850	895

* Including increases applying from April 2006
† Including increases applying from April 2007

Table A3 – Pensions in payment

	31 March 2006 Number (thousands)	31 March 2006 Annual pension* (£ million)	31 March 2007 Annual pension† (£ million)
Males	175	2,000	2,150
Females	264	2,110	2,270
Spouses & dependants	44	150	160
Total	483	4,260	4,580

* Including pension increase awarded in April 2006† Including pension increase awarded in April 2007

Table A4 – Financial assumptions

Assumption	31 March 2007	31 March 2006
Rate of return (discount rate)	4.6%	5.4%
Rate of return in excess of:		
Earnings increases	0.3%	1.3%
Pension increases	1.8%	2.8%
Expected return on assets:	n/a	n/a

Appendix (continued)

Table A5 – Balance sheet disclosures

	31 March 2007		31 March 2006
	Financial assumptions as at		
	31 March 2007	31 March 2006	£ billion
Total market value of assets	nil	nil	nil
Value of liabilities	(181.3)	(153.0)	(143.0)
Surplus (deficit)	(181.3)	(153.0)	(143.0)
of which recoverable by employers	n/a	n/a	n/a

Table A6 – Profit & loss disclosures

	£ billion Year ending 31 March 2007
Analysis of amount charged to Operating profit	
Current service cost	4.9
Past service cost (new provisions from 1 January 2007)	–0.2
Total operating charge	**4.7**
Analysis of the amount credited to other finance income	
Expected return on scheme assets	–
Interest on pension liabilities (@5.4%)	7.7
Net return	**–7.7**
Analysis of amount recognised in STRGL	
Actual return less expected return on scheme assets	–
Experience gains and losses arising on pension liabilities	–4.6
Changes in demographic assumptions	1.7
Changes to financial assumptions from 31 March 2007	–28.3
Actuarial gain (loss) recognised in STRGL	**–31.2**
Movement in surplus during the year	
Surplus at 31 March 2006	–143.0
Current service cost	–4.9
Benefits paid during the year	5.3
Past service costs	0.2
Other finance income	–7.7
Actuarial gain (loss)	–31.2
Surplus at 31 March 2007	**–181.3**

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 5 of the Government Resources and Accounts Act 2000, the Department for Education and Skills is required to prepare resource accounts 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 1997 (SI 1997 No.3001).

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

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 financial statements on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer for the Teachers' Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of the Teacher's Pension Scheme's policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets, in accordance with the responsibilities assigned to me in *Government Accounting*.

The Departmental Board includes two non-executive members and regularly meets to discuss all strategic policy management issues. This includes providing direction on major policy, delivery and operational issues, reviewing performance and ensuring that the Department is working economically, efficiently and effectively.

The Department has contracted out the administration of the Teachers' Pension Scheme. The Teachers' Pension Scheme contract is managed by the Director General for Schools in the Department and operated in accordance with the Department's internal control framework. As Accounting Officer, I have overall responsibility for ensuring that the contractor is managing the risks effectively and for reviewing the effectiveness of the contractor's systems of internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Teachers' Pension Scheme's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Teachers' Pension Scheme for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity and capability to handle risk

The Board recognises the importance of leadership to create an environment where risk management is effective and a Departmental Risk Improvement Manager and Directorate risk improvement network are both in place. One of the department-wide reviews of our risk management practice during the year covered the operation of the Teachers' Pension Scheme within the Department and highlighted some area where Schools Directorate could tighten up some of its procedures. Work has been undertaken to embed improvements.

Risk management continues to be embedded into the Department's finance and programme and project management training which is widely available and achieves high take-up. Guidance on the identification, assessment and active management of risk in the Department is available to all staff.

The risk and control framework

The Department's approach is to assign risks to those best placed to manage them. Therefore individual managers are responsible to the risk owners (Directors General) for managing risk as they have knowledge of the issues involved and can best mitigate the potential impact. The risk owner for the Teachers' Pension Scheme is the Director General for Schools. All managers are expected to systematically identify, assess and manage risk and document the underlying assumptions.

The key risks facing the Department have been identified and agreed by the Risk Committee, which is separate from the Board and chaired by the Director General of the Corporate Services Directorate. The Board regularly reviews key high level risks and ensures they are managed. Every quarter I discuss the key Departmental risks with the Secretary of State.

The risk management process is built into the Teachers' Pension Scheme's business planning and reporting processes. There is clear accountability and ownership of risk to ensure that risk is managed at the appropriate level and there are frameworks in place to escalate risks to ensure that significant risks are reported to senior management and, if required, the Board.

The Department has a number of mechanisms through which it engages with employers' representatives and unions on the administration and management of the Teachers' Pension Scheme, and thereby minimise the risks involved. These include a Teachers' Pensions User Group through which all parties can raise issues or concerns about the administration of the Scheme. This, in turn, is supported by communications from the Scheme administrator to employers and members including presentations and visits to employers. The Department has implemented a communications strategy in collaboration with all stakeholders to further improve the quality and breadth of Teachers' Pension Scheme communications; the User Group and the associated Communications Group meet on a regular basis.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of effectiveness for the Teachers' Pensions Scheme is informed by the Director General for Schools in the Department, and the Department's managers, who have responsibility for the development and maintenance of the internal control framework and Internal Audit and comments made by the external auditors of the Scheme in their management letter and other reports. Additionally, specific to the Teachers' Pension Scheme, my review is informed by the internal auditors of the contractor and by the contractor's staff. I have also been advised by the Board, the Audit and Risk Assurance Committee (ARAC), the Risk Committee and the Departmental Risk Improvement Manager.

The Department's internal auditors undertake a work programme approved by me to review risk management, internal control and governance. The Head of Internal Audit produces periodic reports on Internal Audit's findings, their assessment of risk management, corporate governance and control standards in the key corporate risks and delivery areas, and areas where action is required to address shortcomings. I meet with the Head of Internal Audit quarterly to discuss her report and consider progress in addressing major concerns. She also prepares an annual report which includes her professional opinion on the effectiveness of the overall systems of internal control and risk management within the Department. In addition, this year, Internal Audit have offered advice to Directorates within the Department to ensure issues identified through the audit work programme have been appropriately reflected in the preparation of the Directorates' annual statements.

ARAC supports the Accounting Officer by offering objective advice on issues concerning the operation of control and governance of the Department. ARAC is chaired by a non-executive Board member and its role and composition is in line with Treasury's best practice guidance.

The Department takes seriously the potential impact that fraud can have on financial control and achievement of objectives and the Fraud Sub Committee meets on a regular basis. Their role is to give assurance to ARAC that the risks to the Department's business from fraud and financial irregularity are being managed and monitored effectively and is another aspect of good governance.

Internal Control issues

During the year the Department breached the gross spending control limit in the Supply Estimate by £81.9 million (0.65% of the gross budget). There were two key factors for this:

a) income from employer and employee contributions was £53.7 million higher than expected resulting in an increase in the amount to be set aside to meet future pension payments of £69 million more than the Supply Estimate budget. Income from pensions transferred in was £5.4 million higher than expected which also had an effect on the pension provision;

b) expenditure on other in-year scheme expenses was £13 million higher than estimated in the budget, primarily because more teachers than expected opted to commute their pension into a lump sum.

The Department's Internal Auditors have reviewed the circumstances surrounding the excess vote and have concluded that sound controls were in place over the 2006-07 TPS budgets. They are satisfied that the arrangements were consistent with Treasury requirements to work within a tight budgetary estimating regime and that the impact of scheme modernisation contributed to the excess vote rather than as a result of a breakdown in risk management or internal control.

Both the National Audit Office and Internal Audit reviewed the operations of the Teachers' Pensions Scheme during the year. Notwithstanding the above, their reviews of the budget and profiling system concluded that a sound system of risk management was in place. As Accounting Officer I am satisfied that there are no material threats to the operational effectiveness of the Teachers' Pension Scheme, and that the systems in place comply with the Treasury requirements on risk management, internal control and governance.

David Bell 2 July 2007
Accounting Officer

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

I certify that I have audited the financial statements of the Teachers' Pension Scheme for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Revenue Account and Statement of Recognised Gains and Losses, the Balance Sheet, and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Report of the Managers and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Teachers' Pension Scheme has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed.

I review whether the Statement on Internal Control reflects the Teachers' Pension Scheme's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Teachers' Pension Scheme's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Report of the Managers and the Report of the Actuary published with the account and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Teachers' Pension Scheme's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Scheme's affairs as at 31 March 2007, and of the net cash requirement, net resource outturn and net outgoings for the year then ended;

- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Qualified audit opinion on regularity arising from expenditure in excess of amounts authorised

As explained more fully in the attached report, Parliament authorised a Request for Resources for the Teachers' Pension Scheme in the Appropriation Acts 2006 and 2007. A Net Total Provision of £8,576,576,000 was authorised. Against this authorised limit, the Teachers' Pension Scheme incurred net resource expenditure of £8,658,435,000 as shown in the Summary of Resource Outturn in the Resource Accounts for 2006-07 and have thus exceeded the authorised limit.

- except for net resource expenditure of £81,859,000 in excess of the amount authorised for the Request for Resources, referred to in paragraphs 6 to 15 of my report, in all material respects the expenditure and income have been applied to the purposed intended by Parliament and the financial transactions conform to the authorities which govern them.

My report on these financial statements is at pages 37 to 38.

John Bourn
Comptroller and Auditor General

11 July 2007

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

The maintenance and integrity of the Department's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

		Estimate			Outturn			2006-07 £000	2005-06 £000 Outturn
Request for resources	**Note**	**Gross Expenditure**	**A in A**	**Net Total**	**Gross Expenditure**	**A in A**	**Net Total**	**Net Total outturn compared with Estimate: saving/ (excess)**	**Net Total**
Teachers' Pensions		12,747,248	(4,170,672)	8,576,576	12,829,107	(4,170,672)	8,658,435	(81,859)	8,037,101
Non-budget		–	–	–	–	–	–	–	11,810,500
Total resources	3	**12,747,248**	**(4,170,672)**	**8,576,576**	**12,829,107**	**(4,170,672)**	**8,658,435**	**(81,859)**	**19,847,601**

Net cash requirement 2006-07

				2006-07 £000	2005-06 £000
	Note	**Estimate**	**Outturn**	**Net Total outturn compared with Estimate: saving/ (excess)**	**Outturn**
Net cash requirement	4	**1,289,519**	**1,264,128**	**25,391**	**122,847**

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid the following income relates to the Pension Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics).

		Forecast 2006-07 £000		Outturn 2006-07 £000	
	Note	**Income**	***Receipts***	**Income**	***Receipts***
Operating income and receipts – excess A in A					
Other CFERs		139	*159*	153	*147*
Excess Receipts		–	*27,618*	59,095	–
Total	5	**139**	***27,777***	**59,248**	***147***

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

The £8.7 billion net resource outturn (excluding excess income) is £81,859,000 (0.95%) higher than the Supply Estimate's provision net budget. The following budgets were overspent:

a) In-year service costs – £69 million

b) Other expenses – £13 million

Although the Spring Supplementary budget included the impact of the scheme modernisation changes implemented on 1 January 2007, the changes introduced even more uncertainty around the prediction of spending and receipt patterns in what is already a demand-led budget. As a result the employer and employee contribution income was £53.7 million (1.4%) higher than planned, leading to the actuarial assessment of the in-year service costs being higher than predicted in the Estimate. The other expenses were higher than expected mainly because more teachers than expected opted to commute their pension into a lump sum payment on retirement.

Explanation of the variation between estimate net cash requirement and outturn net cash requirement

The actual net cash requirement is £25,391,000 (2%) lower than the estimated net cash requirement. This variance is due to a) £59 million excess contributions and transfer income; offset by b) a decrease in working capital balance, rather than the forecast increase used in the calculation of the net cash requirement in the Supply Estimate.

The notes on pages 22 to 36 form part of these accounts.

Revenue Account
for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Income			
Contributions receivable	7	(4,139,714)	(3,899,767)
Transfers in	8	(80,051)	(91,745)
Other income	9	(10,155)	(10,796)
		(4,229,920)	(4,002,308)
Outgoings			
Pension cost	10	5,001,616	4,826,310
Enhancements	11	56,987	42,406
Transfers in	12	80,051	91,745
Interest on scheme liabilities	13	7,670,649	7,057,840
Other expenditure	14	19,804	31,474
		12,829,107	12,049,775
Net outgoings for the year		**8,599,187**	**8,047,467**
Net Resource Outturn	3	**8,658,435**	**19,847,601**
Statement of Recognised Gains and Losses for the year ended 31 March 2007			
Actuarial (gain)/loss	19.8	30,944,105	16,380,346
Recognised (gains) and losses for the financial year		**30,944,105**	**16,380,346**

The notes on pages 22 to 36 form part of these accounts.

Balance Sheet
as at 31 March 2007

	Note	2006-07 £000	2006-07 £000	2005-06 £000	2005-06 £000
Current assets:					
Debtors					
Contributions due in respect of Pensions	16a		345,891		292,350
Other debtors	16a		4,755		6,940
Consolidated Fund debtor			–		–
Cash at bank	17		25,538		54,345
			376,184		**353,635**
Creditors – amounts falling due within one year					
Pensions and other creditors			(251,710)		(229,609)
Consolidated Fund creditor			(84,643)		(54,350)
	18a		**(336,353)**		**(283,959)**
Net current liabilities, excluding pension liabilities			39,831		69,676
Pension liability	19.5		(181,300,000)		(143,000,000)
Provision for compensation payments where the scheme acts as a principal	20		(94,289)		(85,722)
Net Assets/(Net Liabilities)			**(181,354,458)**		**(143,016,046)**
Financed by:					
Revenue account					
Balance brought forward			(143,016,046)		(119,639,789)
Financing from the Consolidated Fund (Cash Flow)			1,289,519		1,106,024
Net outgoings during the year (Revenue Account)			(8,599,187)		(8,047,467)
Actuarial gain/(loss) (SRGL)	19.8		(30,944,105)		(16,380,346)
Excess appropriations in aid for current year			(59,095)		–
Income not appropriated in aid payable to the Consolidated Fund	21	(153)		(134)	
Consolidated Fund debtor/creditor	21	(25,391)		(54,334)	
			(25,544)		(54,468)
Balance carried forward			**(181,354,458)**		**(143,016,046)**

David Bell
Accounting Officer

2 July 2007

The notes on pages 22 to 36 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Net cash outflow from operating activities	22a	(1,263,981)	(1,051,536)
Receipts due to Consolidated Fund		–	–
Payments of amounts due to the Consolidated Fund		(11)	(167)
Financing	22b	1,235,185	1,084,800
Increase/(decrease) in cash in the period	**22c**	**28,807**	**33,097**

The notes on pages 22 to 36 form part of these accounts.

NOTES TO THE SCHEME STATEMENT

1. BASIS OF PREPARATION

The scheme statement has been prepared in accordance with the relevant provisions of the 2006-07 *Government Financial Reporting Manual (FReM)* issued by the Treasury, which reflect the requirements of Financial Reporting Standard (FRS 17) *Retirement Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

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

1.1 Teachers' Pension Scheme – principal arrangements

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

1.2 Teachers' Pension Scheme – agency arrangements

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

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2. STATEMENT OF ACCOUNTING POLICIES

The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for Companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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 accounts.

2.1 Pension contributions receivable

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

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

c Employees' pension contributions which exclude amounts paid in respect of the purchase of added years (dealt with in 2.1.d below) and Additional Voluntary Contributions (dealt with in 2.15 below) are accounted for on an accruals basis.

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

2.2 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, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.3 Income received in respect of enhancements

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

2.4 Other income

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

2.5 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 Revenue Account. The cost is based on a discount of 1.8% real rates (i.e. 4.6% including inflation).

2.6 Past service cost

Past service costs are increases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the Revenue Account on a straight line basis over the period in which increase in benefit vest.

2.7 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue Account. The interest cost is based on a discount of 1.8% real rate (i.e. 4.6% including inflation).

2.8 Other payments

Other payments are accounted for on an accruals basis.

2.9 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 1.8% real rate (i.e. 4.6% including inflation).

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

2.10 Pension benefits payable

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

2.11 Pension payments to those retiring at their normal retirement age

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

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

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

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

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

2.13 Lump sums payable on death in service

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

2.14 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 balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

2.15 Additional Voluntary Contributions

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

2.16 Premature Retirement Compensation

2.16.1 Compensation payments for staff leaving before their normal retirement age are met by employers. For administrative convenience and value-for-money considerations, compensation payments are paid initially by the scheme throughout the month and recovered from employers on a quarterly basis, in advance. These transactions are not recorded in the revenue account.

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

3. RECONCILIATION OF ESTIMATES, ACCOUNTS AND BUDGETS

3(a) Reconciliation of net resource outturn to net outgoings

				2006-07	2005-06
		Outturn	Supply Estimate	Outturn Compared with Estimate	Outturn
	Note	£000	£000	£000	£000
Net Resource Outturn		8,658,435	8,576,576	(81,859)	19,847,601
Adjustment for effects of change in the discount rate		–	–	–	(11,800,000)
Non-supply income (CFERs)	5	(59,248)	(139)	59,109	(134)
Net Outgoings		**8,599,187**	**8,576,437**	**(22,750)**	**8,047,467**

The adjustment of £11,800,000 reflected the difference between the Estimates and accounting treatment of the change in the discount rate from 3.5% to 2.8% with effect from 1 April 2005. Parliamentary approval was given for the necessary resources, and was reflected as a non-budget item in the Estimates and in the Statement of Parliamentary Supply.

For accounting purposes, the effects of the change in the discount rate are reflected through reserves and not recognised in the Revenue account. There is thus a difference between the bases on which the Statement of Parliamentary Supply and the Revenue account have been prepared. For 2006-07, the Estimates and the accounting treatment have been brought into line.

4. RECONCILIATION OF RESOURCES TO CASH REQUIREMENT

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	£000	£000
Net Resource Outturn	3a	8,576,576	8,658,435	(81,859)
Accruals adjustments				
Non-cash items	23	(12,740,487)	(12,822,801)	82,314
Changes in working capital other than cash	24	5,508	(29,845)	35,353
Changes in creditors falling due after more than one year Use of provision	19.6, 19.7, 20	5,420,304	5,458,339	(38,035)
Excess cash receipts surrenderable to the Consolidated Fund		27,618	–	27,618
Net cash requirement		**1,289,519**	**1,264,128**	**25,391**

5. ANALYSIS OF INCOME PAYABLE TO THE CONSOLIDATED FUND

In addition to appropriations in aid, the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics)

		Forecast 2006-07		Outturn 2006-07	
		Income	***Receipts***	**Income**	***Receipts***
	Note	£000	£000	£000	£000
Operating income and receipts-excess A in A		–	–	59,095	–
Other operating income and receipts not classified as A in A		139	*159*	153	*147*
	3a	139	*159*	59,248	*147*
Non-operating income and receipts-excess A in A		–	–	–	–
Other non-operating income and receipts not classified as A in A		–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
Excess cash surrenderable to the Consolidated Fund		–	*27,618*	–	–
Total income payable to the Consolidated Fund		**139**	***27,777***	**59,248**	***147***

6. RECONCILIATION OF INCOME RECORDED WITHIN THE REVENUE ACCOUNT TO OPERATING INCOME PAYABLE TO THE CONSOLIDATED FUND

		2006-07	2005-06
	Note	£000	£000
Operating Income		4,229,920	4,002,308
Income authorised to be appropriated-in-aid		4,170,672	4,002,174
Operating income payable to the Consolidated Fund		**59,248**	**134**

Revenue account – principal arrangements via the Teachers' Pension Scheme, and Principal and agency arrangements via the Teachers' Pension Compensation Scheme

7. PENSION CONTRIBUTIONS RECEIVABLE

		2006-07	2005-06
	Note	£000	£000
Employers		(2,819,704)	(2,670,087)
Employees:			
Normal		(1,263,061)	(1,187,358)
Purchase of added years		(56,949)	(42,322)
		(4,139,714)	(3,899,767)

8. PENSION TRANSFERS IN

	Note	2006-07 £000	2005-06 £000
Group transfers in from other schemes	12	(612)	(2,991)
Individual transfers in from other schemes		(80,051)	(88,754)
		(80,663)	**(91,745)**

9. OTHER PENSION INCOME

	Note	2006-07 £000	2005-06 £000
Contributions equivalent premiums		(1,727)	(2,501)
Recoveries of payments in lieu		(11)	(8)
Reinstatement of contributions		(39)	(84)
Other income		(152)	(134)
Premature retirement compensation		(8,226)	(8,069)
		(10,155)	**(10,796)**

10. PENSION COST

	Note	2006-07 £000	2005-06 £000
Current service cost		4,996,903	4,824,555
Past service costs		4,713	1,755
		5,001,616	**4,826,310**

11. ENHANCEMENTS

	Note	2006-07 £000	2005-06 £000
Employees:			
Purchase of added years		56,949	42,322
Reinstatements		38	84
		56,987	**42,406**

12. TRANSFERS IN

	Note	2006-07 £000	2005-06 £000
Group transfers in from other schemes	8	612	2,991
Individual transfers in from other schemes		80,051	88,754
		80,663	**91,745**

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

13. INTEREST ON SCHEME LIABILITIES

	Note	2006-07	2005-06
		£000	£000
Interest charge for the year	19.5	7,670,649	7,057,840
		7,670,649	**7,057,840**

14. OTHER EXPENDITURE

The following amounts represent annual compensation payments and compensation lump sums payable.

	Note	2006-07	2005-06
		£000	£000
On retirement			
Contributions equivalent premiums		5,101	4,783
Premature retirement compensation		12,345	24,569
Other		472	468
Unwinding of discount	20	1,886	1,654
		19,804	**31,474**

15. ADDITIONAL VOLUNTARY CONTRIBUTIONS

15.1 The Teachers' Pension Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to increase their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment to the approved provider, the Prudential. The individual's employer is responsible only for the onward payment of members' contributions to the Scheme's approved provider. Members participating in this arrangement receive an annual statement from the approved provider made up to 31 March each year confirming the amounts held in their account and the movements in the year.

15.2 The aggregate amounts of AVC investments are as follows:

The Prudential

	2006-07	2005-06
	£000	£000
Movements in the year:		
Balance at 1 April	1,870,471	1,745,910
New investments	258,518	212,380
Sales of investments to provide pension benefits	(235,925)	(87,779)
Changes in market value of investments	(63)	(40)
Balance at 31 March	**1,893,001**	**1,870,471**
Contributions received to provide life cover	1,857	1,928
Benefits paid on death	2,863	2,960

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

16. DEBTORS-CONTRIBUTIONS DUE IN RESPECT OF PENSIONS

16(a) Analysis by type

	2006-07	2005-06
	£000	£000
Amounts falling due within one year:		
Pension contributions due from employers	236,145	200,965
Employees' normal contributions	109,746	91,385
Bringing forward the payment of accrued superannuation lump sums	–	–
Capitalised cost of enhancement to pension payable on departure	–	–
Group transfers	–	–
Overpaid pensions	–	–
Other debtors	2,788	4,712
Recoverable compensation funding from employers (principal)	1,967	2,228
	350,646	**299,290**

Included within these figures is £59,105,000 (2005-06: £4,000) that will be due to the Consolidated Fund once the debts are collected.

16(b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07	2005-06	2006-07	2005-06
	£000	£000	£000	£000
Balances with other central government bodies	64	1,035	–	–
Balances with local authorities	264,984	222,591	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	85,598	75,664	–	–
At 31 March	**350,646**	**299,290**	**–**	**–**

17. CASH AT BANK

	2006-07	2005-06
	£000	£000
Balance at 1 April	54,345	21,248
Net change in cash balances	(28,807)	33,097
Balance at 31 March	25,538	54,345
The following balances at 31 March were held at:		
Office of HM Paymaster General	16,207	38,870
Commercial banks and cash in hand	9,331	15,475
Balance at 31 March	**25,538**	**54,345**

18. CREDITORS – IN RESPECT OF PENSIONS

18(a) Analysis by type

	2006-07	2005-06
	£000	£000
Amounts falling due within one year		
Pensions	(198,934)	(183,392)
Injury benefits		–
Group transfer pre-payment		–
HMRC and voluntary contributions	(47,302)	(42,737)
Overpaid contributions: employers		–
Overpaid contributions: employees		–
Overpaid contributions: employees added years		–
Other creditors	(5,231)	(3,156)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(25,391)	(54,334)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	(147)	(11)
Receivable	(59,105)	(4)
	(336,110)	**(283,634)**

18(b) Contributions due: Compensation payments agency

	2006-07	2005-06
	£000	£000
Balance at 1 April	(325)	(120)
Receipts from employers	(21,881)	(20,663)
Payments to employees	21,963	20,458
Balance at 31 March	**(243)**	**(325)**

18(c) Intra-Government balances

		Amounts falling due within one year		Amounts falling due after more than one year	
		2006-07	2005-06	2006-07	2005-06
	Note	£000	£000	£000	£000
Balances with other central government bodies		(131,811)	(97,085)	–	–
Balances with local authorities		(959)	(323)	–	–
Balances with NHS Trusts		–	–	–	–
Balances with public corporations and trading funds		–	–	–	–
Balances with bodies external to government		(203,583)	(186,551)	–	–
At 31 March		**(336,353)**	**(283,959)**	**–**	**–**

19. PROVISIONS FOR PENSION LIABILITIES

19.1

The Teachers' Pension Scheme is an unfunded defined benefits scheme. A full valuation by a professionally qualified actuary is required at intervals not exceeding four years. The Government Actuary's Department carried its last full review as at 31 March 2004. The actuarial report at pages 8 to 11, therefore includes an update since 2004 for known data movements. In addition to the assumptions outlined in the report, the actuary has applied the following rates in calculating the scheme liabilities:

	At 31 March 2007	At 31 March 2006	At 31 March 2005
	%	%	%
Rate of increase in salaries [1]	4.3	4.0	4.9
Rate of increase in pensions in payment and deferred pensions [1]	2.8	2.5	3.4
Discount rate	1.8	2.8	3.5
Inflation assumption	2.8	2.5	3.4

[1]The rates of increase shown above are the nominal increases in salaries and pensions. The rates of increase in the financial assumptions table in the GAD report are based on the difference between the rate of return (discount rate) and the nominal increase.

19.2

The scheme managers are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

- Scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners.
- Benefit structure, including details of any discretionary benefits and any proposals to amend the scheme.
- Income and expenditure, including details of expected bulk transfers into or out of the scheme. and
- Following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

19.3

Pension scheme liabilities accrue over 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. 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.

19.4

The value of the liability on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to 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 19.5 and 19.8. 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.

19.5 ANALYSIS OF MOVEMENTS IN THE SCHEME LIABILITY

	Note	2006-07 £000	2005-06 £000
Scheme liability at 1 April		(143,000,000)	(119,700,000)
Current service cost	10	(4,996,903)	(4,824,555)
Past service cost	10	(4,713)	(1,755)
Interest on scheme liability	13	(7,670,649)	(7,057,840)
Enhancements	11	(56,987)	(42,406)
Pension transfers in	12	(80,051)	(91,745)
Benefits payable	19.6	5,294,682	4,898,595
Pension payments to and on account of leavers	19.7	158,726	200,052
Actuarial gain/(loss)	19.8	(30,944,105)	(16,380,346)
Scheme liability at 31 March		**(181,300,000)**	**(143,000,000)**

During the year ended 31 March 2007, contributions represented an average of 19.75% of pensionable pay.

19.6 Analysis of benefits paid

	Note	2006-07 £000	2005-06 £000
Pensions or annuities to retired employees and dependants (net recoveries or overpayments)		4,391,796	4,132,438
Commutations and lump sum benefits on retirement		902,886	766,157
		5,294,682	**4,898,595**

19.7 Analysis of payments to and on account of leavers

	Note	2006-07 £000	2005-06 £000
Refunds to members leaving service		2,416	2,425
Transfers to other schemes		156,310	197,627
Per cash flow statement		**158,726**	**200,052**

19.8 Analysis of actuarial gain/(loss)

	Note	2006-07 £000	2005-06 £000
Experience gains/(losses) arising on the scheme liabilities		(4,344,105)	(1,180,346)
Changes in assumptions underlying the present value of scheme liabilities		(26,600,000)	(15,200,000)
Per Statement of Recognised Gains and Losses		**(30,944,105)**	**(16,380,346)**

19.9 History of experience (gains)/losses

	2006-07	2005-06	2004-05	2003-04	2002-03
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	4,344,105	1,180,346	(66,330)	(897,929)	(579,016)
Percentage of the present value of the scheme liabilities	2.4%	0.8%	(0.1%)	(0.8%)	(0.5%)
Total amount recognised in statement of total recognised (gains) and losses					
Amount (£000)	30,944,105	16,380,346	1,233,670	(897,929)	(579,016)
Percentage of the present value of the scheme liabilities	17.1%	11.5%	1%	(0.8%)	(0.5%)

20. PROVISION FOR ANNUAL COMPENSATION PAYMENTS

	Note	2006-07 £000	2005-06 £000
Balance at 1 April		85,722	64,678
Additional provisions	23	11,612	13,210
Use of provision in year		(4,931)	(4,320)
Unwinding of discount	14	1,886	1,654
Overnight stepped change	23	–	10,500
Balance at 31 March		**94,289**	**85,722**

21. GENERAL FUND

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

	Note	2006-07 £000	2005-06 £000
Balance at 1 April		(143,016,046)	(119,639,789)
Net Parliamentary Funding			
Drawn Down	22b	1,235,185	1,084,800
Deemed		54,334	21,224
Year end adjustment			
Supply creditor/(debtor) – current year		(25,391)	(54,334)
Net transfers from operating activities			
Net outgoings	3a	(8,599,187)	(8,047,467)
CFERS repayable to Consolidated Fund	3a	(59,248)	(134)
Actuarial gains and losses (SRGL)	19.8	(30,944,105)	(16,380,346)
Balance at 31 March		**(181,354,458)**	**(143,016,046)**

22. NOTES TO THE CASH FLOW STATEMENT

22(a) Reconciliation of net outgoings to operating cash flows

	Note	2006-07 £000	2005-06 £000
Net outgoings for the year	3a	8,599,187	8,047,467
Adjustments for non-cash transactions		(7,672,535)	(7,069,994)
(Increase)/decrease in debtors		51,356	(18,320)
less movements in debtors relating to items not passing through the revenue account		–	–
Increase/(decrease) in creditors: pensions		(52,394)	(69,990)
less movements in creditors relating to items not passing through the revenue account		30,294	33,078
Increase in pension provision		(5,013,228)	(4,839,520)
Increase in pension provision – enhancements and transfers in		(137,038)	(134,151)
Use of provisions		5,299,613	4,902,914
Use of provisions – refunds and transfers	19.7	158,726	200,052
Net cash outflow from operating activities		**1,263,981**	**1,051,536**

22(b) Analysis of financing and reconciliation to the net cash requirement

	Note	2006-07 £000	2005-06 £000
From the Consolidated Fund (Supply) – current year	21	1,235,185	1,084,800
From the Consolidated Fund (Supply) – prior year		–	–
From the Consolidated Fund (non-supply)		–	–
		1,235,185	**1,084,800**

22(c) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2006-07 £000	2005-06 £000
Net cash requirement	4	(1,264,128)	(1,051,690)
From the Consolidated Fund (Supply) – current year	22b	1,235,185	1,084,800
From the Consolidated Fund – prior year	22b	–	–
Amounts due to the Consolidated Fund received and not paid over		136	(13)
Increase/(decrease) in cash		**(28,807)**	**33,097**

23. NON-CASH ITEMS

	Note	2006-07 £000	2005-06 £000
Increase in pension provision	10	5,001,616	4,826,310
Discount rate change		–	11,800,000
Increase in pension provision – enhancements and inward transfers	11, 12	137,038	134,151
Increase in annual compensation payment provision	20	11,612	13,210
Unwinding of discount	14	1,886	1,654
Interest on scheme liability	13	7,670,649	7,057,840
PRC overnight stepped change	20	–	10,500
		12,822,801	**23,843,665**

24. MOVEMENTS IN WORKING CAPITAL, OTHER THAN CASH

	Note	2006-07 £000	2005-06 £000
Increase/(decrease) in debtors		51,356	(18,320)
(Increase)/decrease in creditors		(22,100)	(36,912)
Per cash flow statement		**29,256**	**(55,232)**
Adjustment for non appropriations in aid debtor received		4	24
Adjustment for non appropriations in aid debtor not yet received		(59,105)	(4)
		(29,845)	**(55,212)**

25. FINANCIAL INSTRUMENTS

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

25.1 Liquidity risk

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

25.2 Interest rate risk

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

26. CONTINGENT LIABILITIES DISCLOSED UNDER FRS 12

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

27. LOSSES AND SPECIAL PAYMENTS

During the year, losses arose in 2,086 cases (2005-06: 2,056 cases). The total loss was £200,032.78 (2005-06: £120,081.71).

Included in these figures are Guaranteed Minimum Pension (GMP) overpayments or Contributions Equivalent Premiums (CEP) payments, for which we received the late notification from Inland Revenue. There have been 134 cases (2005-06: 952 cases) totalling £19,192.44 (2005-06: £40,710.57). Also included is a technical write-off of £96,831.78 which arose from historical book keeping errors.

28. RELATED-PARTY TRANSACTIONS

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

29. END OF YEAR CERTIFICATION

The contributions received from employers have been certified through End of Year Certificates. At the date the 2006-07 accounts were signed all the End of Year Certificates had been received from all 172 Local Authorities (LAs), and from all 2,121 non-LA employers of which 46% have been fully and independently audited.

30. POST BALANCE SHEET EVENTS

Under the machinery of government changes announced on 28 June 2007 responsibility for the pension scheme transfers to the newly created Department for Children, Schools and Families with effect from 1 April 2007. This transfer does not affect the assets and liabilities of the pension scheme, and there have been no events after the balance sheet date requiring an adjustment to the financial statements. The financial statements were authorised for issue on 18 July 2007 by David Bell (Accounting Officer).

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

EXCESS VOTES

Purpose of Report

1. In 2006-07, the Teachers' Pension Scheme expended more resources than Parliament had authorised and incurred what is termed an "excess" for which further parliamentary authority is required. I have qualified my opinion on the Scheme's 2006-07 Resource Accounts in this regard. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard to the breach of regularity

2. As part of my audit of the Teachers' Pension Scheme's financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard, in particular, to parliamentary authority and the Supply limits Parliament has set on expenditure. By incurring expenditure that is unauthorised and is thus not regular, the Scheme has breached Parliament's controls.

Background to the Excess and Parliamentary Limits

3. Parliament authorises and sets limits on departmental expenditure. Parliament's approval and authority is given through Supply Estimates in annual Appropriation Acts. By this means Parliament has authorised a Request for Resources for the Teachers' Pension Scheme representing a limit on the gross current expenditure that may be incurred under the Request for Resources.

4. The limit on the Request for Resources for Teachers' Pensions was set at gross expenditure of £12,747,248,000, together with a limit on Appropriations in Aid of £4,170,672,000. The Net Total Provision was set at £8,576,576,000.

5. These limits were set out in the Main Supply Estimate for 2006-07 (HC 1035) as amended by the Spring Supplementary Estimate (HC 293). The breach reported below is against these limits. The Net Cash Requirement Provision of £1,289,519,000 was not breached.

Breach of Limit on Request for Resources

6. The Summary of Resource Outturn on page 18 of the Teachers' Pension Scheme (England and Wales) 2006-07 accounts shows net total outturn on the Request for Resources was £81,859,000 (0.95 per cent) in excess of the amount authorised.

7. Operating income authorised to be appropriated in aid of expenditure amount was wholly earned and applied up to the voted limit. The Department also earned an additional £59,095,000 from these income sources. This additional income is shown "Summary of income payable to the Consolidated Fund", on page 18. It is proposed to ask Parliament to increase the limit on Appropriations in Aid by this amount to allow it to be applied towards meeting the excess on this Request for Resources, and to authorise the balance of £22,764,000 as additional use of resources by an Excess Vote.

Table 1: Limits, outturn, and proposed further requests to Parliament relating to 2006-07 Teachers' Pension Scheme income and expenditure

	Limit voted through Supply Estimate (£ millions)	Outturn (£ millions)	Excess of outturn over limit (£ millions)	Proposed further request to Parliament (£ millions)
Gross expenditure	12,747	12,829	82	23
Appropriations in Aid	4,171	4,171	0	59
Total Net Provision	8,577	8,658	82	82

Details and Causes

8. Following the completion of the consultation exercise, 'Modernisation of the Teachers' Pension Scheme', changes to the scheme rules for both new and existing members were implemented from January 2007. The changes are outlined on page 3, and their impact on scheme income and expenditure, resulting in an excess vote, is explained on page 4 of the "Report of the Managers".

9. A request to Parliament for additional resources, taking account of the Department's estimate of the impact of scheme modernisation, was made through the Spring Supplementary Estimate. Although the Department took reasonable steps to estimate the financial impact of scheme modernisation, their forecasts inevitably included an element of uncertainty around the decisions scheme members would make. The timing of the introduction of scheme modernisation, on 1 January 2007, was such that the financial consequences materialised too late in the 2006-07 accounting period for the Department to request further resources through a further Supplementary Estimate, resulting in an excess vote.

10. There were two major factors contributing to the excess vote of £82 million, as set out in the table below.

Table 2: Excess of 2006-07 Gross Expenditure over forecast used in Supply Estimates

Actuarial assessment of in-year service costs	£69 million
Other in-year scheme expenses	£13 million
Total Excess	£82 million

11. Firstly, as disclosed on page 18 of the accounts, the level of income from both employer and employee contributions has increased and at year-end was £54 million higher than expected. This higher than expected actual income figure was then taken into account by the actuaries when calculating the liability to meet future pension payments. As a result the actuarial assessment of the in-year service costs exceeded the forecast used for the Supply Estimate by £69 million.

12. Secondly, expenditure on other in-year scheme expenses (most significantly lump sum payments on retirement) was £13 million higher than estimated. The expenditure on lump sum payments was higher than forecast because more teachers than expected opted to commute their pension into a lump sum on retirement.

Actions taken or proposed to be taken by the Scheme to help prevent a recurrence

13. The Department commissioned work from its internal auditors to review the circumstances surrounding the excess vote for 2006-07. This concluded that sound budgetary controls were in place; that the Department's arrangements were consistent with HM Treasury requirements; and that the impact of scheme modernisation, rather than a breakdown in risk management or internal control, contributed to the excess vote.

14. The Department is taking action to refine its predictive estimate model for calculating the Supply Estimates. This will need to be monitored carefully by the Department and I shall consider the position during our audit of the 2007-08 financial statements.

Summary and Conclusions

15. In summary, the primary reason for the Resources Excess was that the Department's forecasts, although produced on a reasonable basis, underestimated the financial impact of scheme modernisation. This resulted in total resource expenditure exceeding the limit set in the Spring Supplementary Estimate. Going forward, data gathered since scheme modernisation was introduced on 1 January 2007 will allow the Department to refine its model for calculating the Supply Estimates during 2007-08.

John Bourn
Comptroller and Auditor General

11 July 2007

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Victoria
London SW1W 9SP

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5615695 07/07 19585

Printed on Paper containing 75% recycled fibre content minimum.

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

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www.tsoshop.co.uk

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ISBN 978-0-10-171472-3
9 780101 714723