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

Teachers' Pension Scheme (England and Wales)

Resource Accounts 2005-06

LONDON: The Stationery Office
HC 1356

20 July 2006
£8.00

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

Teachers' Pension Scheme (England and Wales)

(For the year ended 31 March 2006)

Ordered by the House of Commons to be printed
20th July 2006

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TEACHERS' PENSION SCHEME: ENGLAND AND WALES

REPORT OF THE MANAGERS

Accounts for the year ended 31st March 2006.

Introduction

The Teachers' Pension Scheme 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.

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

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

The managers, advisers and employers for both are as listed below.

Managers, Administrators, Advisers and Employers

Managers

Accounting Officer

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

Scheme Manager and Premature Retirement Scheme Manager (contact)

Richard Symms
DfES
Mowden Hall
Staindrop Road
DARLINGTON
DL3 9BG

Advisers

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

Bankers

Paymaster (1836) Ltd

Legal Advisers

Legal Directorate: Academies and School Workforce Group
Caxton House
Tothill Street
London
SW1H 9NA

Auditors

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

Administrator of the Scheme

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

Employers

Any organisation in England and Wales that employs teachers can join the scheme. There were 2,268 employers participating in 2005-06 that fall into the following categories:

172 Local Authorities (LAs)
435 further education institutions
90 higher education institutions
1,571 independent establishments (inc CTCs and others)

Performance and Position

The TPS account is influenced by changes in membership numbers, salary levels, mortality rates and the age profile of the scheme. Of these elements, membership numbers are likely to change from 2007, with the proposed introduction of automatic scheme membership for part-time teachers. This proposal is currently subject to consultation, but if introduced it would result in all part-time staff being automatically put in the scheme either on first appointment or when they receive a new contract of employment. Teachers would still retain the right to opt out of the scheme, as is the case with full-time members.

Changes to the Teachers' Pension Scheme

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

Pensions were increased by 3.1% with effect from 11 April 2005 in line with increases in the cost of living.

From April 2005 the employers' contribution rate was maintained at 13.5%.

The Department is currently consulting on a range of potential changes to the scheme, including increasing the normal pension age from 60 to 65 for new members, removal of the present added years arrangements, introduction of two-tier ill health retirement arrangements, introducing a cost sharing arrangement between employers and employees for future changes in the contribution rate. It is expected that the changes will be introduced in January 2007. In addition to the scheme changes the outcome of the current scheme valuation will be implemented from January 2007.

Changes to the PRC Scheme

During the year, compensation payments to certain individuals were increased by 3.1% in line with the increases in pensions.

Free-Standing Additional Voluntary Contributions and Stakeholder Pensions

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

Post-Balance Sheet Events

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

Membership Statistics

The data used in this report is based on information produced for the Scheme Actuaries in accordance with their specifications, and is subject to change based on information subsequently received or amended. The Scheme Actuaries use the data for the Scheme's valuation, and to determine the extent of the Scheme's liabilities for each published set of accounts.

Please note that the figures for Active Members are for year ending March 2005. The figures for Pensions in payment are for year ending March 2006. This is the latest data available.

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

A Active Members

	Active members brought forward from 31 March 04	579,173
	Adjustments due to data received post-31 March 04	(9,496)
	Total active members at 1 April 2004	**569,677**
Add:	New entrants in the year	41,510
	Re-entrants in the year	34,631
	Transfers in	627
	Opted in	625
Less:	Premature retirements	(2,394)
	Age and infirmity retirements	(8,515)
	Actuarially reduced benefits	(4,737)
	Opted out	(1,751)
	Other exits (including transfers out)	(39,196)
	Deaths	(445)
	Active members at 31 March 2005	**590,032**

B Deferred members

	Deferred members brought forward from 31 March 04	372,430
	Adjustments due to data received post-31 March 04	10,647
	Total deferred members at 1 April 2004	**383,077**
Add:	Exits with no benefits payable (including optants out with service remaining in scheme and transfers in)	41,274
Less:	Deaths	(191)
	Return of contributions	(968)
	Re-entry to service	(24,550)
	Transfers out	(2,450)
	Awards out of service	(5,176)
	Deferred members at 31 March 2005	**391,016**

C Pensions in payment

	Pensioners at the start of the year – brought forward from 31 March 2005		
		– Members	424,777
		– Dependants	47,810
		– Total	472,587
	Adjustments due to data received post-31 March 05		
		– Members	2,751
		– Dependants	138
		– Total	2,889
	Total pensioners in payment at 1 April 2005		
		– Members	427,528
		– Dependants	47,948
		– **Total**	**475,476**
Add:	Members retiring in the year		
	– Age\premature pensions		12,770
	– Infirmity pensions		1,669
	– Actuarially reduced benefits		6,817
			21,256

	New dependants	3,113
	Total members and dependents retiring in year	**24,369**
Less:	Cessations in year – Members	
	Age\premature pensions	(8,506)
	Infirmity pensions	(1,592)
	Actuarially reduced benefits	(134)
		(10,232)
	Cessations in year – Dependants	(1,481)
	Total cessations in year	**(11,713)**
	Pensioners in payment at 31 March 2006	
	– Members	438,552
	– Dependants	49,580
		488,132

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

12 July 2006

TEACHERS' PENSION SCHEME: ENGLAND AND WALES
ACCOUNTING YEAR ENDED 31 MARCH 2006

REPORT OF THE ACTUARY

Liabilities

A. The capitalised value as at 31 March 2006 of expected future benefit payments under the Teachers' Pension Scheme (England and Wales), for benefits accrued in respect of employment (or former employment) prior to 31 March 2006, has been assessed using the methodology and assumptions described in Sections C, D and E below. Table 1 summarises the results.

Table 1 Past service liabilities

Value of liability in respect of	£ billion
Active members (past service)	72.8
Deferred pensions	11.3
Pensions in payment	58.9
Total	**143.0**

Accruing costs

B. The cost of benefits accruing for each year of service is met partly by a 6% contribution from members, with the employer meeting the balance of the cost. Table 2 shows the contribution rate used to assess the cost of benefits accruing in the year 2005-06.

Table 2 Contribution rate 2005-06

Contribution rate	Percentage of pensionable pay
Standard contribution rate	24.4%
Members' contribution rate	6.0%
Employer's share of standard cost	18.4%
Actual rate charged to employers	13.5%

The actual rate charged to employers (of 13.5%) is less than the employer's share of standard cost (of 18.4%) for the reasons explained in Sections C and D. In relation to the pensionable payroll for the financial year 2005-06, the actual charges made to employers in cash terms were £2.7 billion (derived from the accounts data provided by DfES). Based on this data, the accruing cost of pensions in 2005-06 (at 24.4% of pay, including member contributions) is estimated to be £4.9 billion.

Methodology

C. The value of the liabilities has been obtained using the projected accrued benefit method, with allowance for expected future pay increases in respect of active members. The contribution rate for accruing costs in 2005-06 was determined using the projected unit method.

Financial assumptions

D. Table 3 shows the principal financial assumptions adopted to prepare this statement. With effect from 1 April 2005, the assumed rate of return in excess of prices was reduced from 3.5% a year to 2.8% a year, and the assumed rate of return in excess of earnings was reduced from 2.0% a year to 1.3% a year.

Demographic assumptions

E. The past service liabilities as at 31 March 2006 were calculated using demographic assumptions derived from the specific experience of the scheme membership, and are the same as those adopted for the 2004 valuation. The contribution rate used to determine the accruing cost in 2005-06 was calculated using the demographic assumptions applicable at the start of the year: that is, the assumptions adopted for the 2001 valuation but including allowance for greater future mortality improvement for future pensioners.

Notes

F. (1) Section A of this Statement is based on the results of a full actuarial valuation carried out as at 31 March 2004 with an approximate updating for subsequent financial years to reflect known changes. The cost of benefits accruing in the year 2005-06, shown in Section B, is based on the results of the valuation as at 31 March 2001, but modified as described in Sections D and E.

(2) The pension benefits taken into account in this assessment are those normally provided from the rules of the pension scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits), or redundancy benefits in respect of current employees. However, some pensions already in payment in respect of such cases are included in the statement of liabilities in Section A above.

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

28 June 2006

TEACHERS' PENSION SCHEME (ENGLAND AND WALES)
RESOURCE ACCOUNTING (FRS17-BASED)
YEAR ENDED 31 MARCH 2006

Table 3 Financial Assumptions

Assumption	31 March 2006	31 March 2005
Rate of return (discount rate)	5.4%	7.0%
Rate of return in excess of:		
Earnings increases	1.3%	2.0%
Pension increases	2.8%	3.5%
Expected return on assets:	n/a	n/a

Table 4 Balance Sheet Disclosures

	31 March 2006	31 March 2005	£ billion 1 April 2005
Total market value of assets	nil	nil	nil
Value of liabilities	(143.0)	(119.7)	(131.5)
Surplus (deficit)	(143.0)	(119.7)	(131.5)
of which recoverable by employers	n/a	n/a	n/a

Note: The increase in the value of the liabilities from 31 March 2005 to 1 April 2005 (as estimated for the 2004-05 disclosures) is due to the reduction in the assumed discount rate with effect from 1 April 2005.

Table 5 Profit & Loss Disclosures

Analysis of amount charged to operating profit	**£ billion Year ending 31 March 2006**
Current service cost	4.9
Past service cost	0
Unrecognised past surplus	0
Adjustment to pensions liability	0
Total operating charge	**4.9**
Analysis of the amount credited to other finance income	
Expected return on pension scheme assets	0
Interest on pension scheme liabilities (@5.4%)	7.1
Net return	**–7.1**
Analysis of amount recognised in STRGL	
Actual return less expected return on pension scheme assets	0
Experience gains and losses arising on the scheme liabilities	-1.1
Changes in assumptions underlying the present value of liabilities	-3.4
Actuarial gain (loss) in pension scheme	-4.5
Prior period adjustment	0
Actuarial gain (loss) recognised in STRGL	**-4.5**
Movement in surplus during the year	
Surplus at beginning of year	–119.7
Change in the discount rate from 1 April 2006*	–11.8
Current service cost	–4.9
Reduction in liabilities in respect of benefits paid during the year	5.0
Past service costs	0
Other finance income	–7.1
Actuarial gain (loss)	–4.5
Surplus at end of year	**–143.0**

*As estimated for the 2004-05 Resource Accounts.

Government Actuary's Department 28 June 2006

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 an ongoing 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*.

TEACHERS' PENSION SCHEME (ENGLAND AND WALES)

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 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 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 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Board recognises the importance of leadership to create an environment where risk management is effective. A department wide assessment of our risk management capacity and capability, using HMT's framework, was conducted to identify areas for improvement leading to an action plan to deal with them. Senior managers have been trained in how to effectively manage risk. Risk management has been embedded into all finance and project and programme management training. Guidance on the identification, assessment and management of risk in the Department has been available to all staff during the year.

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. 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 Strategy & Reform 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 is informed by the Directors General within the Department who have responsibility for the development and maintenance of the internal control framework, Internal Audit and comments made by the external auditors 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 the managers within the Teachers' Pension Scheme contract management team who have responsibility for the development and maintenance of the internal control framework. I have also been advised by the Board, the Audit Committee and the Risk Committee.

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.

The Audit Committee supports the Accounting Officer by offering objective advice on issues concerning the operation of control and governance of the Department. The Audit Committee 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 the Audit Committee that the risks to the Department's business from fraud and financial irregularity are being managed and monitored effectively. A proactive approach to fraud awareness, prevention, detection and investigation is taken by the Department and a Fraud Risk Register provides part of enhanced risk assessment arrangements that have been put in place in year.

Internal Control issues

During the year, an Internal Audit Division review of the wider Teachers' Pensions 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 12 July 2006

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

I certify that I have audited the financial statements of the Teachers' Pension Scheme (England and Wales) for the year ended 31 March 2006 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, the Cashflow 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 Annual Report 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, the Annual Report is not consistent with the Actuary's Report, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, of if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 13 to 14 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Managers and the Report of the Actuary. I consider the implications for my report 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 Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by 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

In my opinion:

- the financial statements give a true and fair view of the Scheme for the year ending 31 March 2006, the net resources, the net outgoings, recognised gains and losses and the cash requirement for the year and the amount and disposition at that date of its assets and liabilities, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

18 July 2006

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 2005-06

Request for resources	Note	Estimate: Gross expenditure	Estimate: A in A	Estimate: Net Total	Gross expenditure	A in A	Net total	2005-06 Outturn Net Total Outturn compared with Estimate: saving/ (excess)	2004-05 Outturn Net total
		£000	£000	£000	£000	£000	£000	£000	£000
Teachers' Pensions		12,078,663	(4,039,959)	8,038,704	12,039,275	(4,002,174)	8,037,101	1,603	6,343,717
Non-budget		14,183,469	–	14,183,469	11,810,500	–	11,810,500	2,372,969	–
Total resources	3	**26,262,132**	**(4,039,959)**	**22,222,173**	**23,849,775**	**(4,002,174)**	**19,847,601**	**2,374,572**	**6,343,717**

Net cash requirement 2005-06

	Note	Estimate	Outturn	2005-06 Net Total Outturn compared with Estimate: saving/ (excess)	2004-05 Outturn
		£000	£000	£000	£000
Net cash requirement	4	**1,174,537**	**1,051,690**	**122,847**	**921,662**

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 and figures in £000).

	Note	Forecast 2005-06 Income	Forecast 2005-06 *Receipts*	Outturn 2005-06 Income	Outturn 2005-06 *Receipts*
		£000	£000	£000	£000
Operating income and receipts – excess A in A		–	–	–	–
Other CFERs		159	140	134	153
Total	5	**159**	***140***	**134**	***153***

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

The outturn is £2,374,572,000 (11.9%) lower than the Supply Estimate's provision due to the £2.373 billion underspend on the non budget costs, the cost of discounting the opening balance on the provision at HMT's new long term 2.8% discount rate. The £14.2 billion Supply Estimate budget was based on the actuary's original estimate. This forecast value was reduced by the actuary but, due to supply estimates procedures, it was not possible to reduce the budget in a Supplementary Estimate.

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

The actual net cash requirement is £122,847 (11.6%) lower than the estimated net cash requirement. This variance is due to a decrease in debtor and creditor working capital balances rather than the expected increase in balances requiring additional cash financing.

The notes on pages 21 to 35 form part of these accounts.

Revenue Account

for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Income			
Contributions receivable	7	(3,899,767)	(3,767,793)
Transfers in	8	(91,745)	(89,290)
Other income	9	(10,796)	(9,599)
		(4,002,308)	(3,866,682)
Outgoings			
Pension cost	10	4,826,310	3,831,062
Enhancements	11	42,406	32,504
Transfers in	12	91,745	89,290
Interest on scheme liabilities	13	7,057,840	6,741,738
Other expenditure	14	31,474	15,651
		12,049,775	10,710,245
Adjustment to pension liability		–	(500,000)
Net outgoings for the year		**8,047,467**	**6,343,563**
Net Resource Outturn	3a	**19,847,601**	**6,343,717**

Statement of Recognised Gains and Losses
for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Actuarial (gain)/loss	19.8	16,380,346	1,233,670
Recognised (gains) and losses for the financial year		**16,380,346**	**1,233,670**

The notes on pages 21 to 35 form part of these accounts.

Balance Sheet

as at 31 March 2006

	Note	2005-06 £000	2005-06 £000	2004-05 £000	2004-05 £000
Current assets:					
Debtors					
Contributions due in respect of pensions	16a		292,350		310,519
Other debtors			6,940		7,091
Consolidated Fund debtor			–		–
Cash at bank	17		54,345		21,248
			353,635		**338,858**
Creditors – amounts falling due within one year					
Pensions and other creditors			(229,609)		(192,697)
Consolidated Fund creditor			(54,350)		(21,272)
			(283,959)		(213,969)
Net current liabilities, excluding pension liabilities			69,676		124,889
Pension liability	19.5		(143,000,000)		(119,700,000)
Provision for compensation payments where the scheme acts as a principal	20		(85,722)		(64,678)
Net Assets/(Net Liabilities)			**(143,016,046)**		**(119,639,789)**
Financed by:					
Revenue account					
Balance brought forward			(119,639,789)		(113,051,934)
Financing from the Consolidated Fund (Cash Flow)			1,106,024		942,887
Net outgoings during the year (Revenue Account)			(8,047,467)		(6,343,563)
Actuarial gain/(loss) (SRGL)	19.8		(16,380,346)		(1,233,670)
Prior year cash excess – funded 2004-05					67,597
Excess appropriations in aid for current year		–		–	
Income not appropriated in aid payable to the Consolidated Fund	21	(134)		(154)	
Consolidated Fund debtor/creditor	21	(54,334)		(21,225)	
Debtor adjustment	22a	–		273	
Consolidated Fund adjustment		–		–	
			(54,468)		(21,106)
Balance carried forward			**(143,016,046)**		**(119,639,789)**

David Bell
Accounting Officer

12 July 2006

The notes on pages 21 to 35 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash outflow from operating activities	22a	(1,051,536)	(884,202)
Receipts due to Consolidated Fund			
Payments of amounts due to the Consolidated Fund		(167)	(165,758)
Financing	22b	1,084,800	1,047,628
Increase/(decrease) in cash in the period	22c	**33,097**	**(2,332)**

The notes on pages 21 to 35 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 2005-06 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 2.8% real rate (i.e. 5.37% 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 2.8% real rate (i.e. 5.37% 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 2.8% real rate (i.e. 5.37% 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

	Note	Outturn	Supply Estimate	2005-06 Outturn Compared with Estimate	2004-05 Outturn
		£000	£000	£000	£000
Net Resource Outturn		19,847,601	22,222,173	2,374,572	6,343,717
Adjustment for effects of change in the discount rate		(11,800,000)	(14,183,310)	(2,383,310)	
Prior Period Adjustments					
Non-supply income (CFERs)	5	(134)	(159)	(25)	(154)
Non-supply Expenditure					
Net Outgoings		**8,047,467**	**8,038,704**	**(8,763)**	**6,343,563**

The adjustment of £11,800,000 reflects 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 will be 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	22,222,173	19,847,601	2,374,572
Accruals adjustments				
Non-cash items	23	(26,253,803)	(23,843,665)	(2,410,138)
Changes in working capital other than cash	24	100,682	(55,212)	155,894
Changes in creditors falling due after more than one year				
Use of provision	19.6, 19.7, 20	5,105,485	5,102,966	2,519
Excess cash receipts surrenderable to the Consolidated Fund				
Net cash requirement		**1,174,537**	**1,051,690**	**122,847**

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)

	Note	Forecast 2005-06 Income	Forecast 2005-06 *Receipts*	Outturn 2004-05 Income	Outturn 2004-05 *Receipts*
		£000	£000	£000	£000
Operating income and receipts-excess A in A		–	–	–	–
Other operating income and receipts not classified as A in A	3a	159	140	134	153
		159	140	134	153
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		–	–	–	–
Total income payable to the Consolidated Fund		**159**	***140***	**134**	***153***

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

	Note	2005-06	2004-05
		£000	£000
Operating Income		4,002,308	3,866,682
Income authorised to be appropriated-in-aid		4,002,174	3,866,528
Operating income payable to the Consolidated Fund		**134**	**154**

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

7. PENSION CONTRIBUTIONS RECEIVABLE

	Note	2005-06 £000	2004-05 £000
Employers		(2,670,087)	(2,578,001)
Employees:			
Normal		(1,187,358)	(1,175,142)
Purchase of added years*		(42,322)	(14,650)
		(3,899,767)	**(3,767,793)**

*For 2005-06 Teachers' additional contributions for past added years have been included in the Purchase of added years, as opposed to normal contributions in 2004-05.

8. PENSION TRANSFERS IN

	Note	2005-06 £000	2004-05 £000
Group transfers in from other schemes	12	(2,991)	(89,290)
Individual transfers in from other schemes		(88,754)	
		(91,745)	**(89,290)**

9. OTHER PENSION INCOME

	Note	2005-06 £000	2004-05 £000
Contributions equivalent premiums		(2,501)	(1,009)
Recoveries of payments in lieu		(8)	(7)
Reinstatement of contributions*		(84)	-
Other income		(134)	(154)
Premature retirement compensation		(8,069)	(8,429)
		(10,796)	**(9,599)**

*In 2004-05 Reinstatement of contributions were included in employees' normal contributions (Note 7).

10. PENSION COST

	Note	2005-06 £000	2004-05 £000
Current service cost		4,824,555	3,830,913
Past service costs		1,755	149
		4,826,310	**3,831,062**

11. ENHANCEMENTS

	Note	2005-06 £000	2004-05 £000
Employees:			
Purchase of added years		42,322	32,413
Reinstatements		84	91
		42,406	**32,504**

12. PENSION TRANSFERS IN

	Note	2005-06 £000	2004-05 £000
Group transfers in from other schemes	8	2,991	
Individual transfers in from other schemes		88,754	89,290
		91,745	**89,290**

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	2005-06 £000	2004-05 £000
Interest charge for the year	19.5	7,057,840	6,741,738
		7,057,840	**6,741,738**

14. OTHER EXPENDITURE

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

	Note	2005-06 £000	2004-05 £000
On retirement			
Contributions equivalent premiums		4,783	4,601
Premature retirement compensation		24,569	8,542
Other		468	461
Unwinding of discount	20	1,654	2,047
		31,474	**15,651**

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, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution Schemes (FSAVCs). The individual's employer is responsible only for the onward payment of members' contributions to the Scheme's approved provider. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the approved provider made up to 31 March each year confirming the amounts held in their account and the movements in the year.

15.2 The aggregate amounts of AVC investments are as follows:

The Prudential

	2005-06 £000	2004-05 £000
Movements in the year:		
Balance at 1 April	1,745,910	1,626,465
New investments	212,380	220,815
Sales of investments to provide pension benefits	(87,779)	(100,677)
Changes in market value of investments	(40)	(693)
Balance at 31 March	**1,870,471**	**1,745,910**
Contributions received to provide life cover	1,928	1,990
Benefits paid on death	2,960	1,968

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

	Note	2005-06 £000	2004-05 £000
Amounts falling due within one year:			
Pension contributions due from employers		200,965	213,586
Employees' normal contributions		91,385	96,933
Bringing forward the payment of accrued superannuation lump sums		–	–
Capitalised cost of enhancement to pension payable on departure		–	–
Group transfers		–	–
Overpaid pensions		–	–
Other debtors		4,712	4,960
Recoverable compensation funding from employers (principal)		2,228	2,131
		299,290	**317,610**

Included within these figures is £4,000 (2004-05: £24,000) that will be due to the Consolidated Fund once the debts are collected.

16(b) Intra-Government balances

	Note	Amounts falling due within one year		Amounts falling due after more than one year	
		2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000
Balances with other central government bodies		1,035	–	–	–
Balances with local authorities		222,591	239,320	–	–
Balances with NHS Trusts		–	–	–	–
Balances with public corporations and trading funds		–	–	–	–
Balances with bodies external to government		75,664	78,290	–	–
At 31 March		**299,290**	**317,610**	**–**	**–**

17. CASH AT BANK

	Note	2005-06 £000	2004-05 £000
Balance at 1 April		21,248	23,580
Net change in cash balances		33,097	(2,332)
Balance at 31 March		54,345	21,248
The following balances at 31 March were held at:			
Office of HM Paymaster General		38,870	25,190
Commercial banks and cash in hand		15,475	(3,942)
Balance at 31 March		**54,345**	**21,248**

18. CREDITORS – IN RESPECT OF PENSIONS

18(a) Analysis by type

	Note	2005-06 £000	2004-05 £000
Amounts falling due within one year			
Pensions		(183,392)	(153,129)
Injury benefits		–	–
Group transfer pre-payment		–	–
Inland Revenue and voluntary contributions		(42,736)	(38,901)
Overpaid contributions: employers		–	–
Overpaid contributions: employees		–	–
Overpaid contributions: employees added years		–	–
Other creditors		(3,156)	(547)
Amounts issued from the Consolidated Fund for supply but not spent at year end		(54,334)	(21,225)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:			
Received		(11)	(23)
Receivable		(4)	(24)
		(283,633)	**(213,849)**

18(b) Contributions due: Compensation payments agency

	Note	2005-06 £000	2004-05 £000
Balance at 1 April		(120)	(562)
Receipts from employers		(20,663)	(18,911)
Payments to employees		20,458	19,353
Balance at 31 March		**(325)**	**(120)**

18(c) Intra-Government balances

		Amounts falling due within one year		Amounts falling due after more than one year	
	Note	2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000
Balances with other central government bodies		(97,085)	(60,173)	–	–
Balances with local authorities		(323)	(279)	–	–
Balances with NHS Trusts		–	–	–	–
Balances with public corporations and trading funds		–	–	–	–
Balances with bodies external to government		(186,551)	(153,517)	–	–
At 31 March		**(283,959)**	**(213,969)**	**–**	**–**

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 2001. The actuarial report at pages 8 and 9, therefore includes an update since 2001 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 2006	**At 31 March 2005**	**At 31 March 2004**
	%	%	%
Rate of increase in salaries	4.0	4.9	4.9
Rate of increase in pensions in payment and deferred pensions	2.5	3.4	3.4
Discount rate	2.8	3.5	3.5
Inflation assumption	2.5	3.4	3.4

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	2005-06 £000	2004-05 £000
Scheme liability at 1 April		(119,700,000)	(113,000,000)
Current service cost	10	(4,824,555)	(3,830,913)
Past service cost	10	(1,755)	(149)
Interest on scheme liability	13	(7,057,840)	(6,741,738)
Enhancements	11	(42,406)	(32,504)
Pension transfers in	12	(91,745)	(89,290)
Benefits payable	19.6	4,898,595	4,547,658
Pension payments to and on account of leavers	19.7	200,052	180,606
Adjustment to pension liability		–	500,000
Actuarial gain/(loss)	19.8	(16,380,346)	(1,233,670)
Scheme liability at 31 March		**(143,000,000)**	**(119,700,000)**

During the year ended 31 March 2006, contributions represented an average of 19.5% of pensionable pay.

19.6 Analysis of benefits paid

	Note	2005-06 £000	2004-05 £000
Pensions or annuities to retired employees and dependants (net recoveries or overpayments)		4,132,438	3,856,027
Commutations and lump sum benefits on retirement		766,157	691,631
		4,898,595	**4,547,658**

19.7 Analysis of payments to and on account of leavers

	Note	2005-06 £000	2004-05 £000
Refunds to members leaving service		2,425	2,411
Transfers to other schemes		197,627	178,195
Per cash flow statement		**200,052**	**180,606**

19.8 Analysis of actuarial gain/(loss)

	Note	2005-06 £000	2004-05 £000
Experience gains/(losses) arising on the scheme liabilities		(1,180,346)	66,330
Changes in assumptions underlying the present value of scheme liabilities		(15,200,000)	(1,300,000)
Per Statement of Recognised Gains and Losses		**(16,380,346)**	**(1,233,670)**

19.9 History of experience (gains)/losses

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

20. PROVISION FOR ANNUAL COMPENSATION PAYMENTS

	Note	2005-06 £000	2004-05 £000
Balance at 1 April		64,678	58,491
Additional provisions	23	13,210	7,933
Use of provision in year		(4,320)	(3,793)
Unwinding of discount	14	1,654	2,047
Overnight stepped change	23	10,500	–
Balance at 31 March		**85,722**	**64,678**

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	2005-06 £000	2004-05 £000
Balance at 1 April		(119,639,789)	(113,051,934)
Net Parliamentary Funding			
Drawn Down	22b	1,084,800	942,887
Deemed		21,224	–
Year end adjustment			
Supply creditor/(debtor) – current year		(54,334)	(21,224)
Excess Vote – prior year		–	67,597
Net transfers from operating activities			
Net outgoings	3a	(8,047,467)	(6,343,563)
CFERS repayable to Consolidated Fund	3a	(134)	(154)
Actuarial gains and losses (SRGL)	19.8	(16,180,346)	(1,233,670)
Balance at 31 March		**(142,816,046)**	**(119,639,789)**

22. NOTES TO THE CASH FLOW STATEMENT

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

	Note	2005-06 £000	2004-05 £000
Net outgoings for the year	3a	8,047,467	6,343,563
Adjustments for non-cash transactions		(7,069,994)	(6,243,785)
Clearance of debtor		–	(273)
(Increase)/decrease in debtors		(18,320)	(12,885)
less movements in debtors relating to items not passing through the revenue account		–	37,143
Increase/(decrease) in creditors: pensions		(69,990)	133,550
less movements in creditors relating to items not passing through the revenue account		33,078	(144,379)
Increase in pension provision		(4,839,520)	(3,838,995)
Increase in pension provision – enhancements and transfers in		(134,151)	(121,794)
Use of provisions		4,902,914	4,551,451
Use of provisions – refunds and transfers	19.7	200,052	180,606
Net cash outflow from operating activities		**1,051,536**	**884,202**

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

	Note	2005-06 £000	2004-05 £000
From the Consolidated Fund (Supply) – current year	21	1,084,800	942,887
From the Consolidated Fund (Supply) – prior year		–	37,144
Prior year cash excess – funded 04-05		–	67,597
From the Consolidated Fund (non-supply)		–	–
		1,084,800	**1,047,628**

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

	Note	2005-06 £000	2004-05 £000
Net cash requirement	4	(1,051,690)	(921,662)
From the Consolidated Fund (Supply) – current year	22b	1,084,800	942,887
From the Consolidated Fund – prior year	22b	–	37,144
Prior year cash excess – funded 04-05	22b	–	67,597
Amounts due to the Consolidated Fund received and not paid over		(13)	(128,298)
Increase/(decrease) in cash		**33,097**	**(2,332)**

23. NON-CASH ITEMS

	Note	2005-06 £000	2004-05 £000
Increase in pension provision	10	4,826,310	3,831,062
Discount rate change		11,800,000	–
Increase in pension provision – enhancements and inward transfers	11, 12	134,151	121,794
Increase in annual compensation payment provision	20	13,210	7,933
Unwinding of discount	14	1,654	2,047
Adjustment to pension liability		–	(500,000)
Interest on scheme liability	13	7,057,840	6,741,738
PRC overnight stepped change	20	10,500	–
		23,843,665	**10,204,574**

24. MOVEMENTS IN WORKING CAPITAL, OTHER THAN CASH

	Note	2005-06 £000	2004-05 £000
Increase/(decrease) in debtors		(18,320)	24,258
(Increase)/decrease in creditors		(36,912)	(10,829)
Per cash flow statement		**(55,232)**	**13,429**
Adjustment for non appropriations in aid debtor received		24	37,330
Adjustment for non appropriations in aid debtor not yet received		(4)	(24)
		(55,212)	**50,735**

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, DfES 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 2,056 cases (2004-05: 1,286 cases). The total loss was £120,081.71 (2004-05: £59,814).

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 952 cases (2004-05: 471 cases) totalling £40,710.57 (2004-05: £13,193.41).

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 2005-06 accounts were signed all the End of Year Certificates had been received from all 172 Local Authorities (LAs), and from all 2,096 non-LA employers of which 46% have been fully and independently audited.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
5385694 07/06 341848 19585

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

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www.tsoshop.co.uk

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