

Teachers' Pension Scheme (England and Wales)

Resource Accounts 2001–02

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(For the year ended 31 March 2002)

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30 January 2003*

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Report of the Managers

Accounts for the year ended 31st March 2002.

Introduction

The Teachers' Pension Scheme is an unfunded, contributory, public service occupational pension scheme, governed by statutory regulations. The current regulations are the Teachers' Pension 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 Normington
DfES
Sanctuary Buildings
Great Smith Street
London SW1P 3BT

Scheme manager

John Bowlby
DfES
Mowden Hall
Staindrop Road
Darlington DL3 9BG

Premature Retirement Scheme Manager

John Bowlby
DfES
Mowden Hall
Staindrop Road
Darlington DL3 9BG

The contact for the pension and premature retirement scheme is now Richard Symms, at the same address as John Bowlby.

Advisers

Pension Scheme Actuary
Government Actuary's Department
New King's Beam House
22 Upper Ground
London
SE1 9JR

Bankers

Paymaster (1836) Ltd

Legal Advisers

Legal Advisers
Caxton House
London

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

All organisations in England and Wales that employ teachers.

Changes to the Teachers' Pension Scheme

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

Pensions were increased by 3.3 per cent with effect from 9 April 2001 in line with increases in the cost of living.

Changes to Premature Retirement Compensation payments

During the year, compensation payments to certain individuals were increased by 3.3 per cent in line with the increases in pensions.

Membership statistics

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

Please note that the figures for Active Members are for year ending March 2001. The figures for Pensions in payment are for year ending March 2001. This is the latest data available.

Active Members

	Active members at the start of the year	578,871
Add:	New entrants in the year	29,913
	Re-entrants in the year	18,069
	Transfers in	924
	Opted In	669
Less:	Premature Retirements	(3,148)
	Age and Infirmity Retirements	(9,864)
	Opted Out	(805)
	Transfers out	(35,809)
	Deaths	(618)
	Active members at the end of year	578,202

Deferred members

	Deferred members at the start of the year	323,494
Add:	Exits with no benefits payable	37,031
	Optants out with service remaining in scheme	801
	Transfers in	116
Less:	Deaths	(131)
	Return of Contributions	(1,114)
	Re-entry to service	(17,127)
	Transfers out	(2,098)
	Awards out of service	(3,529)
	Deferred members at the end of the year	337,443

Pensions in payment

	Pensions at the start of the year—Members	386,912
	—Dependants	29,072
		<u>415,984</u>
Add:	Members retiring in the year	
	—Age\Premature Pensions	9,326
	—Infirmity Pensions	3,378
		<u>12,704</u>
	New dependants	2,464
		<u>15,168</u>
Less:	Cessations in Year—Members	
	—Age\Premature Pensions	(7,118)
	—Infirmity Pensions	(1,040)
		<u>(8,158)</u>
	Cessations in Year—Dependants	(57)
		<u>(8,215)</u>
	Pensioners at the end of year—Members	391,458
	—Dependants	31,479
		<u>422,937</u>

Further information

Any enquiries about Teachers' Pension Scheme England and Wales should be addressed to:-

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

Any enquiries about Premature Retirement Compensation Scheme should be addressed to:-

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

David Normington
 Accounting Officer

29 November 2002

Report of the Actuary for Accounting Year ended 31 March 2002

A. Liabilities

The capitalised value as at 31 March 2002 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 2002, has been assessed using the methodology and assumptions set out in Sections C and D below. The results are as follows:

Value of Liabilities	£ billion
Pensions in Payment	51.0
Deferred Pensions	14.0
Active Members (Past Service)	40.0
Total	<u>105.0</u>

B. Accruing Costs

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the employer meeting the balance of the cost. The cost of benefits accruing in the year 2001/2002 has been assessed as follows:

	% of Pensionable Pay
Standard Contribution Rate	18.9%
Members' Contribution Rate	<u>6.0%</u>
Employer's share of standard cost	<u>12.9%</u>
Actual rate charged to Employers for current year	7.4%

In relation to the pensionable payroll for the financial year, the actual charges made to employers in cash terms are assessed as £1.20 billion for the financial year 2001/2002. The actual rate charged of 7.4% is less than the standard cost of 12.9% because it excludes the cost of pensions increases. However, the actual rate charged does include two additional contributions. The first is a supplementary charge of 0.4% as specified by the Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000, in order to eliminate a (notional) deficiency in the Scheme based on the experience of the Scheme in relation to previous charges. The second is an increase of 0.2% in respect of benefit improvements which came into effect from 1 April 2000.

C. Methodology

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 standard contribution rate for accruing costs has been determined using the new entrant method.

D. Assumptions

The principal financial assumptions adopted for the pension assessments made in relation to this statement are an investment return in excess of price increases of 3½% p.a. (most pension benefits under the scheme are increased in line with prices), and an investment return in excess of earnings increases of 2% p.a. The demographic assumptions adopted for the assessments are derived from the specific experience of the membership of the scheme.

E. Notes

(1) Section A of this Statement is based on the results of a full actuarial valuation carried out as at 31 March 1996 with an approximate updating for subsequent financial years to reflect known changes. The cost of benefits accruing in the year 2001/2002, shown in Section B, is also based on the results of the valuation as at 31 March 1996, as is the actual contribution rate in force.

(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, pension payments already being made in respect of such cases are included in this statement of liabilities in Section A above.

D G Ballantine, F F A
Directing Actuary
London

11 July 2002

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, the Accounting Officer is required to prepare a combined financial statement for pension and compensation in the form and on the basis determined by HM Treasury.

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 show a true and fair view of the financial transactions of the combined scheme during the year and the disposition, at the end of the financial year, of the combined net liabilities. Note 3, "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 outgoings for the year nor on the combined net liabilities at the year end.

In preparing these financial statements, the Accounting Officer is required to satisfy himself that:

- suitable accounting policies have been selected and applied consistently;
- the combined financial statement has been prepared on the going-concern basis, unless it is inappropriate to presume that either of the schemes will continue in operation,
- reasonable and prudent judgements and estimates have been made;
- applicable accounting standards have been followed, in accordance with the guidelines set out by HM Treasury, subject to any material departures disclosed in the financial statements.

Statement on Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Teachers' Pensions scheme's [see footnote] policies, aims and objectives, set by Ministers, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage rather than eliminate the 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 the principal risks to the achievement of Teachers' Pensions scheme's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2002 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

The Department has contracted out the administration of the Teachers' Pensions scheme. The Teachers' Pensions scheme contract is managed by the Department and operated within the Department's internal control framework. As Accounting Officer, I have overall responsibility for ensuring that the contractor is managing risks effectively and for reviewing the effectiveness of the contractor's systems of internal control. The Department has established the following processes:

- a management board which meets every month to consider plans and the strategic direction of the Department (the Board consists of senior managers in the Department and two non-executive members);
- periodic reports from the chairman of the Audit Committee, to the board, concerning internal control;
- regular reports by internal audit, to standards defined in the Government Internal Audit Manual, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's systems of internal control together with recommendations for improvement;
- arranged a regular programme of risk awareness training;
- developed and maintained an organisation-wide register of generic risk and embedded the management of business risk at Divisional level;
- arranged facilitated workshops to identify and manage the major risks facing the organisation;
- embedded project management methodology including risk management and developed risk management guidance for general application across the Department;
- developed a framework for all the Department's Directorates to provide assurance on the internal financial operation.

In the coming year the Department plans to:

- further embed risk identification and management into the corporate planning process;
- further enhance the risk framework for the Department including setting up a forum chaired by the Director General for Finance and Analytical Services looking at the significant risks

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Teachers' Pensions contract management team who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Footnote

The Teacher's Pension scheme is an unfunded contributory pension scheme for teachers in England and Wales. The scheme is managed by the Department, however, the Department has contracted with Capita business services to undertake the administration of the Scheme under the name of 'Teachers' Pensions'.

David Normington
Accounting Officer

29 November 2002

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 13 to 24 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the accounting policies set out on pages 17 to 19.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 8, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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 report whether the contributions payable to the Scheme have, in all material respects been paid in accordance with the Scheme rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Scheme Managers is not consistent with the financial statements, if the Department has not kept proper accounting records for the Scheme, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the report of the Scheme Managers, 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.

I review whether the statement on pages 9 and 10 reflects the Department's compliance with Treasury's guidance "Corporate Governance: Statement on Internal Control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from expenditure in excess of amounts authorised

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Scheme for the year ending 31 March 2002, the net outgoings, cash requirement and cash flows for the year and the amount and disposition at that date of its assets and liabilities other than liabilities to pay pensions after the end of the Scheme year, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and

- except for resource expenditure of £15.2 million in excess of the amount authorised, referred to in paragraphs 5 to 9 of my report, 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.
- the contributions payable to the Scheme during the year ended 31st March 2002 have, in all material respects, been paid in accordance with the Scheme rules and the recommendations of the actuary.

Details of these matters are set out in my report.

John Bourn
Comptroller and Auditor General

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

Date 13th January 2003

SCHEDULE 1

Summary of Resource Outturn
2001-02

	Estimate		2000-01				Net total outturn compared to Estimate saving/ (excess)	Prior-year outturn
	Gross expenditure 1	A in A 2	Net Total 3	Gross Expenditure 4	A in A 5	Net Total 6		
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resource	3,950,023	2,250,022	1,700,001	3,965,209	2,250,022	1,715,187	(15,186)	1,642,983
Net Cash Requirement			1,700,001			1,617,631	82,370	1,642,437

Reconciliation of Resources to Cash Requirement

	Note	£000	£000	£000	£000	
Net total resources			1,700,001	1,715,187	(15,186)	1,642,983
Less non operating A in A						
Movements in working capital other than cash	20			(87,862)	87,862	(546)
Movements in provisions			-	(9,694)	9,694	-
Net Cash Requirement			1,700,001	1,617,631	82,370	1,642,437

Explanation for excess vote

The above figures show a net resource out-turn which is £15,186,000 (0.89%) in excess of the amount provided for as request for resource 1 in the Scheme's Supply Estimate authorised by Parliament. The main cause of the excess was a correction of an accounting estimate and a change in accounting policy for Premature Retirement Compensation, both made after the year-end. Neither of these adjustments were considered material in the context of the Operating Cost Statement or Balance Sheet, but increased expenditure to a level above that approved by Parliament.

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid the following relates to the Pension Scheme and is payable to the Consolidated Fund. Cash receipts are shown in italics

	2001-02 Forecast		2001-02 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Excess Appropriations in Aid	50,000	50,000	74,341	<i>69,131</i>
Other CFERs			172	<i>168</i>
	50,000	50,000	74,513	<i>69,299</i>

Actual outturn – resources:

Request for resources 1: Actual amount net resources outturn £1,715,187,567.51. Actual of excess in resources over Estimate £15,186,567.51.

Actual outturn – cash:

Net cash requirement: Outturn net requirement £1,617,631,325.60 which is £82,369,674.40 less than Estimate.

SCHEDULE 2

Revenue Account

for the year ended 31 March 2002

	Notes	<u>2001-02</u> £000	<u>2000-01</u> £000 (Restated)
Contributions and Benefits			
Contributions receivable	4	(2,219,265)	(2,011,104)
Transfers in	5	(86,134)	(116,724)
Other Income	6	(19,136)	(15,178)
		<u>(2,324,535)</u>	<u>(2,143,006)</u>
Benefits Payable	7	3,809,096	3,579,237
Leavers	8	134,412	118,869
Other Expenditure	9	21,701	17,837
		<u>3,965,209</u>	<u>3,715,943</u>
Net Outgoing for the year		<u>1,640,674</u>	<u>1,572,937</u>
Non Vote Revenues payable to the Consolidated Fund	17	74,513	56,714
Net Resource Outturn		<u>1,715,187</u>	<u>1,629,651</u>

SCHEDULE 3

Balance Sheet
as at 31 March 2002

	Notes	2001–02	2000–01
		£000	£000 (Restated)
Debtors			
Contributions due in respect of pensions	14	111,920	109,140
Other debtors		3,528	4,827
Consolidated Fund Debtors		–	64,026
		115,448	177,993
Cash		102,577	30,104
		218,025	208,097
Creditors – amounts falling due within one year ^{16 & 17}		(341,142)	(217,740)
Net current liabilities		(123,117)	(9,643)
Provision for Compensation Payments where the scheme acts as a principal	18	(30,656)	(20,962)
Net Liabilities		(153,773)	(30,605)
Financed by:			
Revenue account			
Balance brought forward		(18,973)	(33,856)
Net outgoings during the year	11	(1,640,674)	(1,572,937)
Financing from the Consolidated Fund		1,671,937	1,641,841
Adjustment for Prior Year Accrual only			
Excess A-in-A		10,855	(8,939)
Consolidated fund creditor for cash unspent	15	(102,405)	
less: Income not appropriated in aid payable to the consolidated fund	20	(74,513)	
		(56,714)	
		1,505,874	1,576,188
Balance carried forward		(153,773)	(30,605)

David Normington
Accounting Officer
29 November 2002

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2002

	Notes	<u>2001-02</u> £000	<u>2000-01</u> £000 (Restated)
Net cash outflow from operating activities (Note a)		(1,617,631)	(1,573,356)
Payments of amounts due to the Consolidated Fund		(73,923)	(102,371)
Financing (Note b)		<u>1,764,026</u>	<u>1,632,965</u>
Increase/(decrease) in cash in the period		<u>72,472</u>	<u>(42,762)</u>
Note a: Reconciliation of net outgoings to operating cash flows			
Net outgoings for the year (Schedule 2)		1,640,674	1,572,937
Adjustment for movements in working capital other than cash	20	(13,349)	10,384
Movement in provision	19	<u>(9,694)</u>	<u>(9,965)</u>
Net cash outflow from operating activities		<u>1,617,631</u>	<u>1,573,356</u>
Note b: Analysis of financing, and reconciliation to the net cash requirement			
From the Consolidated Fund (Supply) – current year ¹		1,700,000	
From the Consolidated Fund (Supply) – prior year ²		<u>64,026</u>	<u>1,632,965</u>
Net financing		<u>1,764,026</u>	<u>1,632,965</u>
Increase (-)/decrease (+) in cash		<u>(72,472)</u>	<u>42,762</u>
Net cash flows other than financing		<u>1,691,554</u>	<u>1,675,727</u>
Adjustment for payments and receipts not related to supply:			
Amounts due to the Consolidated Fund, received in a prior year and paid over – excess appropriations in aid relating to prior year		(73,923)	(102,371)
CFER creditor retained			(17,209)
Amounts due to the Consolidated Fund, received but not paid over – excess appropriations in aid relating to current year			<u>73,923</u>
Net cash requirement (Schedule 1)		<u>1,617,631</u>	<u>1,630,070</u>

¹ Amount of grant actually issued to the department to support the net cash requirement = £1,700,000,000.00.

² Amount of grant actually issued to the department to support the prior year net cash requirement = £1,632,965,374.89 (2001-02 £64,026,090.82).

Notes to the Scheme Statement

1. The Teachers' Pension Scheme

1.1 The Teachers' Pension Scheme is an unfunded defined benefits scheme. A full actuarial valuation is required every five years. The Government's Actuary Department carried out its last full review as at 31 March 1996. The next revaluation, as at 31 March 2001, will be completed in January 2003. The actuarial report at pages 6 and 7, therefore includes an update since 1996 for known data movements.:

at 31 March 2002

Rate of increase in salaries	6.4%
Inflation assumptions	4.8%

1.2 Most pension benefits under the scheme are increased in line with inflation. In accordance with the *Resource Accounting Manual*, the scheme liability has been discounted at a real rate of 3.5 per cent (6.5 per cent nominal).

1.3 The present value of the scheme liabilities at 31 March 2002 is £105,000,000,000.

1.4 During the year ended 31 March 2002, contributions were 13.4 per cent of pensionable pay. From 1 April 2003 contributions will increase to the range of 13 – 14 per cent of pensionable pay, due to the inclusion of an additional contribution to cover the annual pensions increase.

2. Basis of preparation

2.1 The scheme statement has been prepared in accordance with the relevant provisions of the *Resource Accounting Manual* for 2001-02 issued by the Treasury, which in turn, are based on the recommendations of the Statement of Recommended Practice entitled *Financial Reports of Pension Schemes*.

2.2 The scheme statement summarises the transactions of the Teachers' Pensions Scheme where the Department for Education and Skills acts as principal. It does not take account of obligations to pay pensions that fall due after the end of the current year. The actuarial position of the pension scheme, which does take account of pension obligations, is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

2.3 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.

2.4 The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the combined scheme statements.

3. Accounting policies for the Teachers' Pension Scheme: principal arrangements

3.1 Pension contributions

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

3.1.2 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.

3.1.3 Employees' pension contributions and amounts received in respect of the purchase of added years of service are accounted for on an accruals basis. Neither additional voluntary contributions (AVCs) nor payments to providers of stakeholder pensions are brought into account in this statement.

Notes to the Scheme Statement (*continued*)

3.2 Transfers

3.2.1 Transfers in and out are accounted for on an accruals basis where the scheme has formally accepted or transferred a liability in respect of a group transfer. Transfers in and out in respect of individual members are accounted for on a cash basis.

3.3 Other income

3.3.1 Amounts receivable from employers in respect of bringing forward the payment of accrued superannuation lump sums, and in respect of pension enhancement capitalised either at the time of an early departure or at normal retirement age are accounted for on an accruals basis.

3.3.2 The remaining elements of "other income", including repayments of gratuities and overpayments recovered other than by deduction from future benefits, are accounted for on an accruals basis.

3.4 Benefits payable

3.4.1 Pensions payable are accounted for on an accruals basis. Pensions are paid monthly in arrears throughout the month. The amount of pension arrears due at year end is estimated by apportioning some of the payments made during April to March. The estimate takes into account pension uprating payable from the first Monday on or after 6 April, and any movement in the number of pensions in payment during March and April.

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

3.5.1 Refunds of employees' contributions are accounted for on a cash basis. Refunds include amounts payable both at the time of leaving or at normal retirement age (or earlier death).

3.5.2 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 on a cash basis.

3.6 Accounting policies for Premature Retirement Compensation

3.6.1 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 (Schedule 2).

3.6.2 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.

3.7. Change of accounting policy for the Teachers' Pension Compensation Scheme and consequent prior year adjustment

3.7.1 In this year's accounts a new accounting treatment has been adopted for the transactions occurring in the scheme relating to premature retirement compensation. This change has been made in order to bring the disclosure in line with that recommended in the Resource Accounting Manual.

3.7.2 In the 2000/01 accounts all expenditure on compensation and all income from employers to fund compensation was included in the revenue account, with the exception of income for payments in future years, which was treated as deferred income, and was being released over the remaining time period in which the payments were being made. This treatment has now been changed, with the new treatment depending on the way in which the transactions are funded.

Notes to the Scheme Statement (continued)

3.7.3 The Teachers' Pension Scheme acts as the agent for some employers in paying premature retirement compensation. Employers pay the scheme and they pass the money on to members (this method of funding is known as 'Pay-As-You-Go'). Where the Scheme acts merely as an agent the transactions should not be shown in the Scheme accounts. Therefore, the first change from 2000/01 is that in 2001/2 income and expenditure relating to 'Pay-As-You-Go' cases has not been shown in Schedule 2 (the revenue account). Any liability from employers in these cases would be reflected in the balance sheet, but as it happens there is no liability.

3.7.4 However, employers also have the option of extinguishing their liability by paying in advance. In these cases the Scheme accepts responsibility as principal. Where the Scheme acts as principal, as soon as the Scheme becomes responsible for payments (i.e. once the employer has paid), the future amount to be paid is provided for, and the expenditure is recognised in the revenue account. The income received from the employer is also recognised in the revenue account. This treatment is also different from the treatment adopted in 2000/01.

3.7.5 As a result of the new accounting treatment for premature retirement it has been necessary to adjust prior year figures. Income and expenditure have been restated, a provision has been created and the deferred income has been removed from the comparative figures.

3.7.6 This change in treatment has not resulted in a material change to the financial results for neither 2001/2 nor 2000/01.

3.8 Adjustment to opening balances as a result of implementing resource-based Supply:

The opening balance of amounts due to the Consolidated Fund has been adjusted to bring it into line with the amount assessed as due at 31 March 2001 on the basis of the 2000-01 Appropriation Accounts rather than on the basis of what was recorded as due in the department's 2000-01 Resource Accounts. Whereas the latter reflected the accounting conventions adopted for resource-based Supply, this was for illustrative purposes, and the amount actually due was assessed on the basis of the former. This is a transitional adjustment because Resource-based Supply was implemented in 2001-02. Because the 2000-01 resource accounts followed the accounting conventions for resource-based Supply, comparative figures for 2000-01 have not been restated, the effect on the current and preceding years have not been disclosed, and the adjustment has not been included in the Statement of Recognised gains and Losses.

4. Pension contributions receivable

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Employers	1,207,778	1,085,978
Employees:		
Normal	993,836	909,348
Purchase of added years	17,651	15,778
	<u>2,219,265</u>	<u>2,011,104</u>

5. Pensions transfers-in

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Individual transfers in from other schemes	86,134	116,724
	<u>86,134</u>	<u>116,724</u>

Notes to the Scheme Statement (continued)**6. Other income**

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000 (Restated)
Contributions Equivalent Premiums	1,451	1,506
Recoveries of Payments In Lieu	7	7
Other income	172	736
Premature Retirement Compensation	17,506	12,929
	<u>19,136</u>	<u>15,178</u>

In the accounts for 2000-01, Premature Retirement Compensation (PRC) "Pay As You Go" income of £ 12,367,000 was included as Other income.

In the accounts for 2001-02 such receipts are recognised on the balance sheet because the Teachers' Scheme administrators act only as agent in paying teachers' compensation awards. Accordingly, the prior year balances above have been restated to exclude such income.

7. Pension benefits payable

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Pensions or Annuities to:		
Retired Employees	3,261,393	3,090,919
Dependants	104,828	97,677
Compensations or lump sum benefits:		
On retirement	409,782	366,419
On death	33,093	24,222
	<u>3,809,096</u>	<u>3,579,237</u>

8. Pension payments to and on account of leavers

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Refunds to members leaving service	1,333	1,260
Individual transfers to other schemes	133,079	117,609
	<u>134,412</u>	<u>118,869</u>

9. Other expenditure

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000 (Restated)
Contributions Equivalent Premiums	3,066	4,196
Other	300	186
Premature Retirement Compensation	18,335	13,455
	<u>21,701</u>	<u>17,837</u>

In the accounts for 2000-01, Premature Retirement Compensation (PRC) "Pay As You Go" expenditure of £ 13,332,000 was included as Other expenditure.

In the accounts for 2001-02 such expenditure is recognised on the balance sheet because the Teachers' Scheme administrators act only as agent in paying teachers' compensation awards. Accordingly, the prior year balances above have been restated to exclude such expenditure.

Notes to the Scheme Statement (*continued*)**10. Administrative fees and expenses**

All costs of administering the Teachers' Pensions Scheme and the Teachers' Pension Compensation Scheme are borne by the Department for Education and Skills (DfES).

11. Reconciliation of net outgoings for the year to control total and net resource outturn

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Net outgoings (Schedule 2)	1,640,674	1,572,937
Add: Income scored as Consolidated Fund Extra Receipts	74,513	56,714
Net resource outturn (Schedule 1)	<u>1,715,187</u>	<u>1,629,651</u>

12. Additional Voluntary Contributions

12.1 Teachers' Pensions 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 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 for payments made 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 to their account and the movements in the year.

12.2 The aggregate amounts of AVC investments are as follows.

The Prudential

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Movements in the year were as follows:		
Balance at 1 April	1,085,563	848,057
New investments	258,745	246,388
Sales of investments to provide pension benefits	(49,907)	(43,101)
Changes in market value of investments	(445)	34,219
Balance at 31 March	<u>1,293,956</u>	<u>1,085,563</u>

13. Contingent Liabilities

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.

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

Notes to the Scheme Statement *(continued)***14. Debtors: contributions due**

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Employers	61,336	58,680
Employees	50,584	50,460
	<u>111,920</u>	<u>109,140</u>

The 2001-02 debtors figure of £ 111,920,000 includes £ 74,341,000 which will be accounted for as excess appropriations in aid on receipt.

15. Cash at bank and in hand

The balance at 31st March comprises:	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Cash due to be paid to the Consolidated Fund:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	102,405	(26,610)
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	172	735
Excess A in A received due to be paid to the Consolidated Fund	0	55,979
	<u>102,577</u>	<u>30,104</u>

16. Creditors: amounts falling due within one year

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Payable to the Consolidated Fund	102,405	–
Other creditors	284	262
Due to Inland Revenue	31,631	24,946
Pensions payable	132,309	124,186
	<u>266,629</u>	<u>149,394</u>

17. Creditors: amounts falling due within one year for Consolidated Fund Extra Receipts and excess appropriations in aid

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Appropriations in aid realised (Schedule 2)	2,324,535	2,143,346
Less: appropriations in aid authorised (Schedule 1)	<u>2,250,022</u>	<u>2,075,000</u>
Income not appropriated in aid, payable to the Consolidated Fund	<u>74,513</u>	<u>68,346</u>

Notes to the Scheme Statement *(continued)***18. Provision for annual compensation payments**

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Balance at 1 April	20,962	10,997
Movement in Provision	11,662	11,292
Use of provision in year	(1,968)	(1,327)
Balance at 31 March	<u>30,656</u>	<u>20,962</u>

Employers have the option to make lump sum or actuarial payments in order to discharge their liabilities under the compensation scheme. Movement in the balance of the provision in respect of the amounts receivable for these liabilities are shown above.

19. Non-cash items

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Non-cash items	(11,662)	-
Movement in provision	1,968	(9,965)
Per Schedule 1	<u>(9,694)</u>	<u>(9,965)</u>

20. Movements in working capital, other than cash
(see Schedules 1 and 4)

	<u>2001-02</u>	<u>2000-01</u>
	£000	£000
Movement in debtors	1,481	7,242
Movement in creditors	(14,830)	3,142
Per Schedule 4	<u>(13,349)</u>	<u>10,384</u>
Less non-appropriations in aid balances	<u>(74,513)</u>	
Per schedule 1	<u>(87,862)</u>	<u></u>

21. 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 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.

22. Losses Statement

	<u>£000</u>
Total (5,064 cases)	609

Notes to the Scheme Statement (*continued*)**23. Other notes**

Included in this figure is a total of 568 Guaranteed Minimum Pension (GMP) overpayment cases totalling £107,780.44 which occurred as a result of the failure of National Insurance Contributions Office (NICO) to provide information to public service pension schemes about entitlement of the individual's pension and hence did not prevent the further updating (indexing) of the GMP entitlement by the scheme administrators.

The figure of £ 494,032.98 relating to overpayments resulted from a change in procedure regarding overpayments following the death of pensioners. Overpayments were automatically written off if there had been only one payment issued following the death of the pensioner; otherwise normal recovery action was taken. This procedure was adopted because it was believed that the majority of these payments were relatively small and were written off anyway. Chasing the overpayment appeared not to be cost effective and caused additional grief for the relatives at an already stressful time. The increase in the amount written off was however higher than anticipated and the procedure is to be reviewed in 2002-03.

24. Independent Audit Certification

Independently audited certificates are required to validate the contributions paid by Local Education Authorities and other employers. By the date the 2000-01 accounts were published in January 2002, 36 out of 172 LEA employers had not submitted audited returns. In addition there were 566 audited returns from other employers still outstanding. As a result the Comptroller and Auditor General's true and fair view opinion on the accounts was limited in scope.

The department has taken the following action to ensure audited certificates are received by the 30 November 2002 deadline:

- A review of the certification and monitoring processes;
- Revised the audit process to minimise the burden upon employers without compromising the integrity of the audit;
- The Permanent Secretary wrote to all LEA Chief Executives to obtain a personal commitment that the returns would be completed on time;
- The Permanent Secretary wrote to the Audit Commission to ask for their assistance in adhering to audit timetable;
- Has actively monitored the submission of returns, with the assistance of Audit Commission, Teachers' Pensions and employer representatives.

At the date the accounts were signed there were 10 audited returns, covering £118 million of contributions received, still outstanding from LEA employers. In addition there were 438 audited returns, covering £137 million of contributions received, outstanding from other employers. This represents 11% of the pension contributions receivable included in the revenue account. The Department is actively chasing up all outstanding returns, and by the end of December we expect to receive a significant number of the remaining outstanding audited returns.

Report by the Comptroller and Auditor General to the House of Commons

Introduction

1. The Teachers' Pension Scheme (England and Wales) was established under the Superannuation Act 1972 to provide post retirement benefits for members of the teaching profession and other eligible educational workers. It is an unfunded, contributory, public service occupational pension scheme governed by statutory regulations under the Act. The current principal regulations are the Teachers' Pensions Regulations 1997. The Scheme is managed by the Department for Education and Skills. Active members contribute 6 per cent of their pensionable salary to the scheme. Members' employers make a further contribution. During 2001-02 this was 7.4 per cent of pensionable salary. Members' contributions are deducted from their salaries and employers must submit these deductions, along with their own contributions, within 7 days of the end of each month.

Excess Vote

Background

2. As a result of the introduction of resource-based Supply, Parliament now authorises departmental expenditure on two bases. It authorises:

- 'Requests for Resource', which are limits on current expenditure expressed in accrual terms (when expenditure is incurred rather than when payment is made); and
- The 'Net Cash Requirement', which is the overall limit on cash made available from the Consolidated Fund to meet all the department's cash needs, current and capital.

3. Income that departments may 'appropriate in aid' to finance additional expenditure is also limited by Parliament. This limit is in terms of the income receivable rather than the cash received. When cash associated with such income is received it is used to offset the department's Net Cash Requirement. 'Appropriations in aid' are divided into two categories, with separate limits. 'Operating' appropriations in aid is income derived from operating activities, available to be applied towards operating costs. 'Non-operating' appropriation in aid is income typically from the disposal of assets and recovery of loan capital, available for meeting capital expenditure.

4. As a consequence, departments that exceed either their resource or cash limits need to seek parliamentary authority for the excess expenditure through an 'Excess Vote'. Where income in excess of the amounts authorised to be appropriated in aid is available, such surpluses – and associated cash – may be applied with the approval of Parliament towards meeting an excess.

Excess

5. Schedule 1 to the Account shows that resource expenditure exceeded by £15.2 million (0.89 per cent), the amount provided for Request for Resource 1 in the Department's supply estimate for 2001-02, as amended by Supplementary Estimate HC 636. The outturn on the net cash requirement of £1,617,631,000 is, however, within the limit of £1,700,001,000 set for the Scheme.

6. Schedule 1 also shows, in the analysis of income payable to the consolidated fund, that there was an excess of operating income of classes authorised to be used as appropriations in aid of £74.5 million.

7. It is proposed to ask Parliament to authorise £15,186,567.51 of the surplus income to be appropriated in aid of the excess expenditure on request for resource 1, and to authorise the additional use of resources of a token sum of £1,000.

8. The main cause of the excess was a correction of an accounting estimate and a change in accounting policy for Premature Retirement Compensation. Neither of these adjustments were considered material in the context of the Operating Cost statement or Balance Sheet, but increased expenditure to a level above that approved by Parliament. As this new accounting policy was identified after the year end it was not possible for the Department to apply to increase the request for resources via a supplementary estimate.

9. The Department propose to avoid similar problems in the future by agreeing accounting policies at an early stage in the financial year and improving the monitoring and control of Teachers' Pensions in year expenditure especially in regards to refining the assumptions used to estimate the end-year outturn expenditure.

Completeness of Contributions Income, and Auditor's Statement on Contributions

10. For the 2000-2001 financial year I qualified my audit opinion on the Scheme's financial statements because:

- The Managers of the Scheme were unable to provide me with sufficient evidence at the time of my audit as to the completeness and accuracy of contributions received from employers; and
- Because of this lack of evidence, I was unable to reach an opinion that the contributions payable to the Scheme had been received in accordance with the Scheme rules and the recommendations of the actuary.

11. For the financial year 2001-02 the scheme disbursed some £3.807 billion in retirement and other benefits and received contributions of £2.219 billion. Over the past 12 months the scheme managers have worked hard to ensure that sufficient evidence was available to me to support the completeness and accuracy of contributions received from employers and, as a result of this additional evidence, I have been able to conclude that contributions payable to the scheme have, in all material respects, been received in accordance with the scheme rules and the recommendations of the actuary. My audit opinion is therefore unqualified in this respect. This report sets out my findings in more detail.

Verification of Contributions receivable by the Scheme

12. In order to verify the contributions paid to the Scheme employers are required to provide an annual return to the Managers of the Teachers' Pension Scheme. The annual "contributions return" is to be submitted by 31st October following the 31st March year end. This return, which is audited by the employer's statutory auditor, verifies that the contributions made in the previous year are correct. The information is used by the Scheme Managers to ensure that employers have properly remitted all contributions due.

13. As outlined in note 24 to the Resource Account, over the past year the Scheme's Managers have implemented a number of actions designed to improve and speed up the system for gaining assurance that employers have properly remitted all contributions due. In particular the Scheme Managers have introduced a new administrative deadline of 31 October for receiving such assurances and have simplified the returns to remove non-essential information. They have worked with the Audit Commission (as the main statutory auditor of employers) to revise the audit process and actively monitored the submission of returns with the help of employers' representatives and the Audit Commission. This has enabled the great majority of employers to complete the annual return by the new administrative deadline of 31 October 2002. Such timeliness is key to the completion and audit of these accounts.

14. As a result, at the date of this report, of 172 local education authorities, 3 had not yet submitted an audited return for 2001-02, compared with 36 out of a total of 172 at a similar time last year, for 2000-01. In addition there remain some 83 audited returns (out of a total of 2306) from 'other employers' not yet received (compared with 566 out of 2292 last year). The missing returns cover some £15.7 million (0.9 per cent) of contributions received from local education authorities and £23.4 million (4.5 per cent) received from 'other employers'. This compares very favourably with the equivalent situation for the 2000-01 year which led to my qualified opinion on the accounts.

15. To assess the extent of uncertainty caused by the missing returns the Scheme Managers have also provided me with historical evidence relating to the amount of adjustments to contributions required as a result of audited returns received in previous years. These suggest that the net effect of such adjustments, which may require an increase or a decrease in the amount due, is of the order of 0.05 per cent of the total contributions remitted in the year. Applying that percentage to the amount of the missing returns indicates that the extent of any error that would be revealed by such returns is likely to be less than 0.1 per cent of the total income of the scheme.

16. My opinion on contributions income also includes my opinion on whether the contributions have, in all material respects been paid in accordance with the Scheme rules and the recommendations of the actuary. My audit assurance for this opinion has been satisfactorily obtained from the audited "contribution returns" received by 13 January 2003, together with other evidence provided to me by the Scheme Managers.

Conclusion

17. In the light of the significantly larger proportion of audited contributions returns available at the time of my audit, compared with those available for 2000-01, and in light of the analysis provided by the Scheme Managers showing the low level of adjustments required when audited returns are received, I am satisfied that, in all material respects, the contributions payable to the Scheme during 2001-02 have been received in accordance with the Scheme rules and the recommendations of the actuary. I am also satisfied that the view provided by the accounts is true and fair, and my audit opinion is framed accordingly.

John Bourn

**Comptroller and Auditor General
13 January 2003**

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