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

Teachers' Pension Scheme (England & Wales)

Resource Accounts 2003-04

LONDON: The Stationery Office
HC 228

27 January 2005
£8.00

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(For the year ended 31 March 2004)

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Contents

TEACHERS' PENSION SCHEME: ENGLAND AND WALES

REPORT OF THE MANAGERS

Accounts for the year ended 31st March 2004.

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 (contact)

Richard Symms
DfES
Mowden Hall
Staindrop Road
DARLINGTON
DL3 9BG

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 Advisers
Caxton House
London

AUDITORS

Comptroller and Auditor General
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

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 1.7% with effect from 8 April 2003 in line with increases in the cost of living.

From April 2003 the employers' contribution rate increased from 8.35% to 13.5%.

CHANGES TO THE PRC SCHEME

During the year, compensation payments to certain individuals were increased by 1.7% in line with the increases in pensions.

ADDITIONAL VOLUNTARY CONTRIBUTIONS AND STAKEHOLDER PENSIONS

The Teachers' Pension Scheme England and Wales permits members to take additional free-standing voluntary contributions but does not offer 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

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 2003. The figures for Pensions in payment are for year ending March 2004. This is the latest membership data available.

A Active Members

	Active members brought forward from 31 March 02	592,593
	Adjustments due to data received post-31 March 02	(41,093)
	Total Active members at 1 April 2002	**551,500**
Add:	New entrants in the year	35,333
	Re-Entrants in the year	18,556
	Transfers in	1,405
	Opted In	1,064
Less:	Premature Retirements	(2,362)
	Age and Infirmity Retirements	(7,378)
	Actuarially Reduced Benefits	(2,759)
	Opted Out	(837)
	Other exits (including Transfers out)	(60,450)
	Deaths	(515)
	Active members at 31 March 2003	**533,557**

B Deferred members

	Deferred members brought forward from 31 March 03	344,356
	Adjustments due to data received post 31 March 03	(6,462)
	Total Deferred members at 1 April 2003	**337,894**
Add:	Exits with no benefits payable	59,171
	Optants out with service remaining in scheme	857
	Transfers in	-
Less:	Deaths	(202)
	Return of Contributions	(19,443)
	Re-entry to service	(15,659)
	Transfers out	(10)
	Awards out of service	(3,528)
	Deferred members at 31 March 2004	**359,080**

C Pensioners in Payment

	Members	Dependants	Total
Pensioners at the start of the year – brought forward from 31 March 2003	405,470	39,208	444,678
Adjustments due to data received post 31 March 03	1,101	28	1,129
Total Pensioners in payment at 1 April 2003	406,571	39,236	**445,807**
Add:			
Members retiring in the year			
- Age\Premature Pensions	11,149		11,149
- Infirmity Pensions	2,279		2,279
- Actuarially Reduced Benefits	4,187		4,187
New dependants		3,231	3,231
Less Cessations in Year:			
- Age\Premature Pensions	(8,391)		(8,391)
- Infirmity Pensions	(1,499)		(1,499)
- Actuarially Reduced Benefits	(23)		(23)
Dependants		(1,313)	(1,313)
Pensioners in payment at 31 March 2004	414,273	41,154	**455,427**

Further information

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

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

Any enquiries about the PRC Scheme should be addressed to:-

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

David Normington
Accounting Officer

Date: 30 November 2004

Teachers' Pension Scheme (England & Wales)
Accounting Year ended 31 March 2004
Report of the Actuary

(Note by the Government Actuary's Department)

Liabilities

A. The capitalised value as at 31 March 2004 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 2004, has been assessed using the methodology and assumptions set out in Sections C and D below. Table 1 summarises the results.

Table 1: Past service liabilities

Value of liability in respect of	**£ billion**
Pensions in payment	51
Deferred pensions	8½
Active members (past service)	53½
Total	**113**

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 2003/04.

Table 2: Contribution rate

Contribution rate	**Percentage of pensionable pay**
Standard contribution rate	19.5%
Members' contribution rate	6.0%
Employer's share of standard cost	13.5%
Actual rate charged to employers	13.5%

In relation to the pensionable payroll for the financial year, the actual charges made to employers in cash terms are assessed as £2.46 billion for the financial year 2003/04.

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 standard contribution rate for accruing costs (of 19.5%) has been determined using the new entrant method. The standard contribution rate using the projected unit method is estimated to be 20.0%, and this has been used in calculating the current service cost shown in Table 5.

Assumptions

D. The principal financial assumptions adopted for the pension assessments in this statement are a rate of return in excess of price increases of 3½% p.a. (most pension benefits under the scheme are increased in line with prices), and a rate of 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 scheme membership.

Notes

E. (1) Section A of this Statement is based on the results of a full actuarial valuation carried out as at 31 March 2001 with an approximate updating for subsequent financial years to reflect known changes. The cost of benefits accruing in the year 2003/04, shown in Section B, is also based on the results of the valuation as at 31 March 2001.

(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 future 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 21 October 2004
Chief Actuary
Government Actuary's Department

Teachers' Pension Scheme (England & Wales)
Resource Accounting (FRS17-based)

Year ending 31 March 2004

Table 3: Financial assumptions

Assumption	31 March 2004	31 March 2003
Rate of return (discount rate)	7%	7%
Rate of return in excess of:		
Earnings increases	2%	2%
Pension increases	3½%	3½%
Expected return on assets:	n/a	n/a

Table 4: Balance Sheet Disclosures

		£ billion
	31 March 2004	31 March 2003
Total market value of assets	nil	nil
Value of liabilities	113	108
Surplus (deficit)	(113)	(108)
of which recoverable by employers	n/a	n/a

Table 5: Profit & Loss Disclosures

	£ billion Year ending 31 March 2004
Analysis of amount charged to Operating Profit	
Current service cost	3½
Past service cost	-
Unrecognised past surplus	-
Total operating charge	3½
Analysis of the amount credited to other finance income	
Expected return on pension scheme assets	-
Interest on pension scheme liabilities (@6%)	6½
Net return	– 6½
Analysis of amount recognised in STRGL	
Actual return less expected return on pension scheme assets	-
Experience gains and losses arising on the scheme liabilities	½
Changes in assumptions underlying the present value of liabilities	-
Actuarial gain in pension scheme	½
Prior period adjustment	-
Actuarial gain recognised in STRGL	½
Movement in surplus during the year	
Surplus at beginning of year	– 108
Current service cost	– 3½
Reduction in liabilities in respect of benefits paid during the Year	4½
Past service costs	-
Other finance income	– 6½
Actuarial gain	½
Surplus at end of year	– 113

Government Actuary's Department **21 October 2004**

THE TEACHERS' PENSION SCHEME: ENGLAND AND WALES 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. The "Accounting policies" notes 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 statements have 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.

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 for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

THE TEACHERS’ PENSION SCHEME: ENGLAND AND WALES STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Teachers’ Pensions scheme’s [see footnote] policies, aims and objectives, set by the Department's 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 Board includes two non-executive members and regularly meets to discuss all strategic policy and management issues. This includes providing direction on major operational issues, reviewing performance and ensuring that the Department is working economically, efficiently and effectively. The Board regularly reviews key high level risks and ensures they are effectively managed. Every quarter I discuss the key Departmental risks with the Secretary of State.

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, 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’ Pensions scheme for the year ended 31 March 2004 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.

Capacity to handle risk

The Board, recognises the importance of leadership to create an environment where risk management is effective. Collectively we have developed and communicated the Department’s risk management policy statement including risk appetite.

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 fully updated and publicised to all staff.

The risk control framework

The Department’s approach is to assign risks to those best placed to manage them. Therefore individual managers (risk owners) are responsible 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 risk management process is built into the Department’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’s risk appetite varies depending on the perceived importance of particular risks. Managers, with support at senior level, are expected to decide upon their appropriate risk tolerance in relation to their business objectives.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the managers within the 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Audit Committee supports the Accounting Officer by offering objective advice on issues concerning the strategic risk, control and governance of the organisation. The Audit Committee is chaired by a non-executive director and all the Board, except the Accounting Officer, are members. A separate Risk Committee, chaired by a Director General, identifies key business risks for the Department and provides assurance to the Board and the Accounting Officer on Departmental risk management, alongside assurances provided by the Audit Committee with regard to strategic risk handling. The Department's internal auditors undertake an annual work programme to review risk control and governance, culminating in the 'Annual Assurance Report to the Accounting Officer' produced by the Head of Internal Audit (HIA).

The implementation of the new accounting standard FRS 17 and the change in the Treasury discount rate used in the calculation of the provision, from 6% to 3.5%, were not fully reflected in the 2003-04 Teachers' Pension Scheme Supply Estimate. This led to an overspend in the resources consumed. Also, the cash requirement to fund the Teachers' Pension Scheme was underestimated, as excess receipts generated from the 2002-03 financial year were needed to fund a payment due to the Consolidated Fund. Measures have been implemented to improve future Estimate modelling and the effectiveness of the processes are being kept under constant review.

David Normington Date: 30 November 2004
Accounting Officer

Footnote

The Teachers' 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'.

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

I certify that I have audited the financial statements on pages 15 to 32 under the Government Resources and Accounts Act 2000. The financial statements have been prepared under the accounting policies set out on pages 20 to 22.

Respective responsibilities of the Accounting Officer and auditor

As described on page 10, 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 transactions. The Accounting Officer is also responsible for the preparation of the contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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 Accounts, 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 11 and 12 reflects the Department's compliance with Treasury's guidance on the 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. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

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 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 2004, the net outgoings, recognised gains and losses, and 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;

- as explained more fully in the attached report, Parliament authorised a Request for Resources and a net cash requirement for the Scheme in the Appropriation Acts 2003 and 2004. Net resources of £17,293.2 million were authorised for the Request for Resources and £854.0 million authorised for the Net Cash Requirement. Against these authorised limits, the department incurred net resource expenditure of £17,400.0 million and an actual Net Cash Requirement of £921.6 million as shown in Schedule 1 to the Resource Accounts for 2003-04, and have thus exceeded both authorised limits;

- except for net resource expenditure of £106.8 million in excess of the amount authorised for the Request for Resources and net cash expenditure of £67.6 million in excess of the authorised Net Cash Requirement, referred to in paragraphs 10 to 12 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; and

- the contributions payable to the Scheme during the year ended 31 March 2004 have, in all material respects, been paid in accordance with the Scheme rules and the recommendations of the Actuary.

My report on these financial statements is at pages 33 to 36.

John Bourn
Comptroller and Auditor General

9 December 2004

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

Schedule 1

Summary of Resource Outturn 2003-04 (£000s)

	2003-04							2002-03
	Estimate			Outturn				
	Gross Expenditure	A in A	NET TOTAL	Gross Expenditure	A in A	NET TOTAL	Net total outturn compared to estimate: saving/ (excess)	Prior-year outturn
Request for Resources								
Teachers' Pensions	10,214,555	3,722,990	6,491,565	10,335,021	3,722,990	6,612,031	(120,466)	1,704,938
Non-budget	10,801,650		10,801,650	10,788,005		10,788,005	13,645	
Total Resources	21,016,205	3,722,990	17,293,215	21,123,026	3,722,990	17,400,036	(106,821)	1,704,938
Net Cash Requirement			854,016			921,613	(67,597)	1,738,111

Summary of income payable to the Consolidated Fund (£000s)

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

	Forecast 2003-04		Outturn 2003-04	
	Income	**Receipts**	**Income**	**Receipts**
Operating income and receipts – excess A in A	-	-	37,324	*128,175*
Other CFERs	-	-	148	*146*
Total	-	-	37,472	*128,321*

Reconciliation of resource to cash requirements (£000s)

	Note	Estimate	Outturn	Net Total outturn compared with estimate: saving/ (excess)	Prior Year Outturn (Restated)
Net Total Resources		**17,293,215**	**17,400,036**	**(106,821)**	**1,704,938**
Capital		-	-	-	-
Investments		-	-	-	-
Non operating A in A		-	-	-	-
Non cash items	24	(10,214,555)	(10,330,457)	115,902	(9,778,558)
Changes in working capital other than cash	25	90,270	225,521	(135,251)	42,999
Use of provisions	21.6 & 21.7	4,486,736	4,414,518	72,218	4,189,716
Prior year adjustment	12	(10,801,650)	(10,788,005)	(13,645)	5,579,016
Net cash requirement (Schedule 4)		**854,016**	**921,613**	**(67,597)**	**1,738,111**

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

Expenditure exceeds the net resource budget by £106,821,000 (0.6% of the budget) and the gross budget by £120,466,000. There are three contributory factors to the excess vote: two reasons relate to the application of FRS 17 accounting for pension liabilities, and a third relates to the change in the interest rate:

1) The increased pension liability in respect of £82.4 million transfers in to the pension scheme had not been included in the budget for the increase in the pension provision in the Supply Estimate.

2) The service cost budget in the Supply Estimate was £25 million (0.7%) lower than the outturn in the Accounts.

3) The PRC provision has been revalued due to the change in HM Treasury's interest rate from 6% to 3.5%. The additional £13 million expenditure required to increase the PRC provision was not included in the Supply Estimate expenditure budget.

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

There is a 7.9% variance between the Net Cash Requirement estimate and actual outturn which was caused by counting a payment that was due to the Consolidated Fund, carried over from the previous year, as £128 million of cash available. In meeting this liability in addition to its normal in-year costs, the Department incurred a cash excess of £68 million.

Prior-period adjustments:

The adoption of FRS17 in 2003-04 has resulted in a change of accounting policy. For the purposes of Estimates, the request for resources included a figure of £10.8 billion being the sum of the increase in the pension liability for 2001-02 and 2002-03. The outturn was £10,788,005,346.81.

Schedule 2 Revenue Account

for the year ended 31 March 2004 (£000s)

	Note	2003-04	2002-03 (Restated)
Income			
Contributions receivable	5	(3,669,991)	(2,525,837)
Transfers in	6	(82,396)	(89,249)
Other Income	7	(8,075)	(13,299)
		(3,760,462)	(2,628,385)
Outgoings			
Pension Cost	8	3,763,733	3,514,141
Transfers in	9	82,396	89,249
Interest on Scheme Liabilities	10	6,463,047	6,162,496
Compensation Benefits Payable	11	25,845	18,068
		10,335,021	9,783,954
Net outgoing for the year		**6,574,559**	**7,155,569**
Net resource outturn	12	**17,400,036**	**1,704,938**

Statement of Recognised Gains and Losses

	Note	2003-04	2002-03 (Restated)
Actuarial (gain)/loss	21.8	(897,929)	(579,016)
Total recognised (gains) and losses for the financial year		(897,929)	(579,016)
Prior year adjustment (Schedule 3)		103,000,000	-
Total (gains) and losses recognised since last annual report		**102,102,071**	**(579,016)**

Schedule 3 Balance Sheet

as at 31 March 2004 (£000s)

	Note		2003-04		2002-03 (Restated)
Debtors					
Cash at Bank	18		23,580		6,678
Contributions due in respect of pensions	16.1		288,319		143,015
Other debtors	16.2		5,033		7,252
Consolidated Fund debtors	17		37,144		90,026
			354,076		**246,971**
Creditors – amounts falling due within one year					
Pensions and other creditors	19		(181,868)		(173,455)
Consolidated Fund – excess appropriations in aid	20		(165,651)		(230,302)
			(347,519)		(403,757)
Net current liabilities			**6,557**		**(156,786)**
Provision for Compensation payments where the scheme acts as a principal	22		(58,491)		(40,482)
Pension Provision	21.5		(113,000,000)		(108,000,000)
Net Liabilities			**(113,051,934)**		**(108,197,268)**
Financed by:					
Revenue account					
Balance brought forward			(108,197,268)		(153,773)
Prior Year Adjustment (SRGL)					(103,000,000)
Net outgoings during the year (Schedule 2)			(6,574,559)		(7,155,569)
Actuarial gain/(loss) (SRGL)	21.8		897,929		579,016
Funding from the Consolidated Fund (Schedule 4)			816,872		1,648,085
Consolidated Fund debtor	17	37,144		90,026	
Transitional adjustment		-		20,036	
Less: adjustment for income received due to Consolidated Fund		-		(96,704)	
Consolidated Fund Adjustment		5,420			
less: Income not appropriated in aid payable to the Consolidated Fund	20	(37,472)		(128,385)	
			5,092		(115,027)
Balance carried forward			**(113,051,934)**		**(108,197,268)**

David Normington
Accounting Officer

Date: 30 November 2004

Schedule 4

Cash Flow Statement

for the year ended 31 March 2004 (£000s)

	Note	2003-04	2002-03 (Restated)
Net cash outflow from operating activities (Note a)		(793,292)	(1,592,317)
Receipts due to Consolidated Fund			
Payments of amounts due to the Consolidated Fund		(96,704)	(69,299)
Financing (Note b)	17	906,898	1,565,717
Increase/(decrease) in cash in the period		**16,902**	**(95,899)**

Notes

a See the table below giving a reconciliation of net outgoings to operating cash flows.

b See the table below giving an analysis of financing, and reconciliation to net cash requirement.

Reconciliation of net outgoings to operating cash flows

	Note	2003-04	2002-03
Net outgoings for the year (Schedule 2)		6,574,559	7,155,569
Non cash items	24	(10,330,457)	(9,778,558)
Adjustment for movements in working capital other than cash	25	134,672	25,590
Use of provision – pension liability	21.6	4,235,451	4,011,186
Use of provision – transfers	21.7	179,067	178,530
Net cash outflow from operating activities		**793,292**	**1,592,317**

Analysis of financing, and reconciliation to the net cash requirement

	Note	2003-04	2002-03
From the Consolidated Fund (Supply) – current year[1]		816,872	1,565,717
From the Consolidated Fund (Supply) – prior year[2]		90,026	
Net financing	17	**906,898**	**1,565,717**
(Increase)/decrease in cash		(16,902)	95,899
Net cash flows other than financing		**889,996**	**1,661,616**
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		(96,704)	(69,299)
Amounts due to the Consolidated Fund, received but not paid over – excess appropriations in aid relating to current year (Schedule 1)		128,321	96,704
Transitional adjustment for working capital		-	49,090
Net cash requirement (Schedule 1)		**921,613**	**1,738,111**

[1] Amount of grant actually issued to the department to support the net cash requirement = £816,872,119.00 (2002-03: £1,565,716,614.00)

[2] Amount of grant actually issued to the department to support the prior year net cash requirement = £90,025,376.03 (2002-03 nil)

NOTES TO THE SCHEME STATEMENT

1. Basis of preparation

The scheme statement has been prepared in accordance with the relevant provisions of the *Resource Accounting Manual* for 2003-04 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*. The basis on which these scheme statements have been prepared represents a change of accounting policy the effects of which, in accordance with paragraph 96 of FRS 17 have been treated as prior year adjustment. Further details of the effect of the adoption of FRS 17 are given in note 23 below.

1.1 Teachers' Pension Scheme - principal arrangements

The scheme statement summarises the transactions of the Teachers' Pensions 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 costs, transfers in, and the interest on the scheme liability. 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.

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.

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.

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2. Accounting policies for the Teachers' Pension Scheme - principal arrangements

2.1 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

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 3.5 % real rate (i.e. 6% including inflation).

2.6 Past service costs

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 3.5% real rate (i.e 6% including inflation).

2.8 Other payments

Other payments are accounted for on an accruals basis.

2.9 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 3.5% real rate (i.e. 6% including inflation).

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

2.10 Pension benefits payable

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

2.11 Pension payments to those retiring at their normal retirement age

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

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

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

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

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

2.13 Lump sums payable on death in service

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

2.14 Actuarial gains/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 employing departments to the approved AVC providers.

3. Accounting arrangements for the Teachers' Pension Scheme – agency arrangements

3.1 Accounting policies for Premature Retirement Compensation

3.1.1 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).

3.1.2 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.

Schedule 1 – Summary of Resource Outturn

4. Details of actual outturn – resources and cash

4.1 Actual outturn – resources:

RfR 1 – Actual amount net resources outturn £6,612,031,011.16. Actual of excess in resources over estimate £120,466,011.16.

Non-budget: This represents the prior period adjustment. Actual outturn £10,788,005,346.81 which is £13,644,653.19 less than the budget in the Estimate.

4.2 Actual outturn – cash:

RfR 1 - Net cash requirement: Outturn net requirement £921,613,194.64 which is £67,597,194.64 more than estimate.

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

5. Pension contributions receivable

	2003-04	2002-03
	£000	£000
Employers	(2,506,296)	(1,447,375)
Employees:		
Normal	(1,147,603)	(1,060,698)
Purchase of added years	(16,092)	(17,764)
	(3,669,991)	**(2,525,837)**

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6. Pension transfers-in (see also note 9)

	2003-04	2002-03
	£000	£000
Individual transfers in from other schemes	(82,396)	(89,249)
	(82,396)	**(89,249)**

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7. Other pension income

	2003-04	2002-03
	£000	£000
Contributions Equivalent Premiums	(2,330)	(1,849)
Recoveries of Payments In Lieu	(8)	(7)
Other income	(148)	(210)
Premature Retirement Compensation	(5,589)	(11,233)
	(8,075)	**(13,299)**

8. Pension Cost

	Note	2003-04 £000	2002-03 (Restated) £000
Current service cost	24	3,763,733	3,514,141
		3,763,733	**3,514,141**

9. Pension transfers (see also note 6)

	Note	2003-04 £000	2002-03 £000
Individual transfers in from other schemes	24	82,396	89,249
		82,396	**89,249**

10. Interest charge

	Note	2003-04 £000	2002-03 (Restated) £000
Interest charge for the year	24	6,463,047	6,162,496
		6,463,047	**6,162,496**

11. Compensation benefits payable

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

	Note	2003-04 £000	2002-03 £000
On retirement			
Contributions Equivalent Premiums		3,580	4,216
Premature retirement compensation		19,939	11,684
Other		431	329
Unwinding of discount	22	1,895	1,839
		25,845	**18,068**

12. Reconciliation of net outgoings for the year and net resource outturn

	Note	2003-04 £000	2002-03 (Restated) £000
Net outgoings (Schedule 2)		6,574,559	7,155,569
Add: Income scored as Consolidated Fund Extra Receipts (Schedule 3)	20	37,472	128,385
Prior-year adjustment (Schedule 1)	23	10,788,005	(5,579,016)
Net resource outturn (Schedule 1)		**17,400,036**	**1,704,938**

13. 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).

14. Additional Voluntary Contributions

14.1 The 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, 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 to their account and the movements in the year.

14.2 The aggregate amounts of AVC investments are as follows:

The Prudential

	2003-04	2002-03
	£000	£000
Movements in the year were as follows:		
Balance at 1 April	1,470,557	1,293,956
New investments	231,115	251,255
Sales of investments to provide		
Pension benefits	(75,446)	(74,415)
Changes in market value of investments	239	(239)
Balance at 31 March	**1,626,465**	**1,470,557**

15. 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

16. Debtors

16.1 Contributions due in respect of pensions

	2003-04	2002-03
	£000	£000
Pension contributions from employers	198,161	82,683
Employees' contributions	90,158	60,332
	288,319	**143,015**

Included within these figures is £37,330,000 (2002-03: £128,179,000) that will be due to the Consolidated Fund once the debts are collected.

16.2 Other debtors

	2003-04	2002-03
	£000	£000
Other debtors	4,022	6,198
Recoverable compensation funding from employers (principal)	1,011	1,051
Recoverable compensation payments (agency)	-	3
	5,033	**7,252**

17. Debtors – Undrawn Supply:

	2003-04	2002-03
	£000	£000
Net Cash Requirement (schedule 1)	854,016	1,738,111
Parliamentary Funding		
Drawn down (schedule 4)	(906,898)	(1,565,717)
Deemed supply/ Consolidated Fund Creditor	90,026	(82,368)
Amounts due from the Consolidated Fund for supply, but undrawn	**37,144**	**90,026**

For 2003-04 the Net Cash Requirement figure used is that of the Estimate, due to an Excess Vote which breached the cash limits.

18. Cash at bank and in hand

	2003-04	2002-03
	£000	£000
The balance at 31st March comprises:		
Cash due to be paid to the Consolidated Fund:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	-
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	146	214
Excess A in A received due to be paid to the Consolidated Fund	23,434	6,464
	23,580	**6,678**

19. Creditors: amounts falling due within one year

	2003-04	2002-03
	£000	£000
Other creditors	(817)	(661)
Payable compensation payments (agency)	(562)	-
Due to Inland Revenue	(36,188)	(34,446)
Pensions payable	(144,301)	(138,348)
Creditors included in movement in working capital (Schedule 3)	**(181,868)**	**(173,455)**

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

	2003-04	2002-03
	£000	£000
Appropriations in aid realised (Schedule 2)	(3,760,462)	(2,628,385)
Less: appropriations in aid authorised (Schedule 1)	3,722,990	2,500,000
Income not appropriated in aid, payable to the Consolidated Fund	(37,472)	(128,385)
Receipt of prior year income not yet paid to Consolidated Fund	(128,179)	(96,704)
Consolidated Fund CFER creditor	-	(5,213)
	(165,651)	**(230,302)**

21. Provision for pension liability

21.1 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 2001. The actuarial report at pages 9 and 10, therefore includes an update since 2001 for known data movements. The main assumptions used by the actuary to the scheme were:

	At 31 March 2004	At 31 March 2003	At 31 March 2002
Rate of increase in salaries	4.9%	4.9%	6.4%
Rate of increase in pensions in Payment and deferred pensions	3.4%	3.4%	4.8%
Inflation assumptions	3.4%	3.4%	4.8%
Discount rate	3.5%	3.5%	3.5%

21.2 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.

21.3 Pension scheme liabilities accrue over employees' 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 far into the future. These 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 the pension becomes payable.

21.4 The value of the liability included 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 reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. 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 note 21.5 and 21.8. 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.

21.5 Analysis of movement in scheme liability

	Note	2003-04 £000	2002-03 (Restated) £000
Scheme liability at 1 April		(108,000,000)	(103,000,000)
Current service cost	8	(3,763,733)	(3,514,141)
Past service costs		-	-
Interest on pension scheme liability	10	(6,463,047)	(6,162,496)
		(10,226,780)	(9,676,637)
Income received in respect of enhancements		-	-
Pension transfers in	9	(82,396)	(89,249)
		(82,396)	(89,249)
Benefits paid		4,232,180	4,008,340
Pension payments to and on account of leavers	21.7	179,067	178,530
		4,411,247	4,186,870
Actuarial gain/(loss)	21.8	897,929	579,016
Scheme liability at 31 March		**(113,000,000)**	**(108,000,000)**

During the year ended 31 March 2003, contributions were 14.35% of pensionable pay. From 1 April 2003 contributions increased to 19.5% of pensionable pay.

21.6 Analysis of benefits paid

	Note	2003-04 £000	2002-03 (Restated) £000
Pensions or annuities to retired employees and dependants		4,190,227	3,972,147
Lump sum benefits payable on death		41,952	36,193
Premature retirement compensation benefits in year	22	3,272	2,846
Per cash flow statement (Schedule 4)		**4,235,451**	**4,011,186**

21.7 Analysis of payments to and on account of leavers

	2003-04 £000	2002-03 £000
Repayment of contributions	2,242	1,708
Transfers to other schemes	176,825	176,822
Per cash flow statement (Schedule 4)	**179,067**	**178,530**

21.8 Analysis of actuarial gain/(loss)

	Note	2003-04 £000	2002-03 (Restated) £000
Experience gains and losses arising on the scheme liabilities	21.5	897,929	579,016
Per Statement of Recognised Gains and Losses		**897,929**	**579,016**

21.9 History of Experience gains and losses

	2003-04	2002-03
Experience gains and losses arising on the scheme liabilities:		
amount (£000) (STRGL)	897,929	579,016
percentage of the present value of the scheme liabilities	0.8%	0.5%
Total actuarial loss/(gain): amount (£000)	897,929	579,016
percentage of the present value of the scheme liabilities	0.8%	0.5%

22. Provision for annual compensation payments

	Note	2003-04 £000	2002-03 £000
Balance at 1 April		40,482	30,656
Additional provisions[1]	24	19,386	10,833
Use of provision in year	21.6	(3,272)	(2,846)
Unwinding of discount	11	1,895	1,839
Balance at 31 March		**58,491**	**40,482**

[1] included in the additional provisions is £13,646,716 relating to the increase in the provision required as a result of the change in the HM Treasury interest rate from 6% to 3.5%.

23. Prior-period adjustments

FRS 17 Retirement Benefits has been fully implemented for 2003-04. As a result, the Revenue Account (Schedule 2) now recognises the movements in the scheme liability during the year analysed between the current service cost, past service cost (if relevant) and the interest on the scheme liabilities. Hitherto, the Revenue Account recognised the pensions payable in the year.

The results for 2002-03 have been restated to reflect the new accounting policies. The estimated effect of the change in accounting policy on the results for 2003-04 and 2002-03 is to increase the net outgoings for each year by some £5.9bn and £5.6bn.

As a result of recognising the scheme liabilities, there has been a movement in the reserves as at 31 March 2004 of £897,929,062 which has been noted in the Statement of Recognised Gains and Losses and in the analysis of the movements in reserves.

For the purposes of the Estimate, a prior-year adjustment equivalent to the movement in the pension liability in 2001-02 and 2002-03 was recognised. The estimated amount was £10.8 billion; the outturn figure was £10,788,005,346.81 – see also Schedule 1 (Summary of Resource Outturn 2003-04) and note 12.

24. Non-cash items

	Note	2003-04 £000	2002-03 (Restated) £000
Increase in pension provision	8	3,763,733	3,514,141
Increase in pension provision – enhancements and inward transfers	9	82,396	89,249
Increase in annual compensation payment provision	22	19,386	10,833
Unwinding of discount	11	1,895	1,839
Interest on scheme liability	10	6,463,047	6,162,496
Non cash items per Schedule 1		**10,330,457**	**9,778,558**

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

	2003-04 £000	2002-03 £000
Increase/(decrease) in debtors	143,085	34,819
(Increase)/decrease in creditors	(8,413)	(9,229)
Per cash-flow statement (Schedule 4)	**134,672**	**25,590**
Adjustment for non appropriations in aid debtor received	128,179	96,704
Adjustment for non appropriations in aid debtor not yet received	(37,330)	(128,385)
Transitional adjustment for working capital	-	49,090
Per Schedule 1	**225,521**	**42,999**

26. 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.

27. 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 it 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 the 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.

27.1 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.

27.2 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.

28. Losses

During the year, losses arose in 1,531 cases (2002-03: 2,998 cases). The total loss was £81,539 (2002-03: £195,641).

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 (previously DSS). There have been 341 cases (2002-03: 223 cases) totalling £35,172.79 (2002-03: £39,767.84).

29. Independent Audit Certification

The contributions received from employers are validated by independent auditors. At the date the 2003-04 accounts were signed there were 3 LEA TR17s audit certificates outstanding accounting for £57.8 million of contributions received and there were 18 Non-LEA TR17As audit certificates outstanding, covering £5.8 million of contributions received. This represents 1.8% of total contributions received. The Department is continuing to actively chase up all outstanding returns and by the end of December expects to have received all LEA TR17s and a significant proportion of the remaining Non-LEA returns.

Teachers' Pension Scheme (England and Wales) Resource Accounts 2003-04

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

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

EXCESS VOTES

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 and is managed by the Department for Education and Skills. It is an unfunded, contributory, public service occupational pension scheme governed by statutory regulations under the Act; the most recent being the Teachers' Pensions Regulations 1997. Active members contribute 6 per cent of their pensionable salary to the scheme, with employers making a further contribution, currently 13.5 per cent of pensionable salary.

Purpose of Report

2. In 2003-04, the Teachers' Pension Scheme expended more resources and more cash than Parliament had authorised. By so doing, the Scheme breached Parliament's control of expenditure and incurred what are termed "excesses" for which further parliamentary authority is required. I have qualified my opinion on the Scheme's 2003-04 Resource Accounts in this regard. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard to the breach of regularity

3. As part of my audit of the Teachers' Pension Scheme's financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard, in particular, to parliamentary authority and the Supply limits Parliament has set on expenditure.

4. By incurring expenditure that is unauthorised and is thus not regular, the Scheme has breached Parliament's controls.

Background to the Excesses

5. Parliament authorises and sets limits on departmental expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in Supply Estimates for which Parliament's approval and authority is given in annual Appropriation Acts.

6. By this means Parliament has authorised a Request for Resources for the Scheme. It thereby authorises amounts for current (rather than capital) expenditure which are net of forecast income, known as Appropriations in Aid. Parliament sets limits on the amount of operating Appropriations in Aid that can be applied towards meeting expenditure. The amounts authorised for the Request for Resources and Appropriations in Aid together represent a limit on the gross current expenditure that may be incurred under the Request for Resources.

7. Parliament has also authorised a single 'Net Cash Requirement' for the Scheme. This is the limit on the amount of cash that can be used. The Scheme's Net Cash Requirement covers its Request for Resources, plus working capital requirements.

8. The Net Cash Requirement also represents the maximum amount of cash that may be provided to the Scheme from the Consolidated Fund. It is net of the cash that the Scheme receives relating to income that Parliament has authorised as Appropriations in Aid.

Limits

9. The limits described above for the Scheme were set out in the Main Supply Estimate for 2003-04 (HC 648) as amended by the Winter (HC 15) and Spring (HC 350) Supplementary Estimates. The limit on the Request for Resources for Teachers' Pensions was set at net expenditure of £17,293,215,000, together with a limit on Appropriations in Aid of £3,722,990,000. The Net Cash Requirement was set at £854,016,000. These limits were authorised by the Appropriation Acts 2003 and 2004. The breaches reported below are against these limits.

Amount of Excesses

Breach of Limit on Request for Resources

10. Schedule 1 to the accounts shows net expenditure on the Request for Resources of £17,400,036,357.97 which is £106,821,357.97 (0.6 per cent) in excess of the amount authorised.

11. Operating income authorised to be appropriated in aid of expenditure on this Request for Resources was limited to £3,722,990,000, which was wholly earned and applied. The Scheme also earned an additional £37,324,362.30, shown as an excess of Appropriations in Aid in Schedule 1. It is proposed to ask Parliament to increase the limit on Appropriations in Aid by this amount to allow it to be applied towards meeting the excess on this Request for Resources, and to authorise the balance of £69,496,995.67 as additional use of resources by an Excess Vote.

Breach of Limit on Net Cash Requirement

12. Schedule 1 also shows that the Net Cash Requirement was £921,613,194.64, which is £67,597,194.64 (7.9 per cent) in excess of the amount authorised. It is proposed to ask Parliament to authorise this amount as additional grant of Supply from the Consolidated Fund by an Excess Vote.

Details and Causes

Resources Excess

13. Financial Reporting Standard 17 (FRS 17) requires the calculation of a provision for future pension liabilities. By complying with this new standard, the Department had to recognise an additional liability in the 2003-04 financial year in respect of the transfer of new members into the Scheme and in respect of the Scheme's additional liabilities for existing members, based on previous actuarial calculations. The additional liability for the new members was £82.4 million. The additional liability for existing members was £3,763.7 million, which was £25 million (0.7 per cent) more than in the Estimates. The Department had overlooked the liability in respect of the new members and underestimated the additional liabilities for existing members in calculating its Request for Resources.

14. The change in HM Treasury's discount rate from 6 per cent to 3.5 per cent meant that the provision for premature retirement compensation had to be re-valued upwards. The Department had not included the resulting additional amount of £13 million in its Request for Resources.

15. Taken together, the additional liabilities caused by the transfer in of new members, the underestimated additional liabilities for existing members and the change in the Treasury discount rate led to an excess in Teachers' Pensions Request for Resources of £120.4 million. This amount was off-set by a shortfall in expenditure against the Non-Budget Request for Resources of £13.6 million, resulting in the excess of £106.8 million.

Cash Excess

16. The Department did not allow for sufficient cash funding for the year when it prepared its Request for Resources. It had counted a payment due to the Consolidated Fund, carried over from the previous year, as £128 million of cash available. In meeting this liability in addition to its normal in-year costs, the Department incurred a cash excess of £68 million.

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

17. The main reason for the Resources Excess was that the model used to produce the Supply Estimate Request for Resources did not reflect the full liabilities of the Scheme (calculated in accordance with FRS 17). The Department's Finance and Estimates teams have been working together to refine the model for producing the figures which feed into the Supply Estimate and the Department has informed me that the model now reflects all such liabilities.

18. The Department overlooked the change in the Treasury discount rate when preparing its Estimate. The Department has informed me that there is now a control in place to ensure that any revision to the discount rate is built into the calculation of the Estimate.

19. The Department has informed me that it has also introduced improved controls over its creditors to ensure that amounts relating to prior periods and due to the Consolidated Fund are not counted as cash available in the year.

20. The Department has also informed me that it will perform all calculations which may affect the outturn at an earlier stage to allow for any significant changes to be reflected in the Supply timetable.

Summary and Conclusions

21. In summary, the reasons for the Resources Excess were that the Department did not, in its budgeting, allow for the full implications of FRS 17 provisions nor for the change in the Treasury's discount rate. The Cash Excess was caused by overlooking the need to match cash to amounts payable to the Consolidated Fund.

22. The impact of the introduction of FRS 17 will now be considered more carefully, which should reduce the likelihood of future calculations leading to excess expenditure. Improved controls to allow for changes in the Treasury discount rate should also reduce the likelihood of such changes being overlooked in the future. Improved monitoring of cash flows and creditors should help ensure the correct matching of cash to creditors.

23. The Department has been working on refining its model for calculating the Supply Estimates, particularly to ensure that calculations are made in time to apply for necessary Supplementary Estimates. This will need to be monitored carefully by the Department and I shall consider the position during our audit of the 2004-05 financial statements.

John Bourn
Comptroller and Auditor General

9 December 2004

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