**Finance**

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| **Cash Income and Expenditure (net cash requirement)** |  |

1. The January year to date position reported income at £1.5million (m) down against the forecast of £5,275m with £5,273m received. This represents a variance of 0.03%. Expenditure saw a variance of 0.3%, £25m less than forecast with £8,175m paid out compared to the £8,200m forecasted.

1. When reviewing January in isolation, following the input of the Winter OBR forecast, income was £7.2m above estimate, a variance of 1.4% for the month. £526.6m was received during the month compared to the forecasted £519.4m.
2. The month’s expenditure reported a variance of 2.6% (£21.4m) with £809.9m paid out against the forecast £831.3m.

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| **TPS Forecasting Exercises**  |  |

1. TP and DfE successfully completed and submitted the Winter Office of Budgetary Responsibility (WOBR) 7 year (plus current) forecast return ahead of the January deadline. Following review by the OBR and HM Treasury the challenge meeting was cancelled due to HMT/OBR only having a small number of queries, which were responded to promptly to the satisfaction of all parties.
2. Shortly following conclusion of the exercise TP and the DfE held a session to review all the queries collated and update the OBR tracker with relevant actions and are meeting monthly to prepare in advance of the next forecasting exercise. This activity is also attended by the TP operational delivery managers to ensure a holistic approach to forecasting. In addition regular catch-ups are being held between Finance, Operations and Governance with a view to continuously improving the accuracy of the retirement positon within the forecast.
3. Considerable work will be undertaken between now and summer 2018 to review and enhance the current TP forecasting model. The objective being to future proof the model and further improve forecast accuracy by better accounting for the future impacts of the different schemes within TP (NPA 60, 65 and career average), in particular the likely changes in member behaviours as more approach retirement age with service in both the final salary and career average schemes. All actions are recorded on a tracker and DfE monitors progress on this during the monthly finance meeting.

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| **Resource Accounts (net expenditure out-turn) Position** |   |

1. Work continues on the TPS Annual Report and Accounts for 2017-18. The Project and Steering groups continue to meet on a monthly basis to monitor progress and manage risks. The interim audit commences on 12 March for two weeks. DfE has set up bi-weekly calls to discuss audit requirements and TP are engaging with auditors on a frequent basis to provide information and co-ordinate the audit internally. DfE are currently collating the interim annual report and accounts (to 31 December) with TP’s input in preparation for auditor comments at the interim audit.
2. Forecasting at January indicated that the scheme would come £17m within its net cash requirement as per the supplementary estimate of £3,515m. The net resource position variance was £3m under following the post estimate revised forecast.

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| **Contributions** |   |

1. **Unallocated Contributions** – Scheme contributions are paid by default to a suspense account if no corresponding ‘paying-in’ slip is present, and allocated to the appropriate account once the slip has been received from the employer. Late receipt of this supporting data can lead to delays in allocating contributions. There is a structured approach to pursuing this outstanding data.
	* The position at the end of January was £67m, comparable to this stage last year, and reflected an improved position since October reported £70m. Following the clearance of 2015-16 the balance consisted of £19.2m from 2016-17 (previously reported at £24.5m) and the remaining £48.2m from 2017-18 (£37.6m).
	* The breakdown by sector shows the majority is attributable to the following areas - £34.2m to Local Authorities (up from £32.8m last quarter) and £16.6m to Academies (down from £20.4m).
2. **End of Year Certificates (EOYC)** – The number of outstanding 2015-16 returns has been reduced to five from twelve at the end of October. The five consist of one academy, three independents, one higher education (HE) establishment. The Regulator has been informed and recently agreed to contact these remaining employers. Following the passing of the 2016-17 deadline (30 November) 94% of audited returns have now been received (7,221 of 7,718 issued). This leaves less than 500 outstanding with the third escalated reminder to be issued on 9 February.
3. **Pensions Regulator Reporting –** Following discussions with DfE, TP adjusted it’s reporting to the regulator in December in order to report all employer with any contributions over 90 days old outstanding (previous reporting had concentrated on a fourth month outstanding being the trigger for the ‘over 90 days’ criteria). As a result the volume of employers reported increased initially, however this was reduced from 28 in December to 16 for January. The latter consisted of five employers with multiple months outstanding and eleven with only one month. Enhancements to the late/non-payers/insolvency/write-off procedures have further increased the oversight of employers in this area. All employers with an outstanding EOYC for 2015-16, per section 10 above, continue to be reported.
4. **Member Benefits Quantification-** Member benefits are quantified utilising service and salary information from employers followed by annual membership reconciliations to ensure this correlates to total contributions received. TP are constantly monitoring unallocated contributions, which happens when employers fail to submit monthly breakdown slips. TP performance in this area has improved year on year, culminating last year in a £45m balance at the year-end, prompting Deloitte/NAO to agree a 1% tolerance. The tolerance equates to roughly £60m on £6bn total contributions. DfE continue to challenge allocations on a monthly basis and TP undertake regular monthly chaser and bulk reminder activities, as part of the EOYC exercise residual amounts are then cleared down as far as possible before being allocated within the scheme accounts following DfE approval.
5. **Monthly Data Collection (MDC2)-** MDC2 is now underway to strengthen this area yet further. It is envisaged this will bring additional control measures; the first a direct debit scheme that will seek to eradicate the current reliance on an independent payment and breakdown slip process (ensuring accurate information is supplied in advance and eradicating the risk of mismatches). There is potential to devise incentives to encourage employers to on-board to direct debit and tackle the remainder via an exercise akin to ‘cheque to BACS’. The second measure is a risk assurance approach to replace the current EOYC. This will seek to gauge employer’s administrative performance via a number of key measures such as timeliness of file and payment submissions (thus being on direct debit will be an advantage), subsequent accuracy of submissions and even non-financial measures such as % of members with an MPO account. Employers will be encouraged to achieve a ‘low risk rating’ by the promise of light touch audits and reduced costs for those exhibiting the correct behaviours. Effort can then be focused on tackling any higher risk employers.

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| **Debt** |   |

1. **Member Overpayments** – The outstanding balance at January was £11.95m, down from the £12.3m reported in October. Across the quarter, 2,475 invoices were raised totalling £2.592m with an average cost per case of £1,047 (previously £1,116). The balance consists of £5.7m from re-marriage (of which £3.4m, 60%, is in recovery), £1.9m from re-employment, £1.5m from lump sums and £1.3m from death. Overall £6.5m of this balance is in recovery.

**Arrears of Contributions** – The outstanding balance of member and employer arrears debt was £3.97m, down from £4.3m at October. Over the quarter 166 invoices were raised worth £1m with an average cost per case of £6.1k (previously £5.3k).

1. Although the amount of employer debt is comparatively low, DfE continue to actively review and challenge TP’s management of the cases as part of the monthly debt review meetings and in line with the enhanced procedures outlined in para 11 above.

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| **Contractor & DfE Costs**  |   |

1. The administrative levy (0.08% of employer contributions) has been in place from September 2015. For the period of this report January 2018 (ten months), the amount collected from the levy totalled £15.7m.
2. The figures below represent the spend to date in the current financial year (ten months).

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| --- | --- | --- | --- | --- |
|  | **YTD Profile** | **YTD actual** | **Variance** | **Narrative** |
| Capita | £redacted | £redacted | -£redacted | Capita Contract Spend. Capita's base charge has been less than originally profiled. We have re-profiled costs from October. |
| TPSPB | £redacted | £redacted | -£redacted | Fees, travel and expenses and pension specialist.Fees for Board Chair have been less than profiled.  |
| GAD | £redacted | £redacted | -£redacted | Invoices have been less than profiled. Invoice for January services has not been received yet. |
| OH Assist | £redacted | £redacted | -£redacted | Medical services contract. January invoice not due until March. |
| DfE | £redacted | £redacted | -£redacted | Pensions Team and Finance costs. |

**Risk Update**

1. The risk management process remains robust, with regular monthly meetings held between key members of DfE and TP managers to assess the level and status of active risks and to discuss potential emerging risks. TP can supplement this process by calling upon wider Capita Group expertise where required.
2. During the period, the TP Analytics and Risk Manager reviewed the Strategic Risk Register with TP managers in detail, updating a number of risks and mitigating controls. The format of the risk registers, as recommended by DfE, was updated to drive the focus of the Committee towards specific functions/business areas and to further enable early identification of any additional risks.
3. The Group continues to identify and record emerging risks through performance monitoring, management meetings, management information, key project board meetings and horizon scanning. The Emerging Risk Log has been reviewed in detail by the Head of the TP Policy and Technical team and the TP Analytics and Risk Manager, recording the impact assessments undertaken and current treatment of emerging risks or legal cases.
4. Formal monthly Risk ‘Keep-in-Touch’ (KiT) meetings have been introduced between the DfE Senior Risk and Finance Manager; the DfE Contract Manager; and the TP Analytics and Risk Manager to review risk actions, review all Risks and escalate to the Risk Committee where changes are advised.
5. A revised Risk Matrix was developed by TP during the period to support the Risk Management Framework and facilitate the assessment of risk by providing clear guidelines to the Committee about how the risk should be assessed.
6. The Strategic Risk Register is provided to the Pension Board Sub-Committee. Below are the current key risks from an operational perspective for reference.

**Key Risk Updates**

**Strategic Risks**

1. Following the recent update to Capita shareholders and customers on the outlook for trading; dividend policy; and funding arrangements, the Committee reviewed the risk on the Strategic Risk Register about the potential impact of the market landscape on impact on the Capita’s viability. There are a number of robust mitigating controls in place that maintain the net risk score at LOW. Existing controls about monitoring of financial risk indicators and liquidity measures have been added to the Risk Register to further outline the level of control in place.
2. An additional risk was added to the Risk Register during the period around the adequacy of the Risk Management process. This has driven the Committee to discuss the existing controls and methodology and identify the various sources of risk identification. Escalation to the risk Committee from strategic project meetings has been formalised through addition of a standard agenda item on project board meetings.

**Financial and Planning Risks**

1. The GAD valuation project is progressing well and progress is also monitored via the Service Delivery Board and the Valuation Project Board. During the period, the risk wording and controls were reviewed and updated to outline the potential impact of changes to assumptions or methodology and to include the robust controls in place.

**Operational Risks**

1. Business Continuity and Disaster Recovery continues to be reviewed monthly by the Risk Committee and a number of actions have been closed and added to the Risk Register as mitigating controls. A disaster recovery test report was issued during December with no arising actions outstanding. Capita Group Internal Audit will be reviewing Business Continuity and Disaster Recovery as part of their 2018 assurance plan.

**Governance**

1. Progress continues with the accreditation of the core IT ‘RMH’ environment with updates via the monthly Security Working Group attended by TP, Capita IT, and the DfE IT Systems Assurance Advisor. An IT Health Check was carried out on the environment during November and a remediation plan is being progressed with oversight from the DfE IT Systems Assurance Advisor.

**Compliance**

1. Good progress continues to be made from a TP perspective on the GMP reconciliation. The government response to the GMP consultation on equalisation and indexation was published in January, confirming their response. The outcome is in line with TP’s preferred solution as outlined in their consultation response. As a result of this, the net risk for the project was reduced to MEDIUM.
2. Progress continues to be reported to the GMP project Board and the Service Delivery Board on a monthly basis.

**Overview of all Risks**

1. There are currently 26 Strategic Risks under management (24 at last reporting period). Seven of the risks have MEDIUM net risk scores and the remaining 19 are LOW. All have a number of existing controls in place and continue to be actively monitored and mitigated.
2. In addition, there are a further 21 Service Delivery Risks under management (21 at last reporting period). One risk is rated as HIGH. This relates to the complexities and specialist IT resource requirements for the core IT environment. Ongoing monitoring of the IT service delivery continues. The remaining risks are rated MEDIUM (5) and LOW (15).

Acronyms used within this report:

|  |  |  |  |
| --- | --- | --- | --- |
| OBR | Office of Budgetary Responsibility | EOYC | End of Year Certificates |
| NAO | National Audit Office | HE | Higher Education |
| GAD | Government Audit Department | RMH | Restricted, Managed, Hosted (Secure IT environment) |
| GMP | Guaranteed Minimum Pension | MDC | Monthly Data Collection |
| MPO | My Pension Online |  |  |

**Group Internal Audit (GIA) Update**

The main focus of activity during the month has been the progression of 2017 Assurance plan reviews and commencing the 2018 Assurance plan.

There was one report issued in ‘Final’ during the period:

* Business Assurance Review – TPS Contract Outcomes.

The review confirmed that appropriate control processes have been implemented across the TP operation to support the collation and reporting of Contract Outcome Measures in line with contractual requirements. Control walkthrough testing against each Outcome Measure confirmed that key control mechanisms are in place to support the extraction and reporting of data. In addition, it was confirmed that suitable processes were in place to source both employer / member feedback on a timely basis via the use of ‘Survey Monkey’ and ‘Mail Chimp’, and that appropriate tools have been developed by the Engagement Team to capture and report survey results. The review confirmed that September (Contract Year 6) data was accurately captured and reported and underlying audit trails maintained. Recommendations to strengthen the control framework have been agreed surrounding Contact Centre processes, End User Computing controls and integrity checking that underpin reporting, and by fully documenting end to end reporting procedures.

Fieldwork remains in progress for the GIA reviews of Staff Vetting, GDPR and Payment Out Controls. The Business Assurance review of Second Bite PI Remediation is at ‘Draft’ report stage, and planning is in progress for the review of Quality Framework & Reporting. The plan remains on track.

There are no overdue actions to report, and actions are being managed in accordance with agreed remedial timescales.

**Outstanding Issues**

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| **Overdue 1-30 days: Green; 31-60 days: Amber; 60 days plus: Red** |
| **Source** | **Total Open** | **0 to 30 days**  | **31 to 60 days** | **60 days +** | **Trend** |
| **C** | **H** | **M** | **L** | **C** | **H** | **M** | **L** | **C** | **H** | **M** | **L** | **C** | **H** | **M** | **L** |
| **TPS Operations** | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **** |

## Progress against 2017 Assurance Plan

| Review Title | Q1 | Q2 | Q3 | Q4 | Current Status | Target Final Draft ToR | Actual Final Draft ToR | Final ToR | Target Final Draft Report | Actual Final Draft Report | Final Report | E/IR/ SIR/I2 | C | H | M | L |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Capita Group Internal Audit (GIA) |
| TPS Change Management  | ✓ |  |  |  | Final Draft | Mar 2017 | 31/03/17 | 08/05/17 | Jun 17 | 18/09/17 | 05/10/17 | E | - | - | - | 1 |
| CIBS Customer Comms / Events |  | ✓ |  |  | Final Report | Mar 2017 | 31/03/17 | 18/05/17 | Jun 17 | 10/08/17 | 05/09/17 | IR | - | - | 3 | - |
| CIBS Staff Vetting |  |  | ✓ |  | Fieldwork  | Jul 2017 | 26/07/17 | 05/09/17 | Feb 18 |  |  |  |  |  |  |  |
| CIBS Data Protection (EU Regulations) |  |  |  | ✓ | Fieldwork | Sep 2017 | 04/01/18 | 15/01/18 | Feb 18 |  |  |  |  |  |  |  |
| GIA Annual Assurance Statement 2016 / 2017 | ✓ |  |  |  | Final  | N/A | N/A | N/A | N/A | N/A | N/A | N/A | - | - | - | - |
| CEB Head of Business Assurance Activity (HoBA) |
| CEB AAF 01/06 (KPMG) | ✓ |  |  |  | Final Report |  N/A | N/A | N/A | N/A | N/A | 13/04/17 | N/A | - | - | - | - |
| SLA Management & Reporting | ✓ |  |  |  | Final Report | Mar 2017 | 08/03/17 | 23/03/17 | May 17 | Jun 17 | 20/06/17 | WT | - | - | - | 1 |
| 2nd Bite PI Remediation  |  | ✓ |  |  | Fieldwork | Mar 2017 | 05/04/17 | 09/05/17 | Jun 17 |  |  |  |  |  |  |  |
| Exception Report Management  |  |  |  |  | Deferred | Review ‘Deferred’ into Q1, 2018 to accommodate review of Contract Outcomes (Reporting) |
| Quality Framework & Reporting |  |  |  | ✓ | Planning | Jan 2018 |  |  |  |  |  |  |  |  |  |  |
| Contract Outcomes |  |  |  | ✓ | Draft Report | Sep 2017 | 28/09/19 | 09/10/17 | Nov 17 |  |  |  |  |  |  |  |

## KEY:

## 1GIA Report Rating: E=Effective; IR=Improvement Required; SIR=Significant Improvement Required; I=Ineffective

## Business Assurance Rating (Aligned to Group Risk Framework): WT = Within Tolerance; AT = At Tolerance; U = Uncomfortable; C = Critical

**Annex 1**

**Teachers’ Pension Scheme Pension Board - Finance, Risk and Audit Report.**

The purpose of this document is to advise the Managing Risk and Internal Controls Sub-Committee and the Board of recent key events relating to the financial management, risk and auditing of the scheme so as to assist it in its assurance role - in particular in the areas of risk management / arrangements for maintaining control over the business and collecting contributions to the scheme. The report also aims to assist the Board in its strategic role by providing information on specific actions and projects that aim to ensure the administration continues to improve and best serve all stakeholders’ needs.

Through this Sub-Committee the Teachers’ Pension Scheme Pension Board can gain insight and hence assurance over the financial administration of the scheme with a focus on how wider strategic risks are managed. Particular focus is given on:

* + how we ensure finances are properly accounted for in the annual accounts;
	+ how we oversee budgets/spending, including the OBR estimating process;
	+ how we monitor contributions collection;
	+ how we monitor debt management
	+ the risk management process, including how we set the audit plan and monitor actions/follow up; and
	+ any specific projects.