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

The purpose of this document is to advise the Board of recent key events relating to the financial management, risk and auditing of the scheme.

**Finance**

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| **Cash Income and Expenditure** |  |

At the end of October, following input of the approved Autumn OBR forecast figures, the scheme had received 0.63% more income in the financial year to date than anticipated - equating to £21m on the forecasted £3.35b. This variance is solely attributable to extra contributions received over and above the revised forecast. The position can be expected to level out further as the year progresses before the final forecast is submitted in January as part of the Winter OBR exercise.

The year-to-date expenditure variance by comparison was 1.32% or £77.2m under the revised forecast of £5.79b. Such a comparatively large variance was seen despite the recent reforecasting exercise due to the mid-September deadline meaning the actual September results could not be fully anticipated. However this can be addressed at the Winter OBR. The main drivers for this variance were age lump sums and Actuarially Adjusted Benefit lump sums at £42.1m and £20.2m under forecast respectively.

From a net cash requirement perspective we currently anticipate a £139m surplus at the year end, based on the main estimate.

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| **TPS Forecasting Exercises** |  |

The Autumn Office of Budgetary Responsibility (OBR) exercise was successfully concluded during October. Final sign-off was achieved from the senior Board and, for the second exercise running, the high quality of the TPS return meant that no challenge meeting was required. This is a rare occurrence from which a great deal of assurance can be taken. In additional the Scheme Technical Accountant attended a teach-in session during September. This allowed for the sharing of best practice and feedback to the OBR with counterparts from other Public Sector Schemes in attendance. It is intended for this to become an annual event.

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

The ‘main estimate’ as produced by the department at the start of the financial year, forecasts net expenditure of £13.09b for 2015-16. When compared to the revised forecast an under-spend of £1,105m is now predicted. Income is now forecast at £6m under the main estimate; expenditure is expected to be £1,111m under the original estimate. This is due to changes in the current service cost (£673m) and the interest on scheme liabilities (£449m).

The cause of the current service cost fluctuation is the change in the employer rate from 14.1% to 16.4% from 1 September. This was overlooked by the department’s finance team in generating the main estimate. Additionally, the department’s new forecast model accounts for interest on a monthly rather than annual basis, which provides more accurate data. Work is ongoing with the Government Actuary’s Department to revise the annual calculation – this will be reflected as monthly fluctuations throughout the year with the net effect likely to be a slight reduction in interest overall (approximately £10m).

The TPS Report and Accounts for 2014-15 were successfully laid before Parliament in October. Following the issuing of the National Audit Office (NAO) audit report TP and the department have reviewed the recommendations made. Where appropriate these have been added to the service, strategic and finance risk registers respectively, in order to manage them effectively. The department is continuing to work with TP and the auditors to develop a project plan for this year’s accounts to ensure that they are laid before Parliamentary recess in July 2016, in line with the Government-wide timetable. The preliminary NAO visit, by Deloittes, is taking place the week commencing 23 November for one week.

Additionally the monthly accounts keep in touch (KIT) meetings were re-introduced in September. Held between the department’s Corporate Finance team and TP this provides oversight of the year to date resource position. A new actions log has also been put in place, reviewed at each KIT and updated accordingly by TP.

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| **Contributions** |  |

**Unallocated Contributions** – Scheme contributions are paid by default to a suspense account, and allocated to the appropriate account once a ‘paying in’ slip has been received from the corresponding 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 current balance of monies requiring allocation to an employer record is £110m. This balance consists of £31m to be cleared down within the accounts from 2013-14, £26.9m now being reviewed as part of the current 2014-15 end of year certificate (EOYC) exercise and £51.9m from the current financial year. Further reminders will be issued this month in respect of these missing monthly breakdown slips.
* The breakdown by sector shows £18.2m attributable to Academies, £ 72.1m to local authorities. £5.6 to FE Colleges, £6.7m to HE colleges and £4.2m to independents.
* In addition it is worth noting that the balance has been reduced by £37m (24%) in the past contract year.
* The first contributions dashboard measure is designed to illustrate that the actual amount of employee contributions received across the 6 tiers equals that expected, when based upon actual employer contributions received. The result is a minimal variance of 0.15% or £281k on £189.9m. This continues to give assurance that employers are accurately remitting contributions in the correct tiers.
* The increase in the employer contribution rate from 14.1% to 16.4% took effect from 1 September. Additionally the admin levy of 0.08% also became applicable. TP are monitoring the results, an increase in ratio variances was reported in October (641 from 206) and additional reporting measures are in place to gain assurance that the 0.08% has been paid. Particular attention will be paid to the smaller school sectors for early signs of financial difficulties materialising as a result of the increases.
* **Late Payers** – The analysis for October shows 199 late payers of scheme contributions worth £10.4m and consisting of 91 independents schools (£2m), 78 academies (£2.2m), 15 free schools (£133k), 4 Local Authorities (£5.6m), 2 Further Education establishments (£277k), 1 Sixth Form College (£96k), 5 University Technical Colleges (£30k) and 3 Function Providers (£2k). 134 of these employers (67%) paid within 3 working days of the deadline. As an indicator of numbers the 4 Local Authorities were in respect of 7735 members of the scheme.

**End of Year Certificate (EOYC)** – One return in respect of 2013-14 (from the Education Centre) remains outstanding, it has been communicated to them that the Pensions Regulator will be informed if TP are not in receipt by 31 December. With regards to the 2014-15 exercise, 235 non-local authority returns were outstanding at the end of October following the audited return deadline of 30 September. This consists of 127 Academies, 15 Free Schools, 8 Function Providers, 19 FE Colleges, 1 HE College, 59 Independents, 2 Sixth Form Colleges, 1 Studio and 3 University Technical Colleges. This represents a return rate of 96.4% on a population of 6,543 employers compared to 94.3% - of 5,724 employers - at October 2014. The local authority deadline for audited returns is 30 November.

The final draft of the proposed engagement paper for the Pensions Regulator has now been agreed. This contains a table outlining those measures TP intend to report to the Regulator on in order to fulfil the scheme’s obligations.

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| **Debt** |  |

**Member Overpayments** –The outstanding balance has been reduced by £620k since the last quarter. TP reported in the annual contract report that in the past 12 months the volume of cases in recovery (excluding death cases) has increased from 63% to 79%. Likewise the value has been increased from 53% to 71%. Overall the value of cases TP are actively chasing for repayment is £3.2m or 40%. The forecast paper in respect of the remarriage declaration exercise has highlighted the likelihood of significant additional overpayments arising.

**Arrears of Contributions** – The outstanding balance of member and employer arrears has remained static during the quarter. It is to be noted that taking into account cases currently in recovery (£389k) and those in dispute by employers (£1.243m) TP are left with £1.25m to actively chase. With regards to the latter category TP are reviewing the cases in order to further categorise and determine next actions.

The overall rating of amber on scheme debt continues to prudently reflect the inherent challenges in reducing the debt position and the potential impact of ongoing and future exercises, such as the remarriage declarations and deferred member projects.

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| **Contractor & DfE Costs** |  |

**The figures below represent the spend to date in the current financial year.**

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|  | YTD Profile | YTD actual | Variance | Narrative |
| Capita | £Redacted | £redacted | £redacted  redacted% | Milestone payments for June and July (£1.5m) relating to Capita’s site move are pending approval.  Additionally, service credits, fee indexation\* and deferred Scheme Sanction Charge invoicing by HMRC contribute to the current YTD underspend. |
| GAD | £redacted | £redacted | £redacted  redacted% | Variance has been driven by an under accrual of the October costs. This will be addressed in November. |
| OH Assist | £redacted | £redactedd | £redacted  redacted% |  |
| DfE | £redacted | £redacted | £redacted  redacted% | Costs for a G7 finance manager have been included in the team profile. A new G7 has been appointed from November. |

\*The original cost profile for the administration contract anticipated an index related fee increase from 1 September to coincide with the start of the new contract year. However, the Office for National Statistics has confirmed that the CPI rate fell to -0.1% (negative) in September 2015. As a result, there will be no increase in Year 5 contract fees. This will generate an underspend between now and the end of the current financial year.

**Risk Update**

1. The Risk management process remains robust, with regular monthly meetings held between key members of DfE and TP’s teams to review the current status of active risks and discuss potential emerging risks. TP can supplement this process by calling upon wider Group expertise where required.
2. The Key Risks reported to the Pension Board are determined during the Risk Committee meeting by key members of the DfE Account Management Team and TP’s Administration Team.

**Key Risks**

**Deferred Project**

1. A deferred pension relates to an active unclaimed pension, where a member has left the scheme but has neither transferred their existing pension to a new scheme nor claimed the residual funds.
2. A project was initiated in May 2015 to trace and verify deferred members, passing data to a tracing service and offering payment of pension or a refund of contributions as appropriate. The project will attempt to trace c. 200k members over 48 months from April 2015 and so far 15,112 records have been processed (an increase from 2,742 reported last quarter). Analysis of results received so far has been carried out but is inconclusive and no trends have been determined. Consequently, there has been a change in the approach to the way data is reviewed and the monthly data interrogation will now include around 500 cases where the predicted value is highest; the intention being to inform a more accurate forecast of scheme impact.
3. The net risk remains the same as the target risk, although comfort may be derived from the results of further analysis following the change in approach.

**Outcomes**

1. Changes in the approach to the way a number of outcomes are measured, as mentioned in the previous report, appear to have borne fruit and initial results are promising. The full year results are due in November and will be presented to the Board in December (agenda item 7).
2. The net risk remains Amber until the revised targets have been officially accepted and year-end results can be analysed against the targets.

**Re-location of Administration Services**

1. During October the administration service relocated from its site in Mowden Hall to new premises at Lingfield Point, Darlington.
2. A number of key milestones in respect of the move were met and provided on-going assurance of progress. The final milestone is due for completion in December, following the successful delivery of service from the new location for a full month. Following successful completion of this final milestone this risk will be closed.

**Data Quality**

1. Data Quality was the subject of a ‘Horizon Scanning’ session held in October between the department and the administrators; this will result in the production of a revised Data Strategy to be delivered during contract year five and beyond, and which builds on initiatives already in place.
2. The risk remains at amber as recent results continue to show that current targets are not all being achieved due to the scale of planned improvements and the stretching nature of those targets. Current targets for the quality of common and conditional data are all set at 100%, with an average achieved rate of 94.4%, an increase since last reported (92% previously).

**Guaranteed Minimum Pension records**

1. A detailed proposal has been submitted to progress the project which will reconcile HMRC data with TP data to ensure members have the right GMP value for their benefit calculations. It is proposed this work will begin in late 2015/early 2016 subject to the proposal being agreed. This represents stage 2 of the project shown in the previous report, and further details on progressing stages 3-5 of the project will be worked up once further information becomes available from HMRC and experience is gained in relation to stage 2.
2. This risk is further complicated by the fact that GMPs may need to be equalised between men and women (currently the payment of GMS differs depending on gender). HMT are currently taking legal advice on the best way in which to equalise the GMPs; this is likely to change the amount of GMP the scheme needs to pay. Depending on the method of equalisation the administration of GMPs may become significantly more complex.
3. The Net Risk remains red as a number of decisions are still required to progress the actions associated with the control of this risk.

**Overview of all Risks**

1. A thorough review of all risks was held in September/October and this resulted in a reduction of the volume of risks reported on the Risk Register (due to both closure and consolidation).
2. There are currently 19 **Strategic Risks** under management (previously 26), two of which carry a ‘High’ net risk rating and which have strong controls in place:

**i) Data Quality** – As described above (Dashboard item).

**ii) Guaranteed Minimum Pension records** (Scheme accounts) - As described above (Dashboard item).

1. In addition there are a further 17 **Service Delivery Risks** under management (previously 26), one of which carries a ‘High’ net risk rating:

**i) Guaranteed Minimum Pension records** (Operational delivery)- As described above (Dashboard item) and within the Administration report.

**Group Internal Audit (GIA) Update**

The main focus of GIA activity during the period has been the continued progression of the 2015 plan, commencing the 2016 audit planning cycle and supporting TP management to address open audit issues. The 2015 plan remains fully resourced for completion.

Fieldwork is complete for the audit of Fraud Data Mining, and is in progress for the reviews of Scheme Reform – Operational Effectiveness, Monthly Data Collection and Deferred Members Project. The IT audit of the Restricted Managed Hosting (RMH) Environment is at planning stage and ‘Draft’ TOR are expected week commencing 9 November.

Following an internal fraud incident, Durham Constabulary has advised their investigations remain ongoing and the individual arrested will be ‘bailed’ during November.

**Outstanding Issues**

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| **Overdue 1-30 days: Green; 31-60 days: Amber; 60 days plus: Red** | | | | | | | | | | | | | | | | | |
| **Source** | **Total Open** | | | | **1 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 | 4 | 7 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **** |

There is one overdue ‘Low’ rated overdue action in the 1-30 day category (11 days overdue at the end of October).

* **Fraud Data Mining (Finding 1 rated ‘Medium’ due 20 October 2015)**: Processes for the recording of Identity and Verification (IDV) checks should be reviewed and updated to ensure that the appropriate evidence is retained for all standing data changes and member retirement applications.

Action Owner Update : The alternative call logging system is currently being tested prior to implementation into the live database and will be completed by 13 November 2015.

TP management continue to prioritise the closure of outstanding issues, and monthly challenge sessions are continuing to be held between GIA and TP management to assist with this focus.

## Progress against Audit Plan for 2015

| Audit Title | IA | Q1 | Q2 | Q3 | Q4 | Current Status1 | 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 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| TP01 SLA & Performance MI | AB | 30 |  |  |  | Final Report | Feb 2015 | Feb 2015 | 02/03/15 | Jun 2015 | June 2015 | 10/07/15 | IR | - | - | 3 | - |
| TP02 Scheme Accounting | Audit *‘Deferred’* into 2016 Plan and replaced with *TP09 Scheme Reform – Operational Effectiveness* | | | | | | | | | | | | | | | | |
| TP03 Monthly Data Collection | AB |  |  |  | 25 | Fieldwork | Oct 2015 | Oct 2015 | 22/10/15 | Dec 2015 |  |  |  |  |  |  |  |
| TP04 Contributions | Audit *‘Deferred’* into 2016 Plan and replaced with *TP09 Scheme Reform – Operational Effectiveness* | | | | | | | | | | | | | | | | |
| TP05 Fraud Data Mining | HU |  |  | 20 |  | Fieldwork | Aug 2015 | Jul 2015 | 07/08/15 | Nov 2015 |  |  |  |  |  |  |  |
| TP06 Deferred Members Project | HU |  | 25 |  |  | Fieldwork | Jun 2015 | Jun 2015 | 13/07/15 | Dec 2015 |  |  |  |  |  |  |  |
| TP07 Scheme Reform – Training and Procedures | HU | 30 |  |  |  | Final Report | Feb 2015 | Jan 2015 | 04/03/15 | Apr 2015 | Apr 2015 | 01/05/15 | E | - | - | 1 | 2 |
| TP08 Scheme Reform – Flexibilities | HU | 25 |  |  |  | Final Report | Mar 2015 | Jan 2015 | 04/03/15 | May 2015 | May 2015 | 05/06/15 | IR | - | - | 3 | 1 |
| IT01 Hartlink Change Management | IT |  | 30 |  |  | Final Report | May 2015 | Mar 2015 | 24/03/15 | Jun 2015 | May 2015 | 12/06/15 | SIR | - | 1 | 1 | 1 |
| IT02 RMH Environment | IT |  |  | 40 |  | Draft TOR | Oct 2015 |  |  | Dec 2015 |  |  |  |  |  |  |  |
| TP09 Scheme Reform – Operational Effectiveness | HU |  |  |  | 55 | Fieldwork | Sep 2015 | Sep 2015 | 12/10/15 | Dec 2015 |  |  |  |  |  |  |  |
| TP Internal Fraud – Investigation | CD |  |  |  |  | Complete | N/A | N/A | N/A | N/A | N/A | 27/08/15 | N/A | - | 5 | 5 | - |
| Annual Assurance Statement | CD |  | 5 |  |  | Complete | N/A | N/A | N/A | Apr 2015 | Apr 2015 | N/A | N/A | - | - | - | - |
| **Total** |  | **85** | **60** | **60** | **80** |  |  |  |  |  |  |  |  |  |  |  |  |