**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** |  |

1. At the end of July the scheme had received 1.5% less income in 2015-16 financial year than was anticipated - equating to £29.8m on a forecasted £1.94b. The variance is solely attributable to a shortfall in contributions. On a positive note, the under collection of contributions continues to reduce and in July was half that seen in June at £4.1m or 0.8% less than forecast.
2. The year-to-date expenditure variance by comparison was 0% or just £0.1m under the forecast of £2.98b. This was despite an additional £38m in respect of ‘transfer out’ expenditure incurred in May as a result of the deadline for the cessation of overseas transfers from Defined Benefit schemes.
3. Expenditure for July was 2.2% (£16.1m) less than forecast, the main drivers being Age, Premature and AAB pensions which were all under forecast at £4.9m, £3.3m and £3.3m respectively. Additionally Transfers Out was £5.9m under estimate, however this account continues to fall steadily back in line with the year to date forecast.
4. From a net cash requirement perspective we anticipate a £44m surplus at year end, based on current forecasts.

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| **TPS Forecasting Exercises** |  |

1. All accounts will be reviewed and realigned at the Autumn Office of Budgetary Responsibility (OBR) exercise, which is currently underway. Although the OBR still await the official commissioning from HM Treasury they have advised that the 6 year forecast return is required for 18 September 2015. Delivery is currently on track per the exercise timetable with a separate summary paper provided to the Board for oversight of the approach taken.

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

1. The ‘main estimate’ forecasts net expenditure of £13.09b for the financial year 2015-16. The current forecast predicts an under spend of £6m against that forecast. This would reflect a positive net expenditure out-turn position if realised, with income currently £29m less than expected but £36million less expenditure than anticipated.
2. The laying of the TPS Report and Accounts for 2014-15 has been delayed as the NAO-appointed auditors have yet to complete their fieldwork. They identified a number of issues relating to their interpretation and understanding of the membership data and how it reconciles with contributions received. It is expected that the outstanding actions will be resolved shortly, allowing the final accounts to be laid before Parliament. The Department is working with Capita and auditors to develop a project plan for next year’s accounts to ensure that they are laid before Parliamentary recsss in July, in line with the Government-wide timetable.

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| **Contributions** |  |

1. **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 has reduced slightly from £111m at the end of the last quarter. However this masks a rise to £129m in May, an historic trend, following the introduction of the new tiers at the start of the current financial year, as employers adjust their systems. Having recovered the in-year position, focus remains on further reducing this balance through employer support.
   * 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 0.01% or £12.5k on £192m. This continues to give assurance that employers are accurately remitting contributions in the correct tiers.
   * Work on producing an engagement strategy paper for sharing with the Pensions Regulator is nearing completion. An update will be given at the Board meeting by the Independent Pension Specialist, following a conference call with TP’s Senior Finance Manager.
2. **End of Year Certificate (EOYC)** – The one outstanding return in respect of 2013-14 is due from the Education Centre and is expected shortly. With regards to the 2014-15 exercise, 32 non-local authority returns were outstanding at the end of July following the unaudited- return deadline of 31 May 2015. This is a positive result with 99.5% of the 6,713 employer returns being secured compared to 97.7% at this stage last year on a smaller employer population. Work continues to secure these returns ahead of the audited-return deadlines of 30 September (non-local authorities) and the 30 November (local authorities).
3. The paper regarding potential amendment to the current tolerance levels is with the Department for review and comment. This proposal is to reflect an additional category of non-cash queries that TP experience as a result of the introduction of the employee tiers.

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| **Debt** |  |

1. **Member Overpayments** – June saw an increase in the level of overpayments of £700k to £9.4m as a result of TP’s targeted remarriage declaration exercise, intended to pro-actively identify overpayments due to the scheme. However this position was recovered in July with the balance returning to the £8.73m previously seen in May - though still above that reported at the end of April of £8.43m. Over half the outstanding balance is in recovery via regular repayment plans. TP Finance are finalising an updated remarriage exercise forecast paper to more accurately project the potential level of overpayments identified as part of this exercise.
2. **Arrears of Contributions** – The outstanding balance of member and employer arrears due to the scheme is £2.8m. This is up from £2.19m at the last quarter. However a number of large invoices outstanding at the end of July were recovered in early August thus reducing the balance to circa £2.5m.
3. A reduction of £1.6m in the level of arrears debt has been achieved since February 2014 when the project identifying resources to specifically address outstanding arrears was initiated. In this time over £15.9m (85%) of all arrears has been successfully recovered.
4. 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 declaration and deferred member projects.

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| **Contractor & DfE Costs** |  |

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|  | YTD Profile | YTD actual | Variance | Narrative |
| Capita | £xxxxxxxxxx | xxxxxxxxxx | xxxxxxxxxxxxxxxx | xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx |
| GAD | xxxxxxxxx | xxxxxxxx | xxxxxxxxxxxxxxx | Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx  . |
| OH Assist | xxxxxxx | xxxxxxx | xx | Spend progressing in line with the agreed contract. |
| DfE | £220,326 | £205,748 | -£14,578 (6.6%) | Costs for a G7 finance manager have been included in the team profile; however the post currently remains vacant. |

**Risk Update**

1. The Risk management process remains robust, with a regular monthly meeting held between key members of both the DfE and Capita teams to review the current status of active risks and discuss potential emerging risks. Capita can supplement this process by calling upon wider Group expertise where required.
2. The Key Risks to report to the Pension Board are determined during the Risk Committee by key members of the DfE Account Management Team and Capita TP Administration Team.
3. Please note: Within the ‘Key Risks’ section of the Teachers' Pension Scheme Pension Board DASHBOARD (data as at 31 July 2015) a column has been removed as this purely recorded that a plan/controls are in place to manage the risk. Detail will now be relayed within the narrative below.

**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 2,742 records have been processed. Analysis of results received so far is underway with a view to considering three months’ data to understand trends and whether any forecasting (such as volume of responses expected per month and value of refunds/pensions paid) can be carried out on the initial results.
3. The Net Risk remains to date the same as the Target Risk, although further comfort may be derived from the results of analysis.

**Outcomes**

1. The TPS contract is measured annually against 16 Outcome Measures to determine the level of member and employer satisfaction, finance and data quality, and successful contract partnership. There are a number of initiatives in place to actively manage and measure these Outcomes to achieve satisfactory results. Four key measures, for both member and employer satisfaction with the level of service received, have been agreed in principle and are now being measured weekly/monthly against agreed targets. A further four are now being discussed with a view to possibly defining new measures for these also.
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. The current outsourced administration service, contracted to Capita, is planning to change location during October 2015. Their current location (previously shared with DfE) is no longer suitable and a new site within Darlington has been identified. There is a risk this move, if not managed correctly, could result in contractual, relationship or service delivery risks.
2. The contractual side of the risk has been closed following the signing of the contract extension, which incorporates the detail and cost of the move, but strong assurance must be provided throughout the life of the project to manage this through to conclusion.
3. A number of key milestones are in place to provide assurance of progress. The first of these has been completed but the Net Risk remains amber until further progress has been made against these milestones in the lead up to the move.

**Data Quality**

1. A number of initiatives are in place to improve and maintain the quality of common and conditional data held. These initiatives are managed by the Data Strategy, which has delivered a number of improvements to date and continues to drive improvements and address issues via a Data Working Group which meets monthly.
2. The risk remains at amber as recent results 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 92%.
3. Data Cleanse activity (the cleansing of records of members approaching retirement and the rest of the membership by age) is on schedule to continue across the life of the current contract and will deliver its benefits over a long time-frame. Work is commencing on reviewing the Data Strategy to determine if further initiatives can be implemented to improve the position over a shorter timeframe.
4. Other key initiatives to improve data quality include Monthly Data Collection and the project to trace deferred members. When these longer term initiatives are established it is hoped the risk will reduce in severity, although in the short to medium term it is likely to remain amber.

**Guaranteed Minimum Pension records**

1. As part the cessation of ‘contracting out’ in2016 a number of issues have been raised, by and with HMRC and DWP, regarding Guaranteed Minimum Pension records and outstanding preservation actions. This may result in increased work for public service pension schemes during 2015 and 2016 to assist with the cleansing of records prior to National Insurance statements being issued to the general population. There are also longer term issues to be resolved about the payment of Guaranteed Minimum Pension increases post 2016.
2. A project has been suggested which is split into five phases. Stage 1 (Initial Analysis and Project Implementation) is complete and the remaining elements are currently being finalised to understand duration, cost and resource required to complete.
3. The Net Risk remains red until the project to address has been further refined and agreed; the stages remaining to be agreed and progressed are:
4. Stage 2 – Reconciliation of the 9 HMRC files. Some of which have multiple records for the same member. Initial discussions have identified that a basic reconciliation exercise needs to be performed to match the member details with that on Hartlink and, if successful, to match the periods of reckonable service against Hartlink.

Stage 3 – Receive and analyse HMRC files for active members – repeat stage 1 on the assumption that the files will be in the same format and therefore the same IT programs can be used.

Stage 4 – Reconciliation of the 660,000 active members from January 2017.

Stage 5 – Build routines for interim indexation solution and Guaranteed Minimum Pension equalisation solution.

1. A fuller update on the issues around Guaranteed Minimum Pension is covered in the Administration report.

**Overview of all Risks**

1. There are currently 26 **Strategic Risks** under management, three of which carry a ‘High’ net risk rating and which have strong controls in place:

**i) Achievement of Outcomes** – As described above (Dashboard item)

**ii) Monitoring of the cash resource position** - There is a risk that an inadequate control environment in which to monitor and submit accurate figures on the TPS resource position throughout the year (monthly to Treasury/Office of Budgetary Responsibility on estimating) could ultimately lead to account qualification. This risk is being mitigated by the implementation of a new process of management and maintenance, which is being transferred from the Department’s Finance and Commercial Group to Capita’s TP Finance Team. The transfer went live in June, with a report on May’s data produced in July and currently under consideration. The output will then be referred back to the Risk Committee for review.

**iii) Guaranteed Minimum Pension records** (Scheme accounts) - As described above (Dashboard item) and within the Administration report.

1. In addition there are a further 26 **Service Delivery Risks** under management, two of which carry a ‘High’ net risk rating:

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

**ii) System Performance** – There is a risk of failure to achieve service requirements to Service Level Agreement standard, due to system performance.

1. Short-term intermittent problems have impacted on service in recent months; a Service Improvement Plan is currently in place and being actively managed to deliver a number of initiatives to improve the service.

**Group Internal Audit (GIA) Update**

The focus of Group Internal Audit activity during the month has been the continued progression of the 2015 plan and supporting Capita management to address open audit issues. The 2015 plan remains fully resourced for completion.

Two reports were issued in Final during the period:

* Hartlink Change Management: *‘Significant Improvement Required’* (1 x High, 1 x Medium and 1 x Low risk rated findings identified)
* SLA and Performance MI: *‘Improvement Required’* (3 x Medium risk rated findings identified)

The final Terms of Reference in respect of the Deferred Members project has been issued along with draft Terms of References for the review of Fraud Data Mining. GIA have agreed with Capita management and DfE to undertake an operational effectiveness review (post implementation) following the scheme Reform project. In order to resource this audit, GIA have agreed to defer the audit of scheme accounting and contributions into Q1, 2016.

**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 | 1 | 6 | 4 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **** |

There are no overdue issues. Capita management continue to prioritise the closure of outstanding issues, and monthly challenge sessions are continuing to be held between GIA and Capita management to assist with this focus.

There was one overdue rated issues in the 1-30 day category reported in the April data:

* **Fraud Data Mining – (Finding 1 rated ‘Medium’ due 20/06/15)**: Processes for the recording of Identity & Verification checks should be reviewed and updated to ensure that the appropriate evidence is retained for all standing data changes and member retirement applications.

An impact assessment of the solution available to trace members is currently being undertaken in addition to the agreement of an implementation timescale for alternative call logging system.

This outstanding action was closed with the following activity:

* **Task:** Capita management to review and update the procedures for the update of member’s bank details performed by the Payroll Team to ensure Identity & Verification checks are performed and recorded. **Action taken:** A mandatory note has been added to cases to record the IDV checks obtained.
* **Task:** Capita management to complete an impact assessment of the solution available to trace members. **Action taken:** Available solutions assessed for discussion with DfE.
* **Task:** Capita management to agree implementation timescale for the alternative call logging system. **Action taken:** Timescale agreed for implementation.

## 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 |
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| 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 | Planning | Sep 2015 |  |  | Nov 2015 |  |  |  |  |  |  |  |
| TP04 Contributions | Audit *‘Deferred’* into 2016 Plan and replaced with *TP09 Scheme Reform – Operational Effectiveness* | | | | | | | | | | | | | | | | |
| TP05 Fraud Data Mining | HU |  |  | 20 |  | Final Draft TOR | Aug 2015 | Jul 2015 |  | Nov 2015 |  |  |  |  |  |  |  |
| TP06 Deferred Members Project | HU |  | 25 |  |  | Final TOR Issued | Jun 2015 | Jun 2015 | 13/07/15 | Nov 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 |  | Not Started | Oct 2015 |  |  | Dec 2015 |  |  |  |  |  |  |  |
| TP09 Scheme Reform – Operational Effectiveness | HU |  |  |  | 55 | Planning | Sep 2015 |  |  | Dec 2015 |  |  |  |  |  |  |  |
| 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** |  |  |  |  |  |  |  |  |  |  |  |  |