**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 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.

**Finance**

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| **Cash Income and Expenditure** |  |

1. July reports showed income was £15.4m below estimate, a variance of 2.8%, resulting in the year to date position being pushed out to 0.67% (£14m) under forecast from a 0.08% (£1.2m) over achievement in June. For the year to date £2,097m has been received against the estimate of £2,111m.
2. Monthly expenditure reported a variance of 1.6% (£12m) with £730m paid out against the forecast £742m. Age lump sums and transfers out returned the most significant variances at £3.1m and £2.7m under forecast respectively. As a result the year to date position is an underspend of 0.65% (£20m), £2,992m having been paid out against the estimate of £3,012m.
3. Both measures remain in line with the +/-0.5% and +/-1.0% year-end variance targets for income and expenditure respectively, ahead of review and resetting during the Autumn Office of Budgetary Responsibility (OBR) forecast.

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| **TPS Forecasting Exercises** |  |

1. The Autumn OBR exercise is underway and running to the agreed timetable. All current account forecasts for the 7 year period are being reviewed and will be reset where applicable following the appropriate challenge (i.e. those for the remainder of the current financial year plus the following 6 years). Account review sessions with the Department are scheduled during August. Once the final forecast is approved the associated narrative will be produced and the return completed for Department review ahead of the 16 September deadline. (Agenda item 11 will provide a fuller picture).

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

1. The TPS Annual Report and Accounts for 2015-16 were successfully laid before Parliament, ahead of the summer recess, as scheduled.
2. The forecast outturn at the end of July shows net expenditure of £11,633m, a variance of £107m against the main estimate figure of £11,740m.   The variance is largely driven by a 1.5% reduction in the current service cost, as advised by GAD, equating to approximately £30m per month. This has been offset by higher than anticipated contributions in April which amounted to £50m. Overall the forecast net expenditure remains within the Parliamentary control total submitted in respect of the main estimate.
3. A review session scheduled for 23 August between TP, DfE and NAO will discuss the 2015-16 audit process, findings and in the light of those discussions agree plans for the 2016-17 exercise, which is likely to see a tighter timeframe imposed for delivering the annual report and accounts. This session will also focus on audit findings and the discussions held with the Department’s Audit and Risk Committee (ARC) during the approval process.
4. Discussions during the Department’s Audit and Risk Committee (ARC) approval meeting noted future academisation and the need to continue to deliver robust assurance around the quality of pensions data as the employer landscape evolves. To this end TP, as part of the Employer Review and maximising the potential for monthly data collection (MDC), are currently investigating the future evolution of MDC (version 2) in relation to both contributions data and the audit assurance process. This is likely to involve a focus on assessing individual employer risk and tailoring assurance processes accordingly, i.e. rewarding sound governance.

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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 account balance has been maintained during the quarter with £56m being held unallocated at the end of July. This consists of £3.2m from 2012-13, £4.2m (previously reported as £6.1m) in respect of 2013-14, £9.3m (from £12.2m) in respect of 2014-15, £14.7m (from £23.8m) in respect of 2015-16 and £25.1m from the current financial year. The vast majority of historical items remain in respect of central Bedfordshire, However TP progressed well during August with clearing down these items following successful engagement with the employer and its payroll providers.
   * The breakdown by sector shows £9m attributable to academies (previously reported as £10m), £38m to local authorities (£40m). £2.7m to FE colleges (£1.8m), £2.3m to HE colleges (£2m) and £1.9m to independents (£2.6m). The remainder is attributable to free schools, Multi Academy Trusts (MAT’s), 6th form colleges and function providers.
   * The first contributions dashboard measure illustrates 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 £25k on £190m of employee contributions.
2. **End of Year Certificates (EOYC)** – Continued reminder actions in respect of 2014-15 returns, including letters issued by the Pensions Regulator, has seen the numbers outstanding reduce from 29 at the previous reporting period to 6 (from a population of 6,714 issued). This consists of 2 academies and 4 independents. Additionally the initial deadline for 2015-16 unaudited returns passed on 31 May with 7,285 issued (an 8.5% increase in population). At the end of July TP reported that 7,117 (97.7%) have been received with 3,274 (45%) being audited at this early stage. The final deadline for audited reports from non-LAs and LAs being September and November respectively.

10**. Pension Regulator Reporting –** Breach of law reporting under Code of Practice 14 continues to be submitted monthly by TP. This quarter saw a very limited number of reportable incidents in respect of outstanding contributions. Ferndale Independent School remained the main offender, with a legal letter being issued during July to seek a suitable repayment plan to recovery £81k. In early August it has been confirmed that, unrelated to this action, the employer has entered administration following failure to agree a suitable refinancing plan. TP are now liasing with the appointed administrators to register the debt and seek to recover as much of it as possible. Employers failing to submit their EOYC return were also reported during the period as appropriate.

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| **Debt** |  |

11**. Member Overpayments** – Over the quarter the outstanding balance has increased by a further £1.22m from £9.28m to £10.5m. This is predominately as a result of the pro-active exercise to identify remarriage debts through the issuing of an annual declaration – TP being the only major public sector scheme in the country to do this. To date, through pension suspensions and recovery actions the scheme has benefitted by over £6m as a result of this project. Although further overpayments are likely to be realised, in line with current recovery rates, further benefits will be significant.

12**. Arrears of Contributions** – The outstanding balance of member and employer arrears debt has increased by £500k to £3.4m. Recovery rates have slowed during July, with establishments closed for the summer holidays, but will return to normal levels (typically in excess of 100% when directly comparing value raised to that recovered in month) in September. Encouragingly, almost £1.7m of the debt (50%) being actively pursued is less than 6 months old.

13. The overall rating of amber on scheme debt continues to prudently reflect the inherent challenges in reducing the debt position whilst acknowledging the potential impacts of ongoing exercises, such as the remarriage declarations, Disclosure of Death Registration information and deferred members projects aimed at identifying and preventing scheme debt from accruing.

NB: there will be an update on both the Re-marriage and Deferreds Projects as part of the “teach-ins” taking place on 7 September.

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| **Contractor & DfE Costs** |  |

14. The administrative levy (0.08% of employer contributions) has been in place from September 2015 and to end of July 2016 had collected £17.5m (11 months). For the period of this report April 2016 to July 2016 the amount collected from the levy totalled £6.3m.

The figures below represent the spend to date in the current financial year (4 months).

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|  | **YTD Profile** | **YTD actual** | **Variance** | **Narrative** |
| Capita | £redacted | £redacted | -£redacted | Capita Contract Spend. A number of invoices for July, are not showing as paid on RM. Once these are included the variance will be lower. |
| TPSPB | £redacted | £redacted | -£redacted | Fees, travel and expenses.  Quarterly invoicing from Capital Cranfield iro Pension Specialist due July for period April-June 2016. |
| GAD | £redacted | £redacted | -£redacted | Invoice for July has been received and sent for payment, however it is not yet showing on RM as being paid. |
| OH Assist | £redacted | £redacted | -£redacted | Medical services contract. June and July's invoices have been sent for payment, however, they are not showing as being paid on RM. |
| DfE | £redacted | £redacted | -£redacted | Pensions Team and Finance. Difference is due to delay in recruiting the G6 in the pension team. |
| Total |  |  | -£redacted |  |

**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**

**Monthly Data Collection (New Item to key Risks)**

3. There is a risk the drive to convert all employers to Monthly Data Collection submissions by April 2018 might not be able to be supported by TP Operational teams if the profile of the conversions is unknown. The profile of conversions is unlikely to be consistent and 'spikes' of activity might be difficult to absorb. This risk is exacerbated by the increase in Academy conversions as all new academies are required to convert to Monthly Data Collection as part of the conversion process.

4. The Net Risk is amber as there are a number of activities to be completed in order to understand and identify key statistics which might inform the profile volume and provide a forecast of the pipeline of activity in order to prepare for it in advance.

**Data Quality**

5. The TP Data Strategy to deliver improvements and initiatives throughout contract year five and beyond has been signed off. A proposal has been submitted to change the measurement of Outcome Measure 12 (Data Quality) to better reflect a more realistic target with phased improvement over the remainder of the contract term; this is awaiting final sign-off from the Department, although the targets have been approved in principle.

6. A Data Steering Group has been established comprising TP and Department representatives; initial meeting scheduled for 19 August.

7. The risk remains at amber as results continue to show current targets are not all being achieved due to the scale of planned improvements and the stretching nature of those targets. Targets (proposed) for the quality of common and conditional data have been revised to be more realistic, set between 93 and 98% for Contracy Year 5, rising to 99% over the remainder of the contract.

**Guaranteed Minimum Pension records**

8. The GMP project continues to progress, with completion of the initial analysis of 11.5k records and the second tranche of 49.5k pensioner records. Activity has now moved to a further 59.5k pensioner and deferred member records within the current project resource. This work constitutes the third tranche of members in stage two of an ongoing project and will provide information to inform decisions on further phases. A policy decision confirming inclusion of the Post ’97 members within the project has been received, and analysis on the impact on current resource is being undertaken. A Project Board is established with Stephen Baker in position as Senior Responsible Officer.

9. The Net Risk remains at amber as, although significant progress has been made to date, a number of policy decisions are still required to progress the actions associated with the control of this risk. In addition, results are being shared with Her Majesty’s Revenue and Customs and responses are awaited to understand further activity required.

**Annual Resource Accounts Production (Removed from Key Risks)**

10. As the TPS annual report and accounts for 2015-16 were successfully laid before Parliament ahead of the summer recess as scheduled, and all previously reported risks identified have been sufficiently mitigated, this risk has been removed from the Key Risks.

**Increase in Academy Conversions (New Item to key Risks)**

11. There is a risk that academy trusts (including multi academy trusts) may not understand the requirements placed on them as TPS employers by the various pension regulations or directly by the Scheme Manager and there are a number of potential risks arising from that,for example, that the academy does not:

* develop correct or sufficient systems and technology;
* adequately resource and train HR, Finance and General Management personnel;
* have adequate contractual arrangements in place with any organisations where functions are outsourced;
* have adequate oversight of both internal and any outsourced functions;
* submit data in a timely or complete fashion in line with the Scheme Manager’s requirements.

13. All those risks impact the effectiveness of scheme administration and the chance of scheme rules not being applied appropriately. A siginifcant amount of mitigation action is underway at present, for example, liaision that is taking place with EFA and DfE Academies colleagues to seek to improve the on-boarding process and the highlighting of employer responsibilities on the TPS website – with the website being signposted in the literature provided to new academies. In addition to this are a number of further actions to strengthen this mitigation, which can be broadly categorised as:

* improve clarity of information published on the TPS website;
* revise the process for converting academies to specifically include TPS responsibilities;
* improve links with key personnel within the EFA and DfE academies teams; and,
* upgrade financial guidance for academies to place greater emphasis on pensions.

14. The Net Risk is amber as there are a number of these activities that need to be completed in order to strengthen the mitigation.

15. Current processes are under review prior to propositions being agreed; taking into account the variety of approaches a joining Academy/Multi-Academy Trust might take and whether/how TP can support.

**Overview of all Risks**

16. There are currently 18 **Strategic Risks** under management (no change from last period), none of which carry a ‘High’ net risk rating and which have strong controls in place.

17. In addition there are a further 19 **Service Delivery Risks** under management (previously 20), two of which carry a ‘High’ net risk rating, both associated with the incease in academy conversions as reported in the Key Risks.

**Group Internal Audit (GIA) Update**

The main focus of GIA activity during the month has been the continued progression of the 2016 plan and supporting Capita management to address open audit issues.

The 2016 Plan remains on track for delivery. The review of internal fraud controls evaluation is at ‘draft’ reporting stage, subject to GIA quality review. Fieldwork is in progress for the review of financial crime, and ‘draft’ TORs have been circulated for remaining 2016 Plan reviews of IT application management (Hartlink) and business continuity.

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

There is one overdue Medium rated action, and GIA have been advised this will be remedied by 15 August 2016.

* ***RMH (Restricted Management Host) Environment (Finding 2 rated ‘Medium’ due 20/07/16):*** IT service contract requirements between CEB IT and ITES for the hosting of the Hartlink system within the RMH environment have not been formalised. Scheduled for completion by 15/08/16.

## Progress against Audit Plan for 2015/16

| Audit Title | 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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| CIBS Service Level Management and Reporting | ✓ |  |  |  | Final Report Issued | Feb 2016 | Feb 2016 | 01/03/16 | Apr 2016 | 19/05/16 | 27/05/16 | E | - | - | - | - |
| CIBS Quality Management | ✓ |  |  |  | Final Report Issued | Feb 2016 | Feb 2016 | 24/02/16 | May 2016 | 29/06/16 | 04/07/16 | E | - | - | 1 | - |
| CIBS Pension Administration – TPS Scheme Accounting | ✓ |  |  |  | Final Report Issued | Feb 2016 | Feb 2016 | 15/02/16 | Apr 2016 | 27/04/16 | 06/05/16 | IR | - | - | 4 | 1 |
| CIBS Financial Crime |  |  | ✓ |  | Fieldwork | Jul 2016 | 01/07/16 | 07/07/16 | Sep 2016 |  |  |  |  |  |  |  |
| CIBS Data Integrity – Member Records\*\*\* |  |  |  |  | Dropped | N/A | N/A | N/A | N/A | N/A | N/A | N/A | - | - | - | - |
| CIBS TPS Internal Fraud Follow Up Controls Evaluation |  | ✓ |  |  | Draft Report | Mar 2016 | Apr 2016 | 15/04/16 | Jun 2016 |  |  |  |  |  |  |  |
| CIBS Regulatory Compliance – Legal |  | ✓ |  |  | Final Report Issued | Jun 2016 | Mar 2016 | 31/03/16 | May 2016 | 20/05/16 | 27/05/16 | E | - | - | - | - |
| CIBS IT Application Management (including TPS) Hartlink Change) |  |  | ✓ |  | Draft TOR | Jul 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS Business Continuity / Disaster Recovery |  |  |  | ✓ | Final Draft TOR | Sep 2016 | 29/07/16 |  |  |  |  |  |  |  |  |  |
| Annual Assurance Statement (2015 / 2016) | ✓ |  |  |  | Final | Apr 2016 | N/A | N/A | N/A | N.A | N/A | N/A | - | - | - | - |

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

**\*\*\*Scope of Divisional review amended and coverage ‘Dropped’ from TPS Plan; will be captured for consideration as part of 2017 Planning cycle (discussed at June KiT Meeting)**