

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.

Finance

Cash Income and Expenditure (net cash requirement)



1. The February position, following the Winter OBR forecasting exercise, showed income was £4.5million (m) below estimate, a variance of 0.85%. This resulting in the year to date variance being 0.1% or £5.675m under forecast. For the year to date £5,770m has been received against the forecasted £5,776m.
2. Monthly expenditure reported a variance of 0.14% (£1m) with £747m paid out against the forecast £746m. This was predominately due to Age lump sums and Family pensions which were overspent by £3m and £1m respectively, conversely transfers out was underspent by £3m. As a result the year to date position showed an underspend of 0.18% (£15.9m) with £8,834m having been paid out against the estimate of £8,850m.
3. The results give confidence that the scheme will remain within the desired year-end tolerances. This will result in the scheme staying within its net cash requirement. March income and expenditure activity will be monitored closely throughout the month.

TPS Forecasting Exercises



4. The Winter OBR and Spring Supplementary forecasting exercises were completed during February. The initial submissions were made by the designated deadline. Following attendance at the OBR/HM Treasury challenge TP responded to a small number of addition queries, one of which resulted in a change being made to the

workforce assumption applied (an increase of 0.5% through to 2020-21).

Resource Accounts (net expenditure out-turn) Position



5. Deloitte as scheme auditors appointed by the NAO completed their interim audit during late February/early March. No issues of significance were raised and in a number of areas the scheme is ahead when compared to last year having completed some work at this stage which was scheduled for the Final Audit visit.
6. The forecast outturn at the end of February shows net expenditure of £11,422m, a variance of £10m against the main estimate figure of £11,432m. Higher than forecasted contributions led to an increased current service cost. Overall the forecast net expenditure remains within the Parliamentary control total submitted as part of the Spring Supplementary exercise. The main estimate for 2017-18 was also completed and submitted on time.

Contributions




7. **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.
 - Following an increase in the account balance over recent months the last two have seen a drop of £20m to £57.5m. This consists of £12.2m from 2015-16 and the remaining £45.3m to the current financial year. Work continues to reduce the balance further ahead of the financial year-end.
 - The breakdown by sector shows £21.3m attributable to Academies, £3.5m to Multi Academy trusts (MATs), £21.2m to Local Authorities, £2.6m to FE colleges, £1.7m to HE colleges and £4.5m to Independents. The remainder is attributable to Free Schools, Studio Schools, University Technical Colleges (UTCs), 6th Form Colleges and Function Providers.
8. **End of Year Certificates (EOYC)** – The non-LA audited deadline passed on the 30th September and the LA on the 30 November in respect of the 2015-16 exercise involving 7,288 employers. Following the escalated reminder process TP reported that 74 returns remain outstanding as at the 28 February 2017. This consisted of three LAs and 71 non-LAs.
9. **Pensions Regulator Reporting** –
 - Two employers were reported for failing to pay contributions for a period of 90 days or more (or failing to adhere to a previously agreed payment plan to recover arrears due). One from the Independent sector, [REDACTED], Preparatory School, and one Multi Academy Trust, [REDACTED] Academy Trust.
 - A further twenty one employers were reported for failing to submit their 2015-16 End of Year Certificate (EoYC) after application of the agreed historical

performance matrix. This broke down into eleven Academies, seven Independents, one Free School, one Function Provider and one Further Education College.

- Finally three employers were reported for continued failure to submit their Annual Service Return. The two academies are engaging with their assigned TP Employer Relationship Manager. The one Independent is not engaging and steps are in place to commence de-acceptance procedures due to this and associated monthly performance issues.

Debt	
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- 10. Member Overpayments** – The outstanding balance increased by a further £2.2m since the last reporting period from £11.7m to £13.9m. This was once again predominately down to the pro-active remarriage declaration exercise. However it has also been noted that the effects of this project appear to now be reducing and returning to business as usual levels. Whilst remarriage debt now accounts for £7.2m of the balance outstanding the benefits to the scheme to date through pension suspensions and recoveries are in excess of £14.5m.
- 11. Arrears of Contributions** – The outstanding balance of member and employer arrears debt has increased by £400k over the period from £3.4m to £3.8m. Encouragingly, circa £417k of this balance is in recovery via repayment plans and £1.6m (42%) is less than 6 months old.
- 12.** 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.

Contractor & DfE Costs	
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- 13.** The administrative levy (0.08% of employer contributions) has been in place from September 2015 and to end of January 2017 had collected £26.9 (17 months). For the period of this report April 2016 to January 2017 the amount collected from the levy totalled £15.8m.
- 14.** The figures below represent the spend to date in the current financial year (10 months).

	YTD Profile	YTD actual	Variance	Narrative
Capita	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Capita Contract Spend. Scheme Sanction charges profiled for January have not yet been paid.
TPSPB	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Fees, travel and expenses. Quarterly invoicing from Capital Cranfield iro Pension Specialist for period Oct-Dec 2016, paid in February.
GAD	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Actuarial advice provided by Government Actuary Department.
OH Assist	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Medical services contract.
DfE	£ [REDACTED]	£ [REDACTED]	-£ [REDACTED]	Pensions Team and Finance. Difference is due to delay in recruiting the G6 in the pension team.
Total	£ [REDACTED]	£ [REDACTED]	-£ [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 Capita Group expertise where required.
2. The Key Risks reported to the Pension Board Sub-Committee 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

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 requested to convert to Monthly Data Collection as part of the conversion process.
4. The Net Risk remains amber; although there are a number of activities underway to gather and analyse key statistics to inform the profile volume and provide a forecast of the pipeline of activity in order to prepare for it in advance, this activity has yet to be completed. Further work is also underway to issue communications to those establishments yet to commit to Monthly Data Collection in order to raise awareness of their obligation under the Scheme regulations and to encourage participation.
5. A dedicated team has been established within TP to work with employers and help them to on-board to Monthly Data Collection and TP Finance are working closely with them to facilitate this. We continue to work closely with payroll and software suppliers to be sure we are aware when software releases enable employers to produce MDC returns.

Data Quality

6. Data Strategy in place to identify and execute specific actions designed to improve the accuracy of data held.
7. Data Steering Group established to monitor progress of strategy and provide direction; meetings held monthly. To be supplemented by feeds from sub-groups from the areas of Operations, Finance, and Engagement.
8. Outcome Measure 12 in place to incentivise accuracy of new and legacy data and measure compliance with regulatory requirements.
9. The risk remains at amber as the results to be delivered by the improved strategy initiatives are forecast to deliver during 2017 and beyond.

Guaranteed Minimum Pension records

10. Good progress continues to be made with 160k member records investigated to date. The remaining 41k will be completed, within the current project resource, by the end of Q1 2017. Outcomes from investigations continue to be used to aid the decision process for future phases. Referrals to Her Majesty's Revenue and Customs continue to be raised, although delays in responses being received are being experienced. Further analysis, from those returned to date, is being undertaken to determine any further activity which may be required.
11. The first cut of the Active membership has been received and analysis of the data is underway to understand potential volumes for the next Stage. The monthly GMP Project Board provides the forum for progress updates.
12. The Net Risk remains at amber. Consultations continue with Her Majesty's Revenue and Customs regarding expediting responses and resolutions to queries. Some progress on Policy decisions is being made, however final outcomes in order to progress the action associated with this risk remain outstanding.

Increase in Academy Conversions

13. A significant amount of activity is underway at present to further understand and mitigate the increase in employer population and the multiple scenarios emerging for the submission of data, whether this is via an academy directly, an overseeing Multi-academy Trust (MAT) or a combination of these.
14. Additional reporting on the formation and movement of academies and MATs has now been sourced and is reviewed regularly.
15. Models for the various options of data submission are being developed, and discussions taking place with employers and payroll providers to understand the impacts of multiple potential scenarios (this also has links with the submission of data for MDC).
16. These risk remains amber as there are a number of ongoing activities to conclude, and decisions are required on how the impacts of multiple scenarios are dealt with.

Overview of all Risks

17. There are currently 24 **Strategic Risks** under management (an increase of six since the last report), one of which carries a 'High' net risk rating, concerning the accreditation of the RMH environment.
18. In addition there are a further 24 **Service Delivery Risks** under management (an increase of five since the last report), one of which carries a 'High' net risk rating, associated with the increase in academy conversions as reported in the Key Risks.

Group Internal Audit (GIA) Update

The main focus of GIA activity during the quarter has been the completion of the 2016 plan and planning Q1 assignments from the 2017 Assurance plan.

Three reports were issued in 'Final' during the period:

- Financial Crime rated *'Effective'*.
- Application Management (Hartlink Change) rated *'Effective'* .
- Business Continuity / Disaster Recovery rated *'Effective'*.

The 2016 GIA plan is now fully complete. The Q1 GIA reviews of Change Management and Customer Communications (Events) are currently in planning phase and scoping meetings have been held with Capita management. Draft TORs will be released for comments shortly.

The Head of Business Assurance has agreed to add a review of Second Bite PI Remediation to the 2017 Assurance Plan and this is currently being scoped. A ToR will be produced during February with reporting during May.

Outstanding Issues

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	2	0	0	0	0	0	0	0	0	0	0	0	0	0	↓

There are no overdue issues to report.

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/I ²	C	H	M	L
Capita Group Internal Audit (GIA)																
TPS Change Management	✓				Planning	Feb 2017										
CIBS Customer Comms / Events		✓			Planning	Mar 2017										
CIBS Staff Vetting			✓		Not Started	Jun 2017										
CIBS Data Protection (EU Regulations)			✓		Not Started	Jun 2017										
CEB Head of Business Assurance Activity (HoBA)																
CEB AAF 01/06 (KPMG)	✓				Fieldwork	N/A	N/A	N/A	N/A	N/A	Mar 17					
SLA Management & Reporting	✓				Planning	Feb 2017										
2 nd Bite PI Remediation		✓			Planning	Feb 2017										
Exception Management Report			✓		Not Started	Jun 2017										
Quality Framework & Reporting				✓	Not Started	Sep 2017										