**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 the 2014-15 financial year, the scheme reported an income variance of 0.02% (£1.1million on £5.8billion); the year-end expenditure variance was 0.2% or £22million under the forecast. This is an excellent result, and falls well within the agreed Outcome 13 tolerance of +/-1%.
2. The monthly income variance for April 2015-16 is 1.8%. This represents £8.4million less income than the forecast £478million. Such a variance is not unusual in the first month of a new financial year - for comparison, the April 2014 variance was 6%.
3. Expenditure for April was 0.8% (£6.4million) less than forecast, the main drivers being reduced Age Pensions and Transfers Out costs, which were both £3million less than expected. We will continue to monitor and report the forecast net cash requirement position which, at this very early stage of the year, currently suggests a cash surplus of £83million at year end.

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| **TPS Forecasting Exercises** |  |

1. The Winter OBR forecasts income and expenditure for the next 6 years whilst the Supplementary covers the last 3 months of the current financial year, which is critical to ensuring that the scheme does not exceed its expenditure limits, as voted by Parliament. Such was the assurance given to the OBR by the original submissions, and subsequent responses to the few queries raised, they recently confirmed there was no requirement to attend any form of challenge meeting. This is a positive message and highlights the high standard of the forecasting process. All Scheme forecasting models have been updated with the latest estimate figures and further ‘keep in touch’ meetings are planned during May between Capita TPS Finance and the Department’s Teachers’ Pensions and Corporate Finance teams.
2. In response to the Chancellor’s recently announced interim budget, PS schemes have been commissioned by the Office for Budget Responsibility (OBR) to participate in a ‘light touch’ forecasting exercise, providing the opportunity to flag any material changes in income and expenditure since the January exercise. There is to be no change to previously agreed methodology. We have agreed with OBR that, as the TPS has experienced immaterial variances, we will not have to provide substantive evidence for the exercise.

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

1. The main estimate forecasts net expenditure of £13.092billion for the financial year 2015-16. The current position following the April results predicts a variance of £51million expenditure over that forecast. However at this very early stage of the financial year, this position does not give cause for concern.
2. The first draft of the TPS resource accounts was produced in line with the agreed timetable for 1 May. The National Audit Office (NAO) audit (undertaken by Deloittes) will review the proposed accounts submission prior to delivery to the Audit Risk Committee (ARC) for formal approval. At the end of financial year 2014-15, the scheme reported a positive net resource position of £38million with £27million more income received and £11m less expenditure than expected. However the final outturn position is dependent upon the scheme actuary’s calculation of the movements on the pension liability that will be received in June.

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| **Contributions** |  |

1. **Unallocated Contributions** – Contributions paid to the scheme 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 £111m, which has reduced by £22m from the end of the last quarter.
   * The first contributions dashboard measure is designed to illustrate if the actual amount of employee contributions received across the 8 tiers equals that expected, when based upon the actual employer contributions received. The result is a difference overall from that expected equating to 0.56%. This gives significant assurance that employers are accurately remitting their tiered contributions.
2. **End of Year Certificate (EOYC)** – There are currently 8 returns outstanding in respect of the 2013-14 exercise representing 0.1% of the population. This has been reduced from 85 at the end of January and compares favourably to the same point last year when 89 remained to submit. In terms of the quality of returns TP have seen a drop in the number of returns requiring further action due to external queries from 17% last year to 7% this. Likewise the volume of returns that could be closed with no further action has increased from 78% to 91%. The controls in place will provide the requisite assurance to the NAO that the exercise is being administered robustly, which is reflected in the green status of the dashboard. The deadline for the unaudited returns in respect of the 2014-15 financial year is the 31st May 2015.

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| **Debt** |  |

1. **Member Overpayments** – Most scheme debt arises as a result of death, re-employment, re-marriage and lump sum overpayments. Outstanding debt has remained fairly static over the quarter at around £8.4million. However this includes a significant increase in identified re-marriage overpayment debt (an additional £500k) which has been identified as part of a targeted declaration exercise.
2. 61% (over £5million) of overpayment debt is currently in recovery. Over the last quarter over 2,000 invoices have been raised to a value of £3.54million representing an average value of £1,518. 81% of these invoices were in respect of death overpayments, resulting from the scheme not being informed of the member’s death in sufficient time to prevent pension payments being made.
3. **Arrears of Contributions** – The outstanding balance of member and employer arrears due to the scheme (where members have been omitted in error by employers) is £2.19 million. A reduction of £1.66 million has been achieved since 1 April 2014 as the result of a project initiated in February 2014 targeting resource to specifically address outstanding arrears.
4. The overall rating of amber on scheme debt prudently reflects 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 | **2014-15**  £13,612,937  **2015-16**  £1,500,641 | £13,452,635  £1,406,258 | £160,302 (1.18%)  £94,383 (6.3%) | Variances in Oct and Dec reflect the deferral of Milestone payments to the contractor – creating variances in both months.  Jan - failure of contractor to meet specified 'Outcomes' led to an underspend against profile in January.  Feb - milestone payments profiled for March were paid in February, on receipt of supporting evidence confirming delivery.  Residual underspend relates to the recovery of service credits following performance review against contract KPIs.  The milestone R7 invoice (Infrastructure) has been deferred until final costings for delivery of this work has be agreed with the Department. |
| GAD | **2014-15**  £366,663  **2015-16**  £35,000 | £342,506  £37,000 | £24,157  (6.6%)  £2,000 | Work completed by GAD in delivering the scheme valuation has been shared with other public service schemes. The Department has therefore been re-credited (Sept-Oct.)  Additional expenditure incurred in quality assuring membership data for the scheme accounts. |
| OH Assist | **2014-15**  £102,663  **2015-16**  £9,333 | £102,663  £9,333 | £0  £0 | Payments made in line with agreed contract. |
| DfE | **2015-16**  £47,486 | £46,673 | £813 | Provider (Redfern) has not issued invoices for travel costs for April. |

**Risk Update**

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.

**Key Risks**

**Deferred Project**

A deferred pension relates to active unclaimed pensions, where a member has left the scheme but has either not transferred their existing pension to a new scheme or claimed the residual funds. A project has been initiated to trace and verify deferred members, passing deferred member data to a tracing service and offering payment of pension or a refund of contributions as appropriate. It is forecast the project will attempt to trace c. 200k members over 48 months. Project commenced data exchange in April and 2,742 records were processed and analysis is currently underway on the results received.

**Outcomes**

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. A review is also currently underway to revise and improve the measurement criteria for a number of outcomes, along with a forum to carry out ‘horizon scanning’ exercises in order to understand how future changes in the scheme, the membership and technology might have an influence on the scoring and methodology of measurement.

**Reform**

The 2015 Reform has been managed through a major programme of work and has delivered communications, process and technology results to ensure the scheme and its members /employers are best placed to understand and manage the changes it brings. The programme went live on 2 April 2015 but remains on the register as there is an ongoing risk during the ‘bedding-in’ process until knowledge management, decision making and on-going communications are confirmed as operating effectively.

**Data Quality**

Data Quality is paramount to the successful administration of the scheme and 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.

**Guaranteed Minimum Pension (GMP) records** - As part of the cessation of ‘contracting out’ in 2016 a number of issues have been raised by, and with, HMRC and DWP regarding Guaranteed Minimum Pension (GMP) 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. Potentially this will cause conflict with the public service schemes’ Reform development programmes. There are also longer term policy issues to be resolved about the payment of GMP increases post 2016.

**Overview of all Risks**

There are currently 30 Strategic Risks under management, two of which carry a ‘High’ net risk rating, both of which have strong controls in place.

The ‘High’ rated risks are:

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

**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/OBR 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 is due to go live in June with a report on May’s data.

In addition to this, there are an additional 43 Service Delivery Risks under management, only one of which carries a ‘High’ net risk rating (GMP updates).

The ‘High’ rated risk is:

**Guaranteed Minimum Pension (GMP) records** - As described above (Dashboard item).

**Group Internal Audit (GIA) Update**

The main focus of GIA activity during the month has been the continued progression of the 2015 plan and production of the 2014/2015 Annual Statement of Assurance. The 2015 plan remains fully resourced for completion. One report was issued in ‘Final’ during the period:

* Scheme Reform – Training & Procedures: *‘*Effective’ (1 x Medium and 2 x Low risk graded finding identified).

The review of Scheme Reform – Flexibilities is at ‘Draft’ reporting stage. Fieldwork is in progress for the reviews of SLA and Performance MI and HartLink Change Management. Planning is in progress for the Deferred Members Project audit.

**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 | 0 | 4 | 2 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **** |

There is one overdue ‘Medium’ rated overdue action in the 1-30 day category.

* **Scheme Reform – IT Development (Finding 1 rated ‘Medium’ due 31/03/15)**: Log of rejected system defects that are outside the scope of the Reform project requires updating and incorporating into the Operational Project Activity Timeline. Action Owner Update (David Webb): The list of general defects has been produced for entry onto the OPAT and will be completed by 15th May 2015.

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.

## 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 |  |  |  | Fieldwork | Feb 2015 | Feb 2015 | 02/03/15 | Jun 2015 |  |  |  |  |  |  |  |
| TP02 Scheme Accounting | HU |  |  | 30 |  | Not Started | Aug 2015 |  |  | Oct 2015 |  |  |  |  |  |  |  |
| TP03 Monthly Data Collection | AB |  |  |  | 25 | Not Started | Sep 2015 |  |  | Nov 2015 |  |  |  |  |  |  |  |
| TP04 Contributions | ND |  |  |  | 25 | Not Started | Oct 2015 |  |  | Dec 2015 |  |  |  |  |  |  |  |
| TP05 Fraud Data Mining | HU |  |  | 20 |  | Not Started | Sep 2015 |  |  | Dec 2015 |  |  |  |  |  |  |  |
| TP06 Deferred Members Project | HU |  | 25 |  |  | Planning | Jun 2015 |  |  | Sep 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 |  |  |  | Draft Report | Mar 2015 | Jan 2015 | 04/03/15 | May 2015 |  |  |  |  |  |  |  |
| IT01 Hartlink Change Management | IT |  | 30 |  |  | Fieldwork | May 2015 | Mar 2015 | 24/03/15 | Jun 2015 |  |  |  |  |  |  |  |
| IT02 RMH Environment | IT |  |  | 40 |  | Not Started | Aug 2015 |  |  | Nov 2015 |  |  |  |  |  |  |  |
| Annual Assurance Statement | CD |  | 5 |  |  | Planning | N/A | N/A | N/A | Apr 2015 | Apr 2015 | N/A | N/A | - | - | - | - |
| **Total** |  | **85** | **60** | **90** | **50** |  |  |  |  |  |  |  |  |  |  |  |  |
| 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/U2 | C | H | M | L |