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

Cash Income and Expenditure →

1. The end of the 2015-16 financial year saw TP report an income variance of 0.09% or £5.6m under the forecasted £6,013m with £6,007m received. Expenditure returned a variance of 0.13% representing a £11.9m underspend with £9,546m paid out compared to the £9,558m anticipated. Both measures were comfortably within the +/-0.5% and +/-1.0% targets for income and expenditure respectively.

2. April has seen an overachievement on income of £17.4m giving rise to a 3.4% variance whilst expenditure incurred an additional £6.7m to that forecasted reporting a variance of 0.88%.

TPS Forecasting Exercises →

3. The Autumn OBR exercise will commence in June. This will see all current account forecasts – for the 7 year period - reviewed and reset where applicable following the appropriate challenge. Prior to this a draft timetable of events will be produced by TP and shared with the Department to ensure all key milestones are captured and confirm staff availability. Once completed the internal review and challenge meetings will be arranged. Further analysis of the deferred project expenditure to date is underway for consideration as part of the exercise.

Resource Accounts (net expenditure out-turn) Position →

4. The main estimate for 2016-17 shows net expenditure of £11,740m. The forecast outturn at the end of April shows an over-spend of £16m (1%) against this estimate at this early stage of the financial year. The overall increase in net expenditure is as a direct result of the increased contributions received in April which has driven up the current service cost (non-cash). This increase in contributions may be as a result of pay awards materialising later than expected, this will be monitored over the coming months. Overall the forecast net expenditure remains within the parliamentary control total submitted in respect of the main estimate.

5. The TPS project and steering group meetings have been held monthly. Review of the relevant actions log and risk register have been performed. The key risks remain

the timing, duration and management of the final audit and the membership reconciliation piece. The former has been the subject of robust challenge from Department colleagues during May whilst the latter has seen TP agree the methodology applied with the Government Actuary's Department (GAD). Additionally the 2014-15 reconciliation has been agreed back to contributions within tolerance. The first 'final draft' of the TPS resource accounts is due to be provided to the May Steering Group meeting.

6. The interim audit was completed in March with a follow up 2 day visit held in April to conclude a small number of residual items. Following this any remaining items were agreed and recorded on the final audit plan of work. This plan of work is now the responsibility of the Deloitte audit team, draft agreed on 29 April, allowing TP and the Department to resume their challenge role in full. Initial staff appointments have been identified and booked in ahead of the final audit commencing 31 May for 4 weeks. With the Audit and Risk Committee (ARC) meeting on 28 June it is imperative the final audit runs to schedule, to this end adherence to the plan will be closely managed throughout with regular progress meetings planned.

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.

    - Work on this account during the past quarter has seen the balance reduced by a further 39% from £95m to £58m in April whilst March had seen the lowest ever balance achieved at £48m. The £58m consists of £3.4m from 2012-13, £6.1m from 2013-14, £12.2m from 2014-15, £23.8m from 2015-16 and £12.4m from the current financial year. The vast majority of historical items are in respect of Central Bedfordshire from whom TP have secured paperwork covering £16m. Work is in progress to reconcile this data.

    - The breakdown by sector shows £10m attributable to Academies (previously £11.7m), £40m to local authorities (£67.3m). £1.8m to FE Colleges (£6.3m), £2m to HE colleges (£3.7m) and £2.6m to independents (£3.2m).

    - 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 0.07% or £130k on £187m of employee contributions.

    - Analysis of the increased employer rate of 16.4% plus the 0.08% admin levy is now included in the monthly finance annex reporting. This illustrates that following review of the 46 employers falling outside of tolerances applied, 6 required follow up actions to query the rate paid.

8. **End of Year Certificates (EOYC)** – Following further reminder actions by finance staff, there remained 29 returns outstanding from 68 at the last reporting period. This represents 1 local authority and 28 non-local authorities in respect of the 2014-15 exercise. The 28 consist of 7 Academies, 2 Free Schools, 3 Function Providers, 15 Independents and 1 University Technical College. Together they represent 0.4% of the 6,714 applicable employers.

9. **Pension Regulator Reporting –** Further breach of law reporting under the code of practise 14 was submitted to the Regulator in May for the April reporting period. This consisted of 3 independent employers in respect of contributions due - 2 for failure to adhere to payment plans and 1 where a repayment plan has not been agreed despite deadlines being set. With regards to the latter TP have taken informal legal advice, and have now given the employer 14 days to adhere prior to removing them from the scheme (members have been informed) and pursuing recovery of all outstanding money. Additionally, following review against the agreed EOYC 3 year performance matrix, 13 employers were reported for failure to submit their 2014-15 return. The Regulator has recently confirmed they will support TP by writing out to these employers seeking explanations as to their failure to comply with scheme requirments.

Debt	→

10. **Member Overpayments** –The outstanding balance has increased by a further £670k over the quarter to £9.28m. It was noted at the year-end that outstanding remarriage debt – as a result of the pro-active exercise to identify it – had increased from £902k to £2.394m over the course of the past 12 months. Remarriage and re-employment alone account for over £5m of the outstanding balance. Positively, excluding death cases awaiting probate, 77% of all cases are in recovery and 67% by value.

11. **Arrears of Contributions** – The outstanding balance of member and employer arrears debt has increased by £300k over the quarter (having previously reduced by the same figure) to return to £2.89m. Encouragingly, almost £2m of that being pursued is less than 12 months old illustrating that aged debt is minimal though TP continue to actively target.

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	→

13. The administrative levy (0.08% of employer contributions) has been in place from September 2015 and to end of December 2015 had collected £6.5m (3 months).

    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
TPSPB	[redacted]	[redacted]	[redacted]	Fees, travel and expenses. Quarterly invoicing from Capital Cranfield iro Pension Specialist due June for period April-June 2016.
GAD	[redacted]	0	[redacted]	April invoice has not yet been paid.
OH Assist	[redacted]	[redacted]		
DfE	[redacted]	[redacted]	[redacted]	
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

Deferred Project

3. Changes in the approach to the way the Deferred Project submissions are selected, as mentioned in the previous report, have enabled additional analysis to be carried out, and the results have shown there is very little likelihood of material impact to the scheme finances. As a result of this, the risk has been removed from the key risks for Board consideration.

Data Quality

4. A Data Strategy approach has been agreed to deliver improvements and initiatives throughout contract year five and beyond; the initial draft is in circulation awaiting final sign off. In addition to this, 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.

5. 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. Current targets for the quality of common and conditional data are all set at 100%, with an average achieved rate of 94.02%, a slight decrease since last reported (94.2% previously).

Guaranteed Minimum Pension records

6. The GMP project has progressed, completing the initial analysis of the 11.5k records initiated during the last period, and moving on to increase the remit of

investigation to include 49.5k pensioner records, with project resource increased to accommodate the additional activity. This work constitutes the second tranche of members in stage 2 of an ongoing project and will provide information to inform decisions on further phases. A Project Board is established with Stephen Baker in position as Senior Responsible Officer.

7. The net risk remains at amber as, although significant progress has been made todate, a number of policy decisions are still required to progress the actions associated with the control of this risk, and results need to be shared with Her Majesty's Revenue and Customs to understand further activity required.

Annual Resource Accounts production

8. The 9-month accounts have been submitted; feedback was received, but only of a presentational nature. This is being considered in respect of the final management accounts; the draft for internal review was submitted to the Steering Group in May, ahead of the final audit.

9. The interim audit has been concluded with a small number of residual items agreed to be carried over to the main audit. Deloitte are responsible for producing the final audit plan. This plan was agreed during April; work is now progressing on scheduling appointment for the final audit commencing 31 May.

10. During January the TPS accounts project board and steering group identified two key risks –

    - The date of the final audit (commencing 30 May for four weeks) conflicts with the ARC date of mid-June. ARC challenged the NAO over the timing of the audit and the risk this presents to the laying of accounts; NAO defended the timing, making it crucial that the final audit is managed robustly by Deloitte to achieve its deadline.

    - Membership reconciliation –A methodology has been proposed and agreed between Teachers' Pensions and the Government Actuary's Department; this will form part of the audit, and prior to this a paper will be provided outlining the methodology and the challenges faced by Teachers' Pensions in this area.

    - A meeting has been arranged in advance of the ARC with Janet Eilbeck (pension specialist for ARC) and Ian Fergusson (Chair of ARC) to provide early oversight of the Teachers' Pensions accounts project and the work done to date. In addition, this will provide oversight of the strategic developments in respect of the Teachers' Pensions Scheme.

Increase in Academy conversions (new Item to Key Risks)

11. There is a risk that the increase in Academy conversions 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.

12. The net risk is amber as there are a number of activities to be carried out 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.

13. Options are also being reviewed to provide training and support for TP operations

teams, along with additional communications to help converting establishments understand the process and to provide relevant supporting information.

Overview of all Risks

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

15. In addition there are a further 20 **Service Delivery Risks** under management (previously 18), two of which carry a ‘High’ net risk rating, both 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 month has been the continued progression of the 2016 plan and supporting Capita management to address open audit issues. There is one outstanding 2015 plan report (RMH Environment) and the 'Final Draft' was shared with DfE w/c 9 May for comments.

One report was issued in 'Final' during the period:

- Scheme Accounting rated *'Improvement Required'* (4 x Medium and 1 x Low risk findings raised)

The 2016 Plan remains on track and the 'Draft' reports for the reviews of SLA Management and Regulatory Compliance - Legal issues are currently being discussed with Capita management. The reviews of Quality Management and Internal Fraud Controls Evaluations are in the fieldwork stage.

Following the previously reported internal fraud incident, the former member of the Bereavement Team pleaded guilty to charges of fraud at Teesside Crown Court on 21 April 2016. Sentencing will take place on 1 July 2016. GIA will provide further updates, once available.
There is currently one GIA action that is reported as being overdue (1 x Medium) @ 30 April 2016. A revised timescale for completion has been provided for 19 May 2016.

Outstanding Issues

Overdue 1-30 days: Green; 31-60 days: Amber; 60 days plus: Red																	
	Total Open				0 to 30 days				31 to 60 days				60 days +				
Source	C	H	M	L	C	H	M	L	C	H	M	L	C	H	M	L	Trend
TPS Operations	0	0	7	1	0	0	0	0	0	0	0	0	0	0	1	0	↓

There is one overdue action (1 x Medium). TPS management has advised this will be fully remedied during May 2016.

- ***Scheme Reform - Flexibilities (Finding 1 (1.9) rated 'Medium' due 08/02/16)***: Webform specifications and manual procedures require update to ensure that the flexibility Scheme Regulations are adhered to.

Action Owner Update : Flexibilities specification development and testing is ongoing and is scheduled for implementation by 19/05/16. Delayed due to changed IT priorities.

Progress against Audit Plan for 2015/16

Audit Title	Q1	Q2	Q3	Q4	Current Status[1]	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
IT02 RMH Environment (2015)				✓	Draft Report	Oct 2015	Nov 2015	24/11/15	Jan 2016	*09/05/16**		*IR*	-	-	*4*	-
CIBS Service Level Management and Reporting	✓				Draft Report	Feb 2016	Feb 2016	01/03/16	Apr 2016							
CIBS Quality Management	✓				Fieldwork	Feb 2016	Feb 2016	24/02/16	Apr 2016							
CIBS Pension Administration – TPS Scheme Accounting	✓				Final Report	Feb 2016	Feb 2016	15/02/16	Apr 2016	27/04/16	06/05/16	IR	-	-	4	1
CIBS Financial Crime			✓		Not Started	Jul 2016										
CIBS Data Integrity – Member Records		✓			Not Started	May 2016										
CIBS TPS Internal Fraud Follow Up Controls Evaluation		✓			Fieldwork	Mar 2016	Apr 2016	15/04/16	Jun 2016							
CIBS Regulatory Compliance – Legal		✓			Draft Report	Jun 2016	Mar 2016	31/03/16	May 2016							
CIBS IT Application Management (including TPS) Hartlink Change)		✓			Planning	May 2016										
CIBS Business Continuity / Disaster Recovery				✓	Not Started	Sep 2016										
Annual Assurance Statement (2015 / 2016)	✓				Draft	Apr 2016										

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