**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. Following the setting of the winter Office of Budgetary Responsibility (OBR) forecast the revised spring supplementary cash estimate – running through to the year-end - reported a year to date income variance of 0.3% with £15m less received than anticipated. Similiarly year to date expenditure returned a variance of 0.15% with £12.5m less paid out than forecasted. This was predominantly down to the age, Actuarially Adjusted Benefits (AAB) and phased lump sum accounts incurring less.
2. From a net cash requirement perspective we currently anticipate a £206m surplus at the year end following the spring supplementary estimate.

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| **TPS Forecasting Exercises** |  |

1. The winter OBR exercise was successfully concluded during February. Following the initial submission, in which TP highlighted that the forecasted salary increase was not materialising, the OBR agreed that the percentage to be applied be reduced. This was completed, resubmitted and, along with clarifying a number of minor points raised, resulted in the successful sign off of the narrative and return. For the third exercise running the high quality of the TPS return has resulted in no challenge meeting being required. Once again a great deal of assurance can be taken from this outcome. TP also included a comprehensive update on the progress of the deferred project which was well received – details of which can be found in the Risk update section.

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

1. The revised supplementary estimate produced by the Department in conjunction with TPS shows net expenditure of £12.294b for the financial year 2015-16. The forecast outturn at the end of January shows  an under-spend of £200m against the estimate.  This figure is the combination of Income,  forecast to be £36m less than estimate, and   expenditure £236m less;  of which the two largest variances  are  current service cost and interest on scheme liabilities at £111m each.  Current service costs are calculated using income received. During the year the employers contribution rate was increased to 16.4% from 14.1%, this increase has obscured the reduction in contributions and therefore income is shown in line with estimate figures.  This reduction in income has in turn led to a reduction in the current service cost. The variance in the interest on scheme liabilities is driven as a result of the movement in the opening liability and the movement in current service costs.
2. TPS project and steering groups are now in place to effectively manage and monitor the resource accounts processes with the ultimate objective of achieving successful laying of the accounts in advance of the parliamentary recess. To this end the project group has put in place an issues log and fortnightly update meetings whilst the steering group now monitors a risk register on a monthly basis. Actions to mitigate the key risks have been identified.
3. Following conclusion of the NAO preliminary audit in December, TP have drafted the interim and final audit plans. The drafting of these plans in advance allows for resource impacts to be quantified and appointments arranged. The interim audit commences 29 February for 2 weeks and the final audit 30 May for 4 weeks. Concern has been expressed at the latter dates conflicting with the Audit Risk Committee meeting of mid June. Department officials are taking this issue forward.

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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.
   * Considerable work on the account over the past quarter has seen the current balance of monies requiring allocation to an employer record reduced to £95m. This is the first time the balance has fallen below £100m. This consists of £27.7m to be cleared down within the accounts from 2013-14, £26.7m being reviewed as part of the current 2014-15 end of year certificate (EOYC) exercise and £37.2m from the current financial year. Some 17 employers have been identified, currently accounting for circa £30m of the balance; these will be targeted between now and the year-end for slips.
   * The breakdown by sector shows £11.7m attributable to Academies (previously £18.2m), £67.3m to local authorities (£72.1m). £6.3m to FE Colleges (£5.6m), £3.7m to HE colleges (£6.7m) and £3.2m to independants (£4.2m).
   * 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 0.06% or £109k on £188m of employee contributions.
   * The effect of the increased employer contribution rate - from 14.1% to 16.4% plus the admin levy of 0.08% - which took effect from 1 September continues to be closely monitored. Following initial increases in the volume of monthly ratio variances reported a reduction has been seen this month from 580 to 422. In addition all prior month variances have been resolved. Further analysis confirms that over 99% of employers have paid at the correct rate.
2. **End of Year Certificates (EOYC)** – The non-local authority and local authority deadlines (being the end of September and November respectively for the 2014-15 exercise) passed, and TP have followed the escalated reminder process in order to secure late returns. As at 31 January there remain 3 local authority returns to secure and 65 non-local authority returns. The 65 consist of 29 Academies, 5 Free Schools, 3 Function Providers, 5 FE Colleges, 22 Independants and 1 University Technical College.The 68 outstanding represents 1% of the population issued of 6,713. Therefore 99% have been returned compared to 98.6% last year when 85 remained outstanding, against a smaller population of 5,904. at this stage.

9**. Pension Regulator Reporting -** The first breach review meeting was held in January. The first element of which was those employers with contributions over 90 days outstanding. This consisted of 5 employers where repayment has been robustly chased by TP through the escalated reminder process. Following review of the individual case histories it was agreed not to report at this stage. However a number had deadlines of 31 January imposed. Additionally a further 5 employers have repayment plans in place, it was therefore agreed not to report unless they default on their agreed plan. All 10 employers belong to the Independent sector. EOYC performance was then reviewed. Given TP provided 3 years worth of data it was agreed that the first step should be for TP to propose a reporting matrix. This has now been drafted for approval following which a further review meeting will be arranged. Full minutes of the breach meeting were drafted and distributed to attendees.

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| **Debt** |  |

10**. Member Overpayments** –The outstanding balance has increased by £500k to £8.6m. This has been driven by remarriage debt which has increased by the same amount over the period as a result of the proactive declaration exercise. Overall the value of debts TP have in recovery is £4.6m, 53%.

11**. Arrears of Contributions** – The outstanding balance of member and employer arrears debt has been reduced over the quarter by £300k to £2.59m. Taking into account those cases currently in recovery (£406k) and those in dispute by employers (£775k) TP are actively chasing £1.4m. 54%.

12. 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 exercises, such as the remarriage declarations and deferred member projects.

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| **Contractor & DfE Costs** |  |

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 (3months).

The figures below represent the spend to date in the current financial year (10months).

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|  | **YTD Profile** | **YTD actual** | **Variance** | **Narrative** |
| Capita | £Redacted | £redacted | -£redacte | redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted |
| TPSPB | £redacted | £redacted | -£redacted | redacted redacted redacted |
| Financial Reporting Council (FRC) | £redacted | £redacted | -£redacted | redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted |
| GAD | £redacted | £redacted | -£redacted | redacted redacted redacted redacted redacted redacted redacted redacted redacted |
| OH Assist | £redacted | £redacted | -£redacted | redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted  redacted redacted redacted redacted redacted redacted redacted redacted redacted redacted |
| DfE | £redacted | £redacted | -£redacted |  |
| 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 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**

1. The deferred members project (initiated in May 2015) continues to trace and verify deferred members, passing data to a tracing service and offering payment of pension or a refund of contributions as appropriate.
2. To date a total of 27,062 records have been processed (an increase from 15,112 reported last quarter). The change in the approach to the way data is reviewed, with the monthly data interrogation now including 500 cases where the predicted value is highest, and analysis of the total amount of scheme funds available to deferred members, has shown the impact of claims resulting from the project are unlikely to produce a material risk to the scheme funds.
3. The net risk currently remains the same as the target risk, although further analysis following the change of approach will result in a review of the net risk with a view to reducing this to low if exposure is confirmed as not material.

**Outcomes**

1. Changes in the approach to the way a number of outcomes are measured, as mentioned in the previous report, have shown significant improvements in the ability to monitor and manage responses, and the results have reflected this in showing improvements across most measures. As a result of these improvements this risk has been **removed** from the key risks for Board consideration.

**Re-location of Administration Services**

1. Following successful completion of the final milestone in December, reflecting the fact that all administration services have been delivered in line with expectations and with no detrimental impact from the re-location, this risk has been closed.

**Data Quality**

1. A Data Strategy approach has been agreed to deliver improvements and initiatives throughout contract year five and beyond; the initial draft is due for distribution in February.
2. 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 94.2%, a slight decrease since last reported (94.4% previously).

**Guaranteed Minimum Pension records**

1. A GMP project has been signed off and progressed to commence initial work to reconcile membership data for circa. 11.5k members. This work constitutes stage 2 of an ongoing project and will provide information to inform decisions on further phases. A Project Board has been established with Stephen Baker in position as Senior Responsible Officer.
2. The Net Risk has been reduced to amber as significant progress has been made to progress, although a number of policy decisions are still required to progress the actions associated with the control of this risk.

**Annual Resource Accounts Production (New Item to Key Risks)**

1. If inadequate controls are in place in respect of the Annual Resource Account production, there is a risk that the Teachers’ Pension Scheme Resource Accounts might be qualified following the NAO audit.
2. The 9 month accounts are now with the department to finalise by the end of February in time for Deloitte’s interim audit visit (commencing 29 February for two weeks). TP have drafted plans for the interim and final audits in order to quantify likely resource impacts. The next steps are to meet with Deloitte to clarify the scope of a number of items and the daily plan of work, appointments can then be arranged.
3. During January the TPS accounts project board and steering group met to discuss the delivery of the accounts prior to parliamentary recess. The project board has an actions log in place and the steering group a risk register. Key risks identified are –

* The date of the final audit (commencing 30 May for four weeks) conflicts with the ARC date of mid-June.
* Membership reconciliation – methodology has now been agreed with the NAO but some risks remain around the delivery of this work and its tie back into contributions.

1. Monthly keep in touch (KITs) meetings have been agreed to run in-between the monthly project meetings.

**Overview of all Risks**

1. There are currently 18 **Strategic Risks** under management (previously 19), none of which carry a ‘High’ net risk rating and which have strong controls in place.
2. In addition there are a further 18 **Service Delivery Risks** under management (previously 17), none of which carries a ‘High’ net risk rating.

**Group Internal Audit (GIA) Update**

The main focus of GIA activity during the month has been the production of remaining 2015 plan reports, commencing planning for 2016 plan assignments and supporting Capita management to address open audit issues.

Following the previously reported internal fraud incident, Durham Constabulary has advised that the individual that has been arrested has been re-interviewed on 29 January 2016. Engagement with the Crown Prospection Service is in progress and a timeline for appearing in court will be formally communicated to Capita / DfE (once confirmed).

In addition, GIA note there has been significant operational focus and Hartlink development work during the period to implement the new independent authorisation team across the TPS operation, and associated payment sanctioning control requirements. GIA will be reviewing the revised control framework during early Q2.

**Outstanding Issues**

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There are three overdue actions in the 0-30 day category (1 High and 2 Medium) that TPS management has advised will be fully remediated during February 2016.

In relation to the ‘High’ risk rated action, this relates to the implementation of a formal ‘lockdown’ process on Hartlink bereavement member records and is currently subject to user testing following IT development. GIA note the residual risk has been significantly reduced on account of the wider preventative / detective controls that have been implemented during the period via the new independent authorisation team.

## Progress against Audit Plan for 2015/16

| Audit 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/I1 | Critical | High | Medium | Low |
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| TP06 Deferred Members Project (2015) |  |  | ✓ |  | Final Draft Report | Jun 2015 | Jun 2015 | 13/07/15 | Dec 2015 | *02/02/16* |  | *E* | *-* | *-* | *1* | *1* |
| IT02 RMH Environment (2015) |  |  |  | ✓ | Draft Report | Oct 2015 | Nov 2015 | 24/11/15 | Jan 2016 |  |  |  |  |  |  |  |
| TP09 Scheme Reform – Operational Effectiveness (2015) |  |  | ✓ | ✓ | Draft Report | Sep 2015 | Sep 2015 | 12/10/15 | Dec 2015 |  |  |  |  |  |  |  |
| CIBS Service Level Management and Reporting | ✓ |  |  |  | Draft TOR | Feb 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS Quality Management | ✓ |  |  |  | Planning | Feb 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS Pension Administration – TPS Scheme Accounting | ✓ |  |  |  | Final Draft TOR | Feb 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS Financial Crime |  |  | ✓ |  | Not Started | Jul 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS Data Integrity – Member Records |  | ✓ |  |  | Not Started | Apr 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS TPS Internal Fraud Follow Up Controls Evaluation |  | ✓ |  |  | Planning | Mar 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS Regulatory Compliance – Legal |  |  | ✓ |  | Not Started | Jun 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS IT Application Management (including TPS) Hartlink Change) |  | ✓ |  |  | Not Started | May 2016 |  |  |  |  |  |  |  |  |  |  |
| CIBS Business Continuity / Disaster Recovery |  |  |  | ✓ | Not Started | Sep 2016 |  |  |  |  |  |  |  |  |  |  |
| Annual Assurance Statement (2015 / 2016) | ✓ |  |  |  | Not Started | Apr 2016 |  |  |  |  |  |  |  |  |  |  |

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