**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**

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| **Cash Income and Expenditure** |  |

1. September showed income was £2.4m below estimate, a variance of 0.45% following the inputting of the Autumn OBR estimate. This resulting in the year to date variance being 0.08%. For the year to date £3,139m has been received against the estimate of £3,136m.
2. Monthly expenditure reported a variance of 5.8% (£78m) with £1,269m paid out against the forecast £1,347m. This was predominately due to Age and AAB lump sums which were significantly under the revised forecast by £39.7m (11.5%) and £37.5m ((14.2%) respectively as a result of 1,500 less cases than anticipated. As a result the year to date position is an underspend of 1.53% with £5,010m having been paid out against the estimate of £5,088m.
3. Given the expenditure variance seen, TP will resubmit the Autumn OBR submission to take into account the actual September result.

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| **TPS Forecasting Exercises** |  |

1. The Autumn OBR exercise submission (return and associated narrative) was completed on time. Ahead of this TP had agreed with the OBR that given the significance of September expenditure on the Scheme (accounting for circa 40% of annual expenditure) TP would potentially re-submit if results dictated and timescales permitted. This was realised and re-submission agreed. As part of the post exercise review it was agreed that a standing OBR tracker would be maintained to provide oversight of those areas TP/DfE wished to consider for future exercises due to potential impacts. One significant area being the need to revisit lump sum unit costs and commutation rates across the difference schemes (i.e. 80th v 60th) to take into account this emerging degree of complexity. This will involve producing new system reports to inform the decision making process.

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

1. Deloitte have been appointed by the NAO as scheme auditors for the next 3 years. Following this news the project and steering groups will re-convene in November to manage the annual report and accounts process through to laying.
2. The forecast outturn at the end of July shows net expenditure of £11,554m, a variance of £185m (1%) against the main estimate figure of £11,740m. The variance is largely driven by a reduction in the current service cost, as advised by GAD, equating to approximately £30m per month. Overall the forecast net expenditure remains within the Parliamentary control total submitted in respect of the main estimate.

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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 was again maintained during the period with £59m being held unallocated at the end of September. This consists of £3.2m from 2012-13, £2.2m (previously reported as £4.2m) in respect of 2013-14, £6.6m (from £9.3m) in respect of 2014-15, £14.1m (from £14.7m) in respect of 2015-16 and £32.3m from the current financial year. The vast majority of historical items continue to relate to Central Bedfordshire. However TP have cleared circa 500 items and £4.6m since the last reporting period.
   * The breakdown by sector shows £16.3m attributable to academies (previously reported as £9m), £31.2m to local authorities (£38m). £2.7m to FE colleges, £1.9m to HE colleges (£2.3m) and £2.8m to independents (£1.9m). The remainder is attributable to free schools, Multi Academy Trusts (MATs), 6th form colleges and function providers.
2. **End of Year Certificates (EOYC)** – The non-LA audited deadline passed on the 30th September. Following this TP reported a return rate of 92.3% which is directly comparable with last year despite the increased employer population over the period. A small number of LA returns have been received early ahead of the 30th November deadline. Reminder actions are running to secure the outstanding returns before regulator reporting becomes applicable in the new year.

9**. Pension Regulator Reporting –** Breach of law reporting under Code of Practice 14 continues to be submitted monthly by working day 5. This quarter again saw a small number of reportable incidents in respect of outstanding contributions. Ferndale Independent School entered administration and it looks unlikely their outstanding contributions will be recovered. TP also wrote to Manor House Independent School to threaten de-acceptance as they reached four months of outstanding contributions. Three employers who continue to fail to submit their EOYC return in respect of 2014-15 were also reported, the regulator has contacted these employers direct to establish the reason for non-compliance.

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| **Debt** |  |

10**. Member Overpayments** – The outstanding balance increased further by £1.2m since the last reporting period from £10.5m to £11.7m. This was again predominately down to the pro-active remarriage declaration exercise. However following the September retirements exercise circa £500k was due to lump sum overpayments as revisions to service were made or members queried the level of lump sum they were expecting.

11**. Arrears of Contributions** – The outstanding balance of member and employer arrears debt has remained static at £3.4m. Encouragingly, £1.55m of the debt (45%) being actively pursued 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.

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| **Contractor & DfE Costs** |  |

13. The administrative levy (0.08% of employer contributions) has been in place from September 2015 and to end of September 2016 had collected £20.6m (13 months). For the period of this report April 2016 to September 2016 the amount collected from the levy totalled £9.4m.

1. The figures below represent the spend to date in the current financial year (6 months).

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|  | **YTD Profile** | **YTD actual** | **Variance** | **Narrative** |
| Capita | £redacted | £redacted | -£redacted | Capita Contract Spend. A number of invoices for September, 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 received in October for period July-Sept 2016. |
| GAD | £redacted | £redacted | -£redacted | Invoice for September received in October. |
| OH Assist | £redacted | £redacted | -£redacted | Medical services contract. September’s invoice was received in October. |
| 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**

1. 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.
2. 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.
3. 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 ensure we are aware when software releases enable employer to produce MDC returns

**Data Quality**

1. The TP Data Strategy to deliver improvements and initiatives throughout contract year five and beyond is in place. The proposal 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 has now been approved and implemented; results for Outcome Measure 12 for the end of the contract year have been calculated and the changes to the measure have been reflected in the 100% achievement of the year-end target.
2. The Data Steering Group now meets monthly and is supported by project documentation to track progress of initiatives under delivery.
3. The risk remains at amber as results can continue to be improved and new initiatives are currently under feasibility investigation. This work is feeding into the work HM Treasury are leading on improving data across schemes, and TP has been used as a case study of good practice

**Guaranteed Minimum Pension records**

1. Work is continuing under the GMP project with 100k member record investigations completed during the last 3 tranches.  The current project resource  is continuing with the investigation of 60k deferred and pensioners records and also includes Post ’97 members.  This work constitutes the fourth tranche of stage two of this ongoing project with outcomes from previous tranches providing information to shape future phases.  Responses to Her Majesty’s Revenue and Customs queries are being received and analysed to understand further activity which may be necessary. In addition, planning is underway in preparation for the receipt of the Active membership and the potential impact this will have on the current resource.  Progress continues to be reported to the GMP Project Board on a monthly basis.
2. The Net Risk remains at amber.  Good progress continues to be made and consultations continue with Her Majesty’s Revenue and Customs regarding responses to queries, however the policy decisions to further progress the actions associated with the control of this risk remain outstanding.

**Increase in Academy Conversions**

1. The risks associated with the increase in Academy conversions have been distilled into two clear events:
2. The profile of conversions being inconsistent, with ‘spikes’ of activity delivering high numbers of conversions in some periods; and
3. A variety of approaches may be taken by establishments, not all of which may be currently supported by TP.
4. A significant amount of mitigation action is underway at present, such as liaison 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.
5. These risks remain amber as there are a number of ongoing activities awaiting responses; these risks cannot be further mitigated until we have sight of the awaited responses.

**Overview of all Risks**

1. 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.
2. In addition there are a further 19 **Service Delivery Risks** under management (no change from last period), 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 quarter has been the continued progression of the 2016 plan, supporting Capita management to address open audit issues and initiating 2017 planning.

The 2016 Plan remains on track for delivery. The review of Internal Fraud Controls Evaluation is at ‘Final Draft’ reporting stage with DfE for review/comments. Fieldwork is nearing completion for the review of Financial Crime, IT Application Management and Business Continuity. These reviews are being completed in line with the new GIA co-source model arrangement and reporting phases are expected during October/November.

The CEB Head of Business Assurance is currently reviewing audit strategy and reporting requirements during Q4 to align with the 2017 GIA planning cycle. A meeting will be scheduled with Capita/DfE management to review the proposed 2017 TPS assurance plan, including GIA coverage.

**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 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **** |

There are no overdue issues to report.

## 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 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | *05/09/16\** | *Oct 2016* | *E* | *-* | *-* | *2* | *2* |
| 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) |  |  | ✓ |  | Fieldwork | Jul 2016 | Aug 2016 | 07/09/16 | Sep 2016 |  |  |  |  |  |  |  |
| CIBS Business Continuity / Disaster Recovery |  |  |  | ✓ | Fieldwork | Sep 2016 | 29/07/16 | 05/08/16 | Sep 2016 |  |  |  |  |  |  |  |
| 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)**