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Department of Education - Teachers' Superannuation

ANNUAL SCHEME STATEMENTS

for the year ended 31 March 2013

Department of Education – Teachers' Superannuation
Annual Scheme Statements
For the year ended 31 March 2013

Laid before the Northern Ireland Assembly by the Department of Finance and Personnel under Section 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001

5 July 2013

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REPORT OF THE MANAGERS
for the year ended 31 March 2013

Background to the Teachers' Superannuation Scheme

Statutory basis for the Scheme
The Teachers' Superannuation Scheme ("the Scheme") operates under the Teachers' Superannuation Regulations (Northern Ireland) 1998 (as amended).

Eligibility to join the Scheme
Northern Ireland teachers' pensions were significantly modified and improved under the Teachers' Pensions etc. (Reform Amendments) Regulations (Northern Ireland) 2007.

These regulations introduced a pension age of 65 for new entrants and modifications to the Scheme for existing members from 1 April 2007.

Persons in the employments specified in Schedule 2 of the Teachers' Superannuation Regulations (Northern Ireland) 1998 are eligible to join the Scheme.

Further information about the Scheme is available on the internet at www.deni.gov.uk.

Main features of the Scheme
The Teachers' Superannuation Scheme is an unfunded, defined benefit 'final salary' scheme to which teachers and their employers contribute. Benefits are index-linked and there is provision for payments to dependants.

Management of the Scheme
The Teachers' Superannuation Scheme is managed by the Department of Education. The Department also manages the Teachers' Premature Retirement Compensation Scheme which operates under the Teachers' (Compensation for Redundancy and Premature Retirement) Regulations (Northern Ireland) 2010.

Employers
The Teachers' Superannuation Scheme is for persons in the employments specified in Schedule 2 of the Teachers' Superannuation Regulations (Northern Ireland) 1998. A full list of employers currently within the Scheme can be obtained from the Scheme Administrator.

Corporate governance of the Scheme
The Teachers' Superannuation Scheme Steering Group meets several times a year to discuss, for example, annual requirements for actuarial valuations and information for the preparation of the Annual Scheme Statements. Ad hoc meetings are also held as required.

The Steering Group consists of staff from Accounting, Financial Governance and Accountability Team (AFGAT), Teachers' Negotiating and Pensions Policy Team (TNPPT), and the Teachers' Pay and Pensions Team (TPPT).

A Statement on Internal Control was prepared annually for approval by the Department's Audit and Risk Management Committee up to and including 2011-12. From 2012-13 onwards this has been replaced by a Governance Statement. To enable him to maintain a sound system of internal control, the Accounting Officer is informed by the work of the internal auditors and reports from senior managers on the effectiveness of internal controls; and by comments made by the external auditors in their management letter and other reports.

Arrangements governing determination of contribution rates and benefits
The Department of Education in exercise of powers conferred upon it by the Superannuation (Northern Ireland) Order 1972 and after consultation with relevant interested parties makes regulations which determine the contributions and benefits of the Scheme.

The Teachers' Superannuation Consultative Committee is the established forum for consultation on matters relating to the Scheme. The Committee comprises representatives of the recognised teacher unions, the University and College Union and employers from both the school and further education sectors.

Key developments in year

Changes in contributions
From 1 April 2012 contribution rates for employees increased from 6.4% of pensionable pay in accordance with the table below. Employers' contributions remained at 13.6% of pensionable pay.

Lower Salary*	Higher Salary*	Contribution Rate in 2012-13	Increase (against 6.4%)
-	£14,999	6.4%	0%
£15,000	£25,999	7.0%	0.6%
£26,000	£31,999	7.3%	0.9%
£32,000	£39,999	7.6%	1.2%
£40,000	£74,999	8.0%	1.6%
£75,000	£111,999	8.4%	2.0%
£112,000	-	8.8%	2.4%

* contributions are based on full-time equivalent (FTE) pay levels

Changes in benefits
Pensions were increased by 5.2% with effect from 9 April 2012.

Pensions legislation
During 2012-13 new legislation was introduced to make it easier for workers to save for retirement. It requires all employers to automatically enrol their workers into a qualifying scheme if they are not already in one.

The Teachers' Superannuation Scheme more than meets the minimum standards of a 'qualifying pension scheme', and automatic enrolment for full and part-time staff has been a feature of the Scheme since 2007. The vast majority of teachers will, therefore, be unaffected by this change in pensions legislation.

Membership statistics

Details of the membership of the Teachers' Superannuation Scheme are as follows:

A. Active members	
Active members at 31 December 2011	**24,976**
Opening adjustment**	(134)
	24,842
Add: New entrants	914
Re-entrants in the period	355
Transfers in	24
Less: Retirements in the period	(694)
Members leaving who have deferred pension rights	(1,014)
Deaths in service	(9)
Refunds/opt out	(52)
Transfers out	(5)
Active members at 31 December 2012*	**24,361**

B. Deferred members	
Deferred members at 31 December 2011	**14,610**
Opening adjustment**	193
	14,803
Add: Members leaving who have deferred pension rights	1,014
New members now classed as deferred	19
Less: Members taking up deferred pension rights	(247)
Transfers out	(49)
Re-entrants	(355)
Refunds	(21)
Deaths	(3)
Opt outs	(9)
Deferred members at 31 December 2012*	**15,152**

C. Pensions in payment	Members	Dependants	Total
Pensions in payment at 31 December 2011	**18,491**	**1,674**	**20,165**
Add: Members retiring in year at normal retirement age	941	-	941
Restorations	10	4	14
New dependants	-	138	138
Less: Deaths in year	(294)	(57)	(351)
Dependants leaving	-	(12)	(12)
Suspensions/other leavers	(14)	(1)	(15)
Pensions in payment at 31 December 2012*	**19,134**	**1,746**	**20,880**

D. Compensation payments	
Members in receipt of compensation at 31 December 2011	**8,678**
Add: New members in receipt of compensation	35
Less: Deaths/other leavers	(107)
Members in receipt of compensation payments at 31 December 2012*	**8,606**

* As the Department needs to meet shortened financial reporting deadlines, membership statistics for the 12 months ending 31 December have been disclosed, rather than for the financial year ending 31 March. This change was made in previous years after consultation with both the Government Actuary's Department (GAD) and the Northern Ireland Audit Office (NIAO).

** During 2011-12, the Department worked with the new system provider to develop a report to produce membership statistics in the required format. The migration of data to the new system which was implemented in October 2010, and the process of developing the new report highlighted some data errors on the old system. This resulted in the need to adjust the opening figures for Active and Deferred Members in the 2011-12 report. The process of updating for errors brought forward from the old system is ongoing and has resulted in further adjustments being required to the opening figures for Active and Deferred Members in this year's report.

The Department has reviewed the financial data for 1 January 2013 to 31 March 2013 and made enquiries with key personnel concerning Scheme membership during this period. There has been a significant movement from active to deferred membership during this period and this is still being investigated by the Department. GAD have indicated that the potential impact on the overall pension liability arising from this movement ranges from an understatement of £47.8m to an overstatement of £95.6m. The Department anticipate that this issue will be resolved on completion of the 2012 funding valuation.

Transfers
The Scheme has not accepted or transferred a liability during the year in respect of any group transfers.

Financial position at 31 March 2013
The Scheme liability at 31 March 2013 was £9.56 billion compared to £9.08 billion at the end of the previous year. The main reason for the increase was the change in financial assumptions as summarised in the Report of the Actuary. An analysis of movements in the Scheme liability is shown at note 18.4 to the Scheme statements.

Events after the reporting period
There were no events after the reporting period which required adjustment to the Scheme Statements or additional disclosures.

Issues for 2013-14
The employee contribution rates for 2013-14, on which the Department consulted, are shown in the following table:

Lower Salary*	Higher Salary*	Contribution Rate in 2013-14	Increase against 2012-13 rate
-	£14,999	6.4%	0%
£15,000	£25,999	7.0%	0%
£26,000	£31,999	7.9%	0.6%
£32,000	£39,999	8.8%	1.2%
£40,000	£44,999	9.2%	1.2%
£45,000	£74,999	10.1%	2.1%
£75,000	£99,999	10.6%	2.2%
£100,000	£111,999	11.2%	2.8%
£112,000	-	11.2%	2.4%

* contributions are based on full-time equivalent (FTE) pay levels

Information for members

Additional Voluntary Contributions (AVCs)
The Department of Education Teachers' Superannuation Scheme has no arrangements to offer Free-Standing Additional Voluntary Contributions (FSAVCs) or stakeholder pensions. However, the Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to increase their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment to the approved provider, namely Prudential plc. No contributions to these AVCs are made by the Scheme or teachers' employers. Members participating in this arrangement receive an annual statement from the approved provider as at 31 March confirming the amounts held on their account and the movements in the year.

All transactions and related assets and liabilities connected with the AVC scheme are private arrangements between Prudential and the employees, therefore they do not form part of the Department of Education Teachers' Superannuation Scheme statements.

Final AVC figures supplied by Prudential for 2012-13 were as follows:

Prudential Teachers' AVC Facility (Northern Ireland)	**2012-13 £000**	**2011-12 £000**
Movements in the year		
Balance at 1 April	43,862	44,332
New investments	3,695	4,360
Sales of investments to provide pension benefits	(4,589)	(4,832)
Changes in market value of investments	-	2
Balance at 31 March	**42,968**	**43,862**
Contributions received to provide life cover	118	148
Benefits paid on death	142	111

Scheme Managers, Advisers and Employers are listed below:

Accounting Officer
Paul Sweeney
Permanent Secretary
Department of Education
Rathgael House
43 Balloo Road
Rathgill
BANGOR
BT19 7PR

Scheme Manager and Premature Retirement Compensation Scheme Manager
La'Verne Montgomery
Department of Education
Rathgael House
43 Balloo Road
Rathgill
BANGOR
BT19 7PR

Scheme Administrator and Premature Retirement Compensation Scheme Administrator
Peter Crossley
Department of Education
Teachers' Pay & Pensions Team
Waterside House
75 Duke Street
Gobnascale
LONDONDERRY BT47 6FP

Pension Scheme Actuary
Government Actuary's Department
Finlaison House
15-17 Furnival Street
LONDON
EC4A 1AB

Bankers
Danske Bank
Donegall Square North
BELFAST
BT1 5GB

Legal Advisers
Departmental Solicitor's Office
Victoria Hall
12 May Street
BELFAST
BT1 4NL

Auditor
Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU

Disclosure of information to the Auditor
The Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Scheme's auditor is aware of such information. So far as he is aware there is no relevant audit information of which the Scheme's auditor is unaware.

Contact for enquiries
Any enquiries about the Teachers' Superannuation Scheme or the Teachers' Premature Retirement Compensation Scheme should be addressed to:

Peter Crossley
The Scheme Administrator, Teachers' Superannuation Scheme
Department of Education
Teachers' Pay and Pensions Team
Waterside House
75 Duke Street
Gobnascale
LONDONDERRY BT47 6FP

REPORT OF THE ACTUARY

Introduction

1. This report has been prepared by the Government Actuary's Department at the request of Department of Education Northern Ireland ('the Department'). It summarises the pensions disclosures required for the 2012-13 Resource Accounts of the Northern Ireland Teachers' Pension Scheme (NITPS or 'the Scheme').

2. The NITPS is a final salary defined benefit scheme, the rules of which are set out in The Teachers' Superannuation Regulations (Northern Ireland) 1998 (SR(NI) 1998/333) and subsequent amendments. The Scheme is wholly unfunded. I am not aware of any informal practices operated within the Scheme which lead to a constructive obligation (under IAS19 constructive obligations should be included in the measurement of the actuarial liability).

3. The report is based on an assessment of the liabilities as at 31 March 2012, with an approximate updating to 31 March 2013 to reflect known changes.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2012 and 31 March 2013 used to prepare this report.

Table A – Active members

31 March 2012		31 March 2013
Number	**Total salaries* (pa) (£ million)**	**Total salaries* (pa) (£ million)**
25,561	955	944

* Full-time equivalent

Table B – Deferred members

31 March 2012		31 March 2013
Number	**Total deferred pension† (pa) (£ million)**	**Total deferred pension† (pa) (£ million)**
13,481	18.3	19.0

† Including increases applied in April of year

Table C – Pensions in payment

31 March 2012		31 March 2013
Number	**Total pension† (pa) (£ million)**	**Total pension† (pa) (£ million)**
20,106	293.0	303.0

† Including increases applied in April of year

Methodology

5. The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2012-13 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2013 was determined using the PUCM and the principal financial assumptions applying to the 2011-12 Resource Accounts.

6. This report takes into account the benefits normally provided under the Scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

7. The principal financial assumptions adopted to prepare this report are shown in Table D. With effect from 31 March 2013, the assumed rate of return in excess of pension increases was decreased from 2.80% to 2.35% a year, and the assumed rate of return in excess of earnings was decreased from 0.60% a year to 0.15% a year. In addition, with effect from 31 March 2013, the assumed rate of future pension increases is 1.70% a year and the assumed nominal rate of salary growth is 3.95% a year (changed from 2.00% and 4.25% respectively as at 31 March 2012).

Table D – Principal financial assumptions

Assumption	31 March 2013	31 March 2012
Rate of return (discount rate)	4.10%	4.85%
Rate of return in excess of:		
Pension increases	2.35%	2.80%
Earnings increases	0.15%	0.60%
Expected return on assets:	n/a	n/a

8. The pension increase assumption as at 31 March 2013 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

9. The demographic assumptions adopted to prepare this report were derived from the specific experience of the scheme membership.

10. The standard mortality tables known as S1NXA are used but with adjustments derived from recent scheme experience. An age rating of -1 year applies to male pensioners, both current and future (that is they are assumed to experience the mortality rates given in the standard tables but at ages one year younger than their actual age). An age rating of -2 years applies to future female pensioners. For current female pensioners, an age rating of -2 years applies to the younger pensioners increasing to +1 year for the older

pensioners. Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom. These assumptions are the same as adopted for the 2011-12 Resource Accounts.

11. The reforms to the Scheme proposed for implementation in April 2015 and the increased member contributions being phased in from April 2012 may affect the behaviour of members, e.g. members subject to a later normal pension age for accrual after 2015 might be expected to retire later. Given the uncertainty surrounding the potential impact of these changes on member behaviour, the Department has decided to make no allowance for them for the purposes of the 2012-13 Resource Accounts. However, an indication of the effect of later retirement has been included in the sensitivity analysis in Table G.

12. The contribution rate used to determine the accruing cost in 2012-13 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2011-12 Resource Accounts.

Liabilities

13. Table E summarises the assessed value as at 31 March 2013 of benefits accrued under the Scheme prior to 31 March 2013 based on the data, methodology and assumptions described in paragraphs 4 to 12. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ billion

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(9.56)	(9.08)	(8.44)	(9.93)	(7.38)
Surplus/(Deficit)	(9.56)	(9.08)	(8.44)	(9.93)	(7.38)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Pension cost

14. The cost of benefits accruing in the year ended 31 March 2013 (the Current Service Cost) is based on a standard contribution rate of 25.7% of pensionable pay. Members contributed about 7.7% of pensionable pay on average with different rates for different tiers of pensionable salary. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account contributions paid by members. The corresponding figures for 2011-12 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	1 April 2012 to 31 March 2013	**1 April 2011 to 31 March 2012**
Standard contribution rate	25.7%	24.7%
Members' contribution rate	7.7%	6.4%
Employers' share of standard contribution rate	18.0%	18.3%

15. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 13.6%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the Scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of pension increases, which is 2.80% a year for the 2012-13 Current Service Cost compared with 3.5% a year for the existing scheme funding rate (note that the discount rate for scheme funding purposes has been reviewed and reduced to 3% but this does not affect the current rate of contributions). A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

16. The pensionable payroll for the financial year 2012-13 was £869 million (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2012-13 (at 25.7% of pay) is assessed to be £223 million rounded to £220 million in the Combined Statement of Comprehensive Net Expenditure for the year. The liability at the year end is £9.56 billion. There is no past service cost for 2012-13.

17. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2013 of changes to the main actuarial assumptions. In view of the changes proposed to the Scheme from 2015 which could lead to later retirement I have also given an indication of the effect of later retirement.

Sensitivity of results

18. The principal financial assumptions are the real rates of return in excess of pension increases and earnings growth. The assumed nominal rate of return is also important. A key demographic assumption is pensioner mortality.

19. Table G shows the indicative effects on the total liability as at 31 March 2013 of changes to these assumptions and the effect of later retirement.

Table G

Sensitivity to main assumptions

Change in assumption		Approximate effect on total liability	
Rate of return			
(i) nominal*:	-½% a year	+ 1%	+ £100 million
(ii) in excess of earnings*:	-½% a year	+ 1½%	+ £140 million
(iii) in excess of pensions*:	-½% a year	+ 7%	+ £670 million
Demographic assumptions			
(iv) pensioners living (on average) 2 years longer*:		+ 4½%	+ £430 million
(v) unprotected** active members of the pre 2007 section retiring 5 years later		- ¼% to - ½%	- £20 million to - £50 million

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

** Unprotected active members are those who will be subject to a new benefit structure for future service after April 2015. For the purpose of this assessment, the conditions for protection have been assumed to be the same as for the TPS in England and Wales.

Matt Wood
Government Actuary's Department
17 May 2013

Combined Statement of Comprehensive Net Expenditure disclosures for the year ended 31 March 2013

	Year ended 31 March 2013 £ billion	Year ended 31 March 2012 £ billion
Analysis of amount charged to pension cost		
Current service cost	0.22	0.22
Past service cost	-	-
Total operating charge	**0.22**	**0.22**
Analysis of the amount recognised in Statement of Financial Position		
Expected return on scheme assets	-	-
Interest on pension liability	(0.44)	(0.47)
Net return	**(0.44)**	**(0.47)**
Analysis of amount recognised in Statement of Change in Taxpayers' Equity (SCITE)		
Actual return less expected return on scheme assets	-	-
Experience gains and losses arising on pension liabilities	0.60	(0.22)
Changes in mortality assumptions	-	0.02
Changes in demographic assumptions (other than mortality)	-	-
Changes to financial assumptions from 31 March 2013	(0.77)	(0.07)
Net actuarial gains/(losses) recognised in SCITE	**(0.17)**	**(0.27)**
Movement in surplus/(deficit) during the year		
Surplus/(Deficit) at 31 March 2012	(9.08)	(8.44)
Current service cost	(0.22)	(0.22)
Benefits paid during the year	0.35	0.32
Past service costs	-	-
Net transfers in	-	-
Interest on pension liability	(0.44)	(0.47)
Actuarial gains/(losses)	(0.17)	(0.27)
Surplus/(Deficit) at 31 March 2013	**(9.56)**	**(9.08)**

As required by the FReM, all actuarial gains and losses are recognised in full in the period in which they occur.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (NI) 2001, the Department of Finance and Personnel has directed the Department of Education to prepare Teachers' Superannuation Scheme Statements for each financial year in compliance with the accounting principles and disclosure requirements of the extant edition of the Government Financial Reporting Manual ("the FReM").

With the exception of certain transactions (which are accounted for on a cash basis) the combined Scheme statements are prepared on an accruals basis and must give a true and fair view of the state of affairs at the financial year end, and of the net resource outturn, changes in taxpayers' equity and cash flows for the year then ended. The "Accounting Policies" note to the Scheme statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net resource outturn for the year or the Scheme liabilities at the year end. The Scheme statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by the Assembly or material transactions that have not conformed to the authorities that govern them. In addition, the Scheme statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme Rules and the recommendations of the Actuary.

In preparing the Scheme statements, the Accounting Officer is required to comply with the requirements of the FReM and in particular to:

- observe the Accounts Direction issued by the Department of Finance and Personnel including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the FReM have been followed, and disclose and explain any material departures in the Scheme statements; and
- prepare the Scheme statements on a going concern basis.

The Department of Finance and Personnel has appointed the Permanent Secretary of the Department of Education as Accounting Officer for the Teachers' Superannuation Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme, are set out in Managing Public Money Northern Ireland (MPMNI) which is published by the Department of Finance and Personnel.

GOVERNANCE STATEMENT

1. Introduction

1.1 This Governance Statement is a key feature of the Teachers' Superannuation Annual Scheme Statements. It provides details of how I, as Accounting Officer, have ensured effective management and control of resources during the 2012-13 year and of the action taken to ensure effective risk management and a high standard of corporate governance.

1.2 The Department of Education's 2012-13 Annual Report and Accounts includes an evaluation by the Department's Head of Internal Audit of the effectiveness of the Department's risk management, internal control and governance arrangements during 2012-13. This evaluation, which includes the Teachers' Superannuation Scheme, has indicated that these arrangements operated at a **satisfactory** level during 2012-13.

2. Governance framework

2.1 The Department of Education (DE) operates under the direction and control of the Minister for Education who is the Head of the Department. The Minister leads the Department and is responsible and accountable to the Assembly for the policies, programmes and actions of the Department.

2.2 As Permanent Secretary, I am the Minister's principal adviser, the administrative Head of the Department and the Accounting Officer. As Accounting Officer, I am personally responsible and accountable to the Minister and to the Assembly for the effective management and organisation of the Department and the Teachers' Superannuation Scheme, including the use of public money and the stewardship of its assets.

The Departmental Board

2.3 The Department is managed by a Departmental Board which, within the strategic framework set by the Minister, supports me in the discharge of my role.

2.4 The Board is chaired by me. Its membership comprises the Department's two deputy secretaries; the Chief Inspector of the Education and Training Inspectorate; DE Senior Civil Servant (SCS) members at director level; and an independent non-executive director. The role of the latter member is to provide an independent and external perspective on the work of the Board; to bring some specific expertise to its discussions; and to provide a constructive challenge across the Board's business. The Board's work is guided by a Corporate Governance Framework which is reviewed regularly (the most recent review was completed in December 2012).

2.5 Further details on the Departmental Board can be found in the main Governance Statement published in the Department of Education's 2012-13 Annual Report and Accounts. This includes a list of members along with individual attendance records, details of the Board's role and the categories of routine business.

Board sub-committees

2.6 During 2012-13, the Board was supported by two sub-committees: the Audit and Risk Management Committee (ARMC); and the Performance Efficiency Scrutiny Committee (PESC).

2.7 The ARMC is an independent advisory committee with no executive functions. Its role is to support me as Accounting Officer and the Board in discharging our respective responsibilities for issues of risk, control, governance and associated assurance. During 2012-13, the ARMC was chaired by John Smyth and supported by a professionally qualified Internal Audit service. It has two independent members. Its meetings were also attended by DE staff, including myself as Permanent Secretary, the Deputy Secretaries, the Finance Director, the Head of Internal Audit and a representative from the Department's external auditors, the Northern Ireland Audit Office (NIAO).

2.8 The ARMC carried out an assessment of its own effectiveness during 2012-13. The outcome indicated that, in overall terms, the ARMC continued to operate effectively, although there were a few areas where action could be taken to achieve further improvement. These areas will be addressed during 2013-14.

2.9 Further details on the ARMC can be found in the main Governance Statement published in DE's 2012-13 Annual Report and Accounts. This includes a list of members along with individual attendance records, the key areas in which the ARMC provided independent advice, scrutiny and challenge during 2012-13, and information on key areas progressed by this sub-committee.

3 DE Board Performance

3.1 I consider that the DE Board operated effectively during 2012-13, meeting regularly and considering appropriate issues at the appropriate time.

Assessment of Effectiveness

3.2 A review of Board effectiveness using self-evaluation questionnaires was commissioned in February 2013. The outcome of this review was discussed at the Board meeting held on 2 May 2013. In broad terms the Board's assessment was favourable but a number of areas for development were highlighted. The Board will consider the assessment in detail and appropriate actions to address the issues identified will be discussed at a workshop session to be held in Autumn 2013.

4 Corporate Governance

4.1 As noted above, the Department has in place a Corporate Governance Framework which was reviewed and updated by the DE Board during 2012-13.

4.2 The Corporate Governance Framework defines corporate governance as "the way in which an organisation is directed and controlled. It defines the distribution of rights and responsibilities among the different stakeholders and participants in the organisation, determines the rules and procedures for making decisions on corporate affairs – including the process through which the organisation's objectives are set – and provides the means of attaining those objectives and monitoring performance".

4.3 In accordance with the Corporate Governance Framework, all Board members must declare any relevant interests (these may be actual or perceived) on a Register of Interests. This Register is reviewed and updated twice a year and is published on the DE website. Members must also declare a relevant interest at the start of a meeting and follow the rules set out in the DE Conflicts of Interest Guidance.

4.4 Staff throughout the Department are also expected to declare relevant interests in Registers held at team level and team leaders are required to ensure that there is appropriate management of conflicts of interest and adherence to the Civil Service Code of Ethics. Registers of Gifts and Hospitality are also maintained at Board and team level and the Board register is published annually on the DE website.

Compliance with the Corporate Governance Code of Good Practice

4.5 The review of compliance with the "Code of Good Practice in Central Government Departments" has taken into account the advice in the accompanying Dear Accounting Officer (DAO) letter that "the Code leaves scope for Departments to make pragmatic decisions against a framework of principles to suit their own responsibilities and circumstances".

4.6 The Board discussed and agreed the review at its meeting on 2 May 2013. The review concluded that the only significant deviation from the Code during 2012-13 was that Non-Executive representation on the Board currently stood at one member rather than the recommended "minimum of two". I have initiated a process to recruit another Non-Executive from a pool of suitable candidates established by Departments following a public competition held earlier this year.

5 Quality of the data used by the Board

5.1 The Board relies on a number of sources of data to inform its deliberations. Details of these are published in the main Governance Statement included in DE's 2012-13 Annual Report and Accounts, including steps taken by the Board to satisfy itself of the quality of data provided.

6 **Ministerial Directions**

6.1 Arrangements exist to respond to a situation where an Accounting Officer believes that they are being asked by a Minister to take a course of action that could potentially result in irregular expenditure; impropriety; or poor value for money. In such circumstances, the Accounting Officer should ask for a formal Ministerial Direction to proceed.

6.2 During 2012-13 no Ministerial Directions were sought or given in relation to the Teachers' Superannuation Scheme.

7. Risk Assessment

7.1 The DE Board has responsibility for ensuring that an effective risk management process is in place and is regularly reviewed. In discharging this responsibility, it is supported by its ARMC and the Department's Internal Audit Team (IAT). The Chair of ARMC is a non-executive Director on the DE Board and is privy to discussions in relation to Departmental risk at DE Board meetings. This arrangement, in conjunction with written and verbal updates provided at each meeting, ensures the ARMC is kept fully informed of the Department's risk profile to enable it to undertake its responsibilities effectively.

7.2 The DE Risk Management Framework (RMF) sets out the Department's approach to risk and the mechanisms through which potential risks to the achievement of the Departmental objectives are identified and evaluated. Details of this, including risk appetite are included in the main Governance Statement published in DE's 2012-13 Annual Report and Accounts.

Internal control divergences 2012-13

7.3 During 2012-13, the Department successfully managed significant risks in relation to the areas listed below in relation to the Teachers' Superannuation Scheme. Brief further detail on the issue faced and the action taken is also provided.

- Potential overpayments in respect of re-employed teachers;
- Accuracy of membership data; and
- Utilisation of IT system.

Potential overpayments in respect of re-employed teachers

7.4 In March 2011, the Department identified overpayments to re-employed teachers, who had exceeded their Annual Earnings Limit (AEL). The Department subsequently implemented a number of additional controls to help prevent any future overpayments and continues to review controls in place. During 2012-13, a change to the monthly report, which is generated from the IT system, was implemented. This revised report identifies re-employed teachers before they reach their AEL and offers an additional level of assurance to the manual checks that were already in place.

Accuracy of membership data

7.5 The Department continues to manage the risk in relation to the accuracy of membership data. In producing the membership data for the purposes of the 2012-13 Scheme statements, a number of discrepancies were identified including a significant movement between active and deferred members during the period 1 January 2013 to 31 March 2013 which continues to be investigated. The Department is working with the IT systems provider to amend the records of a number of members and develop more accurate and reliable reports. GAD have estimated that the potential impact on the overall pension liability of £9.56bn arising from the movement between active and deferred members ranges from an understatement of £47.8m to an overstatement of £95.6m. The Department recognises the importance of the accuracy of membership data produced from pension system and continues to strive to improve the quality of this information.

Utilisation of IT System

7.6 In October 2010 a new Pensions Operating System was implemented. As part of the ongoing development of the system, meetings with the supplier have highlighted that the system is not being used to its full potential. The Department is currently investigating how these matters have arisen and will produce an action plan that will be implemented during 2013-14.

Data security lapses

7.7 The Department did not identify any data security issues relating to the Scheme during the year.

Fraud prevention

7.8 Fraud monitoring and reporting arrangements have been effectively maintained throughout the year. The Department participates in the biennial NFI, which compares public sector databases to identify mismatches between information held. This allows the Department to compare teacher's pension payroll against other payrolls. Where mismatches are found, each case is investigated to ensure that no overpayments or possible fraud have taken place. No significant issues have been identified to date in this regard.

7.9 A previous review of the Department's fraud management arrangements, which was conducted by Internal Audit, reported a 'satisfactory' opinion and made seven recommendations for further improvement, of which six have been implemented. The Department's fraud policy documents will be reviewed and updated during 2013-14 to ensure they continue to meet best practice requirements.

8. Conclusion

8.1 In conclusion, it is my assessment that an appropriately rigorous system of governance and accountability is operating, which I can rely on as Accounting Officer, to provide assurance that the public funds and other resources for which I am accountable are deployed effectively and appropriately.

Signed: ______________________________ **Date:** 3 July 2013

Accounting Officer

Department of Education – Teachers' Superannuation Scheme Accounts

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSSEMBLY

I certify that I have audited the financial statements of the Department of Education Teachers' Superannuation Scheme for the year ended 31 March 2013 under the Government Resources and Accounts Act (Northern Ireland) 2001. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. I have also audited the Statement of Assembly Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to examine, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department of Education Teachers' Superannuation Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department of Education Teachers' Superannuation Scheme and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Managers, Report of the Actuary and Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Assembly Supply properly presents the outturn against Assembly control totals and that those totals have not been exceeded.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31st March 2013 and shows that those totals have not been exceeded; and

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the scheme's affairs as at 31st March 2013 and of its net expenditure, cash flows and changes in taxpayers' equity for the year then ended; and
- the financial statements have been properly prepared in accordance with Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001.

Opinion on other matters

In my opinion:

- the information given in the Report of the Managers, Report of the Actuary and Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

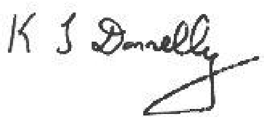
Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with Department of Finance and Personnel's guidance.

Report

I have no observations to make on these financial statements.



KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

4 July 2013

STATEMENT OF ASSEMBLY SUPPLY

Summary of Resource Outturn 2012-13

								2012-13 £'000	2011-12 £'000
		Estimate			Outturn				Outturn
Request for Resources RfR A	Note	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Net Total Outturn Compared with Estimate: Saving/ (excess)	Net Total
Annually Managed Expenditure		675,000	(188,676)	486,324	665,166	(188,681)	476,485	9,839	515,450
Non-Budget		-	(1,935)	(1,935)	-	(1,930)	(1,930)	(5)	(1,837)
Total Resources	3	675,000	(190,611)	484,389	665,166	(190,611)	474,555	9,834	513,613

RfR A: Providing a pension scheme for persons covered by the Teachers' Superannuation Scheme

Summary of net cash requirement 2012-13

				2012-13 £'000	2011-12 £'000
	Note	Estimate	Outturn	Net Total Outturn Compared with Estimate: Saving/ (excess)	Outturn
Net cash requirement	4	176,481	163,425	13,056	133,047

Summary of income payable to the Consolidated Fund

In addition to accruing resources, the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics).

		Forecast 2012-13 £'000		Outturn 2012-13 £'000	
	Note	Income	Receipts	Income	Receipts
Total	5	-	-	867	*867*

Explanation of the variances between Estimate and outturn (net total resources):

Request for Resources — Saving £9.8 million

The saving is mainly due to lower than anticipated current service cost. This cost is calculated by the Government Actuary's Department in accordance with IAS 19. The resulting figure is rounded to the nearest £10 million.

The notes on pages 27 to 42 form part of these Scheme statements.

COMBINED STATEMENT OF COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2013

Principal arrangements
Teachers' Superannuation Scheme

	Note	2012-13 £'000	2011-12 £'000
Income:			
Contributions receivable	7	(186,609)	(177,213)
Transfers in	8	(4,775)	(4,197)
Other pension income	9	(90)	-
		(191,474)	(181,410)
Expenditure:			
Pension cost	10	220,000	220,000
Interest on scheme liabilities	11	440,000	470,000
Enhancements	12	301	302
Transfers in	13	4,775	4,197
Capitalised cost of enhancement	14	90	-
		665,166	694,499
Net expenditure	3(a)	**473,692**	**513,089**

Other Comprehensive Net Expenditure

Recognised gains and losses for the financial year	Note	2012-13 £000	2011-12 £000
Actuarial loss	18.7	169,981	270,922
Total Comprehensive Net Expenditure for the year ended 31 March 2013		**643,673**	**784,011**

The notes on pages 27 to 42 form part of these Scheme statements.

COMBINED STATEMENT OF FINANCIAL POSITION
as at 31 March 2013

Principal arrangements
Teachers' Superannuation Scheme

	Note	2012-13 £'000	2011-12 £'000
Current assets:			
Receivables	15	3,340	3,252
Cash and cash equivalents	16	2,385	2,469
Total current assets		5,725	5,721
Current liabilities:			
Payables (within 12 months)	17	(7,598)	(6,483)
Net current liabilities, excluding pension liability		(1,873)	(762)
Pension liability	18.4	(9,560,000)	(9,080,000)
Net liabilities, including pension liability		**(9,561,873)**	**(9,080,762)**
Taxpayers' equity:			
General fund		(9,561,873)	(9,080,762)
		(9,561,873)	**(9,080,762)**

Signed: ______________________________ Date: 3 July 2013
Accounting Officer

The notes on pages 27 to 42 form part of these Scheme statements.

COMBINED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY for the year ended 31 March 2013

		General Fund	
		2012-13	2011-12
	Note	£'000	£'000
Balance at 1 April		(9,080,762)	(8,429,274)
Net Assembly Funding – drawn down		163,000	132,984
Net Assembly Funding – deemed (prior year)		1,943	2,006
Supply payable adjustment – current year	17	(1,518)	(1,943)
Excess Accruing Resources	6	(863)	(524)
Combined Comprehensive Net Expenditure for the year	3(a)	(473,692)	(513,089)
Actuarial loss	18.7	(169,981)	(270,922)
Net change in Taxpayers' Equity		(481,111)	(651,488)
Balance at 31 March		**(9,561,873)**	**(9,080,762)**

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

The notes on pages 27 to 42 form part of these Scheme statements.

COMBINED STATEMENT OF CASH FLOWS
for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Cash flows from operating activities			
Net expenditure for the year		(473,692)	(513,089)
Adjustments for non-cash transactions:			
(Increase) / decrease in receivables		(88)	11,553
Increase in payables		1,115	397
Less movement in payables relating to items not passing through the combined statement of comprehensive net expenditure		84	(462)
Increase in pension provision	18.4	660,000	690,000
Increase in pension provision – enhancements and transfers in	18.4	5,076	4,499
Increase in pension provision – capitalised cost of enhancement	18.4	90	-
Use of provisions – pension liability	18.5	(349,503)	(320,055)
Use of provisions – death in service	18.5	(2,248)	(1,499)
Use of provisions – refunds and transfers	18.6	(3,396)	(3,867)
Net cash outflow from operating activities		(162,562)	(132,523)
Cash flows from financing activities			
From the Consolidated Fund (supply): current year		163,000	132,984
Net Assembly financing		163,000	132,984
Net increase in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund		438	461
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities		4	5
Payments of amounts due to the Consolidated Fund		(526)	(4)
Net (decrease) / increase in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund		(84)	462
Cash and cash equivalents at the beginning of the period	16	2,469	2,007
Cash and cash equivalents at the end of the period	16	**2,385**	**2,469**

The notes on pages 27 to 42 form part of these Scheme statements.

NOTES TO THE SCHEME STATEMENTS

1. Basis of preparation of the Scheme statements

The combined Scheme statements have been prepared in accordance with the relevant provisions of the 2012-13 Government Financial Reporting Manual (FReM*)* issued by the Department of Finance and Personnel. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. 'IAS 19 Employee Benefits' and 'IAS 26 Accounting and Reporting by Retirement Benefit Plans' are of particular relevance to these statements.

In addition to the primary statements prepared under International Financial Reporting Standards, the FReM also requires the Scheme to prepare an additional statement – a Statement of Assembly Supply. This statement, and the supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Department of Education – Teachers' Superannuation Scheme and Teachers' Premature Retirement Compensation Scheme

The Teachers' Superannuation Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the Department of Education on behalf of the members.

Contributions to the Scheme by employers are set at rates determined by the Scheme Actuary and approved by the Department which determined the contribution rates for employees after a consultation exercise. The contributions partially fund payments made by the Scheme, the balance of funding being provided by the Assembly through the annual Supply Estimates process. The administrative expenses associated with the operation of the Scheme are borne by the Department of Education and reported in the annual resource accounts of the Department.

The Scheme statements summarise the transactions of the Teachers' Superannuation Scheme and the Teachers' Premature Retirement Compensation Scheme where the Department of Education acts as a principal. The Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme statements should be read in conjunction with that Report.

The Scheme Statements also have regard to the accounts direction given by the Department of Finance and Personnel in accordance with section 9(2) of the Government Resources and Accounts Act (Northern Ireland) 2001.

2. Statement of accounting policies

The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent they are meaningful and appropriate in the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the Scheme statements.

2.1 Accounting convention

These Scheme statements have been prepared under the historical cost convention.

2.2 Pension contributions receivable

a. Employers' normal contributions are accounted for on an accruals basis.

b. Employers' special contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.

c. Employees' contributions and amounts received in respect of the purchase of added years of service are accounted for on an accruals basis. Neither Additional Voluntary Contributions nor payments to providers of Stakeholder Pensions (see the Report of the Managers), are brought into account in these statements.

2.3 Transfers in and out

Transfers in and out are generally accounted for on a cash basis. However, where the Scheme has formally accepted or transferred a liability in respect of a group transfer, such transfers are accounted for on an accruals basis.

Transfers in are simultaneously recognised as income and expenditure so that the increase in the Scheme liability is accounted for at the same time as the income is received.

2.4 Other income

Other income, including refunds of benefits, overpayments recovered other than by deduction from future benefits and miscellaneous income, and the recovery of the capitalised cost of enhancement under the Premature Retirement Compensation Scheme are accounted for on an accruals basis. To the extent that this income also represents an increase in the Scheme liability, it is also reflected in expenditure.

2.5 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Combined

Statement of Comprehensive Net Expenditure. It is calculated by factoring up the actual contribution rates charged to employers (13.6%) to the projected unit credit rate (25.7%) adopted by the Actuary.

2.6 Past service cost

Past service costs are changes in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, change to, or improvement to, retirement benefits. Past service costs are recognised in the Combined Statement of Comprehensive Net Expenditure in the year in which the change in benefits vests.

The UK Budget Statement of 22 June 2010 announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would apply to public service pensions through the statutory link to the indexation of the Second State Pension.

The use of CPI for uprating index-linked features was adopted by all central Government reporting entities from 2010-11 onwards, replacing RPI which had been used for inflation indexing in previous years.

2.7 Interest on Scheme liabilities

The interest cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement, and is recognised in the Combined Statement of Comprehensive Net Expenditure. The interest cost is based on the discount rate applicable at 1 April 2012, being 2.8 per cent real rate (i.e. 4.85 per cent including CPI inflation) and is recognised in the Combined Statement of Comprehensive Net Expenditure.

2.8 Other expenditure

Other expenditure is accounted for on an accruals basis.

2.9 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit credit method and is discounted at the rate applicable at the close of 31 March 2013, being 2.35 per cent real rate (i.e. 4.1 per cent including CPI inflation).

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the reporting period date and updates it to reflect current conditions.

Further details in respect of the Scheme liability are provided in note 18.

2.10 Pension benefits payable

Pension benefits payable are accounted for as a decrease in the Scheme liability on an accruals basis.

2.11 Pension payments to those retiring at their normal retirement age

Lump sums and annual pension payments are accounted for on an accruals basis. Recognition is based on the pension liability accruing from the day following the date of retirement.

2.12 Pension payments to and on account of leavers before their normal retirement age

Refunds of employees' contributions are accounted for on an accruals basis. Refunds include amounts payable both at the time of leaving or at normal retirement age (or earlier death).

2.13 Lump sums payable on death in service

Lump sum payments payable on death in service are accounted for on an accruals basis. They are funded through the normal pension contributions and are a charge on the pension provision.

2.14 Actuarial gains / losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Statement of Financial Position date are recognised in the Combined Statement of Comprehensive Net Expenditure.

2.15 Premature Retirement Compensation

The cost of compensation for early retirement because of redundancy or in the interests of the efficient discharge of the employer's function can be broken down into two elements, being the cost of enhancement (added years) and the cost of the early payment of unreduced pension. From 1 April 2008, employers became liable for the cost of enhancement in the form of a lump sum paid to the Scheme to meet the liabilities that have yet to be discharged. During 2008-09 and 2009-10, the Scheme continued to meet the cost of early payment of unreduced pension. The cost of the future liability in setting up and revising the provision is recorded as expenditure in the Combined Statement of Comprehensive Net Expenditure, with the offsetting income reflecting the reimbursements receivable from the employers. The Department made regulations, which came into operation on 30 April 2010, which have the effect of transferring the full cost of premature retirement compensation (i.e. both enhancement and early payment of pension) to employers.

2.16 Cash and cash equivalents

The cash balance is based on cash at bank as adjusted for any outstanding receipts and payments that have yet to be processed through the account.

2.17 Currency and rounding

The functional currency is Sterling and, except where otherwise stated, all figures have been rounded to the nearest thousand pounds.

2.18 Changes to International Financial Reporting Standards

Management have reviewed all new accounting standards that have been issued but are not yet effective, nor adopted early for these Scheme statements. International Accounting Standard 19 has been amended and the amendment will be applied to pension scheme accounts from 1 April 2013. The only impact of the amendment for the Teachers' Superannuation Scheme will be to disclosure requirements.

2.19 Changes to the Financial Reporting Manual (FReM)

The FReM for 2011-12 introduced a Governance Statement into the annual scheme statements instead of a Statement on Internal Control. This change is applicable to Northern Ireland departments for the first time in 2012-13.

3. Reconciliation of Estimates, accounts and budgets

3(a) Reconciliation of net resource outturn to net expenditure

		2012-13 £'000			2011-12 £'000
	Note	Outturn	Supply Estimate	Outturn Compared With Estimate	Outturn
Net Resource Outturn		474,555	484,389	9,834	513,613
Non-supply income (CFERs)	5	(863)	-	863	(524)
Net Expenditure		**473,692**	**484,389**	**10,697**	**513,089**

3(b) Outturn against final administration budget

All costs of administering the Teachers' Superannuation Scheme and the Teachers' Premature Retirement Scheme are borne by the Department of Education.

4. Reconciliation of resources to net cash requirement

	Note	Estimate	Outturn	Net total Outturn Compared with Estimate: saving/(excess)
		£'000	£'000	£'000
Net Resource Outturn	3(a)	484,389	474,555	9,834
Accruals adjustments:				
Non-cash items: increase in provision		(675,000)	(665,166)	(9,834)
Changes in working capital other than cash		-	(1,111)	1,111
Use of provision		367,092	355,147	11,945
Net cash requirement		**176,481**	**163,425**	**13,056**

Explanation of variance between Estimate and net cash requirement:

1. Increase in provision — Saving £9.8 million

The saving is mainly due to lower than anticipated current service cost. This cost is calculated by the Government Actuary's Department in accordance with IAS 19. The resulting figure is rounded to the nearest £10 million.

2. Changes in working capital other than cash — Variance £1.1 million

Changes in working capital are inherently difficult to forecast. In the absence of any known significant changes in debtors or creditors, no accruals adjustment was included in the Spring Supplementary Estimate 2012-13.

3. Use of provision — Saving £11.9 million

The saving is due to lower than anticipated pension and lump sum payments during the year.

5. Analysis of income payable to the Consolidated Fund

		Forecast 2012-13 £'000		Outturn 2012-13 £'000	
	Note	Income	Receipts	Income	*Receipts*
Operating income and receipts – excess accruing resources	6	-	-	863	*863*
Other amounts collectable on behalf of the Consolidated Fund		-	-	4	*4*
Total income payable to Consolidated Fund		**-**	**-**	**867**	***867***

6. Reconciliation of income recorded within the Combined Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2012-13 £'000	2011-12 £'000
Operating income		191,474	181,410
Income authorised to be accruing resources		(190,611)	(180,886)
Operating income payable to Consolidated Fund	5	**863**	**524**

7. Contributions receivable

	2012-13 £000	**2011-12 £000**
Employers' Contributions	118,144	119,521
Employees' Contributions - Normal	66,234	55,555
Employees' Contributions - Purchase of added years	301	300
Premature retirement compensation receipts from DEL	1,930	1,837
	186,609	**177,213**

£197 million contributions are expected to be payable to the scheme in 2013-14.

8. Transfers in (*see also* Note 13)

	2012-13 £000	**2011-12 £000**
Individual transfers in from other schemes	**4,775**	**4,197**

9. Other pension income (*see also* Note 14)

	2012-13 £000	**2011-12 £000**
Capitalised cost of enhancement to pensions payable	**90**	**-**

10. Pension cost (*see also* Note 18.4)

	2012-13 £000	2011-12 £000
Current service cost	**220,000**	**220,000**

11. Interest on scheme liabilities (*see also* Note 18.4)

	2012-13 £000	2011-12 £000
Interest charge for the year	**440,000**	**470,000**

12. Enhancements *(see also* Note 18.4*)*

Purchase of added years and added pension	2012-13 £000	2011-12 £000
Employees:	301	300
Employers:	-	2
	301	**302**

13. Transfer in – additional liability (*see also* Note 8)

	2012-13 £000	2011-12 £000
Individual transfers in from other schemes	**4,775**	**4,197**

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Combined Statement of Comprehensive Net Expenditure as part of the movement in the provision during the year.

14. Capitalised cost of enhancement (*see also* Note 9)

	2012-13 £000	2011-12 £000
Capitalised cost of enhancement to pensions payable	**90**	**-**

15. Receivables - contributions due in respect of pensions

15(a) Analysis by type

Amounts falling due within one year:	2012-13 £000	2011-12 £000
Pension contributions due from employers	1,896	1,975
Employees' normal contributions	1,070	924
Overpaid pensions	387	372
Provision for bad debt	(174)	(171)
DEL debtor	161	152
	3,340	**3,252**

Included within these figures is £nil (2011-12: £210) that will be due to the Consolidated Fund once the debts are collected.

15(b) Analysis by organisation

Amounts falling due within one year:	2012-13 £000	2011-12 £000
Balances with other central government bodies	161	152
Balances with bodies external to government	3,179	3,100
	3,340	**3,252**

16. Cash and cash equivalents

	Note	2012-13 £000	2011-12 £000
Balance at 1 April		2,469	2,007
Net change in cash balances		(84)	462
Balance at 31 March		**2,385**	**2,469**
The following balances at 31 March are held at:			
Commercial banks and cash in hand		**2,385**	**2,469**
The balance at 31 March comprises:			
Amounts issued from the Consolidated Fund for supply but not spent at year end	17	1,518	1,943
Excess accruing resources	17	863	524
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	17	4	2
		2,385	**2,469**

17. Payables - in respect of pensions

17(a) Analysis by type

Amounts falling due within one year:	2012-13 £000	2011-12 £000
Pensions	1,450	550
HMRC and voluntary contributions	3,621	3,330
Interdepartmental balances owed in respect of refund of overpaid contributions	51	43
Other payables	91	91
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,518	1,943
Excess accruing resources	863	524
Consolidated Fund extra receipts received due to be paid to the Consolidated Fund	4	2
	7,598	**6,483**

17(b) Analysis by organisation

Amounts falling due within one year:	2012-13 £000	2011-12 £000
Balances with other central government bodies	6,056	5,841
Balances with bodies external to government	1,542	642
	7,598	**6,483**

18. Provision for pension liabilities

18.1 Provision for pension liability

The Department of Education Teachers' Superannuation Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2013. The Report of the Actuary and Combined Statement of Comprehensive Net Expenditure disclosures on pages 8 to 13 set out the scope, methodology and results of the work the actuary has carried out.

In order that the defined benefit obligations recognised in the Scheme statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years." The Scheme regulations also require that a formal actuarial valuation be carried out every four years.

The last formal actuarial valuation undertaken for the Department of Education Teachers' Superannuation Scheme was completed as at 31 March 2004 per the report dated 7 March 2007. An interim review of the Scheme valuation was carried out as at 31 March 2006 per the report dated 12 June 2007. The next formal actuarial valuation was due as at 31 March 2008 and a substantial amount of work was carried out in respect of it. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. As the interval since the last completed formal actuarial valuation now exceeds four years, the amounts recognised in these Scheme statements have been prepared using full membership data that would be required for a formal valuation as at 31 March 2012. However, there is an element of uncertainty in respect of this membership data and classification as referred to in the Report of the Managers and the Governance Statement. GAD have estimated that the potential impact on the overall pension liability arising from this uncertainty ranges from an understatement of £47.8m to an overstatement of £95.6m. The analysis of Scheme experience at 31 March 2008 has been used to inform the Department's choice of demographic assumptions for the 2012-13 Resource Accounts. In undertaking this exercise, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

The Scheme manager together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Scheme manager should make available to the actuary in order to meet the expected requirements of the Scheme auditor. This information includes, but is not limited to, details of:

- Scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners;
- Benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;
- Income and expenditure, including details of expected bulk transfers into or out of the Scheme; and
- Following consultation with the actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The major assumptions used by the Actuary were:

Financial assumptions	**At 31 March 2013**	**At 31 March 2012**	**At 31 March 2011**	**At 31 March 2010**	**At 31 March 2009**
Rate of increase in salaries	0.00%	0.00%	0.00%	2.30%	2.30%
Rate of increase in pensions in payment and deferred pensions	5.20%	3.10%	0.00%	5.00%	3.90%
Nominal discount rate	4.10%	4.85%	5.60%	4.60%	6.00%
Rate of CPI inflation	1.70%	2.00%	2.65%	N/A	N/A
Discount rate net of CPI	2.35%	2.80%	2.90%	2.50%	N/A

Mortality rates at age 60		**At 31 March 2013**	**At 31 March 2012**	**At 31 March 2011**	**At 31 March 2010**	**At 31 March 2009**
Current retirements:	Females (years)	32.8	32.7	32.7	32.6	31.8
	Males (years)	29.2	29.1	29.2	29.1	28.6
*Retirements in 20 years time:	Females (years)	35.1	35.0	34.6	34.0	33.3
	Males (years)	31.6	31.5	31.1	30.5	30.2

*The life expectancy from age 60 of future pensioners will depend on their current age. This table shows the life expectancy from age 60 for future pensioners currently aged 40 (currently aged 45 figures up to 31 March 2010).

Mortality rates at age 65		**At 31 March 2013**	**At 31 March 2012**	**At 31 March 2011**	**At 31 March 2010**	**At 31 March 2009**
Current retirements:	Females (years)	27.8	27.7	27.7	27.6	26.7
	Males (years)	24.4	24.3	24.3	24.2	23.5
*Retirements in 20 years time:	Females (years)	30.0	29.9	29.6	29.5	28.6
	Males (years)	26.6	26.5	26.2	26.1	25.6

*The life expectancy from age 65 of future pensioners will depend on their current age. This table shows the life expectancy from age 65 for future pensioners currently aged 45.

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. However, the Scheme manager acknowledges that the valuation reported in these Scheme statements is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. The rates are set out in the financial assumptions table above. Any decrease in the discount rate net of price inflation leads to a significant increase in the reported liability.

In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The Scheme manager does not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the Scheme manager, the actuary has used key assumptions that are the most appropriate for the Scheme in the light of current knowledge.

Analysis of the provision for pension liability	**At 31 March 2013 £ billion**	**At 31 March 2012 £ billion**	**At 31 March 2011 £ billion**	**At 31 March 2010 £ billion**	**At 31 March 2009 £ billion**
Pensions in payment	5.39	4.96	4.53	4.95	4.06
Deferred members	0.36	0.36	0.26	0.32	0.30
Active members	3.81	3.76	3.65	4.66	3.02
Total	**9.56**	**9.08**	**8.44**	**9.93**	**7.38**

18.2 Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the scheme liability, the actuary must estimate the impact of several inherently uncertain variables into the future. The variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

18.3 The value of the liability on the statement of financial position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The manager of the Scheme accepts that, as a consequence, the valuation provided by the actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in Note 18.4. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

18.4 Analysis of movements in the Scheme liability

	Note	2012-13 £000	2011-12 £000
Scheme liability at 1 April		(9,080,000)	(8,440,000)
Current service cost	10	(220,000)	(220,000)
Interest on pension scheme liability	11	(440,000)	(470,000)
		(660,000)	(690,000)
Enhancements	12	(301)	(302)
Pension transfers in	13	(4,775)	(4,197)
Capitalised cost of enhancement	14	(90)	-
		(5,166)	(4,499)
Benefits paid	18.5	351,751	321,554
Pension payments to and on account of leavers	18.6	3,396	3,867
		355,147	325,421
Actuarial loss	18.7	(169,981)	(270,922)
Scheme liability at 31 March		**(9,560,000)**	**(9,080,000)**

During the year ended 31 March 2013, contributions from employers were 13.6% and from employees approximately 7.7% of pensionable pay on average, employees' contributions being based on different rates for different tiers of pensionable salary. For 2013-14 contributions are expected to be 13.6 % for employers and for employees approximately 9.0% on average.

18.5 Analysis of benefits paid

	2012-13 £000	2011-12 £000
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	297,779	275,046
Commutations and lump sum benefits on retirement	51,724	45,009
Lump sum benefits on death in service	2,248	1,499
Per Statement of Cash Flows	**351,751**	**321,554**

18.6 Analysis of payments to and on account of leavers

	2012-13 £000	2011-12 £000
Refunds to members leaving service	146	191
Individual transfers to other schemes	3,250	3,676
Per Statement of Cash Flows	**3,396**	**3,867**

18.7 Analysis of actuarial (loss) / gain

	2012-13 £000	2011-12 £000
Experience gains /(losses) arising on the Scheme liabilities	600,019	(220,922)
Changes in mortality assumptions	-	20,000
Changes in demographic assumptions underlying the present value of the Scheme liabilities	--	--
Changes in assumptions underlying the present value of the Scheme liabilities (adjustment to discount rate % at 31 March)	(770,000)	(70,000)
Per Statement of Changes in Taxpayers' Equity	**(169,981)**	**(270,922)**

18.8 History of experience gains /(losses)

	2012-13	2011-12	2010-11	2009-10	2008-09
Experience gains / (losses) on Scheme liabilities:					
Amount (£000)	600,019	(220,922)	59,948	103,910	35,015
Percentage of the present value of the Scheme liabilities	6.27%	(2.43%)	0.7%	1.0%	0.5%
Total amount recognised in the statement of changes in taxpayers' equity:					
Amount (£000)	(169,981)	(270,922)	909,948	(2,196,090)	945,015
Percentage of the present value of the Scheme liabilities	(1.77%)	(2.98%)	10.8%	(22.1%)	12.8%

19. Financial instruments

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Scheme's expected purchase and usage requirements and the Scheme is therefore exposed to negligible credit, liquidity or market risk.

20. Contingent liabilities disclosed under IAS 37

In the unlikely event of a default by Prudential plc, the Department's approved provider of an Additional Voluntary Contributions scheme, the Department of Education will guarantee pension payments due from that scheme. This guarantee does not apply to members who make payments to institutions offering Free Standing Additional Voluntary Contribution Schemes.

21. Losses and special payments

21(a) Losses statement:

During the years 2012-13 and 2011-12 total losses were less than £250,000; and in accordance with Annex 4.10 to Managing Public Money Northern Ireland (MPMNI), no further disclosure is required.

21(b) Special payments:

During the years 2012-13 and 2011-12 there were no special payments.

22. Related party transactions

The Teachers' Superannuation Scheme and the Teachers' Premature Retirement Scheme fall within the ambit of the Department of Education which is regarded as a related party. During the year, the Schemes have had material transactions with the Department, Non-Departmental Public Bodies and other bodies whose employees are members of the Schemes. None of the Managers of the Schemes, key managerial staff or other related parties have undertaken any material transactions with the Schemes during the year.

23. Events after the reporting period

There were no events after the reporting period which required adjustments to the Scheme statements or additional disclosures.

Date of authorisation for issue
The Accounting Officer authorised the issue of the Scheme Statements on 4 July 2013.

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