



**Permanent Secretary**

Sanctuary Buildings 20 Great Smith Street Westminster London SW1P 3BT  
tel: 0207 340 7414 permanent.secretary@education.gsi.gov.uk

Sarah Petit  
Clerk to the Public Accounts Committee  
House of Commons  
7 Millbank  
London SW1P 3JA

*Dear Ms Petit*

*29* June 2015

**PAC Fortieth Report – Excess Votes 2013-14**

In 2013-14 the Teachers' Pension Scheme's Annually Managed Expenditure limit was breached which led to an Excess Vote. In the Committee's report on Excess Votes, the Committee concludes that the department should write setting out the progress it has made on developing a new forecasting model.

The attached annex summarises how the breach happened and the action taken to improve the forecasting model and supporting processes.

I am copying this letter to Amyas Morse and Richard Brown.

*Tom Smeeth*

*Chris Wormald*

**CHRIS WORMALD  
PERMANENT SECRETARY**



## Update on Teachers' Pension Scheme Excess Vote 2013-14

In 2013-14 the Teachers' Pension Scheme for England and Wales (TPS) exceeded its Annually Managed Expenditure (AME) limit by £398m. The paragraphs below summarise the issues and provide the Committee with an update of action taken by the department to minimise the risk of a breach happening again.

The £398 million AME breach was the result of an error calculating the non-cash interest charge on the pension liability. It was a technical breach of the AME control total and did not result in a loss of cash to the scheme, nor does it affect pension payments. As soon as the error was identified by the department's accounts team, it was escalated to the Finance Director who informed the Permanent Secretary and the Audit and Risk Committee. The Permanent Secretary commissioned Internal Audit to review the forecasting spreadsheet and the supporting processes.

Finance staff developed an action plan to address the issues they had identified, which were also reflected in the recommendations of the Internal Audit report. The plan has been implemented and as a result action has been taken as described below.

- *Issue: Need to improve the governance arrangements*  
We have strengthened the governance arrangements by increasing the oversight of the forecasts used in the Estimate and the monthly reporting to HM Treasury. All changes to the assumptions underpinning the calculations (e.g. discount rates, employee contribution rates) are signed off at a senior level. We have also introduced a new statement on TPS finances in the monthly report to the Management Committee.
- *Issue: Improve the design of the spreadsheet because underlying assumptions were insufficiently visible.*  
The existing model was quickly upgraded so it meets the DfE spreadsheet standards and a replacement spreadsheet has been developed which aligns the forecasting with the annual accounts.
- *Issue: Need to strengthen the controls in the process*  
We have increased the knowledge of the TPS finances and budgets so that we are no longer reliant on one individual. In addition to more management oversight, the forecasting spreadsheet also contains more analysis of variances so that it is easier to identify potential issues and challenge data.

- *Issue: Need to broaden the coverage of the management reviews and ensure they are properly documented*

The financial position is reviewed at a senior level before the monthly financial forecast is submitted to HM Treasury. The new statement on TPS finances for the Management Committee is also discussed with Capita.

In addition the action agreed with Internal Audit, the Finance Director commissioned a full review of all the key financial spreadsheets used by the Department's Finance and Commercial Group. Work has been carried out to provide assurance on the quality of these spreadsheets and the processes around their use. The TPS action plan and the wider spreadsheet review have been overseen by the Department's Audit and Risk Committee and are largely completed. The remaining work on a few (lower risk) spreadsheets will be concluded by July 2015.

29 June 2014