

NHS Pension Scheme (Scotland)

Annual Report and Accounts 2018-19

Presented to the Scottish Parliament under Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000.

Laid before the Scottish Parliament by the Scottish Ministers September 2019.

SG/2019/159

Scottish Public Pensions Agency

The Scottish Public Pensions Agency (SPPA) is responsible for the administration, on behalf of Scottish Ministers, of the NHS Pension Scheme (Scotland) (NHSPSS) whose members comprise NHS employees of all types (for example hospital consultants, nurses, porters and administrators) employed by Health Boards and a range of smaller employers as well as General Medical Practitioners, their staff and Dental Practitioners. The costs of administering the scheme are not included within these accounts. These costs are reported in SPPA's annual report and accounts which are published on the Agency's web site at <https://pensions.gov.scot>.

The Agency also administers payments of compensation benefits due to NHS employees where their employers have capitalised their liability for these payments. The NHS Premature Retirement Compensation Scheme for Scotland is administered by the Scottish Government Directorate of Health and Social Care but capitalised liabilities are transferred to the NHSPSS and administered by the Agency.

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Accountability

1. Report of the Managers

1.1 Introduction

This report provides a summary of the arrangements to ensure the NHSPSS is managed correctly and provides information to aid understanding of the scheme.

There is a range of information about the NHSPSS available on the Agency internet site at <https://pensions.gov.scot/nhs>.

1.2 Managers and advisors

Managers

Agency Accountable Officer	Penelope Cooper Chief Executive Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE
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Scheme Administrator	Paplu Dey Head of Customer Services Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE
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Advisors

Scheme Actuary	Government Actuary's Department Elgin House Haymarket Yards Edinburgh EH12 5WN
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Bankers	Royal Bank Of Scotland London Corporate Services Centre GBS Team Aldgate Union 10 Whitechapel High Street London E1 8DX
	National Westminster Bank PLC 280 Bishops Gate London EC2M 4RB

Legal advisors

Scottish Government Legal Directorate
The Scottish Government
Victoria Quay
Edinburgh
EH6 6QQ

External auditor

Stephen Boyle
Audit Director
Audit Scotland
4th Floor, South Suite, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

1.3 Background to the Scheme

The NHS Scheme is a defined benefit unfunded statutory pension scheme which is set out in three main sets of regulations. Following a reform of public service pensions a new Career Average Re-valued (CARE) scheme, the NHS Pension Scheme (Scotland) 2015 was introduced from 1 April 2015. Prior to this, the Scheme was a final salary scheme set out in two sections known as the 1995 section and the 2008 section. Although both sections provide final salary benefits there are differences, for example, on the normal pension age, the 1995 section has a retirement age of 60 whereas the 2008 section has a retirement age of 65.

Following the 2015 reforms, all new members from 1 April 2015 joined the CARE scheme, and all members of the 1995 and 2008 section who did not qualify for protection against the changes also moved to the CARE scheme with all final salary service accrued up to the point of transfer preserved. Full protection, i.e. the member remains in the 1995 or 2008 section through to retirement, was provided to those members who were within 10 years of their normal retirement age as at 1 April 2012. Those 1995 and 2008 section members who were between 10 years and 13 years 5 months of their retirement date as at 1 April 2012 received protection on a tapered basis moving to the CARE scheme based on an individual's transition date. The 1995 and 2008 sections remain open for those members with full and transitional protection. Members who have service in both the 1995 or 2008 sections and the CARE scheme when they retire will have a final pension containing both elements. The transition arrangements have been challenged in the courts. See Age discrimination on transitional protection at paragraph 1.7.

Both the 2015 CARE scheme and the 1995 and 2008 sections provide a pension on retirement and a tax free lump sum option. In the CARE scheme and 2008 section a member must commute part of their pension if they wish to take a tax free lump sum whereas the 1995 section provides an automatic lump sum. Both the 2015 scheme and 1995 and 2008 sections provide benefits on death for members' families or their dependants and scheme members also have the option to transfer their pension between the NHS Scheme and another scheme when they move into or out of NHS employment in Scotland. However, a transfer to a defined contribution scheme that from 6 April 2015 provides full cash access to an individual's pension is not allowed. This restriction applies to all unfunded public service schemes.

The 2013 Public Services Pensions Act, which introduced the 2015 reforms also required new scheme governance arrangements to be set up with the introduction of a Scheme Pension Board and Scheme Advisory Board (SAB). The role of the Pension Board is to assist the Scheme Manager in the operational delivery of the Pension Scheme in line with scheme and other legislation and to meet the requirements imposed by the Pensions Regulator. The Scheme Manager is SPPA, a role delegated by the Scottish Ministers.

The SAB provides advice to the Responsible Authority, at the Responsible Authority's request, on the desirability of changes to the Scheme. The Responsible Authority for these purposes is the "Scottish Ministers" with the Minister for Public Finance and Digital Economy taking on that role given her responsibility for public service pensions. From their introduction in April 2015 both boards have met regularly, including meetings during 2018-19 and details of those meetings and details of each Board's membership are available on the SPPA website at <https://pensions.gov.scot/nhs>.

1.4 Valuation and contribution rates

Benefits are funded through pension contributions deducted from members' salaries and a contribution from their employers. Membership of the Scheme is voluntary although auto enrolment requirements apply to new members and those employees who have previously opted out. Contribution rates and benefits are set by Scottish Ministers on advice from SPPA and the Scheme's actuary.

As part of the 2013 Act, HM Treasury developed and finalised its directions on how and when scheme valuations should be undertaken and that an employer cost cap should be set. The valuation measures the full costs of paying pension benefits and informs the employer contribution rate. The employer cost cap is a mechanism that will ensure that the risks associated with pension provision are not met solely by the taxpayer, but are shared with scheme members. The employer cost cap is symmetrical so any breach that results in a member's benefits being reduced or improved depends on the direction of the breach.

Scheme valuations are carried out every four years. The latest valuation of the scheme is based on data as at 31 March 2016 and included the first assessment of the employer cost cap. The valuation indicated that there had been a downward breach of the employer cost cap and as required by the scheme regulations the advice of the SAB was requested on how the cost breach could be rectified. The SAB agreed a number of proposed options which included changes to employee contribution rates and using actual instead of whole time equivalent pay to set a member's contribution rate.

In addition to the cost cap breach the UK Government announced a reduction in the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate used in the valuation of unfunded public service schemes, from 3% to 2.8% in its 2016 budget statement. A reduction in the discount rate will, all other things being equal, increase the contributions employers are required to pay. That is because the rate 'discounts' future pension costs to a figure in today's terms. A lower discount rate means a smaller discount for the employer. Changes in the discount rate are not included when assessing changes in the employer cost cap.

It was anticipated that the employer cost cap rectification action would take effect from 1 April 2019 but in January 2019 the UK Government paused work in this area. This

arose because of the decision from the Court of Appeal (McCloud (Judiciary scheme)/ Sargeant (Firefighters' Scheme) cases) that held that the transitional protections provided as part of the 2015 reforms unlawfully discriminated on the grounds of age. The UK Government sought leave to appeal the decision to the Supreme Court but this was not allowed. Pending a decision on the case, which has now been made, they directed that the planned increases in employer contributions should go ahead and the employer cost cap be paused. The cost cap will be reconsidered once the final decision on a remedy and how this affects the NHSPSS is known and its impact fully assessed in relation to any additional costs to the schemes.

The UK Government also confirmed it would provide funding to schemes to cover the cost of increased employer contributions from April 2019. The Scottish Government's share of this funding is based on the Barnett Formula which provides a proportion of the additional funding provided to the pension scheme in England and Wales.

The 2016 valuation confirmed that an increase in the employer contribution rate from 14.9% to 20.9% was required from 1 April 2019 to 31 March 2023. A consultation on Regulations which set the new employer contribution rate, and changes to the current pay band used to set employee contribution rates, was issued on 20 December 2018. The employer contribution rate will therefore increase from 14.9% to 20.9% from 1 April 2019. Employee pension contributions will continue at the same rates within a range of 5.2% to 14.7% and are anticipated to deliver a yield of 9.6%.

1.5 Eligibility and employers

NHS staff, including General Medical and Dental Practitioners, employed by Scottish Health Boards and a range of smaller employers, including General Medical Practices, are eligible to join the Scheme. At 31 March 2019 the number of employers was 913 (31 March 2018: 927).

1.6 Changes to the Scheme

During the year the following regulations were made:

The NHS Superannuation and Pension Schemes (Miscellaneous Amendments) (Scotland) Regulations 2019 (SSI 2019/46)

This Statutory Scottish Instrument (SSI) was consulted on in February 2019 and came into force in April 2019. The SSI has made changes to the salary/earnings bands of the employee contribution tables for the Scheme in line with the NHS 2018 pay increase. When setting the employee contributions going forward from April 2015 it was agreed that any future annual pay increases should be reflected in the pay bands used to set a members contribution rate. The aim of this approach was to avoid members receiving an annual pay rise which resulted in them moving to a higher contribution rate.

Changing the pay bands for contribution purposes also required a report (No.SG/2019/05) to be made to the Scottish Parliament by the Scottish Ministers under section 22 of The Public Service Pensions Act 2013 in February 2019. Section 22 requires greater legislative scrutiny of changes made to what are known as protected elements, one of which is member contribution rates. The protected elements reflect the UK Government's guarantee that the public service pension reforms introduced

from April 2015 would last for 25 years. Although contribution rates were not being changed, the pay bands that allocate rates were being amended, therefore, it was considered that section 22 applied.

This instrument also included some corrective amendments to the National Health Pension Scheme (Scotland) (Additional Voluntary Contributions) Regulations 2018.

Annual indexation of pensions in payment

Public service pensions in payment, together with those that are deferred for payment at a future date, are indexed annually based on the annual change in the Consumer Price Index (CPI) measured as at the previous September. In the 12 months to September 2017, CPI was 3.0%. As a result, an increase of 3.0% was applied from 9 April 2018 for pensions in payment and deferred pensions.

1.7 Looking forward

Guaranteed Minimum Pension (GMP)

The introduction of a single tier State Pension from 6 April 2016 ended 'contracted out' defined benefit pension schemes. SPPA has been given responsibility for tracking and maintaining GMP liabilities from that date. In 2019-20 SPPA will continue the reconciliation exercise to match GMP data held by SPPA to data held by HMRC. Revised GMPs and pensions (over/under payments) will be calculated and each member's record updated. A contingent liability has been recognised. See notes to the accounts 14.

Surviving civil partner or spouse

In July 2017, the Supreme Court handed down judgement in the case of Walker vs Innospec Ltd and others. The Supreme Court found that it is unlawful to restrict the survivor's pension payable to a surviving civil partner or spouse so that it reflects only the member's pensionable service since 5 December 2005 (the date on which the Civil Partnership Act 2004 came into force). SPPA will bring forward Regulations towards the end of 2019 to introduce the required changes to survivor benefits for same sex partners.

Age discrimination on transitional protection

In 2015 the Government introduced reforms to public sector pensions (Hutton Report published in 2011, Public Service Pensions Act 2013 enacted the pensions reforms), meaning most public sector workers were moved into new career average pension arrangements in April 2015. Transitional protection was provided to members of the previous final salary arrangements based on their age at 1st April 2012 allowing them to continue in their existing arrangements and receive benefits from it, rather than transfer to the 2015 arrangements.

In December 2018, the Court of Appeal held that transitional protection provisions contained in reformed judicial and firefighter pension schemes, introduced as part of public service pension reforms in 2015, gave rise to direct age discrimination and were therefore unlawful. The Supreme Court issued a decision in June 2019 rejecting the

Government's application for permission to appeal. The case (McCloud/Sargeant) will now be referred to an Employment Tribunal for a decision regarding the remedy which will need to be offered to those members of the two schemes who were subject of the age discrimination.

In line with other UK public service pension schemes, consideration has been given to the potential impact of the outcome for the NHSPSS and it has been decided it is prudent to increase past service costs. The scheme actuaries, the Government Actuary's Department, has estimated this past service cost at £0.7 billion for the additional liability arising from the judgement. This has been included as a provision in these accounts (see 2.17 in the Statement by the Actuary).

1.8 Membership statistics

Details of the membership of the Scheme as at 31 March 2019 are as follows:

Active members		
Total brought forward from 31 March 2018		175,361
Adjustment in year ¹		(1,117)
Revised active members as at 31 March 2018		174,244
Additions within the year		
New members and rejoiners		14,395
Leavers		
Retirements	(3,779)	
Leavers from active to deferred	(6,139)	
Other leavers ²	(2,964)	(12,882)
Total active members as at 31 March 2019		175,757

Members with deferred liability		
Total brought forward from 31 March 2018		62,333
Adjustment in year ¹		(794)
Revised deferred members as at 31 March 2018		61,539
Leavers from active to deferred		6,139
Other new deferred members		196
Members leaving deferred status		(4,135)
Total members with deferred pension liability as at 31 March 2019		63,739

Members receiving a pension		
Total brought forward from 31 March 2018		101,373
Adjustment in year ¹		77
Revised pension members as at 31 March 2018		101,450
New Pensioners		7,390
Cessations		(2,698)
Total Pensioners as at 31 March 2019		106,142

¹ Member records are updated retrospectively, after the membership statistics are prepared for the scheme accounts. This is due to the volume of data required to be uploaded onto the pensions administration system from employers and the resolution of any subsequent data errors. The figures are therefore an estimate and an adjustment will be required each year to show a revised opening position and any movements between the closing position stated in the accounts in the prior year.

² Includes transfers out and leavers who do not have qualifying service.

1.9 Financial position at 31 March 2019

The Statement of financial position sets out the Scheme's assets and liabilities as at 31 March. Since the Scheme is unfunded, there are no investments to match the pension liability. The pension liability is the net present value of pensions to be paid in future years, which have been earned to date. The liability is discounted at a rate advised by HM Treasury, and is the equivalent of the rate of interest payable on AA rated corporate bonds. The liability is calculated by the Scheme's actuary in accordance with the requirements of International Accounting Standard 19 (IAS19) and HM Treasury's Financial Reporting Manual (FReM). More information on the methodology of the valuation is contained in the statement by the actuary at section 2.

The pension liability as at 31 March 2019 was £62.5 billion (31 March 2018: £62.1 billion) which is an increase of £0.4 billion. There was a £3.2 billion actuarial gain (£0.2 billion gain due to pensionable pay increases being lower than expected and a £3.0 billion gain due to an increase in the discount rate, partially offset by an increase in the assumed rate of pension increases and assumed rate of general pay increases) and a £3.6 billion increase in the liability through other movements in the year (see notes to the accounts 11.2).

A past service cost of £0.7 billion has been included in the liabilities at 31 March 2019 to meet the estimated cost of possible remedies for the judgement on the age discrimination on transitional protection case detailed at paragraph 1.7.

The Statement of comprehensive net expenditure shows the net resource outturn. This is the cost of future pension benefits accrued in the year plus interest on scheme liabilities, less any income received. In 2018-19 the total expenditure was £4,972.9 million and total income was £1,357.7 million giving a net expenditure of £3,615.2 million (2017-18: £2,979.7 million). This outturn was under the budget set for the NHSPSS at £4,269.8 million by £654.6 million. The principal reason for the underspend is the reassessment of past service cost by the Scheme Actuary from £1,300 million when preparing budgets to £700 million in their final report.

In cash terms, there was an excess of income received over pension benefits paid of £15.1 million which was transferred to the Scottish Consolidated Fund as detailed below.

	2018-19	2017-18
	£m	£m
Pension contributions	(1,311.5)	(1,274.1)
Transfers in	(46.1)	(35.2)
Other income	(0.1)	(0.3)
Total income	<u>(1,357.7)</u>	<u>(1,309.6)</u>
Pensions	985.6	904.8
Lump sums	333.1	322.0
Transfers out	24.4	32.1
Refunds	2.5	0.5
Total benefits	<u>1,345.6</u>	<u>1,259.4</u>
Total income less benefits	<u>(12.1)</u>	<u>(50.2)</u>
Movement in debtors and creditors	(3.0)	15.6
Cash transferred to the Scottish Consolidated Fund	<u>(15.1)</u>	<u>(34.6)</u>

1.10 Going concern

In common with many public pension schemes, the NHSPSS is unfunded. The pension liabilities recorded in the Statement of financial position are not matched by investments or other assets, and consequently the Scheme shows net liabilities of £62.5 billion. Funding to meet pension payments as they fall due under the Scheme's regulations is made available from the Scottish Government's Annually Managed Expenditure budget. On this basis the managers consider that it is appropriate that the accounts of the Scheme are prepared on a going concern basis.

1.11 Information to the auditors

All relevant information has been made available to Audit Scotland in the course of their audit of the Scheme's financial statements.

1.12 Free-standing additional voluntary contributions and stakeholder pensions

Employees participating in the NHSPSS may make their own arrangements for making payments to institutions offering Free-Standing Additional Voluntary Contribution (FSAVC) schemes. The NHS Scheme Managers have no responsibility for such arrangements.

1.13 Additional voluntary contributions to approved providers

The NHSPSS enables members to make AVCs to supplement retirement income or to provide life assurance cover. Contributions deducted from salary are paid to an approved provider and, at retirement, these and the income from their investment are used to buy an annuity. Standard Life Aberdeen PLC was appointed with effect from 8 October 2001 to provide this service, as an alternative to the original provider Equitable Life. Having regard to difficulties that undermined confidence in the Scheme's original approved provider, Equitable Life is not available as a Group AVC Provider for any new

investors from 1 April 2005. Existing investors are free to continue to invest with them and indeed to increase their contributions if they wish. These AVCs are not brought to account in these statements and are not included in the audit by Audit Scotland.

Standard Life Aberdeen PLC is the appointed designated Stakeholder Pension Provider for the NHS in Scotland. Employers provide a facility to enable staff to contribute through payroll if they wish. No contributions are paid by employers or by the Managers of the NHS Pension Scheme (Scotland), nor does the Scheme have any responsibility in relation to the stakeholder arrangements.

1.14 Equitable Life Assurance Society

	£	£
Value of fund at 1 April 2018		5,757,262
Income		
Contributions received	54,977	
Interest and bonuses/change in market value of assets	263,759	
Internal transfers from other policies insured by the Society	26,387	
Total income		345,123
Expenditure		
Life assurance premiums	(1,945)	
Retirement benefits	(130,283)	
Leavers (transfers and withdrawals)	(147,685)	
Deaths	0	
Refunds	(8)	
Contributions received but not yet used to purchase benefit	(1,204)	
Total expenditure		(281,125)
Value of fund at 31 March 2019		5,821,260

Fund value by type		
	31 March 2019	31 March 2018
Equitable with profits	2,095,860	2,022,155
Equitable and Clerical Medical unit-linked (including Clerical Medical with-profits)	3,725,400	3,735,107
Total	5,821,260	5,757,262

1.15 Standard Life Assurance Limited

Standard Life Assurance Limited has set up a Group Money Purchase Plan for the Scheme members who have moved their AVC funds to its management and for those who are contributing to an AVC arrangement for the first time. Standard Life Assurance Limited is part of the Phoenix Group and uses the Standard Life brand under licence from the Standard Life Aberdeen Group. A statement of the movements in this plan for the period 1 April 2018 to 31 March 2019 follows.

	£	£
Opening net asset value at 1 April 2018		21,506,691
Income		
Normal contributions	476,912	
Special contributions	88,545	
Transfer values	0	
Total income		565,457
Expenditure		
Retirements	(688,238)	
Transfer out	(1,044,001)	
Death benefits	0	
Total expenditure		(1,732,239)
Changes in market value of investments		878,516
Net Assets at 31 March 2019		
Investments held in insurance policies with Standard Life Aberdeen PLC		21,218,425

1.16 Further information

Any enquiries about the NHSPSS should be addressed to:

Paplu Dey
 Scheme Administrator
 Scottish Public Pensions Agency
 7 Tweedside Park
 Galashiels
 TD1 3TE

Penelope Cooper
Accountable Officer

23 September 2019

2. Statement by the Actuary

Introduction

2.1 This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Scottish Public Pensions Agency (SPPA). It provides a summary of GAD's assessment of the scheme liability in respect of the National Health Service Pension Scheme (Scotland) (NHS Scotland) as at 31 March 2019, and the movement in the scheme liability over the year 2018-19, prepared in accordance with the requirements of Chapter 9 of the 2018-19 version of the Financial Reporting Manual.

2.2 The NHS Scotland is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.

2.3 The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2019.

Membership data

2.4 Tables A to C summarise the principal membership data as at 31 March 2016 used to prepare this statement.

Table A – Active members

	Number 000s	Total pensionable pay* (p.a.) £ m
Males	36.5	1,447
Females	140.6	3,522
Total	177.1	4,969

* Pensionable pay is the Actual figure.

Table B – Deferred members

	Number 000s	Total deferred pension* (p.a.) £ m
Males	11.7	36.0
Females	40.5	93.8
Total	52.1	129.8

* Pension amounts include the pension increase granted in April 2016.

Table C – Pensions in payment

	Number 000s	Annual pension* (p.a.) £ m
Males	19	360
Females	63	419
Spouses & dependants	11	56
Total	93	835

* Pension amounts include the pension increase granted in April 2016.

Methodology

2.5 The present value of the liabilities as at 31 March 2019 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial

assumptions applying as at 31 March 2019. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2019 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2018 in the 2017-18 accounts.

2.6 This statement 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 the cost of injury benefits (in excess of ill-health benefits). 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.

Financial assumptions

7. The principal financial assumptions adopted to prepare this statement are shown in Table D.

Table D – Principal financial assumptions

Assumption	31 March 2019	31 March 2018
	p.a.	p.a.
Nominal discount rate	2.90%	2.55%
Rate of pension increases	2.60%	2.45%
Rate of general pay increases	4.10%	3.95%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
• Pension increases	0.29%	0.10%
• Long-term pay increases	(1.15%)	(1.35%)
Expected return on assets	n/a	n/a

2.8 The assessment of the liabilities allows for the known pension increases up to and including April 2019.

Demographic assumptions

2.9 Table E summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the ‘S2 tables’ with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Baseline mortality	Standard table	Adjustment
Males		
Retirements in normal health	S2NMA	95.5%
Current ill-health pensioners	S2IMA	95.5%
Future ill-health pensioners	S2IMA	100%
Dependants	S2NMA	112.5%
Females		
Retirements in normal health	S2NFA	97.5%
Current ill-health pensioners	S2IFA	97.5%
Future ill-health pensioners	S2IFA	100%
Dependants	S2NFA	112.5%

2.10 These assumptions are the same as those adopted for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2018.

2.11 Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017.

Liabilities

2.12 Table F summarises the assessed value as at 31 March 2019 of benefits accrued under the Scheme prior to this date based on the data, methodology and assumptions described in paragraphs 2.4 to 2.11. Please note the liabilities as at 31 March 2019 include an allowance for the additional liability potentially arising from the McCloud/Sargeant judgment. The corresponding figures for the previous year are shown for comparison.

Table F – Statement of Financial Position

	31 March 2019 £billion	31 March 2018 £billion
Total market value of assets	nil	nil
Value of liabilities	62.5	62.1
Surplus/(Deficit)	(62.5)	(62.1)
of which recoverable by employers	n/a	n/a

Accruing costs

2.13 The cost of benefits accrued in the year ended 31 March 2019 (the current service cost) is assessed as 49.2% of pensionable pay.

2.14 For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members contributed between 5.2% and 14.7% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2018-19 as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2018-19 accounts.

Table G – Contribution rate

	2018-19 % of pay	2017-18 % of pay
Employer contributions	14.9%	14.9%
Employee contributions (average)	9.6%	9.6%
Total contributions	24.5%	24.5%
Current service cost (expressed as a % of pay)	49.2%	49.0%

2.15 The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

2.16 The pensionable payroll for the financial year 2018-19 was £5.3 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2018-19 (at 49.2% of pay) is assessed to be £2.6 billion.

2.17 Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. GAD has been instructed by SPPA to include an allowance in the end of year liabilities shown in this report for the additional

liability potentially arising from the McCloud/Sargeant judgment. This cost has been assessed as £0.7 billion and reflects the cost of providing members with benefits in whichever scheme (relevant pre or post 2015 scheme) is of higher value over the 4 years to 31 March 2019. This approach reflects a remedy based on allocating members to a scheme at the balance sheet date, based on the accounting assumptions in force during 2018-19.

2.18 Different approaches, based on other assumptions, or different forms of remedy (such as allocation based on cost assessed at individual's exit from service) may produce significantly different costs. The ultimate cost of this judgment would depend on the form of remedy, differences between earning and price increases, and individuals' future career paths.

2.19 I am not aware of any other events that have led to a material settlement or curtailment gain or loss over 2018-19.

Sensitivity analysis

2.20 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 2019 of changes to the most significant actuarial assumptions.

2.21 The most significant financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

2.22 Table H shows the indicative effects on the total liability as at 31 March 2019 of changes to these assumptions (rounded to the nearest 0.5%).

Table H - Sensitivity to significant assumptions

Change in assumption	Approximate effect on total liability (excluding McCloud / Sargeant Past Service Cost)		
Financial assumptions			
(i) discount rate*:	+0.5% p.a.	- 11.0%	- £6.8 billion
(ii) (long-term) earnings increase*:	+0.5% p.a.	+ 2.0%	+ £1.2 billion
(iii) pension increases*:	+0.5% p.a.	+ 9.0%	+ £5.6 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 3.0%	+ £1.9 billion
(v) 1995 section members retire at the Normal Pension Age (approximately equivalent to assuming members retire around 2 years earlier)		+ 1.5%	+£0.9 billion

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

2.23 In addition, the past service cost in respect of the McCloud / Sargeant judgment is expected to be highly sensitive to the gap between CPI inflation and the assumed rate of salary growth. Under the approach and remedy adopted, if the long term salary growth assumptions were 0.5% p.a. lower, then the impact on the past service cost is expected to be a change of around -45% on the provision, around -£0.3 billion. A 0.5% p.a. increase to the salary growth assumption would increase the estimated provision by 55%, around £0.4 billion. Alternative forms of remedy may have different levels of sensitivity to these assumptions.



George Russell FIA
Chief Actuary (Scotland & Northern Ireland)
Government Actuary's Department
17 September 2019

3. Statement of Accountable Officer's responsibilities

Under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 the Scottish Ministers have directed the Agency to prepare for each financial year financial statements on a resource basis detailing the resources acquired, held or disposed of during the year and the use of resources by the Scheme during the year.

The financial statements must give a true and fair view of the state of affairs of the Scheme at the year end and of the net resource outturn and cash flow for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them. In addition, the financial 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 financial statements, the Accountable Officer is required to comply with the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction at page 54 of these statements, issued by Scottish Ministers, 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 Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The Scottish Ministers appointed the Chief Executive of the Scottish Public Pensions Agency as Accountable Officer for the NHS Pension Scheme (Scotland). The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the assets of the Pension Scheme are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer published in the Scottish Public Finance Manual.

As Accountable Officer, I am not aware of any relevant audit information of which our auditors are unaware. I have taken all necessary steps to ensure that I am aware of any relevant audit information and to establish that the auditors are also aware of this information.

I confirm, as the Accountable Officer, that the annual report and accounts as a whole is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

4. Governance statement

4.1 Purpose of the governance framework

The governance framework is designed to ensure that the Agency complies with the highest standards of probity while delivering value for money, safeguarding public funds, delivering good quality service to its customers and other stakeholders, and being fully accountable for its actions. The Agency complies with the guidance contained in the Scottish Public Finance Manual (SPFM) and guidance note 2 of “On Board: A Guide for Members of Management Advisory Boards” published by Scottish Government.

4.2 Scope of responsibility

As Accountable Officer, I am responsible for maintaining an adequate and effective system of internal control, which supports the achievement of the organisation’s aims, objectives and policies including those set by Scottish Ministers, while safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me.

The Agency adheres to the SPFM issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency, effectiveness and equality, and promotes good practice and high standards of propriety.

4.3 Agency’s Framework Document

One of the Agency’s principal tasks for the year was to refresh the Agency’s Framework Document in terms of its content and presentation. The Framework represents an agreement between the Agency and Scottish Ministers that lays out the relationship in terms of the respective roles and responsibilities for carrying out Agency’s functions. It forms the basis for the rolling 5-year Strategic Plan and other planning documents that underpin the Agency’s vision in practical ways. The Minister for Public Finance and the Digital Economy signed-off the revised Framework Document on 12 December 2018.

In terms of governance, the Agency is responsible for putting into place sound governance arrangements to provide accountability to Scottish Ministers and organisational direction so as to positively influence behaviour and cultures. As the principal source of reference for governance, the ‘Framework Document’ describes and sets out the:

- relationship between SPPA and Scottish Ministers
- roles and functions of SPPA
- responsibilities of the Accountable Officer and Scottish Ministers
- Agency's objectives and performance measures
- management and resources framework within which the SPPA operates.

4.4 Strategic planning

The Agency’s published vision is ‘to provide excellent customer service, combining skills and technology, to maximise efficiency and deliver best value to taxpayers in Scotland’. A Strategic Plan for the period 2018 to 2023 was agreed during the year incorporating a new vision and strategic aims, setting out key deliverables over a 5-year period and linking it to an indicative budget.

The Agency’s commitment to change manifested itself in the work carried out to establish an Agency-wide target operating model (TOM). The TOM has been designed with the Agency’s future direction of travel in mind and in its structure has created a new department headed up by a Head of Business Evolution. Participation in business planning is taken seriously at all levels of the organisation. Strategic objectives are cascaded to departments through business planning sessions at which key team tasks are identified. Key business planning messages are promulgated across the Agency at regular ‘all-staff sessions’. A strategic planning day is organised annually at which interactive workshops are held and it is open to non-executive members to attend to share their knowledge and express their views. As the Agency continues to evolve, the 5-year Strategic Plan will be updated on a rolling basis in order to best reflect the programme of change and any significant changes in central government funding.

4.5 Agency’s primary governance bodies designed to ‘advise’ the Accountable Officer

A schematic of the bodies assisting the Accountable Officer in the governance of the Agency is provided below. A schematic for pension scheme governance is provided on the Agency’s website at:

<http://www.sppa.gov.uk/Documents/Governance/2%20Governance%20Schematic.pdf>



4.6 Corporate governance management arrangements changes

As described below, two non-executive members left the Agency at 31 March 2019 and three members joined. The gender balance of the six non-executive members on the Board at the year-end was 2:1 female to male. The gender balance of the six members of the Strategic Leadership Team was 1:1 female to male. The Strategic Leadership Team comprised the Chief Executive, Chief Financial Officer and Head of People Services. It also included interim Heads of Policy, Customer Services and Business Evolution.

Both the Board and the Audit and Risk Committee carried out a self-assessment of their effectiveness using criteria set by the Scottish Government. Both were deemed to be effective in carrying out their functions. Also the Audit and Risk Committee provided a full account of its activities on a quarterly basis to the Management Advisory Board. Corporate governance arrangements, overall, were considered to comply with generally accepted best practice principles and relevant guidance.

4.7 Management Advisory Board

The advisory nature of the Board is one that is set out in the Scottish Government's publication 'On Board: A Guide for Members of Management Advisory Boards'. Non-executive members are appointed to act in an advisory capacity to the SPPA's Accountable Officer and Chief Executive and are, therefore, neither personally or collectively accountable for the Agency's performance.

As part of the annual review of the Framework Document and in line with best practice, the terms of reference of the Board were reviewed and amended. The Agency carried out a self-assessment exercise that highlighted a number of changes which were reflected in the updated Terms of Reference. For instance, in order to strengthen its purpose and delivery from 1 April 2019 it was agreed that the Board will be chaired by the Chief Executive.

Over the year, the Board has benefited from an experienced cohort of six non-executive members, together with a representative from Scottish Government - the Agency's 'Fraser figure'. From 1 April 2019, the Agency will lose two members and gain three new members with extensive experience in business transformation, leadership, IT delivery, procurement and defined benefit pension schemes.

During the year, the Management Advisory Board met on four scheduled occasions and also on 30 April 2018, to consider a pensions administration system improvement business case. The Board also met out-with the regular cycle of meetings to consider strategic issues at a Strategic Planning Day on 23 March 2019.

The Board's work has included:

- considering the content of Agency's Annual Business Plan and 5-Year Strategic Plan
- receiving reports from the Chief Executive on the Agency's progress in achieving key tasks and meeting performance indicators
- receiving reports on the work of the Audit and Risk Committee and contributing towards the risks assessed in the Agency's Risk Register

- considering financial statements such as draft Annual Report and Accounts for the NHS Pension Scheme (Scotland)
- receiving quarterly financial and budgetary updates from the Chief Financial Officer
- receiving a pensions administration system improvement business case and regular updates on progress
- receiving regular updates on projects such as Guaranteed Minimum Pensions, Annual Benefit Statements and the Target Operating Model projects
- considering annual reports, such as, the annual People Survey results and interim 'pulse' survey
- considering changes in strategy such as a revised Communications Strategy and accompanying action plan
- considering performance such as through 'CEM benchmarking'
- carrying out and reporting upon horizon scanning conducted between meetings.

4.8 Strategic Leadership Team

Strategic Leadership Team (SLT) meetings are held at least monthly with senior staff representation from across departments. Meetings are designed to focus on key, short-term deliverables and actions based around people, process, performance and customers. As part of its remit to consider business strategy, SLT met out with its usual cycle of meetings to give more detailed consideration to the progress being made towards meeting the Agency's 'vision'.

4.9 Audit and Risk Committee

The Management Advisory Board was supported by an Audit and Risk Committee, which comprises three non-executive members of the Board. During the year, it met on four scheduled occasions and also on 21 May 2018 to consider the pensions administration system improvement business case.

The Committee's work has included:

- reviewing the Agency's risks and risk management processes to provide assurance in an Annual Report to the Accountable Officer and Management Advisory Board
- directing the work of Internal Audit, receiving progress updates and an Annual Assurance Statement
- receiving progress reports from Internal Audit and receiving the conclusions of its work
- reviewing Audit Scotland's Annual Audit Plan and cross-cutting reports where appropriate
- receiving reports from the Agency's senior management on: finance, procurement, governance; counter fraud initiatives; security breaches; health and safety reportable incidents; business continuity; risk and internal controls
- reviewing the Agency's budget and out-turn position alongside financial performance against key metrics
- reviewing the NHS Pension Scheme (Scotland) Annual Report and Accounts
- receiving an Audit Scotland Interim Management Letter and Annual Audit Report including an ISA 260 report

- receiving a quarterly Risk Management and Governance minute from the Chief Financial Officer containing inter alia:
 - latest versions of the Corporate Risk Register incorporating changes made by the Risk Governance Group and Strategic Leadership Team
 - latest 'Assurance Map' linking Key Outcomes to Key Risks and to levels of assurance i.e. internal, external and independent third party sources
 - independent third party reports where applicable e.g. technical assurance 'health check'
 - 'deep dives' on key risks to the Agency's business from respective parts of the Agency
 - Committee performance self-assessment
- reviewing and tracking all recommendations emerging from reports produced by external audit (Audit Scotland) and internal audit (Scottish Government Internal Audit Directorate)
- horizon scanning to inform future committee business.

4.10 Altair Programme Board

The Agency set up a formal board for the Altair Programme at the point a contract variation was signed with its pension software provider in July 2018. From August 2018, monthly meetings took place with representation from both customer and supplier. The Board is chaired by the Senior Responsible Officer for the programme and comprises relevant senior SPPA management in specific project roles (senior customer, etc.) and representatives of the strategic supplier (customer account manager, etc). An experienced non-executive pension board member attends meetings to act as a 'critical friend'.

The Programme aims to replace three existing software systems with a single integrated multi-scheme pension administration and payroll solution, including web-based member and employer services. Initially, it is also aiming to improve and enhance the existing administration system and support continuous improvement in the administration of the NHS Pension Scheme (Scotland).

Programme Board meetings ensure appropriate governance is in place to facilitate a successful implementation of the new system. Summary progress reports were considered by the Management Advisory Board and risk, governance and control issues by the Audit and Risk Committee.

Given the significant challenges SPPA has encountered in delivering business continuity and service improvements to pensions administration and payroll services and the findings of four previous Technical Assurance reviews undertaken, it was agreed by all parties that a focused independent 'health check' should be undertaken on the new programme. The 'health check' carried out by the Scottish Government's Office of the Chief Information Officer reviewed the progress of the Programme as at January 2019. A total of 15 recommendations (13 'critical' and 2 'essential') were made by the review team and were accepted by management for implementation. A follow-up review in May 2019 concluded that 7 recommendations could be 'closed' and concluded that SPPA was in a much more 'robust' position than at the time of the January 2019 'health check' review.

4.11 Pension and Scheme Advisory Boards

SPPA assumes the day-to-day role of Scheme Manager as set out in the Public Service Pensions Act 2013 (the PSP Act) for the NHS Pension Scheme (Scotland), as delegated by Scottish Ministers.

The Agency's policy function also acted as the key policy adviser and custodian of scheme regulations for the scheme.

During the year SPPA policy officials:

- supported Scotland's statutory NHS Pension Board which assist the Scheme Manager of the scheme in securing compliance with regulatory requirements
- provided ad hoc secretariat services to and attending the NHS Pension Board
- participated in and provided general and technical pensions policy advice to the tri-partite Scheme Advisory Boards for the NHS Scheme Advisory Board
- provided training, guidance and advice to the NHS Scheme Advisory Boards to allow the results of the 2016 valuation to be implemented and cost cap rectification recommendations to be made

In line with a Scottish Government commitment made during the 2015 pension reforms, the Agency completed the review of the effectiveness of the scheme governance arrangements by putting into effect the outstanding agreed recommendations included in the review carried out by independent consultants.

4.12 Data assurance

An undertaking to report 'serious' breaches to the Scottish Government's Office of Protective Security is outlined within a Memorandum of Understanding and agreed with Scottish Ministers. During the reporting period, the Agency further improved its processes concerning personal data breach management. The Agency records and reports any breach to the Audit and Risk Committee even if escalation to the Scottish Government is not warranted under the Memorandum.

During 2018-19, 25 'minor' security breaches were reported internally to the Head of Security an increase of 14 on 2017-18. Of the reportable breaches, 2 were categorised as serious (i.e. 'those that will cause harm or reputational damage') and were therefore referred to Information Commissioner's Office. The current reporting procedure completed its first full year and it is likely that an increasing awareness of data protection brought about by the implementation of GDPR in May 2018 and refreshed knowledge of reporting procedures will have contributed to the reported increase in the number of cases. A step-by-step guide to handling breaches is available on the staff intranet and is also included within the Business Continuity Plan. It is designed to give full consideration to the consequences of the breach in order to minimise harm to the data subject and to put in place the appropriate corrective measures.

'Cyber Essentials' accreditation was achieved in June 2018 and must be renewed on an annual basis. The accreditation process helps organisations mitigate the risk of data losses and breaches by exposing potential cyber security flaws. There is an expectation placed upon all 'Cyber Catalyst' organisations to progress to 'Cyber Essentials Plus' status in due course.

4.13 Information assurance

Staff are reminded through the Agency's Information Management Strategy that it is their responsibility to know where information is held, how to retrieve it and to understand what can be shared. The Agency provides staff with appropriate training and guidance to enforce compliance with standards in the protection of information assets to enable the organisation to function more effectively, safely and securely.

The Agency's Information Assurance Framework documents evidence the actions, procedures and policies undertaken by the Agency to meet the standards and best practice guidelines set out by the HMG Security Policy Framework. This forms part of SPPA's strategic approach to Information Assurance. The annual assessment carried out in December 2018 demonstrated the Agency achieved a steady state. Using the Red/Amber/Green traffic light system there were 21 categories at green (2017:21 green and 2016:19 green) and 9 at amber (2017:9 amber and 2016:10 amber and 1 red).

4.14 Business continuity

Each year SPPA undertakes a test of Business Continuity. A hardcopy version of the comprehensive Business Continuity Plan is held off-site by all Directors and by members of the disaster recovery team. Key findings are fed back to the SLT and changes are made to the Plan in the light of lessons learned.

In order to draw upon wider expertise and enhance the standard desk top test approach, a facilitated incident response training session was delivered in October 2018. Training was centred around the 'Preparing Scotland' guidance on resilience following the Operational (Bronze), Tactical (Silver) and Strategic (Gold) incident management structure.

4.15 External Audit

The governance and transparency in operation and the effectiveness of the risk and control framework is informed by comments made by Audit Scotland in letters to management and other reports shared with members of the Audit and Risk Committee. These include the annual report to the Scottish Public Pensions Agency and to the Auditor General for Scotland.

On the 4 October 2018 the Auditor General for Scotland laid a report to the Scottish Parliament under s22(3) of the Public Finance and Accountability (Scotland) Act 2000. The purpose of the report was to draw Parliament's attention to problems SPPA had implementing a major new IT system and the financial implications of the delays. In the report it was acknowledged that some of the audit findings could not be reported for commercial reasons and it was made clear that a further report would be issued after any legal proceedings had concluded in 2019-20. The subsequent s23 report issued on 25 June 2019 and its findings will be considered by the Parliamentary Public Audit and Post-legislative Scrutiny committee in the autumn. The full report is available on Audit Scotland's web site. ([The 2017/18 audit of the Scottish Public Pensions Agency: Management of PS Pensions project](#))

4.16 Internal Audit

The Agency directs the work of Internal Audit, informed by the Agency's Risk Registers, its Assurance Map and by an audit needs assessment undertaken by the audit team. Reports are received and reviewed by the Audit and Risk Committee, which also receives reports from management on the progress in implementing the recommendations of audit, both internal and external.

During the year, Internal Audit finalised or was in the process of finalising reviews of:

- benefits statements ('reasonable' assurance)
- data quality and records management ('reasonable' assurance)
- workforce planning and culture ('limited' assurance)
- follow up activity on previous audits (i.e. the 'ability to deliver business as usual' and 'pension board governance').

An internal audit review cutting across Scottish Government reported on application of the General Data Protection Regulation. There were three low level recommendations which were either in the current work plan or were already in train.

Internal Audit have provided the Accountable Officer with an overall 'reasonable' assurance opinion for 2018-19 on the risk management, internal control and standards of governance applied across the Agency.

Internal Audit is subject to periodic external and internal quality assessment. A review was conducted early in 2019 and evaluated Internal Audit's conformance with Public Sector Internal Audit Standards. It also takes the opportunity to identify areas for improvement.

4.17 Internal controls

The Agency operates a comprehensive system of internal controls, designed to safeguard its assets and to ensure the reliability of financial records. The systems are subject to regular review by Internal Audit, and reports are made available to the Audit and Risk Committee. The internal controls include financial delegations and policies include those on counter fraud and corruption, bribery and whistle-blowing, which are approved by the SLT and reviewed by the Audit and Risk Committee. Reportable breaches of health and safety and data security were reported to the Audit and Risk Committee at meetings throughout the reporting year. An internal report on payment controls was also issued to members following a duplicate transfer of funds to an external provider. The report contained a retrospective look at all payments over £5,000 over a 5-year period and contained a suite of internal controls, including preventative controls, to mitigate the risk of reoccurrence.

4.18 Reliance on experts

The Agency relies on the work of experts. This includes taking advice from the Government Actuary's Department on matters including, but not limited to, the annual assessment of the value of pension liabilities.

4.19 Risk management

During the reporting year, the Agency followed a process of assessing risk at four levels. Individual directorates and project teams initially considered risk at an operational level through the year. The results of this work formed one plank of the work carried out at the second level by the Risk Governance Group. The identification of risks and associated controls emerging from audit review reports, business planning sessions and the strategic away-day were also taken into account by the Group.

The Group convened meetings on at least 8 occasions at which senior members of staff in each directorate surveyed pension scheme and agency-wide risks in more detail. On all of these occasions a non-executive member with a background in risk was present and minutes were shared with the Audit and Risk Committee and all four Pension Boards. A range of tools and techniques were employed to ensure all risks were considered in detail e.g. key risk 'deep dives' and more broadly e.g. risk 'heat maps'.

Once changes were made to the risk registers, consideration was given to the revisions made at a third level by the SLT. Consideration involved assessing risks in the operational and wider political, economic, social, technological, legal, environmental context whilst also taking account of the Agency's risk appetite. There was no change made to the risk appetite statement during the year. Once the internal bottom-up and top-down processes were complete, the Corporate Risk Register was shared with the Audit and Risk Committee on a quarterly basis for non-executive member review. Similarly, the pension scheme risk registers were shared with Pension Boards on a quarterly basis with a further emphasis in the narrative on the impact of risk on the Agency's customers. The registers are used primarily as a tool in managing and mitigating the Agency's short, medium and long-term risks.

The Agency's top 13 risks for the period:

1. Obtaining a sustainable funding stream sufficient to meet recurring expenditure and service investment needs
2. Successful delivery of the TOM and Workforce Plan with minimal disruption to core business and providing a sound foundation for the achievement of the Agency's vision and meeting stakeholders' expectations
3. Timely and accurate delivery of 'Guaranteed Minimum Pension' scheme administration and management responsibilities without detriment to business as usual
4. Successful delivery of Annual Benefit Statements for four pension schemes to time and quality required. Overall effect of outcome on SPPA reputation amongst stakeholder groups
5. Delivery of specific annual Customer Services Directorate business as usual (statutory, regulatory and other) tasks for four schemes to quality and time. For example: annual allowance exercise (AA); annual pensions increase (API); annual benefit statements (ABS); Teachers peak retiral period; backdated pay awards

6. Successful implementation of 'Altair Programme' (integrated pension admin and payroll system and digital customer services) with minimal disruption to core business. Overall effect of adverse outcome on reputation amongst stakeholder groups.
7. Ability to maintain business continuity and uninterrupted service provision in the event of a known or unknown threat materialising.
8. Ensuring the right people, with right knowledge, skills, experience and behaviours are in the right place at the right time.
9. Effective management of external suppliers.
10. Compliance with regulation and legislation in respect to information assurance. Overall effect of outcome on SPPA reputation amongst stakeholder groups.
11. Compliance with The Pension Regulator Code of Practice 14 and meeting service expectations of key stakeholders, including the Pensions Regulator, Pension Boards, scheme employers and customers. Overall effect of outcome on SPPA reputation amongst stakeholder groups.
12. Technology and customer data and services compromised and/or vulnerable to 3rd party attack on business systems and/or potential fine imposed by Information Commissioner. Overall effect of outcome on SPPA reputation amongst stakeholder groups.

Towards the year end, a further key risk was added to the Corporate Risk Register:

13. Changes arising from the implementation of the agreed remedy action for the McCloud/Sargeant Court of Appeal case.

For each of the above the Agency reviewed its internal controls and identified actions to bring risk assessments down to a targeted level of acceptable residual risk based on the Agency's declared risk appetite. The threats which materialised and identified above were addressed by pre-determined compensating internal controls aimed at mitigating risk to the business area. All actions during the year were time-bound and reported upon to the Audit and Risk Committee. Risk management arrangements in operation are considered to comply with generally accepted best practice principles and relevant guidance.

4.20 Best value

The Accountable Officer has a duty to secure Best Value in the services the Agency provides. Best Value principles are embedded in the Agency's planning, governance and business decision arrangements. For instance, staff fully participate in the annual business planning process and output from events is compiled and communicated to staff through formal and informal communication channels. Minutes of Management Advisory Board and Pension Boards are uploaded onto the SPPA website for public inspection.

The Agency uses a range of mechanisms to obtain feedback from its customers and stakeholders. Market intelligence and research is received from Pension Boards,

targeted groups, desk-top research, data including comments routinely gathered on customer service from surveys and complaint feedback supports a user-centred approach. Single event and continuous customer satisfaction surveys act together to provide event driven and more real-time feedback on services and service levels provided. Though take-up rates remain an issue, this information is utilised by directorates to look at opportunities to improve service delivery.

For a number of years the Agency has taken part in an independent, international benchmarking programme. Operated by CEM benchmarking on a commercial basis, this compares the Agency's quality and costs of service across a range of activities common to comparable pensions administration organisations in the UK and wider afield. The results of the 2018 CEM benchmarking survey are provided in the Agency accounts which are available on the SPPA website at <https://pensions.gov.scot>

The Agency continues to participate in the 'Investors in People' (renamed Re:markable) accreditation programme. The Agency first achieved 'Gold' status in 2012 and which was most recently reconfirmed in January 2017. The Agency will subject to a new set of standards (the sixth generation) going forward and will seek to retain its status at the next full assessment in January 2020.

A Partnership Agreement is in place between the Agency and the Trades union to encourage participation in joint decision-making processes. Working as partners to reach mutually acceptable arrangements the intention is to benefit staff and ensure the effective running of the Agency. In addition to the Partnership Agreement, the Agency set up a Staff Consultative Group in advance of work on the TOM and this participative approach has worked well during the delivery phase with good representation across staff grades.

In October 2018, the Agency participated in a UK Government-led annual staff survey for civil servants which identified a staff engagement level of 54% (2017-18 55% and 2016-17: 54%) based on an 82% response rate. In response to the results, the Agency carried out a number of initiatives to improve leadership, manage change and improve resources and workload with progress being reported through All-Staff sessions. The Agency continues to implement its communication strategy and seek new forums in which to involve staff as a sounding board for, and a source of, new ideas to improve staff engagement.

4.21 Written assurances provided to the Chief Executive

The Chief Executive has received written assurances from all Directors about the operation and effectiveness of internal controls in the areas for which they are responsible. Additionally, the Chief Executive has received assurance from the Scottish Government's Director General Organisational Development and Operations in respect of the Scottish Government's human resources, payroll and financial systems that are shared with the Agency.



Penelope Cooper
Accountable Officer

23 September 2019

5. Statement of parliamentary supply

In addition to the primary statements prepared under International Financial reporting Standards (IFRS), the FReM requires SPPA to prepare a Statement of parliamentary supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

SOPS 5.1 Summary of resource outturn 2018-19

								2018-19	2017-18
		£m Estimate			£m Outturn			£m	£m Outturn
Annually managed expenditure	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared to estimate: saving/ (excess)	Total
Total Resources	SOPS 5.2	4,269.8	0.0	4,269.8	3,615.2	0.0	3,615.2	654.6	2,979.7

Net cash requirement 2018-19

		2018-19	2018-19		2017-18
		£m	£m		£m
			Outturn compared to estimate: saving/ (excess)		
		Note	Outturn	Outturn	Outturn
Net cash requirement		SOPS 5.4	0.0	0.0	0.0

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

Outturn against estimate

Accrued resources for the NHSPSS were under the estimate by £654.6 million. Accrued resources for the Scottish Teachers' Pension Scheme and the NHSPSS are covered by one limit in the Budget (Scotland) Act 2018. In 2018-19 the combined accrued resources of £5,822.1 million fell within the combined limit of £6,785.0 million. Refer also to the Report of the Managers on pages 2 to 12.

SOPS 5.2 Net outturn – analysis by section

	2018-19						2017-18
	£m			£m			£m
	Outturn			Estimate			Outturn
	Gross	Income	Net	Net total estimate	Outturn compared to estimate	Total	
Annually Managed Expenditure							
Voted:							
Pensions	4,972.9	(1,357.7)	3,615.2	4,269.8	654.6	2,979.7	
Total	4,972.9	(1,357.7)	3,615.2	4,269.8	654.6	2,979.7	

SOPS 5.3 Reconciliation of resource outturn to net operating cost

	SOPS Note	2018-19 £m Outturn	2017-18 £m Outturn
Total resource outturn in statement of parliamentary supply			
Budgeted resources	SOPS 5.2	3,615.2	2,979.7
Non-budget (income not applied)	SOPS 5.5	0.0	0.0
Net expenditure in the Statement of comprehensive net expenditure		3,615.2	2,979.7

SOPS 5.4 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £m	Outturn £m	Net total outturn compared with estimate £m
Net resource outturn	SOPS 5.2	(4,269.8)	(3,615.2)	654.6
Accruals adjustment				
Non-cash items		5,616.3	4,971.1	(645.2)
Changes in working capital other than cash		0.0	3.0	3.0
Use of provisions				
Adjustment for movement in premature retirement provision	13	0.0	(2.7)	(2.7)
Pensions, lump sums and leavers	11.3/11.4	(1,347.4)	(1,341.1)	6.3
Funding (to)/from the Scottish consolidated fund	SOPS 5.5	0.9	(15.1)	(16.0)
Net cash requirement		0.0	0.0	0.0

SOPS 5.5 Income payable to the Scottish Consolidated Fund

The cash requirement for the NHSPSS is part of the overall cash authorisations of the Scottish Government in the Budget (Scotland) Act 2018. In the year to 31 March 2019 there were no cash receipts in excess of budget (unapplied income) payable to the Scottish Consolidated Fund.

6. Independent auditor's report to the Scottish Public Pensions Agency, the Auditor General for Scotland and the Scottish Parliament

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the NHS Pension Scheme (Scotland) for the year ended 31 March 2019 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of comprehensive net expenditure, Statement of financial position, Statement of changes in taxpayers' equity, Statement of cash flows and Notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (the 2018/19 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the scheme's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 18 July 2016. The period of total uninterrupted appointment is three years. I am independent of the scheme in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the scheme. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the scheme has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material

misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects:

- the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Managers for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to 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 the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



Stephen Boyle FCPFA
Audit Director
Audit Scotland
4th Floor, South Suite, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

25 September 2019

7. Financial statements

Statement of comprehensive net expenditure for the year ended 31 March 2019

	Note	2018-19 £m	2017-18 £m
Income			
Contributions receivable	3	(1,311.5)	(1,274.1)
Transfers in	4	(46.1)	(35.2)
Capitalised receipts	13	(0.1)	(0.3)
		<u>(1,357.7)</u>	<u>(1,309.6)</u>
Expenditure			
Service costs	5	3,314.5	2,549.9
Enhancements	6	10.0	11.4
Transfers in	7	46.1	35.2
Pension financing cost	8	1,600.5	1,690.4
Other expenditure	12	0.1	0.1
Premature retirement financing cost	13	1.6	2.0
Capitalised receipts	13	0.1	0.3
		<u>4,972.9</u>	<u>4,289.3</u>
Net expenditure		<u>3,615.2</u>	<u>2,979.7</u>
Other comprehensive net expenditure			
Pension remeasurements:			
Actuarial (gains)/losses	11.5	(3,230.0)	(632.1)
Increase/(decrease) in premature retirement provision net of financing charge	13	(4.5)	(4.9)
Total other comprehensive net expenditure		<u>(3,234.5)</u>	<u>(637.0)</u>
Total comprehensive net expenditure for the year ended 31 March		<u>380.7</u>	<u>2,342.7</u>

The notes on pages 40 to 53 form part of these financial statements.

Statement of financial position as at 31 March 2019

	Note	2019 £m	2018 £m
Current assets			
Receivables	9	117.2	112.1
Current liabilities			
Payables (within 12 months)	10	<u>(46.4)</u>	<u>(38.3)</u>
Net current assets /(liabilities) excluding pension liability		70.8	73.8
Provisions for liabilities and charges			
Premature retirement provision	13	(58.2)	(65.4)
Pension liability	11.2	<u>(62,500.0)</u>	<u>(62,100.0)</u>
Net liabilities including pension liability		<u>(62,487.4)</u>	<u>(62,091.6)</u>
Taxpayers' equity			
General fund		<u>(62,487.4)</u>	<u>(62,091.6)</u>
		<u>(62,487.4)</u>	<u>(62,091.6)</u>

The notes on pages 40 to 53 form part of these financial statements.

Penelope Cooper
Accountable Officer

23 September 2019

Statement of changes in taxpayers' equity for the year ended 31 March 2019

	2018-19 £m	2017-18 £m
Balance at 1 April	(62,091.6)	(59,714.3)
Funding to the consolidated fund	(15.1)	(34.6)
Combined net expenditure	(3,615.2)	(2,979.7)
Other comprehensive net expenditure	3,234.5	637.0
Net changes in taxpayers' equity	(395.8)	(2,377.3)
Balance at 31 March	(62,487.4)	(62,091.6)

The notes on pages 40 to 53 form part of these financial statements.

Statement of cash flows for the year ended 31 March 2019

	Note	2018-19 £m	2017-18 £m
Cash flows from operating activities			
Net incomings/(expenditure) for the year		(3,615.2)	(2,979.7)
Adjustments for non cash transactions			
(Increase)/decrease in receivables		(5.1)	(13.8)
Increase/(decrease) in payables		8.1	(1.8)
Movement in premature retirement			
Provision	13	(7.2)	(7.1)
Net of financing cost	13	4.5	4.9
Movement in pension liability			
Service and finance cost	11.2	4,915.0	4,240.3
Enhancements and transfers in	11.2	56.1	46.6
Benefits paid	11.3	(1,314.2)	(1,222.2)
Refunds and transfers	11.4	(26.9)	(32.6)
Net cash inflow from operating activity		15.1	34.6
Cash flows from financing activities			
Financing		(15.1)	(34.6)
Net financing		(15.1)	(34.6)
Increase /(decrease) in cash and cash equivalents in period		0.0	0.0

The notes on pages 40 to 53 form part of these financial statements.

Notes to the accounts for the year ended 31 March 2019

1. Basis of preparation of the Scheme accounts

The Scheme accounts have been prepared in accordance with a direction given by the Scottish Ministers, and the relevant provisions of the FReM for 2018-19 issued by the Treasury. 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 accounts.

In addition to the primary accounts prepared under International Financial Reporting Standards, the FReM also requires the Scheme to prepare a Statement of parliamentary supply. This, and its supporting notes, show outturn against estimate in terms of the net resource requirement and the net cash requirement.

1.1 The NHSPSS

The NHSPSS is an occupational pension scheme operated by the SPPA on behalf of employees of the NHS and other organisations who satisfy the membership criteria. From 1 April 2015 the NHS Pension Scheme (Scotland) 2015 was introduced. This scheme is a Career Average Re-valued Earnings (CARE) scheme. The previous scheme closed to new members on 1 April 2015. Members nearing pension age with service in the old Scheme were given transitional protection.

Contributions to the Scheme by employers and employees are set at rates determined by the Scheme's Actuary and approved by Scottish Ministers. The contributions partially fund payments made by the Scheme, the balance of funding being provided by UK Treasury through the annual Supply Estimates process and the Budget (Scotland) Bill. The administrative expenses associated with the operation of the Scheme are borne by, and reported in the accounts of SPPA.

The accounts of the Scheme show the financial position at the year end and the income and expenditure during the year. 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 Statement by the Actuary. The Scheme accounts should be read in conjunction with that report.

The accounts also have regard to the governing scheme legislation, The National Health Service Pension Scheme (Scotland) Regulations 2015, The National Health Service Superannuation Scheme (Scotland) Regulations 2011 (The 1995 Section) as amended, and The National Health Service Pension Scheme (Scotland) Regulations 2008 (The 2008 Section) as amended.

The new CARE Scheme and the existing Scheme (closed to new members) covered by the regulations above, are treated as one scheme for accounting purposes in these statements.

2. Statement of accounting policies

The accounting policies contained in the FReM apply 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 that 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 that are considered material in relation to the accounts.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Contributions receivable

Employers' normal contributions are accounted for on an accruals basis. There are no employers' special pension contributions.

Employees' contributions which exclude amounts paid in respect of the purchase of additional service (see below) and AVCs are accounted for on an accruals basis. AVCs (Note 2.15) are not brought to account in this statement.

Employees' contributions paid in respect of the purchase of additional pension are accounted for on an accruals basis. The associated increase in the Scheme liability is recognised as expenditure.

2.3 Transfers in and out

Transfers in and out of the Pension Scheme are accounted for on a cash basis, although group transfers in and out may be accounted for on an accruals basis where the Scheme has formally accepted or transferred a liability. Transfers in are normally accounted for as income and expenditure (representing the associated increase in the pension liability).

2.4 Other income

Other income is accounted for on a cash basis. It includes refunds of Contributions Equivalent Premiums (CEP) and miscellaneous income. 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's liabilities arising from the current members' service in the current period and is recognised in the Statement of comprehensive net expenditure. The cost is calculated by applying the Scheme standard contribution rate to pensionable pay, which is imputed from the employers' contributions received.

2.6 Past service costs

Past service costs are increases 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, or improvement to, retirement benefits. Past service costs are recognised in the Statement of comprehensive net expenditure on a straight line basis over the period in which the increase in benefit vests.

A past service cost of £0.7 billion has been included in the liabilities at 31 March 2019 to meet the estimated cost of possible remedies for the judgement on the age discrimination on transitional protection case detailed at paragraph 1.7.

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 Statement of comprehensive net expenditure. The interest cost is based on a discount rate of 0.10% real (i.e. 2.55% including inflation). In practice, the interest charge is determined by applying the discount rate to the value of the Scheme liabilities at the beginning of the year, and to one half of the value of the movement in the liabilities during the year (excluding the interest charge and actuarial gains and losses), which is based on the assumption that the increase or decrease accrues evenly during the year. The discount rate increased to 0.29% from 31 March 2019.

2.8 Other payments

Other payments are 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 method and is discounted at 0.29% real (i.e. 2.90% after 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 financial year end and updates it to reflect current conditions.

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

On retirement at normal retirement age, the member receives an annual pension and a lump sum or lump sum option. These transactions are accounted for as a decrease in the Scheme liability on an accruals basis.

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

Where a member of the Pension Scheme is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the Scheme liability on a cash basis. Members with more than two years of service at the point of leaving can either transfer the value of their service to another pension scheme or preserve their accrued pension for payment at retirement age. These transfers are accounted for on a cash basis.

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 and losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the financial year end are recognised in the Statement of changes in taxpayers' equity.

2.15 Additional voluntary contributions

AVCs are deducted from employees' salaries and are paid over directly by the employing departments to the approved AVC providers.

2.16 Accounting arrangements for the National Health Service (Scotland) (Compensation for Premature Retirement) Scheme

Compensation for premature retirement since 1 April 1995 represents a liability on NHS employers. Prior to that date the NHSPSS met the cost of accrued benefits with employers meeting the cost of service enhancement. Compensation payments made after that date do not, therefore, feature in the Pension Scheme Accounts.

Compensation payments for post 1 April 1995 awards and for pre April 1995 service enhancements are, with one exception, paid on behalf of the Scottish Government Health Directorate and the payments made are recovered from the employers. The one exception is where the employer capitalises the liability. For technical reasons the Health Directorate cannot accept responsibility for future payments and consequently capitalised receipts are transferred to the Pension Scheme which then takes on the responsibility for paying the compensation concerned.

The premature retirement provision is valued annually using longevity factors based on the current Treasury discount rate. There is a £7.2 million decrease in the liability as a result of the revaluation and other adjustments. The financing charge is based on a discount rate of 0.10% real (i.e. 2.55% including inflation). In practice, the financing charge is determined by applying the discount rate to the value of the early retirement liabilities at the beginning of the year, and to one half of the value of the movement in the liabilities during the year.

2.17 Funding

The NHSPSS participates in the Scottish Government's corporate cash account, which meets scheme expenditure when required.

2.18 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis.

Age discrimination on transitional protection (McCloud/Sergeant):

The calculation of adjustment to past service costs, £700 million, arising from the outcome of the Court of Appeal judgment is based on a number of key assumptions including:

- the form of remedy adopted
- how the remedy will be implemented
- which members will be affected by the remedy
- the earnings assumptions and
- the withdrawal assumption.

Further information can be seen in paragraph 1.7

3. Pension contributions receivable

		2018-19	2017-18
	Note	£m	£m
Employers		(791.8)	(768.7)
Employees			
Normal		(509.7)	(494.0)
Purchase of additional pension		(10.0)	(11.4)
		<u>(1,311.5)</u>	<u>(1,274.1)</u>

4. Pension transfers in

		2018-19	2017-18
		£m	£m
Group transfers in from other schemes	7 & 2.3	0.0	0.0
Individual transfers in from other schemes	7 & 2.3	(46.1)	(35.2)
		<u>(46.1)</u>	<u>(35.2)</u>

5. Service Cost

		2018-19	2017-18
		£m	£m
Current service cost		2,614.5	2,527.9
Past service costs	2.6	700.0	22.0
	11.2	<u>3,314.5</u>	<u>2,549.9</u>

6. Enhancements - additional liability

		2018-19	2017-18
		£m	£m
Employees			
Purchase of additional pension	11.2	10.0	11.4
		<u>10.0</u>	<u>11.4</u>

7. Transfers in - additional liability

		2018-19	2017-18
		£m	£m
Group transfers in from other schemes	4 & 2.3	0.0	0.0
Individual transfers in from other schemes	4 & 2.3	46.1	35.2
		<u>46.1</u>	<u>35.2</u>

8. Pension financing cost

		2018-19	2017-18
	Note	£m	£m
Net interest on defined benefit liability	11.2	1,600.5	1,690.4
		<u>1,600.5</u>	<u>1,690.4</u>

9. Receivables - contributions due in respect of pensions

9.1 Analysis by type

	2018-19 £m	2017-18 £m
Amounts falling due within one year		
Pension contributions due from employers	60.1	62.9
Employees' normal contributions	38.7	40.4
Employees' purchase of additional pension	0.8	0.9
Cash in transit	12.9	3.4
Other receivables	4.7	4.5
	117.2	112.1

9.2 Intra-government balances

	2018-19 £m	2017-18 £m
Amounts falling due within one year		
Balances with other central government bodies	13.1	3.6
Balances with NHS bodies	99.2	103.8
Balances with bodies external to government	4.9	4.7
	117.2	112.1

10. Payables - in respect of pensions

10.1 Analysis by type

	2018-19 £m	2017-18 £m
Amounts falling due within one year		
Pensions	(30.4)	(25.5)
Tax due to HM Revenue and Customs	(16.0)	(12.8)
	(46.4)	(38.3)

10.2 Intra-government balances

	2018-19 £m	2017-18 £m
Amounts falling due within one year		
Balances with other central government bodies	(16.0)	(12.8)
Balances with bodies external to government	(30.4)	(25.5)
	(46.4)	(38.3)

11. Provision for pension liability

11.1.1 An actuarial report by the Government Actuary's Department (GAD) was received for the accounting year ended 31 March 2019. An actuarial valuation of the scheme for resource accounting purposes has been carried out as at 31 March 2019. The assessment of the pension liability as at 31 March 2019 has been carried out by rolling forward the liability from the funding valuation at 31 March 2016. The assessed actuarial liability as at 31 March 2019 is £62.5 billion. This compares to the liability of £62.1 billion as at 31 March 2018.

The Statement by the Actuary on pages 13 to 17 sets out the scope, methodology and results of the work the Actuary has carried out.

11.1.2 The main financial assumptions used for the assessment are prescribed by HM Treasury. The demographic and other assumptions adopted are the responsibility of SPPA, on behalf of Scottish Ministers, having regard to both the FReM and advice from the Actuary.

The major assumptions used by the Actuary were:

At 31 March	2019	2018	2017	2016	2015
Financial assumptions					
Rate of increase in salaries	4.10%	3.95%	4.55%	4.2%	4.2%
Inflation assumption	2.60%	2.45%	2.55%	2.2%	2.2%
Discount rate	2.90%	2.55%	2.80%	3.60%	3.55%
Life expectancy - Current pensioners					
Males (Age 60)	28.3	28.2	29.0	28.9	29.1
Males (Age 65)	23.4	23.3	24.1	24.0	24.2
Females (Age 60)	29.8	29.7	30.7	30.5	31.2
Females (Age 65)	24.8	24.8	25.7	25.6	26.2
Life expectancy - Future pensioners*					
Males (Age 60)	30.3	30.2	31.2		
Males (Age 65)	25.3	25.2	26.2	26.1	26.4
Females (Age 60)	31.8	31.7	32.8		
Females (Age 65)	26.7	26.6	27.7	27.6	28.4

* The life expectancy from age 60 or 65 of future pensioners will depend on their current age. This table shows the life expectancy from age 60 for future pensioners currently aged 40 and from age 65 for future pensioners currently aged 45. No comparative assumption on future pensioners at age 60 with a current age of 40 is available for years prior to 2017 as life expectancy in prior years was measured at age 45.

The assumptions on life expectancy adopted for the 2018-19 accounts show an increase in life expectancy in line with the 2016 based population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017.

Long-term price inflation is assumed to be 2.60% per annum. The above assumptions mean that the gross rate of investment return is assumed to be 2.9% per annum, and salary inflation 4.1% per annum.

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 Agency acknowledges that the valuation reported in these accounts 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. Conversely, a fall in the assumed rate of salary increase will result in a lower pension liability.

11.1.3 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. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary’s Department. The inflation assumption reflects the long-term assumption for the CPI used in Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

11.1.4 In accordance with IAS 19 the Scheme Managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below and in the Statement by the Actuary.

The table below gives an analysis of the provision for pension liabilities.

Value of liabilities (£billions) at 31 March	2019	2018	2017	2016	2015
Pensions in payment	17.2	16.8	15.7	13.0	13.6
Deferred pensions	4.1	4.4	4.1	3.2	3.4
Active members	41.2	40.9	39.9	28.6	27.1
Total	62.5	62.1	59.7	44.8	44.1

11.1.5 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. These variables include not only the key financial assumptions noted in the table at 11.1.2 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.

11.1.6 The value of the liability included in 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, the value of the pension liability will increase or decrease. The Agency 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 notes 11.5 and 11.6. 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. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is included in table H in the Statement of the Actuary.

The principal financial assumptions are the discount rate, general earning increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality. Table H in the Statement by the Actuary shows the indicative effects on the total liability as at 31 March 2019 of changes to these assumptions (rounded to the nearest ½%).

The liability is very sensitive to the assumed discount rate but this is primarily because changing the discount rate in isolation also changes the rate net of pension increase and earnings. If assumptions for pensions and earnings were increased at the same time then the impact on the liability would be small.

Higher pension increases have a substantial effect because this has an impact on all categories of members. If pension increases were assumed to be ½% higher, then this would increase the total actuarial liability by about 9.0% (see paragraph 2.22 in the Statement by the Actuary). The impact of changes in pensioner mortality assumptions is also significant.

Changing the assumed timing of retirement has different effects on members in different circumstances. For 1995 section members retiring at Normal Pension Age (NPA) or earlier will result in savings. Over the whole scheme membership the changes in retirement assumptions made in light of the 2012 funding valuation largely cancel each other out.

The sensitivities detailed within the Statement of the Actuary, table H, show the change in assumptions in isolation. In practice such assumptions rarely change in isolation and given the interdependencies between the assumptions the impacts may offset to some extent.

11.2 Analysis of movements in scheme liability

	Note	2018-19 £m	2017-18 £m
Scheme liability at 1 April		(62,100.0)	(59,700.0)
Service cost	5	(3,314.5)	(2,549.9)
Pension financing cost	8	(1,600.5)	(1,690.4)
		<u>(4,915.0)</u>	<u>(4,240.3)</u>
Enhancements	6	(10.0)	(11.4)
Pension transfers in	7	(46.1)	(35.2)
		<u>(56.1)</u>	<u>(46.6)</u>
Benefits payable	11.3	1,314.2	1,222.2
Pension payments to and on account of leavers	11.4	26.9	32.6
		<u>1,341.1</u>	<u>1,254.8</u>
Analysis of the amount recognised in statement of changes in taxpayers equity	11.5	3,230.0	632.1
Scheme liability at 31 March		<u>(62,500.0)</u>	<u>(62,100.0)</u>

During the year ended 31 March 2019, contributions represented an average of 24.5% of pensionable pay.

11.3 Analysis of benefits paid

	2018-19 £m	2017-18 £m
Pensions to retired employees	916.5	838.8
Pensions to dependents	64.6	61.4
Lump sum benefits	333.1	322.0
Per statement of cashflows	<u>1,314.2</u>	<u>1,222.2</u>

11.4 Analysis of payments to and on account of leavers

	2018-19 £m	2017-18 £m
Refunds to members leaving service	2.3	0.0
Individual transfers to other schemes	24.4	32.1
Contribution equivalent premium	0.2	0.5
Per statement of cashflows	<u>26.9</u>	<u>32.6</u>

11.5 Analysis of actuarial gain/(loss)

	2018-19 £m	2017-18 £m
Experience gain/(loss) arising on the scheme liabilities	230.0	0.0
Changes in demographic assumptions (other than mortality)	0.0	332.1
Changes in mortality assumptions	0.0	2,800.0
Changes to financial assumptions as at 31 March	3,000.0	(2,500.0)
Per statement of comprehensive net expenditure	<u>3,230.0</u>	<u>632.1</u>

11.6 History of actuarial gains/(losses)

	2018-19	2017-18	2016-17	2015-16	2014-15
Experience gain/(loss) arising on the Scheme liabilities:					
Amount (£m)	230.0	0.0	227.3	416.1	0.0
Scheme liabilities	0%	0%	0%	1%	0%
Total amount recognised in statement of changes in taxpayers' equity					
Amount (£m)	3,230.0	632.1	(12,672.7)	1,516.1	(2,340.9)
Scheme liabilities	5%	1%	(21%)	3%	(5%)

12. Other expenditure

	Note	2018-19 £m	2017-18 £m
Bad debt (pension overpayments)	16	0.1	0.1
		0.1	0.1

13. Movement in premature retirement provision

	2018-19 £m	2017-18 £m
Balance at 1 April	(65.4)	(72.5)
Capitalised receipts	(0.1)	(0.3)
Capitalised pension payments	4.4	4.5
Financing cost	(1.6)	(2.0)
(Increase)/decrease in premature retirement provision net of financing cost	4.5	4.9
Balance at 31 March	(58.2)	(65.4)
Movement in provision	7.2	7.1

14. Contingent liability

AVC

In the unlikely event of default by an approved provider of AVCs, the Scottish Ministers will guarantee pensions in payment. This guarantee does not apply to members who use their accumulated AVC investment to purchase pension provision from a non-approved provider nor to members who have invested in a FSAVC. No provision has been made in these accounts in respect of the pension payments guarantee.

GMP

In January 2018 the UK Government published its response to the indexation and equalisation of GMP in public sector pension schemes. The UK Government has concluded that there should be an extension to the current interim solution so that it applies to those who reach State Pension age on or before 5 April 2021. A past service cost was included in 2017-18 for the additional cost of indexation of GMP for those members reaching State Pension age during this period. The extension to the interim solution will give the UK Government time to consider options for a longer term solution.

Given the uncertainty around the longer term solution, no additional liability has been included for this as at 31 March 2019. If any additional liability arises, it is expected this will be treated as a past service cost in the year the commitment is made.

15. Related party transactions

The NHSPSS falls within the limits of The Scottish Government which is regarded as a related party. During the year, the Scheme has had material transactions with NHS employers and Scottish Government departments whose employees are members of the Scheme. None of the Managers of the Scheme, key managerial staff or other related parties has undertaken any material transactions with the Scheme during the year.

16. Losses

During the year recovery of some pension overpayments were abandoned. In other cases recovery was not commenced because such action was considered uneconomic.

	2018-19	2017-18
Number of cases involving a loss	743	625
Total loss (£)	51,462	91,049
Total overpaid pension recovered (£)	1,083,207	688,181

There were no individual losses or special payments in excess of £300,000 which would require separate disclosure during the year to 31 March 2019, or that have been recognised since that date.

17. Unclaimed refunds

These accounts include £7.8 million (£8.0 million in 2017-18) payables for 22,000 members (18,700 in 2017-18) who have left the Scheme but have not applied for a refund. There is a £0.2 million reduction in payables from 2017-18 which reduces refund expenditure in 2018-19 (see note 11.4, Analysis of payments to and on account of leavers). The Agency is working towards making these payments.

18. Financial instruments

As the cash requirements of the NHSPSS 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 NHSPSS’s expected purchase and usage requirements and the NHSPSS is therefore exposed to little credit, liquidity or market risk.

19. Events after the reporting period

In June 2019 the Supreme Court refused the Government permission to appeal the Court of Appeal’s December 2018 judgment in the McCloud and Sergeant age discrimination on transitional protection cases. See section 1.7.

20. Accounts authorisation

The Accountable Officer authorised these financial statements for issue on 23 September 2019.

**NHS PENSION SCHEME (SCOTLAND)****DIRECTION BY THE SCOTTISH MINISTERS
in accordance with section 19(4) of the
Public Finance and Accountability (Scotland) Act 2000**

1. The Scottish Public Pensions Agency shall prepare the statement of accounts for the financial year ended 31 March 2016 and subsequent years in respect of the NHS Pension Scheme (Scotland) in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
2. The accounts shall be prepared so as to give a true and fair view of the state of affairs of the pension scheme at the end of the financial year and of the net outgoings and cash flows for the financial year then ended.
3. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 17 January 2006 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 17 October 2016