sppa

SCOTTISH PUBLIC PENSIONS AGENCY

Scottish Teachers' Pension Scheme

Annual Report and Accounts 2016-17

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 2017.

SG/2017/138

Scottish Public Pensions Agency

The Scottish Public Pensions Agency (SPPA) is responsible for managing the Scottish Teachers' Pension Scheme (STPS) whose members comprise teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools. 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 www.sppa.gov.uk.

The Agency also administers payments of compensation benefits due to members where their employers have capitalised their liability for these payments under The Teachers' Compensation for Premature Retirement and Redundancy (Scotland) Regulations.

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Accountability

1. Report of the Managers

1.1 Introduction

This report provides a summary of the arrangements to ensure the STPS is managed correctly and provides a broad outline of the major benefits of the Scheme.

There is a range of information about the STPS available on the Agency internet site at www.sppa.gov.uk.

1.2 Managers and advisors

Managers

Agency Accountable Officer	Penelope Cooper from 3 July 2017 (Chad Dawtry from 20 March 2017 to 2 July 2017, Ross Paterson to 19 March 2017) Chief Executive Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE
Scheme Administrator	Eleanor Guthrie Acting Director of Operations Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE

Advisors

Scheme Actuary	Government Actuary's Department 59 Belford Road Edinburgh EH4 3UE

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
Auditor	Stephen Boyle Assistant Director, Audit Services Audit Scotland 102 West Port Edinburgh EH3 9DN

1.3 Background to the Scheme

The Scottish Teachers' Pension Scheme (STPS) is a defined benefit, unfunded, statutory pension scheme which is set out in two main sets of regulations. Following a reform of public service pensions a new Career Average Re-valued (CARE) scheme was introduced from 1 April 2015. Prior to this the scheme was a final salary scheme which was reformed in 2007.

The relevant regulations are the Scottish Teachers' Superannuation Scheme (STSS) and Scottish Teachers' Pension Scheme 2015 (STPS 2015). All new members from 1 April 2015 joined the CARE scheme but those final salary scheme members who were within 10 years of their normal retirement age as at 1 April 2012 remain fully protected and retain continued membership of their existing scheme. Those members who as at the 1 April 2012 were between 10 and 13 years 6 months of their retirement date received protection against the changes on a tapered basis. They move to the new CARE scheme at a later date based on the length of their tapered protection. Those existing scheme members without protection moved to the new CARE scheme from 1 April 2015. The normal pension age (NPA) for members in the new CARE scheme is linked to their State Pension.

All rights and benefits accrued before 1 April 2015 or up to the date the member transferred to the new CARE scheme following tapered protection are preserved. These benefits remain payable from the member's existing normal pension age and are calculated based on their final salary at retirement. Members who have service in both the existing final salary scheme and the CARE scheme when they retire will have a final pension containing both elements. Full details of both the protections and the 2015 CARE scheme are available on the SPPA's website www.sppa.gov.uk The final salary scheme remains open for those members with full and transitional protection.

Both the CARE and existing final salary scheme provide a pension on retirement and for those members who joined the scheme before April 2007 there is an automatic tax free lump sum. For those who joined after April 2007 or are members of the 2015 scheme a tax free lump sum can be paid but it must be commuted from the members pension. Both schemes provide benefits on death for members' families or their dependants and scheme members also have the option to transfer their pension between the STPS 2015 and another scheme when they move into or out of employment as a teacher in Scotland.

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. 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 Scheme Advisory Board 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 Cabinet Secretary for Finance and the Constitution taking on that role given his responsibility for public service pensions. From their introduction in April 2015 both boards have met regularly including meetings during 2016-17 and details of those meetings and details of each Board's membership are available on the SPPA website at www.sppa.gov.uk.

As part of the introduction of the new governance procedures, the Scottish Ministers set out that a review would be undertaken of these arrangements within two years of the boards being established. SPPA arranged an independent review which was undertaken by KPMG towards the end of 2016 with the report and any recommendations to be considered by Scottish Ministers during 2017-18.

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. 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 and employee contribution rates. 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 latest valuation of the scheme is based on data as at 31 March 2012 and has set the employer cost cap at 12.4%. The employer cost cap is measured at each valuation and if a future valuation shows that the costs of the Scheme as measured by the cost cap have risen by 2 percentage points or more above or have fallen by 2 percentage points or more below the cap, action will be taken to return costs to the level of the cap. The 2012 valuation has set the employer contribution rate at 17.2% from 1 September 2015 to 31 March 2019. Employee contribution rates ranging from 7.2% to 11.9% of pensionable earnings were set from 1 April 2015 to 31 March 2019 to deliver an average annual yield of 9.6%. The actual yield delivered in 2016-17 was 9.5%. This yield is taken into account as part of the valuation process.

The Scheme actuary has started work on the next valuation, based on data as at 31 March 2016 which will set the employer contribution rate from 1 April 2019 and will also measure any change in the employer cost cap.

The 2012 valuation report and associated documents are available on the SPPA's website www.sppa.gov.uk.

The Government Actuary's Department (GAD) have carried out an actuarial valuation of the scheme as at 31 March 2015 using a new set of membership data provided by SPPA. Sufficient additional data has been supplied by SPPA to enable the liability as at 31 March 2017 to be assessed based on the calculated liability as at 31 March 2015.

1.5 Eligibility and employers

Teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools, are eligible to join the Scheme. At 31 March 2017 these made up a total of 151 employers (31 March 2016: 152).

1.6 Changes to the Scheme

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 2015, CPI was negative 0.1%. As a result, no inflationary increase was applied from 1 April 2016 for either pensions in payment or deferred pensions.

Regulations and known issues to be addressed in the coming year by SPPA

No regulations were introduced, however the Additional Voluntary Contributions (AVC)'s were consulted upon and will be introduced in a new instrument in 2017 - 2018. The instrument will have retrospective effect from 1 April 2015 and provide for the pension flexibilities introduced in the UK Government's 2014 Budget.

Due to the changes in Scottish Education over a number of years, in 2015 the Scheme Advisory Board appointed a Working Group to consider eligibility to the pension scheme. The Working Group has now concluded its work and its recommendations will be considered during 2017-18.

Amendments to the scheme regulations will be consulted on in relation to the time limits on members buying out the standard reduction applied for the early payment of a pension, and to remove the mandatory requirement for a nomination form for unmarried partner benefits. Retrospective changes from 1 April 2015 will also be made to the regulations covering premature retirement to reflect the introduction of the 2015 CARE scheme.

As part of the 2016 scheme valuation Scottish Ministers will consider a number of non-financial scheme specific assumptions. In deciding on those assumptions the advice of the Scheme Advisory Board will be sought during 2017-18. The financial assumptions used in public service pension scheme valuations are set by HM Treasury.

The review of the Governance arrangements (see paragraph 1.3) will be formally announced and action taken to implement any agreed recommendations.

1.7 Age discrimination on transitional protection

In January 2017, the Employment Tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to the New Judicial Pension Scheme established in April 2015, while under transitional provisions older colleagues were able to remain in the existing final salary scheme. In a similar age discrimination case brought by the Fire Brigade Union, the Employment Tribunal ruled that the transitional provisions were a proportionate means of achieving a legitimate aim and so do not give rise to unlawful age discrimination. The judgements for both of these cases are currently under appeal. The outcome may impact on the profiles of the final salary and CARE schemes within the public service.

1.8 Unmarried partner claims (the Brewster judgement)

The Supreme Court ruled that a particular regulation requiring a signed nomination form from a member of the Northern Ireland Local Government Pension Scheme, in order to entitle an unmarried partner to survivor benefits in the scheme was unlawful (the Brewster judgement). This matter has been considered by the Scottish Government and it has been agreed that the ruling will be applied across schemes in Scotland. Any person who was previously disallowed a survivor's pension on the basis that there was no nomination form and meets the underlying conditions of entitlement can apply for benefits which would be payable from the date following the member's death. The number of cases is considered to be low, and in preparing the scheme liabilities no allowance has been made for any potential cost implications that may arise from the judgement.

1.9 Membership statistics

Details of the membership of the Scheme as at 31 March 2017 are as follows

Active members

Total brought forward from 31 March 2016		**74,159**
Adjustment in year[1]		2,103
Revised active members as at 31 March 2016		**76,262**
Additions within the year		
New members and rejoiners		4,501
Leavers		
Retirements	(1,837)	
Leavers from active to deferred	(1,679)	
Other leavers[2]	(770)	(4,286)
Total active members as at 31 March 2017		**76,477**

Members with deferred liability

Total brought forward from 31 March 2016	**15,103**
Adjustment in year[1]	2,271
Revised deferred members as at 31 March 2016	**17,374**
Leavers from active to deferred	1,679
Other new deferred members	253
Members leaving deferred status	(1,301)
Total members with deferred pension liability as at 31 March 2017	**18,005**

Members receiving a pension

Total brought forward from 31 March 2016	**74,520**
Adjustment in year[1]	973
Revised pension members as at 31 March 2016	**75,493**
New Pensioners	3,964
Cessations	(1,912)
Total Pensioners as at 31 March 2017	**77,545**

[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, leavers who do not have qualifying service and an adjustment for multiple employments.

1.10 Financial position at 31 March 2017

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 provided in the statement by the actuary on page 12 to 17.

The pension liability as at 31 March 2017 was £36.3 billion (31 March 2016: £28.7 billion) which is an increase of £7.6 billion. There was a £6.9 billion actuarial loss comprising a £7.0 billion loss due to a change in the discount rate and a £0.1 billion experience gain mainly as a result of the 2017 pension increase being lower than assumed and a £0.7 billion loss through other movements in the year (see notes to the accounts 11.2).

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 2016-17 the total expenditure was £1,833.6 million and total income was £649.4 million giving a net expenditure of £1,184.2 million. This outturn was within the budget set at £1,208.3 million.

In cash terms, there was an excess of pension benefits paid over income received of £448.4 million as detailed below.

Financial position note

	2016-17	**2015-16**
	£m	£m
Pension contributions	(638.2)	(608.1)
Transfers in	(11.1)	(14.2)
Other income	(0.1)	(0.4)
Total income	(649.4)	(622.7)
Pensions	900.4	875.0
Lump sums	188.4	202.9
Transfers out	7.1	15.4
Refunds	0.7	0.6
Total benefits	1,096.6	1,093.9
Total income less benefits	**447.2**	**471.2**
Movement in debtors and creditors	1.2	2.4
Cash requirement	**448.4**	**473.6**

1.11 Going concern

In common with many public pension schemes, the STPS 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 £36.3 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.

1.12 Information to the auditors

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

1.13 Free-standing additional voluntary contributions and stakeholder pensions

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

1.14 Additional voluntary contributions

The STPS 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 provide pension benefits such as a lump sum, annuity or income draw down. Members participating in this arrangement each receive an annual statement made up to 31 March from the approved provider confirming the amounts held in their account and the movements in the year.

Prudential is the appointed designated Stakeholder Pension Provider for the STPS. 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 STPS, nor does the Scheme have any responsibility in relation to the Stakeholder arrangements. These AVCs are not brought to account in these statements and are not audited by Audit Scotland.

The aggregate amounts of AVC investments are as follows:

1.15 Prudential Financial Services AVC Statement

Funds under management	£	£
Opening balance as at 1 April 2016		**158,805,372**
Changes in investment		14,213
Revised fund brought forward at 1 April 2016		**158,819,585**
Income		
Contributions invested	5,461,030	
Interest and bonuses estimated	8,663,962	
Switches in from other funds	1,040,983	
Transfers in from other AVC arrangements	37,620	
Transfers in relating to bonus histories	3,533	
Total new investments		**15,207,128**
Expenditure		
Retirement benefits	(4,906,214)	
Death - return of funds	(201,419)	
Early leavers – withdrawals	(15,798,263)	
Transfers out relating to bonus histories	(15,835)	
Switches to other funds	(1,040,983)	
Market value reduction	0	
Annual management charges	(45,278)	
Unit linked funds price movement	1,435,626	
Sale of investments		**(20,572,366)**
Closing balance as at 31 March 2017		**153,454,347**

1.16 Further information

Any enquiries about the STPS should be addressed to:

Eleanor Guthrie
Acting Scheme Administrator
Scottish Public Pensions Agency
7 Tweedside Park
Galashiels
TD1 3TE

Penelope Cooper
Accountable Officer

25 September 2017

2. Statement by the Actuary

Introduction

2.1 This statement has been prepared by the Government Actuary's Department at the request of the Scottish Public Pensions Agency (SPPA). It summarises the pensions disclosures required for the 2016-17 Annual Report and Accounts of the STPS.

2.2 The Scottish Teachers' Superannuation Scheme ('STSS') is a final salary, defined benefit scheme which applies to benefits accrued before 1 April 2015 and to future accrual for older members who have fully protected status or tapered protection. STPS 2015 is the new career average scheme applying to future accrual after 1 April 2015 for members without protected status and for new joiners on or after 1 April 2015. The rules of the STSS are set out in The Teachers' Superannuation (Scotland) Regulations 2005 (SSI 2005/393) and subsequent amendments, and the rules of the STPS 2015 are set out in The Teachers' Pension Scheme (Scotland) (No 2) Regulations 2014 (SSI 2014/292) and subsequent amendments. It is our understanding that the STSS and the STPS 2015 are to be treated as one scheme for accounting purposes, which we have referred to as the Scottish Teachers Pension Scheme ('the scheme' or 'the STPS') in this statement. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS19 constructive obligations should be included in the measurement of the actuarial liability).

2.3 The statement is based on an assessment of the liabilities as at 31 March 2015, with an approximate updating to 31 March 2017 to reflect known changes.

Membership data

2.4 Tables A to C summarise the principal membership data as at 31 March 2015 used to prepare this statement.

Table A – Active members

	31 March 2015 membership data	2016-17 accounts
Number (nearest 10)	Total salaries* (pa) (£ billion)	Total salaries implied by receipts (£ billion)
74,790	2.39	2.38

* Actual Pensionable Pay reflecting part-time working arrangements.

Table B – Deferred members

31 March 2015 membership data	
Number* (nearest 10)	Total deferred pension** (pa) (£ billion)
27,750	0.070

* Includes members who left service without enough qualifying service to be entitled to a deferred pension, but who have an entitlement to a refund of contributions or a transfer value payment.
** Pension amounts include the pension increase granted on 6 April 2015.

Table C – Pensions in payment

31 March 2015 membership data		2016-17 accounts
Number (nearest 10)	Total pension* (pa) (£ billion)	Total pension (pa) (£ billion)
74,040	0.861	0.899

* Pension amounts includes the pension increase granted on 6 April 2015.

Methodology

2.5 The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2016-17 Annual Report and Accounts. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the 2015-16 Annual Report and Accounts.

2.6 In accordance with Paragraph 70 of International Accounting Standard 19, the contribution rate for accruing costs has been calculated using the benefit formula approach. This approach attributes the cost of benefit accrual, throughout each members' active membership of the scheme, in line with how members' pensions are built up under the scheme regulations.

2.7 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.

Principal financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2017	31 March 2016
Rate of return (discount rate)	2.80%	3.60%
Rate of earnings increases*	4.55%	4.20%
Rate of future pension increases	2.55%	2.20%
Rate of return in excess of:		
Pension increases (CPI)	0.24%	1.37%
Earnings increases	(1.70)%	(0.60)%
Expected return on assets:	n/a	n/a

* Short-term adjustments have been made to this assumption for the period to 2020

2.9 The pension increase assumptions up to and including 31 March 2017 are based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

2.10 Table E summarises the demographic 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 known as the 'S1 tables' with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Normal health	
Males	120% of S1NMA_L mortality
Females	Age-dependant adjustments to S1NFA_L mortality (83% up to age 79, 95% at ages 80-84, 110% at ages 85-89, 119% from age 90)
Current ill-health pensioners	
Males	Age-dependent adjustments: ≤71: 73% of S1IMA mortality >71: 128% of S1NMA mortality
Females	Age-dependent adjustments: ≤71: 100% of S1IFA mortality >71: 123% of S1NMA mortality
Future ill-health pensioners	
Males	100% of S1IMA mortality
Females	100% of S1IFA mortality
Partners	
Males	122% of S1NMA mortality
Females	99% of S1DFA mortality

2.11 These assumptions are the same as those adopted for the 2015-16 Annual Report and Accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption is in line with the latest Office for National Statistics (ONS) projections.

2.12 The contribution rate used to determine the accruing cost in 2016-17 was based on the demographic and financial assumptions applicable at the start of the year, that is, those adopted for the 2015-16 Annual Report and Accounts.

Liabilities

2.13 Table F summarises the assessed value as at 31 March 2017 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 2.4 to 2.12. The corresponding figures for the previous four year ends are also included in the table.

Table F – Statement of Financial Position

£ billion

	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	36.3	28.7	29.4	27.1	24.0
Surplus/(Deficit)	(36.3)	(28.7)	(29.4)	(27.1)	(24.0)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

2.14 The cost of benefits accrued in the year ended 31 March 2017 (the Current Service Cost) is based on a standard contribution rate of 33.2%. Members contributed between 7.2% and 11.9% of pensionable pay, depending on the level of their pay. Table G shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members, as shown in the accounting disclosures of the scheme. The corresponding figures for 2015-16 are also included in the table.

Table G – Contribution rate

	Percentage of pensionable pay	
	2016-17	**2015-16**
Standard contribution rate	33.2%	34.4%
Members' estimated average contribution rate	9.5%	9.3%
Employers' estimated share of standard contribution rate	23.7%	25.1%

2.15 For the avoidance of doubt, the actual rate of contributions payable by employers, 17.2% of pensionable pay for 2016-17, is not the same as the employers' share of the standard contribution rate as above (23.7% for 2016-17). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Annual Report and Accounts is the discount rate. The discount rate for Annual Report and 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 2016-17 was £2.38 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016-17 (at 33.2% of pay) is assessed to be £0.8 billion.

2.17 There have been no past service costs in the year 2016-17.

2.18 I am not aware of any events that have led to a material settlement or curtailment gain over 2016-17.

Sensitivity analysis

2.19 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 2017 of changes to the most significant actuarial assumptions.

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

2.21 There is significant uncertainty associated with how members will retire in future as a result of the scheme reform for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in final salary scheme sections and so I have included an indication of the approximate effect (on the total past service liability) of all active members who move to the new scheme and retire on average 1 year later.

2.22 Table H shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest ½%).

Table H - Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i) discount rate*	+½% a year	-9.5%	- £3.5 billion
(ii) (long-term) earnings increase*	+½% a year	+ 2.5%	+ £0.9 billion
(iii) pension increases*	+½% a year	+ 7.5%	+ £2.8 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 3.0%	+ £1.2 billion
(v) all active members who move to the new scheme retire on average 1 year later		+ 0.0%	£0 billion

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

George Russell

George Russell
Government Actuary's Department
September 2017

3. Statement of Accountable Officer's responsibilities

Under section 19 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 50 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 STPS. 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 Governance framework

Agency's Framework Document

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

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

Management Advisory Board

This follows the model set out in the Scottish Government's publication 'On Board: A Guide for Members of Management Advisory Boards'. It is designed to include non-executive members who act in an advisory capacity to the SPPA's Accountable Officer (Chief Executive) and are, therefore, neither personally or collectively accountable for the Agency's performance. Having considered 'On Board' and to better describe its purpose, the Agency took the decision before the year end to rename the Corporate Board as the Management Advisory Board.

The Management Advisory Board over the last year has benefited from an experienced cohort of four non-executive members, together with a representative from Scottish Government - the Agency's 'Fraser figure'. The Agency's five Executive Directors and the Chairs of Scotland's NHS, Teachers', Police & Firefighters' Pension Boards are also invited to attend meetings of the Management Advisory Board.

During the year, the Management Advisory Board was scheduled to meet twice but has also met outwith the regular cycle to consider strategic issues. The Board's work has included:

- considering the content of Agency's Annual Business Plan and the content of a three-year Corporate Plan 2016-2017 to 2018-19
- receiving reports from the Chief Executive on the Agency's progress in meeting plan targets and reports on key performance indicators
- receiving reports from the Audit and Risk Committee
- receiving updates on: budgetary issues and internal financial management from the Director of Finance; relevant matters of pension policy from the Director of Policy; and progress in achieving the Agency's 'One SPPA' programme including 'PS Pensions Project' (described below) from the Programme Director
- considering strategy documents including a new People Strategy and associated 9-point Plan, Communications Plan and Learning and Development Plan

- considering the Agency's draft Annual Report and Accounts and drafts for the NHS Scotland and Scottish Teachers' Pension Schemes
- considering the risk environment including threats to the long-term ability of the Agency to meet its objectives.

STPS Pension and Scheme Advisory Boards

SPPA takes the day-to-day role of Scheme Manager as set out in the Public Service Pensions Act 2013 (the PSP Act) for the STPS as delegated by Scottish Ministers. The Agency's policy function also acts as the key policy adviser and custodian of scheme regulations for the scheme.

The PSP Act introduced wide-ranging reform of the design and governance of public service pensions from 1 April 2015, including the schemes for which the Agency acts as policy lead. SPPA oversees the governance framework put in place under the PSP Act, in particular:

- supporting Scotland's statutory Teachers' Pension Board which assist the Scheme Manager in securing compliance with regulatory requirements
- supporting the Scheme Advisory Board which, at the request of the Responsible Authority, and together with the Agency's policy function, provide advice to it
- providing secretariat services to and attending the STPS Pension Board
- participating in and providing general and technical pensions policy advice to the Scheme Advisory Board.

In line with a Scottish Government commitment made during the 2015 reforms, the Agency commissioned independent consultants to review the effectiveness of the operation of the scheme governance arrangements introduced under the PSP Act. Recommendations approved by Scottish Ministers will be taken forward in conjunction with the Scheme Advisory Boards and Pension Board.

Strategic Leadership Team and Management Board

Strategic Leadership Team (SLT) meetings are held fortnightly and have included one meeting at the end of each month designated as a Management Board (MB). The Team comprises the Chief Executive and Directors of Corporate Services, Finance, Operations and Policy, in addition to the Head of Operational Transformation and Programme Director. During the year it also included the Deputy Chief Executive. These meetings focus on key, short-term deliverables and actions.

Monthly MB meetings also include some non-executive directors. An overall Agency Progress Report is tabled covering operational, financial, business support, programme and policy updates and any cross-cutting issues. As an attendee of weekly and quarterly assurance meetings of Scottish Government's Finance Directorate leadership team, the Chief Executive also relays Scottish Administration-wide and strategic issues. MB meetings typically have a planning horizon of, at least, the next quarter.

Audit and Risk Committee

The Management Advisory Board is supported by an Audit and Risk Committee which comprises three non-executive members of the Board and has met formally five times over the year. The Committee's work has included:

- reviewing the Agency's risks and risk management processes to provide assurance to the Accountable Officer and Management Advisory Board
- directing the work of Internal Audit, receiving progress updates and an annual assurance statement
- receiving reports from Internal Audit on the progress and conclusions of its work
- receiving Audit Scotland's annual audit plan and reports
- receiving reports from the Agency's management on: fraud; security breaches; losses; internal controls; and, finance policies
- receiving reports on counter fraud and corruption, security, health and safety and, if applicable, bribery and whistle-blowing
- reviewing the Agency's budget and out-turn position alongside financial performance against key metrics
- reviewing the Agency's, NHS Pension Scheme (Scotland) and STPS Annual Report and Accounts and receiving an Annual Report from Audit Scotland
- reviewing a new version of the Corporate Risk Register (in October 2016) incorporating changes based on recommendations proposed by the interim Head of Security (an external consultant operating on a short-term commission)
- reviewing and tracking all recommendations emerging from reports produced by external audit (Audit Scotland) and internal audit (Scottish Government Internal Audit Directorate).

PS Pensions Project Board

The Agency has a formal project board for 'PS Pensions Project' - a project to replace existing pension administration and payroll systems with an integrated multi-scheme pension administration and pensioner payroll digital solution, including web-based member and employer services. The Board is chaired by the Chief Executive who operates as Senior Responsible Officer for the project and currently comprises relevant senior SPPA management in specific project roles (Senior User, etc.), representatives of the strategic supplier (Capita Employee Benefits), the Agency's 'Fraser Figure' and the Scottish Government Chief Information Officer. Non-executive directors have attended some meetings, in an observational capacity. The main objective of the Board is to ensure the successful implementation of the new system (PS Pensions) without disruption to existing services, as soon as practicable, taking into account the need for services and process redesign. Summary progress reports are also considered by the Management Advisory Board and Audit and Risk Committee on any major risk, governance and control issue.

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 Scottish Public Finance Manual (SPFM) is issued by 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 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 SPFM and guidance note 2 of 'On Board: A Guide for Members of Management Advisory Boards' published by Scottish Government.

4.4 Performance during the year

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 2016-17, three security breaches were reported, though each were assessed as 'minor'. In total, details of nine 'minor' breaches were recorded by the Head of Security. Eight of the breaches were attributable to human error and one as a result of a mechanical error with an enveloping machine. To address training issues, the Agency has mandatory training in the following areas:

- face to face induction for all new members of staff on data protection
- on line Data Protection Act learning modules
- on-line 'Responsible for information – general user' training.

The interim Head of Security undertook a full review of all aspects of SPPA security, including: cyber security, physical (building) security, information assurance, records management and risk management and recommendations were taken forward by members of the Agency's SLT.

Information assurance

Staff are reminded through the SPPA 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 demonstrated, once again, that improvements had been made over the previous year.

An independent analysis of information assurance and records management was undertaken by the interim Head of Security. As part of the scope of the reviews, assurances were provided on disaster recovery and business continuity procedures (as tested in October 2016); information and data management back–up protocols, staff awareness and training and information management and strategy.

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 including the Annual Audit Report to Members and the Auditor General for Scotland.

In the 2015-16 Annual Audit Report issued on 17 October 2016 it was reported that 'overall we concluded that SPPA had appropriate governance arrangements in place' and the 'system of internal control operated effectively during 2015-16'. The Annual Audit Report for 2016-17 will be issued after the financial year end (expected reporting date, September 2017). It should be noted that Audit Scotland place reliance where practicable on the work performed by Internal Audit.

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 2016-17, Internal Audit finalised or is in the process of finalising reviews of:

- implications of the GAD v Milne case and Guaranteed Minimum Pensions (GMP) calculations on the Agency's business (substantial assurance)
- bank receipts and collection process (reasonable assurance)
- contract management arrangements for the integrated pension administration and payroll system (ongoing)
- customer satisfaction and culture (ongoing)
- follow-up reviews on previous audits.

Internal Audit have provided the Accountable Officer with a Reasonable Assurance opinion for 2016-17 on the risk management, internal control and standards of governance applied across the Agency.

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. Policies are reviewed and refreshed at pre-determined intervals. Any reportable breaches of health and safety would also be reported to the Audit and Risk Committee with a view to reviewing the efficacy of internal controls.

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. The Plan is generally tested annually and the most recent test took place on 21 October 2016. Key findings are fed back to the SLT and changes are made to the Plan in the light of lessons learned.

Pension liabilities

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.

4.5 Corporate governance changes

The Agency received a report from the interim Head of Security which made a valuable contribution to the operation of risk management in the Agency. The Agency has previously relied upon a comprehensive set of risk registers at directorate and agency level which were reviewed quarterly by the SLT. From October 2016, the Agency set up a Risk Governance Group to look in more detail at Agency-wide risks prior to consideration by the SLT thereby improving on the bottom-up and top-down approach.

The position of Head of Security was filled on a permanent basis from August 2016. The main areas of responsibility for the post include:

- data protection (including implementing general data protection regulations)
- data security
- records management
- information assurance
- protective security (physical and personnel security)
- business continuity.

Governance arrangements for PS Pensions Project were strengthened by the involvement of a skilled, independent specialist team commissioned through the Scottish Government's Office of the Chief Information Officer. That team carried out an in-depth assurance 'health check' of the project in October and November 2016. The review findings were shared with the strategic supplier, which participated fully in the health check, and its recommendations formed the basis of a further strengthening of project controls and project management arrangements in the Agency.

During the year, there were a number of executive and non-executive personnel changes. These included temporary changes in Chief Executive responsibilities and further development of non-executive roles. More detail is provided in the SPPA Annual Report and Accounts 2016-17 at section 2.1.2.

The gender balance of non-executive members on the Board at 31 March 2017 was 75:25 female to male and the balance of executive directors was 50:50.

Both the Board and the Audit and Risk Committee carried out a self-assessment of their effectiveness in 2016-17 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 to the Management Advisory Board.

Corporate governance arrangements are considered to comply with generally accepted best practice principles and relevant guidance.

4.6 The Agency's risk management arrangements and risk profile

The Agency maintains a Corporate Risk Register that covers all areas of activity, in compliance with the guidance contained in the SPFM. In addition, in line with expectations set out in guidance by The Pensions Regulator, risk registers are in place for each of the four pension schemes that the Agency administers. Risks in relation to significant projects, including PS Pensions Project and the Agency's four directorates are reviewed by a Risk Governance Group set up during the year to ensure that adequate attention is being paid to identifying and managing risk. The identification of risks and associated controls have emerged from audit reviews, business planning sessions, away-days, regular team meetings and Risk Governance Group meetings. Similarly, the Agency's management team and non-executive directors consider changes to the strategic landscape which might generate risks for assessment and possible inclusion in the Corporate Risk Register. The Agency's top three 'red' risks for 2016-17 were:

- successful implementation of integrated pension admin and payroll system via PS Pensions Project without disruption to core business
- timely delivery of all GMP pension scheme administration and management responsibilities by December 2018
- compliance with The Pensions Regulator (TPR) Code of Practice 14 and meeting the expectations of all key stakeholders, including the Pensions Regulator.

Risk management arrangements are considered to comply with generally accepted best practice principles and relevant guidance.

4.7 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 business planning process and output from events is compiled and communicated to staff through formal and informal communication channels.

The Agency uses a range of mechanisms to obtain feedback from its customers and stakeholders. Input from Pension Boards, customer insights across schemes, desk-top research and data routinely gathered on customer service from surveys and comments and complaints support a user-centred approach. Ultimately, as a replacement for annual customer satisfaction surveys, the SPPA introduced a continuous customer satisfaction survey to gather and act on 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 2016 CEM benchmarking survey are provided in the SPPA Annual Report and Accounts 2016-17.

The Agency continues to participate in the 'Investors in People' accreditation programme and retained 'Gold' status, first achieved in 2012, in 2016-17.

In October 2016, the Agency participated in a UK Government-led annual staff survey for civil servants which identified a staff engagement level of 54%, the same as for the previous year. In response to the results, the Agency carried out a number of initiatives to improve leadership and management skills, including behaviours. It established a People Network comprising representatives from a range of grades, directorates and from the trade union colleagues, which continues to provide an excellent sounding board on and a source of new ideas to improve staff engagement.

4.8 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 Scottish Exchequer in respect of the financial systems shared with the Agency, and from the Scottish Government's Director General Organisational Development and Operations in respect of the Scottish Government's human resources and payroll systems that are shared with the Agency.

Penelope Cooper
Accountable Officer

25 September 2017

5. Statement of parliamentary supply

In addition to the primary statements prepared under 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 2016-17

								2016-17	2015-16
		£m Estimate			£m Outturn			£m	£m Outturn
Annually managed expenditure	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving/ (excess)	Total
Budgeted Resources		1,208.3	0.0	1,208.3	1,184.2	0.0	1,184.2	24.1	1,264.3
Total Resources	SOPS 5.2	1,208.3	0.0	1,208.3	1,184.2	0.0	1,184.2	24.1	1,264.3

Net cash requirement 2016-17

		2016-17 £m		2016-17 £m	2015-16 £m
	Note	Estimate	Outturn	Outturn compared with estimate: saving/ (excess)	Outturn
Net cash requirement	SOPS 5.4	469.3	448.4	20.9	473.6

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

Outturn against estimate

Accrued resources for the STPS and the NHS Pension Scheme (Scotland) are covered by one limit in the Budget (Scotland) Act 2016. In 2016-17 the combined accrued resources of £3,281.6 million fell within the combined limit of £3,300.3 million. Refer also to the Report of the Managers on pages 2 to 11.

SOPS 5.2 Net outturn – analysis by section

	2016-17 £m			£m		2015-16 £m
	Outturn			Estimate		Outturn
	Programme					
	Gross	Income	Net	Net total estimate	Outturn compared to estimate	Total
Annually Managed Expenditure						
Voted:						
Pensions	1,833.6	(649.4)	1,184.2	1,208.3	24.1	1,264.3
Total	**1,833.6**	**(649.4)**	**1,184.2**	**1,208.3**	**24.1**	**1,264.3**

SOPS 5.3 Reconciliation of resource outturn to net operating cost

	SOPS Note	2016-17 £m Outturn	2015-16 £m Outturn
Total resource outturn in Statement of parliamentary supply			
Budgeted resources	SOPS 5.2	1,184.2	1,264.3
Non-budget (income not applied)	SOPS 5.5	0.0	0.0
Net expenditure in the Statement of comprehensive net expenditure		**1,184.2**	**1,264.3**

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	(1,208.3)	(1,184.2)	24.1
Accruals adjustment				
Non-cash items		1,856.0	1,832.5	(23.5)
Changes in working capital other than cash		0.0	(1.2)	(1.2)
Use of provisions				
Adjustment for movement in premature retirement provision	13	0.0	(0.1)	(0.1)
Pensions, lump sums and leavers	11.3/11.4	(1,117.0)	(1,095.4)	21.6
Funding (to)/from the Scottish consolidated fund	SOPS 5.5	469.3	448.4	(20.9)
Net cash requirement		**0.0**	**0.0**	**0.0**

SOPS 5.5 Income payable to the Scottish Consolidated Fund

The cash requirement for the Scottish Teachers' Pension Scheme is part of the overall cash authorisations of the Scottish Government in the Budget (Scotland) Act 2016. In the year to 31 March 2017 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

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 approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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 Scottish Teachers' Pension Scheme for the year ended 31 March 2017 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of comprehensive net expenditure, the Statement of financial position, the Statement of changes in taxpayers' equity, the Statement of cash flows and Notes to the accounts, including a Statement of 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 2016/17 Government Financial Reporting Manual (the 2016/17 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 2017 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 2016/17 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 of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). 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 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 Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements.

My objectives are to achieve 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&I) 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.

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 in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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 other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

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.

Stephen Boyle

Stephen Boyle CPFA
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

27 September 2017

7. Financial statements

Statement of comprehensive net expenditure for the year ended 31 March 2017

	Note	2016-17 £m	2015-16 £m
Income			
Contributions receivable	3	(638.2)	(608.1)
Transfers in	4	(11.1)	(14.2)
Capitalised receipts	13	(0.1)	(0.4)
		(649.4)	(622.7)
Expenditure			
Service costs	5	791.0	829.8
Enhancements	6	2.4	2.4
Transfers in	7	11.1	14.2
Pension financing cost	8	1,028.0	1,039.3
Other expenditure	12	0.2	0.1
Premature retirement financing cost	13	0.8	0.8
Capitalised receipts	13	0.1	0.4
		1,833.6	1,887.0
Net (income)/expenditure for the year		**1,184.2**	**1,264.3**
Other comprehensive net expenditure			
Pension remeasurements:			
Actuarial (gains)/losses	11.5	6,862.9	(1,492.9)
Increase/(decrease) in premature retirement provision net of financing cost	13	3.3	(1.8)
Total other comprehensive net expenditure		**6,866.2**	**(1,494.7)**
Total comprehensive net expenditure for the year ended 31 March		**8,050.4**	**(230.4)**

The notes on pages 38 to 49 form part of these financial statements.

Statement of financial position as at 31 March 2017

	Note	2017 £m	2016 £m
Current assets			
Receivables	9	53.1	53.8
Current liabilities			
Payables (within 12 months)	10	(13.3)	(15.2)
Net current assets/(liabilities) excluding pension liability		39.8	38.6
Provisions for liabilities and charges			
Premature retirement provision	13	(25.5)	(22.3)
Pension liability	11.2	(36,300.0)	(28,700.0)
Net liabilities including pension liability		**(36,285.7)**	**(28,683.7)**
Taxpayers' equity			
General fund		(36,285.7)	(28,683.7)
		(36,285.7)	**(28,683.7)**

The notes on pages 38 to 49 form part of these financial statements.

Penelope Cooper
Accountable Officer

25 September 2017

Statement of changes in taxpayers' equity for the year ended 31 March 2017

	2016-17 £m	2015-16 £m
Balance at 1 April	**(28,683.7)**	**(29,387.7)**
Funding from the consolidated fund	448.4	473.6
Combined net expenditure	(1,184.2)	(1,264.3)
Other comprehensive net expenditure	(6,866.2)	1,494.7
Net changes in taxpayers' equity	(7,602.0)	704.0
Balance at 31 March	**(36,285.7)**	**(28,683.7)**

The notes on pages 38 to 49 form part of these financial statements.

Statement of cash flows
for the year ended 31 March 2017

	Note	2016-17 £m	2015-16 £m
Cash flows from operating activities			
Net income/(expenditure) for the year		(1,184.2)	(1,264.3)
Adjustments for non cash transactions			
(Increase)/decrease in receivables		0.7	(5.1)
Increase/(decrease) in payables		(1.9)	2.7
Movement in premature retirement			
Provision	13	3.2	(1.6)
Net of financing cost	13	(3.3)	1.8
Movement in pension liability			
Service and finance cost	11.2	1,819.0	1,869.1
Enhancements and transfers in	11.2	13.5	16.6
Benefits paid	11.3	(1,087.6)	(1,076.8)
Refunds and transfers	11.4	(7.8)	(16.0)
Net cash outflow from operating activity		**(448.4)**	**(473.6)**
Cash flows from financing activities			
Financing		448.4	473.6
Net financing		**448.4**	**473.6**
Increase /(decrease) in cash and cash equivalents in period		**0**	**0**

The notes on pages 38 to 49 form part of these financial statements.

Notes to the accounts

Accounts for the year ended 31 March 2017

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 2016-17 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 statements 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 STPS

STPS is an occupational pension scheme operated by the SPPA on behalf of teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools who satisfy the membership criteria. From 1 April 2015 the Scottish Teachers Pension Scheme 2015 was introduced. This scheme is a CARE scheme. The existing 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 of the STPS 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 financial statements should be read in conjunction with that report.

The accounts also have regard to the governing scheme legislation, Teachers' Pension Scheme (Scotland) (No. 2) Regulations 2014 as amended and the Teachers' Superannuation (Scotland) Regulations 2005 as amended.

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 Scheme 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 (see 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 a product of the employers' contributions received.

2.6 Past service costs

Past service costs are increases or decreases 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.

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 1.37% real (i.e. 3.60% 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 decreased to 0.24 % at 31 March 2017.

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 0.24% real (i.e. 2.80% 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 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' 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. 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 for the year.

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 Premature retirement provision

Compensation for early retirement because of redundancy or the need to support the efficient exercise of the employer's functions is a liability on the employers of teachers and so is not accounted for in the financial statements of the STPS. All such compensation is paid separately through employers' payroll systems. Employers have the option to capitalise early retirement costs of employees. This transfers liability for payment to the pension scheme. Liability is discharged as benefits are paid. The valuation is updated annually to take account of the Net Present Value (NPV) of cash flows in the intervening year. The financing charge is based on a discount rate of 1.37% real (i.e. 3.60% 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.

The liability has been recalculated at 31 March 2017 using longevity factors based on the current Treasury discount rate. As these factors change in line with the discount rate the premature retirement provision is valued annually. There is a £3.2 million increase in the liability as a result of the revaluation and other adjustments.

2.17 Funding

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

3. Pension contributions receivable

	Note	2016-17 £m	2015-16 £m
Employers		(409.8)	(384.7)
Employees			
Normal		(226.0)	(221.0)
Purchase of additional pension		(2.4)	(2.4)
		(638.2)	**(608.1)**

4. Pension transfers in

	Note	2016-17 £m	2015-16 £m
Individual transfers in from other schemes	7 & 2.3	(11.1)	(14.2)
		(11.1)	**(14.2)**

5. Service cost

	Note	2016-17 £m	2015-16 £m
Current service cost	11.2	791.0	814.8
Past service costs	11.2	0.0	15.0
		791.0	**829.8**

6. Enhancements - additional liability

	Note	2016-17 £m	2015-16 £m
Employees			
Purchase of additional pension	11.2	2.4	2.4
		2.4	**2.4**

7. Transfers in - additional liability

	Note	2016-17 £m	2015-16 £m
Individual transfers in from other schemes	4 & 2.3	11.1	14.2
		11.1	**14.2**

8. Pension financing cost

	Note	2016-17 £m	2015-16 £m
Net interest on defined benefit liability	11.2	1,028.0	1,039.3
		1,028.0	**1,039.3**

9. Receivables - contributions due in respect of pensions

9.1 Analysis by type

	2016-17 £m	2015-16 £m
Amounts falling due within one year		
Pension contributions due from employers	30.2	32.5
Employees' normal contributions	16.7	18.6
Employees' purchase of additional pension	0.2	0.2
Cash in transit	5.3	1.7
Other receivables	0.7	0.8
	53.1	**53.8**

9.2 Intra-government balances

	2016-17 £m	2015-16 £m
Amounts falling due within one year		
Balances with other central government bodies	5.3	1.8
Balances with local authorities	39.0	42.6
Balances with bodies external to government	8.8	9.4
	53.1	**53.8**

10. Payables - in respect of pensions

10.1 Analysis by type

	2016-17 £m	2015-16 £m
Amounts falling due within one year		
Pensions	(3.2)	(5.1)
Tax due to HM Revenue and Customs	(10.1)	(10.1)
	(13.3)	**(15.2)**

10.2 Intra-government balances

	2016-17 £m	2015-16 £m
Amounts falling due within one year		
Balances with other central government bodies	(10.1)	(10.1)
Balances with bodies external to government	(3.2)	(5.1)
	(13.3)	**(15.2)**

11. Provision for pension liabilities

11.1.1 An actuarial report by the Government Actuary's Department (GAD) was received for the accounting year ended 31 March 2017. An actuarial valuation of the scheme for IAS 19 purposes has been carried out as at 31 March 2015. The assessment of the pension liability as at 31 March 2017 has been carried out by rolling forward the liability from the valuation at 31 March 2015. The assessed actuarial liability as at 31 March 2017 is £36.3 billion. This compares to the liability of £28.7 billion as at 31 March 2016.

The Statement by the Actuary on pages 12 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:

As at 31 March	2017	2016	2015	2014	2013
Financial assumptions					
Rate of increase in salaries	4.55%	4.20%	4.20%	4.50%	3.95%
Inflation assumption	2.55%	2.20%	2.20%	2.50%	1.70%
Discount rate	2.80%	3.60%	3.55%	4.35%	4.10%
Life expectancy – Current pensioners					
Males (Age 60)	28.4	28.3	28.5	28.4	28.2
Males (Age 65)	23.5	23.4	23.6	23.5	23.4
Females (Age 60)	30.7	30.6	31.2	31.1	32.8
Females (Age 65)	25.7	25.6	26.2	26.1	27.8
Life expectancy – Future pensioners*					
Males (Age 60)	30.0	29.9	30.1	30.0	30.0
Males (Age 65)	25.4	25.3	25.6	25.5	25.6
Females (Age 60)	32.2	32.1	32.7	32.6	34.6
Females (Age 65)	27.5	27.4	28.1	28.0	30.0

* 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 or 65 for future pensioners currently aged 45.

The assumptions on life expectancy adopted for the 2016-17 accounts show a slight increase in life expectancy owing to the improvement that has been assumed to occur over the year.

Long-term price inflation is assumed to be 2.55% per annum. The above assumptions therefore mean that the gross rate of investment return is assumed to be about 2.8% per annum, and salary inflation close to 4.55% 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 table at note 11.1.2. 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	**2017**	**2016**	**2015**	**2014**	**2013**
Pensions in payment	15.4	14.8	16.1	14.1	8.6
Deferred pensions	1.8	1.3	1.7	1.6	1.3
Active members	19.1	12.6	11.6	11.4	14.1
Total liabilities	36.3	28.7	29.4	27.1	24.0

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, 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 by 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 2017 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 7.5% (see paragraph 2.22 of 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 retiring before and after NPA. For members retiring before NPA, pushing back retirement will result in additional costs to the Scheme, whereas for members retiring after NPA it will result in savings. These effects tend to cancel each other out unless the change in retirement age is large.

The sensitivities detailed in table H of the Statement by the Actuary, show the change in assumption 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	2016-17 £m	2015-16 £m
Scheme liability at 1 April		(28,700.0)	(29,400.0)
Current service cost	5	(791.0)	(814.8)
Past service cost	5	0.0	(15.0)
Pension financing cost	8	(1,028.0)	(1,039.3)
		(1,819.0)	(1,869.1)
Enhancements	6	(2.4)	(2.4)
Pension transfers in	7	(11.1)	(14.2)
		(13.5)	(16.6)
Benefits payable	11.3	1,087.6	1,076.8
Pension payments to and on account of leavers	11.4	7.8	16.0
		1,095.4	1,092.8
Analysis of the amount recognised in statement of changes in taxpayers equity	11.5	(6,862.9)	1,492.9
Scheme liability at 31 March		**(36,300.0)**	**(28,700.0)**

During the year ended 31 March 2017, contributions represented an average of 26.7% of pensionable pay.

11.3 Analysis of benefits paid

	2016-17 £m	2015-16 £m
Pensions to retired employees	860.0	836.4
Pensions to dependents	39.2	37.5
Lump sum benefits	188.4	202.9
Per statement of cashflows	**1,087.6**	**1,076.8**

11.4 Analysis of payments to and on account of leavers

	2016-17 £m	2015-16 £m
Refunds to members leaving service	0.5	0.4
Individual transfers to other schemes	7.1	15.4
Contribution equivalent premium	0.2	0.2
Per statement of cashflows	**7.8**	**16.0**

11.5 Analysis of actuarial gains and (losses)

	2016-17 £m	2015-16 £m
Experience gains/(losses) arising on the scheme liabilities	137.1	592.9
Changes in mortality assumptions	0.0	600.0
Changes in demographic assumptions (other than mortality)	0.0	0.0
Changes to financial assumptions as at 31 March	(7,000.0)	300.0
Per statement of comprehensive net expenditure	**(6,862.9)**	**1,492.9**

11.6 History of actuarial gains/(losses)

	2016-17	2015-16	2014-15	2013-14	2012-13
Experience gains/(losses) arising on the Scheme liabilities					
Amount (£m)	137.1	592.9	241.7	(493.0)	(62.7)
Percentage of the present value of the Scheme liabilities	0%	2%	1%	(2%)	(0%)
Total amount recognised in statement of changes in taxpayers' equity					
Amount (£m)	(6,862.9)	1,492.9	(1,358.3)	(2,393.0)	(1,462.7)
Percentage of the present value of the Scheme liabilities	(19%)	5%	(5%)	(9%)	(6%)

12. Other expenditure

	Note	2016-17 £m	2015-16 £m
Bad debt (pension overpayments)	16	0.2	0.1
		0.2	**0.1**

13. Movement in premature retirement provision

	2016-17 £m	2015-16 £m
Balance at 1 April	(22.3)	(23.9)
Capitalised receipts	(0.1)	(0.4)
Capitalised pension payments	1.0	1.0
Financing cost	(0.8)	(0.8)
(Increase)/decrease in premature retirement provision net of financing cost	(3.3)	1.8
Balance at 31 March	**(25.5)**	**(22.3)**
Movement in provision	**(3.2)**	**1.6**

14. Contingent liability

In the unlikely event of default by the approved AVC provider, the Scottish Ministers will guarantee pensions in payment. This guarantee does not apply to members who use their accumulated Prudential investment to purchase pension provision from a non-approved provider or to members who make payments to FSAVCs. No provision has been made in these accounts in respect of the pension payments guarantee.

The UK Government is currently consulting on the indexation and equalisation of GMP in public sector pension schemes. The consultation focuses on three alternate solutions with varied costs. Given the uncertainty around the final solution, no additional liability has been included as at 31 March 2017. 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 STPS 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 teachers' 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.

	2016-17	2015-16
Number of cases where there was a loss	290	258
Total loss (£)	155,542	71,019
Total overpaid pension recovered (£)	514,772	590,513

There were no individual losses or special payments in excess of £300,000 which would require separate disclosure during the year to 31 March 2017, or that have been recognised since that date.

17. Financial instruments

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

18. Events after the reporting period

There were no events after the reporting period and before the date the accounts were authorised for issue which will have a material effect on the Scheme.

Accounts Authorisation

The Accountable Officer authorised these financial statements for issue on 27 September 2017.

The Scottish Government
Riaghaltas na h-Alba

SCOTTISH TEACHERS' PENSION SCHEME

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 Scottish Teachers' Pension Scheme 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.

A. J. Stafford

Signed by the authority of the Scottish Ministers

Dated 17 October 2016