



SCOTTISH PUBLIC PENSIONS AGENCY

Scottish Teachers' Pension Scheme

Annual Report and Accounts 2017-18

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 October 2018.

SG/2018/172

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)
Chief Executive
Scottish Public Pensions Agency
7 Tweedside Park
Galashiels
TD1 3TE

Scheme Administrator

Eleanor Guthrie
Head of Customer Services
Scottish Public Pensions Agency
7 Tweedside Park
Galashiels
TD1 3TE

Advisors

Scheme Actuary

Government Actuary's Department
Elgin House
Haymarket Yards
Edinburgh
EH12 5WN

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

1.3 Background to the Scheme

The 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 member's 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. However, a transfer to a defined contribution scheme that from 6 April 2015 provides full cash access to an individual's pension is not allowed. This restriction applies to all unfunded public service schemes.

The 2013 Public Services Pensions Act, which introduced the 2015 reforms also required new scheme governance arrangements to be set up with the introduction of a Scheme Pension Board and Scheme Advisory Board. 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, Economy and Fair Work 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 2017-18 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. In 2016 SPPA arranged an independent review which was undertaken by KPMG and its report is available on the SPPA website at www.sppa.gov.uk.

1.4 Valuation and contribution rates

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

As part of the 2013 Act, HM Treasury developed and finalised its directions on how and when scheme valuations should be undertaken and that an employer cost cap

should be set. The valuation measures the full costs of paying pension benefits and informs the employer contribution rate. The employer cost cap is a mechanism that will ensure that the risks associated with pension provision are not met solely by the taxpayer, but are shared with scheme members.

The latest valuation of the scheme is based on data as at 31 March 2016. The outcome of this valuation will be published in late 2018. This will set the employer contribution rate from 1 April 2019 to 31 March 2023 and will also measure any change in the employer cost cap.

The previous valuation of the scheme was based on data as at 31 March 2012 and 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 or fallen by more than 2 percentage points action will be taken to return costs to the level of the cap. The 2012 valuation 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 yield delivered in 2017-18 was 9.5% and any surplus or deficit is taken into account as part of the valuation process.

The 2012 valuation report and associated documents are available on the SPPA's website www.sppa.gov.uk. On completion, the 2016 valuation report and associated documents will be available on the SPPA website.

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 2018 these made up a total of 152 employers (31 March 2017: 151).

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 2016, CPI was 1%. As a result, pensions were increased by this amount from 1 April 2017.

During the year the following regulations were made:

AVC regulations

The Teachers' Superannuation and Pension Scheme (Additional Voluntary Contributions) (Scotland) Regulations 2017 (SSI 2017/283) came into force on 1 November 2017.

The purpose of this instrument was to update and amend The Teachers' Superannuation (Additional Voluntary Contributions) (Scotland) Regulations 1995. This instrument enables members of the reformed Scottish Teachers' Pension Scheme (Scotland) (No.2) Regulations 2014, to participate in the Scottish Teachers' Additional Voluntary Contributions (STAVC) arrangements. The amendments also provide these members with a range of choices over how they access their STAVC savings provided for in the Taxation of Pensions Act 2014 i.e. the pension flexibilities removed the requirement that an annuity had to be purchased with the AVC funds and now allows AVC members to draw all of their fund as cash. The changes ensure that the regulations are clear and enable all Scottish Teachers' Pension Scheme member types to have access to the full range of choices now available to those in defined contribution pension schemes.

Death grant

The Teachers' Pension Scheme (Scotland) (No.2) Amendment Regulations 2017 (SSI 2017/454) came into force from 1 March 2018. The purpose of this instrument is to update and amend The Teachers' Pension Scheme (Scotland) (No.2) Regulations 2014 known as the Scottish Teachers' Pension Scheme 2015 (STPS 2015). The instrument enables, in the event of a member's death, a Death Grant to be paid without becoming subject to Inheritance Tax. This provides for the equal treatment of death grants in both the Final Salary and CARE schemes, in line with the original policy intent.

1.7 Looking forward

Scheme eligibility

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 2018-2019.

Early retirement

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.

Scheme valuation

As part of the 2016 valuation process, discussions with the Scheme Advisory Board will continue with a view to agreeing the rates and structure to be used for employee contributions for the period 1 April 2019 to 31 March 2023.

Guaranteed Minimum Pension (GMP)

The introduction of a single tier State Pension from 6 April 2016 ended 'contracted out' defined benefit pension schemes. SPPA has been given responsibility for tracking and maintaining GMP liabilities from that date. In 2018-19 SPPA will continue the reconciliation exercise to match GMP data held by SPPA to data held by HMRC. Revised GMPs and pensions (over/under payments) will be calculated and each members record updated.

Surviving civil partner or same sex spouse

In July 2017, the Supreme Court handed down judgement in the case of Walker vs Innospec Ltd and others. The Supreme Court found that it is unlawful to restrict the survivor's pension payable to a surviving civil partner or same sex spouse so that it reflects only the member's pensionable service since 5 December 2005 (the date on which the Civil Partnership Act 2004 came into force). The impact and extent of the judgement for the STPS is still under consideration.

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 Employment Appeals Tribunal handed down judgement on 29 January 2018 as follows:

- for judges the appeal was dismissed, so the Employment Tribunal ruling that the transitional provisions give rise to age discrimination stands
- for the Firefighters' Pension Scheme the Employment Appeals Tribunal found that the Employment Tribunal correctly established that the respondents were pursuing legitimate aims, but the Employment Tribunal made an error in law when considering whether the means were proportionate, and the issue will be referred back to the Employment Tribunal to reconsider based on the correct interpretation of the law.

Appeals are planned for both these judgements in late 2018. The outcome may impact on the profiles of the final salary and CARE schemes within the public service, but as this will not be known until the appeals process is concluded.

1.8 Membership statistics

Details of the membership of the Scheme as at 31 March 2018 are as follows

Active members

Total brought forward from 31 March 2017	76,477
Adjustment in year ¹	(4,360)
Revised active members as at 31 March 2017	72,117
Additions within the year	
New members and rejoiners	5,419
Leavers	
Retirements	(1,621)
Leavers from active to deferred	(2,141)
Other leavers ²	(752)
	(4,514)
Total active members as at 31 March 2018	73,022

Members with deferred liability

Total brought forward from 31 March 2017	18,005
Adjustment in year ¹	2,098
Revised deferred members as at 31 March 2017	20,103
Leavers from active to deferred	
Other new deferred members	61
Members leaving deferred status	(1,291)
Total members with deferred pension liability as at 31 March 2018	21,014

Members receiving a pension

Total brought forward from 31 March 2017	77,545
Adjustment in year ¹	240
Revised pension members as at 31 March 2017	77,785
New Pensioners	
Cessations	(1,867)
Total Pensioners as at 31 March 2018	79,534

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

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

1.9 Financial position at 31 March 2018

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 13 to 17.

The pension liability as at 31 March 2018 was £36.2 billion (31 March 2017: £36.3 billion) which is a decrease of £0.1 billion. There was a £1.2 billion actuarial gain comprising a £1.1 billion loss due to a change in the discount rate, a £2.1 billion gain primarily as a result of changes in mortality assumptions and a further experience gain of £0.2 billion. The actuarial gain is offset by a £1.1 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 2017-18 the total expenditure was £2,229.6 million and total income was £658.5 million giving a net expenditure of £1,571.1 million. This outturn was within the budget set at £1,579.6 million.

In cash terms, there was an excess of pension benefits paid over income received of £442.5 million as detailed below.

Financial position note

	2017-18	2016-17
	£m	£m
Pension contributions	(649.6)	(638.2)
Transfers in	(8.7)	(11.1)
Other income	(0.2)	(0.1)
Total income	<u>(658.5)</u>	<u>(649.4)</u>
Pensions	927.8	900.4
Lump sums	165.4	188.4
Transfers out	4.8	7.1
Refunds	1.0	0.7
Total benefits	<u>1,099.0</u>	<u>1,096.6</u>
Total income less benefits	440.5	447.2
Movement in debtors and creditors	2.0	1.2
Cash requirement	442.5	448.4

1.10 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 £36.2 billion. Funding to meet pension payments as they fall due under the Scheme's regulations is made available from the Scottish Government's Annually Managed Expenditure budget. On this basis the managers consider that it is appropriate that the accounts of the Scheme are prepared on a going concern basis.

1.11 Information to the auditors

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

1.12 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.

1.13 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:

1.14 Prudential Financial Services AVC Statement

Funds under management	£	£
Opening balance as at 1 April 2017		153,454,347
Changes in investment		2,061
Revised fund brought forward at 1 April 2017		153,456,408
Income		
Contributions invested	5,508,091	
Interest and bonuses estimated	9,817,448	
Switches in from other funds	826,943	
Transfers in from other AVC arrangements	98,705	
Transfers in relating to bonus histories	0	
Total new investments		16,251,187
Expenditure		
Retirement benefits	(3,616,208)	
Death - return of funds	(393,850)	
Early leavers – withdrawals	(18,104,794)	
Transfers out relating to bonus histories	0	
Switches to other funds	(826,943)	
Market value reduction	0	
Annual management charges	(48,521)	
Unit linked funds price movement	150,543	
Sale of investments		(22,839,773)
Closing balance as at 31 March 2018		146,867,822

1.15 Further information

Any enquiries about the STPS should be addressed to:

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



Penelope Cooper
Accountable Officer

21 September 2018

2. Statement by the Actuary

Introduction

2.1 This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Scottish Public Pensions Agency (SPPA). It provides a summary of GAD's assessment of the scheme liability in respect of the Scottish Teachers' Pension Scheme (STPS) as at 31 March 2018, and the movement in the scheme liability over the year 2017-18, prepared in accordance with the requirements of Chapter 9 of the 2017-18 version of the Financial Reporting Manual.

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

2.3 The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2018.

Membership data

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

Table A – Active members

	Number of members	Total pensionable pay* (pa) £ m
Males	19,308	677.3
Females	57,584	1,735.3
Total	76,892	2,412.6

* Pensionable pay is the actual amount received by members of the scheme.

Table B – Deferred members

	Number of members	Total deferred pension* (pa) £m
Males	8,284	23.1
Females	21,805	47.4
Total	30,089	70.5

* Pension amounts include the pension increase granted in April 2016 (2016 increase was 0%).

Table C – Pensions in payment

	Number of members	Annual pension* (pa) £ m
Males	21,106	328.0
Females	45,293	502.7
Spouses & dependants	7,650	43.6
Total	74,049	874.3

* Pension amounts include the pension increase granted in April 2016 (2016 increase was 0%).

Methodology

2.5 The present value of the liabilities as at 31 March 2018 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2018. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2018 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2017 in the 2016-17 accounts.

2.6 This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2018 pa	31 March 2017 pa
Nominal discount rate	2.55%	2.80%
Rate of pension increases	2.45%	2.55%
Rate of general pay increases	3.95%	4.55% from 2020/21
Rate of short-term general pay increase	n/a	1.0% pa to 2019/20
Real discount rate in excess of:		
Pension increases	0.10%	0.24%
Long-term pay increases	(1.35%)	(1.67%)
Expected return on assets	n/a	n/a

2.8 The assessment of the liabilities allows for the known pension increases up to and including April 2018.

Demographic assumptions

2.9 Table E summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership, and other relevant sources. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S2 tables' and 'S1 tables' with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Baseline mortality	Standard table*
Males	
Retirements in normal health	119% of S2NMA_L
Current ill-health pensioners	Age-dependent assumption: ≤75: 79% of S2IMA ≥75: 134% of S2NMA
Future ill-health pensioners	100% of S2IMA
Dependants	135% of S2NMA
Females	
Retirements in normal health	Age-dependant adjustments to S1NFA_L: ≤79: 84% 80-84: 97% 85-89: 113% ≥90: 122%
Current ill-health pensioners	Age-dependent assumption: ≤75: 96% of S2IFA ≥75: 128% of S2NFA
Future ill-health pensioners	100% of S2IFA
Dependants	107% of S2DFA

* SAPS (S2) tables are published by the Actuarial Profession and based on the experience of self-administered pension schemes over the period 2004 to 2011. The 'S2' series has separate standard tables based on experience of members retiring in normal health (S2NXA and a low mortality variant S2NXA_L) and in ill health (S2IXA) and for female dependants (S2DFA). There is no low mortality variant for female pensioners and so the previous S1 table is used for female normal health pensioners.

2.10 These assumptions are the same as those recommended for the 31 March 2016 funding valuation of the scheme. Note that the accounts as at 31 March 2017 were based on the assumptions adopted for the 2012 valuation.

2.11 Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017. Note that the accounts as at 31 March 2017 were based on the previous 2014-based projections.

Liabilities

2.12 Table F summarises the assessed value as at 31 March 2018 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 2.4 to 2.11. The corresponding figures for the previous year are shown for comparison.

Table F – Statement of Financial Position £ billion

	31 March 2018	31 March 2017
Total market value of assets	nil	nil
Value of liabilities	36.2	36.3
Surplus/(Deficit) of which recoverable by employers	(36.2) n/a	(36.3) n/a

Accruing costs

2.13 The cost of benefits accrued in the year ended 31 March 2018 (the current service cost) is assessed as 48.4% of pensionable pay.

2.14 For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the

accounts. Members contributed between 7.2% and 11.9% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2017-18 as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2017-18 accounts.

Table G – Contribution rate

	2017-18 % of pay	2016-17 % of pay
Employer contributions	17.2%	17.2%
Employee contributions (average)	9.5%	9.5%
Total contributions	26.7%	26.7%
Current service cost (expressed as a % of pay)	48.4%	33.2%

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

2.16 The pensionable payroll for the financial year 2017-18 was £2.4 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2017-18 (at 48.4% of pay) is assessed to be £1.2 billion.

2.17 Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The UK Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018. This resulted in a past service cost in respect of these members of £25 million. I am not aware of any other events that have led to a material past service cost over 2017-18.

2.18 I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2017-18.

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 2018 of changes to the most significant actuarial assumptions.

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

2.21 Table H shows the indicative effects on the total liability as at 31 March 2018 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	- 11.0%	- £4.0 billion	
(ii) (long-term) earnings increase*: +½% a year	+ 2.5%	+ £0.9 billion	
(iii) pension increases*: +½% a year	+ 7.0%	+ £2.5 billion	
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement	+ 3.0%	+ £1.1 billion	

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

George Russell FIA
Chief Actuary (Scotland & Northern Ireland)
Government Actuary's Department
7 September 2018

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 54 of these statements, issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The Scottish Ministers appointed the Chief Executive of the Scottish Public Pensions Agency as Accountable Officer for the 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

One of the Agency's principal tasks for the year was to completely refresh the Agency's Framework Document in terms of its content and presentation. The Framework represents an agreement between the Agency and Scottish Ministers and is a necessary precursor towards updating the Agency's medium term Corporate Plan which supports the Agency's vision in many more practical ways. The Cabinet Secretary for Finance, Economy and Fair Work signed-off the new Framework Document on 9 November 2017.

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

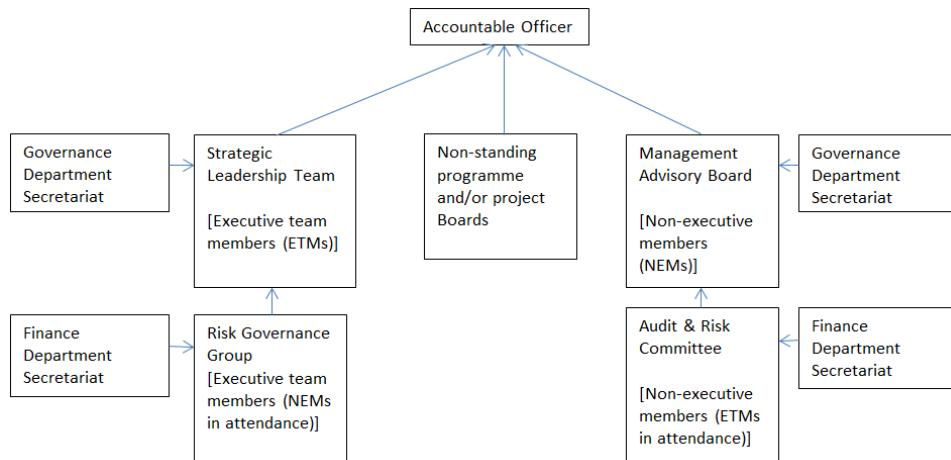
- responsibilities of the SPPA and Scottish Ministers
- relationship between the SPPA and the Scottish Ministers
- Agency's objectives & performance measures
- management & resources framework within which the SPPA operates.

Business planning

The Agency's published vision is 'to provide excellent customer service, combining skills and technology, to maximise efficiency and deliver best value to taxpayers in Scotland'. The Corporate Plan was last updated in 2015-16 before the new vision and strategic aims were agreed. Hence, the Agency's early priority in 2018-19 is to complete a revised corporate plan but as it will be spread over a longer 5-year period to rename it the Strategic Plan. The aim will be to maintain it on a rolling basis in order to best reflect any significant changes in central government funding and in line with best practice in business planning.

Agency's Primary Governance Bodies Designed to 'Assist' the Accountable Officer

A schematic of the bodies assisting the Accountable Officer in the governance of the Agency is provided below. A schematic for pension scheme governance is provided on the Agency's website at: www.sppa.gov.uk



Management Advisory Board

The advisory nature of the Board is one that is set out in the Scottish Government's publication 'On Board: A Guide for Members of Management Advisory Boards'. Non-executive members are appointed to act in an advisory capacity to the SPPA's Accountable Officer and Chief Executive and are, therefore, neither personally or collectively accountable for the Agency's performance. Having reviewed the operation of the previously established Corporate Board and in seeking to remodel itself on the 'On-Board' model, the Agency carried out a self-assessment exercise that highlighted a number of recommendations designed to strengthen its purpose and delivery.

Over the year the Board has benefited from an experienced cohort of four non-executive members, together with a representative from Scottish Government - the Agency's 'Fraser figure'. In early 2018 the Board was further strengthened by the appointment of two new non-executive members with experience in a background of regulatory oversight and in the field of risk management. The Agency's 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 'as observers when appropriate' in accordance with the 2016-17 review of governance arrangements carried out by independent consultants.

During the year, the Management Advisory Board met on four scheduled occasions and on three further dates, 11 and 25 September 2017 and 7 February 2018, to consider extraordinary business. The Board also met out-with the regular cycle of meetings to consider strategic issues at a Planning Day on 28 March 2018.

The Board's work has included:

- considering the content of the Agency's Annual Business Plan
- receiving reports from the Chief Executive on the Agency's progress in achieving key performance indicators and meeting targets featuring in the Agency's Business Plan
- receiving reports on the work of the Audit and Risk Committee and contributing towards the risks assessed in the Agency's Risk Register
- considering the Agency's draft Annual Report and Accounts and drafts for the NHS Scotland and Scottish Teachers' Pension Schemes

- receiving quarterly updates on: budgetary issues and internal financial management from the Director of Finance; relevant matters of pension policy from the Director of Policy; updating members on communication, IT, procurement and HR issues from the Director of Corporate Services; receiving progress reports on key projects, such as, Annual Benefit Statements and Guaranteed Minimum Pensions from the Head of Customer Services: and, progress towards implementing an integrated pension and payroll platform from the Director of Digital Transformation
- considering the Agency's refreshed Framework Document including new Terms of Reference for governance bodies and supporting documentation e.g. Members' Handbook
- considering reports designed to capture staff views, such as, the annual People Survey and to make comparisons with other delivery bodies' performance such as through 'CEM benchmarking'
- carrying out and reporting upon horizon scanning conducted between meetings.

Strategic Leadership Team

Strategic Leadership Team (SLT) meetings, chaired by the Chief Executive, are held at least monthly with senior staff representation from Policy, Corporate Services, Finance, Customer Services and the programme/project team. Meetings are designed to focus on key, short-term deliverables and actions based around people, process, performance and customers.

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 meets formally four times over the year except where there is extraordinary business to conduct. The ARC also met on two further occasions on 11 September 2017 and 7 February 2018 to discuss matters related to the PS Pensions Project. The work of the Audit Committee is also guided by the guidance in the Scottish Government's 'On Board' [2017] publication and its 'Audit Committee Handbook' [2018].

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
- reviewing 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
- reviewing Audit Scotland's annual audit plan and national reports
- receiving reports from the Agency's management on: governance; counter fraud initiatives; security breaches; health and safety reportable incidents; internal controls; and, finance policies e.g. whistleblowing
- reviewing the Agency's budget and out-turn position alongside financial performance against key metrics

- reviewing the Agency's Annual Report and Accounts and STPS and NHSPSS Annual Report and Accounts
- receiving an Interim Management Letter and Annual Audit Report including ISA 260 report from Audit Scotland
- receiving a quarterly Risk Management and Governance minute from the Director of Finance containing *inter alia*:
 - latest versions of the Corporate Risk Register incorporating changes made by the Risk Governance Group and Strategic Leadership Team
 - latest 'Assurance Map' linking Key Outcomes to Key Risks and to levels of assurance from internal, external and independent third party sources
 - independent third party reports where applicable e.g. IT resilience
 - 'deep dives' on key risks to the Agency's business from respective parts of the Agency
 - Committee performance self-assessment
- reviewing and tracking all recommendations emerging from reports produced by external audit (Audit Scotland) and internal audit (Scottish Government Internal Audit Directorate)
- horizon scanning to inform future committee business.

PS Pension Project Board

The Agency continued to run a formal project board for 'the PS Pension Project' (previously Project 2017) - a project to replace three existing systems with a single integrated multi-scheme pension administration and payroll solution, including web-based member and employer services. The Board was chaired by the Senior Responsible Officer for the project and comprised relevant senior SPPA management in specific project roles (Senior User, etc.), representatives of the strategic supplier, the Agency's 'Fraser Figure' and a representative from the Scottish Government's Office of the Chief Information Officer department. Non-executive members attended some meetings, in an observational capacity. The main objective of the Board was to ensure appropriate governance to facilitate a successful implementation of the new system. Summary progress reports were considered by the Management Advisory Board and risk, governance and control issues by the Audit and Risk Committee.

This Board ceased to meet following the findings of an independent Technical Assurance Group from the Scottish Government's Office of the Chief Information Officer. Based on the report findings the Agency closed the project without detriment to the services provided. The Agency has in place contracts with existing suppliers terminating in 2020.

STPS Pension and Scheme Advisory Boards

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

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

During the year SPPA policy officials:

- supported Scotland's statutory STPS Pension Board which assist the Scheme Manager of those schemes in securing compliance with regulatory requirements
- supported the Scheme Advisory Board.
- provided secretariat services to and attended the STPS Pension Board
- participated in and provided general and technical pensions policy advice to the tri-partite Scheme Advisory Boards for the STPS
- represented the Scottish Government as observers on and providing general and technical pensions policy advice to the bi-partite LGPS Scheme Advisory Board.

In line with a Scottish Government commitment made during the 2015 pension reforms, the Agency completed the review of the effectiveness of the scheme governance arrangements by putting into effect the outstanding recommendations included in the review conducted by the independent consultants KPMG who were commissioned to undertake the review between September 2016 and January 2017. The resultant report was broadly positive in its reporting of the governance arrangements put into place in the Agency following the pension reform legislation. Specific recommendations tending to focus on improvement rather than any need for major change were taken forward in 2017-18 in consultation with Chairs and Vice Chairs of Pension Boards. It was accepted that Boards have an assurance role and should offer constructive challenge to SPPA akin to that demonstrated by non-executive members appointed by the Agency to the Management Advisory Board. Points to emerge from discussions included ensuring that the UK Pensions Regulator's expectations on accountability and performance are reflected in the Pension Boards' regular business. It was a widely held belief that greater openness and insights into the running of the schemes would allow Pension Board members to offer greater support. Greater coordination across Boards would facilitate learning and cooperation, including the sharing of best practice'.

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 the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency,

effectiveness and equality, and promotes good practice and high standards of propriety.

4.3 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 2017-18, fifteen 'minor' security breaches were reported internally to the Head of Security. Through consultation with the Office of Protective Security, the Agency have established that only 'serious' breaches need to be referred, categorised as, 'those that will cause harm or reputational damage'. There were no serious breaches reportable during the period.

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 in December 2017 demonstrated, once again, that improvements had been made over the previous year. Using the Red/Amber/Green traffic light system there are now 21 categories at green (2016: 19 green) and 9 at amber (2016: 10 amber and 1 red).

Business continuity

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

In order to draw upon wider expertise and enhance the standard desk top test approach, a facilitated session was delivered by Police Scotland Counter Terrorism

Security Advisors on 1 November 2017. The session was attended by 15 members of staff from across the organisation including CEO, Disaster Recovery Team, Facilities and HR. Content for the first part of the session was drawn from Project Griffin, which is an initiative to raise awareness and understanding of the practical measures that can be taken to counteract terrorism and extremism in our communities. The second part covered business resilience and involved a scenario involving a flu pandemic that, incrementally, imposed a greater challenge to the business.

In addition to the facilitated session, the SPPA building was closed Wednesday 28 February and reopened Monday 5 March 2018 due to severe winter weather conditions. The closure was managed as per pre-established business continuity procedures for severe weather. Advice from police, government, council and meteorological sources assisted in decision making that was communicated to staff through the Agency's 'groupcall' messaging system and other media channels.

During the year feedback on the Agency's Business Continuity Plan and draft Counter Terrorism Plan was sought from experts in the field and has been broadly positive.

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 & Risk Committee. These include the annual report to the Scottish Public Pensions Agency and the Auditor General for Scotland.

It should be noted that Audit Scotland take consideration of 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 2017-18, Internal Audit finalised or is in the process of finalising reviews of:

- Pension board governance (provisionally 'reasonable' assurance)
- Ability to deliver business as usual ('reasonable' assurance)
- Contract management arrangements for the integrated pension administration and payroll system (management letter reporting format)
- General Data Protection Regulations across Scottish Government (including SPPA assessment)
- Scottish Government's payroll, human resources and IT systems assurance (services received by SPPA)
- follow-up reviews on previous audits.

Internal Audit has provided the Accountable Officer with an overall 'reasonable' assurance opinion for 2017-18 on the risk management, internal control and standards of governance applied across the Agency.

Audit Scotland completed a review of the Scottish Government's Internal Audit Directorate, which is responsible for providing internal audit services to SPPA, in 2017/18. The review concluded that internal audit meets some Public Sector Internal Audit Standards (PSIAS), but also does not comply with significant aspects of the standards. The review found no areas where the underlying evidence would suggest an incorrect audit opinion or conclusion. However, improvements are required to meet both PSIAS and the Scottish Government's own Internal Audit Manual.

The Accountable Officer has sought and gained assurance from the Scottish Government's Internal Audit Team assigned to the Agency, that the reviews carried out since the last rotation of auditors, which took place prior to the commencement of the accounting period have been prepared to the required standard. It was agreed, therefore, that the levels of assurance provided on risk management, operation of internal controls and governance in place at the Agency could be relied upon as part of the overall framework for audit assurance.

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. During the year the Agency's whistleblowing policy was reviewed and refreshed and agreed at the Audit and Risk Committee meeting in January 2018. Reportable breaches of health and safety and data security were reported to the Audit and Risk Committee at each meeting through the reporting year.

Reliance on experts

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

4.5 Corporate governance management arrangements changes

Governance arrangements for the 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. The team carried out two in-depth assurance IT health checks during the reporting period, in July 2017 and January 2018 (following up on an initial review of October 2016). The review findings were shared with the Audit and Risk Committee and the strategic supplier, which participated fully in both reviews. The July 2017 review recommendations were used to inform the basis of a contract variation with the supplier and a further strengthening of project controls and project management arrangements in operation in the Agency. The January 2018 review recommendations were used to inform the action taken to discontinue the project.

During the year, there were a number of executive and non-executive personnel changes. The Agency appointed a new Chief Executive with effect from 3 July 2017. Three existing non-executive members were issued with new letters of appointment extending their term of office and two new non-executive members were appointed in February 2018.

The gender balance of non-executive members on the Board at 31 March 2018 was 57:43 female to male and the gender balance of executive directors also attending the Board was identical.

The Audit and Risk Committee carried out its annual self-assessment of effectiveness using criteria set by the Scottish Government. The 2017-18 evaluation strongly supports the view that the Committee were effective in carrying out their functions. Also the Audit and Risk Committee provided a full account of its year's activities to the Management Advisory Board.

The Management Advisory Board aims to submit its annual self-assessment to its autumn 2018 meeting. In line with the guidance provided in the Scottish Government's "On Board", the Chief Executive will regularly review the performance of Board members and carry out an annual appraisal process. The Board and Audit and Risk Committee members recognise the value in this undertaking and a new process in support of the existing Terms of Reference has been written to assist in ensuring that the activity is conducted timeously after the reporting year end.

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

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

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

Once changes were made to the risk registers, consideration was given to the revisions made at a third level by the SLT. Consideration involved assessing risks in the operational and wider political, economic, social, technological, legal, environmental context whilst also taking account of the Agency's risk appetite. Once the internal bottom-up and top-down processes were complete, the Corporate Risk Register was shared with the Audit and Risk Committee on a quarterly basis for non-executive member review. Similarly, the pension scheme risk registers were shared

with Pension Boards on a quarterly basis with a further emphasis in the narrative on the impact of risk on the Agency's customers. The registers are used primarily as a tool in managing and mitigating the Agency's short, medium and long-term risks.

The Agency's top 10 risks for the period:

- successful implementation of integrated pension admin and payroll system and digital customer services with minimal disruption to core business (n.b. a threat to the PS Pensions contract signed in October 2015 materialised in February 2018 when an independent assurance review uncovered significant failures which were unresolvable and assessed the Project as status 'red').
- successful delivery of Annual Benefit Statements for four pension schemes to time and quality required (n.b. a threat to meeting the ABS deadline materialised on 31 August 2017 and as a result the Agency self-reported to the UK Pension Regulator)
- delivery of specific annual Customer Services business as usual (statutory, regulatory and other) tasks for four schemes to quality and time
- timely and accurate delivery of Guaranteed Minimum Pension scheme administration and management responsibilities by December 2018 without detriment to business as usual
- compliance with TPR Code of Practice 14 and meeting the service expectations of all key stakeholders, including the Pensions Regulator, Pension Boards, scheme employers and customers
- compliance with regulation and legislation in respect to information assurance
- effective management of external suppliers
- ensuring the right people, with the right knowledge, skill, experience and behaviours in the right place at the right time
- obtaining a sustainable funding stream sufficient to meet recurring expenditure and service investment needs
- technology and customer data and services compromised and/or vulnerable to 3rd party attack and/or potential fine for regulatory non-compliance.

Towards the year end, two further key risks were added to the Corporate Risk Register:

- successful delivery of the Target Operating Model with minimal disruption to core business and providing a sound foundation for the achievement of the Agency's vision and meeting stakeholders' expectations
- maintenance of business continuity and uninterrupted service provision in the event of a known or unknown threat materialising.

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

4.7 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 annual 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. Market intelligence and research is received from Pension Boards, targeted groups (e.g. Retired Police Officers Association Scotland), desk-top research, data including comments routinely gathered on customer service from surveys and complaint feedback supports a user-centred approach. Single event and continuous customer satisfaction surveys act together to provide event driven and more real-time feedback on services and service levels provided. Though take-up rates remain an issue, with actions planned to improve this, the 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 2017 CEM benchmarking survey are provided in the Agency accounts which are available on the SPPA website at www.sppa.gov.uk

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

In June 2017 a partnership agreement was signed between the Agency and the Trades Union to encourage participation in joint decision-making processes. Working as partners to reach mutually acceptable arrangements the intention is to benefit staff and ensure the effective running of the Agency.

In October 2017, the Agency participated in a UK Government-led annual staff survey for civil servants which identified a staff engagement level of 55% (2016-17: 54%). In response to the results, the Agency carried out a number of initiatives to improve leadership and management and also change management skills. The People Network comprising representatives from a range of grades, directorates and from the trade union colleagues continues to provide a 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 Organisational Development and Operations in respect of the Scottish Government's human resources, payroll and financial systems that are shared with the Agency.



Penelope Cooper
Accountable Officer

21 September 2018

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 2017-18

									2017-18	2016-17
		£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			1,579.6	0.0	1,579.6	1,571.1	0.0	1,571.1	8.5	1,184.2
Total Resources	SOPS 5.2	1,579.6	0.0	1,579.6	1,571.1	0.0	1,571.1	8.5	1,184.2	

Net cash requirement 2017-18

Net cash requirement	Note	2017-18 £m		Outturn compared with estimate: saving/ (excess)	Outturn	2017-18 £m	2016-17 £m
		Estimate	Outturn			Outturn	Outturn
Net cash requirement	SOPS 5.4	463.0			442.5	20.5	448.4

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 2017. In 2017-18 the combined accrued resources of £4,550.8 million fell within the combined limit of £4,568.5 million. Refer also to the Report of the Managers on pages 2 to 12.

SOPS 5.2 Net outturn – analysis by section

	2017-18			2016-17	
	£m		£m		£m
	Outturn		Estimate		Outturn
	Programme			Outturn compared to estimate	Total
	Gross	Income	Net	Net total estimate	
Annually Managed Expenditure					
Voted:					
Pensions	2,229.6	(658.5)	1,571.1	1,579.6	8.5
Total	2,229.6	(658.5)	1,571.1	1,579.6	8.5

SOPS 5.3 Reconciliation of resource outturn to net operating cost

	SOPS Note	2017-18	2016-17
		£m	£m
Total resource outturn in Statement of parliamentary supply			
Budgeted resources	SOPS 5.2	1,571.1	1,184.2
Non-budget (income not applied)	SOPS 5.5	0.0	0.0
Net expenditure in the Statement of comprehensive net expenditure		1,571.1	1,184.2

SOPS 5.4 Reconciliation of net resource outturn to net cash requirement

	Note	Net total outturn compared with estimate		
		Estimate £m	Outturn £m	estimate £m
Net resource outturn	SOPS 5.2	(1,579.6)	(1,571.1)	8.5
Accruals adjustment				
Non-cash items		2,241.6	2,228.7	(12.9)
Changes in working capital other than cash		0.0	(2.0)	(2.0)
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	(1,125.0)	(1,098.0)	27.0
Funding (to)/from the Scottish consolidated fund	SOPS 5.5	463.0	442.5	(20.5)
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 2017. In the year to 31 March 2018 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 2018 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 summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2017/18 Government Financial Reporting Manual (the 2017/18 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 2018 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 2017/18 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 (UK) (ISAs (UK)). 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 Standard, 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.

Conclusions relating to going concern basis of accounting

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

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

My objectives are to 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) 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.

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

Other information in the annual report and accounts

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

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects:

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

Responsibilities for regularity

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

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

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

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

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

A handwritten signature in blue ink, appearing to read "Stephen Boyle".

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

25 September 2018

7. Financial statements

Statement of comprehensive net expenditure for the year ended 31 March 2018

	Note	2017-18 £m	2016-17 £m
Income			
Contributions receivable	3	(649.6)	(638.2)
Transfers in	4	(8.7)	(11.1)
Capitalised receipts	13	(0.2)	(0.1)
		<u>(658.5)</u>	<u>(649.4)</u>
Expenditure			
Service costs	5	1,199.7	791.0
Enhancements	6	2.3	2.4
Transfers in	7	8.7	11.1
Pension financing cost	8	1,018.0	1,028.0
Other expenditure	12	0.0	0.2
Premature retirement financing cost	13	0.7	0.8
Capitalised receipts	13	0.2	0.1
		<u>2,229.6</u>	<u>1,833.6</u>
Net (income)/expenditure for the year		<u>1,571.1</u>	<u>1,184.2</u>
Other comprehensive net expenditure			
Pension remeasurements:			
Actuarial (gains)/losses	11.5	(1,230.7)	6,862.9
Increase/(decrease) in premature retirement provision net of financing cost	13	(0.6)	3.3
Total other comprehensive net expenditure		<u>(1,231.3)</u>	<u>6,866.2</u>
Total comprehensive net expenditure for the year ended 31 March		<u>339.8</u>	<u>8,050.4</u>

The notes on pages 41 to 53 form part of these financial statements.

Statement of financial position as at 31 March 2018

	Note	2018 £m	2017 £m
Current assets			
Receivables	9	55.0	53.1
Current liabilities			
Payables (within 12 months)	10	(13.2)	(13.3)
Net current assets/(liabilities) excluding pension liability		41.8	39.8
Provisions for liabilities and charges			
Premature retirement provision	13	(24.8)	(25.5)
Pension liability	11.2	(36,200.0)	(36,300.0)
Net liabilities including pension liability		<u>(36,183.0)</u>	<u>(36,285.7)</u>
Taxpayers' equity			
General fund		(36,183.0)	(36,285.7)
		<u>(36,183.0)</u>	<u>(36,285.7)</u>

The notes on pages 41 to 53 form part of these financial statements.



Penelope Cooper
Accountable Officer

21 September 2018

**Statement of changes in taxpayers' equity
for the year ended 31 March 2018**

	2017-18 £m	2016-17 £m
Balance at 1 April	(36,285.7)	(28,683.7)
Funding from the consolidated fund	442.5	448.4
Combined net expenditure	(1,571.1)	(1,184.2)
Other comprehensive net expenditure	1,231.3	(6,866.2)
Net changes in taxpayers' equity	102.7	(7,602.0)
Balance at 31 March	(36,183.0)	(36,285.7)

The notes on pages 41 to 53 form part of these financial statements.

Statement of cash flows
for the year ended 31 March 2018

	Note	2017-18 £m	2016-17 £m
Cash flows from operating activities			
Net income/(expenditure) for the year		(1,571.1)	(1,184.2)
Adjustments for non cash transactions			
(Increase)/decrease in receivables		(1.9)	0.7
Increase/(decrease) in payables		(0.1)	(1.9)
Movement in premature retirement			
Provision	13	(0.7)	3.2
Net of financing cost	13	0.6	(3.3)
Movement in pension liability			
Service and finance cost	11.2	2,217.7	1,819.0
Enhancements and transfers in	11.2	11.0	13.5
Benefits paid	11.3	(1,092.2)	(1,087.6)
Refunds and transfers	11.4	(5.8)	(7.8)
Net cash outflow from operating activity		(442.5)	(448.4)
Cash flows from financing activities			
Financing		442.5	448.4
Net financing		442.5	448.4
Increase /(decrease) in cash and cash equivalents in period			
		0	0

The notes on pages 41 to 53 form part of these financial statements.

Notes to the accounts**Accounts for the year ended 31 March 2018****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 2017-18 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 0.24% real (i.e. 2.80% 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 0.10 % at 31 March 2018.

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 0.10% real (i.e. 2.55% 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 0.24% real (i.e. 2.80% 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 2018 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 £0.7 million decrease 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	2017-18 £m	2016-17 £m
Employers		(417.5)	(409.8)
Employees			
Normal		(229.8)	(226.0)
Purchase of additional pension		(2.3)	(2.4)
		(649.6)	(638.2)

4. Pension transfers in

		2017-18 £m	2016-17 £m
Individual transfers in from other schemes	7 & 2.3	(8.7)	(11.1)

5. Service cost

		2017-18 £m	2016-17 £m
Current service cost	11.2	1,174.7	791.0
Past service costs	11.2	25.0	0.0
		1,199.7	791.0

6. Enhancements - additional liability

		2017-18 £m	2016-17 £m
Employees			
Purchase of additional pension	11.2	2.3	2.4

7. Transfers in - additional liability

		2017-18 £m	2016-17 £m
Individual transfers in from other schemes	4 & 2.3	8.7	11.1

8. Pension financing cost

		2017-18 £m	2016-17 £m
Net interest on defined benefit liability	11.2	1,018.0	1,028.0

9. Receivables - contributions due in respect of pensions**9.1 Analysis by type**

	2017-18 £m	2016-17 £m
Amounts falling due within one year		
Pension contributions due from employers	33.9	30.2
Employees' normal contributions	18.7	16.7
Employees' purchase of additional pension	0.2	0.2
Cash in transit	1.5	5.3
Other receivables	0.7	0.7
	55.0	53.1

9.2 Intra-government balances

	2017-18 £m	2016-17 £m
Amounts falling due within one year		
Balances with other central government bodies	1.6	5.3
Balances with local authorities	43.8	39.0
Balances with bodies external to government	9.6	8.8
	55.0	53.1

10. Payables - in respect of pensions**10.1 Analysis by type**

	2017-18 £m	2016-17 £m
Amounts falling due within one year		
Pensions	(2.8)	(3.2)
Tax due to HM Revenue and Customs	(10.4)	(10.1)
	(13.2)	(13.3)

10.2 Intra-government balances

	2017-18 £m	2016-17 £m
Amounts falling due within one year		
Balances with other central government bodies	(10.4)	(10.1)
Balances with bodies external to government	(2.8)	(3.2)
	(13.2)	(13.3)

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 2018. An actuarial valuation of the scheme for resource accounting purposes has been carried out as at 31 March 2018. The assessment of the pension liability as at 31 March 2018 has been carried out by rolling forward the liability from the funding valuation at 31 March 2016. The assessed actuarial liability as at 31 March 2018 is £36.2 billion. This compares to the liability of £36.3 billion as at 31 March 2017.

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

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

The major assumptions used by the Actuary were:

As at 31 March	2018	2017	2016	2015	2014
Financial assumptions					
Rate of increase in salaries	3.95%	4.55%	4.20%	4.20%	4.50%
Inflation assumption	2.45%	2.55%	2.20%	2.20%	2.50%
Discount rate	2.55%	2.80%	3.60%	3.55%	4.35%
Life expectancy – Current pensioners					
Males (Age 60)	27.6	28.4	28.3	28.5	28.4
Males (Age 65)	22.7	23.5	23.4	23.6	23.5
Females (Age 60)	29.6	30.7	30.6	31.2	31.1
Females (Age 65)	24.6	25.7	25.6	26.2	26.1
Life expectancy – Future pensioners*					
Males (Age 60)	29.0	30.0	29.9	30.1	30.0
Males (Age 65)	24.5	25.4	25.3	25.6	25.5
Females (Age 60)	31.0	32.2	32.1	32.7	32.6
Females (Age 65)	26.3	27.5	27.4	28.1	28.0

* 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 for future pensioners currently aged 40 and from age 65 for future pensioners currently aged 45.

The assumptions on life expectancy adopted for the 2017-18 accounts show a decrease in life expectancy owing to changes in projected improvements in mortality in line with the latest 2016 based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017.

Long-term price inflation is assumed to be 2.45% per annum. The above assumptions therefore mean that the gross rate of investment return is assumed to be about 2.55% per annum, and salary inflation close to 3.95% 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	2018	2017	2016	2015	2014
Pensions in payment	18.6	15.4	14.8	16.1	14.1
Deferred pensions	1.9	1.8	1.3	1.7	1.6
Active members	15.7	19.1	12.6	11.6	11.4
Total liabilities	36.2	36.3	28.7	29.4	27.1

11.1.5 Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. These variables include not only the key financial assumptions noted in the table at 11.1.2, 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 2018 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 7.0% (see paragraph 2.21 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	2017-18 £m	2016-17 £m
Scheme liability at 1 April		(36,300.0)	(28,700.0)
Current service cost	5	(1,174.7)	(791.0)
Past service cost	5	(25.0)	0.0
Pension financing cost	8	(1,018.0)	(1,028.0)
		<u>(2,217.7)</u>	<u>(1,819.0)</u>
Enhancements	6	(2.3)	(2.4)
Pension transfers in	7	(8.7)	(11.1)
		<u>(11.0)</u>	<u>(13.5)</u>
Benefits payable	11.3	1,092.2	1,087.6
Pension payments to and on account of leavers	11.4	5.8	7.8
		<u>1,098.0</u>	<u>1,095.4</u>
Analysis of the amount recognised in statement of changes in taxpayers equity	11.5	1,230.7	(6,862.9)
Scheme liability at 31 March		<u>(36,200.0)</u>	<u>(36,300.0)</u>

During the year ended 31 March 2018, contributions represented an average of 26.7% of pensionable pay.

11.3 Analysis of benefits paid

		2017-18 £m	2016-17 £m
Pensions to retired employees		885.9	860.0
Pensions to dependents		40.9	39.2
Lump sum benefits		165.4	188.4
Per statement of cashflows		<u>1,092.2</u>	<u>1,087.6</u>

11.4 Analysis of payments to and on account of leavers

		2017-18 £m	2016-17 £m
Refunds to members leaving service		0.8	0.5
Individual transfers to other schemes		4.8	7.1
Contribution equivalent premium		0.2	0.2
Per statement of cashflows		<u>5.8</u>	<u>7.8</u>

11.5 Analysis of actuarial gains and (losses)

		2017-18 £m	2016-17 £m
Experience gains/(losses) arising on the scheme liabilities		230.7	137.1
Changes in mortality assumptions		1,700.0	0.0
Changes in demographic assumptions (other than mortality)		400.0	0.0
Changes to financial assumptions as at 31 March		(1,100.0)	(7,000.0)
Per statement of comprehensive net expenditure		<u>1,230.7</u>	<u>(6,862.9)</u>

11.6 History of actuarial gains/(losses)

	2017-18	2016-17	2015-16	2014-15	2013-14
Experience gains/(losses) arising on the Scheme liabilities					
Amount (£m)	230.7	137.1	592.9	241.7	(493.0)
Percentage of the present value of the Scheme liabilities	1%	0%	2%	1%	(2%)
Total amount recognised in statement of changes in taxpayers' equity					
Amount (£m)	1,230.7	(6,862.9)	1,492.9	(1,358.3)	(2,393.0)
Percentage of the present value of the Scheme liabilities	3%	(19%)	5%	(5%)	(9%)

12. Other expenditure

		2017-18	2016-17
	Note	£m	£m
Bad debt (pension overpayments)	16	0.0 0.0	0.2 0.2

13. Movement in premature retirement provision

	2017-18	2016-17
	£m	£m
Balance at 1 April	(25.5)	(22.3)
Capitalised receipts	(0.2)	(0.1)
Capitalised pension payments	1.0	1.0
Financing cost	(0.7)	(0.8)
(Increase)/decrease in premature retirement provision net of financing cost	0.6	(3.3)
Balance at 31 March	(24.8)	(25.5)
 Movement in provision	 0.7	 (3.2)

14. Contingent liability
AVC

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.

GMP

In January 2018 the UK Government published its response to the indexation and equalisation of GMP in public sector pension schemes. The UK Government has concluded that there should be an extension to the current interim solution so that it applies to those who reach State Pension age on or before 5 April 2021. A past

service cost has been included in 2017-18 for the additional cost of indexation of GMP for those members reaching State Pension age during this period. The extension to the interim solution will give the UK Government time to consider options for a longer term solution. Given the uncertainty around the longer term solution, no additional liability has been included for this as at 31 March 2018. 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.

	2017-18	2016-17
Number of cases where there was a loss	240	290
Total loss (£)	19,058	155,542
Total overpaid pension recovered (£)	580,843	514,772

There were no individual losses or special payments in excess of £300,000 which would require separate disclosure during the year to 31 March 2018, 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.

19. Accounts Authorisation

The Accountable Officer authorised these financial statements for issue on 21 September 2018.



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.

Signed by the authority of the Scottish Ministers

Dated 17 October 2016