Scottish Teachers' Pension Scheme

Annual Report and Accounts 2019-20

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

Scottish Public Pensions Agency

The Scottish Public Pensions Agency (SPPA) is responsible for the administration, on behalf of Scottish Ministers, of 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 https://pensions.gov.scot.

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 information to aid understanding of the scheme.

There is a range of information about the STPS available on the Agency internet site at https://pensions.gov.scot/teachers.

1.2 Managers and advisors

Managers

Agency Accountable Officer	Penelope Cooper Chief Executive Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE
Scheme Administrator	Paplu Dey 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
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Legal advisors	Scottish Government Legal Directorate The Scottish Government Victoria Quay Edinburgh EH6 6QQ
External auditor	Gemma Diamond and Mark Roberts Audit Director Audit Scotland 4th Floor 102 West Port Edinburgh EH3 9DN

1.3 Background to the Scheme

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

The relevant regulations are the Scottish Teachers' Superannuation Scheme (STSS) and Scottish Teachers' Pension Scheme 2015 (STPS 2015). All new members from 1 April 2015 joined the CARE Scheme but those final salary scheme members who were within 10 years of their normal retirement age as at 1 April 2012 remain fully protected and retain continued membership of their existing scheme. Those members who as at the 1 April 2012 were between 10 and 13 years 6 months of their retirement date received protection against the changes on a tapered basis. They move to the new CARE Scheme at a later date based on the length of their tapered protection. Those existing scheme members without protection moved to the new CARE Scheme from 1 April 2015. The normal pension age (NPA) for members in the new CARE Scheme is linked to their State Pension. The transition arrangements have been challenged in the courts. See Age discrimination on transitional protection below at paragraph 1.7.

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 at https://pensions.gov.scot/teachers. 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.

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

The SAB provides advice to the Responsible Authority, at the Responsible Authority's request, on the desirability of changes to the Scheme. The Responsible Authority for these purposes is the "Scottish Ministers" with the Minister for Public Finance and Migration 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 2019-20 and details of those meetings and details of each Board's membership are available on the SPPA website at https://pensions.gov.scot/teachers.

1.4 Valuation and Contribution Rates

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

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

Scheme valuations are carried out every four years. The latest valuation of the scheme is based on data as at 31 March 2016 (refer to section 2.3 for methodology) and included the first assessment of the employer cost cap. The valuation indicated that there had been a downward breach of the employer cost cap and as required by the scheme regulations the advice of the SAB was requested on how the cost breach could be rectified. The SAB discussed a number of options however in January 2019, the UK Government suspended the cost cap part of the valuation process. This arose because of the decision from the Court of Appeal (McCloud (Judiciary scheme)/ Sargeant (Firefighters' Scheme) cases) that held that the transitional protections provided as part of the 2015 reforms unlawfully discriminated on the grounds of age. In July 2020, the UK Government announced that the cost cap part of the valuations could now proceed, and will be re-run by the Government Actuary's Department (GAD) on the basis of revised draft directions issued by HM Treasury.

The UK Government announced a reduction in the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate used in the valuation of unfunded public service schemes, from 3% to 2.8% over CPI, in its 2016 budget statement. A further reduction was announced with effect from 1 April 2019 to 2.4% over CPI, affecting employer contribution rates implemented from 1 September 2019. A reduction in the discount rate will, all other things being equal, increase the contributions employers are required to pay. That is because the rate 'discounts' future pension costs to a figure in today's terms. A lower discount rate means a smaller discount for the employer. Changes in the discount rate are not included when assessing changes in the employer cost cap.

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

The Teachers' Pension Scheme in England and Wales had agreed to introduce this increase from 1 September 2019 rather than the 1 April and the 2019-20 Barnett funding was calculated reflecting that deferment. Given the financial implications it was decided that the employer contribution increase should be similarly deferred until 1 September 2019 for the STPS. The employer contribution rate was therefore increased from 17.2% to 23.0% from 1 September 2019. Employee contributions continued at the same rates within a range of 7.2% to 11.9% and are anticipated to deliver a yield of 9.4%.

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 2020 the number of employers was 146 (31 March 2019: 147).

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 are with HM Treasury for consideration. HM Treasury consent is required for any changes to the Scheme regulations.

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 2018, CPI was 2.4%. As a result, an increase of 2.4% was applied from 8 April 2019 for pensions in payment and deferred pensions.

1.7 Looking forward

Guaranteed Minimum Pension (GMP)

The introduction of a single tier State Pension from 6 April 2016 ended 'contracted out' defined benefit pension schemes. SPPA has been given responsibility for tracking and maintaining GMP liabilities from that date. In 2020-21 SPPA will continue the reconciliation exercise to match GMP data held by SPPA to data held by HMRC. Revised GMPs and pensions (over/under payments) will be calculated and each member's record updated.

The UK government published a response to the consultation on the indexation and equalisation of GMP in public service pension schemes in January 2018, which meant that the "interim solution" to GMP indexation was extended until 6 April 2021. A past service cost for the interim solution was included in the 2017-18 accounts. In October 2018, the High Court published its judgment in the Lloyds Banking Group case on the equalisation of GMP and found that pensions must be equalised for the effects of unequal GMP. Given that the UK government has committed to addressing GMP equalisation either through provision of full indexation of pensions or conversion of GMPs, the additional liability will need to be reflected in the Scheme's finances. The aggregate costs of each option are broadly the same, although the impact at member level will not necessarily be so. A past service cost has therefore been determined in respect of the additional liabilities for members reaching State Pension age after 6 April 2021. Further information on GMP can be found at: https://www.gov.uk/government/publications/equalising-pensions-for-the-effect-of-unequal-guaranteed-minimum-pensions/guidance-on-the-use-of-the-guaranteed-minimum-pensions-gmp-conversion-legislation

The scheme actuaries, the Government Actuary's Department, has estimated a past service cost at £200 million. This has been included as a provision in these accounts (see 2.17 in the Statement by the Actuary).

Surviving civil partner or spouse

Following the Walker v Innospec Supreme Court ruling in 2017 the UK government decided that, in public service pension schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members should generally receive benefits equivalent to those received by widows of opposite sex marriages. The exception to this was in certain schemes where, in the past, improvements in female members' survivor benefits had involved female members making employee contributions or increasing them. A case brought in the Employment Tribunal against the Secretary of State for Education in spring 2020 highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme (England & Wales), where male survivors of female scheme members remained entitled to a lower survivor benefit than a comparable same-sex survivor. The UK government announced on 20 July 2020 that it had concluded that changes are required to the Teachers' Pension Scheme (England & Wales) to address this discrimination, and that the UK government believes that this difference in treatment will also need to be remedied in other public service pension schemes across the UK, where the husband or male civil partner of a female scheme member is in similar circumstances.

The Government Actuary's Department, has estimated a past service cost at £175 million. This has been included as a provision in these accounts (see 2.17 in the Statement by the Actuary).

Age discrimination on transitional protection

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

Claims of age discrimination have been brought in relation to the terms of transitional protection by groups of firefighters and members of the Judiciary. The Court of Appeal handed down its judgment on this claim on 20 December 2018 and ruled that the transitional protection arrangements were discriminatory on the basis of age. A written ministerial statement made by the Chief Secretary to the Treasury on 15 July 2019 set out the UK government's intention to remedy this discrimination across all public service pension schemes. A past service cost was included in the accounts for 2018-19 and the 2019-20 service cost allows for the higher expected cost of accrual under McCloud. HM Treasury have published a consultation on 16 July 2020 on changes to the transitional arrangements to the 2015 schemes as a result of this judgment.

The consultation document sets out that the changes should apply to all members who were in service on 31 March 2012 and 1 April 2015, including those with a break in service of less than 5 years. This represents a change in the approach from the calculations for the 2018-19 accounts, which assumed the case would affect all members who were in service on 1 April 2015. Therefore, the past service cost in 2018-19 and the projected 2019-20 service cost have been revisited in the 2019-20 accounts. The 2020-21 service cost has been calculated on a consistent basis to the 2019-20 service cost, making an approximate allowance for the higher cost of accrual and now reflecting only those members who were in service on 31 March 2012 and 1 April 2015.

Reflecting the change to the members assumed to be in scope for McCloud, the Government Actuary's Department, has estimated a negative past service cost at £340 million. This has been included as a provision in these accounts (see 2.17 in the Statement by the Actuary).

1.8 Membership statistics

Details of the membership of the Scheme as at 31 March 2020 are as follows

Active members		
Total brought forward from 31 March 2019		**74,497**
Adjustment in year[1]		(1,624)
Revised active members as at 31 March 2019		**72,873**
Additions within the year		
New members and rejoiners		8,023
Leavers		
Retirements	(2,603)	
Leavers from active to deferred	(1,807)	
Other leavers[2]	(853)	(5,263)
Total active members as at 31 March 2020		**75,633**

Members with deferred liability	
Total brought forward from 31 March 2019	**20,583**
Adjustment in year[1]	2,322
Revised deferred members as at 31 March 2019	**22,905**
Leavers from active to deferred	1,807
Other new deferred members	636
Members leaving deferred status	(1,862)
Total members with deferred pension liability as at 31 March 2020	**23,486**

Members receiving a pension	
Total brought forward from 31 March 2019	**81,521**
Adjustment in year[1]	(338)
Revised pension members as at 31 March 2019	**81,183**
New Pensioners	3,597
Cessations	(2,176)
Total Pensioners as at 31 March 2020	**82,604**

[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 2020

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

The pension liability as at 31 March 2020 was £43.5 billion (31 March 2019: £36.7 billion), which is an increase of £6.8 billion. Changes in assumptions accounted for £6.2 billion of this movement. A £7.4 billion uplift in the liability was due to the change in financial assumptions with a decrease in the discount rate, which increases liabilities partially offset by a reduction in the assumed rate of pension increases. Changes in demographic assumptions arising from an update to the assumed future improvements in mortality resulted in a £1.2 billion reduction in liabilities. There was also a £0.7 billion reduction in liabilities resulting from the differences between the actuarial assumptions that applied at the start of the year and what has actually occurred, for example, April 2020 pension increase being lower than expected. Other movements in the year increased the liability by a further £1.3 billion (see notes to the accounts 11.2).

A past service cost of £35 million has been included in the liabilities at 31 March 2020. This is made up of a negative past service cost of £340 million for the change of scope of members covered by the McCloud judgment, offset by a £200 million past service cost for the additional liabilities for the indexation and equalisation of GMP, and a £175 million past service cost for a legal challenge regarding survivor benefits. See paragraph 1.7 for further information.

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 2019-20 the total expenditure was £2,457.0 million and total income was £828.2 million giving a net expenditure of £1,628.8 million (2018-19: £2,206.9 million). This outturn was under the budget set for the STPS at £1,933.5 million by £304.7 million. The principal reason for the underspend is the negative past service cost of £340 million and decease in current service cost reflecting the change to the members assumed to be in scope for McCloud, as set out within HM Treasury consultation published on 16 July 2020.

In cash terms, there was an excess of pension benefits paid over income received of £318.4 million as detailed below.

	2019-20	2018-19
	£m	£m
Pension contributions	(818.0)	(680.9)
Transfers in	(9.8)	(7.8)
Other income	(0.4)	(0.1)
Total income	(828.2)	(688.8)
Pensions	1,006.5	970.0
Lump sums	139.1	172.0
Transfers out	2.2	2.3
Refunds	0.8	0.9
Total benefits	1,148.6	1,145.2
Total income less benefits	**320.4**	**456.4**
Movement in debtors and creditors	(2.0)	18.9
Cash requirement	**318.4**	**475.3**

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 £43.5 billion. Funding to meet pension payments as they fall due under the Scheme's regulations is made available from the Scottish Government's Annually Managed Expenditure budget. On this basis the managers consider that it is appropriate that the accounts of the Scheme are prepared on a going concern basis.

1.11 Information to the auditors

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

1.12 Free-standing additional voluntary contributions and stakeholder pensions

Employees participating in the 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 to approved providers

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 2019		**142,506,954**
Changes in investment		1,694
Revised fund brought forward at 1 April 2019		**142,508,648**
Income		
Contributions invested	5,777,247	
Interest and bonuses estimated	9,002,768	
Switches in from other funds	4,073,878	
Transfers in from other AVC arrangements	74,250	
Transfers in relating to bonus histories	14,083	
Total new investments		**18,942,226**
Expenditure		
Retirement benefits	(3,079,440)	
Death - return of funds	(376,779)	
Early leavers – withdrawals	(15,265,218)	
Transfers out relating to bonus histories	(8,741)	
Switches to other funds	(4,073,878)	
Market value reduction	(13,542)	
Annual management charges	(61,146)	
Unit linked funds price movement	(745,846)	
Sale of investments		**(23,624,590)**
Closing balance as at 31 March 2020		**137,826,284**

1.15 Further information

Any enquiries about the STPS should be addressed to:

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

Penelope Cooper

Penelope Cooper
Accountable Officer

17 November 2020

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 2020, and the movement in the scheme liability over the year 2019-20, prepared in accordance with the requirements of Chapter 9 of the 2019-20 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 2020.

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	Total pensionable pay* (p.a.) £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	Total deferred pension* (p.a.) £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	Annual pension* (p.a.) £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 2020 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 2020. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2020 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 2019 in the 2018-19 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 2020 p.a.	31 March 2019 p.a.
Nominal discount rate	1.80%	2.90%
Rate of pension increases	2.35%	2.60%
Rate of general pay increases	4.10%	4.10%
Rate of short-term general pay increase	6.5% in 2019/20	6.5% in 2019/20
Real discount rate in excess of:		
Pension increases	(0.5%)	0.29%
Long–term pay increases	(2.20%)	(1.15%)
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 2020.

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' with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Baseline mortality	Standard table[3]
Males	
Retirements in normal health	119% of S2NMA_L
Current ill-health pensioners	Age-dependent assumption: ≤75: 79% of S2IMA with underpin of 134% of S2NMA >75: 134% of S2NMA
Future ill-health pensioners	100% of S2IMA
Dependants	135% of S2NMA
Females	
Retirements in normal health	Age-dependent 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 with underpin of 128% of S2NFA >75: 128% of S2NFA
Future ill-health pensioners	100% of S2IFA
Dependants	107% of S2DFA

2.10 These assumptions in table E above are the same as those adopted for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2019.

2.11 For the 2018-19 accounts, future improvements in mortality were assumed to be in line with the 2016-based principal population projections published by the Office for National Statistics (ONS). Mortality improvements are now assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a reduction in life expectancies.

Liabilities

2.12 Table F summarises the assessed value as at 31 March 2020 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. The liabilities at 31 March 2019 and 2020 both include an allowance for the higher cost of benefits accruing under McCloud.

[3] 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.

Table F – Statement of Financial Position

	31 March 2020 £ billion	31 March 2019 £ billion
Total market value of assets	nil	Nil
Value of liabilities	43.5	36.7
Surplus/(Deficit)	(43.5)	(36.7)
of which recoverable by employers	n/a	n/a

Accruing costs

2.13 The cost of benefits accrued in the year ended 31 March 2020 (the current service cost) is assessed as 49.4% 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 2019-20 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2019-20 accounts.

Table G – Contribution rate

	2019-20 % of pay	2018-19 % of pay
Employer contributions	20.6%	17.2%
Employee contributions (average)	9.5%	9.4%
Total contributions	**30.1%**	**26.6%**
Current service cost (expressed as a % of pay)	**49.4%**	**49.4%**

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 2019-20 was £2.7 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2019-20 (at 49.4% of pay) is assessed to be £1.3 billion. This includes an allowance for the higher cost of benefits accruing over the year under McCloud.

2.17 Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. A past service cost of £200m has been determined in respect of the additional liabilities for the indexation and equalisation of Guaranteed Minimum Pensions (GMP) in public service pension schemes for members reaching State Pension age after 6 April 2021. A past service cost of £175m has been determined in respect of a legal challenge regarding survivor benefits provided in public service schemes. A negative past service cost of £340m has been determined in respect of the change of scope of members covered by the McCloud judgment. I am not aware of any other events that have led to a material past service cost over 2019-20.

2.18 I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2019-20.

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 2020 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 2020 of changes to these assumptions (rounded to the nearest 0.5%).

Table H – Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
i) discount rate*:	+0.5% p.a.	- 9.5%	- £4.1 billion
ii) (long-term) earnings increase*:	+0.5% p.a.	+ 2.0%	+ £0.9 billion
iii) pension increases*:	+0.5% p.a.	+ 6.5%	+ £2.8 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 4.0%	+ £1.7 billion

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

COVID-19 implications

2.22 The 2019-20 Resource Accounts are being produced at a time when the UK is in the midst of dealing with the COVID-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.

2.23 The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2019) 11 Revised, dated 6 December 2019, and remain unchanged for these accounts. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.

2.24 The long-term salary assumption is set by SPPA, having taken actuarial advice, and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The increase in the amount of UK government debt being taken on to pay for its response to the COVID-19 pandemic is likely to affect salary growth. However, at this stage, it is too early to speculate on the potential impacts for the long-term salary growth. Therefore I do not believe there is any information to justify changing the salary assumption.

2.25 The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether COVID-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from COVID-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

George Russell

George Russell FIA
Chief Actuary, Scotland & Northern Ireland
Government Actuary's Department

30 October 2020

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 51 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 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 SPPA complies with the guidance contained in the Scottish Public Finance Manual (SPFM) and guidance note 2 of 'On Board: A Guide for Members of Management Advisory Boards' published by Scottish Government.

4.2 Scope of responsibility

As Accountable Officer, Penelope Cooper is 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 Penelope is personally responsible in accordance with the responsibilities assigned to her.

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

4.3 Agency's Framework Document

One of the Agency's principal tasks for the year is to refresh the Agency's Framework Document in terms of its content and presentation. The Framework represents an agreement between the SPPA and Scottish Ministers that lays out the relationship in terms of the respective roles and responsibilities for carrying out our functions. It forms the basis for our five-year Strategic Plan (with a rolling six-monthly review by the Senior Leadership Team) and other planning documents that underpin our Vision in practical ways. The Minister for Public Finance and the Digital Economy signed-off the latest Framework Document on 12 December 2018.

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

- Relationship between SPPA and Scottish Ministers roles and functions of SPPA.
- Responsibilities of the Accountable Officer and Scottish Ministers.
- Our objectives and performance measures management and resources framework within which we operate.

4.4 Our Vision

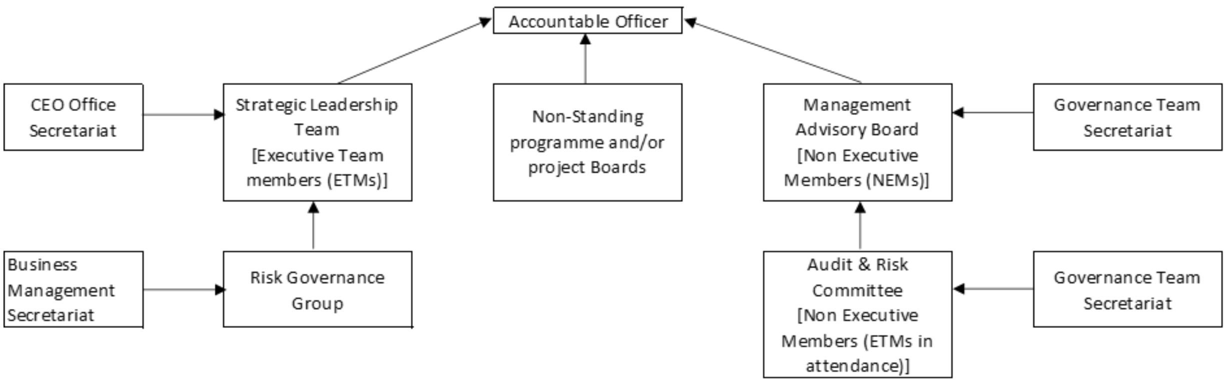
Our Vision is 'to provide excellent customer service, combining skills and technology, to maximise efficiency and deliver best value to taxpayers in Scotland'. A Strategic Plan for the period 2018 to 2023 was agreed during the 2018-19 year and this has been subsequently reviewed during the 2019-20 year by the new Senior Leadership Team setting out key deliverables and linking it to an indicative budget.

Our commitment to change has been demonstrated over the 2019-20 year through the work carried out to establish an SPPA-wide Target Operating Model (TOM). The TOM has been designed with our future direction in mind and over the last year we have appointed individuals into the Senior Leadership Team roles of Head of Business Management, Head of Business Affairs, Head of Customer Services and Head of Digital Transformation & IT Operations. Throughout the 2020-21 year, each of these respective areas will complete their TOM.

The aforementioned Head of Business Management, since appointment, has been leading on business planning. Participation in business planning is taken seriously at all levels of the organisation. Strategic objectives are cascaded to departments through business planning sessions at which key team tasks are identified. Key business planning messages are disseminated across the SPPA at regular 'all-colleagues sessions'. As we continue to evolve, the five-year Strategic Plan will be updated on a rolling six-monthly basis in order to best reflect the programme of change and any significant changes in central government funding. Through our Audit and Risk Committee (ARC) and Management Advisory Board (MAB), the Senior Leadership Team regularly share updates on business planning and strategy with our non-executive members where they are invited to share their knowledge and express their views.

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

A schematic of the bodies assisting the Accountable Officer in the governance of the Agency is provided below. A schematic for pension scheme governance is provided on the Agency's website at **http://www.sppa.gov.uk/Documents/Governance/2%20Governance%20Schematic.pdf**



4.6 Management Advisory Board

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

As part of the annual review of the Framework Document and in line with best practice, the Terms of Reference of the Board were reviewed and amended. A number of changes were reflected in the updated Terms of Reference, for example in line with other Executive Agencies from 1 April 2019 it was agreed that the Board will be chaired by the Chief Executive. A self-assessment of the operation and effectiveness of the Board took place with Board members at the beginning of the 2019-20 financial year. Due to the limited resource available within the Governance Team during the year, many of the actions have unfortunately not progressed. A fresh self-assessment will now take place during the 2020-21 financial year.

This year, the Board has benefited from an experienced cohort of six non-executive members, together with a representative from Scottish Government - the Agency's 'Fraser figure'.

During the year, the Management Advisory Board met on four scheduled occasions. The Board's work has included:

- Considering the content of our Annual Business Plan and 5-Year Strategic Plan.
- Receiving reports from the Chief Executive on our progress in achieving key tasks and meeting performance indicators.
- Receiving reports on the work of the Audit and Risk Committee and contributing towards the risks assessed in the Agency's Risk Register.
- Considering financial statements such as the draft Annual Report and Accounts for the Scottish Teachers' Pension Scheme.
- Receiving quarterly financial and budgetary updates from the Chief Financial Officer.
- Receiving regular updates on projects such as Guaranteed Minimum Pensions, Annual Benefit Statements and the Target Operating Model projects.

The Management Advisory Board are:

- Mark Adderley
- Ian Forbes
- Liz Holmes
- Helen Mackenzie
- Jane Malcolm
- Norman McNeil
- Gordon Wales (Chief Financial Officer Scottish Government until July 2020)

Biographies and meeting minutes are on the SPPA website here:
https://pensions.gov.scot/about-us/management-advisory-board

4.7 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. During the year, it met on four scheduled occasions. The Committee's work has included:

- Management processes to provide assurance in an Annual Report to the Accountable Officer and Management Advisory Board.
- Directing the work of Internal Audit, receiving progress updates and an Annual Assurance Statement.
- Receiving progress reports from Internal Audit and receiving the conclusions of its work.
- Reviewing Audit Scotland's Annual Audit Plan and cross-cutting reports where appropriate.
- Receiving reports from our senior management on: finance, procurement, governance; counter fraud initiatives; security breaches; health and safety reportable incidents; business continuity; risk and internal controls.
- Reviewing the Agency's budget and out-turn position alongside financial performance against key metrics.
- Reviewing the Scottish Teachers' Pension Scheme Annual Report and Accounts.
- Receiving an Audit Scotland Interim Management Letter and Annual Audit Report including an ISA 260 report.
- Receiving a quarterly Risk Management minute containing including:
    - The latest versions of the Corporate Risk Register incorporating changes made by the Risk Governance Group and Senior Leadership Team.
    - The latest 'Assurance Map' linking Key Outcomes to Key Risks and to levels of assurance i.e. internal, external and independent third party sources.
    - Independent third party reports where applicable, such as technical assurance 'health check.
    - 'Deep dives' on key risks to the Agency's business from respective parts of the SPPA.
    - Reviewing and tracking all recommendations emerging from reports produced by external audit (Audit Scotland) and internal audit (Scottish Government Internal Audit Directorate).
    - Horizon scanning to inform future committee business.

4.8 Corporate governance management arrangements changes

Two non-executive members left the SPPA at 31 March 2019 and three members joined. The gender balance of the six non-executive members on the Board since the joining of the three new members is evenly split 50% male and female. During the year permanent members of the Senior Leadership Team were appointed; joining the Chief Executive and Chief Financial Officer. Both the Board and the Audit and Risk Committee carried out a self-assessment of their effectiveness using criteria set by the Scottish Government. Both were deemed to be effective in carrying out their functions. Also the Audit and Risk Committee provided a full account of its activities on a quarterly basis to the Management Advisory Board. Corporate governance arrangements, overall, were considered to comply with generally accepted best practice principles and relevant guidance.

4.9 The Senior Leadership Team (SLT)

The SLT at the year-end comprised of:

- Penelope Cooper: Chief Executive
- Paplu Dey: Head of Customer Services
- Andre Morelli: Head of Digital Transformation and IT Operations
- Tom Nash: Head of Business Affairs
- Matthew Valente: Head of Business Management
- Ian Waugh: Chief Financial Officer

Senior Leadership Team (SLT) meetings are held at least monthly with senior colleagues representation from across departments. Meetings are designed to focus on key, short-term deliverables and actions based around people, process, performance and customers.

As part of its remit to consider business strategy, SLT met out with its usual cycle of meetings to give more detailed consideration to the development of agency strategy following the formation of the new SLT team.

Full bios of the SPPA SLT can be found on our website here:
https://pensions.gov.scot/about-us/our-senior-leadership-team

4.10 Scheme Boards

The 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 Scottish Teachers' Pension Scheme, as delegated by Scottish Ministers.

Our Policy team also acted as the key policy adviser and custodian of scheme regulations for the scheme.

During the year SPPA policy officials:

- Supported Scotland's statutory Teachers' Pension Board in securing compliance with regulatory requirements.
- Provided ad-hoc secretariat services to and attended meetings of the Teachers' Pension Board.
- Participated in and provided general and technical pensions policy advice to the tri-partite Scheme Advisory Boards for the Teachers' Scheme Advisory Board.
- Provided general policy advice to Scottish Ministers and support to officials on a range of pension-related matters.
- On behalf of Scottish Ministers, determined appeals from scheme members under the single stage internal disputes resolution procedure for the Teachers' scheme.

4.11 Annual Benefits Statements 2020

As Scheme Managers, the SPPA has responsibility for issuing the Annual Benefit Statements (ABS) to members. The deadline for this is 31 August. In the years to 2019 the performance against this target has steadily improved. In 2020, however, the deadline was missed. The Teachers scheme members ABS were discovered to contain an unacceptable number of errors and were removed from the portal, and a plan to correct and reissue them all by the end of October was put in place. All relevant stakeholders were informed, including the Pension Regulator, which accepted the revised plan. The investigation into the root cause of this event will report through the normal governance routes once the corrective action is completed.

4.12 Assurance

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 SPPA maintained established processes to monitor the processing of personal data. We record and report any breach to the Audit and Risk Committee even if escalation to the Scottish Government is not warranted under the Memorandum.

During 2019-20, 32 'minor' security breaches were reported internally to the Head of Security - an increase of seven on 2018-19 No breach was categorised as reportable to the Information Commissioner's Office [for example, that 'would cause harm or reputational damage'].

Continued data protection awareness amongst colleagues about what constitutes a breach coupled with established reporting procedures enable mistakes to be monitored, understood and rectified. A step-by-step guide to handling breaches is available on the colleagues intranet and is also included within the Business Continuity Plan. It is designed to give full consideration to the consequences of the breach in order to minimise harm to the data subject and to put in place the appropriate corrective measures.

'Cyber Essentials' accreditation was renewed during 2018-19 as part of the annual cycle. The accreditation process helps organisations demonstrate a baseline of security standards that mitigate the risk of data losses and breaches. There is an expectation placed upon all 'Cyber Catalyst' organisations to progress to 'Cyber Essentials plus' status in due course.

Information assurance

Colleagues are reminded through the Agency's Information Assurance Strategy that it is their responsibility to know where information is held, how to retrieve it and to understand what can be shared.

We provide colleagues 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.

Our Information Assurance Framework document evidences 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 our strategic approach to Information Assurance. The annual Information Assurance Maturity assessment carried out in April 2020 demonstrated we have achieved a steady state.

4.13 Best Value

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

The Agency uses a range of mechanisms to obtain feedback from its customers and stakeholders. Market intelligence and research is received from Pension Boards, targeted groups, desk-top research, data including comments routinely gathered on customer service from surveys and complaint feedback supports a user-centred approach. Single event and continuous customer satisfaction surveys act together to provide event driven and more real-time feedback on services and service levels provided. Though take-up rates remain low, this information is utilised by departments to look at opportunities to improve service delivery.

We have continued to participate in the 'Investors in People' (renamed Re:markable) accreditation programme. We first achieved 'Gold' status in 2012 and which was most recently reconfirmed in January 2017. We are now subject to a new set of standards (the sixth generation) going forward. The Investors in People scheme has now added a further level above the Gold status, named 'Platinum'. Our aspiration is to achieve this on its next formal assessment in 2020.

A Partnership Agreement is in place between the SPPA 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 colleagues and ensure we run effectively. In addition to the Partnership Agreement, we have set up a Colleagues Consultative Group in advance of work on the TOM and this participative approach has worked well during delivery of the TOM over the last year with good representation across colleagues grades.

During October 2019, we participated in an UK Civil Service-led annual colleagues survey for civil servants which identified a colleagues engagement level of 47% (2018-19: 54% and 2017-18: 55%) based on an 76% response rate. In response to the results, we are carrying out a number of initiatives to improve this response; this has included a Great Place to Work Group, Wellbeing sessions, and virtual coffee sessions, whilst office facilities have not been available. We plan to hold our own Pulse Survey to track progress against the above engagement score in May/June 2020. The Agency continues to implement its communication strategy and seek new forums in which to involve colleagues as a sounding board for, and a source of, new ideas to improve colleagues engagement.

These projects always have the resource and structure to provide appropriate governance which includes an SRO, Project Manager, and Project Team. Following projects, either cyclical or ad hoc, there will be a lessons learned session to ensure that these are taken forward for future projects.

4.14 Written Assurances

The Chief Executive has received written assurances from all Heads of Department 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, and Internal Audit in respect of the Scottish Government's human resources, payroll and financial systems that are shared with the Agency.

Penelope Cooper

Penelope Cooper
Accountable Officer
17 November 2020

5. Statement of parliamentary supply

In addition to the primary statements prepared under International Financial reporting Standards (IFRS), the UK Government Financial Reporting Manual (FReM) requires SPPA to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General for Scotland and the Scottish Parliament..

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimate, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won’t exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (SoPS note 5.2): a reconciliation of outturn to net operating expenditure in the SoCNE, to tie the SoPS to the financial statements (SoPS note 5.3): a reconciliation of outturn to net cash requirement (SoPS note 5.4): and, an analysis of income payable to the Consolidated Fund (SoPS note 5.5).

SOPS 5.1 Summary of resource outturn 2019-20

Summary tables - mirrors part 1 of the Estimate

Summary table, 2019-20, all figures presented in £000's

Annually Managed Expenditure	SoPS note	Outturn			Estimate			Outturn vs Estimate, saving/(excess)		Prior Year Outturn Total, 2018-19
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total	
Budgeted Resources	5.2	1,628.8	0.0	1,628.8	1,933.5	0.0	1,933.5	0.0	304.7	2,206.9
Total Resources		1,628.8	0.0	1,628.8	1,933.5	0.0	1,933.5	0.0	304.7	2,206.9

Figures in the areas outlined in the thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimate guide manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2019-20, all figures presented in £000's

Item	SoPS note	Outturn	Estimate	Outturn vs Estimate, saving/(excess)	Prior Year Outturn Total, 2018-19
Net cash requirement	5.4	318.4	367.6	49.2	475.3

Outturn against estimate

Accrued resources for the STPS and the NHS Pension Scheme (Scotland) are covered by one limit in the Budget (Scotland) Act 2019. In 2019-20 the combined accrued resources of £4,352.0 million fell within the combined limit of £5,139.6 million. Refer also to the Report of the Managers on pages 2 to 12.

SOPS 5.2 Outturn detail by Estimate Line - Analysis of resource outturn by Estimate line

Annually Managed Expenditure (AME)	Resource outturn				Estimate	Outturn vs Estimate,saving /(excess)	Prior Year Outturn Total, 2018-19
	Programme			Total	Total		
	Gross	Income	Net				
Voted: Pension	2,457.0	(828.2)	1,628.8	1,628.8	1,933.5	304.7	2,206.9
Total Resource	2,457.0	(828.2)	1,628.8	1,628.8	1,933.5	304.7	2,206.9

SOPS 5.3 Analysis of resource outturn to net operating expenditure

Item	Reference	Outturn total	Prior Year Outturn Total 2018-19
Total Resource outturn	SoPS 5.2	1,628.8	2,206.9
Less: Income paid/payable to the Consolidated Fund		0.0	0.0
Net operating expenditure in Consolidated statement of comprehensive net expenditure	SOCNE	1,628.8	2,206.9

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SoPS to the financial statements.

SOPS 5.4 Analysis of net resource outturn to net cash requirement

Item	Reference	Outturn total	Estimate	Outturn vs Estimate, saving/(excess)
Total Resource outturn	SoPS 5.2	(1,628.8)	(1,933.5)	304.7
Accruals adjustment				
Non-cash items		2,455.9	2,764.7	(308.8)
Changes in working capital other than cash		2.0	0.0	2.0
Use of provisions				
Adjustment for movement in premature retirement provision	13	(0.0)	0.0	(0.0)
Pensions, lump sums and leavers	11.3/11.4	(1,147.5)	(1,198.8)	51.3
Total		1,310.4	1,565.9	(255.5)
Funding (to)/from the Scottish Consolidated Fund		318.4	367.6	(49.2)
Net cash requirement		0.0	0.0	0.0

As noted in the introduction to the SoPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource outturn to the net cash requirement.

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 2019. In the year to 31 March 2020 there were no cash receipts in excess of budget (unapplied income) payable to the Scottish Consolidated Fund.

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

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Scottish Teachers' Pension Scheme for the year ended 31 March 2020 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of comprehensive net expenditure, Statement of financial position, the Statement of changes in taxpayers' equity, the Statement of cash flows, and notes to the accounts, including a statement of accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2019/20 Government Financial Reporting Manual (the 2019/20 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 2020 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 2019/20 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 5 March 2020. The period of total uninterrupted appointment is one year. I am independent of the scheme in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the scheme. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other information in the annual report and accounts

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

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

Report on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects:

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

Responsibilities for regularity

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

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Gemma Diamond
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

17 November 2020

7. Financial statements

Statement of comprehensive net expenditure for the year ended 31 March 2020

	Note	2019-20 £m	2018-19 £m
Income			
Contributions receivable	3	(818.0)	(680.9)
Transfers in	4	(9.8)	(7.8)
Capitalised receipts	13	(0.4)	(0.1)
		(828.2)	(688.8)
Expenditure			
Service costs	5	1,376.8	1,960.4
Enhancements	6	2.0	2.0
Transfers in	7	9.8	7.8
Pension financing cost	8	1,067.3	924.7
Other expenditure	12	0.0	0.1
Premature retirement financing cost	13	0.7	0.6
Capitalised receipts	13	0.4	0.1
		2,457.0	2,895.7
Net expenditure for the year		**1,628.8**	**2,206.9**
Other comprehensive net expenditure			
Pension remeasurements:			
Actuarial (gains)/losses	11.5	5,491.6	(1,250.9)
Increase/(decrease) in premature retirement provision net of financing cost	13	0.6	0.4
Total other comprehensive net expenditure		**5,492.2**	**(1,250.5)**
Total comprehensive net expenditure for the year ended 31 March		**7,121.0**	**956.4**

The notes on pages 39 to 50 form part of these financial statements.

Statement of financial position as at 31 March 2020

	Note	2020 £m	2019 £m
Current assets			
Receivables	9	74.2	75.3
Current liabilities			
Payables (within 12 months)	10	(15.5)	(14.6)
Net current assets/(liabilities) excluding pension liability		58.7	60.7
Provisions for liabilities and charges			
Premature retirement provision	13	(25.4)	(24.8)
Pension liability	11.2	(43,500.0)	(36,700.0)
Net liabilities including pension liability		**(43,466.7)**	**(36,664.1)**
Taxpayers' equity			
General fund		(43,466.7)	(36,664.1)
		(43,466.7)	**(36,664.1)**

The notes on pages 39 to 50 form part of these financial statements.

Penelope Cooper

Penelope Cooper
Accountable Officer

17 November 2020

Statement of changes in taxpayers' equity for the year ended 31 March 2020

	2019-20 £m	2018-19 £m
Balance at 1 April	**(36,664.1)**	**(36,183.0)**
Funding from the consolidated fund	318.4	475.3
Combined net expenditure	(1,628.8)	(2,206.9)
Other comprehensive net expenditure	(5,492.2)	1,250.5
Net changes in taxpayers' equity	(6,802.6)	(481.1)
Balance at 31 March	**(43,466.7)**	**(36,664.1)**

The notes on pages 39 to 50 form part of these financial statements.

Statement of cash flows for the year ended 31 March 2020

	Note	2019-20 £m	2018-19 £m
Cash flows from operating activities			
Net income/(expenditure) for the year		(1,628.8)	(2,206.9)
Adjustments for non cash transactions			
(Increase)/decrease in receivables		1.1	(20.3)
Increase/(decrease) in payables		0.9	1.4
Movement in premature retirement			
Provision	13	0.6	0.0
Net of financing cost	13	(0.6)	(0.4)
Movement in pension liability			
Service and finance cost	11.2	2,444.1	2,885.1
Enhancements and transfers in	11.2	11.8	9.8
Benefits paid	11.3	(1,144.5)	(1,140.8)
Refunds and transfers	11.4	(3.0)	(3.2)
Net cash outflow from operating activity		**(318.4)**	**(475.3)**
Cash flows from financing activities			
Financing		318.4	475.3
Net financing		**318.4**	**475.3**
Increase /(decrease) in cash and cash equivalents in period		**0**	**0**

The notes on pages 39 to 50 form part of these financial statements.

Notes to the accounts

Accounts for the year ended 31 March 2020

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 2019-20 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 previous scheme closed to new members on 1 April 2015. Members nearing pension age with service in the old Scheme were given transitional protection.

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

The accounts of the Scheme show the financial position 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.

A past service cost of £35 million has been included in the liabilities at 31 March 2020 which includes: a £200 million past service cost for the additional liabilities for the indexation and equalisation of GMP for members reaching State Pension age after 6 April 2021; a £175 million past service cost for a legal challenge regarding survivor benefits; and a negative past service cost of £340 million for the change of scope of members covered by the McCloud judgment. See paragraph 1.7 for further information.

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 0.29% real (i.e. 2.9% 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 (0.5)% from 31 March 2020.

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 (0.5)% real (i.e. 1.8% 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 of service at the point of leaving can either transfer the value of their service to another pension scheme or preserve their accrued pension for payment at retirement. 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 0.29% real (i.e. 2.9% 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 premature retirement provision is valued annually using longevity factors based on the current Treasury discount rate. There is a £0.5 million increase in the liability as a result of the revaluation and other adjustments.

2.17 Funding

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

3. Pension contributions receivable

	Note	2019-20	2018-19
		£m	£m
Employers		(559.1)	(438.8)
Employees			
Normal		(256.9)	(240.1)
Purchase of additional pension		(2.0)	(2.0)
		(818.0)	**(680.9)**

4. Pension transfers in

		2019-20	2018-19
		£m	£m
Individual transfers in from other schemes	7 & 2.3	(9.8)	(7.8)
		(9.8)	**(7.8)**

5. Service cost

		2019-20	2018-19
		£m	£m
Current service cost	11.2	1,341.8	1,260.4
Past service costs	11.2	35.0	700.0
		1,376.8	**1,960.4**

6. Enhancements - additional liability

		2019-20	2018-19
		£m	£m
Employees			
Purchase of additional pension	11.2	2.0	2.0
		2.0	**2.0**

7. Transfers in - additional liability

		2019-20	2018-19
		£m	£m
Individual transfers in from other schemes	4 & 2.3	9.8	7.8
		9.8	**7.8**

8. Pension financing cost

		2019-20	2018-19
		£m	£m
Net interest on defined benefit liability	11.2	1,067.3	924.7
		1,067.3	**924.7**

9. Receivables - contributions due in respect of pensions

9.1 Analysis by type

	2019-20	2018-19
	£m	£m
Amounts falling due within one year		
Pension contributions due from employers	49.1	47.8
Employees' normal contributions	22.6	26.2
Employees' purchase of additional pension	0.2	0.2
Cash in transit	1.5	0.4
Other receivables	0.8	0.7
	74.2	**75.3**

9.2 Intra-government balances

	2019-20	2018-19
	£m	£m
Amounts falling due within one year		
Balances with other central government bodies	1.5	0.5
Balances with local authorities	60.8	60.4
Balances with bodies external to government	11.9	14.4
	74.2	**75.3**

10. Payables - in respect of pensions

10.1 Analysis by type

	2019-20	2018-19
	£m	£m
Amounts falling due within one year		
Pensions	(4.4)	(3.7)
Tax due to HM Revenue and Customs	(11.1)	(10.9)
	(15.5)	**(14.6)**

10.2 Intra-government balances

	2019-20	2018-19
Amounts falling due within one year	£m	£m
Balances with other central government bodies	(11.1)	(10.9)
Balances with bodies external to government	(4.4)	(3.7)
	(15.5)	**(14.6)**

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 2020. An actuarial valuation of the scheme for resource accounting purposes has been carried out as at 31 March 2020. The assessment of the pension liability as at 31 March 2020 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 2020 is £43.5 billion. This compares to the liability of £36.7 billion as at 31 March 2019.

The Statement by the Actuary on pages 13 to 18 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	2020	2019	2018	2017	2016
Financial assumptions					
Rate of increase in salaries	4.10%	4.10%	3.95%	4.55%	4.20%
Inflation assumption	2.35%	2.60%	2.45%	2.55%	2.20%
Discount rate	1.80%	2.90%	2.55%	2.80%	3.60%
Life expectancy – Current pensioners					
Males (Age 60)	26.8	27.7	27.6	28.4	28.3
Males (Age 65)	22.0	22.8	22.7	23.5	23.4
Females (Age 60)	28.9	29.7	29.6	30.7	30.6
Females (Age 65)	23.9	24.7	24.6	25.7	25.6
Life expectancy – Future pensioners*					
Males (Age 60)	28.5	29.6	29.5	30.4	30.3
Males (Age 65)	23.6	24.6	24.5	25.4	25.3
Females (Age 60)	30.4	31.5	31.4	32.6	32.5
Females (Age 65)	25.4	26.4	26.3	27.5	27.4

* The life expectancy from age 60 or 65 of future pensioners will depend on their current age. This table shows the life expectancy from age 60 for future pensioners currently aged 40 and from age 65 for future pensioners currently aged 45.

Future improvements in mortality are now assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a small reduction in life expectancies. The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics, refer to Statement by the Actuary section 2.25.

Long-term price inflation is assumed to be 2.35% per annum. The above assumptions therefore mean that the gross rate of investment return is assumed to be about 1.80% per annum, and salary inflation close to 4.10% 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	**2020**	**2019**	**2018**	**2017**	**2016**
Pensions in payment	16.2	19.5	18.6	15.4	14.8
Deferred pensions	2.1	1.9	1.9	1.8	1.3
Active members	25.2	15.3	15.7	19.1	12.6
Total liabilities	43.5	36.7	36.2	36.3	28.7

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 at 11.1.2 above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

11.1.6 The value of the liability included in the Statement of financial position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation, the value of the pension liability will increase or decrease. The Agency accepts that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 11.5 and 11.6. The note also discloses "experience" gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is included in table H in the Statement 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 2020 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 6.5% (see paragraph 2.21 of the Statement by the Actuary). The impact of changes in pensioner mortality assumptions is also significant.

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	2019-20 £m	2018-19 £m
Scheme liability at 1 April		(36,700.0)	(36,200.0)
Current service cost	5	(1,341.8)	(1,260.4)
Past service cost	5	(35.0)	(700.0)
Pension financing cost	8	(1,067.3)	(924.7)
		(2,444.1)	(2,885.1)
Enhancements	6	(2.0)	(2.0)
Pension transfers in	7	(9.8)	(7.8)
		(11.8)	(9.8)
Benefits payable	11.3	1,144.5	1,140.8
Pension payments to and on account of leavers	11.4	3.0	3.2
		1,147.5	1,144.0
Analysis of the amount recognised in statement of changes in taxpayers equity	11.5	(5,491.6)	1,250.9
Scheme liability at 31 March		**(43,500.0)**	**(36,700.0)**

During the year ended 31 March 2020, contributions represented an average of 30% of pensionable pay.

11.3 Analysis of benefits paid

	2019-20 £m	2018-19 £m
Pensions to retired employees	957.7	925.2
Pensions to dependents	47.7	43.6
Lump sum benefits	139.1	172.0
Per statement of cashflows	**1,144.5**	**1,140.8**

11.4 Analysis of payments to and on account of leavers

	2019-20 £m	2018-19 £m
Refunds to members leaving service	0.7	0.8
Individual transfers to other schemes	2.2	2.3
Contribution equivalent premium	0.1	0.1
Per statement of cashflows	**3.0**	**3.2**

11.5 Analysis of actuarial gains and (losses)

	2019-20 £m	2018-19 £m
Experience gains/(losses) arising on the scheme liabilities	658.4	50.9
Changes in mortality assumptions	0.0	100.0
Changes in demographic assumptions (other than mortality)	1,200.0	0.0
Changes to financial assumptions as at 31 March	(7,350.0)	1,100.0
Per statement of comprehensive net expenditure	**(5,491.6)**	**1,250.9**

11.6 History of actuarial gains/(losses)

	2019-20	2018-19	2017-18	2016-17	2015-16
Experience gains/(losses) arising on the Scheme liabilities					
Amount (£m)	658.4	50.9	230.7	137.1	592.9
Percentage of the present value of the Scheme liabilities	2%	0%	1%	0%	2%
Total amount recognised in statement of changes in taxpayers' equity					
Amount (£m)	(5,491.6)	1,250.9	1,230.7	(6,862.9)	1,492.9
Percentage of the present value of the Scheme liabilities	(13%)	3%	3%	(19%)	5%

12. Other expenditure

	Note	2019-20 £m	2018-19 £m
Bad debt (pension overpayments)	16	0.0	0.1
		0.0	**0.1**

13. Movement in premature retirement provision

	2019-20 £m	2018-19 £m
Balance at 1 April	(24.8)	(24.8)
Capitalised receipts	(0.4)	(0.1)
Capitalised pension payments	1.1	1.1
Financing cost	(0.7)	(0.6)
(Increase)/decrease in premature retirement provision net of financing cost	(0.6)	(0.4)
Balance at 31 March	**(25.4)**	**(24.8)**
Movement in provision	**(0.6)**	**0.0**

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.

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.

	2019-20	2018-19
Number of cases where there was a loss	215	306
Total loss (£)	15,071	80,457
Total overpaid pension recovered (£)	519,984	819,378

There were no individual losses or special payments in excess of £300,000 which would require separate disclosure during the year to 31 March 2020, 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

HM Treasury published a consultation, on 16 July 2020, detailing changes to the transitional arrangements to the 2015 schemes as a result of the Court of Appeal's judgement in the McCloud/Sargeant age discrimination on transitional protection case. See section 1.7.

Following a case brought in the Employment Tribunal, against the Secretary of State for Education, the UK government announced its conclusion on 20 July 2020 that changes are required across all UK public pension schemes to address discrimination effecting survivor benefits. See section 1.7.

19. Accounts Authorisation

The Accountable Officer authorised these financial statements for issue on November 17th 2020.

SCOTTISH TEACHERS' PENSION SCHEME

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

1. The Scottish Public Pensions Agency shall prepare the statement of accounts for the financial year ended 31 March 2016 and subsequent years in respect of the Scottish Teachers' Pension Scheme in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.

2. The accounts shall be prepared so as to give a true and fair view of the state of affairs of the pension Scheme at the end of the financial year and of the net outgoings and cash flows for the financial year then ended.

3. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 17 January 2006 is hereby revoked.

A. J. Stafford

Signed by the authority of the Scottish Ministers

Dated 17 October 2016