

NHS Pension Scheme (Scotland)

Annual Report and Accounts 2020-21

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

SG/2021/357

Scottish Public Pensions Agency

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

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

Contents

| | Page |
|--|------|
| Accountability Report | |
| Corporate Governance Report | |
| 1. Report of the Scheme's Managers | 2 |
| 2. Report of the Scheme's Actuary | 15 |
| 3. Statement of the Accountable Officer's Responsibilities | 21 |
| 4. Annual Governance Statement | 22 |
| Parliamentary Accountability Disclosures and Audit Report | |
| 5. Statement of Outturn against Parliamentary Supply | 38 |
| 6. Losses and Special Payments disclosures | 42 |
| 7. Independent auditor's report | 43 |
| Financial Statements | |
| Statement of Comprehensive Net Expenditure | 46 |
| Statement of Financial Position | 47 |
| Statement of Changes in Taxpayers' Equity | 48 |
| Statement of Cash Flows | 49 |
| Notes to the accounts | 50 |
| Direction by the Scottish Ministers | 65 |

Accountability Report

Corporate Governance Report

1. Report of the Scheme's Managers

1.1 Introduction

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

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

1.2 Managers and advisors

Managers

| | |
|----------------------------|--|
| Agency Accountable Officer | David Robb (with effect from 26 April 2021) <i>(Matthew Valente from 15 November 2020 to 25 April 2021, Penelope Cooper to 14 November 2020)</i> Interim 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 20 Haymarket Yards Edinburgh EH12 5WN |
|----------------|---|

| | |
|------------------|---|
| Bankers | <p>Royal Bank of Scotland London Corporate Services Centre GBS Team Aldgate Union 10 Whitechapel High Street London E1 8DX</p> <p>National Westminster Bank PLC 280 Bishopsgate London EC2M 4RB</p> |
| Legal advisors | <p>Scottish Government Legal Directorate The Scottish Government Victoria Quay Edinburgh EH6 6QQ</p> |
| External auditor | <p>Gemma Diamond and Mark Roberts Audit Director Audit Scotland 4th Floor 102 West Port Edinburgh EH3 9DN</p> |

1.3 Background to the Scheme

The NHS Pension Scheme (Scotland) (NHSPSS) is a defined benefit unfunded statutory pension scheme set out in three main sets of regulations. Following a reform of public service pensions a new Career Average Re-valued Earnings (CARE) scheme, the NHS Pension Scheme (Scotland) 2015 was introduced from 1 April 2015. Prior to this, the Scheme was a final salary scheme set out in two sections (the 1995 section and the 2008 section). Although both sections provide final salary benefits there are differences in the normal pension age, benefit accrual, lump sum provisions and other ancillary aspects.

Following the 2015 reforms, all new members from 1 April 2015 joined the CARE scheme, and all members of the 1995 and 2008 section who did not qualify for protection against the changes also moved to the CARE scheme with all final salary service accrued up to the point of transfer preserved. Full protection from reforms, was provided to those members who were within 10 years of their normal retirement age as at 1 April 2012. Other members who were between 10 years and 13 years 5 months of their retirement date as at 1 April 2012 received transitional protection on a tapered basis, moving to the CARE scheme at some point before March 2022. The 1995 and 2008 sections remain open for those members with full and transitional protection. Members who have service in both the 1995 or 2008 sections and the CARE scheme when they retire will have a final pension containing both elements. The transitional protection arrangements have been found by the Court of Appeal to be unlawful [[Lord Chancellor vs McCloud and Ors judgement 2018/12](#)] and the UK Government has

committed to removing the discrimination across all public service pension schemes for all affected scheme members, with the Public Service Pensions and Judicial Offices Bill introduced to the UK Parliament on 19 July 2021. See Age discrimination on transitional protection at paragraph 1.7.

Both the 2015 CARE scheme and the 1995 and 2008 sections provide a pension on retirement and a tax free lump sum option. In the CARE scheme and 2008 section a member must commute part of their pension if they wish to take a tax free lump sum whereas the 1995 section provides an automatic lump sum. Both the 2015 scheme and 1995 and 2008 sections provide benefits on death for members' families or their dependants. Scheme members also have the option to transfer their pension between the NHS Scheme and another scheme when they move into or out of NHS employment in Scotland. However, a transfer to a defined contribution scheme that from 6 April 2015 provides flexible benefits is prohibited, a restriction that applies to all unfunded public service schemes.

The Public Service Pensions Act 2013 (the 2013 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 the Scottish Ministers, with SPPA undertaking this role on their behalf.

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, Planning and Community Wealth having responsibility for public service pensions. Both boards met regularly during 2020-21. Details of scheme governance and legislation, including membership of the SAB and Pension Board, are available on the [SPPA website](#).

1.4 Valuation and contribution rates

Benefits are funded through pension contributions deducted from members' pensionable pay 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.

Cost control and valuation mechanism forms a key part of the 2013 Act. Valuations are undertaken every four years and HM Treasury is responsible for directing how they should be undertaken and the manner by which the cost control mechanism functions. 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.

The latest valuation of the scheme is based on data as at 31 March 2016 (refer to section 2.5 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 during 2018 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 on 20 December 2018 that held that the transitional protections provided as part of the 2015 reforms unlawfully discriminated on the grounds of age. Following publication of the necessary amending HM Treasury Directions on 7 October 2021, the cost cap part of the 2016 actuarial valuation is now being rerun with results expected to be published by the end of 2021.

The SCAPE (Superannuation Contributions Adjusted for Past Experience) discount rate is used in the valuation of unfunded public service pension schemes to set employer contribution rates. It expresses future pension promises that are being built up in present-day terms and is set by HM Treasury following a prescribed methodology. The current methodology for setting the SCAPE discount rate has been in place since 2011 and a review was scheduled after ten years. A consultation launched in June 2021 fulfils this commitment.

The SCAPE discount rate changed from 3% to 2.8% on 16 March 2016 and reduced further to 2.4% over CPI (Consumer Price Inflation) from 1 April 2019. Changes in the discount rate are not included when assessing changes in the employer cost cap.

The 2016 valuation confirmed that an increase in the employer contribution rate from 14.9% to 20.9% was required from 1 April 2019 to 31 March 2023. The UK Government has confirmed that these rates will remain in place until 31 March 2024. Employee pension contributions have continued at the same rates within a range of 5.2% to 14.7% and are anticipated to deliver a yield of 9.6% although the SAB is still considering a revised member contribution structure aimed at achieving the yield, to come into effect from 1 April 2022.

On 24th June 2021, HM Treasury launched a consultation on proposed changes to the UK government's cost control mechanism in public sector pension schemes, alongside a second consultation on the discount rate methodology used for public service pensions. Both consultations ran for eight weeks, closing on 19th August 2021. The first consultation sets out the UK Government's proposed changes to the cost control mechanism following a review by the Government Actuary.

The second consultation seeks views on the methodology the Government uses to set the SCAPE discount rate.

The UK Government will consider all responses to both consultations and thereafter publish its responses.

1.5 Eligibility and employers

NHS staff, including General Medical and Dental Practitioners, employed by Scottish Health Boards and a range of smaller employers, including General Medical Practices, are eligible to join the Scheme. At 31 March 2021 the number of employers was 891 (31 March 2020: 900).

1.6 Changes to the Scheme

During the year the following regulations were made:

The NHS Superannuation and Pension Schemes (Miscellaneous Amendments) (Scotland) Regulations 2021 (SSI 2021/102)

This Statutory Scottish Instrument (SSI) was consulted on in January 2021 and came into force on 1 April 2021.

This instrument makes changes to the employee contribution table for 2021-22 which updates the salary/earnings bands on which the employee contribution percentages are set. The instrument also makes retrospective amendments to the NHS Pension Schemes (Scotland) to remove the scheme rules requiring an unmarried co-habiting partner to have been nominated to receive survivor pension benefits upon death of the member. The third main purpose of this instrument is to provide the survivors of civil partners and same sex spouses with the same pension as widows in the 1995 section of the Scheme.

Changing the pay bands for contribution purposes required a report (No.SG/2021/08) to be made to the Scottish Parliament by the Scottish Ministers in February 2021 under section 22 of The Public Service Pensions Act 2013. Section 22 requires greater legislative scrutiny of changes made to what are known as protected elements, one of which is member contribution rates. The protected elements reflect the UK Government's guarantee that the public service pension reforms introduced from April 2015 would last for 25 years. Although contribution rates were not being changed, the pay bands that allocate rates were being amended, therefore, it was considered that section 22 applied.

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 2019, CPI was 1.7%. As a result, an increase of 1.7% was applied from 6 April 2020 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 responsibility for tracking and maintaining GMP liabilities from that date. In 2020-21 SPPA continued the reconciliation exercise to match GMP data held by SPPA with data held by HMRC. The project remains in progress for the NHSPSS scheme and is expected to be complete before the end of December 2021.

In October 2018, the UK High Court published its judgment on the equalisation of Guaranteed Minimum Pensions (GMP) and found that pensions must be equalised for the effects of unequal GMP. The UK Government extended the "interim solution" until April 2021 and has committed to addressing GMP equalisation. A past service cost was

included for 2019-20 (estimated assuming full indexation) that represented the expected cost of GMP indexation; no further allowance is required in the 2020-21 accounts.

A further court ruling of 20 November 2020 ruled that scheme trustees are required to revisit past Cash Equivalent Transfer Values (CETVs) to ensure GMP equalisation has been achieved and members received their full entitlement. This may result in additional top-ups where GMP equalisation means that members did not receive their full entitlement. For public service pension schemes, this ruling may be taken forward on a cross scheme basis. This may require revisiting past CETV cases for members with State Pension age after 5 April 2016 and who took a CETV from the scheme before CETV were equalised. The scope of any costs are yet to be determined and the potential impact has yet to be established (i.e. for those who took a CETV and are in scope for a top up).

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>.

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. A past service cost was included in the 2019-20 accounts (£100m) with administrative action to review member entitlement for affected male survivors and correct where applicable the pensions currently payable to those Scheme members affected. A formal project, [Goodwin](#), has been established and is in its initial stages.

Age discrimination on transitional protection (2015 Remedy following the McCloud/Sargeant legal case)

In 2015 the UK 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 2018-19 and 2019-20 accounts and the 2020-21 current service cost has allowed for the higher expected cost of benefits accruing over the year .

In July 2020 HM Treasury consulted on changes to the transitional arrangements to the 2015 schemes as a result of this judgment and, at the same time, an update on the Cost Control Element of the 2016 valuations was published. In this update, the UK Government announced that the pause should be lifted and the cost control element of the 2016 valuations could be completed. This update also set out that the McCloud costs would fall into the 'member cost' category of the cost control element of the valuations process. It is also noted that by taking into account the increased value as a result of the McCloud remedy, scheme cost control valuation outcomes will show greater costs than otherwise would have been expected.

In July 2021, the UK Government introduced the Public Service Pensions and Judicial Offices Bill to the House of Lords. This legislation is designed to implement the remedy to the discrimination found by the courts. Once the Bill has completed its passage through Parliament, appropriate changes to the NHSPSS scheme regulations will follow.

1.8 Membership statistics

Details of the membership of the Scheme as at 31 March 2021 are as follows:

| Active members | | |
|---|---------|----------------|
| Total brought forward from 31 March 2020 | | 178,092 |
| Adjustment in year ¹ | | 2,526 |
| Revised active members as at 31 March 2020 | | 180,618 |
| Additions within the year | | |
| New members and re-joiners | | 26,633 |
| Leavers | | |
| Retirements | (4,171) | |
| Leavers from active to deferred | (3,429) | |
| Other leavers ² | (2,722) | (10,322) |
| Total active members as at 31 March 2021 | | 196,929 |

| Members with deferred liability | | |
|--|--|---------------|
| Total brought forward from 31 March 2020 | | 65,671 |
| Adjustment in year ¹ | | (3,629) |
| Revised deferred members as at 31 March 2020 | | 62,042 |
| New deferred from active members | | 3,429 |
| Other new deferred members | | 48 |
| Members leaving deferred status | | (5,414) |
| Total members with deferred pension liability as at 31 March 2021 | | 60,105 |

| Members receiving a pension | | |
|--|--|----------------|
| Total brought forward from 31 March 2020 | | 110,421 |
| Adjustment in year ¹ | | (2,878) |
| Revised pension members as at 31 March 2020 | | 107,543 |
| New Pensioners | | 7,073 |
| Cessations | | (3,206) |
| Total Pensioners as at 31 March 2021 | | 111,410 |

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 2021

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 (FRM). More information on the methodology of the valuation is contained in the Report of the Scheme's Actuary at section 2.

The pension liability as at 31 March 2021 was £86.9 billion (31 March 2020: £76.6 billion), which is an increase of £10.3 billion. Changes in assumptions accounted for £7.9 billion of this movement. This 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. A lower than expected increase in pensionable pay and the April 2021 pension increase has reduced the Scheme liability and results in an experience gain of £1.4 billion (see note 11.6 to the financial statements). Other movements in the year increased the liability by a further £3.9 billion (see note 11.2 to the financial statements).

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 2020-21 the total expenditure was £5,377.4 million and total income was £1,881.7 million giving a net expenditure of £3,495.7 million (2019-20: £2,723.2 million). This outturn was over the budget set for the NHSPSS of £3,494.6 million by £1.1 million. The main reasons for this are the impact of the backdating to December 2020 of the NHS Scotland Agenda for Change staff 2021-22 pay award and addressing the practitioner pension contributions under and over payments issue (see section 4.14.4).

In cash terms, there was an excess of income received over pension benefits paid of £351.8 million which was transferred to the Scottish Consolidated Fund as detailed in the summary statement (table 1) below.

Table 1: Cash Requirement from the Scottish Consolidated Fund

| | 2020-21 | 2019-20 |
|---|------------------|------------------|
| | £m | £m |
| Pension contributions | (1,848.7) | (1,698.4) |
| Transfers in | (33.0) | (53.0) |
| Other income | 0.0 | (0.3) |
| Total income | (1,881.7) | (1,751.7) |
| Pensions paid | 1,136.8 | 1,069.2 |
| Lump sums | 351.6 | 356.0 |
| Transfers out | 16.2 | 22.2 |
| Refunds | 1.6 | 3.6 |
| Total benefits paid | 1,506.2 | 1,451.0 |
| Total income less benefits paid | (375.5) | (300.7) |
| Movement in debtors and creditors | 23.7 | 33.8 |
| | SoCF | |
| Cash transferred to the Scottish Consolidated Fund | (351.8) | (266.9) |

1.10 Going concern

In common with many public pension schemes, the NHSPSS is unfunded. The pension liabilities recorded in the Statement of Financial Position are not matched by investments or other assets, and consequently the Scheme shows net liabilities of £86.9 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 Additional voluntary contributions and stakeholder pensions

The NHSPSS enables members to make Additional Voluntary Contributions (AVCs) to increase their pension entitlement or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment direct to the approved provider, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contributions Schemes (FSAVCs). The Managers of the NHS Pension Scheme (Scotland) have no responsibility for such arrangements. The NHS employers are responsible for payments made to the Scheme's approved provider. Members participating in this arrangement receive an annual statement from

the approved provider made up to 5 April each year confirming the amounts held in their account and the movements in the year. At retirement, these and the income from their investment are used to buy an annuity, lump sum or income draw down.

Standard Life (formerly Standard Life Aberdeen PLC³) was appointed as the approved provider with effect from 8 October 2001, as an alternative to the original provider Equitable Life. Having regard to difficulties that undermined confidence in the Scheme's original approved provider, Equitable Life is not available as a Group AVC Provider for any new investors from 1 April 2005. Existing investors are free to continue to invest with them and indeed to increase their contributions if they wish. AVC contributions are not part of the Scheme account cash flows or financial statements and are not included in the audit by Audit Scotland. Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments are detailed in section 1.13 for Equitable Life and 1.14 for Standard Life.

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

³ abrdn plc (formerly known as Standard Life Aberdeen) sold the Standard Life brand to Phoenix Group during the course of 2021.

1.13 Equitable Life Assurance Society

| | £ | £ |
|--|----------------------|----------------------|
| Value of fund at 1 April 2020 | | 5,606,893 |
| Income | | |
| Contributions received | 49,701 | |
| Interest and bonuses/change in market value of assets | 1,117,707 | |
| Internal transfers from other policies insured by the Society | 3,501 | |
| Total income | | 1,170,909 |
| Expenditure | | |
| Life assurance premiums | (1,637) | |
| Retirement benefits | (298,567) | |
| Leavers (transfers and withdrawals) | (312,355) | |
| Deaths | (99,202) | |
| Refunds | (480) | |
| Contributions received but not yet used to purchase benefit | (1,916) | |
| Total expenditure | | (714,157) |
| Value of fund at 31 March 2021 | | 6,063,645 |
| Fund value by type | | |
| | 31 March 2021 | 31 March 2020 |
| Equitable with profits | 0 | 0 |
| Equitable and Clerical Medical unit-linked (including Clerical Medical with-profits) | 6,063,646 | 5,606,893 |
| Total | 6,603,646 | 5,606,893 |

1.14 Standard Life Assurance Limited

Standard Life Assurance Limited has set up a Group Money Purchase Plan for the Scheme members who have moved their AVC funds to its management and for those who are contributing to an AVC arrangement for the first time. Standard Life Assurance Limited is part of the Phoenix Group and uses the Standard Life brand under licence from abrdn, formerly the Standard Life Aberdeen Group.

A statement of the movements in this plan for the period 1 April 2020 to 31 March 2021 follows.

| | £ | £ |
|--|-------------|--------------------|
| Opening net asset value at 1 April 2020 | | 19,065,612 |
| Income | | |
| Normal contributions | 547,050 | |
| Special contributions | 84,000 | |
| Transfer values | 0 | |
| Total income | | 631,050 |
| Expenditure | | |
| Retirements | (456,052) | |
| Transfer out | (1,286,392) | |
| Death benefits | (163,515) | |
| Total expenditure | | (1,905,959) |
| Changes in market value of investments | | 3,705,289 |
| Net Assets at 31 March 2021 | | |
| Investments held in insurance policies with abrdn (formerly Standard Life Aberdeen PLC) | | 21,495,992 |

1.15 Further information

Any enquiries about the NHSPSS should be addressed to:

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



David Robb
Accountable Officer

21 December 2021

2. Report of the Scheme's Actuary

Introduction

2.1 This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Scottish Public Pensions Agency (SPPA). It provides a summary of GAD's assessment of the scheme liability in respect of the National Health Service Pension Scheme (Scotland) (NHSS) as at 31 March 2021, and the movement in the scheme liability over the year 2020-21, prepared in accordance with the requirements of Chapter 9 of the 2020-21 version of the Financial Reporting Manual.

2.2 The NHSS 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 2021.

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 thousands | Total pensionable pay* (p.a.) £ m |
|----------------|---------------------|--------------------------------------|
| Males | 36.5 | 1,447 |
| Females | 140.6 | 3,522 |
| Total | 177.1 | 4,969 |

* Pensionable pay is the Actual figure.

Table B – Deferred members

| | Number thousands | Total deferred pension* (p.a.) £ m |
|----------------|---------------------|---------------------------------------|
| Males | 11.7 | 36.0 |
| Females | 40.4 | 93.8 |
| Total | 52.1 | 129.8 |

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

Table C – Pensions in payment

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

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

Methodology

2.5 The present value of the liabilities as at 31 March 2021 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 2021. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2021 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 2020 in the 2019-20 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 2021 | 31 March 2020 |
|--|---------------|---------------|
| | p.a. | p.a. |
| Nominal discount rate | 1.25% | 1.80% |
| Rate of increase in pensions in payment and deferred pensions (assuming CPI inflation) | 2.22% | 2.35% |
| Rate of general pay increases | 3.72% | 4.10% |
| Rate of short-term general pay increase | n/a | n/a |
| Real discount rate in excess of: | | |
| • CPI inflation | (0.95%) | (0.5%) |
| • Long-term pay increases | (2.38%) | (2.20%) |
| 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 2021.

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

2.10 These assumptions 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 2020.

2.11 Mortality improvements are assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019. This is the same assumption as that used for the 2019-20 accounts.

2.12 The other demographic assumptions, such as for commutation and family statistics, are unchanged from the 2019-20 accounts.

Liabilities

2.13 Table F summarises the assessed value as at 31 March 2021 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 12. The corresponding figures for the previous year are shown for comparison. The liabilities at 31 March 2020 and 2021 both include an allowance for the higher cost of benefits accruing under McCloud.

Table F – Statement of Financial Position

| | 31 March 2021 £ billion | 31 March 2020 £ billion |
|--|--|--|
| Total market value of assets | Nil | Nil |
| Value of liabilities | 86.9 | 76.6 |
| Surplus/(Deficit) | (86.9) | (76.6) |
| of which recoverable by employers | n/a | n/a |

Accruing costs

2.14 The cost of benefits accrued in the year ended 31 March 2021 (the current service cost) is assessed as 64.9% of pensionable pay.

2.15 For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members contributed between 5.2% and 14.7% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2020-21 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2020-21 accounts.

Table G – Contribution rate

| | 2020-21 % of pay | 2019-20 % of pay |
|---|-----------------------------|-----------------------------|
| Employer contributions | 20.9% | 20.9% |
| Employee contributions (average) | 9.5% | 9.6% |
| Total contributions | 30.4% | 30.5% |
| Current service cost (expressed as a % of pay) | 64.9% | 48.3% |

2.16 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 and the assumption for future improvements in life expectancy has been updated. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

2.17 The pensionable payroll for the financial year 2020-21 was £6.0 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2020-21 (at 64.9% of pay) is assessed to be £3.9 billion. This includes an allowance for the higher cost of benefits accruing over the year under McCloud.

2.18 Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. I am not aware of any other events that have led to a material past service cost over 2020-21.

2.19 I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2020-21.

Sensitivity analysis

2.20 The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2021 of changes to the most significant actuarial assumptions.

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

2.22 Table H shows the indicative effects on the total liability as at 31 March 2021 of changes to these assumptions (rounded to the nearest 0.5%).

Table H – Sensitivity analysis for each significant actuarial assumption as at the end of the reporting period

| Change in assumption | Approximate effect on total liability | | |
|--|---------------------------------------|---------|-----------------|
| Financial assumptions | | | |
| (i) discount rate*: | +0.5% p.a. | - 11.5% | - £10.0 billion |
| (ii) (long-term) earnings increase*: | +0.5% p.a. | + 2.0% | + £1.7 billion |
| (iii) pension increases*: | +0.5% p.a. | + 8.5% | + £7.4 billion |
| Demographic assumptions | | | |
| (iv) additional 1 year increase in life expectancy at retirement | | + 4.0% | + £3.5 billion |

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

COVID-19 implications

2.23 As with the accounts last year, the 2020-21 Resource Accounts are being produced when the UK continues to deal 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.

2.24 The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2020) 12 Revised, dated 18 December 2020, 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.

2.25 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 assumption allows for a reduction in our view of the long-term salary increases as well as lower short-term forecasts from the Office for Budget Responsibility.

2.26 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 remains too early 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.

A handwritten signature in black ink that reads "George Russell". The signature is written in a cursive style and is positioned above a solid horizontal line.

**George Russell FIA
Chief Actuary (Scotland & Northern Ireland)
Government Actuary's Department**

17 December 2021

3. Statement of Accountable Officer's Responsibilities

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

The financial statements must give a true and fair view of the state of affairs of the Scheme at the year end and of the net resource outturn and cash flow for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them. In addition, the financial statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

In preparing the financial statements, the Accountable Officer is required to comply with the UK Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction at page 65 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 UK 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 interim Chief Executive of the Scottish Public Pensions Agency as Accountable Officer for the NHS Pension Scheme (Scotland). The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the assets of the Pension Scheme are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer published in the Scottish Public Finance Manual.

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

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

4. Governance Statement

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

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

4.1 Scope of Responsibility

The Scottish Ministers appointed David Robb, the interim Chief Executive of the Scottish Public Pensions Agency, as Accountable Officer for the NHS Pension Scheme (Scotland) with effect from April 2021.

From 1 April 2020 to November 2020 Penelope Cooper held the position of Accountable Officer and Chief Executive of SPPA. Penelope left her position as Chief Executive to take up a position as Director of Covid-19 Outbreak Management within Scottish Government. Matt Valente was appointed Chief Executive and Accountable Officer on an interim basis, a position Matt held at year-end. Due to a long-term absence, Matt was replaced as interim Chief Executive by David Robb in April 2021. As Accountable Officer, David 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 David is personally responsible in accordance with the responsibilities assigned to him.

David has taken assurance from certificates of assurance issued by Penelope Cooper; Scottish Government (SG) Chief Finance Officer; SG Director for People; SG Digital Director and each member of SPPA's senior leadership team.

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.

4.2 The Governance Framework

The governance framework is designed to ensure that the Agency complies with the highest standards of integrity 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.

Over the period of these accounts until the date of signing, the corporate governance systems operated as set out in this Governance Statement

4.3 The Agency’s Framework Document

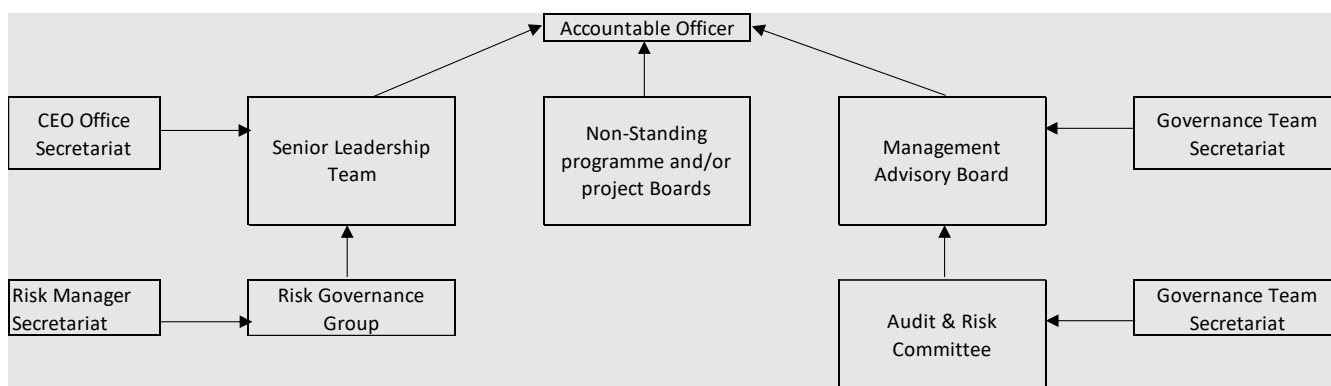
The Framework Document represents an agreement between the SPPA and Scottish Ministers that lays out the relationship in terms of the respective roles and responsibilities for carrying out our functions. It forms the basis for our five-year Strategic Plan that underpins our Vision in practical ways. In terms of governance, the Regulatory Affairs department 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 culture. 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, performance management measures and resources framework within which we operate.

The Agency’s Framework Document has been refreshed in terms of its content and presentation and on 26 July 2021 was signed off by Tom Arthur MSP, Minister for Public Finance, Planning and Community Wealth.

4.4 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.



4.5 Enhanced governance and assurance controls specific to NHS Pensions

In line with legal requirements effective from April 2015, the NHSPSS has robust governance arrangements in place to oversee the compliance of pension scheme administration.

A schematic for pension scheme governance is provided on the Agency's website [here](#).

4.6 Scheme Advisory Board and Pension Board

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 Scotland's NHS, Teachers', Police and Firefighters' pension schemes, as delegated by Scottish Ministers.

It should be noted, though, that from a financial perspective for the Police and Firefighters' schemes, 'administration' includes the provision of financial services but not contribution collection, preparation of annual accounts or budgets, or Accountable Officer responsibility.

4.6.1 The Scheme Advisory Board for the NHSSPS provides advice to Scottish Ministers on a broad range of policy matters relating to the pension scheme. The board is chaired by joint arrangement with a chair drawn from the existing staff-side and scheme employer representatives. The board has 8 member representatives, 4 employer representatives and representatives from the Scottish Government.

The current members are:

| Board Member | Membership Type | Meetings Attended | Out of a Possible |
|------------------------------------|------------------|-------------------|-------------------|
| Derek Lindsay | Chair (employer) | 4 | 4 |
| Alan Robertson | Member | 4 | 4 |
| Graham Pirie | Member | 4 | 4 |
| Jackie Mitchell | Member | 4 | 4 |
| Jane Christie-Flight | Member | 4 | 4 |
| Lorraine Hunter | Employer | 4 | 4 |
| Philip McEvoy | Member | 2 | 4 |
| Robin McNaught | Employer | 2 | 3 |
| Rosaleen Shaw | Member | 3 | 4 |
| Willie Duffy | Member | 4 | 4 |
| Kay Sandilands (joined 11/3/21) | Employer | 1 | 1 |
| Andrew Carter (joined 11/3/21) | Employer | 1 | 1 |

Member biographies and the board's terms of reference may be found [here](#).

4.6.2 Pension Board for the scheme was established in 2015 to assist the scheme manager in securing compliance with the scheme regulations and the requirements set by The Pension Regulator. The board has an equal number of employer representatives and member representatives. They may also include independent experts.

The current members are:

| Board Member | Membership Type | Meetings Attended | Out of a Possible |
|------------------------------|------------------------|-------------------|-------------------|
| Brian Barbour | Independent Chair | 6 | 6 |
| Mark Cook | Independent Vice Chair | 5 | 6 |
| Clare Pullar (joined 1/6/20) | Employer | 4 | 6 |
| Craig Black | Employer | 6 | 6 |
| Kay Sandilands | Employer | 4 | 6 |
| Gordon McKay | Member | 3 | 6 |
| David McColl | Member | 6 | 6 |
| Tom Wilson (joined 1/7/20) | Member | 4 | 6 |
| Graeme Eunson | Member | 6 | 6 |

The employer representative vacancy has been vacant for more than a year and is being discussed with Board members to seek a replacement nomination.

Member biographies and the board's terms of reference may be found [here](#).

4.6.3 [Terms of reference](#) for the Pension Board as revised and accepted by the board in October 2020, are published on our website. The document includes an outline of roles and responsibilities of board members.

4.6.4 Matters of business undertaken by the Pension Board

The Pension Board has published its report of the year, which may be found [here](#).

- Throughout the year, the Pension Board supported the Agency's plans to adapt to revised ways of working, enforced by the pandemic.
- Service to members was monitored at each of its meetings, held as virtual meetings rather than in person. SPPA was asked to develop a plan to move to a full business as usual service as quickly as possible.
- In monitoring customer satisfaction scores, a reduction to 64% was recorded in the year. The two main negative trends noted were reduction of the telephony service and customers not being able to access estimates. Positive feedback had been recorded in respect of the service received and helpfulness of colleagues.
- The Board noted its disappointment in respect of the difficulties encountered in delivering annual benefit statements and the subsequent report to The Pensions Regulator (see 4.6.6 below). The Board was satisfied with the subsequent action taken to ensure the problem did not recur.
- Major improvements to the administration system, however the Board will continue to press for investment in self-service functionality to allow members to access services out with standard business hours.
- The Board, in line with regulator expectations, continues to play its part in Risk Management, discussing risks, constructively challenging the risk assessments and actions at each of its quarterly meetings

4.6.5 Training undertaken by board members included training with:

- The Pension Regulator in October 2020 and
- Government Actuary's Department in December 2020.

4.6.6 Referral to The Pensions Regulator (TPR)

- In line with the TPR Code of Practice No 14, SPPA submits reports to TPR where material breaches of law occur.
- In September 2020 a breach of law report was submitted to report the failure of providing an Annual Benefit Statement to 100% of all eligible members
- In respect of our NHS Schemes, TPR subsequently contacted us in November 2020 requesting an update on our recovery efforts and progress towards addressing the breach. Following another update from SPPA, TPR confirmed they would be taking no action in respect of the breach
- In March 2021 we reported a further breach to TPR in respect of NHS Practitioner Funding. TPR acknowledged receipt with no further information being requested.
- Our Pension Board continues to be routinely engaged on any breaches which occur, which includes discussions on materiality assessments

4.7 Corporate Governance Management Arrangement Changes

4.7.1 Senior Leadership Team

As referenced on page 22, changes of CEO led to an interim structure being implemented during the year for the senior leadership team (SLT) and at year-end a number of the team remained interim.

The interim SLT structure (as below) will continue until the appointment of a permanent Chief Executive in 2021-22 at which point it will be reviewed:

- **Matt Valente:** Interim Chief Executive (David Robb – with effect from 26 April 2021)
- **Garry Cossar:** Interim Head of Colleague Experience
- **Paplu (Dev) Dey:** Head of Customer Services
- **Rachel Miller:** Interim Head of Operational Excellence
- **Andre Morelli:** Head of Digital Transformation and IT Operations.
- **Karen Morley:** Head of Finance, Procurement and Risk (with effect from 1 February 2021)
- **Tom Nash:** Head of Regulatory Affairs (left 23 August 2021)
- **Ian Waugh:** Chief Financial Officer (retired 5 April 2021).

SLT meetings are held several times weekly and are focussed on key, short-term deliverables and actions based around people, process, performance and customers. Additionally, a monthly meeting of the team focuses on strategic planning of priorities.

Full biographies of the SPPA SLT can be found on our website.

<https://pensions.gov.scot/about-us/our-senior-leadership-team>

4.7.2 Management Advisory Board

There were no changes to Management Advisory Board members during the year. There is a gender balance on the 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'. Board members are appointed to act in an advisory capacity to the SPPA's Accountable Officer and Chief Executive and are, therefore, neither personally nor 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 with approval agreed at the January 2021 meeting.

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

- Considering the content of the Agency's 2020-21 Strategic Planning update and the aims and objectives within
- Receiving updates on the Agency's operational response to Covid
- Receiving reports from the (interim) Chief Executive on the Agency's progress in achieving key tasks and meeting performance indicators.

- Receiving reports on the work of the Audit and Risk Committee and contributing towards recommending mitigations to the risks assessed in the Agency's risk register.
- Considering financial statements such as the Agency's Annual Report and Accounts and those of the NHS Scotland and Scottish Teachers' Pension Schemes.
- Receiving quarterly financial and budgetary updates from the Chief Financial Officer.
- Receiving regular updates on projects including the Pension Platform Programme, NHS Practitioners Funding, Annual Pension Increase and Annual Benefit Statements

The Management Advisory Board members are:

- Mark Adderley
- Ian Forbes
- Liz Holmes
- Helen Mackenzie
- Jane Malcolm
- Norman McNeil
- Gordon Wales (Chief Financial Officer Scottish Government until July 2020)
- Lesley Fraser (Director General: Corporate for the Scottish Government), with effect from July 2020

Biographies and meeting minutes are on the SPPA website here:

<https://pensions.gov.scot/about-us/management-advisory-board>

4.7.3 Audit and Risk Committee

The Management Advisory Board is supported by an Audit and Risk Committee which comprises three of the Management Advisory Board members. During the year, it met on five occasions (once less than Management Advisory Board due to an extraordinary meeting of the board to discuss the Covid-19 operational response). The Committee's work has included:

- Receiving updates and reports from senior managers.
- Provide assurance in an annual report to the Accountable Officer and Management Advisory Board.
- Directing the work of and receiving progress reports from Internal Audit.
- Reviewing Audit Scotland's Annual Audit Plan and reports where appropriate, which includes an Audit Scotland Interim Management Letter and Annual Audit Report including an ISA 260 report.
- Reviewing the Agency's budget and out-turn position alongside financial performance against key metrics.
- Reviewing the Agency's Annual Report and Accounts and Scottish Teachers' Pension Scheme and NHS Pension Scheme Scotland's Annual Report and Accounts.
- Receiving a quarterly Risk Management update for review and discussion including the implementation of the Risk Management Framework, risk registers, third party reports, tracking of audit recommendations and reports focussing proposed levels of escalation for business continuity and incident management

purposes; changes to the bereavement process and matters pertaining specifically to responding to the Covid 19 pandemic.

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

4.8 SPPA Policy and Governance

The SPPA Policy team also acted as the key policy adviser and custodian of scheme regulations for the four schemes we administer nationally (including NHSPSS) and for the locally managed Local Government Pension Scheme (LGPS).

During the year SPPA policy officials:

- Participated in and provided general and technical pensions policy advice to the tri-partite Scheme Advisory Boards for the Police, Firefighters', NHS and Teachers' Scheme Advisory Boards and in the case of the Police and Firefighters' Scheme Advisory Boards provided the Chair at meetings.
- Represented the Scottish Government as observers on and provided general and technical pensions policy advice to the bi-partite LGPS Scheme Advisory Board.
- Provided general policy advice to Scottish Ministers and support to officials on a range of pension-related matters.
- Participated in HM Treasury-led working and steering groups established to develop remedy proposals to remove the age discrimination in pension scheme reforms
- Supported Scottish Ministers' introduction of the coronavirus life assurance scheme providing cover for health service and social care workers.
- On behalf of Scottish Ministers, determined appeals from scheme members under the single stage internal disputes resolution procedure for the four unfunded schemes, and the second stage appeals for local government schemes.

During the year SPPA governance team officials:

- Supported Scotland's statutory NHS, Teachers', Police and Firefighters' Pension Boards which assist the Scheme Manager of those schemes in securing compliance with regulatory requirements.
- Provided secretariat services to and attended the NHS, Teachers', Police and Firefighters' Pension Boards.

4.9 Project Management

The Agency has delivered several projects of work during the financial year. These include the production of Annual Benefit Statements; the Annual Pension Increase; upgrades to our Pension Administration system, Altair; and capital investment projects, such as the installation of electric car charging points at our premises in Tweedbank.

As Scheme Manager, the SPPA has responsibility for issuing the Annual Benefit Statements (ABS) to members. The deadline for this is 31 August each year but in 2020 the deadline was missed. In the case of the NHS and Teachers schemes, members ABS were discovered to contain an unacceptable number of errors and were removed from the online portal (corrected and reissued by the end of October 2020). All relevant stakeholders were informed of these delays and The Pensions Regulator accepted our revised plans. Following a review of the 2020 ABS process we are comfortable we understand the issues that led to these delays and have taken positive steps to address them.

At 31 March 2021, as a result of the interim senior leadership team structure (refer to section 4.7.1), management of all SPPA projects, including ABS, now sit under a new project management team within the Operational Excellence department. The alignment of this function within a specific team will improve the overall support, coherence and governance of SPPA projects moving forward.

4.10 Pension Platform Programme

In 2018 a programme of work to replace the SPPA pension administration platform was terminated. The reasons behind this were detailed in an Audit Scotland report and subsequently reviewed at a Public Audit and Post-legislative Scrutiny Committee (PAPLS) enquiry in October 2019. Closure of the project resulted in the SPPA having to agree to a contract variation with the incumbent suppliers (Aquila Heywood) which expires in March 2026.

To ensure service continuity beyond that point, the SPPA Pension Platform Programme commenced in June 2020 and was predicated on the assumption of proceeding with a competitive procurement exercise to replace the current aging system and set the Agency up for success in a rapidly changing world of technological advancement and customer expectation. That approach was recommended by the SPPA Strategic Architecture Review (undertaken in 2020) and is also required by the Procurement Reform (Scotland) Act 2014

The SPPA subsequently went out to market on the 27th August, 2020 with the publication of a Prior Information Notice and to date, multiple vendors have expressed their interest.

During further analysis of the market, it has become apparent that, in order to achieve the strategic & digital aims of the Agency and Scottish Government, a more transformative approach should be considered.

From a governance and oversight perspective, the key governance activities of the programme are managed through:

- The Programme Board – which meets monthly and is attended by SPPA senior leadership team, commercial, assurance and technical representatives of Scottish Government, external and colleague representatives. Lesley Fraser is the programme sponsor; interim Chief Executive David Robb is the senior responsible owner (SRO) and Norman McNeil attends as a ‘critical friend’.
- Programme Integrated Assurance and Approval Plan - (IAAP) which is designed to ensure that appropriate assurance activities are effectively planned, scheduled, coordinated and that resources are secured in advance and covers the whole programme scope, i.e. all digital and non-digital elements.

In addition to the above, the programme also provides regular updates to the SPPA Senior Leadership Team, Management Advisory Board, Audit and Risk Committee and the Pension Boards.

4.11 Data Assurance

An undertaking to report ‘serious’ breaches to the Scottish Government’s Data Protection and Information Assets Team 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 within an end of year report, even if escalation to the Scottish Government is not warranted under the Memorandum.

During 2020-21, 28 low risk personal data breaches across all schemes were reported internally to the SPPA Data Protection Officer - a decrease of four on 2019-20. No breach related to the NHSPSS was categorised as reportable to the Information Commissioner’s Office on the basis that it would likely cause distress to individuals and/or reputational damage.

Continued data protection awareness amongst colleagues enables mistakes to be monitored, understood and rectified. A step-by-step guide to handling breaches is available on SPPA’s internal 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.

Our last ‘Cyber Essentials’ accreditation was in February 2020 with re-accreditation in April 2021. The accreditation process helps organisations demonstrate a baseline of security standards that mitigate the risk of data losses and breaches. Resilience actions are being aligned to the Scottish Government’s Cyber Resilient Scotland: strategic framework launched during Q4 2020-21.

4.12 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 May 2021 demonstrated we had achieved a steady state.

4.13 Business Continuity

A hardcopy version of the comprehensive Business Continuity Plan is held off-site by all Heads of Departments and by members of the disaster recovery team. Key findings are fed back to the senior leadership team and changes are made to the plan in the light of lessons learned.

Each year SPPA undertakes tests of Business Continuity. During the reporting period, two such exercises followed the National Cyber Security Centre's Exercise in a Box format covering the subjects of insider threat and malware infection. A further exercise looked at the response to a scenario concerning a positive case of COVID-19 within the SPPA workplace.

From March 2020 to May 2020, SPPA's response to Covid-19 was co-ordinated by the successful implementation of the Operational (Bronze), Tactical (Silver) and Strategic (Gold) incident management structure. The Agency enabled productive remote working at short notice whilst implementing safe on-site working practices for Mailroom and Facilities functions. There have been no reported cases of Covid-19 within the SPPA building since the outbreak of the pandemic.

4.14 Risk Management and Internal Controls

SPPA risk management has undergone a thorough review in 2020-21. A new Risk Management Framework was presented to the Audit and Risk Committee in May 2020. The Framework uses Scottish Government best practice and tools to enable us to focus on three levels of risk; Strategic, Programme and Operational, each supported by risk registers and processes that enable information to flow between areas.

While embedded and established in the strategic and programme realm, we are still iterating the operational risk reporting processes that cascade through the agency.

A key part of this has been to develop the scheme risk registers, to aid the monitoring and management of risks specific to the NHSS pension schemes, and facilitating scrutiny, challenge and support from the Pensions Board.

At a strategic level risk discussions are supported by risk cards documenting, among other elements, the impact, likelihood, mitigations and key milestones/ dependencies. These inform the regular senior leadership team discussions and when requested provide detail for discussions around the strategic risks at Management Advisory Board and Audit and Risk Committee.

SPPA recognise they have managed risk to enable effective operational delivery but there is scope to improve and develop a more mature and universal risk culture in the

agency. A theme throughout the current phase of risk management development is leveraging the learning, processes and culture that allow some teams in SPPA to deliver above average results and embed these throughout SPPA.

4.14.1 Strategic Risk Register Risks

The Agency's highest rated risks retain the same titles as 2019-20 but have evolved with the external environment and the Agency's skilled resources; they largely reflect the delayed updating of the Agency's IT systems.

Security, Cyber – A full year of home working and all the distractions and infrastructure changes this has presented, this risk has been ever present in SPPA decisions.

Following a high-profile cyber-attack on another Government body we have continued the Agency's regular internal communications and training and are regularly reviewing first and second line defences to reduce the Agency's exposure. The Agency's annual actions, accreditations and mitigations have managed this risk for 2020-21 successfully but in reviewing the risks for 2021-22 it is reasonable to assume security will remain a top risk in some form.

Data Quality – We are reliant on employers' submissions for the Agency's incoming data quality and last year at the start of COVID we were concerned for the pipeline of information. The mitigations we installed have successfully managed this risk from having operational impact and we are reviewing if it remains a high concern for 2021-22.

Business Intelligence – Being a key area of focus the interim directorate of Operational Excellence was established and includes a new team of business intelligence analysts, among others. Operational Excellence has made great strides in improving the quality and detail of data available.

Further recruitment is imminent and the Agency's senior leadership team are currently sharpening the definitions of management information required, tools available and drawing insights from the regular data provided. The risk scores for this area have reduced over the year but remain higher than the target due to the mentioned lack of infrastructure to support delivery. The risks facing SPPA in 2021-22 assume improving the Agency's internal consumption and organisation of data will remain a key lever to SPPA.

Fraud - there were two instances of fraud identified and reported during the year of which one incurred a loss of £3,634.88, one incurred no financial loss. Both instances stemmed from NHSS pensioners being victims of identity thefts which allowed the fraudster to exploit a weakness in the operational controls associated with data requests submitted via the MyPension portal. The Police were notified of both cases of identity theft and crime numbers allocated to the individuals. Internal controls have been reviewed and steps taken to address the vulnerability highlighted.

4.14.2 Areas for enhanced development

Maturity and distribution of Risk Management skills – While not a new concept, the prominence of risk as a topic of discussion involving every colleague is an evolution, as such we are actively developing regular internal communications and discussing with Scottish Government Risk and Governance team the training options available in order to build confidence. Key individuals lead by example, demonstrating excellent risk management skills and behaviours to the wider SPPA.

Business Planning – A revised Strategic Business Plan was prepared for 2020-21. Although this was not published due to diverting resource to respond at pace to the pandemic, it acted to underpin priorities and targets. We have learnt from this and by the end of quarter 1 of 2021-2022 had directorate plans and individual performance objectives confirmed.

Internal Financial monitoring and budgeting – The formal process of internal interaction with the Finance directorate was not reinforced in the agency until quarter 4 of 2020-21. The previous situation allows scope to improve with 2021-22 budget plans delivered and a lead from senior leadership team focussed on establishing appropriate financial instructions. Adjacent to this is the understanding of relevant financial controls, such as those surrounding special payments, and a top-down discussion with budget holders to reinforce financial management is part of their responsibility.

Controls – an aspect of the Risk Management Framework SPPA have planned for 2021-22 is the evidencing and documenting of evolved controls; currently the robustness of evidence to review and improve controls is insufficient. We use risk cards to great effect at a strategic level but this recording of discussion and decisions relating to risks is not routine throughout the Agency.

4.14.3 Programmes of Change

While the risks related to the Agency's Pension Platform Programme and the forthcoming 2015 Remedy work following the McCloud/Sargeant legal case are not of a strategic or operational nature the requirements they place upon the agency will be substantial. Each has a separate project team focusing on ensuring we have the right people in the right places at the right times with detailed risk, issues, assurances, and dependencies recorded and reviewed regularly.

4.14.4 General Practitioner Pension Contributions

As a result of a reconciliation process carried out during 2019-20, a discrepancy was identified in which a number of General Practitioner pension contributions were incorrectly calculated by a number of employers. On further examination an incorrect tiered rate was applied to salaries where it was subsequently found that a member was engaged in more than one employment during the financial year. The earliest example of an error relates back to a period in which tiered rates replaced a single fixed rate. The Agency has established a project focusing on how it will implement appropriate corrections and manage the impact. Priority is being given to members due to retire within one year or with the largest discrepancy. The Agency is currently working with NHS employers, the British Medical Association and Scottish Government in addressing this issue.

4.14.5 Reviewing Systems

The Agency's Management Advisory Board and Audit and Risk Committee with the respective Pension Boards ensure we are focussed on the Agency's customers' needs and demonstrate good governance. Major proposals are scrutinised by Management Advisory Board and Audit and Risk Committee whilst the Pension Boards assist us in the Agency's scheme manager activities. They act as a critical friend when developing plans and help us to present relevant information clearly.

We work closely with Audit Scotland and SGs Directorate of Internal Audit and Assurance (IAAD) throughout the year on several reviews and reports. This push to explain systems and decisions to an independent external party can surface controls we have considered but not documented and enable us to prioritise the development of the structure of the Agency's processes.

4.15 Audit

4.15.1 Internal Audit

In 2020-2021 Internal Audit and Assurance Directorate produced the following reports with the SPPA:

- Assurance Reviews:
 - Contract Management – Reasonable assurance
 - Customer Complaints – Reasonable assurance
 - Financial Governance – Reasonable assurance
- Advisory Support:
 - Pensions Platform Programme
 - Risk Management
- Follow Up Reviews
 - Workforce planning: IT
 - Overtime
 - Data Quality and Management Information
 - Accounts Payable Phase Two – Final Report
 - Teachers Retirals

Historically the SPPA have accepted every recommendation made by Internal Audit and struggled to respond showing evidence of implementation due to resourcing, in turn leading to a backlog of open recommendations. By the end of quarter 1 2021-22 this has been significantly reduced.

IAAD's annual assurance report for 2020-21 gave an overall assurance rating of Limited for the year, meaning controls are developing but weak. Despite no individual audits receiving limited assurance, the rating took account of a number of wider factors relating to risk management, control and governance arrangements.

4.15.2 External Audit

We received no exceptional reports from our External Auditors (Audit Scotland). Their Annual Audit Report following audit of the 2019-20 Pension Scheme Accounts was received and included 5 recommendations plus one brought forward from 2018/19.

1. Altair access rights – focuses on ensuring only current employees have access to the pensions administration and payroll system.
 - System controls have been implemented and are supported by additional management controls restricting access to current employees only.

2. Review of exception reports – focuses on ensuring checks on exception reports arising from the reconciliation of pensions administration and payroll data are formally evidenced.
 - Improvements to the way in which exception reports are analysed and evidenced have been introduced and will be subject to review in Q4 of 2021-22.
3. Bank reconciliations review – focuses on ensuring evidence is retained to confirm bank reconciliations have been reviewed.
 - Improved controls have been implemented and evidenced as working effectively.
4. Governance statement disclosures - STPS and NHSPSS should ensure their annual governance statements better reflect significant risk-related issues arising during the year.
 - Improvements have been implemented and further work will continue to develop the appropriate disclosures for 2021-22.
5. Annual benefits statements – ensure the issue is rectified so that it can issue accurate, timely annual benefits statements to all members.
 - Improvements implemented have seen an increase in performance, delivering 97.73% of statements to NHSPSS members by the due date in 2021.
6. Quality of data for actuarial valuation - ensuring planned work to improve valuation data quality is completed before the next actuarial valuation gets underway.

4.16 Reliance on Experts

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

4.17 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. Output from events is compiled and communicated to colleagues through formal and informal communication channels and minutes of the Management Advisory Board, Audit and Risk Committee and Pension Boards are uploaded onto the SPPA website (<https://pensions.gov.scot/>) for transparency.

The Agency uses a range of mechanisms to obtain feedback from its customers and stakeholders; this includes from our Pension Boards which have member and employer representatives, targeted groups (such as the British Medical Association Scotland), desk-top research and complaint feedback. Together, all this information provides event driven feedback on services and service levels provided and is utilised by departments to look at opportunities to improve service delivery.

4.18 Written assurances provided to the Chief Executive

The interim Chief Executive has received detailed statements of the current position from all Heads of Department regarding the operation and effectiveness of internal controls in the areas for which they are responsible. Additionally, the interim Chief Executive has received assurance from the previous Chief Executive and the Scottish Government's Director General Corporate in respect of the Scottish Government's human resources, payroll and financial systems that are shared with the Agency.



David Robb
Accountable Officer

21 December 2021

Parliamentary Accountability Disclosures and Audit Report

5. Statement of Outturn against Parliamentary Supply (this section is subject to audit)

In addition to the primary statements prepared under International Financial reporting Standards (IFRS), the UK Government Financial Reporting Manual (FRoM) requires the Scheme to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Report of the 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 Detail by Estimate line, providing a more detailed breakdown (note 5.2): a reconciliation of net resource outturn to net operating expenditure in the SoCNE, to tie the SOPS to the financial statements (note 5.3): a reconciliation of net resource outturn to net cash requirement (note 5.4): and, an analysis of income payable to the Consolidated Fund (note 5.5).

5.1 SOPS Summary of resource outturn 2020-21

All figures presented in £000's

| Annually Managed Expenditure (AME) | SoPS note | Outturn | | | Estimate | | | Outturn vs Estimate, Saving / (Excess) | | Prior Year Out-turn |
|------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|--|---------|---------------------|
| | | Voted | Non-Voted | Total | Voted | Non-Voted | Total | Voted | Total | |
| Budgeted Resources | 5.2 | 3,495,700 | 0 | 3,495,700 | 3,494,600 | 0 | 3,494,600 | 0 | (1,100) | 2,723,200 |
| Total Resources | | 3,495,700 | 0 | 3,495,700 | 3,494,600 | 0 | 3,494,600 | 0 | (1,100) | 2,723,200 |

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

Explanations of variances between Estimate and outturn are given in 2 SoPS and 3 SoPS.

Net Cash requirement 2020-21

All figures presented in £000's

| | SoPS Note | Outturn | Estimate | Outturn vs Estimate, Saving / (Excess) | Prior Year Outturn 2019-20 |
|-----------------------------|------------|----------|----------|--|----------------------------|
| Net cash requirement | 5.4 | 0 | 0 | 0 | 0 |
| | | | | | |

Administration Costs 2020-21

All figures presented in £000's

| | | Outturn | Estimate | Outturn vs Estimate, Saving / (Excess) | Prior Year Outturn 2019-20 |
|-----------------------------|--|----------|----------|--|----------------------------|
| Administration costs | | 0 | 0 | 0 | 0 |
| | | | | | |

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control. Explanations of variances between Estimate and outturn are given in 5.2 SoPS and 5.3 SoPS.

5.2 SOPS Outturn Detail by Estimate Line

All figures presented in £000's

| Annually Managed Expenditure (AME) | Resource outturn | | | | Estimate | Outturn vs Estimate, saving/ (excess) | Prior Year Outturn |
|------------------------------------|------------------|--------------------|------------------|------------------|------------------|---------------------------------------|--------------------|
| | Programme | | | | | | |
| | Gross | Income | Net | Total | Total | | |
| Voted Expenditure | 5,377,400 | (1,881,700) | 3,495,700 | 3,495,700 | 3,494,600 | (1,100) | 2,723,200 |
| Total Resource | 5,377,400 | (1,881,700) | 3,495,700 | 3,495,700 | 3,494,600 | (1,100) | 2,723,200 |

Explanation of the variance between Resource Estimate and Outturn:

The outturn is greater than the Estimate by £1.1 million and is mainly due to:

- the backdating to December 2020 of the NHS Scotland Agenda for Change staff 2021/22 pay award
- addressing the practitioner pension contributions under and over payments issue (see section 4.16).

Accrued resources for the NHSPSS and Scottish Teachers' Pension Scheme are covered by one limit in the Budget (Scotland) Act 2020. In 2020-21 the combined accrued resources of £5,181.0 million fell within the combined limit of £5,229.2 million. Refer also to the Report of the Managers on pages 2 to 14.

5.3 SOPS Reconciliation of net resource outturn to net operating expenditure

All figures presented in £000's

| | Reference | Resource Outturn | Prior Year Outturn 2019-20 |
|--|---------------|------------------|----------------------------|
| Total Resource outturn | SOPS note 5.2 | 3,495,700 | 2,723,200 |
| Less: Income paid/payable to the Consolidated Fund | | 0 | 0 |
| Net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure | SOCNE | 3,495,700 | 2,723,200 |

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.

5.4 SOPS Reconciliation of net resource outturn to net cash requirement

| | Reference | Resource Outturn £000's | Estimate £000's | Outturn vs Estimate, Saving/(excess) £000's |
|--|---------------------|-------------------------------|--------------------|--|
| Total Resource outturn | SoPS note 5.2 | 3,495,700 | 3,494,600 | (1,100) |
| Accruals to cash adjustments: | | | | |
| Non-cash items | | 5,368,700 | 5,310,800 | 57,900 |
| Movement in working balances | | (23,700) | 0 | (23,700) |
| Use of Provisions: | | | | |
| Adjustment to reflect movement in premature retirement provision | Note 13 | (3,000) | 0 | (3,000) |
| Adjustment to reflect movements in in scheme liability: benefits payable and pension payments to and on account of leavers | Notes 11.3 and 11.4 | (1,494,500) | (1,606,850) | 112,350 |
| Total | | 3,847,500 | 3,703,950 | 143,550 |
| Funding (to) the Scottish Consolidated Fund | | (351,800) | (209,350) | (142,450) |
| Net cash requirement | | 0 | 0 | 0 |

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

5.5 SOPS Amounts of income payable to the Scottish Consolidated Fund

The cash requirement for the NHSPSS is part of the overall cash authorisations of the Scottish Government in the Budget (Scotland) Act 2020. In the year to 31 March 2021 cash receipts in excess of budget (unapplied income) of £351.8 m were payable to the Scottish Consolidated Fund.

6. Losses and special payments**Losses Statement**

| | 2020-21 | 2019-20 |
|---------------------------------|---------|---------|
| Total number of losses | 906 | 456 |
| Total value of losses (£'000's) | 52 | 20 |

£31,886.00 related to cases that were below the de minimis for recovery (£100.00).
£19,630 related to cases that were not economical to recover (in accordance with the SPFM).

The increased volume of write offs was due to addressing a backlog of work that accrued while transitioning to a new systems and adopting new functionality.

Special Payments Statement

No special payments were made during the year 2020-21 (Nil 2019-20)

There were no individual losses or special payments greater than £300,000.

7. 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 NHS Pension Scheme (Scotland) for the year ended 31 March 2021 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Changes in Taxpayers' Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 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 2021 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 2020/21 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 5th of March 2020. The period of total uninterrupted appointment is two years. I am independent of the scheme in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the scheme. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of 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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the scheme is complying with that framework;
- identifying which laws and regulations are significant in the context of the scheme;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the scheme's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

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.

Reporting 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. In addition to my responsibilities to detect material misstatements in the financial statements in respect of irregularities, 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.

Reporting on other requirements

Statutory other information

The Accountable Officer is responsible for the statutory other information in the annual report and accounts. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this statutory other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except on the Report of the Scheme's Managers and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Report of the Scheme's Managers and Governance Statement

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Gemma Diamond

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

21 December 2021

Financial Statements

Statement of Comprehensive Net Expenditure
for the year ended 31 March 2021

| | Note | 2020-21 £m | 2019-20 £m |
|--|------|-----------------------|------------------------|
| Income | | | |
| Contributions receivable | 3 | (1,848.7) | (1,698.4) |
| Transfers in | 4 | (33.0) | (53.0) |
| Capitalised receipts | 13 | 0.0 | (0.3) |
| | | <u>(1,881.7)</u> | <u>(1,751.7)</u> |
| Expenditure | | | |
| Service cost | 5 | 3,926.2 | 2,579.8 |
| Enhancements | 6 | 8.4 | 8.9 |
| Transfers in - additional liability | 7 | 33.0 | 53.0 |
| Pension financing cost | 8 | 1,401.1 | 1,831.3 |
| Other expenditure | 12 | 7.7 | 0.0 |
| Premature retirement financing cost | 13 | 1.0 | 1.6 |
| Capitalised receipts | 13 | 0.0 | 0.3 |
| | | <u>5,377.4</u> | <u>4,474.9</u> |
| Net Expenditure | | <u>3,495.7</u> | <u>2,723.2</u> |
| Other Comprehensive Net Expenditure | | | |
| Pension re-measurements: | | | |
| Actuarial losses | 11.5 | 6,425.8 | 11,073.8 |
| Increase in premature retirement provision net of financing charge | 13 | 1.8 | 0.6 |
| Total Other Comprehensive Net Expenditure | | <u>6,427.6</u> | <u>11,074.4</u> |
| Total Comprehensive Net Expenditure for the year ended 31 March | | <u>9,923.3</u> | <u>13,797.6</u> |

The notes on pages 50 to 64 form part of these financial statements.

Statement of Financial Position as at 31 March 2021

| | Note | 31 March 2021 £m | 31 March 2020 £m |
|--|------|--------------------------|--------------------------|
| Current assets | | | |
| Receivables (within one year) | 9.1 | 184.6 | 149.1 |
| Current liabilities | | | |
| Payables (within one year) | 10.1 | <u>(56.3)</u> | <u>(44.5)</u> |
| Net current assets, excluding pension liability | | 128.3 | 104.6 |
| Provisions for liabilities and charges | | | |
| Premature retirement provision | 13 | (55.3) | (56.5) |
| Pension scheme liability | 11.2 | <u>(86,900.0)</u> | <u>(76,600.0)</u> |
| Net liabilities, including pension liability | | <u>(86,827.0)</u> | <u>(76,551.9)</u> |
| Taxpayers' equity | | | |
| General fund | | <u>(86,827.0)</u> | <u>(76,551.9)</u> |
| | | <u>(86,827.0)</u> | <u>(76,551.9)</u> |

The notes on pages 50 to 64 form part of these financial statements.



David Robb
Accountable Officer

21 December 2021

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2021

| | Note | 2020-21 £m | 2019-20 £m |
|--|----------|-------------------|-------------------|
| Balance at 1 April | | (76,551.9) | (62,487.4) |
| Funding to the Consolidated Fund | SOPS 5.4 | (351.8) | (266.9) |
| Combined net expenditure | SoCNE | (3,495.7) | (2,723.2) |
| Other comprehensive net expenditure | SoCNE | (6,427.6) | (11,074.4) |
| Net change in taxpayers' equity | | (10,275.1) | (14,064.5) |
| Balance at 31 March | | (86,827.0) | (76,551.9) |

The notes on pages 50 to 64 form part of these financial statements.

Statement of Cash Flows for the year ended 31 March 2021

| | Note | 2020-21 £m | 2019-20 £m |
|--|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Net expenditure for the year | SoCNE | (3,495.7) | (2,723.2) |
| Adjustments for non-cash transactions: | | | |
| (Increase) in receivables | SoFP | (35.5) | (31.9) |
| Increase/(decrease) in payables | SoFP | 11.8 | (1.9) |
| Movement in premature retirement: | | | |
| Provision | 13 | (1.2) | (1.7) |
| Net of financing cost | 13 | (1.8) | (0.6) |
| Movement in pension scheme liability: | | | |
| Service and financing cost | 11.2 | 5,327.3 | 4,411.1 |
| Enhancements and transfers in | 11.2 | 41.4 | 61.9 |
| Benefits paid | 11.3 | (1,476.7) | (1,421.0) |
| Refunds and transfers | 11.4 | (17.8) | (25.8) |
| Net cash inflows from operating activities | | 351.8 | 266.9 |
| Cash flows from financing activities | | | |
| To Scottish Consolidated Fund | | (351.8) | (266.9) |
| Net financing | | (351.8) | (266.9) |
| Increase /(decrease) in cash and cash equivalents in the year | | 0.0 | 0.0 |

The notes on pages 50 to 64 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2021

1. Basis of preparation of the Scheme Financial Statements

The financial statements of the Scheme have been prepared in accordance with a direction given by the Scottish Ministers, and the relevant provisions of the 2020-21 UK Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM 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 statements.

In addition to the primary statements prepared under International Financial Reporting Standards, the FRoM also requires the Scheme to prepare an additional statement – a Statement of Outturn against Parliamentary Supply. This statement, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 The NHS Pension Scheme (Scotland) (NHSPSS)

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

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

The accounts of the Scheme show the financial position at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Scheme. The Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme financial statements should be read in conjunction with that report.

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

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

2. Accounting policies

The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent they are meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which 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 financial statements.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis. The key estimates and judgements relate to the valuation of the pension liability set out in Note 11 below.

Further estimation uncertainty arises in relation to legal cases where either the outcome or impact of the cases on the Scheme remain uncertain at the reporting date. Management has therefore applied judgement in estimating the most likely impact on the Scheme based on the best available information at the reporting date.

2.3 Contributions receivable

Employers' normal contributions are accounted for on an accruals basis in the month to which the associated salaries and wages relate. There are no employers' special pension contributions.

Employees' contributions are accounted for on an accruals basis in the month to which the associated salaries and wages relate.

Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis, and additional pension contributions are accounted for on a cash basis. The associated increase in the scheme liability is recognised as expenditure.

Where Scheme members make Additional Voluntary Contributions (AVCs) to secure additional pension benefits through the Scheme's approved suppliers these were directly invested through individual contracts with those suppliers. These additional contributions are not included in the financial statements but are shown separately in sections 1.13 and 1.14 of the annual report. Please refer to section 1.12 of the annual report for further information on Scheme AVC providers.

2.4 Transfers in and out

Transfers in are accounted for as income and also by representing the associated increase in the Scheme liability. Transfers out reduce the Scheme liability. Both are accounted for on a cash basis. Group transfers in and out may be accounted for on an accruals basis where the Scheme has formally accepted or transferred a liability.

2.5 Other pension income

Other pension income includes refunds of Contributions Equivalent Premiums (CEP) and miscellaneous income. It is accounted for on a cash basis. To the extent that this income also represents an increase in the Scheme liability, it is also reflected in expenditure.

2.6 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from the current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is calculated by applying the Scheme standard contribution rate to pensionable pay, which is imputed from the employers' contributions received.

2.7 Past service costs

Past service costs are increases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the Statement of Comprehensive Net Expenditure on a straight line basis over the period in which the increase in benefit vests.

2.8 Interest on scheme liabilities

The interest cost is the increase in the present value of the Scheme liabilities during the period 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 nominal discount rate 1.8% (2019-20 2.9%). The interest cost is determined by applying the nominal discount rate of 1.8% 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). This is based on the assumption that the increase or decrease accrues evenly during the year. The nominal discount rate decreased to 1.25% from 31 March 2021.

2.9 Other expenditure

Other expenditure is accounted for on an accruals basis.

2.10 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 based on the nominal discount rate of 1.8%.

Further details of the financial assumptions used are set out at Note 11 to these accounts and in the Report of the Scheme's Actuary on pages 15 to 20.

For the purposes of IAS26 accounting, 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 balance sheet date and updates it to reflect current conditions. The assessment of the Scheme liability as at 31 March 2021 has been carried out by rolling forward the liability from the funding valuation at 31 March 2016.

2.11 Pension benefits payable

Pension benefits payable due to age, ill health retirements, and voluntary early retirement are accounted for as a decrease in the Scheme liability on an accruals basis.

2.12 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.

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

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

2.14 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.

2.15 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 Statement of Financial Position date are recognised in the Statement of Comprehensive Net Expenditure for the year.

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

Compensation are met by employers. For administrative purposes, benefits are paid to the member and the employer is subsequently re-charged for the costs.

Compensation payments for the costs of service enhancements for staff leaving before their normal retirement age since 1 April 1995 are met by NHS employers. Prior to that date the NHSPSS met the cost of accrued benefits and employers met the cost of

service enhancements. Compensation payments made after that date do not, therefore, feature in the Pension Scheme Accounts.

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

The premature retirement provision is valued annually using longevity factors based on the current Treasury discount rate. There is a £1.2 million decrease in the liability as a result of the revaluation and other adjustments (see note 13). The financing charge is based on the nominal discount rate of 1.8%. 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.

Except where stated otherwise below, the accounting policies outlined at Note 2 above, apply.

2.17 Provisions

IAS 37 Provisions, Contingent Liabilities and Contingent Assets applies in full, and in these accounts provisions are made for legal or constructive obligations which are of uncertain timing or amount at the statement of financial position date on the basis of the best estimate of the expenditure required to settle the obligation. Where material, they have been discounted using the appropriate discount rate as prescribed by HM Treasury.

2.18 Funding

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

2.19 Changes in Accounting Standards

An assessment of International Financial Reporting Standards (IFRS) issued but not yet effective considered 'IFRS 16 Leases' and 'IFRS 17 Insurance Contracts' and determined they are not applicable as the Scheme has not entered into any such arrangements.

| | Note | 2020-21 £m | 2019-20 £m |
|---|-------------|------------------|------------------|
| 3. Pension contributions receivable | | | |
| Employers | | (1,264.4) | (1,159.6) |
| Employees: | | | |
| Normal | | (575.9) | (529.9) |
| Purchase of additional pension | | (8.4) | (8.9) |
| | | (1,848.7) | (1,698.4) |
| 4. Pension transfers in | | | |
| | | £m | £m |
| Individual transfers in from other schemes | 7 & 2.4 | (33.0) | (53.0) |
| | | (33.0) | (53.0) |
| 5. Service Cost | | | |
| | | £m | £m |
| Current service cost | 2.6 | 3,926.2 | 2,679.8 |
| Past service cost | 11.2 | 0.0 | (100.0) |
| | | 3,926.2 | 2,579.8 |
| 6. Enhancements | | | |
| | | £m | £m |
| Employees: | | | |
| Purchase of additional pension | 3 & 11.2 | 8.4 | 8.9 |
| | | 8.4 | 8.9 |
| 7. Transfers in - additional liability | | | |
| | | £m | £m |
| Individual transfers in from other schemes | 4 & 2.4 | 33.0 | 53.0 |
| | | 33.0 | 53.0 |
| 8. Pension financing cost | | | |
| | Note | £m | £m |
| Net interest on defined benefit liability | 11.2 | 1,401.1 | 1,831.3 |
| | | 1,401.1 | 1,831.3 |

9. Receivables – contributions due

Employers are responsible for the payment to the Scheme of both employer and employee contributions. Contributions relating to one month should be paid over by the employer by the 19th of the following month. Employers are also responsible for paying contributions relating to premature retirements where the employer is responsible for any enhancement to the member pension.

9.1 Analysis by type

| Note | 2020-21 £m | 2019-20 £m |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Pension contributions due from employers | 111.9 | 86.7 |
| Employees' normal contributions | 51.0 | 39.6 |
| Employees' purchase of additional pension | 0.7 | 0.7 |
| Cash in transit | 12.5 | 17.6 |
| Other receivables | 8.5 | 4.5 |
| Total receivables | 184.6 | 149.1 |

9.2 Intra-government balances

| | 2020-21 £m | 2019-20 £m |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Balances with other central government bodies | 12.7 | 18.6 |
| Balances with NHS bodies | 157.9 | 124.3 |
| Balances with bodies external to government | 14.0 | 6.2 |
| Total receivables | 184.6 | 149.1 |

10. Payables

10.1 Analysis by type

| | 2020-21 £m | 2019-20 £m |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Pensions | (24.7) | (26.1) |
| Overpaid contributions: employees | (13.7) | 0.0 |
| HM Revenue and Customs | (17.9) | (18.4) |
| Total payables | (56.3) | (44.5) |

10.2 Intra-government balances

| | 2020-21 £m | 2019-20 £m |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Balances with other central government bodies | (17.9) | (18.4) |
| Balances with bodies external to government | (38.4) | (26.1) |
| Total payables | (56.3) | (44.5) |

11. Provisions for pension liabilities

11.1 Assumptions underpinning the provision for pension liability

11.1.1 An actuarial report by the Government Actuary's Department (GAD) was received for the accounting year ended 31 March 2021. An actuarial valuation of the scheme for resource accounting purposes has been carried out as at 31 March 2021. The assessment of the pension liability as at 31 March 2021 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 2021 is £86.9 billion. This compares to the liability of £76.6 billion as at 31 March 2020.

The Report of the Scheme’s Actuary on pages 15 to 20 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 key assumptions used by the Actuary were:

| At 31 March | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|-------------|-------------|-------------|-------------|-------------|
| Financial assumptions | | | | | |
| Rate of increase in salaries | 3.72% | 4.10% | 4.10% | 3.95% | 4.55% |
| Inflation assumption | 2.22% | 2.35% | 2.60% | 2.45% | 2.55% |
| Discount rate | 1.25% | 1.80% | 2.90% | 2.55% | 2.80% |
| Life expectancy - Current pensioners | | | | | |
| Males (Age 60) | 27.5 | 27.5 | 28.3 | 28.2 | 29.0 |
| Males (Age 65) | 22.7 | 22.6 | 23.4 | 23.3 | 24.1 |
| Females (Age 60) | 29.1 | 29.0 | 29.8 | 29.7 | 30.7 |
| Females (Age 65) | 24.2 | 24.1 | 24.8 | 24.8 | 25.7 |
| Life expectancy - Future pensioners* | | | | | |
| Males (Age 60) | 29.3 | 29.2 | 30.3 | 30.2 | 31.2 |
| Males (Age 65) | 24.4 | 24.3 | 25.3 | 25.2 | 26.2 |
| Females (Age 60) | 30.7 | 30.6 | 31.8 | 31.7 | 32.8 |
| Females (Age 65) | 25.8 | 25.7 | 26.7 | 26.6 | 27.7 |

* 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. In all cases, life expectancies relate to members retiring in normal health.

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 the Report of the Scheme’s Actuary section 2.26.

Long-term price inflation is assumed to be 2.22% per annum. The above assumptions mean that the gross rate of investment return is assumed to be 1.25% per annum, and salary inflation 3.72% 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 (consumer price index) used in HM Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

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

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

| Value of liabilities at 31 March (£billions) | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|-------------|-------------|-------------|-------------|-------------|
| Pensions in payment | 19.8 | 19.0 | 17.2 | 16.8 | 15.7 |
| Deferred pensions | 5.4 | 4.9 | 4.1 | 4.4 | 4.1 |
| Active members (past service) | 61.7 | 52.7 | 41.2 | 40.9 | 39.9 |
| Total | 86.9 | 76.6 | 62.5 | 62.1 | 59.7 |

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

11.1.6 The value of the liability included in the statement of financial position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation, the value of the pension liability will increase or decrease. The Agency accepts that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 11.5 and 11.6. The note also discloses "experience" gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is included in table H in the Report of the Scheme's 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 Report of the Scheme's Actuary shows the indicative effects on the total liability as at 31 March 2021 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 8.5% (see table H in the Report of the Scheme's Actuary). The impact of changes in pensioner mortality assumptions is also significant.

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

11.2 Analysis of movements in the Scheme liability

| | | 2020-21 | 2019-20 |
|---|------|--------------------------|--------------------------|
| | Note | £m | £m |
| Scheme liability at 1 April | | (76,600.0) | (62,500.0) |
| Service cost | 5 | (3,926.2) | (2,579.8) |
| Pension financing cost | 8 | (1,401.1) | (1,831.3) |
| | | <u>(5,327.3)</u> | <u>(4,411.1)</u> |
| Enhancements | 6 | (8.4) | (8.9) |
| Pension transfers in | 7 | (33.0) | (53.0) |
| | | <u>(41.4)</u> | <u>(61.9)</u> |
| Benefits payable | 11.3 | 1,476.7 | 1,421.0 |
| Pension payments to and on account of leavers | 11.4 | 17.8 | 25.8 |
| | | <u>1,494.5</u> | <u>1,446.8</u> |
| Actuarial (loss) | 11.5 | (6,425.8) | (11,073.8) |
| Scheme liability at 31 March | | <u>(86,900.0)</u> | <u>(76,600.0)</u> |

During the year ended 31 March 2021, contributions represented an average of 31% of pensionable pay (2019/20 31%).

11.3 Analysis of benefits paid

| | 2020-21 | 2019-20 |
|-----------------------------------|-----------------------|-----------------------|
| | £m | £m |
| Pensions to retired employees | 1,058.1 | 997.3 |
| Pensions to dependents | 67.0 | 67.7 |
| Lump sum benefits on retirement | 351.6 | 356.0 |
| Per Statement of Cashflows | <u>1,476.7</u> | <u>1,421.0</u> |

11.4 Analysis of payments to and on account of leavers

| | 2020-21 | 2019-20 |
|---------------------------------------|--------------------|--------------------|
| | £m | £m |
| Refunds to members leaving service | 1.6 | 2.6 |
| Individual transfers to other schemes | 16.2 | 22.2 |
| Contribution equivalent premium | 0.0 | 1.0 |
| Per Statement of Cashflows | <u>17.8</u> | <u>25.8</u> |

11.5 Analysis of actuarial gain/(loss)

| | 2020-21 | 2019-20 |
|---|-------------------------|--------------------------|
| | £m | £m |
| Experience gain arising on the Scheme liabilities | 1,474.2 | 1,071.2 |
| Changes in demographic assumptions (other than mortality) | 0.0 | 0.0 |
| Changes in mortality assumptions | 0.0 | 2,100.0 |
| Changes to financial assumptions as at 31 March | (7,900.0) | (14,245.0) |
| Per Statement of Comprehensive Net Expenditure | <u>(6,425.8)</u> | <u>(11,073.8)</u> |

Scheme liabilities are calculated by reference to assumptions, which are set with regard to the actual experience of the Scheme, taking account of known future changes. Actual scheme experience will usually be different; for example, rates of staff turnover, mortality and salary progression are unlikely to be exactly as assumed. The actuarial gain/loss shows the financial impact of actual experience being different from that assumed.

11.6 History of actuarial gains/(losses)

| | 2020-21 | 2019-20 | 2018-19 | 2017-18 | 2016-17 |
|---|-----------|------------|---------|---------|------------|
| Experience gain arising on the Scheme liabilities: | | | | | |
| Amount (£m) | 1,474.2 | 1,071.2 | 230.0 | 0.0 | 227.3 |
| Percentage of the present value of the Scheme liabilities | 2% | 1% | 0% | 0% | 0% |
| Total amount recognised in statement of changes in taxpayers' equity | | | | | |
| Amount (£m) | (6,425.8) | (11,073.8) | 3,230.0 | 632.1 | (12,672.7) |
| Percentage of the present value of the Scheme liabilities | (7%) | (14%) | 5% | 1% | (21%) |

12. Other expenditure

| | Note | 2020-21 £m | 2019-20 £m |
|--------------------------------------|------|---------------|---------------|
| Bad / Doubtful Debts: | | | |
| Overpayment of Scheme member pension | 17 | 0.1 | 0.0 |
| Pension contributions not received | 14 | 7.6 | 0.0 |
| | | 7.7 | 0.0 |

13. Movement in premature retirement provision

| | 2020-21 £m | 2019-20 £m |
|--|---------------|---------------|
| Balance at 1 April | (56.5) | (58.2) |
| Capitalised receipts | 0.0 | (0.3) |
| Capitalised pension payments | 4.0 | 4.2 |
| Financing cost | (1.0) | (1.6) |
| (Increase) in premature retirement provision net of financing cost | (1.8) | (0.6) |
| Balance at 31 March | (55.3) | (56.5) |
| Movement in premature retirement provision | 1.2 | 1.7 |

14. Provisions for liabilities and charges

| | | 2020-21 £m | 2019-20 £m |
|--|------|---------------|---------------|
| Provision at 1 April | | 0 | 0 |
| Provided in the year | | | |
| Pay award for NHS Scotland Agenda for Change staff | | 14.6 | 0 |
| Pension contributions to be refunded | 10.1 | 13.7 | 0 |
| Impairment of pension contributions not received | 12 | 7.6 | 0 |
| Balance as at 31 March | | 35.9 | 0 |

Analysis of expected timing of any resulting outflows of economic benefits

| | | |
|-----------------------------|-------------|----------|
| Payable in 1 year | 35.3 | 0 |
| Payable between 2 - 5 yrs | 0.6 | 0 |
| Total as at 31 March | 35.9 | 0 |

General Practitioners Pension Contribution Underpayments

The provision at 31 March 2021 includes £21.3m relating to Practitioner pension contribution under and overpayments (£nil as at 31 March 2020). It includes Practitioner pension contributions to be refunded relating to the period 2008 – 2020 and an impairment of outstanding Practitioner pension contribution underpayments relating to the same period.

NHS Scotland pay award

The provision at 31 March 2021 includes £14.6m reflecting the forecast impact on employers and employee pension contributions of a 3% pay award for NHS Scotland Agenda for Change staff backdated to December 2020.

15. Contingent liability**Additional Voluntary Contributions**

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

General Practitioner Pension Contributions

Having reported in Note 14 Provisions for liabilities and charges in respect of Practitioners pension contributions under and over payments a further unquantifiable contingent liability has been recognised in respect of 2020-21 pension contributions. An analysis of these will be completed in 2021-22.

Guaranteed Minimum Pension (GMP) - Cash Equivalent Transfer Values (CETVs)

As a result of the court ruling of 20 November 2020 that scheme trustees are required to revisit past Cash Equivalent Transfer Values (CETVs) to ensure GMP equalisation has been achieved and members received their full entitlement, this may result in additional top-ups where GMP equalisation means that members did not receive their full entitlement. The ruling may require the NHSPSS revisiting past CETV cases for members with State Pension age after 5 April 2016 and who took a CETV from the scheme before CETV were equalised. The scope of any costs are yet to be determined and the potential impact has yet to be established (i.e. for those who took a CETV and are in scope for a top up).

16. Related party transactions

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

17. Losses

During the financial year the recovery of some pension overpayments was terminated as the cases were considered to be uneconomic to pursue further. In other cases recovery action was not initiated because the individual overpayments were below a set de minimis limit used when assessing whether cases are uneconomic to pursue.

| | 2020-21 | 2019-20 |
|---|----------|----------|
| Number of cases where there was a loss | 906 | 456 |
| | £ | £ |
| Total loss (£) | 51,517 | 19,913 |
| Consists of: | | |
| - below set de minimis limit | 31,887 | 15,668 |
| - Un-economic to pursue further / other reasons as per SPFM | 19,630 | 4,245 |

There were no individual losses in excess of £300,000 which would require separate disclosure during the year to 31 March 2021, or that have been recognised since that date.

18. Unclaimed refunds

These accounts include £7.25 million (2019-20: £7.33 million) payables for 16,716 members (2019-20: 15,900) who have left the Scheme but have not applied for a refund. There is a £0.08 million reduction in the refund liability from 2019-20 which increases refund expenditure in 2020-21. The Agency is working towards making these repayments.

19. Financial instruments

As the cash requirements of the NHSPSS are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector pension scheme of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the NHSPSS's expected purchase and usage requirements and the NHSPSS is therefore exposed to little credit, liquidity or market risk.

20. Events after the reporting period

In July 2020 HM Treasury consulted on 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.

An update on the Cost Control Element of the 2016 valuations was also published. In this update, the UK Government set out that the McCloud costs would fall into the 'member cost' category of the cost control element of the valuations process. It is also noted that by taking into account the increased value as a result of the McCloud remedy, scheme cost control valuation outcomes will show greater costs than otherwise would have been expected. HM Treasury will set out in the Directions how these costs should be taken into account. GAD will then be able to complete the 2016 valuation calculations and will liaise with Scheme managers and Scheme Advisory Boards to agree the underlying valuation assumptions and corresponding results. This will confirm

whether there is a breach of the cost control element of the 2016 valuation for each of the public service pension schemes. The cost cap part of the 2016 valuation has now been re-run with results expected to be published in early 2022.

In July 2021, the UK Government introduced the Public Service Pensions and Judicial Offices Bill to the House of Lords. This legislation is designed to implement the remedy to the discrimination found by the courts. See section 1.7.

Substantive CEO appointment

On 10 December 2021, David Robb was confirmed as substantive CEO of the Agency.

21. Accounts authorisation

The Accountable Officer authorised these financial statements for issue on 21 December 2021

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

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



Signed by the authority of the Scottish Ministers

Dated 17 October 2016