NHS Pension Scheme (Scotland)

Annual Report and Accounts 2021-22

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

SG/2023/69

Contents

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)[1]

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.

[1] https://pensions.gov.scot/corporate-publications/annual-report-and-accounts

Accountability Report

Corporate Governance Report

1. Report of the Scheme Manager

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 web site at https://pensions.gov.scot/nhs.

1.2 Managers and advisors

Managers

Agency Accountable Officer	David Robb (with effect from 26 April 2021) *(Matthew Valente from 15 November 2020 to 25 April 2021)* Chief Executive Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE
Scheme Administrator	Sally Paterson (from 1 Sep 2022) Customer Service Manager *(Paplu Dey (to 31 Aug 2022)* *Head of Customer Services)* Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE

Advisors

Scheme Actuary	Government Actuary's Department Queen Elizabeth House 1 Sibbald Walk Edinburgh EH8 8FT

Bankers	Royal Bank Of Scotland London Corporate Services Centre GBS Team Aldgate Union 10 Whitechapel High Street London E1 8DX National Westminster Bank PLC 280 Bishops Gate London EC2M 4RB
Legal advisors	Scottish Government Legal Directorate The Scottish Government Victoria Quay Edinburgh EH6 6QQ
External auditor	Gemma Diamond Audit Director Audit Scotland 4th Floor 102 West Port Edinburgh EH3 9DN

1.3 Background to the Scheme

The NHS Pension Scheme (Scotland) (NHSPSS) is a statutory defined benefit unfunded public service pension scheme set out in three main sets of regulations. Following the reform of public service pensions by the Public Service Pensions Act 2013 (the 2013 Act) a new Career Average Revalued Earnings (CARE) scheme, the NHS Pension Scheme (Scotland) 2015 was introduced from 1 April 2015 (the 2015 scheme). 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 2015 scheme, and all members of the 1995 and 2008 section who did not qualify for protection against the changes also moved to the 2015 scheme with all final salary service accrued up to the point of transfer preserved with a link to final salary at retirement. 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 remained open for those members with full and transitional protection until 31 March 2022. 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 were found by the Court of Appeal to be unlawful[2] [Lord Chancellor vs McCloud and Others

[2] https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf

judgement 2018 EWCA Civ 2844] and the UK Government committed to removing the discrimination across all public service pension schemes for all affected scheme members, with the Public Service Pensions and Judicial Offices Act 2022 introduced on 10 March 2022. See Age discrimination on transitional protection at paragraph 1.7.

Both the 2015 scheme and the 1995 and 2008 sections provide a pension on retirement and a tax free lump sum option. In the 2015 scheme and 2008 section a member may commute part of their pension to take a tax-free lump sum, whereas the 1995 section provides an automatic lump sum of three times the member's pension. 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 scheme that provides flexible benefits has been prohibited since 6 April 2015, a restriction that applies to all unfunded public service schemes.

The 2013 Act, which introduced the 2015 reforms, also required new scheme governance arrangements to be established. The 2015 scheme regulations accordingly provided for 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 devolved public service pensions.

Both boards met regularly during 2021-22. Details of scheme governance and legislation, including membership of the SAB and pension board, are available on the SPPA website[3].

1.4 Scheme 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 automatic 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 actuary.

Cost control and the valuation mechanism form 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.

[3] https://pensions.gov.scot/nhs#Schemegovernanceandlegislation

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 initial valuation results 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. The cost cap part of the valuation has been re-run with the results published[4] by the Government Actuary on 6 May 2022. The revised results showed that there had been no breach of the employer cost cap.

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. Accordingly, HM Treasury consulted on SCAPE methodology in June 2021 (see below).

The SCAPE discount rate changed from 3% above CPI (Consumer Price Index) to 2.8% above CPI on 16 March 2016 and reduced further to 2.4% over CPI 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 considering a revised member contribution structure aimed at achieving the yield, to come into effect from 1 April 2023.

HM Treasury consulted on proposed changes to the UK government's cost control mechanism in public sector pension schemes between 24 June 2021 and 19 August 2021, alongside a second consultation on the SCAPE discount rate methodology used for public service pensions. Following the cost control mechanism consultation, the UK Government has introduced three changes to the mechanism[5] that will be effective from the valuation of the Scheme as at 31 March 2020: the first is the widening of the cost cap "corridor" for the mechanism so that movement in the costs of the scheme of +/- 3% may be disregarded (rather than the previous 2%); secondly, requiring the cost cap mechanism to include reformed (2015) scheme costs only; and thirdly introducing an economic check where the mechanism may only lead to benefit changes where this is in line with long-term economic outlook.

No decision on the SCAPE methodology has been made at the time of publication.

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[4] https://www.gov.uk/government/publications/cost-cap-valuation-of-the-nhs-pension-scheme-scotland

[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1022938/CCM_RESPONSE.pdf

The 2020 valuation will set the employer contribution rate payable from April 2024 and test the cost of the Scheme relative to the employer cost cap. This 2020 valuation is currently in progress and will be based upon further valuation directions provided by HMT. Results will be reported in future Annual Reports.

In December 2021 several unions filed for a joint judicial review against the Government on the inclusion of the McCloud remedy costs within the cost control mechanism. On 4 July 2022 the Judicial Review was granted permission to be heard. Further details can be found on pages 15 and 65 under Events after the Reporting Period.

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 2022 the number of employers was 889 (31 March 2021: 891).

1.6 Changes to the Scheme

During 2021-22 the following regulations were made by Scottish Statutory Instrument (SSI):

The National Health Service Pension Schemes (Amendment) Regulations 2022 (SSI 2022/100)

This statutory instrument was consulted on between 26 November 2021 and 16 January 2022, coming into force on 1 April 2022. The instrument implemented part of the reforms required under the Public Service Pensions and Judicial Offices Act 2022, by closing the legacy 1995 and 2008 sections of the pre-reform scheme, moving all existing members into the 2015 scheme with effect from 1 April 2015. This delivered "prospective remedy" by ensuring that all scheme members, regardless of age, are entitled to the same pension provisions from that date.

The National Health Service Superannuation and Pension Schemes (Miscellaneous Amendments) Regulations 2022 (SSI 2022/117)

This statutory instrument was consulted on between 3 March and 17 March 2022, and made changes to the employee contribution table from 1 April 2022 which updates the salary/earnings bands on which the employee contribution percentages are set. The instrument also made temporary modifications to the NHS Pension Scheme (Scotland) Regulations which have similar effect to section 46 of the Coronavirus Act 2020. Following the expiry of the Coronavirus Act 2020 this instrument temporarily extends those provisions until 31 October 2022. Section 46 of the Act suspended certain rules that apply in the NHS Pension Schemes in Scotland so that NHS staff who have recently retired can return to work, and those who have already returned can increase their hours, without there being a negative impact on their pension entitlements.

Changing the pay bands for contribution purposes required a report (No.SG/2022/70) to be made to the Scottish Parliament by the Scottish Ministers in March 2022 under section 22 of 2013 Act. 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 CPI measured as at the previous September. In the 12 months to September 2020, CPI was 0.5%. As a result, an increase of 0.5% was applied from 12 April 2021 for pensions in payment and deferred pensions.

1.7 Looking forward

Changes to Contracting Out Rules and Single Tier New State Pension - Guaranteed Minimum Pension (GMP)

The introduction of a single tier State Pension from 6 April 2016 ended 'contracted out' defined benefit pension schemes. Liability for tracking and maintaining contracted-out rights, known as GMP, rests with SPPA from that date. During the reporting year SPPA continued the reconciliation exercise to match GMP data held by SPPA with data held by HMRC, and the project has now completed and delivered the following outcomes:

- Fully reconciled GMP value data uploaded accurately to the pension administration system (for all member and pensioner statuses)
- Fully reconciled rectification data uploaded accurately to the pension administration system (for post SPa (State Pension age) pensioners)
- Pensioners and dependants subject to rectification informed of any adjustments to their pensions.
- Management information/contractors& SPPA reports to confirm successful reconciliation.
- Pensions in payment are now amended and confirmed as accurate for 4,666 NHSPSS scheme pensioners.

The Government published a response to the consultation on the indexation and equalisation of GMP in public service pension schemes in January 2018, which meant that the "interim solution" to GMP indexation was extended until 6 April 2021. 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. As the UK Government has committed to addressing GMP equalisation through indexation of pensions, a past service cost was included for 2019-20 (estimated assuming full indexation) that represented the expected cost of GMP indexation. Although full GMP indexation achieves equalisation for the majority of our membership, further work is ongoing with HMT and other public sector pension schemes to understand the impacts across the whole membership.

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 male 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 administration project[6] – Goodwin - has been established and the exercise is due to conclude in 2023.

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

In 2015 the Government introduced reforms to public sector pensions 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.

On 20 December 2018, The Court of Appeal found 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 subsequently the 2020-21 and 2021-22 service cost, to make allowance for the higher expected cost of accrual under McCloud .

[6] https://pensions.gov.scot/news/goodwin-ruling-survivor-benefits-update

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 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 show greater costs than otherwise would have been expected. This is reflected in the valuation report published on 6 May 2022.

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. This legislation is designed to implement the remedy to the discrimination found by the courts. The necessary changes to the NHSPSS will be made by secondary legislation that must be in force by 1 October 2023.

Scheme Valuation – 2020

As reported in Section 1.4 Scheme Valuation and Contribution Rates on page 5, Scheme valuations are carried out on a quadrennial basis, and the next valuation will be based on data at 31 March 2020. The Government Actuary's Department has collected the necessary data and will undertake the valuation following the issuing of Directions by HM Treasury and engagement with the Scheme Advisory Board on scheme specific assumptions. Initial results are anticipated in Spring 2023, and the final valuation will set employer contribution rates from 1 April 2024.

1.8 Membership statistics [7]

Details of the membership of the Scheme as at 31 March 2022 are as follows:

Active members		
Total brought forward from 31 March 2021		**196,929**
Adjustment in year[8]		(67)
Revised active members as at 31 March 2021		**196,862**
Additions within the year		
New members and re-joiners		26,647
Leavers		
Retirements	(5,342)	
Leavers from active to deferred	(5,497)	
Other leavers[9]	(5,625)	(16,464)
Total active members as at 31 March 2022		**207,045**

Members with deferred liability	
Total brought forward from 31 March 2021	**60,105**
Adjustment in year[7]	(292)
Revised deferred members as at 31 March 2021	**59,813**
New deferred from active members	5,497
Other new deferred members	49
Members leaving deferred status	(4,563)
Total members with deferred pension liability as at 31 March 2022	**60,796**

Members receiving a pension	
Total brought forward from 31 March 2021	**111,410**
Adjustment in year[7]	311
Revised pension members as at 31 March 2021	**111,721**
New Pensioners	8,078
Cessations	(2,965)
Total Pensioners as at 31 March 2022	**116,834**

[7] The membership data at 31 March 2022 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was the principal membership data as at 31 March 2020, whereas these statistics were taken from a data extract provided in April 2022 and member data is continually updated after the year end.
[8] The opening balance includes an adjustment to take account of member records that are updated retrospectively after the year end and after the original data extract was taken to prepare the membership statistics for the 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.
[9] Includes transfers out and leavers who do not have qualifying service.

1.9 Financial position at 31 March 2022

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 actuary in accordance with the requirements of International Accounting Standard 19 (IAS19) and HM Treasury's Financial Reporting Manual (FReM). More information on the methodology of the valuation is contained in the Statement by the Actuary at section 2.

The pension liability as at 31 March 2022 was £95.1 billion (31 March 2021: £86.9 billion), which is an increase of £8.2 billion. Changes in financial assumptions accounted for £7.2 billion of this movement. This uplift in the liability is primarily due to increases in the expectations for future pension increases (CPI inflation) and long term pay increases, albeit these have been offset to an extent by an increase in the discount rate used.

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 2021-22 the total expenditure was £6,119.7 million and total income was £2,009.9 million giving a net expenditure of £4,109.8 million (2020-21: £3,495.6 million). This outturn was within the budget set for the NHSPSS of £4,114.4 million.

In cash terms, there was an excess of income received over pension benefits paid of £406.3 million (2020-21: £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

	2021-22	**2020-21**
	£m	£m
Pension contributions	(1,964.2)	(1,848.7)
Transfers in	(45.7)	(33.0)
Other income	-	-
Total income	(2,009.9)	(1,881.7)
Pensions paid	1,187.6	1,136.8
Lump sums	407.2	351.6
Transfers out	20.3	16.2
Refunds	2.2	1.6
Total benefits paid	1,617.3	1,506.2
Total income less benefits paid	**(392.6)**	**(375.5)**
Movement in debtors and creditors	(13.7)	23.7
Cash transferred to the Scottish Consolidated Fund	**(406.3)**	**(351.8)**

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 £95.1 billion (2020-21 £86.8 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 Aberdeen PLC 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. On 1 January 2020 completion of the transfer of all of the business of Equitable Life to Utmost Life and Pensions Limited occurred, except for certain excluded policies such as German and Irish policies that will remain with Equitable Life, which has become a subsidiary of Utmost.

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.

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

1.13 Utmost Life and Pensions

	£	£
Value of fund at 1 April 2021		**6,063,645**
Income		
Contributions received	46,819	
Interest and bonuses/change in market value of assets	209,267	
Internal transfers from other policies insured by the Society	-	
Total income		**256,086**
Expenditure		
Life assurance premiums	(1,454)	
Retirement benefits	(348,010)	
Leavers (transfers and withdrawals)	(158,812)	
Deaths	(91,329)	
Refunds	(3,671)	
Contributions received but not yet used to purchase benefit	(-)	
Total expenditure		**(603,276)**
Value of fund at 31 March 2022		**5,716,456**

Fund value by type		
	31 March 2022	**31 March 2021**
Equitable with profits	-	-
Equitable and Clerical Medical unit-linked (including Clerical Medical with-profits)	5,716,456	6,063,645
Total	**5,716,456**	**6,603,645**

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 the Standard Life Aberdeen Group. A statement of the movements in this plan for the period 1 April 2021 to 31 March 2022 follows.

	£	£
Opening value of fund at 1 April 2021		**21,495,992**
Income		
Normal contributions	678,364	
Special contributions	89,600	
Transfer values	-	
Total income		**767,964**
Expenditure		
Retirements	(786,513)	
Transfer out	(1,150,436)	
Death benefits	(2,761)	
Total expenditure		**(1,939,710)**
Changes in market value of investments		**698,169**
Net Assets at 31 March 2022		
Investments held in insurance policies with Standard Life Aberdeen PLC		**21,022,415**

1.15 Events after the reporting period

2020 funding valuation

The final directions to enable completion of the 2020 valuation are expected from HM Treasury during 2022. The results of the 2020 valuation including employer cost cap will be reported in the 2022-23 Annual Report and Accounts.

Judicial Review – McCloud Remedy Costs

In December 2021 several unions filed for a joint judicial review against the Government on the inclusion of the McCloud remedy costs within the cost control mechanism. On 4 July 2022 the Judicial Review was granted permission to be heard, with no further detail currently available on the timeline for a hearing. Even if the judicial review is successful, it is unclear what remedy the court may order, and the Government would then need to consider how to proceed following that.
Any attempt to predict such outcomes, such as any impact on scheme liabilities, would be highly speculative at this stage.

Mortality Rate Assumptions

In September 2022, our GAD colleagues made us aware of an issue with the data supplied to GAD for previous valuations of the NHS (England and Wales) Pension Scheme. The issue relates to the data which was used to set the mortality assumptions for the 2012 and 2016 valuations.

The mortality assumption adopted for the 2016 funding valuation for the NHS (Scotland) Pension Scheme (and subsequently recommended for the Resource Accounts of the NHS (Scotland) Pension Scheme since c. 2018) was based on that recommended for the NHS (England and Wales) Pension Scheme.

Analysis of the revised mortality assumptions has led GAD to confirm that they would have recommended adopting a mortality assumption for the 2012 and 2016 funding valuations that produced lower life expectancies (and so led to lower liabilities) than that which was recommended and subsequently adopted.

We have accepted GAD's recommendation, commissioned revised data and this report and accounts have been prepared on the basis of the revised mortality assumptions.

1.16 Further information

Any enquiries about the NHSPSS should be addressed to:

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

David Robb
Accountable Officer

21 March 2023

2. Report of the Scheme 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 NHS Pension Scheme (Scotland) as at 31 March 2022, and the movement in the scheme liability over the year 2021-22, prepared in accordance with the requirements of Chapter 12 of the 2021-22 version of the Financial Reporting Manual.

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

2.3 The assessment has been carried out by calculating the liability as at 31 March 2020 based on the data provided as at 31 March 2020 and rolling forward that liability to 31 March 2022.

Membership data

2.4 Tables A to C summarise the principal membership data as at 31 March 2020 used to prepare this statement.

Table A – Active members

	Number thousands	Total pensionable pay* (p.a.) £ m
Males	35.5	1,489
Females	141.7	3,966
Total	177.2	5,455

* Pensionable pay is the Actual figure.

Table B – Deferred members

	Number thousands	Total deferred pension* (p.a.) £ m
Males	11.9	40.4
Females	44.7	121.1
Total	56.6	161.5

* Pension amounts include the pension increase granted in April 2020.

Table C – Pensions in payment

	Number thousands	Annual pension* (p.a.) £ m
Males	22.3	447.5
Females	76.4	581.9
Spouses & dependants	11.1	64.1
Total	109.8	1,093.5

* Pension amounts include the pension increase granted in April 2020.

Methodology

2.5 The present value of the liabilities as at 31 March 2022 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 2022. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2022 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 2021 in the 2020-21 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 below.

Table D – Principal financial assumptions

Assumption	31 March 2022 p.a.	31 March 2021 p.a.
Nominal discount rate	1.55%	1.25%
Rate of increase in pensions in payment and deferred pensions (assuming CPI inflation)	2.90%	2.22%
Rate of general pay increases	4.15%	3.72%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
• CPI inflation	(1.30)%	(0.95)%
• Long–term pay increases	(2.50)%	(2.38%)
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 2022.

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 with reference to scheme experience.

Table E – Post-retirement mortality assumptions

Baseline mortality	31 March 2022 Standard table[10]	31 March 2022 Adjustment	31 March 2021 Standard table	31 March 2021 Adjustment
Males				
Retirements in normal health	S2NMA	102.5%	S2NMA	95.5%
Current ill-health pensioners	S2IMA	102.5%	S2IMA	95.5%
Future ill-health pensioners	S2IMA	100%	S2IMA	100%
Dependants	S2NMA	135%	S2NMA	112.5%
Females				
Retirements in normal health	S2NFA	112.5%	S2NFA	97.5%
Current ill-health pensioners	S2IFA	112.5%	S2IFA	97.5%
Future ill-health pensioners	S2IFA	100%	S2IFA	100%
Dependants	S2DFA	107%	S2NFA	112.5%

2.10 The assumptions for the accounts at 31 March 2021 in Table E above were in line with those adopted for the 31 March 2016 funding valuation of the scheme. Information emerged during September 2022 which indicates that there are inaccuracies in data used to inform the selection of the baseline mortality assumptions in the 31 March 2016 funding valuation. The assumptions for baseline mortality shown in Table E above for the 2021-22 accounts have been updated from the previous year end to remove the impact of the data inaccuracies.

2.11 Mortality improvements are assumed to be in line with the 2018-based projections for the United Kingdom published by the ONS in October 2019. This is the same assumption as that used for the 2020-21 accounts.

2.12 The other demographic assumptions, such as for commutation and family statistics, are unchanged from the 2020-21 accounts.

Liabilities

2.13 Table F summarises the assessed value as at 31 March 2022 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 2.4 to 2.12. The corresponding figures for the previous year are shown for comparison. The liabilities at 31 March 2021 and 2022 both include an allowance for the higher cost of benefits accruing under McCloud.

[10] From the 'S2' series of standard tables published by the CMI and based on the experience of self-administered pension schemes. Separate tables are available based on experience of members retiring in normal and ill-health and for dependants.

Table F – Statement of Financial Position

	31 March 2022 £ billion	31 March 2021 £ billion
Total market value of assets	Nil	Nil
Value of liabilities	95.1	86.9
Surplus/(Deficit)	(95.1)	(86.9)
of which recoverable by employers	n/a	n/a

Accruing costs

2.14 The cost of benefits accrued in the year ended 31 March 2022 (the current service cost) is assessed as 76.7% 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 2021-22 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2021-22 accounts.

Table G – Contribution rate

	2021-22 % of pay	2020-21 % of pay
Employer contributions	20.9%	20.9%
Employee contributions (average)	9.4%	9.5%
Total contributions	**30.3%**	**30.4%**
Current service cost (expressed as a % of pay)	**76.7%**	**64.9%**

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 2021-22 was £6.5 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2021-22 (at 76.7% of pay) is assessed to be £5.0 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 events that have led to a material past service cost over 2021-22.

2.19 I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2021-22.

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 2022 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 2022 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%	- £10.9 billion
(ii) (long-term) earnings increase*:	+0.5% p.a.	+ 2.5%	+ £1.9 billion
(iii) pension increases*:	+0.5% p.a.	+ 10.5%	+ £10.0 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 4.0%	+ £3.8 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 2021-22 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 (2021) 10, dated 13 December 2021, 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 2018 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 there remains significant uncertainty about how Covid-19 may affect long-term life expectancies 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 in future accounting periods.

Greg Donaldson FIA
Actuary
Government Actuary's Department
29 September 2022

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 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 and now substantive 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. Annual Governance Statement

4.1 Agency's 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.

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. As the principal source of reference for our corporate governance arrangements, the 'Framework Document' describes and sets out the:
- Relationship between SPPA and Scottish Ministers
- Responsibilities of the Accountable Officer and Scottish Ministers.
- The frameworks within which we operate in regards to Resource, Finance and Human Resources

The Agency Framework document was last amended and approved by the Minister for Public Finance, Planning and Community Wealth in July 2021. In March 2022, following discussion between the Scottish Government Portfolio Accountable Officer (Director General: Corporate) and the SPPA Chief Executive, and in light of the Scottish Government report 'Relationship with Public Bodies' published in February 2022, it has been agreed the Agency Framework document requires a further update. This is needed so that the Framework more accurately reflect the role of the Portfolio Accountable Officer not being a member of the Management Advisory Board (MAB). Additionally, in April 2022 SPPA launched a new Corporate Plan superseding the references within the Framework to the previous Vision, Aims and Objectives. SPPA will therefore be updating and providing a new Framework Document to the Minister before the Autumn of 2022.

4.2 Scope of Responsibility

David Robb was appointed as Chief Executive with effect from 26 April 2021. Initially this was on an interim basis but then was confirmed as substantive in December 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.

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

4.3 Primary Governance Bodies Schematic

A schematic of the bodies assisting the Accountable Officer in the governance of the Agency is provided below.

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

4.4 Governance and assurance controls specific to NHS

In line with legal requirements effective from April 2015, the NHS Scotland Pension Schemes have 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[11] here.

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 pension schemes, as delegated by Scottish Ministers.

[11] https://pensions.gov.scot/sites/default/files/2021-02/SPPA_Pension_Scheme _Governance_Schematic_2021.pdf

4.4.1 Pension Board

The Pension Board has responsibility for assisting the scheme manager in relation to the following matters.

- securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
- such other matters as the scheme regulations may specify.

The current members are

NHS Pension Board membership	Representing	Meetings attended	Out of a possible
Brian Barbour	Independent Chair	4	4
Mark Cook	Independent Vice-Chair	4	4
Graeme Eunson	Member	2	4
Tom Wilson	Member	4	4
Gordon McKay	Member	4	4
David McColl	Member	3	4
Claire Pullar	Employer	3	4
Craig Black	Employer	3	4
Kay Sandilands	Employer	4	4
Ailsa Paterson*	Employer	1	1

* appointed 01/02/2022

Member biographies and the board's terms of reference can be found[12] here.

The Pension Board has published its report for the year, which may be found[13] here

Matters of business undertaken by the Pension Board last year included the following:

- Service to members was monitored at each of its meetings, held as virtual meetings rather than in person. The Board continued to press for investment in self-service functionality whilst also discussing with the Agency how the service information presented to the Board can be tailored to be more scheme specific
- The Board continued to monitor Agency progress in delivering Annual Benefit Statements (ABS) to scheme members, noting their ongoing concerns around scheme data and the impact on delivering 100% of ABS to members.
    - A breach report on failure to deliver 100% of ABS was raised by SPPA with The Pensions Regulator in September 2021 and the Board were sighted on this

[12] https://pensions.gov.scot/nhs/scheme-governance-and-legislation/pension-board
[13] https://pensions.gov.scot/about-us/boards-and-corporate-governance/pension-boards/nhs

- The Board raised particular concerns throughout the year in respect of some scheme members not receiving annual Pension Savings Statements and the impact this may have on their annual tax self-assessments.
    - A breach report on this issue was raised by SPPA with The Pensions Regulator in January 2021 and the Board were sighted on this
- The Board monitored the agency's progress on the work to resolve over and under contributions received in respect of practitioner members. The Board expressed concern over the pace and transparency of the resolution plans from SPPA
- The Board monitored the agency's progress on the prospective McCloud remedy and sought assurances over the operational impact on the Agency. The Board continued to emphasise to the Agency the importance of member engagement and communication on this topic
- The Board received updates on the procurement of a new Pensions Platform
- 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

4.4.2 Scheme Advisory Board

The Scheme Advisory Board (SAB) has responsibility for providing advice to the responsible authority, at the authority's request, on the desirability of changes to the scheme.

The current members are

NHS Pension Scheme (Scotland) Advisory Board membership	Representing	Meetings attended	Out of a possible
Derek Lindsay	Employer (Co-chair)	6	6
Robin McNaught	Employer	5	6
Andrew Carter	Employer	5	6
Jane Christie Flight	Employer	3	6
Lorraine Hunter	Employer	6	6
Kay Sandilands*	Employer	2	5
Ruth Kelly**	Employer	0	1
Willie Duffy	Member (Co-chair)	6	6
Alan Robertson	Member	6	6
Graham Pirie	Member	3	6
Jackie Mitchell	Member	5	6
Ros Shaw	Member	6	6
Phil McEvoy	Member	1	6

* resigned 31/01/2022
** appointed 01/02/2022

Member biographies and the board's terms of reference can be found[14] here.

[14] https://pensions.gov.scot/nhs/scheme-governance-and-legislation/advisory-board#:~:text=The%20NHS%20Pension%20Scheme%20%28Scotland%29%20Advisory%20Board%20provides,from%20the%20existing%20staff-side%20and%20scheme%20employer%20representatives.

The SPPA Policy team acted as the key policy adviser and custodian for the NHS Scotland scheme regulations.

During the year SPPA policy officials:

- Participated in and provided general and technical pensions policy advice to the tri-partite Scheme Advisory Board (SAB) for the NHS Scotland Scheme, as well as secretariat support;
- 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
- Introduced regulations to deliver prospective remedy, moving all members into the 2015 scheme with effect from 1 April 2022;
- Worked with the SAB to shape and deliver communications to support the implementation of the prospective McCloud remedy
- Consulted with the SAB around significant reform to NHS member contributions which culminated in SAB advice to Ministers on shared priorities
- On behalf of Scottish Ministers, determined medical and non-medical appeals from applicants under the scheme's single stage internal disputes resolution procedure

4.5 Management Advisory Board

The advisory nature of the Management Advisory Board (MAB) 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 (Chief Executive) and are, therefore, neither personally nor collectively accountable for the Agency's performance.

The main role of the MAB is to assist the Agency to deliver its functions on behalf of Ministers. Members of the Board offer strategic advice and constructive challenge to the Chief Executive Officer and Executive Team; seek to improve performance; promote good governance; and advise on identifying and managing risk.

During the year, the MAB met on five occasions. The board's work has included:

- Considering the content of our 2021-22 Annual Business Plan and our 2022-27 Corporate Plan
- Receiving reports from the Chief Executive on our progress in achieving key tasks and the continued development of performance metric reporting
- 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 registers.
- Receiving quarterly financial and budgetary updates from the Head of Finance, Procurement and Risk.
- Considering financial statements such as our draft Annual Report and Accounts and draft annual report and accounts for the NHS Scotland and Scottish Teachers' Pension Schemes.
- Receiving regular updates on projects such as the Pension Platform Programme, McCloud Remedy and Annual Benefit Statements.

There is currently a gender balance on the Board. The Management Advisory Board are:
- Mark Adderley
- Ian Forbes
- Liz Holmes
- Helen Mackenzie
- Jane Malcolm
- Norman McNeil
- Lesley Fraser (Director General: Corporate for the Scottish Government, who is Portfolio Accountable Officer)

Biographies and meeting minutes are on the SPPA website[15] here

There were no changes to MAB members during the year, however Liz Holmes announced her intention to step down from the MAB following the April 2022 meeting. In April 2022, the SPPA Chief Executive wrote to the Minister confirming that following a successful Public Appointments recruitment process, two new members would be joining the MAB; Clare Scott and Elaine Cameron. Both Clare and Elaine commenced their roles on MAB with effect from May 2022.

Both the MAB and the Audit and Risk Committee (ARC) carried out a self-assessment of their effectiveness and their knowledge and understanding.

The ARC provided a full account of its activities on a quarterly basis to the MAB.

The Terms of Reference of the MAB were last amended and approved at the January 2021 meeting, however these will again be updated in line with the upcoming changes to the Agency Framework Document.

4.6 SPPA Executive Team

Following his appointment as Chief Executive on a substantive basis, David Robb introduced a new senior structure within the Agency, replacing the 'Senior Leadership Team' with a new 'Executive Team'. The new Executive Team structure did not result in any wider structural changes within the Agency but did simplify the operating model and reporting lines to the Executive Team.

At 31 March 2022 a number of the Executive Team roles remain interim:
- David Robb – Chief Executive, with effect from Dec 2021 (Interim from 26 April 2021)
- Craig Gardiner – Interim Chief Operating Officer from Dec 2021
- Karen Morley – Head of Finance, Procurement and Risk
- Garry Cossar: Interim Head of People, Strategy and Communications
- Iain Coltman – Interim Head of Policy

During the year, the following individuals served on the former 'Senior Leadership Team':
- Dev Dey: Head of Customer Services to 31 Jan 2022
- Rachel Miller: Interim Head of Operational Excellence to 31 Jan 2022
- Andre Morelli: Head of Digital Transformation and IT Operations to 31 Jan 2022
- Tom Nash: Head of Regulatory Affairs to 26 August 2021

Full biographies of the SPPA Executive Team can be found on our website[16] here

[15] https://pensions.gov.scot/about-us/management-advisory-board
[16] https://pensions.gov.scot/about-us/our-executive-team

4.7 Audit and Risk Committee

The MAB is supported by an Audit and Risk Committee (ARC) which comprises three of the MAB members. The ARC supports the Accountable Officer in discharging responsibilities for issues of risk and controls, finance, governance and associated assurance through a process of review, constructive challenge and providing relevant advice.

During the year, ARC met on five occasions. The Committee's work has included:
- Receiving updates and reports from senior managers to 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 our budget and out-turn position alongside financial performance against key metrics.
- Reviewing our 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, this includes risk registers and tracking of audit recommendations

During 2021-22 we also started undertaking a series of short, quarterly focus meetings with the ARC, referred to as "Deep Dives". These are in addition to the regular ARC meetings and allowed the ARC to discuss and seek assurance on particular risk areas within SPPA. Topics during 2021-22 have included Cyber Resilience, Complaints and McCloud Remedy.

4.8 Risk

During 2021-22 our key Agency risks related to data quality, cyber security and business intelligence. The latter two have been considerably mitigated by the Operational Excellence – now Corporate Office function.

Iterating the process we used in 2020-2021 using workshops and business plans to distil and identify risks, allocate a risk owner with responsibility for the risk description and score and advising on the mitigations and controls. Culturally Risk Registers are transparent and we are considering how best to achieve maximum accessibility.
The risks owners are expected to review the risks in their monthly meetings and the Risk Team meet with the ET one-to-one to discuss their strategic risks monthly. The strategic risks are discussed with ET monthly and presented to all boards quarterly and open for challenge.

Our highest rated Strategic Risks for 2021-2022 have a clear people theme* as we reflect on the churn and change the workforce has undergone and how we can best support our staff and through them our operational commitments.
* Talented / skilled staff (*)
* Engagement / culture (Internal) (*)
* Practitioners project
* Engage effectively (Externally)
* Attract / retain (*)
* Internal controls
* Data protection

Central to the NHS pension scheme risks is the Practitioners Contributions remediation project. The source of the issue is receipt of incorrect employee contributions. SPPA is working with Employers, Scottish Government and BMA to develop a pilot, test it and resource the project ahead of embarking on rolling the project out. The pilot will look at the root cause of the problem and develop options to address that with employers. SPPA are aware there are facets of this risk which has the potential to hugely impact members and has a legal timeframe around action.

Annual Benefit Statements and Annual Allowances also feature prominently on the NHS Pension Scheme risk register due to the breaches reported to The Pension Regulator. Delays in receiving data in a timely manner from employers has contributed to the delays in issuing statements. The Pension Board receives regular reports and is working with the business to agree appropriate measures to improve performance.

We are extremely conscious of the complexity and timing of both the Remedy 2015 and Pensions Platform Project. We have established project governance in place for each project and are working closely with supporting bodies on our response and how to communicate this to members.

Of note in relation to the people themed risks is the international external environment of individuals changing roles as working practices have changed post pandemic, SPPA felt this increase in recruitment demand. We are also extremely conscious of our responsibility to our staff and our Health and Safety Committee has supported our return to the office.

In reviewing our internal engagement and culture we are also looking outwards at how we best engage with our external stakeholders particularly our Pension Boards. We have recognised the untapped resources within these this year and have begun to shift the conversations towards a collegiate advisory relationship.

With many large external and internal activities impacting our operations the maintenance of our controls and data can be limited. For clarification no major incident has occurred however there is wider acknowledgement that our internal processes have not been consciously "plumbed" with a holistic view or eye to efficiency and as such could be improved. We maintain a Breaches Log for operational, data and regulatory breaches, that is presented to the scheme pension boards on a quarterly basis.

SPPA continues to follow Scottish Government guidance on Risk Management best practice and work closely with central and operational bodies on how to embed this. From mid-2021 we have established the Risk Champions network to further support the cultural education and engagement on risk. Risk Registers are derived from business plans and support the cascade of information from team risks through area risk registers to a strategic executive risk register

Business Continuity

SPPA has a **Business Continuity Plan** that is regularly reviewed and contacts and contingencies amended. It is supported by the Incident Management Process, Operational, Tactical and Strategic response teams and the Assessment of Business Critical Tasks. We are conscious a wholesale review of Business Continuity has not been completed since the pandemic and will be prioritised in the coming financial year.

Counter-Fraud

We have worked with Scottish Government and external bodies to clarify our response to potential **fraud** cases and review our policies. We contribute to the National Fraud Initiative and have worked with Police for two cases of identity fraud our members have suffered.

We have undertaken an external assessment of our vulnerability and assurance of existing controls with a view to further develop them in line with other Government Delivery Bodies.

4.9 Audit and Assurance

We have agreed with Audit Scotland that The 2020-2021 accounts recommendations replace the prior outstanding actions. This means we have now 6 key recommendations covering resource, workforce planning, financial strategy, reconciliations and Pensions Platform Programme.

Finance team capacity was noted as posing an increased risk to the timely production of the annual accounts and supporting the audit in 2020-21. Despite planning, training and use of contingent workers, the finance team has not had sufficient capacity to meet the original timelines agreed with Audit, resulting in further delays to the production and subsequent audit of annual report and accounts.
This links directly to the staffing risk on the Agency's risk register and is being actively managed by the Financial Controller and Head of Finance, Procurement and Risk, though mitigations available are extremely limited due to the skills required.

A significant finding from the audit of the 2020-21 financial statements was that the actuarial roll forward methodology was reliant upon an established roll forward methodology of membership data as at 31 March 2016.
In preparing these 2021-22 Resource Accounts the actuary's assessment of the scheme liability has been carried out by calculating the liability as at 31 March 2020 based on the data provided as at 31 March 2020 and rolling forward that liability to 31 March 2022. In so doing, we have addressed, as far as we are able, the significant finding.
Details of the 2020 Valuation are included on pages 5,10 and 15.

Internal Audit has completed the following new assurance reports : Financial Governance, Contract Management, and Capability and Capacity.
They have also reviewed and supported our progress to deliver the recommendations against previous years reports including: Teachers Retirals, Overtime, Accounts Payable, Workforce Planning and IT, Data Quality and Management Information, Customer Complaints, Workforce Planning and Culture

All Audit recommendations have been discussed at the quarterly Audit and Risk Committee and progress on embedding them is tracked and evidenced.

We are working closely with both Scottish Government Internal Audit and Audit Scotland to devise the best focus for consideration for next year.

4.10 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 as agreed with Scottish Ministers.

During the reporting period, the SPPA maintained established processes to monitor the processing of personal data and continue to develop a culture of data protection awareness. We record and report any breach to the Audit and Risk Committee (ARC) within an end of year report, even if escalation to the Information Commissioner's Office (ICO) is not warranted.

During 2021-22, 24 low risk personal data breaches relating to NHS scheme administration were reported internally to the Agency Data Protection Officer – an increase of seven on 2020-21. No breaches met the threshold as being reportable to ICO. 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 a breach in order to minimise harm to the data subject and to put in place the appropriate corrective measures.

On an annual basis, all staff are required to undertake Data Protection, Counter Fraud and Security training. The provision of a new Scottish Government training portal has enabled additional compulsory training, such as email Phishing awareness, to be included as of Quarter 4 2021-2022.

Cyber security actions that mitigate the risk of data losses and breaches have been outlined to ARC by means of an internal work plan aligning with the Scottish Public Sector Action Plan on Cyber Resilience. This includes promoting skills development, security threat awareness, supply chain security and embedding recognised IT security standards into penetration testing and baseline security checks. During Q4 of this reporting period, members of the NHS Pension Board were invited to attend a Cyber Security webinar hosted by SPPA and included a speaker from the Scottish Government's Cyber Resilience Unit to outline cyber risk in the context of the public sector.

4.11 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. The Agency's new Executive Team have been assigned Information Asset Owner responsibilities and provided with appropriate training and guidance in order to understand and address risks to information. This will ensure that information is fully used within the law and for public good which is confirmed in writing to the senior information risk owner annually. The Data Protection and Information Governance Manager monitors compliance with standards in the protection of information assets to enable the organisation to function effectively, safely and securely.

Our Information Assurance Framework document evidences the actions, procedures and policies undertaken by the Agency to meet the standards and best practice guidelines set out by the HMG Security Policy Framework. This forms part of our strategic approach to Information Assurance. The annual Information Assurance Maturity assessment carried out in April 2022 demonstrated we have achieved a steady state.

4.12 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

4.13 Written assurances

The 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 Chief Executive has received assurance from 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 March 2023

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 (FReM) 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 by Estimate line, providing a more detailed breakdown (note 5.2): a reconciliation of outturn to net operating expenditure in the SoCNE, to tie the SoPS to the financial statements (note 5.3): a reconciliation of 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 2021-22

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	2020-21
Budgeted Resources	**5.2**	4,109,711	-	4,109,711	4,114,400	-	4,114,400	-	4,689	3,495,700
Total Resources		4,109,711	-	4,109,711	4,114,400	-	4,114,400	-	4,689	3,495,700

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 5.2 SoPS and 5.3 SoPS.

Net Cash requirement 2021-22
All figures presented in £000's

	SoPS Note	Outturn	Estimate	Outturn vs Estimate, Saving /(Excess)	Prior Year Outturn 2020-21
Net cash requirement	**5.4**	**-**	**-**	**-**	-

Administration Costs 2021-22
All figures presented in £000's

		Outturn	Estimate	Outturn vs Estimate, Saving /(Excess)	Prior Year Outturn 2020-21
Administration costs		**-**	**-**	**-**	-

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** Programme				**Estimate**	**Outturn vs Estimate, saving/ (excess)**	Prior Year Outturn 2020-21
	Gross	Income	Net	Total	Total		Total
Voted Expenditure	6,119,609	(2,009,898)	4,109,711	4,109,711	4,114,400	4,689	3,495,700
Total Resource	6,119,609	(2,009,898)	4,109,711	4,109,711	4,114,400	4,689	3,495,700

Explanation of the variance between Resource Estimate and Outturn:

The outturn is greater than the Estimate by £179 million and is mainly due to:

- the current service cost being estimated using the 64.9% against the actual current service cost percentage of 76.7%.
- this was offset by an underestimate in employer and employee contributions receivable for the period.

Accrued resources for the NHSPSS and Scottish Teachers' Pension Scheme are covered by one limit in the Budget (Scotland) Act 2020. In 2021-22 the combined accrued resources of £5,966.4 million was below the combined limit of £6,026.8 million. Refer also to the Report of the Managers on pages 3 to 16.

5.3 SOPS Reconciliation of net resource outturn to net operating expenditure

All figures presented in £000's

	Reference	Resource Outturn	Prior Year Outturn 2020-21
Total Resource outturn	SoPS note 5.2	4,109,711	3,495,700
Less: Income paid/payable to the Consolidated Fund		-	-
Net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure	SOCNE	4,109,711	3,495,700

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

All figures presented in £000's

	Reference	Resource Outturn	Estimate	Outturn vs Estimate, Saving/(excess)
Total Resource outturn	SoPS note 5.2	(4,109,711)	(4,114,400)	4,689
Accruals to cash adjustments:				
Non-cash items		6,118,780	6,102,275	16,505
Movement in working balances		13,733	-	13,733
Use of Provisions:				
Adjustment to reflect movement in premature retirement provision	Note 13	(3,262)	-	(3,262)
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	(1,615,931)	(1,987,875)	371,944
Total		4,513,321	4,114,400	**398,921**
Funding (to) the Scottish Consolidated Fund		(403,610)	-	(403,610)
Net cash requirement		-	-	-

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 2022 there were no cash receipts in excess of budget (unapplied income) payable to the Scottish Consolidated Fund.

6. Losses and special payments

Losses Statement	**2021-22**	**2020-21**
Total number of losses	789	906
Total value of losses (£'000's)	32	52
Special Payments Statement	**2021-22**	**2020-21**
Total number of special payments	4	-
Total value of special payments (£'000's)	3	-

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 2022 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 the statement of accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 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 2022 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 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 three years. I am independent of the scheme in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the scheme. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have 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 scheme'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.

These conclusions are not intended to, nor do they, provide assurance on the scheme's current or future financial sustainability. However, I report on the scheme's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

I report in my Annual Audit Report 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 there is an intention to discontinue the scheme's operations.

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 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 my 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 in respect of irregularities explained in the audit of the financial statements section of my report, 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

Other information

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

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of 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 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 other information and I do not express any form of assurance conclusion thereon except on the Report of the Scheme's Managers and Annual 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 Annual 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 Annual 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 March 2023

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2022

	Note	2021-22 £m	2020-21 £m
Income			
Contributions receivable	3	(1,964.2)	(1,848.7)
Transfers in	4	(45.7)	(33.0)
		(2,009.9)	(1,881.7)
Expenditure			
Service cost	5	4,957.6	3,926.2
Enhancements	6	8.1	8.4
Transfers in - additional liability	7	45.7	33.0
Pension financing cost	8	1,107.5	1,401.1
Other expenditure	12	-	7.7
Premature retirement financing cost	13	0.7	1.0
Capitalised receipts	13	0.1	-
		6,119.7	5,377.4
Net Expenditure		**4,109.8**	**3,495.7**
Other Comprehensive Net Expenditure			
Pension re-measurements:			
Actuarial losses	11.5	3,694.5	6,425.8
Increase in premature retirement provision net of financing charge	13	0.9	1.8
Total Other Comprehensive Net Expenditure		**3,695.4**	**6,427.6**
Total Comprehensive Net Expenditure for the year ended 31 March		**7,805.2**	**9,923.3**

The notes on pages 49 to 64 form part of these financial statements.

Statement of Financial Position as at 31 March 2022

	Note	2022 £m	2021 £m
Current assets			
Receivables (within one year)	9.1	175.9	184.6
Current liabilities			
Payables (within one year)	10.1	(61.3)	(56.3)
Net current assets, excluding pension liability		**114.6**	**128.3**
Provisions for liabilities and charges			
Premature retirement provision	13	(53.0)	(55.3)
Pension scheme liability	11.2	(95,100.0)	(86,900.0)
Net liabilities, including pension liability		**(95,038.4)**	**(86,827.0)**
Taxpayers' equity			
General fund		(95,038.4)	(86,827.0)
		(95,038.4)	**(86,827.0)**

The notes on pages 49 to 64 form part of these financial statements.

David Robb
Accountable Officer

21 March 2023

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2022

	Note	2021-22 £m	2020-21 £m
Balance at 1 April (opening)		**(86,826.9)**	**(76,551.9)**
Funding to the Consolidated Fund	SOPS 5.4	(406.3)	(351.8)
Combined net expenditure	SoCNE	(4,109.8)	(3,495.7)
Other comprehensive net expenditure	SoCNE	(3,695.4)	(6,427.6)
Net change in taxpayers' equity		**(8,211.5)**	**(10,275.1)**
Balance at 31 March		**(95,038.4)**	**(86,827.0)**

The notes on pages 49 to 64 form part of these financial statements.

Statement of Cash Flows for the year ended 31 March 2022

	Note	2021-22 £m	2020-21 £m
Cash flows from operating activities			
Net expenditure for the year	SoCNE	(4,109.8)	(3,495.7)
Adjustments for non-cash transactions:			
(Increase)/decrease in receivables	SoFP	8.7	(35.5)
Increase in payables	SoFP	5.0	11.8
Movement in premature retirement:			
Provision	13	(2.4)	(1.2)
Net of financing cost	13	(0.9)	(1.8)
Movement in pension scheme liability:			
Service and financing cost	11.2	6,065.1	5,327.3
Enhancements and transfers in	11.2	53.7	41.4
Benefits paid	11.3	(1,590.8)	(1,476.7)
Refunds and transfers	11.4	(22.4)	(17.8)
Net cash inflows from operating activities		**406.3**	**351.8**
Cash flows from financing activities			
To Scottish Consolidated Fund		406.3	351.8
Net financing		**406.3**	**351.8**
Increase /(decrease) in cash and cash equivalents in the year		**0.0**	**0.0**

The notes on pages 49 to 64 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2022

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 2021-22 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

In addition to the primary statements prepared under International Financial Reporting Standards, the FReM 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 1.25% (2020-21 1.8%). The interest cost is determined by applying the nominal discount rate of 1.25% 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 increased to 1.55% from 31 March 2022.

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 credit method (PUCM) and is discounted based on the nominal discount rate of 1.55%.

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 17 to 22.

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 2022 has been carried out by rolling forward the liability from the funding valuation at 31 March 2020.

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 £0.9 million increase 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 1.25%. 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.

3. Pensions Contributions receivable

	Note	2021-22 £m	2020-21 £m
Employers		(1,350.9)	(1,264.4)
Employees:			
Normal		(605.3)	(575.9)
Purchase of additional pension		(8.1)	(8.4)
		(1,964.2)	**(1,848.7)**

4. Pensions Transfers In

		2021-22 £m	2020-21 £m
Individual transfers in from other schemes		(45.7)	(33.0)
		(45.7)	**(33.0)**

5. Service Cost

		2021-22 £m	2020-21 £m
Current service cost		4,957.6	3,926.2
Past service cost	2.6	-	-
	11.2	**4,957.6**	**3,926.2**

6. Enhancements

		2021-22 £m	2020-21 £m
Employees:			
Purchase of additional pension	3 & 11.2	8.1	8.4
		8.1	**8.4**

7. Transfers in - additional liability

		2021-22 £m	2020-21 £m
Individual transfers in from other schemes	4 & 2.4	45.7	33.0
		45.7	**33.0**

8. Pension financing cost

		2021-22 £m	2020-21 £m
Net interest on defined benefit liability	11.2	1,107.5	1,401.1
		1,107.5	**1,401.1**

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

	2021-22 £m	2020-21 £m
Amounts falling due within one year:		
Pension contributions due from employers	97.4	111.9
Employees' normal contributions	42.7	51
Employees' purchase of additional pension	0.4	0.7
Cash in transit	24.1	12.5
Other receivables	11.3	8.5
Total receivables	**175.9**	**184.6**

9.2 Intra-government balances

	2021-22 £m	2020-21 £m
Amounts falling due within one year:		
Balances with other central government bodies	26.2	12.7
Balances with NHS bodies	142.2	157.9
Balances with bodies external to government	7.5	14
Total receivables	**175.9**	**184.6**

10. Payables

10.1 Analysis by type

	Note	2021-22 £m	2020-21 £m
Amounts falling due within one year:			
Pensions		(25.7)	(24.7)
Overpaid contributions: employees	14	(13.7)	(13.7)
HM Revenue and Customs		(21.9)	(17.9)
Total payables		**(61.3)**	**(56.3)**

10.2 Intra-government balances

	2021-22 £m	2020-21 £m
Amounts falling due within one year:		
Balances with other central government bodies	(21.9)	(17.9)
Balances with bodies external to government	(39.4)	(38.4)
Total payables	**(61.3)**	**(56.3)**

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 2022. An actuarial valuation of the scheme for resource accounting purposes has been carried out as at 31 March 2022. The assessment of the pension liability as at 31 March 2022 has been carried out by rolling forward the liability from the funding valuation at 31 March 2020. The assessed actuarial liability as at 31 March 2022 is £95.1 billion. This compares to the liability of £86.9 billion as at 31 March 2021.

The Report of the Scheme's Actuary on pages 17 to 22 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	2022	2021	2020	2019	2018
Financial assumptions					
Rate of increase in salaries	4.15%	3.72%	4.10%	4.10%	3.95%
Inflation assumption	2.90%	2.22%	2.35%	2.60%	2.45%
Discount rate	1.55%	1.25%	1.80%	2.90%	2.55%
Life expectancy - Current pensioners					
Males (Age 60)	27.6	27.5	27.5	28.3	28.2
Males (Age 65)	22.8	22.7	22.6	23.4	23.3
Females (Age 60)	29.1	29.1	29.0	29.8	29.7
Females (Age 65)	24.2	24.2	24.1	24.8	24.8
Life expectancy - Future pensioners*					
Males (Age 60)	29.4	29.3	29.2	30.3	30.2
Males (Age 65)	24.4	24.4	24.3	25.3	25.2
Females (Age 60)	30.8	30.7	30.6	31.8	31.7
Females (Age 65)	25.8	25.8	25.7	26.7	26.6

* 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 heath.

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. 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 2.9% per annum. The above assumptions mean that the gross rate of investment return is assumed to be 1.55% per annum, and salary inflation 4.15% 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)	**2022**	**2021**	**2020**	**2019**	**2018**
Pensions in payment	22.7	19.8	19.0	17.2	16.8
Deferred pensions	6.8	5.4	4.9	4.1	4.4
Active members (past service)	65.6	61.7	52.7	41.2	40.9
Total	**95.1**	**86.9**	**76.6**	**62.5**	**62.1**

11.1.5 Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. These variables include not only the key financial assumptions noted in the table at 11.1.2 above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

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

The principal financial assumptions are:

- the discount rate
- general earning increases
- pension increases (currently based on CPI).

A key demographic assumption is pensioner mortality.

Table H page 21 in the Statement by the Scheme’s Actuary shows the indicative effects on the total Scheme liability as at 31 March 2022 of changes to these assumptions (rounded to the nearest 0.5%).

The Scheme 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 0.5% higher, then this would increase the total actuarial liability by about 11.0% (see table H page 21 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 page 21, 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

	Note	2021-22 £m	2020-21 £m
Scheme liability at 1 April		(86,900)	(76,600)
Service cost	5	(4,957.6)	(3,926.2)
Pension financing cost	8	(1,107.6)	(1,401.1)
		(6,065.2)	(5,327.3)
Enhancements	6	(8.1)	(8.4)
Pension transfers in	7	(45.7)	(33)
		(53.8)	(41.4)
Benefits payable	11.3	1,590.8	1,476.7
Pension payments to and on account of leavers	11.4	22.4	17.8
		1,613.2	1,494.5
Actuarial (loss)	11.5	(3,694.5)	(6,425.8)
Scheme liability at 31 March		**(95,100)**	**(86,900)**

During the year ended 31 March 2022, contributions represented an average of 30.3% of pensionable pay (2020-21 30.4%).

11.3 Analysis of benefits paid

	2021-22 £m	2020-21 £m
Pensions to retired employees	1,113.2	1,058.1
Pensions to dependents	70.4	67.0
Lump sum benefits on retirement	407.2	351.6
Per Statement of Cashflows	**1,590.8**	**1,476.7**

11.4 Analysis of payments to and on account of leavers

	2021-22 £m	2020-21 £m
Refunds to members leaving service	2.2	1.6
Individual transfers to other schemes	20.3	16.2
Contribution equivalent premium	-	-
Per Statement of Cashflows	**22.4**	**17.8**

11.5 Analysis of actuarial gain/(loss)

	2021-22 £m	2020-21 £m
Experience gain arising on the Scheme liabilities	505.5	1,474.2
Changes in demographic assumptions (other than mortality)	3,000.0	-
Changes in mortality assumptions	-	-
Changes to financial assumptions as at 31 March	(7,200.0)	(7,900.0)
Per Statement of Comprehensive Net Expenditure	**(3,694.5)**	**(6,425.8)**

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)

	2021-22	2020-21	2019-20	2018-19	2017-18
Experience gain arising on the Scheme liabilities:					
Amount (£m)	505.5	1,474.2	1,071.2	230.0	-
Percentage of the present value of the Scheme liabilities	0.5%	2%	1%	0%	0%
Total amount recognised in statement of changes in taxpayers' equity					
Amount (£m)	(3,694.5)	(6,425.8)	(11,073.8)	3,230.0	632.1
Percentage of the present value of the Scheme liabilities	(3.9%)	(7%)	(14%)	5%	1%

12. Other expenditure

	Note	2021-22 £m	2020-21 £m
Bad / Doubtful Debts:			
Overpayment of Scheme member pension	17	-	0.1
Pension contributions not received	14	-	7.6
		-	**7.7**

13. Movement in premature retirement provision

	2021-22 £m	2020-21 £m
Balance at 1 April	**(55.3)**	**(56.5)**
Capitalised receipts	(0.1)	-
Capitalised pension payments	4.0	4.0
Financing cost	(0.7)	(1.0)
(Increase) in premature retirement provision net of financing cost	(0.9)	(1.8)
Balance at 31 March	**(53.0)**	**(55.3)**
Movement in premature retirement provision	**2.3**	**1.2**

14. Provisions for liabilities and charges

	Note	2021-22 £m	2020-21 £m
Provision at 1 April		35.9	-
Provided in the year			
Pay award for NHS Scotland Agenda for Change staff		(14.6)	14.6
Pension contributions to be refunded	10.1	-	13.7
Impairment of pension contributions not received	12	-	7.6
Balance as at 31 March		**21.3**	**35.9**
Analysis of expected timing of any resulting outflows of economic benefits			
Payable in 1 year		20.7	35.3
Payable between 2 - 5 yrs		0.6	0.6
Total as at 31 March		**21.3**	**35.9**

Practitioners Pension Contribution Underpayments

The provision at 31 March 2022 of £21.3m relates to Practitioner pension contribution under and overpayments (£21.3m as at 31 March 2021). 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. No additional provision was made for this in 2021-22 due to reliable estimate being unavailable.

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.

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 and 2021-22 pension contributions. An analysis of these commenced in 2021-22 and is ongoing. The remediation project has initiated a pilot working with three health boards to determine the root cause and appropriate remediation.

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. A consistent approach across UK public service pension schemes is anticipated, but 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).

Scheme Pension Overpayments

A further contingent liability has been noted in respect of historic overpayments of Scheme pensions that may be written off during 2022-23.

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-minimus limit used when assessing whether cases are uneconomic to pursue.

	2021-22	**2020-21**
Number of cases where there was a loss	789	906
	£	**£**
Total loss	**32,198**	**51,517**
Consists of:		
- below set de-minimus limit	30,863	31,887
- Un-economic to pursue further / other reasons as per SPFM	1,335	19,360

There were no individual losses in excess of £300,000 which would require separate disclosure during the year to 31 March 2022 (nil 2020-21), or that have been recognised since that date.

18. Unclaimed refunds

These accounts include £7.13 million (2020-21: £7.25 million) payables for 16,474 members (2020-21: 16,716) who have left the Scheme but have not applied for a refund. There is a £0.1 million reduction in the refund liability from 2020-21 which increases refund expenditure in 2021-22. The Agency is working towards making these payments.

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

2020 funding valuation

The final directions to enable completion of the 2020 valuation are expected from HM Treasury during 2022. The results of the 2020 valuation including employer cost cap will be reported in the 2022-23 Annual Report and Accounts.

Judicial Review – McCloud Remedy Costs

In December 2021 several unions filed for a joint judicial review against the Government on the inclusion of the McCloud remedy costs within the cost control mechanism. On 4 July 2022 the Judicial Review was granted permission to be heard, with no further detail currently available on the timeline for a hearing. Even if the judicial review is successful, it is unclear what remedy the court may order, and the Government would then need to consider how to proceed following that.

Any attempt to predict such outcomes, such as any impact on scheme liabilities, would be highly speculative at this stage.

Mortality Rate Assumptions

In September 2022, our GAD colleagues made us aware of an issue with the data supplied to GAD for previous valuations of the NHS (England and Wales) Pension Scheme. The issue relates to the data which was used to set the mortality assumptions for the 2012 and 2016 valuations.

The mortality assumption adopted for the 2016 funding valuation for the NHS (Scotland) Pension Scheme (and subsequently recommended for the Resource Accounts of the NHS (Scotland) Pension Scheme since c. 2018) was based on that recommended for the NHS (England and Wales) Pension Scheme.

Analysis of the revised mortality assumptions has led GAD to confirm that they would have recommended adopting a mortality assumption for the 2012 and 2016 funding valuations that produced lower life expectancies (and so led to lower liabilities) than that which was recommended and subsequently adopted.

21. Accounts authorisation

The Accountable Officer authorised these financial statements for issue on

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.

A. J. Stafford

Signed by the authority of the Scottish Ministers

Dated 17 October 2016