

# Scottish Teachers' Pension Scheme

## 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/2023/68

## Contents

	Page
<b>Accountability Report</b>	
<b>Corporate Governance Report</b>	
1. Report of the Scheme Manager	3
2. Statement by the Scheme Actuary	16
3. Statement of Accountable Officer's responsibilities	22
4. Governance statement	23
<b>Parliamentary Accountability Disclosures and Audit Report</b>	
5. Statement of Outturn Against Parliamentary Supply	34
6. Losses and Special Payments disclosures	38
7. Independent auditor's report	39
<b>Financial statements</b>	
Statement of Comprehensive Net Expenditure	44
Statement of financial position	45
Statement of changes in taxpayers' equity	46
Statement of cash flows	47
Notes to the accounts	48

**Scottish Public Pensions Agency**

The Scottish Public Pensions Agency (SPPA) is responsible for the administration, on behalf of Scottish Ministers, of the Scottish Teachers' Pension Scheme (STPS) whose members comprise teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools. The costs of administering the scheme are not included within these accounts. These costs are reported in SPPA's annual report and accounts which are published on the Agency's web site at [SPPA annual reports and accounts | SPPA \(pensions.gov.scot\)](https://pensions.gov.scot/corporate-publications/annual-report-and-accounts)<sup>1</sup>.

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

---

<sup>1</sup> <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 STPS is managed correctly and provides information to aid understanding of the scheme.

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

#### 1.2 Managers and Advisors

##### Managers

Agency Accountable Officer

David Robb (with effect from 26 April 2021)  
*(Matthew Valente from 15 November 2020 to 31 March 2021)*  
 Chief Executive  
 Scottish Public Pensions Agency  
 7 Tweedside Park  
 Galashiels  
 TD1 3TE

Scheme Administrator

Sally Paterson (from 1 Sep 2022)  
 Customer Services 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

**Advisors cont'd**

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

**1.3 Background to the Scheme**

The Scottish Teachers' Pension Scheme (STPS) is a statutory, defined benefit unfunded public service pension scheme set out in two 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 was introduced from 1 April 2015. Prior to this, the Scheme was a final salary scheme which was reformed in 2007.

The relevant regulations are the Teachers' Superannuation (Scotland) Regulation 2005 for the scheme known as the Scottish Teachers' Superannuation Scheme (STSS), and the Teachers' Pensions Scheme (Scotland) (No.2) Regulations 2014 (the 2014 Regulations) for the reformed Scottish Teachers' Pension Scheme 2015 (STPS).

Following the 2015 reforms, all new members from 1 April 2015 joined the STPS but those final salary scheme members who were within 10 years of their normal retirement age as at 1 April 2012 remain fully protected and retain continued membership of their existing scheme. Those members who as at the 1 April 2012 were between 10 and 13 years 6 months of their retirement date received protection against the changes on a tapered basis. They move to STPS Scheme at a later date based on the length of their tapered protection. Those existing scheme members without protection moved to the STPS from 1 April 2015. The normal pension age (NPA) for members in the STPS is linked to their State Pension age. The transitional protection arrangements were found by the Court of Appeal to be unlawful<sup>2</sup> [[Lord Chancellor vs McCloud and Others 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 STPS and STSS provide a pension on retirement and for those members who joined the scheme before April 2007 there is an automatic tax-free lump sum. For those who joined after April 2007 or are members of the 2015 scheme a tax-free lump sum can be paid but it must be commuted from the member's pension. Both schemes provide benefits on death for members' families or their dependants and scheme members also have the option to transfer their pension between the STPS and another scheme when they move into or out of employment as a teacher 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 2014 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 at <https://pensions.gov.scot/teachers>.

#### **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.

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

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.

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. Following publication of the necessary amending HM Treasury Directions on 7 October 2021, the cost cap part of the 2016 actuarial valuation was rerun with the results [published](#)<sup>3</sup> 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 the SCAPE methodology between June 2021 and August 2021. Further details are included below.

The SCAPE discount rate changed from 3% above Consumer Price Index (CPI) 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 set employer contribution rates at 23.0% from 1 September 2019 until 31 March 2023, although the UK Government has since stated that the rates would continue until 31 March 2024. Employee contributions continued at the same rates within a range of 7.2% to 11.9% and are anticipated to deliver a yield of 9.4%.

---

<sup>3</sup> <https://www.gov.uk/government/publications/cost-cap-valuation-of-the-scottish-teachers-pension-scheme>

## SCAPE Consultation

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 published its response<sup>4</sup> in October 2021 and has introduced three changes to the mechanism:

- 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.

A decision on the SCAPE methodology is anticipated in Autumn 2022.

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 62 under Events after the Reporting Period.

## 1.5 Eligibility and Employers

Teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools are eligible to join the Scheme. At 31 March 2022 the number of employers was 145 (31 March 2021: 144).

Due to the changes in Scottish Education over a number of years, in 2015 the SAB appointed a working group to consider eligibility to the Pension Scheme. The Working Group has now concluded its work and its recommendations are with HM Treasury for consideration. HM Treasury consent is required for any changes to the Scheme regulations.

---

<sup>4</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1022938/CCM\\_RESPONSE.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1022938/CCM_RESPONSE.pdf)



## 1.6 Changes to the Scheme

### Scheme Regulations

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

#### **The Teachers' Pension Scheme (Scotland) Amendment Regulations 2022 (SSI 2022/102)**

This statutory instrument was consulted on between 24 November 2021 and 14 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 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 instrument contained a small number of minor amendments to ensure consistency and continuity.

### 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 2019, 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

### Guaranteed Minimum Pension (GMP)

The introduction of a single tier State Pension from 6 April 2016 ended 'contracted out' defined benefit pension schemes. SPPA has responsibility for tracking and maintaining GMP liabilities from that date. 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 3,998 STPS 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 (£175m) 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](#)<sup>5</sup>, has been established and is due to conclude in 2023.

<sup>5</sup> <https://pensions.gov.scot/news/goodwin-ruling-survivor-benefits-update>

## 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.

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<sup>6</sup> 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 STPS 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.

---

<sup>6</sup> <https://www.gov.uk/government/publications/cost-cap-valuation-of-the-scottish-teachers-pension-scheme>

## 1.8 Membership Statistics

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

<b>Active Members</b>	
<b>Total brought forward from 31 March 2021</b>	<b>77,010</b>
Adjustment in year <sup>7</sup>	(37)
<b>Revised active members as at 31 March 2021</b>	<b>76,973</b>
<b>Additions within the year</b>	
New members and re-joiners	5,818
<b>Leavers</b>	
Retirements	(1,838)
Leavers from active to deferred	(1,552)
Other leavers <sup>8</sup>	(769)
<b>Total Active Members as at 31 March 2022</b>	<b>78,632</b>
<b>Members with Deferred Liability</b>	
<b>Total brought forward from 31 March 2021</b>	<b>16,984</b>
Adjustment in year <sup>7</sup>	73
<b>Revised deferred members as at 31 March 2021</b>	<b>17,057</b>
Leavers from active to deferred	1,552
Other new deferred members	25
Members leaving deferred status	(1,068)
<b>Total members with Deferred Pension Liability as at 31 March 2022</b>	<b>17,566</b>
<b>Members Receiving a Pension</b>	
<b>Total brought forward from 31 March 2021</b>	<b>77,371</b>
Adjustment in year <sup>7</sup>	193
<b>Revised pension members as at 31 March 2021</b>	<b>77,564</b>
New Pensioners	2,967
Cessations	(2,114)
<b>Total Pensioners as at 31 March 2022</b>	<b>78,417</b>

<sup>7</sup> Member records are updated retrospectively, after the membership statistics are prepared for the scheme accounts. This is due to the volume of data required to be uploaded onto the pensions administration system from employers and the resolution of any subsequent data errors. The figures are therefore an estimate and an adjustment will be required each year to show a revised opening position and any movements between the closing position stated in the accounts in the prior year.

<sup>8</sup> 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's actuary in accordance with the requirements of International Accounting Standard 19 (IAS19) and HM Treasury's Financial Reporting Manual (FReM). More information on the methodology of the valuation is contained in the Statement by the Actuary at section 2.

The pension liability as at 31 March 2022 was £53.5 billion (31 March 2021 was £48.2 billion), which is an increase of £5.3 billion. Changes in financial assumptions underlying the present value of scheme liabilities accounted for £3.8 billion of this movement. The liability has increased 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 current service cost has increased by £2.2 billion due to the decrease in the discount rate net of CPI inflation between 31 March 2021 and 31 March 2022. Interest costs of £0.6 billion is the net result of an increase in liability and a reduction in the nominal discount rate. These increases were offset by a net experience gain of £0.1 billion due to a higher than expected pension increase, which increased the scheme liability and results in an experience loss and a lower than expected increase in actual pensionable pay, reducing the scheme liability and resulting in an experience gain. Benefits payable increased to £1.2 billion (see note 11.2 to the financial statements).

The Statement of Comprehensive Net Expenditure shows the net resource outturn. This is the cost of future pension benefits accrued in the year plus interest on Scheme liabilities, less any income received. In 2021-22 the total expenditure was £2,809.6 million and total income was £952.9 million giving a net expenditure of £1,856.7 million (2020-21: £1,690.2 million). This outturn represents an underspend of £55.7 million against the budget set for the STPS which totalled £1,912.4 million.

In cash terms, there was an excess of pension benefits paid over income received of £226.8 million (2020-21 £243 million) which was funded from the Scottish Consolidated Fund as detailed in the summary statement (table 1) below.

**Table 1: Cash Requirement from the Scottish Consolidated Fund**

	Note	2021-22 £m	2020-21 £m
Pension contributions		(945.8)	(927.3)
Transfers in		(6.8)	(5.3)
Other income		(0.3)	(0.8)
<b>Total income</b>		<b>(952.9)</b>	<b>(933.4)</b>
Pensions paid		1,042.0	1,028.8
Lump sums		137.2	132.8
Transfers out		1.9	2.4
Refunds		0.6	0.4
<b>Total benefits paid</b>		<b>1,181.7</b>	<b>1,164.4</b>
<b>Total income less total benefits paid</b>		<b>228.8</b>	<b>231.0</b>
Movement in debtors and creditors	SoCF	(2.0)	12.0
<b>Cash requirement from the Scottish Consolidated Fund</b>		<b>226.8</b>	<b>243.0</b>

### 1.10 Going concern

In common with many public pension schemes, the STPS is unfunded. The pension liabilities recorded in the Statement of Financial Position are not matched by investments or other assets, and consequently the Scheme shows net liabilities of £53.5 billion. Funding to meet pension payments as they fall due under the Scheme's regulations is made available from the Scottish Government's Annually Managed Expenditure budget. On this basis the Scheme 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 STPS 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 Scottish Teachers Pension Scheme have no responsibility for such arrangements. The Teachers 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 provide pension benefits such as an annuity, lump sum or income draw down.

Prudential is the appointed designated Stakeholder Pension Provider for the STPS. Employers provide a facility to enable staff to contribute through the payroll if they wish. No contributions are paid by employers or by the Managers of the STPS, nor does the Scheme have any responsibility in relation to the Stakeholder arrangements. These AVCs are not brought to account in these statements and are not audited by Audit Scotland.

The aggregate amount of AVC investments is detailed in the summary statement below.

### 1.13 Prudential Financial Services AVC Statement

<b>Funds under management</b>	<b>£</b>	<b>£</b>
<b>Opening balance as at 1 April 2021</b>		<b>139,303,843</b>
Changes in investment		(96,606)
<b>Revised fund brought forward at 1 April 2021</b>		<b>139,207,237</b>
<b>Income</b>		
Contributions invested	4,964,872	
Interest and bonuses estimated	8,871,066	
Switches in from other funds	1,111,982	
Transfers in from other AVC arrangements	14,714	
Transfers in relating to bonus histories	5,854	
<b>Total new investments</b>		<b>14,968,488</b>
<b>Expenditure</b>		
Retirement benefits	(14,714,865)	
Death - return of funds	(840,529)	
Early leavers – withdrawals	(4,349,813)	
Switches to other funds	(988,418)	
Annual management charges	(83,883)	
Unit linked funds price movement	396,240	
<b>Sale of investments</b>		<b>(20,581,268)</b>
<b>Closing balance as at 31 March 2022</b>		<b>133,594,457</b>

## 1.14 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.

## 1.15 Further information

Any enquiries about the STPS 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. Statement by the Scheme's Actuary

### Introduction

2.1 This statement has been prepared by the Government Actuary's Department ('GAD') at the request of the Scottish Public Pensions Agency ('SPPA'). It provides a summary of GAD's assessment of the scheme liability in respect of the Scottish Teachers' Pension Schemes 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 STPS are defined benefit schemes, providing pension and lump sum benefits on retirement, death and resignation. The schemes are wholly unfunded. I am not aware of any informal practices operated within the schemes 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	Total pensionable pay* (p.a.) £m
<b>Males</b>	18,626	714.0
<b>Females</b>	56,969	1,901.3
<b>Total</b>	75,595	2,615.3

\* Pensionable pay is the actual figure.

**Table B – Deferred members**

	Number	Total deferred pension* (p.a.) £m
<b>Males</b>	4,602	21.2
<b>Females</b>	12,590	48.4
<b>Total</b>	17,192	69.6

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

**Table C – Pensions in payment**

	Number	Annual pension* (p.a.) £m
<b>Males</b>	22,510	364.0
<b>Females</b>	51,041	600.5
<b>Spouses &amp; dependants</b>	8,990	53.6
<b>Total</b>	82,541	1,018.1

\* 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	31 March 2021
	p.a.	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 standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S1 tables' and the 'S2 tables,' with the percentage adjustments to those tables derived with reference to scheme experience.

**Table E – Post-retirement mortality assumptions**

Baseline mortality	Standard table <sup>9</sup>
<b>Males</b>	
Retirements in normal health	119% of S2NMA_L Age-dependent assumption: ≤75: 79% of S2IMA
Current ill-health pensioners	with underpin of 134% of S2NMA >75: 134% of S2NMA
Future ill-health pensioners	100% of S2IMA
Dependants	135% of S2NMA
<b>Females</b>	
	Age-dependent adjustments to S1NFA_L: ≤79: 84%
Retirements in normal health	80-84: 97% 85-89: 113% ≥90: 122%
Current ill-health pensioners	Age-dependent assumption: ≤75: 96% of S2IFA with underpin of 128% of S2NFA >75: 128% of S2NFA
Future ill-health pensioners	100% of S2IFA
Dependants	107% of S2DFA

2.10 These assumptions in Table E above are the same as those adopted for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2021.

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 4 to 13. 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.

<sup>9</sup> SAPS (S2) tables are published by the Actuarial Profession and based on the experience of self-administered pension schemes over the period 2004 to 2011. The 'S2' series has separate standard tables based on experience of members retiring in normal health (S2NXA and a low mortality variant S2NXA\_L) and in ill health (S2IXA) and for female dependants (S2DFA). There is no low mortality variant for female pensioners and so the previous S1 table is used for female normal health pensioners.

**Table F – Statement of Financial Position**

	<b>31 March 2022</b>	<b>31 March 2021</b>
	<b>£ billion</b>	<b>£ billion</b>
<b>Total market value of assets</b>	nil	nil
<b>Value of liabilities</b>	53.5	48.2
<b>Surplus/(Deficit)</b>	(53.5)	(48.2)
<b>of which recoverable by employers</b>	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 75.5% 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 7.2% and 11.9% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 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**

	<b>2021-22</b>	<b>2020-21</b>
	<b>% of pay</b>	<b>% of pay</b>
Employer contributions	23.0%	23.0%
Employee contributions (average)	9.5%	9.5%
<b>Total contributions</b>	<b>32.5%</b>	<b>32.5%</b>
<b>Current service cost (expressed as a % of pay)</b>	<b>75.5%</b>	<b>64.0%</b>

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 £2.9 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2021-22 (at 75.5% of pay) is assessed to be £2.2 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		
<b>Financial assumptions</b>			
i) discount rate*:	+0.5% p.a.	- 10.5%	- £5.6 billion
ii) (long-term) earnings increase*:	+0.5% p.a.	+ 2.0%	+ £1.1 billion
iii) pension increases*:	+0.5% p.a.	+ 9.5%	+ £5.1 billion
<b>Demographic assumptions</b>			
(iv) additional 1 year increase in life expectancy at retirement		+ 4.5%	+ £2.4 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. 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.

**Anne-Marie Pettie FFA**

**Actuary**

**Government Actuary's Department**

**1 June 2022**

### 3. Statement of Accountable Officer's responsibilities

Under section 19 of the Public Finance and Accountability (Scotland) Act 2000 the Scottish Ministers have directed the Scottish Public Pensions Agency to prepare a statement of accounts for each financial year in conformity with the accounts direction on page 63 of these financial statements, detailing the resources required, held or disposed of during the year and the use of resources by the SPPA during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the SPPA and of its income and expenditure, Statement of financial position, changes in taxpayers' equity, and cash flows for the financial year. The Principal Accountable Officer of the Scottish Government appointed the Chief Executive of the Scottish Public Pensions Agency as the Accountable Officer for the Agency. As Accountable Officer, the Chief Executive is responsible to the Scottish Ministers.

The responsibilities of the Accountable Officer are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer. They include 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 SPPA's assets. 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.

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

- Observe the accounts direction issued by the 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, unless it is inappropriate to presume that the SPPA will continue in operation
- Confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

David Robb  
Chief Executive,

## 4. 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 Teachers

In line with legal requirements effective from April 2015, the Scottish Teachers' 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<sup>10</sup> [here](https://pensions.gov.scot/sites/default/files/2021-02/SPPA_Pension_Scheme_Governance_Schematic_2021.pdf).

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 Teachers' pension schemes, as delegated by Scottish Ministers.

<sup>10</sup> [https://pensions.gov.scot/sites/default/files/2021-02/SPPA\\_Pension\\_Scheme\\_Governance\\_Schematic\\_2021.pdf](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

Teachers' Pension Board membership	Representing	Meetings attended	Out of a possible
Clare Scott*	Independent Chair	4	4
Ray Martin	Independent Vice Chair	4	4
Brian Cookson	Member	4	4
John Crighton	Member	4	4
David McGinty	Member	3	4
Drew Morrice	Member	4	4
Leah Stalker	Member	4	4
Graham Hutton	Member	2	4
Sharon McKenzie	Employer	4	4
Cllr Charles Buchan	Employer	4	4
Peter Smith	Employer	3	4
Andy McGoff	Employer	4	4
Louise Wright	Employer	4	4
Cllr Brian McGinley**	Employer	1	3

\* to September 2022

\*\* appointed 01/09/2021

Member biographies and the board's terms of reference can be found<sup>11</sup> [here](#).

The Pension Board has published its report for the year, which may be found<sup>12</sup> [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 more tailored and detailed scheme specific performance reporting

<sup>11</sup> <https://pensions.gov.scot/teachers/scheme-governance-and-legislation/pension-board>

<sup>12</sup> [https://pensions.gov.scot/sites/default/files/2022-](https://pensions.gov.scot/sites/default/files/2022-07/Scottish_Teachers%27_Pension_Board_Annual_Report_2021-22.pdf)

[07/Scottish\\_Teachers%27\\_Pension\\_Board\\_Annual\\_Report\\_2021-22.pdf](https://pensions.gov.scot/sites/default/files/2022-07/Scottish_Teachers%27_Pension_Board_Annual_Report_2021-22.pdf)

- The Board raised particular concerns with the Agency in respect of scheme data collection and management, highlighting the impact this has on Agency activities such as Annual Benefit Statements (ABS). The Board formed a sub group to assist the Agency in respect of employer data collation and continues to push the agency to ensure that a proper Data Improvement Plan is implemented in respect of both common and scheme specific data
- Following from the above point, the Board noted their dissatisfaction in not 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
- The Board received updates on the procurement of a new Pensions Platform and pushed the Agency to ensure that safeguards were in place to ensure adequate resourcing of the project and to ensure that projects risks were fully considered and mitigated
- 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, 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. The Board continues to challenge the Agency to ensure adequate breach reporting procedures are in place

#### 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

Scottish Teachers Scheme Advisory Board membership	Representing	Meetings attended	Out of a possible
Cllr Alastair Forsyth*	Employer	2	2
Andy Witty	Employer	1	3
Archie MacIver	Employer	3	3
Clair Ramage**	Employer	0	1
Cllr David Parker	Employer	0	3
Cllr Jim Goodfellow	Employer (Chair)	2	3
Cllr Phil Daggart	Employer	2	3
Simon Cameron	Employer	3	3
Vacancy	Employer	NA	NA
Vacancy	Employer	NA	NA
Vacancy	Employer	NA	NA
Vacancy	Employer	NA	NA
Dave Wilkinson	Member	3	3
Des Morris	Member	3	3
Dougie Atkinson	Member	0	3
Euan Duncan	Member	3	3
Fiona Dalziel	Member	3	3
Greg Dempster	Member	3	3
John Edward	Member	3	3
Louise Wilson	Member	3	3

Scottish Teachers Scheme Advisory Board membership	Representing	Meetings attended	Out of a possible
Mary Senior	Member	3	3
Michael Dolan	Member	3	3
Neil Shaw	Member	2	3
Stephen Stewart	Member	3	3

\* appointed 01/09/2021

\*\* resigned 12/08/2021

Member biographies and the board's terms of reference can be found<sup>13</sup> [here](#).

The SPPA Policy team acted as the key policy adviser and custodian for the Scottish Teachers 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 Scottish Teachers 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;
- Engaged a sub-group of the SAB to consider the policy definitions arising from the McCloud remedy in order to support implementation
- Worked with the SAB to finalise proposals to define and extend scheme eligibility which were presented to HM Treasury and will result in regulatory change
- 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.

<sup>13</sup> <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.>

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<sup>14</sup> [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 permanent 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.

---

<sup>14</sup> <https://pensions.gov.scot/about-us/management-advisory-board>

At 31 March 2022 a number of the Executive Team roles remain interim:

- David Robb – Chief Executive, with effect from December 2021 (Interim from 26 April 2021)
- Craig Gardiner – Interim Chief Operating Officer from December 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 January 2022
- Rachel Miller: Interim Head of Operational Excellence to 31 January 2022
- Andre Morelli: Head of Digital Transformation and IT Operations to 31 January 2022
- Tom Nash: Head of Regulatory Affairs to 26 August 2021

Full biographies of the SPPA Executive Team can be found on our website<sup>15</sup> [here](#)

#### 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.

<sup>15</sup> <https://pensions.gov.scot/about-us/our-executive-team>

## 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

There has been no legislative challenges specific to the teachers' pension schemes and the core risks echo those recognised by the Executive Team. The Teachers' Pension Board have been exemplary in reviewing historic breaches, helping the agency learn and so improve our controls to provide best service to our members.

We are also extremely conscious of the complexity of both the Remedy 2015 and Pension 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 during 2021-22 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 6,10 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, 11 low risk personal data breaches relating to Teachers 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 Teachers' 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 (FRoM) requires SPPA 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 Scottish Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

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

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

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

The supporting notes detail the following:

- outturn detail by Estimate line, providing a more detailed breakdown (SOPS note 5.2)
- a reconciliation of net resource outturn to net operating expenditure in the SoCNE, to tie the SOPS to the financial statements (SOPS note 5.3)
- a reconciliation of net resource outturn to net cash requirement (SOPS note 5.4)
- an analysis of income payable to the Scottish Consolidated Fund (SOPS 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 2020-21
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total	
Budgeted Resources	<b>5.2</b>	1,856,717	0	1,856,717	1,912,359	0	1,912,359	0	55,642	1,690,215.8
<b>Total Resources</b>		1,856,717	0	1,856,717	1,912,359	0	1,912,359	0	55,642	1,690,215.8

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

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	Prior Year Outturn 2020-21
<b>Net cash requirement</b>	<b>5.4</b>	226,830.8	282,150.0	55,319.2	243,000.0

### Administration Costs 2021-22

All figures presented in £000's

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

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

### 5.2 SOPS Outturn Detail by Estimate Line

All figures presented in £000's

Annually Managed Expenditure (AME)	Resource outturn				Estimate	Outturn vs Estimate, saving	Prior Year Outturn
	Programme						
	Gross	Income	Net	Total	Total		Total
Voted Expenditure	2,809,596	(952,879)	1,856,717	1,856,717	1,912,359	55,642	1,690,215.8
<b>Total Resource</b>	<b>2,809,596</b>	<b>(952,879)</b>	<b>1,856,717</b>	<b>1,856,717</b>	<b>1,912,359</b>	<b>55,642</b>	<b>1,690,215.8</b>

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 15.

### 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	1,856,717	1,690,215.8
<b>Less:</b> Income paid/payable to the Scottish Consolidated Fund		-	-
Net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure	SOCNE	1,856,717	1,690,215.8

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)
<b>Total Resource outturn</b>	SoPS note 5.2	(1,856,717)	(1,912,359)	55,642
<b>Accruals to cash adjustments:</b>				
Non-cash items		2,808,986	2,877,466	(68,480)
Movement in working balances		2,042	-	2,042
<b>Use of Provisions:</b>				
Adjustment to reflect movement in premature retirement provision	Note 13	(707)	-	(707)
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	(1,180,534)	(965,107)	(215,427)
<b>Total</b>		1,629,786	1,912,359	(282,573)
Funding from the Scottish Consolidated Fund		226,931	-	226,931
<b>Net cash requirement</b>		-	-	-

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.

### SOPS 5.5 Income payable to the Scottish Consolidated Fund

The cash requirement for the Scottish Teachers' Pension Scheme is part of the overall cash authorisations of the Scottish Government in the Budget (Scotland) Act 2020. In the year to 31 March 2022 there were no cash receipts in excess of budget (i.e. unapplied income) payable to the Scottish Consolidated Fund.

## 6. Losses and special payments

### Losses Statement

	<b>2021-22</b>	<b>2020-21</b>
Total number of losses	310	376
Total value of losses (£'000's)	15	25

### Special Payments Statement

No special payments were made during the year 2021-22 (Nil 2020-21)

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 the Scottish Teachers' Pension Scheme 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 5<sup>th</sup> 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](http://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 Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

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

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

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

### Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

### Conclusions on wider scope responsibilities

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

### Use of my report

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

*Gemma Diamond*

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

21 March 2023

## Financial Statements

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

	Note	2021-22 £m	2020-21 £m
<b>Income</b>			
Contributions receivable	3	(945.8)	(927.3)
Transfers in	4	(6.8)	(5.3)
Capitalised receipts	13	(0.3)	(0.8)
		<u>(952.9)</u>	<u>(933.4)</u>
<b>Expenditure</b>			
Service costs	5	2,191.8	1,821.4
Enhancements	6	1.6	1.7
Transfers in - additional liability	7	6.7	5.3
Pension financing cost	8	608.9	789.0
Other expenditure	12	-	4.9
Premature retirement financing cost	13	0.3	0.5
Capitalised receipts	13	0.3	0.8
		<u>2,809.6</u>	<u>2,623.6</u>
<b>Net expenditure for the year</b>		<u>1,856.7</u>	<u>1,690.2</u>
<b>Other comprehensive net expenditure</b>			
Pension remeasurements:			
Actuarial losses	11.5	3,671.5	3,240.9
Increase in premature retirement provision net of financing charge	13	2.0	2.3
<b>Total other comprehensive net expenditure</b>		<u>3,673.5</u>	<u>3,243.2</u>
<b>Total comprehensive net expenditure for the year ended 31 March</b>		<u>5,530.2</u>	<u>4,933.4</u>

The notes on pages 48 to 62 form part of these financial statements.

**Statement of Financial Position as at 31 March 2022**

	Note	2022 £m	2021 £m
<b>Current assets</b>			
Receivables (within one year)	9.1	83.9	84.7
<b>Current liabilities</b>			
Payables (within one year)	10.1	<u>(15.3)</u>	<u>(14.0)</u>
<b>Net current assets, excluding pension liability</b>		<b>68.6</b>	<b>70.7</b>
<b>Provisions for liabilities and charges</b>			
Premature retirement provision	13	(29.1)	(27.8)
Pension scheme liability	11.2	<u>(53,500.0)</u>	<u>(48,200.0)</u>
<b>Net liabilities including pension liability</b>		<b><u>(53,460.5)</u></b>	<b><u>(48,157.1)</u></b>
<b>Taxpayers' equity</b>			
General fund		<u>(53,460.5)</u>	<u>(48,157.1)</u>
		<b><u>(53,460.5)</u></b>	<b><u>(48,157.1)</u></b>

The notes on pages 48 to 62 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
<b>Balance at 1 April</b>		<b>(48,157.1)</b>	<b>(43,466.7)</b>
	SOPS		
Funding from the Scottish Consolidated Fund	5.4	226.8	243.0
Combined net expenditure	SoCNE	(1,856.7)	(1,690.2)
Other comprehensive net expenditure	SoCNE	(3,673.5)	(3,243.2)
Net changes in taxpayers' equity		<b>(5,303.4)</b>	(4,690.4)
<b>Balance at 31 March</b>		<b>(53,460.5)</b>	<b>(48,157.1)</b>

The notes on pages 48 to 62 form part of these financial statements.

**Statement of Cash Flows  
for the year ended 31 March 2022**

	Note	2021-22 £m	2020-21 £m
<b>Cash flows from operating activities</b>			
Net expenditure for the year	SoCNE	(1,856.7)	(1,690.2)
Adjustments for non-cash transactions:			
(Increase)/decrease in receivables	SoFP	0.8	(10.5)
Increase/(decrease) in payables	SoFP	1.3	(1.5)
Movement in premature retirement:			
Provision	13	1.3	2.4
Net of financing cost	13	(2.0)	(2.3)
Movement in pension scheme liability:			
Service and financing cost	11.2	2,800.7	2,610.4
Enhancements and transfers in	11.2	8.3	7.0
Benefits paid	11.3	(1,178.0)	(1,155.5)
Refunds and transfers	11.4	(2.5)	(2.8)
<b>Net cash outflow from operating activity</b>		<b>(226.8)</b>	<b>(243.0)</b>
<b>Cash flows from financing activities</b>			
Funding from the Scottish Consolidated Fund		226.8	243.0
<b>Net financing</b>		<b>226.8</b>	<b>243.0</b>
<b>Increase /(decrease) in cash and cash equivalents in period</b>			
		<b>-</b>	<b>-</b>

The notes on pages 48 to 62 form part of these financial statements.



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

### Accounts 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 Scottish Teachers' Pension Scheme (STPS)

STPS is an occupational pension scheme operated by the SPPA on behalf of teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools who satisfy the membership criteria. From 1 April 2015 the Scottish Teachers Pension Scheme 2015 was introduced. This scheme is a 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 the 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, Teachers' Pension Scheme (Scotland) (No. 2) Regulations 2014 as amended and the Teachers' Superannuation (Scotland) Regulations 2005 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. The Statement of 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 the Scheme 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 section 1.13 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 during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a 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 16 to 21.

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 Scottish Teachers' Pension Scheme (STPS) Compensation for Premature Retirement Scheme**

Compensation payments for the costs of service enhancements for staff leaving before their normal retirement age are met by employers. For administrative purposes, benefits are paid to the member and the employer is subsequently re-charged for the costs. Except where stated otherwise below, the accounting policies outlined at Note 2 above, apply.

Employers have the option to capitalise the early retirement costs of employees. This transfers liability for payment to the pension scheme. Liability is discharged as benefits are paid. The premature retirement provision is valued annually using longevity factors based on the current Treasury discount rate to take account of the Net Present Value (NPV) of cash flows in the intervening year. The financing charge is based on a 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. There is a £1.9 million increase in the premature retirement provision liability as a result of the revaluation and other adjustments (see note 13).

## 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 STPS 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.

<b>3. Pension contributions receivable</b>		<b>2021-22</b>	<b>2020-21</b>
	Note	£m	£m
Employers		(667.7)	(654.6)
Employees:			
Normal		(276.5)	(271.0)
Purchase of additional pension		(1.6)	(1.7)
		<b>(945.8)</b>	<b>(927.3)</b>
<b>4. Pension transfers in</b>		<b>2021-22</b>	<b>2020-21</b>
		£m	£m
Individual transfers in from other schemes	7 & 2.4	(6.7)	(5.3)
		<b>(6.7)</b>	<b>(5.3)</b>
<b>5. Service cost</b>		<b>2021-22</b>	<b>2020-21</b>
		£m	£m
Current service cost	2.6 & 11.2	2,191.8	1,821.4
		<b>2,191.8</b>	<b>1,821.4</b>
<b>6. Enhancements</b>		<b>2021-22</b>	<b>2020-21</b>
		£m	£m
Employees:			
Purchase of additional pension	3 & 11.2	1.6	1.7
		<b>1.6</b>	<b>1.7</b>
<b>7. Transfers in - additional liability</b>		<b>2021-22</b>	<b>2020-21</b>
		£m	£m
Individual transfers in from other schemes	4 & 2.4	6.7	5.3
		<b>6.7</b>	<b>5.3</b>

<b>8. Pension financing cost</b>		<b>2021-22</b>	<b>2020-21</b>
		£m	£m
Net interest on defined benefit liability	11.2	608.9	789.0
		<b>608.9</b>	<b>789.0</b>

**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 19<sup>th</sup> 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.

<b>9.1 Analysis by type</b>		<b>2021-22</b>	<b>2020-21</b>
		£m	£m
<b>Amounts falling due within one year</b>			
Pension contributions due from employers		54.0	51.8
Employees' normal contributions		22.4	21.5
Employees' purchase of additional pension		0.1	0.1
Cash in transit		5.6	10.2
Other receivables		1.8	1.1
		<b>83.9</b>	<b>84.7</b>

<b>9.2 Intra-government balances</b>		<b>2021-22</b>	<b>2020-21</b>
		£m	£m
<b>Amounts falling due within one year</b>			
Balances with other central government bodies		5.8	10.4
Balances with local authorities		64.6	63.4
Balances with bodies external to government		13.5	10.9
		<b>83.9</b>	<b>84.7</b>

## 10. Payables

### 10.1 Analysis by type

	2021-22 £m	2020-21 £m
<b>Amounts falling due within one year</b>		
Pensions	(3.3)	(2.4)
Tax due to HM Revenue and Customs	(12.0)	(11.6)
	<b>(15.3)</b>	<b>(14.0)</b>

### 10.2 Intra-government balances

	2021-22 £m	2020-21 £m
<b>Amounts falling due within one year</b>		
Balances with other central government bodies	(12.0)	(11.6)
Balances with bodies external to government	(3.3)	(2.4)
	<b>(15.3)</b>	<b>(14.0)</b>

## 11. Provision 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 £53.5 billion. This compares to the liability of £48.2 billion as at 31 March 2021.

The Statement by the Scheme's Actuary on pages 16 to 21 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:

As at 31 March	2022	2021	2020	2019	2018
<b>Financial assumptions</b>					
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%
<b>Life expectancy (years) – Current pensioners</b>					
Males (Age 60)	27.0	26.9	26.8	27.7	27.6
Males (Age 65)	22.1	22.0	22.0	22.8	22.7
Females (Age 60)	29.0	29.0	28.9	29.7	29.6
Females (Age 65)	24.1	24.0	23.9	24.7	24.6
<b>Life expectancy (years) – Future pensioners*</b>					
Males (Age 60)	28.7	28.6	28.5	29.6	29.5
Males (Age 65)	23.7	23.6	23.6	24.6	24.5
Females (Age 60)	30.6	30.5	30.4	31.5	31.4
Females (Age 65)	25.6	25.5	25.4	26.4	26.3

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

Future improvements in mortality are now assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a small reduction in life expectancies. The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics (refer to Statement by the Actuary section 2.26).

Long-term price inflation is assumed to be 2.90% per annum. The above assumptions therefore mean that the gross rate of investment return is assumed to be approximately 1.55% per annum, and salary inflation close to 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 used in Treasury forecasting. The rates are set out in the table in note 11.1.2. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.



11.1.4 In accordance with IAS 19 the Scheme Managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions 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 Statement by the Actuary.

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

<b>Value of liabilities (£billions) at 31 March</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Pensions in payment	19.0	16.1	16.2	19.5	18.6
Deferred pensions	2.6	2.3	2.1	1.9	1.9
Active members	31.9	29.8	25.2	15.3	15.7
<b>Total liabilities</b>	<b>53.5</b>	<b>48.2</b>	<b>43.5</b>	<b>36.7</b>	<b>36.2</b>

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

11.1.6 The value of the Scheme liability included in the Statement of Financial Position may be significantly affected by even small changes in assumptions. If, for example, at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation, the value of the pension scheme 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 Scheme liability charged or credited for the financial year, resulting from changes in assumptions, is disclosed in notes 11.5 and 11.6. The notes also disclose "experience" gains or losses for the financial year, showing the amount charged or credited because events have not coincided with assumptions made for the last valuation. A sensitivity analysis for each significant actuarial assumption as at the date of the Statement of Financial Position is included in table H in the Statement by the 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 in the Statement by the 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 Scheme 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 Scheme liability by about 6.5% (see table H of the Statement by the Actuary). The impact of changes in pensioner mortality assumptions are also significant.

The sensitivities detailed in table H within the Statement of the Actuary 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
<b>Scheme liability at 1 April</b>		(48,200.0)	(43,500.0)
Current service cost	5	(2,191.8)	(1,821.4)
Pension financing cost	8	(608.9)	(789.0)
		<u>(2,800.7)</u>	<u>(2,610.4)</u>
Enhancements	6	(1.6)	(1.7)
Pension transfers in	7	(6.7)	(5.3)
		<u>(8.3)</u>	<u>(7.0)</u>
Benefits payable	11.3	1,178.0	1,155.5
Pension payments to and on account of leavers	11.4	2.5	2.8
		<u>1,180.5</u>	<u>1,158.3</u>
Actuarial (loss)	11.5	(3,671.5)	(3,240.9)
<b>Scheme liability at 31 March</b>		<b><u>(53,500.0)</u></b>	<b><u>(48,200.0)</u></b>

During the year ended 31 March 2022, contributions represented an average of 36.2% of pensionable pay (2020-21 32.5%).

## 11.3 Analysis of benefits paid

	2021-22 £m	2020-21 £m
Pensions to retired employees	986.3	971.7
Pensions to dependents	54.5	51.0
Lump sum benefits on retirement	137.2	132.8
<b>Per Statement of Cash Flows</b>	<b><u>1,178.0</u></b>	<b><u>1,155.5</u></b>

## 11.4 Analysis of payments to and on account of leavers

	2021-22 £m	2020-21 £m
Refunds to members leaving service	0.6	0.4
Individual transfers to other schemes	1.9	2.2
Group transfers to other schemes	-	0.2
<b>Per Statement of Cash Flows</b>	<b><u>2.5</u></b>	<b><u>2.8</u></b>

**11.5 Analysis of actuarial gains/(loss)**

	2021-22 £m	2020-21 £m
Experience gain arising on the Scheme liabilities	128.5	659.1
Changes to financial assumptions as at 31 March	(3,800.0)	(3,900.0)
<b>Per Statement of Comprehensive Net Expenditure</b>	<b>(3,671.5)</b>	<b>(3,240.9)</b>

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
<b>Experience gain arising on the Scheme liabilities:</b>					
Amount (£m)	128.5	659.1	658.4	50.9	230.7
Percentage of the present value of the Scheme liabilities	(0%)	1%	2%	0%	1%
<b>Total amount recognised in the Statement of Changes in Taxpayers' Equity</b>					
Amount (£m)	(3,671.5)	(3,240.9)	(5,491.6)	1,250.9	1,230.7
Percentage of the present value of the Scheme liabilities	7%	(7%)	(13%)	3%	3%

**12. Other expenditure**

	Note	2021-22 £m	2020-21 £m
Debtors Impairment:			
Overpayment of Scheme member pension	14 & 17	-	4.9
		-	<b>4.9</b>

**13. Movement in premature retirement provision**

	2021-22 £m	2020-21 £m
<b>Balance at 1 April</b>	<b>(27.8)</b>	<b>(25.4)</b>
Capitalised receipts	(0.2)	(0.8)
Capitalised pension payments	1.2	1.2
Financing cost	(0.3)	(0.5)
(Increase) in premature retirement provision net of financing cost	(2.0)	(2.3)
<b>Balance at 31 March</b>	<b>(29.1)</b>	<b>(27.8)</b>
<b>Movement in premature retirement provision</b>	<b>(1.3)</b>	<b>(2.4)</b>

14. Provisions for liabilities and charges		2021-22	2020-21
		£m	£m
<b>Provision at 1 April</b>		5.0	-
Provided in the year:			
Pension underpayments	10.1	-	0.1
Impairment of pension overpayments	12	-	4.9
<b>Balance as at 31 March</b>		<b>5.0</b>	<b>5.0</b>
<b>Analysis of expected timing of any resulting outflows of economic benefits</b>			
Payable in 1 year		5.0	5.0
<b>Total as at 31 March</b>		<b>5.0</b>	<b>5.0</b>

#### **GMP Rectification Exercise - Pension Under and Overpayments**

The provision at 31 March 2022 of £5m relates to Scheme pension under and overpayments which have been identified by the GMP Rectification project (£nil as at 31 March 2021). It includes underpaid pension which is to be refunded to members and dependants and the impairment of pension overpayments made to Scheme members and dependants (see note 12).

#### **15. Contingent liabilities**

##### **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.

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

As a result of the court ruling of 20 November 2020 that scheme trustees are required to revisit past Cash Equivalent Transfer Values (CETVs) to ensure GMP equalisation has been achieved and members received their full entitlement, this may result in additional top-ups where GMP equalisation means that members did not receive their full entitlement. The ruling may require the STPS 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).

##### **Teachers' Reduced Pay Employer Contribution Overpayments**

The Agency is currently addressing an issue relating to the overpayment of pension contributions by a number of employers for Scheme members during periods when the members were on reduced pay such as maternity leave or sick leave. The agency has identified and addressed the potential source of the issue and is currently establishing the scale of the breach in order to plan remedial action and has reported this to The Pension Regulator (TPR) in October 2021.

### 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 STPS falls within the limits of The Scottish Government which is regarded as a related party. During the year, the Scheme has had material transactions with teachers' employers and Scottish Government departments whose employees are members of the Scheme. None of the managers of the Scheme, key managerial staff or other related parties have 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	310	376
	<b>£</b>	<b>£</b>
Total loss (£)	14,736	24,945
<b>Consists of:</b>		
- below set de-minimus limit	14,555	16,418
- Un-economic to pursue further / other reasons as per SPFM	181	8,527

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

## 18. Financial instruments

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

## 19. 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.

## 20. Accounts Authorisation

The Accountable Officer authorised these financial statements for issue on



**SCOTTISH TEACHERS' PENSION SCHEME**

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

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

Signed by the authority of the Scottish Ministers

Dated 17 October 2016