

NHS Pension Scheme (Scotland)

Annual Report and
Accounts 2022/23



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

SG/2023/234



Scottish Government
Riaghaltas na h-Alba

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Scottish Public Pensions Agency



Scottish Public
Pensions Agency
Buidheann Peinnseanan
Poblach na h-Alba

The Scottish Public Pensions Agency (SPPA) is responsible for the administration, on behalf of Scottish Ministers, of the NHS Pension Scheme (Scotland) (NHSPSS). Members comprise NHS employees of all types (for example, hospital consultants, nurses, porters and administrators) employed by Health Boards and a range of smaller employers, as well as General Medical Practitioners, their staff, and Dental Practitioners. The costs of administering the scheme are not included within these accounts. These costs are reported in SPPA's annual report and accounts, which are published on the Agency's **website**¹

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



¹ <https://pensions.gov.scot/corporate-publications/annual-report-and-accounts>

Accountability Report



Corporate Governance Report

1. Report of the Scheme Manager

1.1 Introduction

This report provides a summary of the arrangements which ensure the NHSPSS is managed in accordance with legislative guidelines and provides information to aid understanding of the scheme.

There is a range of information about the NHSPSS available on the [Agency website](#)

1.2 Managers and advisors

Managers

Agency Accountable Officer	David Robb Chief Executive Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE
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Scheme Administrator	Sally Paterson (from 1 Sep 2022) Customer Service Manager (Paplu Dey (to 31 Aug 2022) Head of Customer Services) Scottish Public Pensions Agency 7 Tweedside Park Galashiels TD1 3TE
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Advisors**Scheme Actuary**

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1.3 Background to the Scheme

The NHS Pension Scheme (Scotland) (NHSPSS) is a statutory defined benefit unfunded public service pension scheme set out in three main sets of regulations. Following the reform of public service pensions by the Public Service Pensions Act 2013 (the 2013 Act) a new Career Average Revalued Earnings (CARE) scheme, the NHS Pension Scheme (Scotland) 2015 was introduced from 1 April 2015 (the 2015 scheme). Prior to this, the Scheme was a final salary scheme set out in two sections (the 1995 section and the 2008 section). Although both sections provide final salary benefits there are differences in the normal pension age, benefit accrual, lump sum provisions and other aspects.

Following the 2015 reforms, all new members from 1 April 2015 joined the 2015 scheme and all members of the 1995 and 2008 section who did not qualify for protection against the changes also moved to the 2015 scheme with all final salary service accrued up to the point of transfer preserved with a link to final salary at retirement. Full protection from reforms was provided to those members who were within 10 years of their normal retirement age as of 1 April 2012. Other members who were between 10 years and 13 years 5 months of their retirement date as of 1 April 2012 received transitional protection on a tapered basis, moving to the CARE scheme at some point before March 2022. The 1995 and 2008 sections remained open for those members with full and transitional protection until 31 March 2023. Members who have service in either the 1995 or 2008 sections and the CARE scheme when they retire will have a final pension containing both elements. The transitional protection arrangements were found by the Court of Appeal to be unlawful² **[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. The Public Service Pensions and Judicial Offices Act 2022 was introduced on 10 March 2022. More information on age discrimination and transitional protection can be found in section 1.7.

Both the 2015 scheme and the 1995 and 2008 sections provide a pension on retirement and a tax-free lump sum option. The 1995 section provides a pension based on 1/80th of each year of a member's final pensionable pay for each year of service, plus a lump sum of three times the pension. The 2008 section provides a pension based on 1/60th of final pay (or the best of the last ten years' pay) for each year of service. Generally, up to 25% of the capital value of the pension may be commuted to a lump sum on 1:12 basis. In the

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

2015 scheme, pension accrues on a different basis, of 1/54th of pensionable earnings each year, revalued annually by Consumer Price Index (CPI) +1.5%. Again, at retirement, some of the pension can be commuted to a lump sum. Both the 2015 scheme and 1995 and 2008 sections provide benefits on death for members' families or their dependants. Scheme members also have the option to transfer their pension between the NHS Scheme and another scheme when they move into or out of NHS employment in Scotland. However, a transfer to a scheme that provides flexible benefits has been prohibited since 6 April 2015, a restriction that applies to all unfunded public service schemes.

Scheme Governance

The 2013 Act, which introduced the 2015 reforms, also required new scheme governance arrangements to be established. The 2015 scheme regulations accordingly provided for the introduction of a Scheme Pension Board and Scheme Advisory Board (SAB). The role of the Pension Board is to assist the Scheme Manager in the operational delivery of the pension scheme in line with scheme and other legislation, and to meet the requirements imposed by the Pensions Regulator. The Scheme Manager is the Scottish Ministers, with the 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 Community Wealth and Public Finance having responsibility for devolved public service pensions.

Both boards and associated subgroups met regularly during 2022-23. Details of scheme governance and legislation, including membership of the SAB and pension board, are available on the **SPPA website³**

³ <https://pensions.gov.scot/nhs#Schemegovernanceandlegislation>

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 employees and those employees who have previously opted out. Contribution rates and benefits are set by Scottish Ministers on advice from the Scheme actuary.

Member contributions

Pensionable earnings band in 2022/2023	Contribution percentage rate from 1 April 2022
Up to £21,614	5.2%
£21,615 to £25,981	5.8%
£25,982 to £32,914	7.3%
£32,915 to £66,017	9.5%
£66,018 to £92,423	12.7%
£92,424 to £123,147	13.7%
£123,148 and above	14.7%

Contributions payable by scheme members are structured on a tiered basis, depending on the member's whole-time equivalent pensionable pay. The rates were set in 2015 and are designed to achieve an overall yield of 9.8% of total pensionable pay. However, the pensionable pay bandings used to determine the rates are adjusted each year in line with the NHS Scotland Agenda for Change pay award. The rates applicable for the reporting year 2022-23 are contained in the National Health Service Superannuation and Pension Schemes (Miscellaneous Amendments) (Scotland) Regulations 2022 (SSI 2022/117).⁴

⁴ The National Health Service Superannuation and Pension Schemes (Miscellaneous Amendments) (Scotland) Regulations 2022 (legislation.gov.uk)

Employer contributions

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. Further details of the 2020 valuation exercise is considered on page 14. For the purposes of the 2022-23 accounts the 2016 valuations still stand as the 2020 valuation were not yet finalised. The valuation measures the full costs of paying pension benefits and informs the employer contribution rate. The employer cost cap is a mechanism that aims to ensure that the costs of pension provision are shared consistently between employers, taxpayers and members.

The latest valuation of the scheme is based on data as at 31 March 2020 (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. In 2018, as required by the scheme regulations the advice of the SAB was requested on how the cost breach could be rectified. The SAB discussed a number of options, however in January 2019, the UK Government suspended the cost cap part of the valuation process. This arose because of the decision from the Court of Appeal on 20 December 2018 that held that the transitional protections provided as part of the 2015 reforms unlawfully discriminated on the grounds of age. The cost cap part of the valuation was re-run with the results **published⁵** by the Government Actuary on 6 May 2022. The revised results showed that there had been no breach of the employer cost cap.

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

The SCAPE discount rate changed from 3% above CPI to 2.8% above CPI on 16 March 2016 and reduced further to 2.4% over CPI from 1 April 2019. In March 2023 SCAPE was revised to 1.7% over CPI. Changes in the discount rate are not included when assessing changes in the employer cost cap.

⁵ <https://www.gov.uk/government/publications/cost-cap-valuation-of-the-nhs-pension-scheme-scotland>

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

HM Treasury consulted on proposed changes to the UK government's cost control mechanism in public sector pension schemes between 24 June 2021 and 19 August 2021, alongside a second consultation on the SCAPE discount rate methodology used for public service pensions. Following the cost control mechanism consultation, the UK Government has introduced three changes to the mechanism⁶ that will be effective from the valuation of the Scheme as at 31 March 2020: the first is the widening of the cost cap "corridor" for the mechanism so that movement in the costs of the scheme of +/- 3% may be disregarded (rather than the previous 2%); secondly, requiring the cost cap mechanism to include reformed (2015) scheme costs only; and thirdly introducing an economic check where the mechanism may only lead to benefit changes where this is in line with long-term economic outlook.

In March 2023, HM Treasury published its full response to the public consultation on SCAPE methodology. This confirmed that the current approach for setting SCAPE by reference to UK Gross Domestic Product, would be retained, Secondly, the rate would be reviewed every four years, in line with the valuation cycle for public service schemes.⁷ In addition, the rate was revised to 1.7% over CPI. This has prompted a review of the actuarial factors of the scheme, which will be introduced in a phased approach over the summer of 2023. In addition, it confirms the key financial assumption to be used for the 2020 scheme valuation.

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. Results will be reported in future Annual Reports.

In December 2021 several trade 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. In 2023, the Courts ruled in favour of the UK Government, however it is understood that this decision is being appealed.

⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1022938/CCM_RESPONSE.pdf

⁷ <https://www.gov.uk/government/consultations/public-service-pensions-consultation-on-the-discount-rate-methodology>

1.5 Eligibility and employers

NHS staff, including General Medical and Dental Practitioners, employed by Scottish Health Boards and a range of smaller employers, including General Medical Practices, are eligible to join the Scheme. At 31 March 2023 the number of employers was 873 (31 March 2022: 889).

1.6 Changes to the Scheme

During 2022-23 there were no changes to the NHSPSS made by Scottish Statutory Instrument (SSI). Significant work was undertaken in preparation for legislative changes required to fully deliver and implement 2015 Remedy, with legislation coming into force as of 1 October 2023.

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 2022, CPI was 10.1%. As a result, an increase of 10.1% was applied from April 2023 for pensions in payment and deferred pensions.

1.7 Looking forward

Guaranteed Minimum Pension (GMP)

A court ruling of 20 November 2020 means that scheme managers and trustees are required to revisit past Cash Equivalent Transfer Values (CETVs) to ensure Guaranteed Minimum Pension (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 they were equalised. The scope of any costs is 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 on the UK Government [website](#)

Goodwin Ruling

The Goodwin ruling was a court case that identified that male survivors of opposite-sex marriages and civil partnerships were treated less favourably than survivors in same-sex marriages and civil partnerships. This ruling only affects the NHS and teachers' pension schemes where the scheme rules were changed to ensure equality moving forward.

The Goodwin Project was split into three stages.

Stage One was to amend all existing calculations to ensure all dependants' benefits are accurate moving forward. This stage is complete with all dependants' benefits now calculating accurately which means the volume of cases we need to make amendments to will not increase.

Stage Two was to refund all dependant members who had elected to purchase additional family benefits service. The court ruling means that the members would not have needed to purchase these additional benefits, they would have been entitled to receive these automatically. This stage is complete with no further action required.

Stage Three relates to dependant benefits already paid out at a lower value than the dependant is now entitled to. This stage of the project has not yet been concluded. There are a total of 4,903 payments that need to be amended with a new pension put into payment and arrears payments due.

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 1 April 2012 allowing them to continue in their existing arrangements, 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 on 6 May 2022.

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

2020 Scheme Valuation

As reported in Section 1.4 Scheme Valuation and Contribution Rates on page 9, Scheme valuations are carried out on a quadrennial basis. The Government Actuary Department (GAD) has completed the 2020 valuation, which will set the employer contribution rate from 1 April 2024.

Retirement flexibilities

In the reporting year, the SPPA consulted on the introduction of a number of flexibilities for members retiring or for those who have retired and wish to return to work. These included changes to the scheme to allow 1995 section members who return to work after taking their benefits. This would allow these members, who had previously been prevented for re-entering pensionable employment, to re-join the 2015 Scheme from 1 April 2023 and build up further pension if they wish. From 1 October 2023, partial retirement will also be extended to members of the 1995 Section who will be able to take between 20% and 100% of their pension benefits without having to leave their current job.⁸

⁸ <https://pensions.gov.scot/nhs/scheme-governance-and-legislation/consultations>

2015 Scheme revaluation date

As part of the consultation on retirement flexibilities, SPPA proposed to move the date on which member's in-service benefits are revalued from 1 April to 6 April. This brings the process in line with the tax year and simplifies the calculations for annual allowance. The revaluation process is delivered legislatively via Treasury Order and the approach is consistent with changes introduced to the scheme in England and Wales. Regulation will be brought forward in 2023-24 to make this change effective from 1 April 2023.

Member contribution structure

The 2015 public service pension scheme reforms introduced a new NHSPSS scheme where pension is built up on a Career Average Revalued Earnings (CARE) basis. The McCloud Remedy closed further final salary accrual in the 1995/2008 scheme from 1 April 2022 and moved all members into the 2015 career average scheme for future service from that point. In a CARE scheme, all members accrue the same proportional benefit and therefore, there is less justification for the current steeply tiered contribution structure where higher earners pay significantly higher contribution rates.

In the existing contribution structure, contributions are calculated based on whole-time equivalent (WTE) pay which is appropriate for a final salary scheme where pension benefits are based on WTE. The introduction of a CARE Scheme means that all members now accrue pension based on their actual pensionable earnings in each scheme year. Therefore, it is appropriate to amend the contribution structure to ensure members' contribution rates for part-time members are based on actual earnings.

In addition, HM Treasury require that contributions collected from scheme members meet an overall yield of 9.8% of pensionable pay. As a result of changes to the salary profile of scheme members, the NHSPSS has begun to underperform against the yield, with the average employee contributions for the year being 9.3%. Consultation on changes to the contribution structure are required to in order for the yield to be achieved. Therefore, SPPA plans to consult in 2023 on proposals that deliver the yield and introduce a contribution structure which is more appropriate for a CARE scheme.

1.8 Membership statistics

Details of the membership of the Scheme as at 31 March 2023 are as follows:

Active members

Total brought forward from 31 March 2022	207,045
Adjustment in year ⁹	(1,777)
Revised active members as at 31 March 2022	205,268
Additions within the year	
New members and re-joiners	19,267
Leavers	
Retirements	(4,406)
Leavers from active to deferred	(7,192)
Other leavers ¹⁰	(5,993) (17,591)
Total active members as at 31 March 2023	206,944

Members with deferred liability

Total brought forward from 31 March 2022	60,796
Adjustment in year ⁹	32
Revised deferred members as at 31 March 2022	60,828
New deferred from active members	7,192
Other new deferred members	24
Members leaving deferred status	(3,778)
Total members with deferred pension liability as at 31 March 2023	64,266

9 The opening balance includes an adjustment to take account of member records that are updated retrospectively after the year end and after the original data extract was taken to prepare the membership statistics for the accounts. This is due to the volume of data required to be uploaded onto the pensions administration system from employers and the resolution of any subsequent data errors.

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

Members receiving a pension

Total brought forward from 31 March 2022	116,834
Adjustment in year ⁹	1,516
Revised pension members as at 31 March 2022	118,350
New Pensioners	7,125
Cessations	(3,035)
Total Pensioners as at 31 March 2023¹¹	122,440

1.9 Financial position at 31 March 2023

The Statement of Financial Position sets out the Scheme's assets and liabilities as at 31 March 2023. As the scheme is unfunded, there are no investments to match the pension liability. The pension liability is the net present value of pensions to be paid in future years, which have been earned to date. The liability is discounted at a rate advised by HM Treasury and is the equivalent of the rate of interest payable on AA rated corporate bonds. The liability is calculated by the scheme actuary in accordance with the requirements of International Accounting Standard 19 (IAS19) and HM Treasury's Financial Reporting Manual (FReM). More information on the methodology of the valuation is contained in the Statement by the Actuary at section 2.

The pension liability as at 31 March 2023 was £54.5 billion (31 March 2022: £95.1 billion), this is a decrease of £40.6 billion. The liability has decreased primarily due to an increase in the discount rate and a reduction in the expectations for future pension increases (CPI Inflation) and long-term pay increases.

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 2022-23 the total expenditure was £6.94 billion and total income was £2.15 billion giving a net expenditure of £4.79 billion (2021-22: £4.11 billion). This outturn was out with the budget set for the NHSPSS of £4.66 billion.

In cash terms, there was an excess of income received over pension benefits paid of £419.7 million (2021-22: £406.3 million) which was transferred to the Scottish Consolidated Fund as detailed in the summary statement (table 1) below.

¹¹ The membership data at 31 March 2023 differs from that disclosed in the Report of the Actuary as the data extract provided to GAD was the principal membership data as at 31 March 2020, whereas these statistics were taken from a data extract provided in April 2023 and member data is continually updated after the year end.

Table 1: Cash Requirement from the Scottish Consolidated Fund

	2022-23	2021-22
	£m	£m
Pension contributions	(2,101.4)	(1,964.2)
Transfers in	(46.8)	(45.7)
Other income	-	-
Total income	(2,148.2)	(2,009.9)
Pensions paid	1,285.1	1,187.6
Lump sums	439.4	407.2
Transfers out	26.0	20.3
Refunds	3.4	2.2
Total benefits paid	1,753.9	1,617.3
Total income less total benefits paid	(394.3)	(392.6)
Movement in debtors and creditors	(25.4)	(13.7)
Cash requirement from the Scottish Consolidated Fund	(419.7)	(406.3)

1.10 Going concern

In common with many public pension schemes, the NHSPSS is unfunded. The pension liabilities recorded in the Statement of Financial Position are not matched by investments or other assets, and consequently the Scheme shows net liabilities of £54.5 billion (2021-22 £95.1 billion). Funding to meet pension payments as they fall due under the scheme's regulations is made available from the Scottish Government's Annually Managed Expenditure budget. On this basis the managers consider that it is appropriate that the accounts of the scheme are prepared on a going concern basis.

1.11 Information to the auditors

All relevant information has been made available to Audit Scotland during their audit of the scheme's financial statements.

1.12 Additional voluntary contributions and stakeholder pensions

The NHSPSS enables members to make Additional Voluntary Contributions (AVCs) to increase their pension entitlement or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment direct to the approved provider, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contributions Schemes (FSAVCs). The managers of the NHSPSS have no responsibility for such arrangements. The NHS employers are responsible for payments made to the scheme's approved provider. Members participating in this arrangement receive an annual statement from the approved provider made up to 5 April each year confirming the amounts held in their account and the movements in the year. At retirement, these and the income from their investment are used to buy an annuity, lump sum or income draw down.

Standard Life Aberdeen PLC was appointed as the approved provider with effect from 8 October 2001, as an alternative to the original provider Equitable Life. Due to difficulties that undermined confidence in the scheme's original approved provider, Equitable Life is not available for any new investors from 1 April 2005. Existing investors are free to continue to invest with them and indeed to increase their contributions if they wish. On 1 January 2020 completion of the transfer of all the business of Equitable Life to Utmost Life and Pensions Limited occurred, except for certain excluded policies such as German and Irish policies that will remain with Equitable Life, which has become a subsidiary of Utmost.

AVC contributions are not part of the scheme account cash flows or financial statements and are not included in the audit by Audit Scotland. Members have a choice of funds in which their AVCs can be invested and the aggregate amounts of AVC investments are detailed in section 1.13.

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

1.13 Utmost Life and Pensions

	£	£
Value of fund at 1 April 2022		5,716,456
Income		
Contributions received	25,576	
Interest and bonuses/change in market value of assets	(120,119)	
Internal transfers from other policies insured by the Society	3,574	
Total income		(90,969)
Expenditure		
Life assurance premiums	(373)	
Retirement benefits	(277,611)	
Leavers (transfers and withdrawals)	(191,398)	
Deaths	(23,231)	
Refunds	(181)	
Contributions received but not yet used to purchase benefit	(-)	
Total expenditure		(492,794)
Value of fund at 31 March 2023		5,132,693
Fund value by type		
	31 March 2023	31 March 2022
Equitable with profits	-	-
Equitable and Clerical Medical unit-linked (including Clerical Medical with-profits)	5,132,693	5,716,456
Total	5,132,693	5,716,456

1.14 Standard Life Assurance Limited

Standard Life Assurance Limited has set up a Group Money Purchase Plan for the Scheme members who have moved their AVC funds to its management and for those who are contributing to an AVC arrangement for the first time. Standard Life Assurance Limited is part of the Phoenix Group and uses the Standard Life brand under licence from the Standard Life Aberdeen Group. A statement of the movements in this plan for the period 1 April 2022 to 31 March 2023 follows.

	£	£
Opening value of fund at 1 April 2022		21,022,415
Income		
Normal contributions	654,958	
Special contributions	137,822	
Transfer values	3,944	
Total income		796,724
Expenditure		
Retirements	(892,049)	
Transfer out	(578,091)	
Death benefits	(10,128)	
Total expenditure		(1,480,269)
Changes in market value of investments		(999,074)
Net Assets at 31 March 2023		19,339,796
Investments held in insurance policies with Standard Life Aberdeen PLC		19,339,796

1.15 Further information

Any enquiries about the NHSPSS should be addressed to:

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David Robb
Accountable Officer

12 December 2023

2. Report of the Scheme Actuary

Introduction

2.1 This statement has been prepared by the Government Actuary's Department ('GAD') at the request of the Scottish Public Pensions Agency ('SPPA'). It provides a summary of GAD's assessment of the scheme liability in respect of the NHS Pension Scheme (Scotland) as at 31 March 2023, and the movement in the scheme liability over the year 2022-23, prepared in accordance with the requirements of Chapter 12 of the 2022-23 version of the Financial Reporting Manual.

2.2 The NHS Pension Scheme (Scotland) is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which led 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 2023.

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
Males	35,566	1,489
Females	141,718	3,966
Total	177,284	5,455

* Pensionable pay is the actual pay figure.

Table B – Deferred members

	Number	Total deferred pension* (p.a.) £m
Males	11,929	40.4
Females	44,672	121.1
Total	56,601	161.5

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

Table C – Pensions in payment

	Number	Annual pension* (p.a.) £m
Males	22,294	447.5
Females	76,426	581.9
Spouses & dependants	11,140	64.1
Total	109,860	1,093.5

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

Methodology

2.5 The present value of the liabilities as at 31 March 2023 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 2023. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2023 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 2022 in the 2021-22 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 2023 p.a.	31 March 2022 p.a.
Nominal discount rate	4.15%	1.55%
Rate of increase in pensions in payment and deferred pensions (assuming CPI inflation)	2.40%	2.90%
Rate of general pay increases	3.65%	4.15%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
■ CPI inflation	1.70%	(1.30)%
■ Long-term pay increases	0.50%	(2.50)%
Expected return on assets	n/a	n/a

2.8 The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2022) 08, dated 2 December 2022, 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.

2.9 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.

The assumption of 3.65% p.a. is intended to be an average over the future careers of scheme members, with a recognition that increases in 2024/25 (or other years) may be lower or higher than 3.65%. The approach for setting the general earnings growth produces an assumption that I believe is appropriate for capturing general economic drivers across public service pension scheme members, reflecting the short-term earnings growth predicted by OBR together with a longer-term assumption. However, it is not intended to capture variations between individual workforces.

2.10 The assessment of the liabilities allows for the known pension increases up to and including April 2023.

Demographic assumptions

2.11 Table E summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership, and other relevant sources. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S3 tables' with the percentage adjustments to those tables derived with reference to scheme experience.

Table E - Post-retirement mortality assumptions

Baseline mortality	Standard table	Adjustment
Males		
Retirements in normal health	S3NMA	102%
Current ill-health pensioners	S3IMA	151%
Future ill-health pensioners	S3IMA	151%
Dependants	S3DMA	92%
Females		
Retirements in normal health	S3NFA	116%
Current ill-health pensioners	S3IFA	151%
Future ill-health pensioners	S3IFA	151%
Dependants	S3DFA	100%

2.12 The assumptions in Table E above, and the other demographic assumptions such as commutation and family statistics, are in line with those recommended for the 31 March 2020 funding valuation of the scheme. Note that the accounts as at 31 March 2022 were based on the assumptions adopted for the 2016 valuation.

2.13 Mortality improvements are assumed to be in line with the 2020-based projections for the United Kingdom published by the ONS in December 2022. This is a different assumption to that used for the 2021-22 accounts.

2.14 Our advice on the selection of assumptions can be found in our assumptions and methodology report dated 11 August 2023.

Liabilities

2.15 Table F summarises the assessed value as at 31 March 2023 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 2.4 to 2.12. The corresponding figures for the previous year are shown for comparison. The liabilities at 31 March 2022 and 2023 both include an allowance for the higher cost of benefits accruing under McCloud.

Table F - Statement of Financial Position

	31 March 2023 £ billion	31 March 2022 £ billion
Total market value of assets	Nil	Nil
Value of liabilities	54.5	95.1
Surplus/(Deficit)	(54.5)	(95.1)
of which recoverable by employers	n/a	n/a

Accruing costs

2.16 The cost of benefits accrued in the year ended 31 March 2023 (the current service cost) is assessed as 77.7% of pensionable pay.

2.17 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. A current service cost above (or below) the total contribution rate does not indicate that employers and employees have collectively paid contributions less (or more) than the costs of benefits accrued during the year. Members contributed between 5.2% and 14.7% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2022-23 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2022-23 accounts.

Table G – Contribution rate

	2022-23 % of pay	2021-22 % of pay
Employer contributions	20.9%	20.9%
Employee contributions (average)	9.3%	9.4%
Total contributions	30.2%	30.3%
Current service cost (expressed as a % of pay)	77.7%	76.7%

2.18 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.

2.19 The pensionable payroll for the financial year 2022-23 was £6.9 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2022-23 (at 77.7% of pay) is assessed to be £5.4 billion.

2.20 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 2022-23.

2.21 I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2022-23.

Sensitivity analysis

2.22 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 2023 of changes to the most significant actuarial assumptions.

2.23 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.

2.24 Table H shows the indicative effects on the total liability as at 31 March 2023 of changes to these assumptions (rounded to the nearest 0.5%).

Table H – Sensitivity to significant assumptions

Change in assumption	Approximate effect on total liability		
Financial assumptions			
(i) discount rate*:	+0.5% p.a.	- 9.0%	- £4.8 billion
(ii) (long-term) earnings increase*:	+0.5% p.a.	+ 2.0%	+ £1.1 billion
(iii) pension increases*:	+0.5% p.a.	+ 8.0%	+ £4.4 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 3.0%	+ £1.6 billion

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

The discount rate sensitivity shown implies a scheme duration of c.19 years.

COVID-19 implications

2.25 As with the accounts last year, the 2022-23 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.

2.26 The current population mortality projections make a short-term allowance for the impact of the Covid-19 pandemic. When deriving the ONS 2020-based mortality improvement projections, a panel of mortality experts gave their views on the impact of the Covid-19 pandemic on mortality rates in the short term. Based on this, short-term adjustments were made to the 2019-24 period to allow for estimated deaths in 2021 and an averaging of the experts' views on estimated improvements by age group over this period. Long-term rates of future mortality improvement are not projected to change as a result of Covid-19. 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. I expect that the long-term impact of the Covid-19 pandemic on life expectancy will continue to evolve as experience and evidence emerges into the future.

Greg Donaldson FIA
Actuary
Government Actuary's Department
11 August 2023

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 88 of these financial statements, detailing the resources required, held or disposed of during the year and the use of resources by the NHS Pension Scheme Scotland (NHSPSS) 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 NHSPSS 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 NHSPSS'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 NHSPSS 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, SPPA

4. Annual Governance Statement

4.1 Agency's Governance Framework

The **Governance Framework**¹² is designed to ensure that the Scottish Public Pensions Agency (SPPA) complies with the highest standards of integrity whilst delivering value for money for Scottish taxpayers, safeguarding public funds, delivering good-quality service to its members 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**'¹³ published by the 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 lay 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 the SPPA and Scottish Ministers.
- responsibilities of the Accountable Officer and Scottish Ministers.
- frameworks within which we operate regarding Resource, Finance and Human Resources.

The SPPA Framework document was last amended and approved by the Minister for Public Finance, Planning and Community Wealth in September 2022. In March 2022, following discussion between the Scottish Government Portfolio Accountable Officer (Director General: Corporate) and the SPPA Chief Executive, and in line with the Scottish Government report 'Relationship with Public Bodies' published in February 2022, it was agreed at the April 2022 meeting of the SPPA Management Advisory Board that the Agency Framework document required a further update.

¹² <https://pensions.gov.scot/corporate-publications/framework-document>

¹³ https://www.gov.scot/publications/board-guide-members-management-advisory-boards/?utm_source=redirect&utm_medium=shorturl&utm_campaign=managementadvisoryboardsguide

This would present the Framework more accurately and reflect the role of the Portfolio Accountable Officer not being a member of the Management Advisory Board (MAB). Additionally, in April 2022, the SPPA launched a new **Corporate Plan**¹⁴ superseding the references within the Framework to the previous Vision, Aims and Objectives. The SPPA updated and provided a new Framework Document to the Minister, which was signed in September 2022.

4.2 Scope of Responsibility

In December 2022, David Robb was confirmed substantively in post as Chief Executive, having already served on an interim basis since April 2021. As Accountable Officer, David is responsible for maintaining an adequate and effective system of internal control, which supports the delivery of the SPPA's vision, business priorities, aims, 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.

The SPPA adheres to the Scottish Public Finance Manual (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

The bodies which assist the Accountable Officer in the governance of the SPPA are available on our website with a **Governance Schematic**.¹⁵ The schematic illustrates the different governance arrangements in place for both Agency Corporate Governance and Pension Scheme Manager delivery.

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

4.4 Governance and assurance controls specific to NHS

The SPPA assumes the day-to-day role of Scheme Manager as set out in the Public Service Pensions Act 2013 (the PSP Act) for Scotland's NHS pension schemes, as delegated by Scottish Ministers.

¹⁴ <https://pensions.gov.scot/corporate-publications/corporate-plan-2022-27>

¹⁵ https://pensions.gov.scot/sites/default/files/2023-03/SPPA_Pension_Scheme_Governance_Schematic_240323.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 and an overview of their attendance for the year are as follows:

NHS Pension Board membership	Representing	Meetings attended	Out of a possible
Brian Barbour	Independent Chair	4	4
Mark Cook (tenure ended 30 Nov 2022)	Independent Vice Chair	2	3
David Vallery (tenure began 01 Dec 2022)	Independent Vice Chair	3	3
Graeme Eunson	Member	4	4
Tom Wilson	Member	3	4
Gordon Mackay	Member	2	4
Raymond Marshall	Observer	2	2
David McColl	Member	2	4
Claire Pullar	Employer	1	4
Craig Black	Employer	3	4
Kay Sandilands	Employer	2	4
Ailsa Paterson	Employer	4	4

Member biographies and the board's terms of reference can be found [here](#).¹⁶

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

¹⁶ <https://pensions.gov.scot/about-us/boards-and-corporate-governance/pension-boards/nhs>

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 hybrid meetings, with some Board members attending virtually and some in person. Whilst the Board continued to press for investment in self-service functionality the Board also stressed for SPPA Key Performance Indicators to be representative of what is important to the experience of scheme members.
- The Board monitored Agency progress in delivering Annual Benefit Statements (ABS) to scheme members, noting their concerns around SPPA not delivering 100% of ABS to scheme members. A breach report on failure to deliver 100% of ABS was raised by SPPA with the Pensions Regulator in September 2022 and the Board were sighted on this.
- The Board continued to raise particular concerns throughout the year in respect of some scheme members not receiving annual Pension Savings Statements and the impact this may have on their annual tax self-assessments.
- The Board continued to monitor the agency's progress on the work to resolve over and underpayments on practitioners' contributions.
- The Board continues to monitor the agency's progress on the prospective McCloud remedy and sought assurances over the operational impact on the Agency. The Board continued to emphasize to the Agency the importance of member engagement and communication on this topic.
- The Board received updates on the procurement of a new Pensions Platform.
- The Board, in line with regulator expectations, continues to play its part in Risk Management, discussing risks, constructively challenging the risk assessments and actions at each of its quarterly meetings.
- The Board sought assurance on the SPPA Incident Management Process, particularly around early Board notification of any issues affecting NHS Scheme members.

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 and an overview of their attendance for the year are as follows:

NHS Pension Scheme (Scotland) Advisory Board membership	Representing	Meetings attended	Out of a possible
Derek Lindsay	Employer - Chair	5	5
Robin McNaught	Employer	3	5
Andrew Carter	Employer	4	5
Jane Christie Flight	Employer	5	5
Lorraine Hunter	Employer	4	5
Ruth Kelly	Employer	4	5
Matt McLaughlin	Member	4	5
Alan Robertson	Member	5	5
Graham Pirie	Member	5	5
Jackie Mitchell	Member	5	5
Ros Shaw	Member	5	5
Phil McEvoy	Member	5	5

Member biographies and the board's terms of reference can be found [here](#).¹⁷

The SPPA Policy team acts as the key scheme policy advisers to the Scottish Ministers as custodian for the NHS Scotland scheme regulations.

During the year SPPA policy officials:

- engaged with key stakeholders on, and provided general and technical pensions policy advice to, the tripartite Scheme Advisory Board (SAB) for the NHS Scotland Scheme.
- provided general policy advice to Scottish Ministers and support to officials on a range of pension-related matters.

¹⁷ <https://pensions.gov.scot/about-us/boards-and-corporate-governance/scheme-advisory-boards/nhs>

- participated in HM Treasury-led working and steering groups established to develop remedy proposals to remove the age discrimination in pension scheme reforms.
- engaged a sub-group of the SAB to consider the policy definitions arising from the McCloud remedy in order to support implementation.
- consulted with the SAB around significant reform to NHS member contributions, which culminated in SAB advice to Ministers on shared priorities.
- consulted on changing the scheme revaluation date to align with the tax year, and on introducing retirement flexibilities.
- on behalf of Scottish Ministers, determined medical and non-medical appeals from applicants under the scheme's single-stage internal dispute resolution procedure.

4.5 Management Advisory Board (MAB)

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**'.¹⁸ Board members are appointed to act in an advisory capacity to the SPPA's Accountable Officer (Chief Executive, David Robb) and are, therefore, neither personally nor collectively accountable for the SPPA's performance.

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

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

- receiving reports from the Chief Executive on our progress in achieving key tasks outlined in our business objectives 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 SPPA's risk registers.
- receiving quarterly financial and budgetary updates from the Head of Finance, Procurement and Risk; to review our budget and outturn position alongside financial performance against key metrics.

¹⁸ <https://gov.scot/publications/board-guide-members-management-advisory-boards/>

- 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 our Pension Platform Programme.

During the 2022-23 year the Management Advisory Board agreed to introduce a rotating Chair instead of the Board being chaired by the Chief Executive. Responsibility for chairing the Board will rotate between each member of the Board from meeting to meeting.

There is currently a gender balance on the Board. The Management Advisory Board over the year are:

Chief Executive and
Accountable Officer **David Robb**

Non-Executive Advisory
Members **Mark Adderley**
Management Advisory Board and People Committee

Elaine Cameron
Management Advisory Board and People Committee
(tenure commenced 1 May 2022, resigned 19 January 2023)

Ian Forbes
Management Advisory Board and Audit & Risk
Committee

Liz Holmes
Management Advisory Board and Audit & Risk
Committee
(tenure ended 30 April 2022)

Helen Mackenzie
Management Advisory Board and Chair of Audit & Risk
Committee

Jane Malcolm
Management Advisory Board and People Committee

Norman McNeil
Management Advisory Board

Clare Scott
Management Advisory Board and Audit & Risk
Committee
(tenure commenced 23 May 2022)

A revised Framework document was signed by the Minister for Public Finance, Planning and Community Wealth on 5 September 2022. With effect from this date, it was agreed that the Portfolio Accountable Officer for SPPA, Director General: Corporate, would no longer be a member of the Management Advisory Board.

Biographies and meeting minutes¹⁹ are published on the SPPA website.

One of our MAB members, Liz Holmes, decided to step down from the MAB following the April 2022 meeting after serving on the Board since 2017. 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. With regret, Elaine had to step down from the MAB in January 2023 due to securing a role at the Scottish Public Services Ombudsman which would have created a Conflict of Interest with her position on MAB.

Both the MAB and the Audit and Risk Committee (ARC) regularly carry out a self-assessment of their effectiveness, the last having been undertaken in May 2023.

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 by MAB in July 2022.

4.6 Audit and Risk Committee (ARC)

The MAB is supported by an ARC which comprises three of the MAB members (see page 39). 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.

The ARC provided a full account of its activities on a quarterly basis to the MAB. The ARC annual report for 2022-23 was issued in May 2023 and is available on the SPPA **website**.

During the year, ARC met on six occasions. The Committee's work has included:

- receiving updates and reports from the SPPA Executive Team and senior managers to provide assurance in an Annual Report to the Accountable Officer and Management Advisory Board.

¹⁹ <https://pensions.gov.scot/about-us/management-advisory-board>

- supporting the work of and receiving progress reports from Internal Audit.
- reviewing Audit Scotland's Annual Audit Plan and reports where appropriate, which includes an Annual Audit Report including an ISA 260 report.
- 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.
- regular review and scrutiny of the SPPA Agency Risk register.

During 2022-23 a series of short, quarterly focus meetings with the ARC, referred to as 'Deep Dives' took place. 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 2022-23 have included fraud, pension liabilities forecasting and employer data flows. ARC also held meetings with Audit Scotland the schemes auditors, without the presence of management.

4.7 People Committee

During the year the Chief Executive decided to introduce a sub-committee of MAB to focus on people-related matters. The Terms of Reference for this sub-committee were presented to MAB and agreed in October 2022. Two non-executive members of MAB form the membership of the People Committee and report back to MAB and the Chief Executive on the matters discussed.

The People Committee will support the Chief Executive in discharging responsibilities for key people related issues, such as:

- colleague engagement.
- people development and capability.
- health and wellbeing.
- capacity and resourcing.
- recruitment and resourcing.
- equality, diversity and inclusion.

During the year, the People Committee met on two occasions. Their work has included:

- a review of the Agency performance indicators that relate to People.
- an overview of the current workforce issues in the Agency and the workforce planning underway to address this.
- receiving updates on Agency recruitment.
- a review of the colleague engagement Pulse survey results.

4.8 SPPA Executive Team

The members of the Executive Team who served the SPPA during 2022-23 are shown in the table below.

SPPA Executive Team	David Robb Chief Executive
	Iain Coltman Head of Policy (permanent from 1 July 2022)
	Garry Cossar Head of People, Strategy and Communications (permanent from 1 July 2022; interim COO from November 2022 to March 2023)
	Craig Gardiner Chief Operating Officer (Interim) (left 28 October 2022)
	Frances Graham Chief Operating Officer (permanent from 6 March 2023)
	Karen Morley Head of Finance, Procurement and Risk (left 30 June 2023)

Full biographies of the SPPA Executive Team can be found on **the 'about us' section of our website**²⁰

²⁰ <https://pensions.gov.scot/about-us/our-executive-team>

4.9 Risk

The Executive Team's key strategic risks for 2022-23 are considered below:

Key Risk	Impact	Key mitigating activity	Impact on risk of mitigating activities
Data: quality is not in a fit and proper state	Our ability to rely upon it to carry out our responsibilities and obligations is compromised.	Dedicated Data improvement lead appointed. Established data profiling for basic member records.	Identified the most 'at risk' data tables allowing controls to be focussed here and increase confidence in quality of data in low risk tables.
Operational delivery: risk of failure to pay pensions accurately and on time.	Pensioners will not be paid leading to loss of confidence and reputational damage for the Agency. Failure to deliver our purpose, responsibilities and service level agreements with Scottish Government, The Pensions Regulator, members, and employers.	Detailed and closely monitored operational delivery plans allow agile resource management. Developing demand forecasting for all in-flows of work.	Resources are mobilised to priority areas in sufficient time to meet forecast demands and focus on processing pensions awards in priority order.
Capability: having the correct skills and experience in house to effectively meet today's and tomorrow's demands.	Our ability to meet the needs of our stakeholders and deliver our priorities will be compromised.	Staffing establishment/budget in place. Recruitment and resourcing controls operational. People Transformation lead appointed.	Identification and prioritisation of core/critical skills supports all recruitment, resourcing, and training decisions, maximising positive outcomes for teams and the SPPA.

Key Risk	Impact	Key mitigating activity	Impact on risk of mitigating activities
Capacity: Insufficient resources or inappropriate operating model.	Failure to meet our vision, deliver improvements identified for the business and have a negative impact on colleague wellbeing.	Executive Team recruitment completed. Restructured Customer Services leadership team. Recruitment and resourcing controls in place.	Robust leadership at Executive level. Increased resilience and improved reporting lines from Executive Team through operational delivery teams.
Cyber: SPPA does not meet baseline cyber requirements.	SPPA will be in breach of our obligations resulting in customers and staff exposed and vulnerable to effects of poor cyber security.	Working with colleagues in Scottish Government IT team to ensure network is maintained appropriately. Annual Cyber awareness sessions held. NIST cyber principles agreed and plan in place to deliver.	Provides tangible assurance of steps taken to comply with recognised standards and approaches. Provides an opportunity to identify areas for further improvement allowing enhanced actions to be taken.

Developing our annual strategic view, we have streamlined the corporate risks to reflect the key challenges to delivery of the annual business plan. Our highest risks from 2021-22 were the challenges of skills and engagement, the exact focus has shifted this year to capability and capacity as separate risks both scoring lower than the prior year 2021-22. This is in part due to the work undertaken ahead of and advised by an internal audit review of these areas.

Our highest risk for this year has been ensuring internal data quality with the large transformation programmes of Remedy and PPP (both recognised on the risk register as their own risks of non-delivery) supporting this focus. Considerable work has been done to in partnerships with employers to ensure incoming data is correct and we continue working on continuous improvement of our processes.

Of equal note are the risks of failure to deliver our agency purpose – paying pensions accurately and on time – which we have referred to as failure of operational delivery. This is a new high-level risk recognising the purpose of the agency and the importance of the holistic agency to actions and planning.

We have also narrowed the view of last year's broad security-themed risk to specifically ensure our cyber security is a more visible risk. This is a natural consequence as we embed new technical solutions to address the challenges of Remedy and PPP.

The NHS scheme risk register has been consistent with the highest risks to the scheme being that processing contingency in terms of trained staff and infrastructure flexibility.

Other risks that are specific to the NHS scheme and presented at the quarterly board meetings on the risk register include NHS specific knowledge in staff and workforce planning and wider data and information asset management, capacity for revisions of estimates, and our organisational governance practices – all these are rated medium, have not increased over this year and are reviewed by the board.

We continue to be led by Scottish Government's risk management guidance. Our Risk Champions Network has matured and is planning an extension in April 2023, providing useful cross-agency soundings and insight.

Risks continue to be identified by workshop, business plan analysis or colleague feedback, with risk owners leading scoring and contextual discussion on the risks and controls. Risks are reviewed monthly at leadership level, and a minimum of quarterly at operational level. Strategic risks, the highest-scoring of which are summarised above, are presented to all boards quarterly and open to challenge.

Business Continuity

The Business Continuity Alert Document has been updated and revised. Routine Fire Marshal, DSE Assessor and First Aider training has been rolled out over the year. Our annual fire risk assessments were completed in January, with the twice-yearly evacuation test undertaken in April and September 2022 and Group Call (our telephonic alert system for staff) tests in May, September and March and quarterly health and safety inspections of the building.

Our Incident Management Process has been successfully deployed throughout the year and we are rolling out further iteration and education taking on board staff and external board feedback. We had no major operational incidents raised in 2022-23 impacting the NHS scheme.

We have worked closely with Scottish Government Business Continuity function to ensure we are following best practice and are sighted of key conversations such as power supply monitoring and central network resilience.

The SPPA's Cyber Governance was evaluated by the Scottish Government's Internal Audit Team and reported on the controls in place to manage the risk surrounding cyber governance arrangements. An overall Reasonable assurance rating was provided. This audit sought assurances covering incident management, security testing routines, skills development, threat awareness, supply chain security and embedding recognised IT security standards into penetration testing and baseline security checks.

Fraud

There have been no instances of fraud, internal or external, committed against the SPPA or the NHS scheme in 2022-23. We have worked with the Scottish Government Counter Fraud department to review any concerns or unusual activity and found no evidence of fraud to investigate further.

We continue to develop our policies and training to support staff vigilance in complicated cases that could indicate fraudulent activity.

4.10 Audit

The Directorate for Internal Audit and Assurance's annual assurance report for 2022/23 gave the SPPA an overall Limited Assurance opinion meaning that controls are developing but weak. The Limited Assurance rating provided reflects the opinions, findings, and observations from the two main reviews, as well as substantial follow-up work from work carried out in 2021/22. It also reflects an assessment of several wider factors relating to risk management,

control, and governance arrangements within the SPPA. The report's recommendations have been accepted and action is being taken to address the issues.

The report recognises three improvement opportunities in:

Resource – certain teams constrained in delivering improvements alongside BAU.

Consistency at the top.

Process consistency, efficiency, and reliance on manual controls: processes and activities are not consistent across teams; processes could be more efficient and more robustly controlled through greater use of automated systems and better-defined processes and controls.

Internal Audit has also completed the following Assurance reports – Cyber Security Governance, Members' Data, and Risk Management Arrangements. Follow up reports on Corporate Governance, Capacity and Capability and Cyber Security Governance have also been appreciated. We have worked to clear the older high-rated risks and progress against delivery of audit actions is discussed regularly at the quarterly Audit and Risk Committee. None of these specifically focused on NHS scheme but the scheme was within the remit of all audits.

4.11 Data Assurance

An undertaking to report serious personal data 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's data protection compliance was assessed as part of a wider **consensual audit of the Scottish Government**²¹ by the Information Commissioner's Office (ICO). For the SPPA, High and Reasonable levels of assurance were reported for the two thematic areas of Governance and Accountability and Information Risk Management respectively. Recommended improvements will be implemented to enhance established processes that monitor the processing of personal data and contribute to a culture of data protection awareness across the organisation. We will record and report any breach to ARC within an end of year report, even if escalation to the Information Commissioner's Office is not warranted.

21 https://ico.org.uk/media/action-weve-taken/audits-and-advisory-visits/4024369/scottish-government-outcomes-final-report-v1_0.pdf

Minimal risk personal data breaches (concerning the NHS Scheme) were reported internally to the Agency Data Protection Officer on 11 occasions during the reporting period – a decrease of 13 on 2021-22. No breaches met the threshold as being reportable to ICO. A step-by-step guide to handling breaches is available on the SPPA's internal intranet and is also included within an Incident Management Process and Business Continuity Plan. It is designed to consider 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 the SPPA's colleagues 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.

The SPPA's Cyber Governance was evaluated by the Scottish Government's Internal Audit Team and reported on the controls in place to manage the risk surrounding cyber governance arrangements. An overall Reasonable assurance rating was provided. This audit sought assurances covering incident management, security testing routines, skills development, threat awareness, supply chain security and embedding recognised IT security standards into penetration testing and baseline security checks.

4.12 Information Assurance

The SPPA's 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 Executive Team have been assigned Information Asset Owner responsibilities and undergo 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 2023 demonstrated we have maintained a steady state.

4.13 Health and Safety

Our approach to health and safety is a partnership between the SPPA Executive Team, our members of staff and the Trade Unions. The agency consults with the Scottish Government Health & Safety branch and we have our own competent and trained personnel to advise on all health and safety matters, safe working practices and keep our staff informed of any health and safety developments that may affect them.

We moved to a hybrid working model in November 2021 and our successful hybrid working plan was created as a result of the collaborative approach between our partners and stakeholders.

The Agency is committed to eliminating all accidents and incidents relating to staff and visitors to the building that may be affected by our operations. Accident and incident reporting systems are in place including the reporting of near misses which are analysed and actioned accordingly. We strongly encourage all of our staff to report all accidents/incidents and 'near miss' incidents to help us improve our health and safety practice within our workplace and for staff working from home.

We had no 'near miss' incidents in 2022-23; however, we did have one accident/incident (slip, trip, fall) where a colleague tripped, which resulted in them being concussed. We took the remedial actions required off the back of the accident report form.

Although we have had colleagues who have had Covid-19 over the past year we have adopted good practice for staff with colds/flu/Covid-19 to work from home. This has helped us achieve no widespread outbreaks of viruses which may impact the business.

We have continued to carry out our Quarterly Workplace Health & Safety and Fire Safety Inspections throughout the year with no major issues to report. The main issues we identified were predominantly housekeeping issues and minor repairs all of which were addressed by our maintenance contractor.

We carried out two fire evacuations throughout the year and both of these were a success with the building fully evacuated within two minutes.

We have also recently shared some of our space with NHS Borders and Scottish Enterprise, who have each leased a small bank of desks within the SPPA office. These colleagues have had a full health and safety induction and we will work with our partners to ensure any health and safety good practice is shared with them in the future.

Other points to note:

- health and safety risk assessments and fire risk assessments have been maintained and kept updated.
- we have recently had many colleagues receive Display Screen Equipment Assessor (DSE) Training, Fire Marshal Training, and First Aid at Work Training (inc. requalification) which has ensured we have good numbers in these areas. We also plan to have several colleagues carry out the IOSH Managing Safely training in 2023-24.

We have recently increased our numbers on our Health and Safety Committee and we have been having regular quarterly Health and Safety Committee Meetings.

4.14 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.

4.15 Best Value

The Accountable Officer has a duty to secure Best Value in the services the SPPA provides. Best Value principles are embedded in the Agency's planning, governance and business decision arrangements. Output from events is compiled and communicated to colleagues through formal and informal communication channels and minutes of the Management Advisory Board, Audit and Risk Committee and Pension Boards are uploaded onto the SPPA website (<https://pensions.gov.scot/>) for transparency. The Agency uses a range of mechanisms to obtain feedback from its customers and stakeholders; this includes from our Pension Boards which have member and employer representatives, targeted groups (such as the British Medical Association Scotland), desk-top research and complaint feedback. Together, all this information provides event driven feedback on services and service levels provided and is utilised by departments to look at opportunities to improve service delivery. A Partnership Agreement is in place between the SPPA and the Trades Union to encourage participation in joint decision-making processes. Working as partners to reach mutually acceptable arrangements, the intention is to benefit colleagues and ensure we run effectively. In addition to the Partnership Agreement, we have a Colleague Collaboration Group with representatives from across the Agency.

4.16 Annual Report and Accounts 2021-22

During the current reporting period and prior year 2021-22 the agency experienced a high level of staff turnover within finance, this resulted in the loss of important knowledge and experience within the agency and left important posts unfilled. This pressure on resources lead to the filing and audit of the annual report and accounts for the year ended 31st March 2022 to be late. However, the agency has taken steps since to address these issues via permanent and temporary appointments and is near fully resourced.

4.17 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

12 December 2023

Parliamentary Accountability Disclosures and Audit Report

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

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

The SoPS and related notes are subject to audit, as detailed in the Independent Auditors Report.

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

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

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

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

5.1 SoPS Summary of resource outturn 2022-23

All figures presented in £000s

Annually Managed Expenditure (AME)	SoPS note	Outturn			Estimate			Outturn vs Estimate, Saving / (Excess)		Prior Year Out- turn
		Voted	Non- Voted	Total	Voted	Non- Voted	Total	Voted	Total	
Budgeted Resources	5.2	4,793,418	-	4,793,418	4,657,773	-	4,657,773	-	(135,645)	4,109,711
Total Resources		4,793,418	-	4,793,418	4,657,773	-	4,657,773	-	(135,645)	4,109,711

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

Explanations of variances between Estimate and outturn are given in 5.2 SoPS and 5.3 SoPS.

Net Cash Requirement 2022-23

All figures presented in £000s

SoPS Note	Outturn	Estimate	Outturn vs Estimate, Saving/ (Excess)	Prior Year Outturn 2021-22
Net cash requirement	5.4	-	-	-

Administration Costs 2022-23

All figures presented in £000s

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

Administration costs

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

Explanations of variances between Estimate and outturn are given in 5.2 SoPS and 5.3 SoPS.

5.2 SoPS Outturn Detail by Estimate Line

All figures presented in £000s

Annually Managed Expenditure (AME)	Resource outturn Programme				Estimate	Outturn vs Estimate, Saving/ (Excess)	Prior Year Outturn 2021-22
	Gross	Income	Net	Total			
Voted Expenditure	6,941,633	(2,148,215)	4,793,418	4,793,418	4,657,773	(135,645)	4,109,711
Total Resource	6,941,633	(2,148,215)	4,793,418	4,793,418	4,657,773	(135,645)	4,109,711

Explanation of the variance between Resource Estimate and Outturn:

The outturn is greater than the Estimate by £135.6 million and is mainly due to:

- the current service cost being estimated using the 77.3% against the actual current service cost percentage of 77.7%.
- backdated pay awards paid in the financial year that were not included within the budget.

Accrued resources for the NHSPSS and Scottish Teachers' Pension Scheme are covered by one limit in the Budget (Scotland) Act 2020. In 2022-23 the combined accrued resources of £7,141 million was above the combined limit of £6,966.06 million. Refer also to the Report of the Managers on pages 5-22.

5.3 SoPS Reconciliation of net resource outturn to net operating expenditure

All figures presented in £000s

	Reference	Resource Outturn	Prior Year Outturn 2021-22
Total Resource outturn	SoPS note 5.2	4,793,418	4,109,711
Less: Income paid/payable to the Scottish Consolidated Fund		-	-
Net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure	SOCNE	4,793,418	4,109,711

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 £000s

	Reference	Resource Outturn	Estimate	Outturn vs Estimate, Saving/ (excess)
Total Resource outturn	SoPS note 5.2	(4,793,418)	(4,657,773)	(135,645)
Accruals to cash adjustments:				
Non-cash items		6,940,760	6,698,935	241,825
Movement in working balances		25,442	-	25,442
Use of Provisions:				
Adjustment to reflect movement in premature retirement provision	Note 13	(3,163)	-	(3,163)
Adjustment to reflect movements in scheme liability: benefits payable and pension payments to and on account of leavers	Notes 11.3 and 11.4	(1,749,854)	(2,041,162)	291,308
Total		5,213,185	4,657,773	555,412
Funding from the Scottish Consolidated Fund		(419,767)	-	(419,767)
Net cash requirement				

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

5.5 SoPS Amounts of income payable to the Scottish Consolidated Fund

The cash requirement for the NHSPSS is part of the overall cash authorisations of the Scottish Government in the Budget (Scotland) Act 2020. In the year to 31 March 2023 there were no cash receipts in excess of budget (unapplied income) payable to the Scottish Consolidated Fund.

6. Losses and special payments

Losses Statement

	2022-23	2021-22
Total number of losses	529	789
Total value of losses (£000s)	27	32

Special Payments Statement

	2022-23	2021-22
Total number of special payments	2	4
Total value of special payments (£000s)	1.5	3

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

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

Reporting on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of NHS Pension Scheme (Scotland) for the year ended 31 March 2023 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows, and notes to the financial statements, including significant 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 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of the scheme's affairs as at 31 March 2023 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 2022/23 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 16 May 2023. My period of appointment is five years, covering 2022/23 to 2026/27. 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:

- using my understanding of the central government sector to identify that the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers are significant in the context of the scheme;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the scheme;
- inquiring of the Accountable Officer concerning the scheme's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on

factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects:

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

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to my responsibilities in respect of irregularities explained in the audit of the financial statements section of my report, I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Other information

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

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

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

Opinions prescribed by the Auditor General for Scotland on Report of the Scheme Manager and Annual Governance Statement

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 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.



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

12 December 2023

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2023

		2022-23	2021-22
	Note	£m	£m
Income			
Contributions receivable	3	(2,101.4)	(1,964.2)
Transfers in	4	(46.8)	(45.7)
		<u>(2,148.2)</u>	<u>(2,009.9)</u>
Expenditure			
Service costs	5	5,384.3	4,957.6
Enhancements	6	7.0	8.1
Transfers in - additional liability	7	46.8	45.7
Pension financing cost	8	1,502.6	1,107.5
Other expenditure	12	-	-
Premature retirement financing cost	13	0.8	0.7
Capitalised receipts	13	0.1	0.1
		<u>6,941.6</u>	<u>6,119.7</u>
Net expenditure for the year		4,793.4	4,109.8
Other comprehensive net expenditure			
Pension remeasurements:			
Actuarial (gains)/losses	11.5	(45,790.9)	3,694.5
Increase /(decrease) in premature retirement provision net of financing charge	13	(10.6)	0.9
Total other comprehensive net (income)/expenditure		(45,801.5)	3,695.4
Total comprehensive net (income)/expenditure for the year ended 31 March		(41,008.1)	7,805.2

The notes on pages 67-88 form part of these financial statements.

Statement of Financial Position as at 31 March 2023

		2023	2022
	Note	£m	£m
Current assets			
Receivables (within one year)	9.1	158.8	175.9
Current liabilities			
Payables (within one year)	10.1	(69.6)	(61.3)
Net current assets, excluding pension liability		89.2	114.6
Provisions for liabilities and charges			
Premature retirement provision	13	(39.2)	(53.0)
Pension scheme liability	11.2	(54,500.0)	(95,100.0)
Net liabilities including pension liability		(54,450.0)	(95,038.4)
Taxpayers' equity			
General fund		(54,450.0)	(95,038.4)
		(54,450.0)	(95,038.4)

The notes on pages 67-88 form part of these financial statements.



David Robb
Accountable Officer

12 December 2023

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2023

		2022-23	2021-22
	Note	£m	£m
Balance at 1 April (opening)		(95,038.4)	(86,826.9)
Funding to the Consolidated Fund	SoPS 5.4	(419.7)	(406.3)
Combined net expenditure	SoCNE	(4,793.4)	(4,109.8)
Other comprehensive net expenditure	SoCNE	45,801.5	(3,695.4)
Net changes in taxpayers' equity		40,588.4	(8,211.5)
Balance at 31 March		(54,450.0)	(95,038.4)

The notes on pages 67-88 form part of these financial statements.

Statement of Cash Flows for the year ended 31 March 2023

		2022-23	2021-22
	Note	£m	£m
Cash flows from operating activities			
Net expenditure for the year	SoCNE	(4,793.4)	(4,109.8)
Adjustments for non-cash transactions:			
(Increase)/decrease in receivables	SoFP	17.1	8.7
Increase/(decrease) in payables	SoFP	8.3	5.0
Movement in premature retirement:			
Provision	13	(13.8)	(2.4)
Net of financing cost	13	10.5	(0.9)
Movement in pension scheme liability:			
Service and financing cost	11.2	6,886.9	6,065.1
Enhancements and transfers in	11.2	53.8	53.7
Benefits paid	11.3	(1,720.4)	(1,590.8)
Refunds and transfers	11.4	(29.4)	(22.4)
Net cash inflow from operating activity		419.7	406.3
Cash flows from financing activities			
Funding to the Scottish Consolidated Fund		(419.7)	(406.3)
Net financing		(419.7)	(406.3)
Increase /(decrease) in cash and cash equivalents in period		0.0	0.0

The notes on pages 67-88 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2023

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 2022-23 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

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

1.1 The NHS Pension Scheme (Scotland) (NHSPSS)

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

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

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

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

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

2. Accounting policies

The accounting policies contained in the FReM follow International Financial Reporting Standards to the extent they are meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items that are considered material in relation to the Scheme financial statements.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Critical accounting judgements and key sources of estimation uncertainty

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

The liability as at the 31 March 2023 is £54.5 billion with the most significant financial assumptions being the discount rate, general earning increases and pension increases, currently based on CPI. A change in these assumptions by +0.5% could result in a net increase in the total liability of £0.7 billion. Further details are set out within the Report of the actuary, Table H and Note 11 further on.

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

2.3 Contributions receivable

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

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

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

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

2.4 Transfers in and out

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

2.5 Other pension income

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

2.6 Current service cost

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

2.7 Past service costs

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

2.8 Interest on scheme liabilities

The interest cost is the increase in the present value of the Scheme liabilities during the period because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on a nominal discount rate 1.55% (2021-22 1.25%). The interest cost is determined by applying the nominal discount rate of 1.55% 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 4.15% from 31 March 2023.

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 4.15%.

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 23-29.

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 2023 has been carried out by rolling forward the liability from the funding valuation at 31 March 2020.

2.11 Pension benefits payable

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

2.12 Pension payments to those retiring at their normal retirement age

On retirement at normal retirement age, the member receives an annual pension and a lump sum or lump sum option. These transactions are accounted for as a decrease in the Scheme liability on an accruals basis.

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

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

2.14 Lump sums payable on death in service

Lump sum payments payable on death in service are accounted for on an accruals basis. They are funded through the normal pension contributions and are a charge on the pension provision.

2.15 Actuarial gains and losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Statement of Financial Position date are recognised in the Statement of Comprehensive Net Expenditure for the year.

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

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

Compensation payments for the costs of service enhancements for staff leaving before their normal retirement age since 1 April 1995 are met by NHS employers. Prior to that date the NHSPSS met the cost of accrued benefits and employers met the cost of service enhancements. Compensation payments made after that date do not, therefore, feature in the Pension Scheme Accounts.

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

The premature retirement provision is valued annually using longevity factors based on the current Treasury discount rate. There is a £1 million increase in the liability as a result of the revaluation and other adjustments (see note 13). The financing charge is based on the nominal discount rate of 1.55%. In practice, the financing charge is determined by applying the discount rate to the value of the early retirement liabilities at the beginning of the year, and to one half of the value of the movement in the liabilities during the year.

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

2.17 Provisions

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

2.18 Funding

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

2.19 Changes in Accounting Standards

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

3. Pension contributions receivable

		2022-23	2021-22
	Note	£m	£m
Employers		(1,448.3)	(1,350.9)
Employees:			
Normal		(646.1)	(605.3)
Purchase of additional pension	6	(7.0)	(8.1)
		(2,101.4)	(1,964.2)

4. Pension transfers in

		2022-23	2021-22
		£m	£m
Individual transfers in from other schemes		(46.8)	(45.7)
		(46.8)	(45.7)

5. Service cost

		2022-23	2021-22
	Note	£m	£m
Current service cost	2.6	5,384.3	4,957.6
Past service cost		-	-
	11.2	5,384.3	4,957.6

6. Enhancements

		2022-23	2021-22
		£m	£m
Employees:			
Purchase of additional pension	3 & 11.2	7.0	8.1
		7.0	8.1

7. Transfers in - additional liability

		2022-23	2021-22
		£m	£m
Individual transfers in from other schemes	4 & 2.4	46.8	45.7
		46.8	45.7

8. Pension financing cost

		2022-23	2021-22
		£m	£m
Net interest on defined benefit liability	11.2	1,502.6	1,107.5
		1,502.6	1,107.5

9. Receivables - contributions due

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

9.1 Analysis by type

	2022-23	2021-22
	£m	£m
Amounts falling due within one year		
Pension contributions due from employers	101.0	97.4
Employees' normal contributions	45.3	42.7
Employees' purchase of additional pension	0.3	0.4
Cash in transit	1.4	24.1
Other receivables	10.8	11.3
Total receivables	158.8	175.9

9.2 Intra-government balances

	2022-23	2021-22
	£m	£m
Amounts falling due within one year		
Balances with other central government bodies	1.4	26.2
Balances with NHS bodies	149.4	142.2
Balances with bodies external to government	8.0	7.5
Total receivables	158.8	175.9

10. Payables

10.1 Analysis by type

	Note	2022-23	2021-22
		£m	£m
Amounts falling due within one year			
Pensions		(26.7)	(25.7)
Overpaid contributions: employees	14	(12.4)	(13.7)
HM Revenue and Customs		(30.5)	(21.9)
Total payables		(69.6)	(61.3)

10.2 Intra-government balances

		2022-23	2021-22
		£m	£m
Amounts falling due within one year			
Balances with other central government bodies		(30.5)	(21.9)
Balances with bodies external to government		(39.1)	(39.4)
Total payables		(69.6)	(61.3)

11. Provisions for pension liabilities

11.1 Assumptions underpinning the provision for pension liability

11.1.1 An actuarial report by the Government Actuary's Department (GAD) was received for the accounting year ended 31 March 2023. An actuarial valuation of the scheme for resource accounting purposes has been carried out as at 31 March 2023. The assessment of the pension liability as at 31 March 2023 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 2023 is £54.5 billion. This compares to the liability of £95.1 billion as at 31 March 2022.

The Report of the Scheme's Actuary on pages 23-29 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	2023	2022	2021	2020	2019
Financial assumptions					
Rate of increase in salaries	3.65%	4.15%	3.72%	4.10%	4.10%
Inflation assumption	2.40%	2.90%	2.22%	2.35%	2.60%
Discount rate	4.15%	1.55%	1.25%	1.80%	2.90%
Life expectancy (years) - Current pensioners					
Males (Age 60)	27.1	27.6	27.5	27.5	28.3
Males (Age 65)	22.2	22.8	22.7	22.6	23.4
Females (Age 60)	28.3	29.1	29.1	29.0	29.8
Females (Age 65)	23.4	24.2	24.2	24.1	24.8
Life expectancy (years) - Future pensioners*					
Males (Age 60)	28.8	29.4	29.3	29.2	30.3
Males (Age 65)	23.8	24.4	24.4	24.3	25.3
Females (Age 60)	29.9	30.8	30.7	30.6	31.8
Females (Age 65)	24.9	25.8	25.8	25.7	26.7

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

Future improvements in mortality are now assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019. The current population mortality projections make a short-term allowance for the impact of COVID-19 pandemic, refer to the Report of the Scheme's Actuary section 2.26.

Long-term price inflation is assumed to be 2.4% per annum. The above assumptions mean that the gross rate of investment return is assumed to be 4.15% per annum, and salary inflation 3.65% per annum.

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The Actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the Scheme liabilities. However, the Agency acknowledges that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability. Conversely, a fall in the assumed rate of salary increase will result in a lower pension liability.

11.1.3 The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the CPI (consumer price index) used in HM Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

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

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

Value of liabilities (£billions) at 31 March	2023	2022	2021	2020	2019
Pensions in payment	18.2	22.7	19.8	19.0	17.2
Deferred pensions	3.7	6.8	5.4	4.9	4.1
Active members (past service)	32.6	65.6	61.7	52.7	41.2
Total liabilities	54.5	95.1	86.9	76.6	62.5

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

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

The principal financial assumptions are:

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

A key demographic assumption is pensioner mortality.

Table H page 29 in the Statement by the Scheme's Actuary shows the indicative effects on the total Scheme liability as at 31 March 2023 of changes to these assumptions (rounded to the nearest 0.5%).

The Scheme liability is very sensitive to the assumed discount rate but this is primarily because changing the discount rate in isolation also changes the rate net of pension increase and earnings. If assumptions for pensions and earnings were increased at the same time then the impact on the liability would be small.

Higher pension increases have a substantial effect because this has an impact on all categories of members. If pension increases were assumed to be 0.5% higher, then this would increase the total actuarial liability by about 8.0% (see table H page 29 in the Report of the Scheme's Actuary). The impact of changes in pensioner mortality assumptions is also significant.

The sensitivities detailed within the Report of the Scheme's Actuary table H page 29, 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

		2022-23	2021-22
	Note	£m	£m
Scheme liability at 1 April		(95,100)	(86,900)
Current service cost	5	(5,384.3)	(4,957.6)
Pension financing cost	8	(1,502.6)	(1,107.6)
		(6,886.9)	(6,065.2)
Enhancements	6	(7.0)	(8.1)
Pension transfers in	7	(46.8)	(45.7)
		(53.8)	(53.8)
Benefits payable	11.3	1,720.4	1,590.8
Pension payments to and on account of leavers	11.4	29.4	22.4
		1,749.8	1,613.2
Actuarial (loss)	11.5	45,790.9	(3,694.5)
Scheme liability at 31 March		(54,500)	(95,100)

During the year ended 31 March 2023, contributions represented an average of 30.2% of pensionable pay (2021-22 30.3%).

11.3 Analysis of benefits paid

	2022-23	2021-22
	£m	£m
Pensions to retired employees	1,206.1	1,113.2
Pensions to dependents	74.9	70.4
Lump sum benefits on retirement	439.4	407.2
Per Statement of Cash Flows	1,720.4	1,590.8

11.4 Analysis of payments to and on account of leavers

	2022-23	2021-22
	£m	£m
Refunds to members leaving service	3.4	2.2
Individual transfers to other schemes	26.0	20.3
Contribution equivalent premium	-	-
Per Statement of Cash Flows	29.4	22.4

11.5 Analysis of actuarial gains/(loss)

	2022-23	2021-22
	£m	£m
Experience gain/(loss) arising on the Scheme liabilities	(6,409.1)	505.5
Changes in demographic assumptions (other than mortality)	1,400.0	3,000.0
Changes in mortality assumptions	-	-
Changes to financial assumptions as at 31 March	50,800.0	(7,200.0)
Per Statement of Comprehensive Net Expenditure	45,790.9	(3,694.5)

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)

	2022-23	2021-22	2020-21	2019-20	2018-19
Experience gain arising on the Scheme liabilities:					
Amount (£m)	(6,409.1)	505.5	1,474.2	1,071.2	230.0
Percentage of the present value of the Scheme liabilities	(11.7%)	0.5%	2%	1%	0%
Total amount recognised in the Statement of Changes in Taxpayers' Equity					
Amount (£m)	45,790.9	(3,694.5)	(6,425.8)	(11,073.8)	3,230.0
Percentage of the present value of the Scheme liabilities	84.0%	(3.9%)	(7%)	(14%)	5%

12. Other expenditure

	2022-23	2021-22	£m	£m
Bad / Doubtful Debts:				
Overpayment of Scheme member pension			-	-
Pension contributions not received			-	-
			-	-
			<hr/>	<hr/>

13. Movement in premature retirement provision

	2022-23	2021-22
	£m	£m
Balance at 1 April	(53.0)	(55.3)
Capitalised receipts	(0.1)	(0.1)
Capitalised pension payments	4.1	4.0
Financing cost	(0.8)	(0.7)
(Increase)/Decrease in premature retirement provision net of financing cost	10.6	(0.9)
Balance at 31 March	(39.2)	(53.0)
 Movement in premature retirement provision	 13.8	 2.3

14. Practitioners Pension Contribution Underpayments/Overpayments

The practitioner pension contribution underpayments and overpayments are disclosed within the Statement of Financial Position (SoFP) as a receivables and payables respectively and relate to the period 2008 to 2020. The practitioner's remediation project commissioned during the year identified a £0.05m decrease in amounts receivable and a £1.3m reduction in the amounts payable. The total value of overpayments recognised in the year was £12.4m (£13.7m 2021-22) and the total value of underpayments was £7.6m (£7.7m 2021-22).

15. Contingent liability

Additional Voluntary Contributions

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

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

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

Scheme Pension Overpayments

A further contingent liability has been noted in respect of historic overpayments of Scheme pensions that may be written off during 2023-24.

16. Related party transactions

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

17. Losses

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

	2022-23	2021-22
Number of cases where there was a loss	529	789
	£	£
Total loss (£)	27,275	32,198

Consists of:

- below set de minimis limit	7,935	30,863
- Uneconomic to pursue further / other reasons as per SPFM	19,340	1,335

There were no individual losses in excess of £300,000 which would require separate disclosure during the year to 31 March 2023 (£32,198, 2021-22), or that have been recognised since that date.

18. Unclaimed refunds

These accounts include £7.08 million (2021-22: £7.13 million) payables for 16,378 members (2021-22: 16,474) who have left the Scheme but have not applied for a refund. There is a £0.05 million reduction in the refund liability from 2021-22 which increases refund expenditure in 2022-23. The Agency is working towards making these payments.

19. Financial instruments

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

20. Events after the reporting period

2020 funding valuation

The 2020 valuation was completed by the Government Actuary Department (GAD) on **October** 2023. The results of the 2020 valuation including an updated employer contribution rate and employer cost cap will be reported in the 2023-24 Annual Report and Accounts.

Judicial Review - McCloud Remedy Costs

In December 2021 several trade 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. The treatment of the deferred choice underpins as a member cost for cost cap purposes, along with the 4-year spreading period, was challenged in a Judicial Review which was heard in early 2023. The claims made in the Judicial Review were dismissed by the High Court in a judgment handed down on Friday 10 March 2023.

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

21. Accounts authorisation

The Accountable Officer authorised these financial statements for issue on 12 December 2023

**NHS PENSION SCHEME (SCOTLAND)****DIRECTION BY THE SCOTTISH MINISTERS**

**in accordance with section 19(4) of the
Public Finance and Accountability (Scotland) Act 2000**

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

Signed by the authority of the Scottish Ministers

Dated 17 October 2016



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