

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF
THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2004-2005 AUDIT OF THE NHS PENSION SCHEME SCOTLAND ACCOUNTS

1. I have received the audited accounts of the NHS Pension Scheme Scotland (the Scheme) for the year ended 31 March 2005. The auditor's report on the regularity of expenditure is qualified because the use of resources by the Scheme exceeds limits authorised by the Budget Scotland Act 2004.
2. I submit these accounts and the auditor's report in terms of Section 22(4) of the Public Finance and Accountability (Scotland) Act 2000 (the 2000 Act), together with this report which I have prepared under Section 22(3) of the 2000 Act.

The actuarial valuation of the scheme

3. NHS staff and their employers contribute to the NHS Superannuation Scheme, a defined benefit scheme linked to final salary. The scheme has 131,200 active members, 28,900 deferred members, and 66,700 pensioners and dependants in payment. Its future liabilities are not funded through investments; instead it is a pay-as-you-go scheme, relying on in-year contributions and government grant to meet pension liabilities as they fall due.
4. The scheme is administered by the Scottish Public Pensions Agency. The auditor qualified the accounts of the scheme for 2003-04 because the scheme actuary, the Government Actuary's Department (GAD), had not completed a statutory actuarial revaluation as at 31 March 1999 due to incomplete data. The GAD produced a resource accounting valuation in July 2005, which assessed the scheme liability as at 31 March 2005 at £12.7 billion. This represents an increase of £4.6 billion on the liability appearing in the 2003-04 accounts.
5. The increase arises from a misstatement in the estimation of past service liability provided by GAD in its valuation of the liability as at 31 March 1999, carried out in August 2000. That estimate was based on the 1994 full statutory funding valuation updated to reflect known changes that occurred between 1 April 1994 and 31 March 1999. Since some data remained unavailable the liability in the 2003-04 accounts was based on the 1999 estimate rolled forward. The 2003-04 accounts wrongly state the scheme liability at £8.1 billion rather than £11.6 billion.
6. The 2004-05 accounts reflect the amended valuation. The level of liability recorded in 2003-04 has been restated in the 2004-05 accounts and a prior year adjustment is also disclosed in those accounts to reflect the increase in resources required to meet notional interest charges applied to the liability.

Qualified opinion on the regularity of expenditure

7. Under Section 22(1)(a)(ii) of the 2000 Act, the auditor is required to report whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with the Budget Act or Acts for the financial year, or any part of the financial year, to which the account relates.
8. The Budget Scotland Act 2004 set a resource budget for 2004-05 for the Scheme of £561 million. However, the impact of applying the restated valuation figure to the accounts for 2003-04 and 2004-05 is to increase notional interest charges resulting in an outturn of £1,404 million, £843 million in excess of the Budget Act provision. The auditor has, therefore, qualified the audit opinion on the regularity of expenditure because, without Parliamentary approval, the overspend must be deemed irregular.

Impact on the delivery of health services

9. The increased liability reflected in the 2004-05 accounts will have no immediate effect on the level of funding available to deliver health services. Health Boards contribute to the scheme through the contributions they make as employers. Contribution levels were increased in 2003-04 to reflect a new calculation methodology and to take account of increased longevity of scheme members. Future contribution levels will be assessed on a regular basis by GAD.



ROBERT W BLACK
Auditor General for Scotland
10 November 2005