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SCOTTISH PUBLIC PENSIONS AGENCY

Scottish Teachers' Superannuation Scheme

2006-2007

SCOTTISH TEACHERS' SUPERANNUATION SCHEME 2006-2007

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

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December 2007

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SCOTTISH PUBLIC PENSIONS AGENCY - PENSION SCHEME STATEMENT

SCOTTISH TEACHERS' SUPERANNUATION SCHEME 2006 - 2007

1. The Scottish Public Pensions Agency is responsible for managing the Scottish Teachers' Superannuation Scheme whose members comprise teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools. Chapter 8 of the Government Financial Reporting Manual requires pension schemes to publish scheme statements which conform as far as possible to the provisions of Financial Reporting Standard (FRS) 17.

2. The resource accounts for the Scottish Teachers' Superannuation Scheme comprises:

- a. Report of the Managers;
- b. Statement by the Actuary;
- c. Statement of the Accountable Officer's Responsibilities;
- d. Statement on Internal Control;
- e. Auditor's Report;
- f. Statement of Parliamentary Supply;
- g. Revenue Account and Statement of Recognised Gains and Losses;
- h. Balance Sheet;
- i. Cash Flow Statement;
- j. Notes to the Accounts.

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

REPORT OF THE MANAGERS

Accounts for the year ended 31 March 2007

Introduction

The Scottish Teachers' Superannuation Scheme is an unfunded, contributory, voluntary membership Scheme administered by the Scottish Public Pensions Agency. The current regulations under which the Scheme operates are The Teachers' Superannuation (Scotland) Regulations 2005, as amended.

The Regulations apply to "teachers" as defined by The Teachers' Superannuation (Scotland) Regulations 2005, as amended.

Information about the Scheme is given in the explanatory booklet "An easy to read Guide" which is issued to all members. Further more specialised leaflets, for example "A Guide to the purchase of Past Added Years", are available on request.

The Agency also maintains an Internet site on www.sppa.gov.uk which provides a range of information on the Teachers' Scheme.

As this information covers the period before the Scottish Executive changed its name to the Scottish Government, the term Scottish Executive is used throughout.

Managers, Advisors and Employers

Managers:

Agency Accountable Officer: Neville Mackay
Chief Executive
Scottish Public Pensions Agency
7 Tweedside Park
Galashiels
TD1 3TE

Scheme Administrator: Ian Clapperton
Director of Operations
Scottish Public Pensions Agency
7 Tweedside Park
Galashiels
TD1 3TE

Advisors:

Scheme Actuary: Government Actuary's Department
Finlaison House
15-17 Furnival Street
London
EC4A 1AB

Bankers: Paymaster (1836) Limited
Sutherland House
Russell Way
West Sussex
RH10 1UH

Legal Advisors: Office of Solicitors for the Scottish Executive
The Scottish Executive
Victoria Quay
Edinburgh
EH6 6QQ

Auditor:

Gillian Woolman
Assistant Director
Audit Services
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

Employers:

Teachers employed by Scottish Local Authorities, Further Education Colleges, Universities and Independent Schools, are eligible to join the scheme. At 31 March 2007 these made up a total of 178 employers.

Free-Standing Additional Voluntary Contributions and Stakeholder Pensions:

Teachers participating in the Scottish Teachers' Superannuation Scheme (STSS) may make their own arrangements for making payments to institutions offering Free-Standing Additional Voluntary Contribution (FSAVC) schemes. The STSS Managers have no responsibility for such arrangements. Because the STSS does not exclude any teacher from membership, there is no requirement to provide a Stakeholder Pension Scheme and no such Scheme has been put in place.

Changes to the scheme

During the year the following changes were made:

Pensions were increased by 2.7% with effect from 10 April 2006.

The Teachers' Superannuation (Scotland) Amendment Regulations 2006 (SSI 2006 No. 308) amended The Teachers' Superannuation (Scotland) Regulations 2005 ("the 2005 Regulations") (SSI 2005 No. 393) and the Teachers' Superannuation (Additional Voluntary Contributions) (Scotland) 1995("the AVC Regulations")(SI 1995 No. 2814). The amendments were made in response to the provisions of the Finance Act 2004 and associated regulations, which introduced a radical new tax regime for tax-privileged pension savings which took effect from 6 April 2006. The amendments to the 2005 Regulations increased the minimum pension age from 50 to 55 for a "post-30th June 2006 entrant", restricted the age to which a child's pension is payable to age 23 years except in limited circumstances and increased the limits on when a trivial pension can be commuted and paid as a lump in line with overriding legislation. The amendments to the AVC Regulations allow a teacher to make contributions up to 100% of their earnings to their AVC arrangement and allow a teacher or a pension credit member to elect to take 25% of their AVC fund as a lump sum.

The Teachers' Superannuation (Scotland) Amendment (No.2) Regulations 2006 (SSI 2006 No. 605) amended the 2005 Regulations, the Teachers (Compensation for Premature Retirement and Redundancy)(Scotland) Regulations 1996 ("the 1996 Regulations")(SI 1996 No. 2317) and the AVC Regulations. The amendments to the 2005 Regulations removed the provision which allowed a teacher to pay contributions on a previously higher salary and allowed the whole of the teacher's pension to be commuted in exceptional circumstances of serious ill-health, rather than so much of it that exceeded the guaranteed minimum. The 1996 Regulations were amended to provide for the retention of the maximum amount of discretionary severance compensation of 66 weeks' pay but to remove the requirement for the amount of compensation to be based on age and service. The amendment to the AVC Regulations extends the circumstances under which an outward transfer value may be paid.

Forthcoming changes:

Regulations will be made, amending the 2005 regulations, with effect from 1 April 2007:

- to increase the employee and employer's contribution rate
- to introduce a new method of calculating pensionable salary
- to remove the right to buy current added years (CAY) and past added years (PAY) but to allow for a teacher who has already elected to buy to continue until the end of the arrangement
- to introduce the right to purchase additional pension benefits
- to introduce an increase in the upper membership age from 70 to 75 years
- to introduce phased retirement for members of 55 years or over
- to introduce benefits for nominated partners who are not civil partners
- to introduce two tier ill-health retirement benefits

Membership statistics

Details of the membership of the Scheme as at 31 March 2007 are as follows:
(The figures for 31 March 2006 are in brackets).

Active members	75,479	(74,174)
Members with Preserved Rights	14,870	(14,500) est.
Pensioners and dependants in payment	51,351	(49,804)
Awards of Pension (including revisions) made during the year	3,590	(2,164)
Transfers in and out of the Scheme	952	(975)
Refunds of contributions to leavers	237	(253)

Post balance sheet events

There were no post balance sheet events.

Further Information

Any enquiries about the Scottish Teachers' Superannuation Scheme should be addressed to:

Ian Clapperton
Scheme Administrator
Scottish Public Pensions Agency
7 Tweedside Park
Galashiels
TD1 3TE



Neville Mackay
Accountable Officer

5 November 2007

STATEMENT BY THE ACTUARY

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the Scottish Public Pensions Agency (SPPA). It summarises the pensions disclosures required for the Resource Accounts of the Scottish Teachers' Superannuation Scheme ("the Scheme" or STSS) as at 31 March 2007.
2. The statement (other than the cost of benefits accruing in the year) is based on the results of the valuation carried out as at 31 March 2001, with an approximate updating for subsequent financial years to reflect known changes. The contribution rate used to determine the accruing costs is based on the valuation as at 31 March 2001 (using the methodology and assumptions applicable to the Resource Accounts).

Membership data

3. Tables A1 to A3 summarise the principal membership data as at 31 March 2001 and 31 March 2007 used to prepare this statement.

Methodology

4. The value of the liabilities has been determined using the projected accrued benefit method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the Resource Accounts as at 31 March 2007. The contribution rate for accruing costs in the year ended 31 March 2007 was determined using the projected unit method and the principal financial assumptions applying to the Resource Accounts as at 31 March 2006.
5. 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 premature retirements or redundancy benefits in respect of active members, although the assessment of liabilities includes some pensions already in payment in respect of such cases. Injury benefits (in excess of ill-health benefits) are not payable by the Scheme and so the cost of any such benefits has been excluded from the liabilities.
6. The actuarial liability as at 31 March 2007 is based on the new provisions which came into force on 1 April 2007.

Financial assumptions

7. Table A4 (in Appendix) shows the principal financial assumptions adopted to prepare this statement. With effect from 31 March 2007, the assumed rate of return in excess of prices was reduced from 2.8% a year to 1.8% a year, and the assumed rate of return in excess of earnings was reduced from 1.3% a year to 0.3% a year.

Demographic assumptions

8. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
9. The past service liabilities as at 31 March 2007 were calculated using the demographic assumptions adopted for the valuation as at 31 March 2001 but including additional allowance for greater future mortality improvement for future pensioners and allowance for commutation of pension under the new provisions.
10. The contribution rate used to determine the accruing cost in 2006/07 was based on the demographic assumptions applicable at the start of the year, which were those adopted for the valuation as at 31 March 2001 but including allowance for greater future mortality improvement for future pensioners.

Liabilities

11. Table 1 summarises the capital value as at 31 March 2007 of benefits accrued under the Scheme prior to 31 March 2007 based on the data, methodology and assumptions described in paragraphs 3 to 10.

Table 1
Past service liabilities as at 31 March 2007

Value of liability in respect of	£ billion
Pensions in payment	7.21
Deferred pensions	0.96
Active members (past service)	10.58
Total	18.75

Accruing costs

12. The cost of benefits accruing in the year ended 31 March 2007 is based on a standard contribution rate of 23.6%, as determined at the start of the year. This rate is met partly by a contribution from members (of 6%), with employers meeting the balance of the cost. Table 2 shows the contribution rate used to assess the cost of benefits accruing in the year ended 31 March 2007.

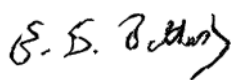
Table 2
Contribution rate 2006/07

Contribution rate	Percentage of pensionable pay
Standard contribution rate	23.6%
Members' contribution rate	6.0%
Employers' share of standard rate	17.6%
Actual rate charged to employers	12.5%

13. The employers' share of the standard rate determined for the purposes of the Resource Accounts is not the same as the actual rate charged to employers (which is based on the methodology and the financial and demographic assumptions adopted for the funding of the Scheme).
14. In relation to the pensionable payroll for the financial year 2006/07, the contributions actually paid by employers were £286 million (from data provided by SPPA). Based on this information, the accruing cost of pensions in 2006/07 (at 23.6% of pay, including member contributions) is estimated to be £539 million.

Disclosures

15. Tables A5 and A6 (in Appendix) show the Balance sheet and the Profit and loss disclosures as at 31 March 2007.



E I Battersby, FIA
Chief Actuary
Government Actuary's Department

16 October 2007

APPENDIX

Table A1 – Active members

	31 March 2001		31 March 2007
	Number	Total salaries * (£ million)	Total salaries † (£ million)
Males	20,207	621	790
Females	48,460	1,312	1,667
Total	68,667	1,933	2,457

* Full-time equivalent, including 10% pay award as at 1 April 2001.

† Full-time equivalent, including pay award as at 1 April 2007.

Table A2 – Deferred members

	31 March 2001		31 March 2007
	Number	Total deferred pension (pa) * (£ million)	Total deferred pension (pa) † (£ million)
Males	3,157	10.6	13.5
Females	10,812	23.0	29.3
Total	13,969	33.6	42.8

* Including increases applying from April 2001.

† Including increases applying from April 2007.

Table A3 – Pensions in payment

	31 March 2001		31 March 2007
	Number	Annual pension * (£ million)	Annual pension † (£ million)
Males	13,670	141.5	199.1
Females	24,179	175.6	246.8
Spouses & dependants	4,005	12.7	17.9
Total	41,854	329.8	463.8

* Including pension increase awarded in April 2001.

† Including pension increase awarded in April 2007.

Table A4 – Financial assumptions

Assumption	31 March 2007	31 March 2006
Rate of return (discount rate)	4.6%	5.4%
Rate of return in excess of:		
Earnings increases	0.3%	1.3%
Pension increases	1.8%	2.8%
Expected return on assets:	n/a	n/a

Table A5 – Balance sheet disclosures**£ billion**

	31 March 2007		31 March 2006
	Financial assumptions as at		
	31 March 2007	31 March 2006	
Total market value of assets	nil	nil	nil
Value of liabilities	(18.75)	(15.40)	(14.61)
Surplus (deficit)	(18.75)	(15.40)	(14.61)
of which recoverable by employers	n/a	n/a	n/a

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

In accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 the Scottish Ministers have directed the Accountable Officer to prepare a resource account in respect of the Scottish Teachers' Superannuation Scheme in the form and on the basis set out in the accounts direction at page 32 of these statements.

With the exception of certain transactions (which are accounted for on a cash basis) the financial statements are prepared on an accruals basis and must show a true and fair view of the financial transactions of the Scheme during the year and the disposition, at the end of the Scheme year, of the net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year, nor on the net liabilities at the year end.

In preparing these financial statements, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to satisfy himself that:

- the accounts direction has been observed, including the relevant accounting and disclosure requirements, and suitable accounting policies have been selected and applied consistently;
- the financial statements have been prepared on the going concern basis, unless it is inappropriate to presume that the Scheme will continue in operation;
- reasonable and prudent judgements and estimates have been made; and
- applicable accounting standards have been followed, in accordance with the guidelines set out in the Government Financial Reporting Manual subject to any material departures disclosed in the financial statements.

The Scottish Ministers appointed the Chief Executive of the Scottish Public Pensions Agency as Accountable Officer for the Scheme. The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme, are described in the Memorandum to Accountable Officers from the Principal Accountable Officer published in the Scottish Public Finance Manual.

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Scottish Public Finance Manual.

As Accountable Officer, I am personally answerable to the Scottish Parliament in accordance with section 15 of the Public Finance and Accountability (Scotland) Act 2000. I am responsible for the propriety and regularity of financial transactions under my control and for the economic, efficient and effective use of resources provided to the Agency, for ensuring that arrangements have been made to secure best value and for signing the accounts of the Scottish Teachers' Superannuation Scheme. I have responsibility for ensuring that effective management systems are in place within the Agency and that all risks are identified, assessed and managed appropriately.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within the organisation accords with the SPFM and with the guidance from Scottish Ministers and has been in place for the year ended 31 March 2007 and up to the date of approval of the financial statements.

Risk and Control Framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

All members of the Senior Management Team have attended training on risk awareness and the Agency's Management Board has identified the top-level risks and consolidated these into a risk register together with a determination of a control strategy for each risk. Risk management is incorporated into the business planning and decision making processes of the organisation.

The Agency's Management Board and Audit Committee have ensured that risk management and internal control are considered on a regular basis at their meetings. The Audit Committee receive regular reports from internal audit and Audit Scotland concerning internal control issues and recommendations and are notified of actions to be taken to address any issues or weaknesses identified. The Audit Committee also consider the adequacy of arrangements, for the assessment and management of risk and adequacy of arrangements for corporate governance.

More generally, the organisation is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2007 and up to the signing of the accounts the organisation has:

- set stretching performance targets, including making savings under the Efficient Government Review, which cover the main areas of activity which are regularly monitored;
- reviewed monthly monitoring of expenditure against budget; and
- set up a pensions change project team in connection with the proposed procurement and implementation of new pensions administration software.

Capacity to handle risk

The Agency has taken an approach to risk management that is appropriate to its circumstances. Everyone has a role to play in managing risk, whether this relates to specific risks within their area or risk management more generally. Managers have been trained on risk management and a register of risks is maintained as part of the corporate and business area specific plans within the SPPA.

However the resources that can be dedicated to the management of risk are finite. Indeed in order to maintain an efficient organisation, it is entirely proper that the correct perspective is taken towards risk management and that responses should be proportionate, the systems “fit for purpose” and the time spent on risk management appropriate. Key to this is the recognition that risk cannot, and in some cases should not (e.g. where it is not economically viable to do so) be eliminated. The Agency therefore has a risk appetite, but critically this is based on the regular review of risks by the Senior Management Team, External Management Board and Audit Committee and conscious decisions about the level of residual risk that can be tolerated.

Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. My review is informed by the:

- Executive managers within the Agency who have the responsibility for the development and maintenance of the internal control framework;
- work of the internal audit team who regularly submit reports to the Audit Committee which includes the Head of Internal Audit’s independent and objective opinion on the adequacy and effectiveness of the Agency’s systems of internal control together with recommendations for improvement;
- Audit Committee overseeing the work of internal audit; and
- comments made by the external auditors in their management letters and other reports.

Appropriate action is taken to address any weaknesses identified and to ensure the continuous improvement of the system.

The Agency invested a considerable amount of time testing new payroll software in response to difficulties experienced in 2005 – 06. These difficulties have now been largely resolved.

The Scottish Government’s Internal Audit Department undertook a number of Audits during the year and in two of these and as a consequence overall in respect of the internal control framework governing the Agency’s scheme expenditure, gave a limited assurance. Subsequent fieldwork has confirmed that the issues raised in these reports have been, or are being, addressed.

The Agency uses and relies on the core financial management systems of the Scottish Executive to carry out its own accounting and payment functions. I have received assurances from the Scottish Executive that reliance can be placed on the central systems they provide.

The FRS 17 Accounting Standard requires that the scheme liability be brought into the balance sheet. The valuation as at 31 March 2007 has been based on a full valuation at 2001. The 2001 GAD valuation report identified some data deficiencies when calculating past service costs. The actuaries were asked to quantify the potential impact and this was assessed as not material in relation to the value of total liabilities. The Agency continues to take steps to resolve the data deficiency issues.

A handwritten signature in black ink, reading "Neville Mackay". The signature is written in a cursive style with a large, looped 'y' at the end.

Neville Mackay
Accountable Officer

5 November 2007

Independent Auditor's Report to the Scottish Public Pensions Agency, Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of the Scottish Teacher's Superannuation Scheme for the year ended 31 March 2007 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Statement of Parliamentary Supply, Revenue Account and the Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and related notes. These financial statements have been prepared under the accounting policies set out within them.

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 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Accountable Officer, Scottish Public Pensions Agency and Auditor

The Agency and Accountable Officer are responsible for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Agency's and Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. I also report whether, in all material respects:

- the expenditure and receipts shown 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.

I report whether the contributions payable to the Scheme have been paid in accordance with the Scheme rules and the recommendations of the Actuary. I also report if, in my opinion, the Report of the Scheme Managers is not consistent with the audited financial statements, if the Agency has not kept proper accounting records for the Scheme or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on Internal Control reflects the Agency's compliance with Scottish Executive guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the Report of the Managers and the Report of the Actuary and consider whether they are consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of Audit Opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial statements

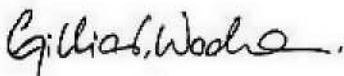
In my opinion

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made thereunder by the Scottish Ministers, of the state of affairs of the Scottish Teachers' Pension Scheme at 31 March 2007 and of the net outgoings, recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Regularity

In my opinion, in all material respects:

- the expenditure and receipts shown 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;
- 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; and
- the contributions payable to the Scheme during the year ended 31 March 2007 have been paid in accordance with the Scheme rules and the recommendations of the Actuary.



Gillian Woolman (ACA)

Assistant Director
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

5 November 2007

SCOTTISH TEACHERS' SUPERANNUATION SCHEME STATEMENT OF PARLIAMENTARY SUPPLY

Summary of resource outturn 2006 - 07

ESTIMATE					2006-07 £000 OUTTURN				2005-06 £000 OUTTURN
Request for resources	Note	Gross Expenditure	Budgeted Income	Net Total	Gross Expenditure	Income Applied	Net Total	outturn compared to Estimate: saving/ (excess)	Net total
Pensions and associated payments		1,352,380	(442,240)	910,140	998,638	(447,169)	551,469	358,671	846,577
Total Resources	3	1,352,380	(442,240)	910,140	998,638	(447,169)	551,469	358,671	846,577

Summary of net cash requirement 2006 - 07

					2006-07 £000				2005-06 £000
					Net total Outturn compared to Estimate: saving/ (excess)				
					Note	Estimate	Outturn	saving/ (excess)	Outturn
Net cash requirement					4	113,200	120,303	(7,103)	94,197

Summary of income payable to the Consolidated Fund

In addition to income applied the following income relates to the scheme and is payable to the Consolidated Fund (cash receipts being shown in italics).

				Forecast 2006-07 £000			Outturn 2006-07 £000	
				Note	Income	Receipts	Income	Receipts
Total				5	0	0	0	0

Outturn against estimate

Net total resource outturn 2006 - 07 was within the Budget Act limit.

With effect from 1 April 2007, new scheme provisions have applied to existing members (including the option to commute the pension for lump sum under the new taxation regime). These changes have been treated as a past service cost, including, the change in past service liability resulting from the introduction of the commutation option. The total effect on the past service liability resulting from the change of provisions is a reduction of about £340 million. This comprises a reduction of £280 million for the option to commute and a reduction of £60 million for other Scheme changes.

The net saving against estimate is largely due to this reduction in pension costs.

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006-07 £000	2005-06 £000
Income			
Contributions receivable	7	(427,783)	(414,274)
Transfers in	8	(19,380)	(19,795)
Other income	9	(6)	(20)
Compensation receipts	17	0	(33)
		<u>(447,169)</u>	<u>(434,122)</u>
Outgoings			
Pension Costs	10	199,164	523,472
Enhancements	11	4,680	3,562
Transfers in	12	19,380	19,795
Interest on scheme liabilities	13	775,195	733,619
Financing Charge	17	219	218
Compensation receipts	17	0	33
		<u>998,638</u>	<u>1,280,699</u>
Net outgoings for the year		<u><u>551,469</u></u>	<u><u>846,577</u></u>

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006-07 £000	2005-06 £000
Actuarial (gains)/losses	16.5	3,713,486	1,473,527
Recognised (gains) and losses for the financial year		<u><u>3,713,486</u></u>	<u><u>1,473,527</u></u>

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

BALANCE SHEET AS AT 31 MARCH 2007

	Note	2007 £000	2006 £000
Current assets:			
Debtors	14	35,634	39,399
Current liabilities:			
Creditors (amounts falling due within one year)	15	(7,502)	(6,651)
Net current assets excluding pension liability		<u>28,132</u>	<u>32,748</u>
Provisions for liabilities and charges:			
Premature retirement provision	17	(4,212)	(4,176)
Pension liability	16	(18,750,000)	(14,610,000)
Net liabilities		<u>(18,726,080)</u>	<u>(14,581,428)</u>
Taxpayers' equity			
General fund	18	(18,726,080)	(14,581,428)
		<u>(18,726,080)</u>	<u>(14,581,428)</u>



Neville Mackay
Accountable Officer

5 November 2007

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006-07 £000	2005-06 £000
Net cash outflow from operating activities	19	(120,303)	(94,197)
Payment of amounts due to the Consolidated Fund		0	0
Financing		120,303	94,197
Increase /(decrease) in cash in period		0	0

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

Notes to the scheme statement

Accounts for the year ended 31 March 2007

1. Basis of preparation of the scheme statement

The scheme statements have been prepared in accordance with a direction given by the Scottish Ministers, and the relevant provisions of the Government Financial Reporting Manual for 2006-07 issued by the Treasury, which reflect the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the governing scheme legislation, The Teachers' Superannuation (Scotland) Regulations 2005 as amended.

In addition to the primary statements prepared under UK Generally Accepted Accounting Practices for companies (UK GAAP), the Government Financial Reporting Manual also requires the scheme to prepare a Statement of Parliamentary Supply. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

The scheme statement summarises the transactions of the Scottish Teachers' Superannuation Scheme where the Scottish Public Pensions Agency acts as principal. The balance sheet shows the deficit of the scheme. The Revenue Account shows, among other things, the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. Actual pension benefits paid are reflected in the Balance Sheet. The actuarial position of the pension scheme is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that Report.

2. Statement of Accounting Policies

The accounting policies contained in the Government Financial Reporting Manual (FReM) follow UK GAAP to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy that 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 are described below. They have been applied consistently in dealing with items that are considered material in relation to the combined Scheme statements.

2.1 Contributions

Employers' normal contributions are accounted for on an accruals basis. There are no employer's special pension contributions.

Employees' contributions which exclude amounts paid in respect of the purchase of added years of service (see below) and Additional Voluntary Contributions, are accounted for on an accruals basis. Additional Voluntary Contributions (AVCs) (See notes 2.14 and 21) are not brought to account in this statement.

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

2.2 Transfers in and out

Transfers in and out of the pension scheme are accounted for on a cash basis, although group transfers in and out may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability. Transfers in are normally accounted for as income and expenditure (representing the associated increase in the pensions liability).

2.3 Other Income

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

2.4 Current Service Cost

The current service cost is the increase in the present value of the schemes liabilities arising from the current members' service in the current period and is recognised in the Revenue Account. The cost is based on employers' contributions received pro rated from the employer contribution rate to the scheme standard contribution rate.

2.5 Past Service Costs

Past service costs are increases or decreases 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 Revenue Account on a straight line basis over the period in which increase in benefit vests.

2.6 Interest on Scheme Liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue Account. The interest cost is based on a discount rate of 2.8% real (i.e. 5.37% including inflation). In practice, the interest charge is determined by applying the discount rate 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), which is based on the assumption that the increase or decrease accrues evenly during the year. The discount rate reduced to 1.8% at 31 March 2007.

2.7 Other Payments

Other payments are accounted for on an accruals basis.

2.8 Scheme Liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 1.8% real (i.e. 4.6% after inflation).

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding five years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions.

2.9 Pension Benefits Payable

Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

2.10 Pension payments to those retiring at their normal retirement age

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

2.11 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 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 age 60. These transfers are accounted for on a cash basis.

2.12 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.

2.13 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 balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

2.14 Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the employing departments to the approved AVC providers.

2.15 Premature Retirement Provision

Compensation for early retirement because of redundancy or the need to support the efficient exercise of the employer's functions is a liability on the employers of teachers and so is not accounted for in the financial statements of the Scottish Teachers' Superannuation Scheme. All such compensation is paid separately through employers' payroll systems. Exceptions to this policy have been made, principally for the Scottish Qualifications Authority (SQA). In such cases, the capitalised early retirement costs of employees transfers liability for payment to the pension scheme. Liability is discharged as benefits are paid. The valuation is updated annually to take account of the Net Present Value (NPV) of cash flows in the intervening year. The financing charge is based on a discount rate of 2.8% real (i.e. 5.37% including inflation). 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.

2.16 Administrative fees and expenses

All costs of administering the Scottish Teachers' Superannuation Scheme are borne by the Scottish Public Pensions Agency.

2.17 Funding

The Scottish Teachers' Superannuation Scheme and the NHS Pension Scheme (Scotland) are part of the Scottish Executive corporate cash account, which meets scheme expenditure when required.

3. Reconciliation of net resource outturn to net outgoings

	Note	Supply Estimate £000	Outturn £000	2006-07 Outturn Compared with Estimate £000	2005-06 Outturn £000
Net resource outturn		910,140	551,469	358,671	846,577
Non-supply income (Income not applied)	5	0	0	0	0
Net outgoings		910,140	551,469	358,671	846,577

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	2006-07 Net total outturn compared with estimate: savings/(excess) £000
Net resource outturn	3	910,140	551,469	358,671
Accruals adjustment				
Non-cash items		(1,352,380)	(998,419)	(353,961)
Changes in working capital other than cash		0	(4,616)	4,616
Use of provisions:				
Movement in premature retirement provision		0	(36)	36
Pension		555,440	571,905	(16,465)
Net cash requirement		113,200	120,303	(7,103)

5. Analysis of income payable to the Consolidated Fund

In addition to income applied the following income relates to the scheme and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	2006-07 Forecast		2006-07 Outturn	
		Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts (income not applied)		0	0	0	0
Total income payable to the Consolidated Fund		0	0	0	0

The cash requirement for the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland) are part of the overall cash authorisations of the Scottish Administration in the Budget (Scotland) Act 2006.

6. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	Note	2006-07 £000	2005-06 £000
Operating income		447,169	434,122
Income authorised to be applied		(447,169)	(434,122)
Operating income payable to the Consolidated Fund	5	0	0

Accrued resources for the Scottish Teachers' Pension Scheme and the NHS Superannuation Scheme (Scotland) are covered by one limit in the Budget (Scotland) Act 2006. In 2006-07 the accrued resources of the Scottish Teachers' Superannuation Scheme and the NHS Superannuation Scheme (Scotland) fell within that limit.

7. Pension contributions receivable

	2006-07 £000	2005-06 £000
Employers	(285,574)	(277,263)
Employees:		
Normal	(137,529)	(133,449)
Purchase of added years	(4,680)	(3,562)
	(427,783)	(414,274)

8. Pension transfers-in (see also note 12)

	2006-07 £000	2005-06 £000
Individual transfers in from other schemes	(19,380)	(19,795)
	(19,380)	(19,795)

9. Other pension income

	2006-07 £000	2005-06 £000
Miscellaneous Income	(6)	(20)
	(6)	(20)

10. Pension Cost

	2006-07 £000	2005-06 £000
Current service cost (note 16.2)	539,164	523,472
Past service costs	(340,000)	0
	199,164	523,472

11. Enhancements (see also note 16.2)

	2006-07 £000	2005-06 £000
Employees:		
Purchase of added years	4,680	3,562
	4,680	3,562

12. Transfers in (see also note 8)

	2006-07 £000	2005-06 £000
Individual transfers in from other schemes	19,380	19,795
	19,380	19,795

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Revenue account as expenditure as part of the movements in the provision during the year.

13. Interest on scheme liabilities (see also note 16.2)

	2006-07 £000	2005-06 £000
Interest charged for the year	775,195	733,619
	775,195	733,619

14. Debtors - contributions due in respect of pensions**14.1 Analysis by type**

	2006-07 £000	2005-06 £000
Amounts falling due within one year:		
Pension contributions due from employers	23,498	22,700
Employees' normal contributions	11,440	10,962
Employees' purchase of added years	191	186
Cash in transit	505	5,551
	35,634	39,399

14.2 Intra-government balances

	2006-07 £000	2005-06 £000
Amounts falling due within one year:		
Balances with other central government bodies	501	5,551
Balances with local authorities	29,207	27,770
Balances with NHS Bodies	0	0
Balances with public corporations and trading funds	0	0
Balances with bodies external to government	5,926	6,078
At 31 March	35,634	39,399

15. Creditors - in respect of pensions**15.1 Analysis by type**

	2006-07 £000	2005-06 £000
Amounts falling due within one year:		
Pensions	(1,987)	(1,514)
Tax due to HM Revenue and Customs	(5,515)	(5,137)
	(7,502)	(6,651)

15.2 Intra-government balances

	2006-07 £000	2005-06 £000
Amounts falling due within one year:		
Balances with other central government bodies	(5,515)	(5,137)
Balances with local authorities	0	0
Balances with NHS Bodies	0	0
Balances with public corporations and trading funds	0	0
Balances with bodies external to government	(1,987)	(1,514)
At 31 March	(7,502)	(6,651)

16. Provision for pension liabilities

16.1.1 The Scottish Teachers' Superannuation Scheme is an unfunded defined benefit scheme. An actuarial report by the Government Actuaries Department (GAD) was received for the accounting year ended 31 March 2007 updating the last full actuarial valuation carried out as at 31 March 2001, with an approximate updating for subsequent financial years to reflect known changes. The major assumptions used by the Actuary were:

	At 31 March 2007	At 31 March 2006	At 31 March 2005
Annual rate of return net of salary inflation	0.3%	1.3%	2.0%
Annual rate of return net of price increases	1.8%	2.8%	3.5%

Long-term price inflation is assumed to be 2.75% per annum. The above assumptions therefore mean that the gross rate of investment return is assumed to be about 4.6% per annum, and salary inflation close to 4.3% per annum.

16.1.2 The Agency is responsible for providing the Actuary with the information they need to carry out the valuation. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profile, active membership, pensioners and deferred pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

16.1.3 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 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.

16.1.4 The value of the liability included on the balance sheet 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 or increases in salaries, 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 16.5 and 16.6. 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.

16.1.5 The adjustment of £3.35 billion reflects the change in the discount rate from 2.8% real to 1.8 % real from 31 March 2007.

16.2 Analysis of movements in scheme liability

	2006-07 £000	2005-06 £000
Scheme liability at 1 April	(14,610,000)	(12,380,000)
Changes in assumed real rate of return at 1 April 2005	0	(1,270,000)
Current service cost (note 10)	(539,164)	(523,472)
Past service cost (note 10)	340,000	0
Interest on pension scheme liability (note 13)	(775,195)	(733,619)
	<u>(974,359)</u>	<u>(2,527,091)</u>
Enhancements (note 11)	(4,680)	(3,562)
Pension transfers in (note 12)	(19,380)	(19,795)
	<u>(24,060)</u>	<u>(23,357)</u>
Benefits payable (note 16.3)	557,725	504,249
Pension payments to and on account of leavers (note 16.4)	14,180	19,726
	<u>571,905</u>	<u>523,975</u>
Actuarial gains/(losses) (note 16.5)	(363,486)	(203,527)
Changes in assumed real rate of return at 31 March 2007	(3,350,000)	0
Scheme liability at 31 March	<u>(18,750,000)</u>	<u>(14,610,000)</u>

During the year ended 31 March 2007, contributions represented an average of 18.5% of pensionable pay. Contributions increased to 19.9% from 1 April 2007.

16.3 Analysis of benefits payable

	2006-07 £000	2005-06 £000
Pensions to:		
Retired teachers	433,976	404,997
Dependants	21,010	19,732
Lump Sum Benefits:		
On retirement	98,466	74,954
On death	4,273	4,566
Per cash flow statement	<u>557,725</u>	<u>504,249</u>

16.4 Analysis of payments to and on account of leavers

	2006-07 £000	2005-06 £000
Refunds to members leaving service	193	180
Individual transfers to other schemes	13,880	19,468
Contribution Equivalent Premium	107	78
Per cash flow statement	14,180	19,726

16.5 Analysis of actuarial gains and (losses)

	2006-07 £000	2005-06 £000
Experience gains/(losses) arising on the scheme liabilities	(360,000)	230,000
Changes in assumptions underlying the present value of scheme liabilities	(3,353,486)	(1,703,527)
Per Statement of Recognised Gains and Losses	(3,713,486)	(1,473,527)

16.6 History of Experience gains/losses

	2006-07 £000	2005-06 £000	2004-05 £000
Experience gains/(losses) arising on the scheme liabilities:			
Amount (£000)	(360,000)	230,000	300,000
Percentage of the present value of the scheme liabilities	2%	2%	2%
Total amount recognised in statement of total recognised gains/losses			
Amount (£000)	(3,713,486)	(1,473,527)	(1,119,631)
Percentage of the present value of the scheme liabilities	20%	10%	9%

17. Movement in Premature Retirement Provision

	2006-07 £000	2005-06 £000
Balance at 1 April	(4,176)	(4,100)
Compensation receipts	0	(33)
Compensation payments	183	175
Financing charge	(219)	(218)
Balance at 31 March	(4,212)	(4,176)
Movement in provision	(36)	(76)

18. General Fund

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

	2006-07 £000	2005-06 £000
Balance at 1 April	(14,581,428)	(12,355,521)
Funding from the Consolidated Fund	120,303	94,197
Combined net outgoings	(551,469)	(846,577)
Actuarial gains and losses (SRGL)	(3,713,486)	(1,473,527)
Balance at 31 March	(18,726,080)	(14,581,428)

19. Reconciliation of net outgoings to operating cash flows

	Note	2006-07 £000	2005-06 £000
Net outgoings for the year		(551,469)	(846,577)
(Increase)/Decrease in Debtors		3,765	(5,111)
Increase/(Decrease) in Creditors		851	942
Movement in premature retirement provision	17	36	76
Increase in pension provision:			
Interest and current/past service cost	16.2	974,359	1,257,091
Enhancements and transfers in	16.2	24,060	23,357
Use of provisions:			
Pension liability	16.3	(557,725)	(504,249)
Refunds and transfers	16.4	(14,180)	(19,726)
Net cash outflow from operating activity		(120,303)	(94,197)

20. Additional Voluntary Contributions

The Scottish Teachers' Superannuation Scheme provides for teachers to make Additional Voluntary Contributions (AVCs) to supplement their pension entitlements or life assurance cover. Teachers may arrange to have agreed sums deducted from their salaries, for onward payment to the approved provider, the Prudential. These AVCs are not brought to account in this Statement. Members participating in this arrangement each receive an annual statement made up to 31 March from the approved provider confirming the amounts held to their account and the movements in the year.

Teachers have a choice of eleven funds in which to invest and during the year £15,111,156 (2005-06: £15,861,075) was paid to Prudential of which £186,878 was in respect of the purchase of additional death benefits. The total amount under Prudential management for the Teachers' AVC Scheme as at 31 March 2007 was £205,659,340 (2005-06: £200,672,553). The opening balance at 01 April 2006 is higher than the closing balance 31 March 2006 due to an error in last years statement supplied by the AVC provider. The aggregate amounts of AVC investments are as follows:

Prudential Financial Services

Funds Under Management	£	£
Opening balance as at 1 April 2006		200,858,529.97
Changes in market value of investment	76,522.55	
Revised fund brought forward at 1 April 2006		200,935,052.52
Income: Contributions Invested	14,552,588.44	
Interest and Bonuses estimated	10,312,608.82	
Switches in from other funds	3,975,642.95	
Transfers in from other AVC arrangements	282,840.69	
Transfers in relating to bonus histories	174,975.65	
		29,298,656.55
Total New investments		
Retirement Benefits	19,901,021.01	
Death - return of funds	342,693.08	
Early leavers - withdrawals	323,542.77	
Transfers out relating to bonus histories	76,144.53	
Switches to other funds	3,983,928.29	
Annual Management Charges	16,172.25	
Unit linked funds price movements	(69,132.43)	
Sale of Investments		24,574,369.50
Closing balance as at 31 March 2007		205,659,339.57

21. Contingent Liability disclosure under FRS 12

In the unlikely event of default by the approved AVC provider, the Scottish Ministers will guarantee pension payments. This guarantee does not apply to members who use their accumulated Prudential investment to purchase pension provision from a non-approved provider or to members who make payments to FSAVCs.

22. Related Party Transactions

The Scottish Teachers' Superannuation Scheme falls within the ambit of The Scottish Executive which is regarded as a related party. During the year, the Scheme has had material transactions with teachers' employers and Scottish Executive 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.

23. Financial Instruments

23.1 FRS 25 Financial Instruments

FRS 25 requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the Scottish Teachers' Superannuation Scheme is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS 25 mainly applies.

23.2 Liquidity risk

Resources voted by Parliament finance the Scottish Teachers' Superannuation Scheme's net revenue resource requirements. The Scottish Teachers' Superannuation Scheme is not therefore exposed to significant liquidity risks.

23.3 Interest Rate risk

All of the Scottish Teachers' Superannuation Scheme's financial assets and liabilities carry nil or fixed rates of interest. The Scheme is not therefore exposed to any interest rate risk.

24. Losses

During the year, losses arose in 206 cases (2005-06: 110 cases). The total loss was £79,012 (2005-06: £8,634).

25. Post Balance Sheet Events

These accounts were authorised on 5 November 2007. There are no material post balance sheet events.



SCOTTISH TEACHERS' SUPERANNUATION SCHEME

DIRECTION BY THE SCOTTISH MINISTERS

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

1. The Scottish Public Pensions Agency shall prepare the statement of accounts for the financial year ended 31 March 2006 and subsequent years in respect of the Scottish Teachers' Superannuation Scheme in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) 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 7 June 2002 is hereby revoked.

A handwritten signature in black ink, appearing to read 'Alison Stelfox', written in a cursive style.

Signed by the authority of the Scottish Ministers

Dated **17 January 2006**

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