# Scottish Parliamentary Pension Scheme

## Annual Accounts 2017-18

## HMRC Approval Number 0045455RY

# Contents

# Trustees' Report

## Background

The Scottish Parliamentary Pension Scheme (SPPS) was established on 6 May 1999 under transitional provisions of the Scotland Act 1998. The original legislation that governed the SPPS was The Scotland Act 1998 (Transitory and Transitional Provisions) (Scottish Parliamentary Pension Scheme) Order 1999 (S.I. 1999 No.1082) ("the 1999 Order"). However, since 1999 there have been a number of significant legislative changes at a UK level which have affected all pension Schemes. The Finance Act 2004 and the Pensions Act 2004 transformed the tax and legal environment in which pensions operate in the UK, necessitating changes to the rules of the SPPS. The 1999 Order was subsequently replaced by The Scottish Parliamentary Pensions Act 2009 ("the 2009 Act") with the new SPPS rules coming into force from 1 September 2009. Under section 1(2) of the 2009 Act all the functions, rights, liabilities and obligations in relation to the SPPS were transferred from the Scottish Parliamentary Corporate Body (SPCB) to a board of Trustees from 1 September 2009.

The Pension (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975 (as amended) are applicable to pensions paid from the SPPS. The guaranteed level of increases for pensions in excess of the Guaranteed Minimum Pension is the Consumer Price Index (CPI) over the year. As the movement in the CPI for the year was 1%, pensions that were in payment for a year were also increased by 1%. Pensions that were in payment for less than a year were increased by a proportionate amount depending upon the number of months it had been in payment. There were no discretionary increases.

## Aim of the Report

It is the intention of the Trustees to disclose relevant information, including actuarial and accounting details, to all members of the SPPS. Therefore, in accordance with Schedule 1, Rule 104 of the 2009 Act, the Trustees will arrange for the audit of the annual accounts and lay a copy of the audited accounts and audit report before the Parliament within 7 months of the end of the accounting year.

## Management of Fund

At the date of approval of the annual report, the Trustees were:

| Name | Elected |
|---|---:|
| Tavish Scott MSP (chair) | 7 December 2011 |
| Gil Paterson MSP | 7 December 2011 |
| Alison Harris MSP | 14 June 2017 |
| Pauline McNeill MSP | 14 June 2017 |
| Mark Ruskell MSP | 14 June 2017 |

## Scheme Administration

The day to day running of the SPPS is carried out by the Secretariat to the Trustees within the Scottish Parliament's Human Resources Office. Any queries about the SPPS should be sent to the Secretariat at the following address:

Scottish Parliamentary Pension Scheme
Secretariat to the Trustees
The Scottish Parliament
Human Resources Office
Edinburgh
EH99 1SP
Telephone (Direct Dial): 0131 348 6695
Fax: 0131 348 6639
e-mail:derek.stein@parliament.scot

The Scottish Public Pensions Agency (SPPA) provides a pension administration service for members on behalf of the Trustees.

## Income

Income of the SPPS is derived from two main sources (a) contributions from participating Scheme members and (b) contributions from the Scottish Consolidated Fund (SCF).

Members and office-holders contribute 11% of their salaries if they accrue benefits on a fortieths basis or 6% of their salaries if they accrue benefits on a fiftieths basis. The SCF contributes 20.2% of a participating member's and office-holder's pensionable salary.

The 6% contribution rate for the fiftieths accrual rate came into effect from 6 May 1999 whilst the 11% contribution rate was introduced along with the fortieths accrual rate from 1 September 2009.

## Actuarial Valuation

The Actuary was required to produce an initial actuarial valuation of the assets and liabilities of the SPPS as at 6 May 1999 and thereafter to conduct a full valuation at three yearly intervals. The most recent valuation report dated 29 March 2018 covered the period 1 April 2014 to 31 March 2017. It found that, at the valuation date, there was a surplus of £10.9 million. The Scheme Actuary, at that review, recommended that the SCF's contribution rate should be maintained at 20.2% of pensionable salaries.

An annual Report of the Actuary, as required by IAS 19 – Employee Benefits, for the period 1 April 2017 to 31 March 2018 can be found at pages 12 to 15 of this report.

## Scheme Membership

As at 31 March 2018 there were 154 active positions accruing a pension. Active membership of the Scheme consisted of 126 active MSP Scheme members plus the Lord Advocate and Solicitor General for Scotland. Of the 126 active MSP Scheme members 26 were also accruing additional benefits simultaneously in their capacity as office-holders. The qualifying office-holder positions were the First Minister, 9 Cabinet Secretaries, 13 Ministers, Presiding Officer and 2 Deputy Presiding Officers.

There were 74 deferred pensioners (former pension Scheme members who were not yet in receipt of a pension) and 96 pensions in payment at the year end.

Movement in the membership of the SPPS during the year included 5 new pensioner members and 2 deferred pensioners.

**Preparation of annual accounts**

The SPPS is a public service pension Scheme and as such exempt from the majority of the requirements of the 1995 Pensions Act including those relating to accounts. However, the accounts have been prepared, as far as appropriate, in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes issued in 2007, in order to conform to best practice reporting requirements. A statement of the Trustees responsibilities with regard to the preparation of the accounts is on page 16. This includes confirmation that the accounts have been prepared on a going concern basis.

The audited accounts are expected to be laid before the Parliament within 7 months of the end of the accounting year. Copies of these accounts are available from the Secretariat on request.

**Summary Financial Information**

Income during the period was £2,822,000 (2016-17 £3,196,000), and expenditure, by way of pensions, and expenses, was £1,505,000 (2016-17 £1,707,000). The net assets of the SPPS at 31 March 2018 were £75,640,000 (2016-17 £69,836,000).

During the period a total of £1,510,000 (2016-17 £1,337,000) was remitted to the Fund Managers for investment, £473,000 received in income from share and securities (2016-17 £nil) and £nil (2016-17 £590,000) of these investments sold in year. No other investments or cash sums were held.

**Investment details and performance**

The Pensions Act 1995, Section 35, requires that the Trustees of pension funds prepare and maintain a Statement of Investment Principles (SIP). Whilst the SPPS is statutorily exempt from this requirement a SIP has been produced by the Trustees through a desire to comply with best practice for funded Schemes. A copy of this is available from the Secretariat on request.

The statement includes a policy on investment and explains that, as this is a relatively new Scheme, contributions are likely to exceed benefits for many years. Accordingly, it should not be necessary to sell assets to pay benefits in the medium term; this enables the investment strategy to be predominantly equity based, increasing the probability of a higher investment return on the SPPS's assets over the long term. The risk of this type of investment has been considered. The initial size of the SPPS's assets is not sufficient to allow a widely diverse portfolio and therefore it was decided to invest in Pooled funds run by an independent management company.

**Investment Manager**

The Trustees have appointed Baillie Gifford, a UK registered Fund Manager, as Fund Manager for the SPPS and the Trustees have delegated the responsibility for day to day investment management to them. Investments are made through the Baillie Gifford Managed Pension Fund and Baillie Gifford Diversified Growth Fund. The main feature of the policy is that the benefits obtained are entirely dependent on the investment performance of the assets of the Funds. Baillie Gifford is paid an investment management fee excluding charges based on a percentage (0.40% for the Managed Pension Fund and 0.65% for the Diversified Growth Fund) of the total market value of the Funds per annum, which is deducted from the value of the Funds each month. All the assets within the unit linked funds that Baillie Gifford operate are owned by Baillie Gifford and are registered in the name of Baillie Gifford. The SPPS does not have a custodian as it invests in units in pooled funds which does not require a custodian. The custodian for both Baillie Gifford funds is as follows:

Bank of New York
One Canada Square
LONDON
E14 5AL

Investing in the Baillie Gifford funds began on 4 August 1999. Up to April 2012 income has been invested in the Baillie Gifford Managed Pension Fund and from May 2012 onwards in the Baillie Gifford Diversified Growth Pension Fund. The Scheme transferred from the Baillie Gifford Managed Pension Fund into the underlying Baillie Gifford Managed Fund (OEIC) on 6 March 2018. In 2016-17, the Scheme transferred from the Baillie Gifford Diversified Growth Pension Fund into the underlying Baillie Gifford Diversified Growth Fund (OEIC) on 3 January 2017. In the period from 1 April 2017 to 31 March 2018 £1,510,000 was remitted to and invested in the Baillie Gifford Diversified Growth Fund, £473,000 received in income from share and securities was also invested in this Fund and £nil of investments sold in year. This compares with £1,337,000 remitted and invested, £nil of income from shares and securities and £590,000 sales in the period from 1 April 2016 to 31 March 2017. At 31 March 2018 the market value of the units held within the Funds was £75,576,000 (£69,583,000 on 31 March 2017). The value of the Managed Fund units is:

| | |
|---|---|
| 31 March 2018 | £9.87 |

The comparative unit price for the Managed Pension Fund in previous years is:

| | |
|---|---|
| 31 March 2017 | £10.16 |
| 31 March 2016 | £8.27 |
| 31 March 2015 | £8.11 |
| 31 March 2014 | £7.33 |
| 31 March 2013 | £6.84 |
| 31 March 2012 | £5.84 |
| 31 March 2011 | £5.71 |

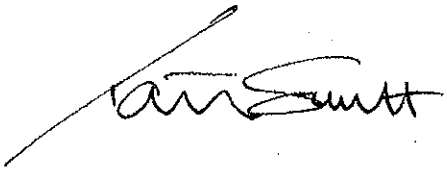
The unit price for the Diversified Growth Fund is:

| | |
|---|---|
| 31 March 2018 | £2.11 |
| 31 March 2017 | £2.01 |

The comparative unit price for the Diversified Growth Pension Fund in previous years is:

| | |
|---|---|
| 31 March 2016 | £1.91 |
| 31 March 2015 | £1.94 |
| 31 March 2014 | £1.80 |
| 31 March 2013 | £1.78 |

**Tavish Scott MSP**



**Chair of Pension Trustees**
(On behalf of the Trustees)

**Date:** 23 October 2018

## Investment Manager's Report for the Year Ended 31 March 2018

The Trustees have prepared a SIP which sets out their policies on investment and their strategy for achieving them, a copy of which is available on request.

Day to day responsibility for the management of investments has been delegated to Baillie Gifford Life Limited, which operates in accordance with guidelines and restrictions set out in the Life Policy and the Key Features Document and with instructions given by the Trustees from time to time.

Investments comprise units in pooled funds managed by Baillie Gifford, the holdings of which are regarded as being readily marketable.

### Portfolio Valuation

| | 31 Mar 2017 GBP | 31 Mar 2018 GBP |
|---|---|---|
| Baillie Gifford Managed Fund B Accum | 0 | 50,929,626 |
| Baillie Gifford Diversified Growth Fund B2 Acc | 21,996,982 | 24,645,879 |
| Baillie Gifford Managed Pension Fund | 47,585,561 | 0 |
| Total | 69,582,543 | 75,575,505 |

### Distribution of Assets

| | 31 Mar 2017 % | 31 Mar 2018 % |
|---|---|---|
| Baillie Gifford Managed Fund B Accum | 0.0 | 67.4 |
| Baillie Gifford Diversified Growth Fund B2 Acc | 31.6 | 32.6 |
| Baillie Gifford Managed Pension Fund | 68.4 | 0.0 |
| Total | 100.0 | 100.0 |

**Performance Objective**

The Trustees have set a performance objective for the investment managers which takes account of the liability profile of the fund and the level of risk that the Trustees believe appropriate.

Performance to 31 March 2018 (%)

| | Fund (Net) | Benchmark |
|---|---|---|
| Baillie Gifford Managed Fund | | |
| The objective is to produce capital growth over the long term. | | |
| Five Years (p.a.) | 8.9 | 6.1 |
| Three Years (p.a.) | 9.8 | 4.9 |
| One Year | 7.0 | 1.4 |
| | Fund (Net) | Base Rate +3.5% |
| Baillie Gifford Diversified Growth Fund | | |
| To outperform the UK Base Rate by at least 3.5% per annum (net of fees) over rolling five-year periods with an annualised volatility of less than 10%. | | |
| Five Years (p.a.) | 4.4 | 3.9 |
| Three Years (p.a.) | 4.3 | 3.9 |
| One Year | 4.7 | 3.9 |

Source: StatPro

Summary Risk Statistics

| Baillie Gifford Diversified Growth Fund | |
|---|---|
| Delivered Volatility (%) | 3.9 |

Annualised volatility, calculated over 5 years to the end of March 2018.
Source: Baillie Gifford

## Economic and Market Background – 12 Months to 31 March 2018

### Balanced

The last 12 months has seen the global economy gain momentum, supported by notable pick-ups in investment, trade, and industrial production. We have also witnessed a change in direction for monetary policy, with the Bank of England raising rates for the first time in a decade and the European Central Bank announcing its intention to begin reducing its monetary stimulus programme this year.

Against this backdrop, performance of your portfolio has been strong, both in absolute and relative terms. Companies in the North American portion of your portfolio were the key driver of outperformance, although your exposure across all equity regions saw strong positive returns versus their benchmarks.

Reflecting our bottom-up approach, there was a diverse range of contributors to performance over the year, rather than one particular theme driving returns. In the US, the online food delivery platform, Grubhub and medical implant manufacturer, ABIOMED, more than doubled their share price. The latter demonstrated continued operational strength with demand for its Impella product, the world's smallest heart pump, growing rapidly outside its core US market. Grubhub meanwhile has acquired several rival takeaway platforms and built strategic long-term partnerships to diversify its restaurant and diner base. With access to over 80,000 restaurants across the US, the company is now four times larger than the next biggest online food delivery platform. We believe GrubHub is both benefiting from, and helping to direct, a shift in food consumption behaviours in America.

Elsewhere, Japanese cosmetics company Shiseido had a strong year. The CEO, Masahiko Uotani, was appointed in 2014 (having previously run Coca Cola in Japan) with the aim of transforming the 145-year-old company. So far, his leadership has proven successful with the company broadening its distribution base around the globe and moving into travel retail.

As you would expect, there were one or two individual disappointments over the year. These include your holdings in Spanish discount food retailer, DIA, and aerospace and UK defence supplier, Ultra Electronics. A string of poor trading updates at Ultra led to the departure of the CEO in November 2017 and it was announced earlier this year that the proposed merger with a joint venture partner in the US would no longer go ahead on competition grounds. Since then a new CEO has been appointed who will be joining later this year and we will watch with care as this investment case evolves. Meanwhile, DIA has struggled with a number of operational challenges familiar to food retailers across Europe, including food price depreciation and slowing consumer demand, followed by a price war instigated by DIA's largest rival in 2017. We now believe that the company is beginning to turn a corner and we note with interest that an external investor, with significant industry experience, has recently taken a large stake in the firm.

The electric car manufacturer Tesla was also the subject of several negative headlines in recent months. Many of these have focused on concerns over the ramp up in the production of its mass-market Model 3 sedan. However, we remain relatively unconcerned - Tesla sets very high short-term targets which are deliberately ambitious - and their long-term progress has been good so far. More notable perhaps has been the downgrade of its debt by the rating agency Moody's - this is something we will watch with care.

Your fixed income portfolio delivered a negative return on an absolute basis, despite outperforming its comparative index over the year. The absolute return of this portion of the portfolio was largely driven by a fall in value of developed market bonds (in sterling terms). However, our overweight positions in high yield and emerging market government bonds helped relative performance, with stock selection in corporate bonds also boosting returns.

Of greater importance, is that absolute and relative performance remains strong across longer time horizons of three years or more. As long-term investors, we take little notice of whether markets are rising or falling. Our sole focus is on finding exceptional companies with significant growth prospects, which have not been recognised by the wider market.

**Diversified Growth**

The beginning of 2018 saw the return of volatility to markets and after the previous year of rising indices, we saw a short-term sell-off at the beginning of February. However, the fundamental investment environment remained broadly supportive: interest rates in developed markets remained stable; inflation was low; central banks continued to be accommodative with loose monetary policy; and the world economy grew at a good pace.

The Fund delivered positive performance over the 12 months, returning 4.7% net of fees. The majority of asset classes finished the period in positive territory. The key positive contributions to performance were from economically-exposed asset classes, such as listed equities, property and emerging market government bonds, as well as structured finance. Commodities, active currency and insurance linked securities were the main detractors from performance over the period.

The Fund remained broadly diversified. Over the period we gradually increased our allocation to emerging market government bonds. We added to our in-house Emerging Markets Bond Fund and also increased our investment in directly-held bonds issued by countries such as Argentina, India, Peru and Indonesia, where positive reform stories are under way. We also added to listed equities during the year - we have been selective, choosing to add to areas where we see better return prospects, in this instance in Emerging Market and European equities.

We reduced our credit exposure, trimming our high yield and investment grade bond weightings as prospective returns became less attractive. Elsewhere in the portfolio, we added a new holding in nickel. Here we expect rising industrial demand to drive the price of nickel higher, particularly from the role it plays in the manufacturing of batteries for electric vehicles.

Recognising that there are a number of risks to our outlook, we have chosen to add hedges to the portfolio. We have protection against rising US and Japanese inflation in the form of two breakeven inflation positions. Another recent portfolio hedge was a position in the VIX volatility index. By taking a position in the VIX, we had an expectation of generating a positive return should market volatility return to more 'normal' levels. This position served as a useful portfolio hedge during the spike in market volatility at the beginning of February, generating a positive return for the Fund. We subsequently closed the position.

Our outlook for the global economy is broadly optimistic. This view is based on both developed and emerging economies continuing on their upward growth trajectory. The portfolio is well positioned to benefit from an ongoing period of global growth. Having

said this, we remain mindful of a range of risks and the fact that valuations are at or above their long-term fair values across a broad range of assets. We therefore continue to be active and selective with our portfolio, seeking the inherent diversification that comes through having exposure to a genuinely wide range of different asset classes.

**Top Ten Largest Holdings**

| Baillie Gifford Managed Fund B Accum | % of Portfolio |
|---|---|
| US Treasury 6.25% 2023 | 2.3 |
| Amazon.com | 2.0 |
| Grubhub Inc | 1.2 |
| Spain 5.85% 31/01/2022 | 1.1 |
| Baillie Gifford Japanese Smaller Cos Fund C Acc | 1.1 |
| Netflix Inc | 1.0 |
| Belgium 4.25% 28/09/2021 | 1.0 |
| Investor | 1.0 |
| Atlas Copco B | 1.0 |
| Prudential | 0.9 |

| Baillie Gifford Diversified Growth Fund B2 Acc | % of Portfolio |
|---|---|
| Baillie Gifford Emerging Markets Bond Fund C Acc | 11.4 |
| Baillie Gifford Global Alpha Growth Fund C Acc | 6.6 |
| Baillie Gifford Global Income Growth Fund C Acc | 5.9 |
| US TII 0.625% 15/01/2026 | 4.3 |
| Baillie Gifford Worldwide Japanese Fund C GBP Acc | 3.9 |
| Baillie Gifford LTGG Investment Fund C Acc | 3.1 |
| Galene Fund | 3.0 |
| Allianz Merger Arbitrage Strategy | 2.6 |
| Baillie Gifford EM Government Bonds(Hard Currency) | 2.4 |
| Japan (Govt) 0.1% CPI Linked 10/03/2027 | 2.0 |

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## Scottish Parliamentary Pension Scheme (SPPS) - Report of the Actuary

### Introduction

A. This statement has been prepared by the Government Actuary's Department at the request of the Trustees of the Scottish Parliamentary Pension Scheme (SPPS). The Trustees have commissioned GAD to assess the liabilities of the Scheme in accordance with International Accounting Standard 19 (IAS19), and to prepare a statement for inclusion in the Scheme's accounts.

B. The SPPS is a final salary defined benefit Scheme, the rules of which are set out in the Scottish Parliamentary Pensions Act 2009 and subsequent amendments. I am not aware of any informal practices operated within the Scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

C. This statement is based on an assessment of the liabilities as at 31 March 2017, with an approximate uprating to 31 March 2018 to reflect known changes.

### Membership Data

D. Tables 1 and 2 summarise the membership data as at 31 March 2017 and 31 March 2018 used to prepare this statement.

**Table 1 – Active positions (MSPs and officeholders combined)**

| 31 March 2017 | | | 2017/18 |
|---|---|---|---|
| Number | Total salaries in membership data (pa) (£ million) | Total accrued pensions (£ million) | Total salaries (£ million) |
| 154 | 8.9 | 1.633 | 9.08 |

**Table 2 – Deferred members and pensions in payment**

| | 31 March 2017 | |
|---|---|---|
| Category | Number | Total pension (pa) (£ million) |
| Deferreds | 77 | 0.967 |
| Pensioners | 91 | 0.883 |

## Methodology

E. The present value of the liabilities has been determined using the Projected Unit Credit Method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2017-18 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2018 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2016-17 Resource Accounts.

F. This statement takes into account the benefits normally provided under the Scheme, including age retirement benefits and benefits applicable following the death of the member.

## Principal financial assumptions

G. The principal financial assumptions adopted to prepare this statement are shown in Table 3.

**Table 3 – Principal financial assumptions**

| | 31 March 2018 (% p.a.) | 31 March 2017 (% p.a.) |
|---|---|---|
| Gross discount rate | 2.55 | 2.65 |
| Price inflation (CPI) | 2.30 | 2.35 |
| Earning increases (excluding promotional increases) | 4.30 | 4.35 |
| Real discount rate (net of CPI) | 0.25 | 0.3 |

## Demographic assumptions

H. The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2018 are based on those adopted for the 2017 funding valuation of the SPPS.

I. The standard mortality tables known as S2NxA are used. Mortality improvements are in accordance with those incorporated in the 2016-based principal population projections for the United Kingdom.

J. The contribution rate used to determine the accruing cost in 2017-18 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2016-17 Resource Accounts.

## Liabilities

K. Table 4 summarises the assessed value as at 31 March 2018 of benefits accrued under the Scheme prior to 31 March 2018 based on the data, methodology and assumptions described in paragraphs D to J. The corresponding figures for the previous year end are also included in the table.

**Table 4 – Statement of Financial Position**

£ million

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| Total market value of assets | 75.6 | 69.7 |
| Value of liabilities | 100.2 | 98.6 |
| Surplus/(Deficit) | (24.6) | (28.9) |
| Funding Level | 75% | 71% |

## Pension cost

L. The value of benefits accruing in the year ended 31 March 2018 (the Current Service Cost) is 77.4% (including member contributions) (2017: 58.6%), as determined at the start of the year. Members accruing benefits at an accrual rate of 1/40th contribute 11% of pay, and members accruing benefits at an accrual rate of 1/50th contribute 6% of pay. Table 5 shows the standard contribution rate used to determine the Current Service Cost for 2016-17 and 2017-18.

**Table 5 – Contribution rate**

| | Percentage of pensionable pay | |
|---|---|---|
| | 2017-18 | 2016-17 |
| Value of accruing benefits (excluding expenses) | 77.4% | 58.6% |
| Members' contribution rate (average) | 10.7% | 10.7% |
| Employer's share of value of accruing benefits (excluding expenses) | 66.7% | 47.9% |

M. For the avoidance of doubt the employer's share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by the Scottish Parliamentary Corporate Body (SPCB), currently 20.2%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the Scheme. The most significant difference between the actuarial assessments for Resource Accounts and for Scheme funding purposes is the discount rate net of pension increases, which was 0.3% per year for the 2017-18 Current Service Cost (1.3% per year for 2016-17) compared with 2.5% per year for Scheme funding. The higher discount rate for Scheme funding is determined considering the assets held by the Scheme and the expected returns on those assets. The discount rate for Resource Accounts is set each year to reflect the requirements of IAS19.

N. The pensionable payroll for the financial year 2017-18 was £9.08 million (2016-17: £8.86 million). Based on this information, the accruing cost of pensions in 2017-18 (at 77.4% (2016-17: 58.6%) of pay) is assessed to be £7.03 million (2016-17: £5.19 million). There is no past service cost and so this is the total pension cost for 2017-18.

**Daniel Selby**
**Fellow of the Institute and Faculty of Actuaries**
**Government Actuary's Department**

**5 July 2018**

## Statement of Trustees' Responsibilities

The accounts, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustees. Pension Scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited accounts for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the Scheme year; and

- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes".

In discharging these responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the accounts on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustees are also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

This report was approved by the Trustees 19 September 2018.

Signed for and on behalf of the Trustees

**Tavish Scott MSP**
Chair of Pension Trustees (On behalf of the Trustees)

**Date:** 23 October 2018

## Summary of Contributions paid in year

During the year, the contributions paid to the SPPS from the SCF under the schedule of contributions were as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| SCF normal contributions | 1,832 | 1,773 |
| Active member normal contributions | 966 | 931 |
| Active member additional contributions to purchase added years | 8 | 9 |
| Total contributions | 2,806 | 2,713 |

**Tavish Scott MSP**

**Chair of Pension Trustees**
(On behalf of the Trustees)

**Date:** 23 October 2018

Reconciliation between contributions paid shown above and contributions reported in the annual accounts:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Contributions paid: | 2,806 | 2,713 |
| Less opening debtor | (231) | (210) |
| Add closing debtor | 232 | 231 |
| Contributions reported in the annual accounts | 2,807 | 2,734 |

No additional contributions in 2017-18 or 2016-17 were paid by active members of the SPPS direct to the two approved providers of Additional Voluntary Contribution Schemes.

## Independent Auditor's Statement about Contributions to the Trustees of Scottish Parliamentary Pension Scheme

### Statement about contributions

We have examined the summary of contributions to Scottish Parliamentary Pension Scheme ('the Scheme') for the year ended 31 March 2018.

In our opinion, contributions for the year ended 31 March 2018, as reported in the summary of contributions and payable under the schedule of contributions, have in all material respects been paid at least in accordance with the schedule of contributions certified by the Scheme actuary.

### Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

### Responsibilities of Trustees

As explained more fully in the statement of Trustees' responsibilities, the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

### Auditor's responsibilities for the preparation of a statement about contributions

This statement is made solely to the Scheme's Trustees, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees, as a body, for our audit work, for this statement, or for the opinions we have formed.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions and to report our opinion to you.

**BDO LLP**
*Statutory auditor*
Edinburgh
United Kingdom

Date: 25 OCTOBER 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

## Governance Statement

### Scope of Responsibility

This statement is given in respect of the accounts for the SPPS. We acknowledge our responsibility as Trustees for ensuring that a sound and effective system of internal control is maintained and operated that supports the achievement of the SPPS's objective whilst safeguarding the SPPS's assets. Officials from the SPCB and SPPA provide a full secretariat and administrative service to the Trustees.

### The Purpose of the System of Internal Control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the SPPS'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 on-going process designed to identify the principal risks to the achievement of the SPPS's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. It is based on a framework of regular management information including independent advice from the SPPS's professional advisors, appropriate administrative procedures, segregation of duties and a system of delegation and accountability.

### Administration

Day to day administration and accounting responsibility has been delegated to the SPCB and the Trustees rely on their internal control procedures which form part of the system of internal control operated by the SPCB. Appointed officials of the SPCB make payment of all awards. Reliance is also placed on the system of internal control operated at the SPPA. The approval of pension awards for routine retirement (i.e. due to age or non-return to the Parliament) is delegated to the SPPA. The Trustees only approve pension awards in other circumstances (e.g. ill health).

### Risk and Control Framework

With the Trustees taking up responsibilities from September 2009, reliance is placed on existing SPCB controls. A risk register specific to the SPPS has been developed. Controls operational during 2017-18 included:

- All funds are controlled by the appointed officials of the SPCB through a designated Royal Bank of Scotland account;
- Regular reconciliations are conducted by the appointed officials of the SPCB of the designated Royal Bank of Scotland account;
- Regular reconciliations of the funds with the investment monies transferred are conducted by the appointed officials of the SPCB. The Investment Managers produce monthly reports on stock transactions and valuations;
- The Trustees delegated responsibility for the day to day investment management entirely to Baillie Gifford. Quarterly reports were received from Baillie Gifford. This includes a Fund Manager's report; details of investment performance; a list of current holdings; and accounting and corporate governance information;

- Separation of duties exists between appointed officials of the SPCB whereby the official initiating a payment cannot authorise the production of the payable instrument or despatch the instrument; and
- The Trustees have access to all documents and records.

**Internal Control**

The SPCB and the Scottish Government including SPPA are both subject to review by internal audit who operate to standards defined in the Government Internal Audit Manual. The work of internal audit is informed by an analysis of the risk to which the SPCB and the Scottish Government are respectively exposed and internal audit plans are based on this analysis.

The Trustees' development and maintenance of the internal controls is assisted by the relevant internal audit comment and by the work of the external auditor. Comments made by the external auditor in their management letter and other reports are taken into account.

**Tavish Scott MSP**

**Chair of Pension Trustees**
(On behalf of the Trustees)

**Date:** 3 October 2018

## Independent Auditor's Report to the Trustees of Scottish Parliamentary Pension Scheme

### Opinion

We have audited the accounts of Scottish Parliamentary Pension Scheme ('the Scheme') for the year ended 31 March 2018 which comprise the fund account, net assets statement and the notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and the Statement of Recommended Practice – Financial Reports of Pension Schemes (revised November 2014) (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accounts:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the accounts section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going concern basis of accounting in the preparation of the accounts is not appropriate; or
- the Trustees have not disclosed in the accounts any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the

going concern basis of accounting for a period of at least twelve months from the date when the accounts are authorised for issue.

**Other information**

The other information comprises the information included in the annual report, other than the accounts and our auditor's report thereon. The Trustees are responsible for the other information. Our opinion on the accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the accounts, our responsibility is to read the other information, including the Trustees' report, investment report, and actuarial certificates and, in doing so, consider whether the other information is materially inconsistent with the accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of Trustees**

As explained more fully in the statement of Trustees' responsibilities set out on page16, the Trustees are responsible for the preparation of the accounts and for being satisfied that they show a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the accounts, the Trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees intend to wind up the Scheme.

**Auditor's responsibilities for the audit of the accounts**

Our objectives are to obtain reasonable assurance about whether the accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 economic decisions of users taken on the basis of these accounts.

A further description of our responsibilities for the audit of the accounts is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities

This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the Scheme's Trustees, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Scheme's Trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

**BDO LLP**
*Statutory auditor*
Edinburgh
United Kingdom

Date: 25 OCTOBER 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

# Fund Account for the year to 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Contributions and Benefits** | | | |
| Employer contributions | 3 | **1,833** | 1,787 |
| Members contributions | 3 | **974** | 947 |
| Transfers in from other Schemes | 4 | **15** | 462 |
| | | **2,822** | 3,196 |
| Transfers out to other Schemes | 4 | **(12)** | - |
| Benefits payable | 5 | **(1,340)** | (1,428) |
| Other payments | 6 | **(89)** | (243) |
| Administration expenses | 7 | **(64)** | (36) |
| | | **(1,505)** | (1,707) |
| **Net income from dealings with members** | | **1,317** | 1,489 |
| **Returns on Investments** | | | |
| Change in market value of investments | | | |
| – Managed funds | 8 | **3,935** | 10,749 |
| – Income from Shares & Securities | 8 | **473** | - |
| – Other Income | 8 | **75** | 45 |
| – Additional voluntary contributions | 12 | **4** | 8 |
| **Net return on investments** | | **4,487** | 10,802 |
| **Net increase in the SPPS during the year** | | **5,804** | 12,291 |
| **Net assets of the SPPS** | | | |
| At 1 April | | **69,836** | 57,545 |
| **At 31 March** | | **75,640** | 69,836 |

The notes on pages 28 to 37 form part of these accounts

# Net Assets Statement as at 31 March 2018

| | Note | **2018 £'000** | 2017 £'000 |
|---|---|---|---|
| **Investments at market value** | | | |
| Managed funds | 11 | **75,576** | 69,583 |
| AVC | 12 | **117** | 113 |
| | | **75,693** | 69,696 |
| **Current assets and liabilities** | | | |
| Current assets | 9 | **232** | 231 |
| Current liabilities | 10 | **(285)** | (91) |
| **Net current assets** | | **(53)** | 140 |
| **Net Assets of the Fund** | | **75,640** | 69,836 |

The accounts summarise the transactions of the SPPS and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the SPPS, which does take account of such obligations, is dealt with in the Government Actuary's report on the position of the SPPS as at 31 March 2018 and these accounts should be read in conjunction with that report.

Approved and authorised for issue on behalf of the Trustees:

**Tavish Scott MSP**

**Chair of Pension Trustees**
(On behalf of the Trustees)

**Date** 23 October 2018

The notes on pages 28 to 37 form part of these accounts

# Notes to the Accounts

**Accounts for the year ended 31 March 2018**

## 1. Basis of preparation

The accounts have been prepared in accordance with Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (revised November 2014).

The accounts summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future.

The actuarial report does take these liabilities into account (an annual actuarial statement, as required by IAS 19 – Employee Benefits, can be found at pages 12-15). The functional currency of the Scheme is pounds sterling and the level of rounding is to the nearest £1,000.

## 2. Accounting policies

The principal accounting policies are:

a) Pension contributions from the SCF and members are accounted for on an accruals basis.

b) Benefits are accounted for on the date they fall due.

c) Transfer values from or to other pension arrangements are accounted for on a cash basis.

d) Refunds of contributions are accounted for on an accruals basis.

e) All other expenditure is accounted for in the period to which it relates.

f) Baillie Gifford investments are priced on a single swing price basis, which is SORP compliant. Other unit investments are priced on a bid price basis.

g) The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

h) Investments are valued at their fair value at the date of Statement of Net Assets in line with the fair value hierarchy set out in note 13.

i) There were no other significant judgements made in applying these accounting policies as at 31 March 2018.

## 3. Contributions receivable

Fund contributions are based on members' salaries.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **SCF** | | |
| SCF contributions | **1,833** | 1,787 |
| **Members** | | |
| Members and office-holders of the Scottish Parliament | **974** | 947 |
| **Total contributions receivable** | **2,807** | 2,734 |

## 4. Transfer values

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Transfer values in | **15** | 462 |
| Transfer values out | **12** | - |

## 5. Benefits payable

The SPPS has ninety six current beneficiaries. There were ninety one beneficiaries in 2016-17. Benefits payable to beneficiaries were as follows.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Pensions | **920** | 864 |
| Pension lump sums | **420** | 564 |
| | **1,340** | 1,428 |

## 6. Other Payments

There were no MSP deaths during the period (2016-17 one) therefore no death in service payments were payable under the terms of the SPPS.

Scheme payments were made to HMRC in 2017-18 in respect of 2015-16 and 2016-17 and accrued for amounts due for 2017-18.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Death in Service Payments | - | 243 |
| Scheme payments to HMRC | **89** | - |
| | **89** | 243 |

## 7. Administrative expenses

Actuarial fees are payable to the Government Actuary. Audit fees are payable to a private sector auditor.

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Audit fees | **16** | 16 |
| Actuarial fees | **45** | 17 |
| Administration fees (note 15) | **3** | 3 |
| | **64** | 36 |

The cost of administering the SPPS was borne jointly by the Scottish Parliamentary Corporate Body (SPCB) and the SPPA. The SPPS is not recharged with administrative costs incurred on its behalf by the SPCB. Baillie Gifford's charge for investment management and costs associated with the Fund is 0.46% per annum of the value of the units held in the Baillie Gifford Managed Pension Fund (2016-17 0.52%) and 1.03% per annum of units held in the Baillie Gifford Diversified Growth Fund (2016-17 0.83%) of the value of the Funds accrued on a daily basis. The management charge for the year is £409,569 (2016-17 £377,064), (see note 8).

## 8. Changes in market value of investments

Investments from income accrued are made at approximately monthly intervals.

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Opening balance at 1 April | **69,583** | 58,042 |
| Add investments made in year | **1,510** | 1, 292 |
| Other income – management fee rebate | **75** | 45 |
| Income from shares & securities | **473** | - |
| Less investments sold in year | **0** | (590) |
| | **71,641** | 58,789 |
| Closing balance at 31 March | **75,576** | 69,583 |
| **Increase in market value** | **3,935** | 10,794 |

The increase in investment of £3,935,131 (2016-17 £10,794,018) is after the management charge and costs associated with the Fund. The income received from shares and securities was additional income and re-invested in the Fund.

## 9. Current assets

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| Contributions due to the SPPS | **232** | 231 |

## 10. Current liabilities

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Pension due | **208** | 75 |
| Scheme payments to HMRC | **51** | - |
| Audit fee | **16** | 16 |
| Government Actuary | **10** | - |
| | **285** | 91 |

## 11. Investments – Bailie Gifford

The following table summarises the holdings in the Baillie Gifford funds as at 31 March 2018. Fuller details of the holdings are available in the Fund's quarterly report.

| | 2018 £'000 | 2018 % | 2017 £'000 | 2017 % |
|---|---|---|---|---|
| **Baillie Gifford Managed Fund** | | | | |
| **Equities** | **38,161** | **74.93** | **33,876** | **71.19** |
| UK | 10,349 | 20.32 | 11,540 | 24.25 |
| North America | 9,157 | 17.98 | 8,099 | 17.02 |
| Europe | 8,892 | 17.46 | 7,780 | 16.35 |
| Asia | 5,918 | 11.62 | 4,949 | 10.40 |
| Emerging | 3,845 | 7.55 | 1,508 | 3.17 |
| **Fixed Interest Bonds** | **9,769** | **19.18** | **9,651** | **20.28** |
| UK | 1,126 | 2.21 | 1,818 | 3.82 |
| Overseas bonds and index linked | 8,643 | 16.97 | 7,833 | 16.46 |
| **Cash and Deposits** | **3,000** | **5.89** | **4,059** | **8.53** |
| **Total Fund** | **50,930** | **100** | **47,586** | **100** |

**Baillie Gifford Diversified Growth Fund**

| | | | | |
|---|---|---|---|---|
| **Equities** | **5,373** | **19.60** | **4,311** | **19.60** |
| Listed Equities | 5,225 | 18.30 | 4,025 | 18.30 |
| Private Equities | 148 | 1.30 | 286 | 1.30 |
| **Property** | **2,095** | **7.00** | **1,540** | **7.00** |
| **Bonds** | **15,305** | **64.40** | **14,166** | **64.40** |
| High Yield Bonds | 1,750 | 9.90 | 2,177 | 9.90 |
| Investment Grade Bonds | 468 | 4.80 | 1,056 | 4.80 |
| Structured Finance | 1,528 | 9.50 | 2,090 | 9.50 |
| Commodities | 493 | 0.80 | 176 | 0.80 |
| Emerging Market Bonds | 4,534 | 11.10 | 2,441 | 11.10 |
| Infrastructure | 2,243 | 7.60 | 1,672 | 7.60 |
| Government Bonds | 1,553 | 8.00 | 1,760 | 8.00 |
| Absolute Return | 1,750 | 8.00 | 1,760 | 8.00 |
| Insurance Linked | 838 | 4.20 | 924 | 4.20 |
| Special Opportunities | 148 | 0.50 | 110 | 0.50 |
| **Cash and Deposits** | **1,873** | **9.00** | **1,980** | **9.00** |
| **Total Fund** | **24,646** | **100** | **21,997** | **100** |
| **Total Investment** | **75,576** | | **69,583** | |

Any investment income received on the Funds' investments and any tax recoveries are reinvested in the pooled funds. The net £1,510,000 invested this year (2016-17 £747,000) has been used to purchase additional units in the Baillie Gifford Diversified Growth Fund. It is not possible for transactions costs of the purchases and sales during the year to be separately identified.

## 12. Investments - Additional Voluntary Contributions

The 1999 Order made provision for Scheme members to make additional voluntary contributions (AVCs) to supplement their pension entitlements. This provision was however discontinued under the 2009 Act although existing AVC contracts were allowed to continue under transitional provisions. Under the 1999 Order Scheme members could arrange to have agreed sums deducted from their salaries for onward payment to one of the two approved providers, Equitable Life Assurance Society or Scottish Widows. The aggregate movements and amounts of AVC investments are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **£'000** | £'000 |
| AVC investments as at 1 April | **113** | 105 |
| Retirements from Scheme | **-** | - |
| Increase in AVC investment values | **4** | 8 |
| **AVC investments at 31 March** | **117** | 113 |
| **Market value of AVC investments by provider** | | |
| Equitable Life | **94** | 90 |
| Scottish Widows | **23** | 23 |
| | **117** | 113 |

## 13. Fair value of investments

The Scheme's investment assets and liabilities are included in the accounts at fair value. The fair value of investments has been determined using the following hierarchy:

Level 1 where there is a quoted price for an identical asset in an active market at the reporting date

Level 2 where such quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary

Level 3 where quoted prices are not available and recent transactions of an identical asset on their own are either unavailable or not a good estimate of fair value

The Scheme's investment assets and liabilities within these categories as at the end of the reporting period is as follows:

| | Level | | | 31 March 2018 Total |
|---|---|---|---|---|
| | 1 | 2 | 3 | |
| | £'000 | £'000 | £'000 | £'000 |
| Pooled investment vehicles | - | 75,576 | - | 75,576 |
| AVC investments | - | 117 | - | 117 |
| Total | - | 75,693 | - | 75,693 |

Analysis for the prior period end is as follows:

| | Level | | | 31 March 2017 Total |
|---|---|---|---|---|
| | 1 | 2 | 3 | |
| | £'000 | £'000 | £'000 | £'000 |
| Pooled investment vehicles | - | 69,583 | - | 69,583 |
| AVC investments | - | 113 | - | 113 |
| Total | - | 69,696 | - | 69,696 |

The Scheme's investments in pooled investment vehicles have a single closing price, which is used to place a fair value on these units. These unitised pooled investment vehicles are not traded on an active market but the manager is able to demonstrate that they are priced daily. These are included at the last price provided by the manager at or before the year end.

## 14. Investment risk

### Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 for the Baillie Gifford investments are as follows:

- **Credit Risk**: the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

- **Market Risk**: the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in Market Prices.

Market risk comprises three types of risk:

- **Interest rate risk**: the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

- **Currency risk**: the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

- **Other price risk**: the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising

from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustees set the investment policy after seeking advice from their investment advisers and other appropriately qualified experts on the suitability of certain asset classes having regard to the nature, timing and currency of the Scheme's liabilities, the funding level of the Scheme and the Trustees appetite for risk.

Due to the size and maturity of the Scheme, the Trustees believe that the most cost effective way of investing to achieve suitable diversification is to use pooled investment vehicles. The Scheme has exposure to the risks above because of the Scheme's use of pooled investment vehicles and the investments made by those vehicles.

Where a pension Scheme invests in a pooled investment vehicle it obtains direct exposure to the credit and market risks arising from the pooled investment vehicle and indirect exposure to the credit and market risks arising from the underlying investments of the pooled vehicle. The following table summarises the extent to which the various classes of investments are affected by financial risks.

The following table summarises the extent to which the various classes of investments are affected by financial risks.

| | | Market risk | | | | |
|---|---|---|---|---|---|---|
| | **Credit risk** | **Currency** | **Interest rate** | **Other price** | **2018 value** | **2017 value** |
| Pooled investment vehicles | | | | | 75,575,505 | 69,582,542 |
| Direct | ● | ◐ | ◐ | ◐ | | |
| Indirect | ◐ | ◐ | ◐ | ● | | |

In this table:

- ● indicates that the risk noted significantly affects the asset class.
- ◐ indicates that the risk noted partially affects the asset class.
- ○ indicates that the risk noted hardly affects the asset class.

**Investment Strategy**

The Trustees' objectives are to invest the assets in a manner that strike a balance between:

> ensuring that the likelihood of failing to meet the Scheme's liabilities remains within an appropriate level of risk;

> minimising the cost to the Scottish Parliamentary Corporate Body of providing the Scheme benefits; and

> ensuring that the charges borne by the Scottish Parliamentary Corporate Body for accruing benefits are reasonably stable over time.

Hence, the investments of the Scheme are managed to ensure that the investment risks are contained to a level acceptable to the Trustees, whilst recognising that a total risk averse investment strategy is likely to give lower returns over the longer term and hence increase the long term cost of the Scheme.

The Scheme's investments are currently held in two pooled investment vehicles that predominantly seek to provide equity-type returns. The investment criteria of pooled investment products are set by the documents governing those products, hence whilst the Trustees remain responsible for the strategic allocation of the investments between funds, they have delegated individual investment decisions within the funds to their investment manager.

The current investments held across the two pooled investment vehicles holds:

> 58% in equities, both listed and private in a variety of markets

> 3% in property

> 33% in bonds

> 6% in cash and deposits

**Credit Risk**
The Scheme is subject to credit risk in relation to the instruments it holds in the pooled investment vehicles. In addition, the Scheme is indirectly exposed to the credit risks arising from the investments held by those vehicles, such as risks arising from the vehicles' investments in bonds and cash balances.

The direct credit risk arising from investing in pooled investment vehicles is mitigated by investing in funds that ring fence investor assets and the regulatory environments in which the pooled manager operates. Trustees carry out due diligence checks on the appointment of new pooled managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager.

The indirect credit risk that arises from the investments made by the vehicle is mitigated by the investment manager by holding a diverse strategy that is not reliant on any single asset.

**Interest rate risk**
The Scheme is subject to interest rate risk because some of the pooled vehicles' investments are held in bonds and cash.

The Trustees are aware that, given the majority of the Scheme's investments are in return seeking assets, significant changes in interest rates may lead to the risk that the asset and liability values change in significantly different ways. This risk is mitigated by diversifying the return seeking assets to reduce downside risk and the risk and appropriateness of the investment strategy will be assessed by the Trustees at each actuarial valuation and as the Scheme matures.

**Currency risk**
The Scheme is subject to currency risk indirectly because some of the investments held by the Scheme's pooled investment vehicle are held in overseas markets. The risk is spread across a variety of overseas markets and asset classes.

**Other price risks**
Other price risks arise indirectly in relation to the Scheme's investments in the pooled investment vehicles and the investments held by these vehicles in a wide range of assets such as listed and private equities, property, infrastructure and commodities. The Scheme's exposure to this risk is mitigated by the investment manager by holding a diverse strategy that invests across a wide range of asset classes and holding a diverse strategy that is not reliant on any single asset.

## 15. Related party transactions

During the period of account, the SPPS has had material transactions with the SPCB, which is regarded as a related party. The transactions are disclosed in note 3 to these accounts as contributions receivable from the SCF and note 9 as the outstanding contributions balance at the year end. In 2017-18, the SPCB provided short term funding of £7,800 (2016-17 £4,000). In July 2017, the SPCB provided short term funding to the SPPS to fund settlement of an outstanding invoice. It was fully repaid in August 2017.

None of the Trustees or members of the SPCB including close family members has undertaken anything other than normal pension contribution transactions and will receive no enhanced benefits other than the usual Scheme benefits. The SPCB and SPPA provide administration services. Under a contract for services introduced from 1 April 2013 between the SPPA and the SPPS for the provision of a pension administration service, the SPPS incurred a fee of £2,400 (2016-17 £2,423) (note 7). Neither key management, staff nor any other related party has undertaken any material transactions with the SPPS during the year. Some Scheme members made a request for the Scheme to pay their annual allowance tax charge under the Scheme Pays facility. The total amounts to be paid by the Scheme to HMRC on behalf of Scheme members were £89,634 (2016-17 £nil), of which £38,362 (2016-17 £nil) was paid during the year, and £51,272 (2016-17 £nil) remains accrued and to be paid post year end. In return for paying the annual allowance tax charges, the Scheme members' pension entitlement will be actuarially reduced at retirement.

## Compliance Statement

The purpose of this compliance statement is to disclose some additional information required by law.

### What is the SPPS?

The rules of the SPPS are set out under Schedule 1 of the 2009 Act. The SPPS provides benefits for Members and office-holders of the Scottish Parliament. All MSPs and office-holders are members of the SPPS from the date they enter the Parliament unless they opt specifically not to be.

The main provisions of the SPPS are:

- an immediate pension of one fortieth or one fiftieth of final salary for each year of service on retirement at age 65;
- an immediate pension on retirement at any time on the grounds of ill health;
- an actuarially reduced pension paid at any time after age 55;
- a five eighths widow/ers pension;
- childrens' pensions (at the rate of one quarter of the basic or prospective pension of the Member if there is one child or three eighths if there are two or more children);
- a lump sum death gratuity on death in service equal to four years' salary with provision for more than one nominee;
- the purchase of added years;
- transfer of pension rights (into and out of the Scheme);

### Relationship with State Retirement Scheme

The SPPS was contracted out of the State Second Pension Scheme and participating members of the SPPS therefore paid a lower rate of National Insurance Contribution. However, following the changes to the State Pension system, which came into effect from the 6 April 2016, the SPPS is no longer contracted out of the State Pension as this facility no longer exists.

The pensions that retired Scheme members receive from the SPPS is in addition to any entitlement to State Retirement benefits.

### How the Trustees of the SPPS are Appointed

Schedule 1, Rule 6 of the 2009 Act states that there are to be at least 3 but no more than 6 Fund Trustees. All Trustees are elected by the Scottish Parliament having been nominated by the SPCB. A person who is prevented by the Pensions Act 1999 (c.26), or by any other enactment or rule of law, from being a pension Scheme trustee is barred from being a Trustee of the SPPS. The Scottish Parliament may remove a Trustee. A Trustee may resign by giving written notice to the Presiding Officer and the other Trustees.

**Trustee Meetings**

Trustee meetings are usually held quarterly unless a need arises to meet for specific purposes. During the year 3 normal Trustee meetings were held.

The Trustees may act by a majority of those present at any meeting of the Trustees at which a quorum is present. A meeting of the Trustees is quorate if 3 or more Trustees are present.

**Internal Dispute Resolution**

The Trustees have implemented an Internal Dispute Resolution procedure in accordance with the requirements of the Pensions Act 1995. Details of the procedure can be obtained from the Secretariat.

**Advisers Appointed by the Trustees in Connection with the SPPS as at 31 March 2018**

Actuary - The Government Actuary's Department
Auditor - BDO LLP
Banker – Royal Bank of Scotland
Investment Manager - Baillie Gifford
Legal Adviser – Through the SPCB's outsourced legal contract with Brodies
Pension Administration Service – Scottish Public Pensions Agency
Secretariat – SPCB, Human Resources Office

**Funding Standard**

The SPPS is exempt from the requirements of The Occupational Pension Schemes (Scheme Funding) Regulations 2005. However, the Trustees have decided, with advice from the SPPS's professional advisers, to adopt relevant regulations as a matter of good practice where practicable.

**Tax Status of the Scheme**

The SPPS is a statutory pension Scheme under Section 611A of the Income and Corporation Taxes Act 1988, as amended by Schedule 12 of the Finance Act 1999, and is a deemed registered Scheme under the Pensions Act 2004 and is an 'approved Scheme' for the purposes of accepting transfer values.

**Investment Manager**

Baillie Gifford's responsibilities include:

(i) carrying out all the day-to-day functions relating to the management of the Fund;

(ii) the allocations of the balanced portfolio between categories of investments and for the selection of individual stocks within each category of investment;

(iii) deciding whether it is appropriate to retain or realise individual investments within the portfolio;

(iv) exercising the investment powers in such a way that will give effect to the principles contained in the Statement of Investment Principles, so far as is reasonably practicable, and in particular to have regard to the suitability and diversification of the investments within the guidelines set by the Trustees.