SCOTTISH PUBLIC PENSIONS AGENCY

THE TEACHERS' SUPERANNUATION AND PENSION SCHEME (SCOTLAND) (MISCELLANEOUS AMENDMENTS) REGULATIONS 2019

Consultation Report

1.1 The Scottish Public Pensions Agency (SPPA) is grateful for the number of responses made to the Teachers Superannuation and Pension Scheme (Scotland) Regulations 2019. The purpose of this report is to provide stakeholders with a summary of the feedback received to SPPA's consultation which ran from 18 December 2018 to 11 January 2019 on the above draft regulations. The consultation was also posted on the SPPA website.

2 Executive Summary

2.1 The draft Teachers Superannuation and Pension Scheme (Scotland) Regulations 2019 amend the Teachers' Superannuation (Scotland) Regulations 2005, the Teachers' Pension Scheme (Scotland) (No.2) Regulations 2014 and the Additional Voluntary Contributions (Scotland) Regulations 2017. The primary aim of the draft Regulations was to introduce an increased employer contribution rate from 1 April 2019, amend the scheme accrual rate following the agreed approach to rectify the employer cost cap breach and uprate by CPI the earnings bands used to set employee contributions from 1 April 2019. There were also miscellaneous changes to the AVC Regulations.

2.2 All unfunded public service schemes are required to undertake quadrennial scheme valuations. The process and financial assumptions used to undertake a scheme valuation are set out in the Public Service Pensions Act 2013 and HM Treasury Directions. The latest valuation, based on scheme data as at March 2016, has confirmed an increase in the employer contribution rate from 17.2% to 22.4% and that rate, as required by the Directions, is to be applied for the period 1 April 2019 to 31 March 2023. The Directions were recently amended to reflect both the change in the discount rate used in the scheme valuation and the Chief Secretary to the Treasury's written statement on 30 January to the Westminster Parliament.
https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/

2.3 The discount rate is the notional investment return on contribution income and a change in the rate from CPI+2.8% to CPI+2.4% was announced in the UK Government's October 2018 Budget statement. The valuation assesses what each scheme needs now in order to meet future liabilities. The lower the discount rate, the higher the level of funding needed now to meet those future liabilities and that feeds through to employer costs. Hence, a reduction in the discount rate feeds through to higher employer contributions.

2.4 Prior to the issue of the consultation the impact of the scheme valuation both on the rate of the employer contribution rate and the employer costs cap was discussed by the Scheme Advisory Board (SAB). The SAB provides advice to the Scottish Ministers on the desirability of changes to the design of the scheme, the implication of other policy issues and is made up of employer and member representatives from across the service. Its advice includes providing proposals to rectify a breach of the employer cost cap and in doing so it was agreed that the provisional breach identified at the latest valuation should be rectified by a change to the scheme accrual rate.

2.5 Following the closure of this consultation the Chief Secretary to the Treasury's written statement of 30 January 2019 confirmed that the employer cost cap rectification of the unfunded public service schemes should pause, until the outcome of the McCloud/Sargeant case is known. On that basis the planned change to the scheme accrual rate has been paused. The written statement also confirmed that the proposed increase in employer contribution rate to 22.4% should continue given the potential costs that would be faced by schemes resulting from the McCloud/Sargeant Court of Appeal decision on 20 December 2018 (Case number A2/2018/0635). The Court of Appeal found that the transitional protections applied as part of the 2015 reforms discriminated on the grounds of age; although the UK Government has sought leave to appeal that decision.

3 Analysis and Reporting

3.1 Total consultations completed totalled 110, with 29 of making comments. These comments are detailed below.

3.2 Local Authorities highlighted concerns which include:

- Contributions are rising when Local Authority resources are already under significant pressure
- That it is critical that costs are met through the Barnet Consequentials
- If costs are not met further savings requirements will require to be made which will ultimately lead to reallocation on front line service to further spending reductions and further job losses
- Request for increase to be funded to allow resources to be focused on delivering key frontline services
- Will mean indirect spending cuts
- More expensive to hire workers who participate in public sector pension schemes
- Looking for reassurances for future years
- Should have been a definitive early warning statement as will have a significant impact on already strained budgets
- Information late in respect of budget cycle

- Request for comprehensive review as employers contributions increasing but employees are not
- Would welcome phased increase over period April 2019 to March 2023
- Contributions are rising when Local Authority resources are already under significant pressure
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3.3 Independent Schools highlighted that the increase in employers contributions was hugely significant and highlighted other concerns which include:

- The profound impact on the finances of many independent schools
- Questions the affordability of the scheme and in particular with regard to the review of the business rates and teacher pay increase all at the same time
- No alternative but to withdraw from the pension scheme and seek alternative pension provision which would represent a significant loss in real income for the pension scheme
- Short timescales of implementation as schools will have to review 5 and 10 year financial plans
- Rise in school fees which will have a drastic impact on the school rolls and force more pupils into the maintained sector
- Potential business failure
- Many schools already running at break even and have little reserves
- Disappointed that state sector educational establishments for the first year but not for independent schools
- Difficult to uplift as in current financial year as only six months' notice from September 2018
- Financial uncertainty creates an almost impossible situation for all involved to deal with a realistic and prudent manner
- Impact on the Bursary Programme

3.4 The national grant aided special school also relies on funding from charity currently £1 million a year. They advise that the increase directly impacts upon the provision they can make for pupils at the school. Request for funding to meet the increase.

3.5 The Trade Union which responded were content with faster accrual, however they had concerns that the additional costs to local authorities, further and higher education sectors would have a negative impact on Scottish Education. They believe funding needs to be provided to cover this increase.

3.6 The Employer Association confirmed that the significant increase in employer contributions would make it extremely difficult for member institutions at the time of great uncertainty for Higher Education funding.

3.7 Teacher responses demonstrated that there was an element of confusion between employer and employee contributions however in the main the concern was that they did not agree with the increase and that the cost to the employer would affect the affordability of staff in post and therefore increasing pressure on those still working.

3.8 Prudential responded to the AVC amendment on clarity of regulations.

Total consultations completed totalled 110, with 29 of making comments. These comments are detailed below.

Respondents		**Permission to publish response given**
Local Authority Employer Organizations	8	variety of responses including yes/no/unanswered Shetland Islands Council Falkirk Council North Ayrshire Council Fife Council
SCIS and Independent Schools Including	10	variety of responses yes/no/unanswered The Edinburgh Academy Robert Gordon's College
National Grant Aided Special School	1	Yes The Royal Blind School
Trade Union/Staff Association	1	Yes Educational Institute of Scotland (EIS)

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Employer Association	1	Yes The Universities and Colleges Employers Association
Prudential	1	
Members of the Scheme	7	unanswered

4 SPPA's Response

4.1 Both the scheme valuation and employer cost cap were discussed by the SAB during 2018 and the consultation set out the outcome of those discussions. As set out above the proposed change to the scheme accrual rate has now been paused as a result of the Chief Secretary to the Treasury's written statement of 30 January 2019.

4.2 The Scottish Government recognises the impact the increase in employer contributions will have and continues to press the UK government for full funding of these costs.

5 Next Steps

5.1 SPPA brought forward regulations to the Scottish Parliament to reflect the changes to the scheme regulations as set out above.