Gary Cocker  
Assistant Clerk  
Public Audit and Post-legislative Scrutiny Committee  
Room T3.60  
Scottish Parliament  
Edinburgh  
EH99 1SP

Dear Mr Cocker

Clarification of PwC evidence given at the Public Audit Committee

In response to your email of 12 January 2017, please see below clarification on PwC’s evidence of 2 December 2015, as requested.

On 15 December 2016, Colin Beattie asked (Public Audit and Post-legislative Scrutiny Committee Draft Official Report column 23),

“My first question is for the external auditors. On 2 December 2015, PricewaterhouseCoopers gave evidence that a substantial portion of the deficit was comprised of pension fund deficits and increased national insurance costs. I understand the national insurance costs, but I have seen no reference to pension fund deficits having to be funded by the board that is not referenced in any of the other documents that I have here. It is not referenced by Audit Scotland specifically as a cause of the deficit and it is not in your own management reports. First was the evidence that was given correct? Secondly, how do you account for pension fund deficits?”

(i) First was the evidence that given correct?

I confirm that the evidence provided on 2 December 2015 was correct.

At the Public Audit Committee meeting on 2 December 2015, Colin Beattie raised a question (Public Audit Committee Official Report Column 46), “I see some mention of changes to how the public pension schemes are valued. If I am not incorrect, it appears that the additional costs to the pension are £5.5 million. Kenny Wilson replied, “That is correct”. Colin Beattie asked, “Is that the deficit?” Kenny Wilson replied, “That is in effect the increase in costs that the board will be paying. It is similar to what is happening in all other boards as result of the recent revaluation of the national pension scheme.”

Colin Beattie’s question was referring to paragraph 22 of the Auditor General’s Section 22 report, The 2014/15 audit of NHS Tayside – Financial Management, “Key financial pressures for NHS Tayside relate to the increasing efficiency savings required to meet financial targets, and to ensure that it does not require further brokerage. This is exacerbated by the additional costs that will be incurred due to changes in how public pension schemes are valued, as well as changes in the National Insurance allowances for employees who contract out of the state pension, which accounts for 3.4 per cent of relevant employees’ earnings. The cost of the pension scheme changes to NHS Tayside in 2015/16 is £5.5million and the National Insurance changes, effective from 2016/17, are estimated to cost approximately £7.8m.”

The wording used by Colin Beattie on 15 December 2016 is slightly different to the initial question. PwC clarified on 2 December 2015 that the additional £5.5m related to the increase in costs that NHS Tayside required to contribute to the pension scheme in 2015/16, which are determined by the scheme
actuary. This increase in contributions, in addition to the increase national insurance charges, contributed to the financial pressures experienced by NHS Tayside. The evidence given on 2 December 2015 was correct and consistent with the narrative in the Section 22 report.

(ii) How do you account for pension fund deficits?

NHS Tayside participates in the NHS Superannuation Scheme for Scotland providing defined benefits based on final pensionable pay, where contributions are payable by the Board and credited to the Exchequer. The pension cost is assessed every five years by the Government Actuary and determines the rate of contributions required. The most recent actuarial valuation is published by the Scottish Public Pensions Agency and is available on their website.

The NHS Tayside Board are unable to separately identify its share of the underlying notional assets and liabilities of the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it was a defined contribution scheme, as required by IAS19 ‘Employee Benefits’. As a result neither a pension asset nor a pension deficit is recorded on the balance sheet of the Board and the amount charged to the Statement of Comprehensive Net Expenditure represents the Board’s employer contributions payable to the scheme in respect of the year. Following the most recent revaluation by the actuary of the pension scheme NHS Tayside’s pension contributions increased in 2015/16 to £55.5m from £49.4m in 2014/15.

We hope this clarifies matters, but you require any further information please do not hesitate to contact me.

Yours Sincerely

Kenneth Wilson
Partner