
TRIENNIAL VALUATION AS AT 31 MARCH 2015

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 This report details the outcome of the triennial valuation of the Scottish Borders Council Pension Fund as at the 31 March 2014 and proposes the employer contribution rates for the next three years**
- 1.2 The full Valuation Report is contained in **Appendix A** and concludes that the Scottish Borders Council Pension Fund has a funding level of 101% compared to the previous valuation of 96%.
- 1.3 In general the Valuation Report concludes that the overall employer contribution rates can remain at their current levels. This means that the Leisure Trust rate will be 15.5% of employee payroll, and the other open membership employers in the Pension Fund will be at a common contribution rate of 18% of employee payroll.
- 1.4 However, the Scottish Borders Housing Association, following its decision to close membership will have a contribution rate of 19%.

2 STATUS OF REPORT

- 2.1 This report has been circulated to consultees within the recommended timeframe and as a result any comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing all the final year end reports and securing the membership of the new Board.

3 RECOMMENDATIONS

- 3.1 It is recommended that the Fund Valuation Report as at 31 March 2014 as set out in Appendix A and the resulting employer contributions rates proposed are approved, and that these rates will apply from 1 April 2015.**

4 BACKGROUND

- 4.1 It is a requirement of the LGPS Regulations that the Pension Fund undertakes an actuarial valuation of the assets and liabilities of the Fund every 3 years.
- 4.2 The previous actuarial valuation was undertaken as at 31 March 2011 and resulted in the approval of the continuation of the common contribution rate of 18% of payroll, of which 2.1% is for the past service rate deficit recovery and the balance for the future service rate. The deficit recovery period was intended to restore the funding position to 100% over the next 12 years.
- 4.3 The pension benefits under the LGPS, as of the 1 April 2015, changed moving from a final salary scheme to a career average scheme. In addition the new scheme provides for the opportunity for members to elect for a 50:50 option where they pay in 50% of the contributions and get 50% of the pension benefits. Further details of these changes are explained in Appendix 5 of the Valuation Report (**Appendix A**).
- 4.4 In addition the normal pension age is now linked to an individuals' State Pension Age, as defined by the UK Government legislation, as opposed to being set at age 65.
- 4.5 The revised LGPS benefits assumed that 10% of active members would opt for the 50:50 option. However there is no track record of this and anecdotal evidence from some English authorities, who introduced the scheme on 1 April 2014, is that the up-take of the 50:50 option has been very low. As a result, the assumption used for the Valuation Report is that there is no uptake of the 50:50 option, this results in a more prudent approach to estimating future liabilities.

5 TRIENNIAL VALUATION AS AT 31 MARCH 2014

Valuation Purpose

- 5.1 The valuation reviews, on a 3 yearly basis, the financial position of the Fund. The Fund's investment assets are compared with the Fund's present and estimated liabilities, e.g. future inflation and pay rates, investment yields, life expectancy and mortality statistics.
- 5.2 This enables the Fund's actuary, Barnett Waddingham, to determine the rates at which the employing bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet the future benefit payments from the Fund.
- 5.3 The actuary makes certain key assumptions in deriving the valuation and this includes taking into account the changes identified in relation to change in the LGPS benefits structure as highlighted in 4.3 and 4.4 above.

Valuation Result

- 5.4 The valuation shows that the **funding level of the Fund as at 31 March 2014 is 101%** which compares with 96% at the previous March 2011 valuation and 97% at the March 2008 valuation. The detailed Valuation

Report is contained in **Appendix A**.

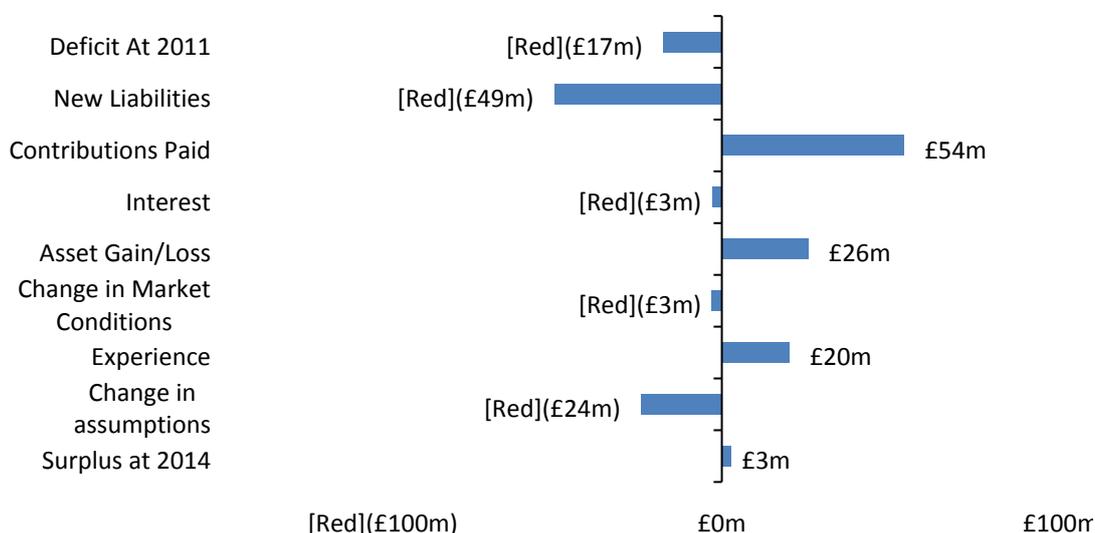
5.5 The following table summarised the position in relation to the overall valuation result for the Fund:

Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2011 £m	2014 £m
Value of the Scheme Liabilities	402.2	487.6
Smoothed Asset Value	384.8	490.5
Surplus/ (Deficit)	(17.4)	2.8
Funding Level	96%	101%

5.6 The improvement of the funding position since the previous valuation is mainly due to a combination of good investment returns (8.5% pa versus the estimate of 6.4%) over the inter-valuation period and the deficit contributions paid by the employers.

5.7 The funding position also takes account of the increase in the cost of the new benefits accruing as a result of an increasing age profile of scheme members compared with the previous valuation.

5.8 Within the March 2014 Valuation Report, page 13, there is reconciliation which highlights the movements in the Funding position between the March 2011 and March 2014 Valuations. These are summarised graphically below.



5.9 Key assumption changes have been:

- reductions in the discount rate which is influenced by a lower expected future returns on investments than in the previous valuation;
- Consumer Price Index (CPI) estimated at 0.8% below Retail Price Index (RPI) (compared with 0.5% previously) which underpins salary and pension increases
- Improvements in mortality assumptions

- 5.10 The actuary recommends the continuation of a common contribution rate of 18% of payroll which relates to future service liabilities of the membership as at 31 March 2014. The following table identifies how this is made up and how it has changed since the previous valuation.

Employer Contributions Rates – Fund as a Whole		
Valuation Date as at 31 March	2011	2014
Future Service Costs	15.9%	18.0%
Deficit Recovery	2.1%	0.0%
Fund Employer Contribution Rate	18.0%	18.0%

- 5.11 The contribution rates for all the employing organisations are included in the Rates and Adjustments Certificate, page 22 of the Valuation Report and are summarised below:

Minimum employer contributions due as a % of salary for the year beginning				
Code	Employer	1 Apr 2015	1 Apr 2016	1 Apr 2017
<u>Scottish Borders Council Funding Pool</u>				
11	Visit Scotland	18.0%	18.0%	18.0%
13	Borders College	18.0%	18.0%	18.0%
16	Scottish Borders Council	18.0%	18.0%	18.0%
23	Lothian and Borders Community Justice Authority	18.0%	18.0%	18.0%
24	AMEY	18.0%	18.0%	18.0%
<u>Leisure Trust Funding Pool</u>				
21	Jedburgh Leisure Facilities Trust	15.5%	15.5%	15.5%
22	Borders Sport and Leisure Trust	15.5%	15.5%	15.5%
<u>Individual</u>				
19	Scottish Borders Housing Association	19.0%	19.0%	19.0%

6 IMPLICATIONS

6.1 Financial

This report contains the recommendations on the future employer contribution rates for the Council for the next 3 years. The recommendation is that these do not change from the current level and therefore there will be no additional financial consequences relating to these contributions for all employers with the exception of Scottish Borders Housing Association (SBHA). Following a decision taken by SBHA in the inter-valuation period they have closed the scheme to new membership and this has resulted in an individual contribution rate being identified for the organisation that is 1% above the previous rate.

6.2 Risk and Mitigations

- (a) The triennial valuation process is part of the risk management framework for the Pension Fund and ensures that the assets and liabilities are assessed to determine the ability of the Pension Fund to meet its future pension liabilities.

- (b) The March 2014 Valuation is based on a series of actuarial assumptions including the level of investment returns, mortality and ill health rates and retirement date assumptions. At sections 4.5 and 5 in the Valuation Report there are comparisons between the assumptions used in the March 2011 Valuation and what has actually happened. These comparisons demonstrate that as with all estimates these can change over time and may have positive and negative effects on the funding levels of the Pension Fund.
- (c) The continuing uncertainty in the global economic climate means that investment returns, in particular, are subject to short and medium term volatility. As a result the impact of this on employers' contribution rates will continue to be monitored during the inter-valuation period.

6.3 Equalities

- (a) It is anticipated that there are no adverse equality implications.

6.4 Acting Sustainably

- (a) There are no direct economic, social or environmental issues with this reports which would affect the Council's sustainability.

6.5 Carbon Management

- (a) There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

- (a) It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

- (a) No changes are required as a result of the proposals contained in this report.

7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments will be communicated at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016

Background Papers:

Previous Minute Reference: Pension Fund Committee, 11 December 2014

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Capital & Investments Team can also give information on other language translations as well as providing additional copies.

Contact us at Capital & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA
Tel: 01835 825016
email: [treasuryteam@scotborders .gov.uk](mailto:treasuryteam@scotborders.gov.uk)