TRIENNIAL VALUATION AS AT 31 MARCH 2020

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

04 March 2021

1 PURPOSE AND SUMMARY

1.1 **This report details the results from the triennial valuation for the Scottish Borders Council Pension Fund as at the 31 March 2020 and proposes the employer contribution rates for the next three financial years.**

1.2 The full Valuation Report prepared by the Fund Actuary Hymans Robertson is contained in Appendix 1 and concludes that the Scottish Borders Council Pension Fund has a funding level of 110% compared to the previous 2017 valuation of 114%. This equates to a funding surplus of £63m.

1.3 The revised "Primary rate" calculated has increased from 20.6% to 21.9% and the surplus has reduced to £63m. However, to allow employer contributions for those in the Scottish Borders Council Pool to remain stable for the first two years the Actuary has recommended the surplus be utilised but the rates increase in year 3 for the Scottish Borders Council Pool by 0.5% to mitigate for the uncertainties.

1.4 There are a number of uncertainties such as McCloud and the Cost Cap Mechanism for which impacts to the Fund are unknown. The 0.5% common pool rate increase provides an element of mitigation. The full impact will be monitored for possible implications to the liabilities and consequent contribution rates.

1.5 Scottish Borders Housing Association (SBHA) and CGI are both operating as closed funds with new employees unable to join the fund. Due to the increased risk with these employers, individual rates are recommended by the Actuary.

1.6 South of Scotland Enterprise were admitted to the Fund in 2019. In accordance with the admission agreement they are not within the Scottish Borders Council Pool. Therefore, individual rates have been calculated with a recommended increase in 2021/22 of 0.5% and further increase of 0.5% in 2023/24.

2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee**

- **(a) Note the Fund Valuation Report as at 31 March 2020 as set out in Appendix 1;**
- **(b) Agree the recommended Scottish Borders Council Pool rates of 18.0% for 2021/22 and 2022/23 and 18.5% for 2023/24;**
- **(c) Agree the recommended rates for SBHA of 20.3% 2021/22, 20.8% for 2022/23 and 21.3% for 2023/24;**
- **(d) Agree the recommended rate for CGI of 22% from 1st April 2021 with additional one of payments of £16,500 for 2021/22 and 2022/23 and £21,000 for 2023/24**
- **(e) Agree the recommended rates for SOSE of 21.1% for 2021/22 and 2022/23 and 21.6% for 2023/24**

3 BACKGROUND

3.1 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 three years. The regulation requires the methodology used for the valuation "must have regard to" the following requirements:-

- Desirability of maintaining as nearly constant a primary rate as possible
- The current version of the administering authority's funding strategy statement
- The requirement to secure the solvency of the pension fund; and
- The long term cost efficiency of the Scheme, so far as relating to the pension fund.

3.2 The valuation is based on the membership data, benefits accrued and estimates of futures benefits as well as the value of assets held and the future performance of these assets. Key assumptions are agreed with the Actuary around future pay increases, inflation and future performance of assets. The previous valuation as at 31 March 2017 showed a funding position of 114%.

3.3 The valuation also set the contribution rate for employers for the next three years. The valuation undertaken as at 31 March 2017 and resulted in the Scottish Borders Council Pool contribution rate of 18% of payroll. For the closed funds the rates of 20.3% for SBHA and 21.1% for CGI were set.

4 TRIENNIAL VALUATION AS AT 31 MARCH 2020

4.1 The valuation shows that the funding level of the Fund as at 31 March 2020 is 110% which compares with 114% at the previous 31 March 2017 valuation date and 101% at the March 2014 valuation. The detailed Valuation Report is contained in Appendix 1.

4.2 The key assumptions adopted in the valuation, by the Actuary are set out in the table below

Financial Assumption	**31 March 2020**	**31 March 2017**
Investment return	3.8%	5.0%
Pay Increases	2.6%	3.8%
Benefits Increase	1.9%	2.8%

4.3 The following table summarises the position of the overall valuation result for the Fund:

Valuation	**31 March 2020 £m**	**31 March 2017 £m**
Value of Scheme Liabilities	(650.0)	(573.3)
Smoothed Asset Value	713.0	653.9
Surplus/(deficit)	**63.0**	**80.6**
Funding Level	**110%**	**114%**

4.4 The reduction in the overall funding level is a result of a number of factors. Liabilities have increased due to accrual of new benefits and increase in benefits, this has been offset slightly by a decrease in longevity and lower salary increases. However, it is critical to note that the reported funding level does not directly drive the employer contribution rates that will be set.

4.5 Based on the current funding position of the Fund and the prudent assumptions used in the valuation the Scottish Borders Council pooled primary rate has increased from 20.6% to 21.9%. However to allow overall contributions to remain stable for the first two years and due to the surplus of £63m held the actuary has recommend an element of the surplus is utilised to stabilise the employer contribution rates.

4.6 Due to the increase of the primary rate and the uncertainties around the impact of McCloud and the Cost Cap Mechanism rate an increase of 0.5% for the Scottish Borders Council pool is recommended in year 3. This will be monitored as the impacts of the uncertainties become known.

4.7 The table below details the employer contribution rates for each employer to be applied from 1st April 2021. All employers have been notified of these rates.

Employer	**2020/21 rate %**	**2021/22 rate %**	**2022/23 rate %**	**2023/24 rate %**
Scottish Borders Council Pool	18.0	18.0	18.0	18.5
Scottish Borders Housing Association (SBHA)	20.3	20.3	20.8	21.3
CGI	21.1			
South Of Scotland Enterprise (SOSE)	20.6	21.1	21.1	21.6

4.8 Due to the closed nature of SBHA and CGI individual employer rates are recommended. Due to a deficit position of CGI it is recommended additional lump sums are requested in 2021/22 and 2022/23 of £16,500 and £21,000 in 2023/24. These recommendations reflect the risk to the Fund of the closed nature of the employer.

4.9 As a new Employer to the Fund in 2019 SOSE does not have a surplus position, which is a point of consideration for any SOSE employee who transfers in pension rights from another Fund. SOSE are currently also still in the position of recruiting employees meaning the full demographics and consequential liabilities are not yet fully known. The recommended rates make allowance for this and are stepped to allow SOSE a period to make the necessary budget allowance. The rate will continue to be monitored as the number of employees with SOSE increase.

5 IMPLICATIONS

5.1 Financial

This report contains the recommendations on the future employer contribution rates for the Pool for the next 3 years. The recommendation is that these do not change from the current level until year 3, allowing Employers within the pool time to make provisions for the increase. The exceptions to this are SBHA and CGI which are both closed to new entrants and SOSE as newly admitted employer with no surplus funding.

5.2 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 2020 Valuation is based on a series of actuarial assumptions including the level of investment returns, mortality and ill health rates and retirement date assumptions. Any deviations from these assumptions over time 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.

(d) The 2020 triennial valuation has made an allowance for the McCloud ruling but the final impact is still unknown. Additional risks also remain around the Cost Cap Mechanism impact which is currently unknown. The recommended contribution rates have taken some allowance for this but will need to be reassessed once further information is known.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required und the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio–economic factors have duly been considered when preparing this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 **Changes to Scheme of Administration or Scheme of Delegation**
There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

6 CONSULTATION

6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

David Robertson **Signature ....**
Executive Director Finance & Regulatory

Author(s)

Name	Designation and Contact Number
Kirsty Robb Ian Angus	Pension & Investment Manager, 01835 825249 HR Shared Services Manager, 01835 826696

Background Papers: Triennial valuation as at 31 March 2017
Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 14 June 2018

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

Contact us at Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: t&cteam@scotborders.gov.