
TRIENNIAL VALUATION AS AT 31 MARCH 2023

Report by Director Finance and Procurement

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

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 2023 and proposes the employer contribution rates for the next three financial years.**
- 1.2 The full DRAFT Valuation Report prepared by the Fund Actuary, Hymans Robertson, is contained at **Appendix 1** and concludes that the Scottish Borders Council Pension Fund has a funding level of 134% as at 31 March 2023 compared to the previous 2020 valuation of 110%. This equates to a funding surplus of £218m.
- 1.3 The revised "Primary rate" calculated has reduced from 21.9% to 21.8% and the surplus has increased to £218m. The increase in surplus has allowed employer contributions for those in the Scottish Borders Council Pool, as presented and agreed at the joint meeting on 17 January 2024, to be reduced to 17.00% for the three years from 2024/25 to 2027/28.
- 1.4 Scottish Borders Housing Association (SBHA) and CGI are both operating as closed funds with new employees unable to join the fund. Due to this they are looked at on an individual basis with employer rates recommended by the Fund Actuary.
- 1.5 South of Scotland Enterprise (SOSE) were first admitted to the Fund in 2019 and in accordance with their admission agreement they are not within the Scottish Borders Council pool of employers. This employer has seen a significant increase in membership since the 2020 valuation was completed. They are also looked at on an individual basis with employer rates recommended by the Fund Actuary.
- 1.6 A range of scenarios considering contribution rates have been undertaken when determining the recommended rates outlined above for each employer, in order to recognise the positive results from the triennial revaluation but to maintain an appropriate level of prudence. The position of each employer will be kept under review annually.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee: -

- (a) Notes the Fund Valuation Report as at 31 March 2023 as set out in Appendix 1;**
- (b) Agree the recommended employer rates for SBHA of 0.00% for the 2024/25 to 2026/27 financial years;**
- (c) Agree the recommended employer rates for CGI of 21.30% for the 2024/25 to 2026/27 financial years;**
- (d) Agree the recommended employer rates for SOSE of 19.40% for the 2024/25 to 2026/27 financial years.**

3 BACKGROUND

3.1 It is a requirement of the Local Government Pension Scheme (Scotland) Regulations 2018 that an administering authority must obtain –

- a) an actuarial valuation of the assets and liabilities of each of its pension funds both on an ongoing and a cessation basis as at 31st March 2020 and on 31st March in every third year afterwards;
- b) a report by an actuary in respect of the valuation; and
- c) a rates and adjustments certificate prepared by an actuary.

3.2 When undertaking the valuation the Fund Actuary must have regard to –

- a) the existing and prospective liabilities arising from circumstances common to all those bodies;
- b) the desirability of maintaining as nearly constant a primary rate as possible;
- c) the current version of the administering authorities funding strategy; and
- d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as related to the pension fund.

3.3 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 2020 showed a funding position of 110%.

3.4 The valuation also set the contribution rate for employers for the next three years. The valuation undertaken as at 31 March 2020 and resulted in the following contribution rates being set: -

Employer	2021/22	2022/23	2023/24
Scottish Borders Council Pool	18.00%	18.00%	18.50%
Scottish Borders Housing Association	20.30%	20.80%	21.30%
CGI	22.00% plus £16,500	22.00% plus £16,500	22.00% plus £21,000
South of Scotland Enterprise	21.10%	21.10%	21.60%

4 TRIENNIAL VALUATION AS AT 31 MARCH 2023

4.1 The valuation shows that the funding level of the Fund as at 31 March 2023 is 134% which compares with 110% at the previous 31 March 2020 valuation date and 114% at the March 2017 valuation. The detailed Valuation Report is contained in Appendix 1.

- 4.2 Fund operates a Contribution Stability Mechanism (CSM) for its long-term secure employers. The CSM is designed to keep contributions stable through the peaks and troughs of market cycles. Any annual changes to contribution rates are therefore restricted to +/- 0.5% of pay. Stabilisation takes a long-term approach to setting contribution rates which cuts through short-term funding 'noise' ("underpay in the bad times, overpay in the good") and is an explicit mechanism documented in the Funding Strategy Statement. At each revaluation, the Fund must check that the funding plan remains appropriate and use that plan to set contribution rates for the Pool.
- 4.3 The key assumptions adopted in the valuation, by the Actuary are set out in the table below.

Financial Assumption	31 March 2023	31 March 2020
Investment Return	5.20%	3.80%
Pay Increases	3.00%	2.60%
Benefits Increase	2.30%	1.90%

Whole fund average life expectancies from age 65

Longevity	31 March 2023	31 March 2020
Male Pensioner	20.6 years	20.9 years
Male Non-Pensioner	21.2 years	21.9 years
Female Pensioner	23.3 years	23.5 years
Female Non-Pensioner	24.9 years	25.4 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

- 4.4 The following table summarises the position of the overall valuation result for the Fund.

Valuation	31 March 2023 £m	31 March 2020 £m
Value of Scheme Liabilities		(650.0)
Smoothed Asset Value		713.0
Surplus/(Deficit)		63.0
Funding Level		110%

- 4.5 On commencing the revaluation process for 2023, an assessment was made on asset and liability movements since 2020. The Fund has experienced significant asset returns in the first half of the inter-valuation period, due to the bounce-back from Covid-19 market fall in February/March 2020. This positive picture has been compounded by a material fall in liability values in the second half of the inter-valuation period due to rising interest rates.
- 4.6 When assessing the impact of changes from 2020 to 2023, in net terms, the key change has been the change in assumed future investment returns as a result of the change in market conditions over the period.
- 4.7 The following table details the employer contribution rates for each employer to be applied from 1 April 2024. All employers have been notified of these rates.

Employer	2024/25	2025/26	2026/27
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Scottish Borders Council Pool	17.00%	17.00%	17.00%
Scottish Borders Housing Association	0.00%	0.00%	0.00%
CGI	21.30%	21.30%	21.30%
South of Scotland Enterprise	19.40%	19.40%	19.40%

Note, the Scottish Borders Council Pool was agreed at meeting of the Pension Fund Committee and Board on 17 January 2024.

- 4.8 The funding position of Scottish Borders Housing Association (SBHA) has seen a significant change since the last valuation, with Total liabilities reducing from £47.491m to £29.718m and Asset share increasing from £33.991m to £40.785m. This has resulted in the funding level increasing from 72% to 137%. As a result of this significantly improved funding position the employer contribution rate has been set at 0.00% for the next three years, however, the position will be kept under review annually.
- 4.9 The funding position of CGI has improved from 97% to 120% since the last valuation, this has resulted in the contribution rate reducing from 22.00% to 21.30% for the next three years along with the removal of the annual additional contribution of £21,000. As with other employers the position will be kept under review annually.
- 4.10 At the last valuation South of Scotland Enterprise (SOSE) were a new employer within the Fund with only 9 active members. Since then the membership of the Fund has grown to 150, with 140 of those active members as at 31 March 2023. In accordance with their admission to the Fund SOSE are considered a separate employer when it comes to the re-evaluation. The funding position for SOSE has increased from 57% to 137% over the past three years and this results in the contribution rate moving from 21.60% to 19.40% for the next three years. As with other employers the position will be kept under review annually.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report. Any substantive changes arising from future actuarial valuations and revisions to funding objectives and/or strategies could potentially have an impact on employers contribution rates.

5.2 Risk and Mitigations

This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks regarding the admission of any new employer organisation have been identified and form part of the considerations for admission to the Fund.

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 under the Local Government Pension Scheme (Governance)(Scotland) Regulations 2018.

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 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

5.5 Climate Change

There are no direct climate change 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 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

5.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

6.1 The Director (People Performance and Change), the Director (Corporate Governance), the Chief Officer Audit and Risk, the Clerk to the Council and Corporate Communications and any comments received will need to be incorporated into the final report.

6.2 As part of the development of the FSS and separation into two discrete policies all active employers of the Fund have been consulted on the draft FSS and policies and comments have been considered in the finalisation of the FSS.

Approved by

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Author(s)

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**Background Papers: Triennial Valuation as at 31 March 2020
Pension Fund Employers (Scottish Borders Council) Contribution Rate**

**Previous Minute Reference: Pension Fund Committee and Board 4 March 2021
Pension Fund Committee and Board 17 January 2024**

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

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