



## **Pensions Audit Sub Committee**

2.00pm, Tuesday, 19 March 2024

### **Actuarial Valuation for Scottish Homes Pension Fund**

#### **Item number 6.4**

#### **1. Recommendations**

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The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 Note the results of the 2023 actuarial valuation for the Scottish Homes Pension Fund;
- 1.2 Note that the funding level of the Scottish Homes Pension Fund at 31 March 2023 was 127%. This Actual Funding Level (AFL) of 127% is greater than the Target Funding level (TFL) of 95.5%, as specified in the Scottish Government Guarantee. Therefore, no deficit contributions are required from the Scottish Government (as Guarantor) for the period from 1 April 2024 to 31 March 2027; and
- 1.3 Note that the Scottish Government is required to pay a total of £90,000 per annum towards the cost of administration expenses over the three years from 1 April 2024 to 31 March 2027.

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# Actuarial Valuation for Scottish Homes Pension Fund

## 2. Executive Summary

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- 2.1 An actuarial valuation of the Scottish Homes Pension Fund must be carried out every three years. The fund's actuary assesses the financial health of the fund and sets the employer contribution rates required for the next three years.
- 2.2 This report presents the results of the actuarial valuation of the Scottish Homes Pension Fund as at 31 March 2023.
- 2.3 The funding level at 31 March 2023 was 127%, an improvement from 118% at the 2020 actuarial valuation. The Actual Funding Level (AFL) of 127% is greater than the Target Funding Level (TFL) of 95.5% specified in the Scottish Government Guarantee. Therefore, no deficit contributions are required from the Scottish Government (as Guarantor) for the period 1 April 2024 to 31 March 2027.
- 2.4 The Scottish Government is however, required to pay £90,000 per annum towards the cost of administration expenses for the three years from 1 April 2024 to 31 March 2027

## 3. Background

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- 3.1 The City of Edinburgh Council took over the administration of the deferred and pensioner liabilities of the Scottish Homes Pension Fund on 1 July 2005. An agreement between the Scottish Government and the City of Edinburgh Council ('the Guarantee') was put in place in June 2005. The Scottish Government acts as the guarantor for these liabilities.
- 3.2 An actuarial valuation of the Scottish Homes Pension Fund must, by law take place every three years. The 2023 valuation is based on data as at 31 March 2023 and must be completed by 31 March 2024.
- 3.3 The actuarial valuation of a pension fund has three main purposes:
  - To assess whether the funding strategy and assumptions are appropriate;
  - To assess the financial health of the pension fund; and
  - To set the future rates of contributions payable by the employer/guarantor.
- 3.4 The funding strategy for the Scottish Homes Pension Fund and the valuation methodology is set out in the Guarantee. The strategy assesses the funding level using prudent financial assumptions and sets target funding levels for the fund at each actuarial valuation. It is designed to reduce investment risk as the fund is closed

to new entrants and the liabilities will mature over time. It also sets out the conditions which will trigger contributions to be payable by the Scottish Government.

- 3.5 At a funding level in excess of 100%, the Guarantee requires that investments should be fully invested in index-linked gilts to reduce funding level volatility and 'lock-in' the surplus. It should be noticed however, that whilst this represents a low-risk investment strategy, index-linked gilts cannot provide an exact match for the liabilities and longevity risks remain.
- 3.6 The Guarantee is included at Appendix 2.

#### 4. Main Report

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- 4.1 The 2023 Actuarial Valuation report is included at Appendix 1.
- 4.2 Liability cashflows (projected benefit benefits) have been estimated based on financial and demographic assumptions, as detailed in the report.
- 4.3 The table below summarises the financial position of the fund at 31 March 2023, with the result of the 2020 formal valuation shown for comparison.

Valuation Date	2023	2020
	£M	£M
Past Service Liabilities	99	141
Assets	126	166
Surplus/(Deficit)	27	25
<b>Actual Funding Level</b>	<b>127%</b>	<b>118%</b>
<b>Target Funding Level</b>	<b>95.5%</b>	<b>94.5%</b>

- 4.4 The valuation includes the assets and liabilities of Homeless Action Scotland which transferred into the Scottish Homes Pension Fund following its exit from Lothian Pension Fund on 12 July 2018.
- 4.5 With an actual funding level in excess of 100%, the investment strategy of the fund is to be fully invested in index-linked gilts in accordance with the Scottish Government guarantee.
- 4.6 The TFL, as set out in the Guarantee is 95.5% at 31 March 2023. The AFL is greater than the TFL at the 2023 valuation date, and therefore no deficit contributions are required from the Scottish Government for the period 1 April 2024 to 31 March 2027.

4.7 The Guarantor should however, meet the cost of administration expenses. The CIPFA definition of costs includes:

- Oversight and Governance;
- Administration; and
- Investment Management.

4.8 Following consideration of administration and oversight and governance costs for the Scottish Homes Pension Fund for the 2022/23 financial year, the Guarantor is required to pay a total of £90,000 per annum for the 3 years from 1 April 2024. Investment expenses will be met from the current funding surplus.

## **5. Financial impact**

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5.1 The funding strategy, together with the Guarantee from the Scottish Government, should ensure that the fund has sufficient assets in the long term. The results of the actuarial valuation have a financial impact on the Scottish Government as guarantor. The actuarial valuation sets the contribution rates payable by the Scottish Government over the next 3 years.

## **6. Stakeholder/Regulatory Impact**

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- 6.1 The investment strategy of the pension fund is one of the main determinants of risk in terms of volatility of funding level and contributions payable by the Scottish Government.
- 6.2 The valuation report has been provided to the Scottish Public Pensions Agency on behalf of the Scottish Government.
- 6.3 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

## **7. Background reading/external references**

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7.1 None.

## **8. Appendices**

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Appendix 1 – Scottish Homes Pension Fund 2023 Valuation Final Valuation Report.

Appendix 2 – Lothian Pension Fund Scottish Homes Pensioner Transfer: Operation of Scottish Executive Guarantee.