



## **Pensions Committee**

2.00pm, Wednesday, 20 March 2024

### **Funding Strategy Statement Update**

**Item number 6.3**

#### **1. Recommendations**

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The Pensions Committee (Committee) is requested to:

- 1.1 note the summary of responses received as part of the consultation process; and
- 1.2 approve the revised Funding Strategy Statement.

**Alan Sievwright**

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# Funding Strategy Statement Update

## 2. Executive Summary

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2.1 As required under the Local Government Pension Scheme (Scotland) Regulations, the Lothian Pension Funds' Funding Strategy Statement (FSS) has been reviewed as part of the actuarial valuation process to ensure that it remains appropriate. In revising the FSS, the fund has considered:

- Actuarial valuation results;
- Consultation feedback from fund employers;
- Guidance from Hymans Robertson, the Fund's actuary; and
- Regulatory amendments.

## 3. Background

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3.1 The FSS is a policy document which summarises the approach to funding pension liabilities of Lothian Pension Fund and the Scottish Homes Pension Fund. Relevant policies are appended to the FSS for completeness, including:

- employer admission to the Fund;
- employers leaving the Fund;
- Setting employer contribution rates; and
- Salary strain mechanism.

3.2 The FSS is formulated under guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which states that the FSS must be reviewed formally at least every three years as part of the triennial valuation. The valuation sets employer contribution rates within the framework provided by the FSS. The FSS should also be reviewed if there are any material changes in the policy set out in the FSS.

3.3 The last review of the FSS was carried out in June 2023. At that time amendments were made to the salary strain mechanism following employer feedback.

3.4 A draft revised FSS was presented to Committee in December 2023. The changes proposed took account of indicative results of the 2023 valuation and changes made to funding policy as a result. Following Committee approval of the revised draft FSS, an employer consultation exercise was carried out.

3.5 In February 2024, the Local Government Pension Scheme (Scotland) (Amendment) Regulations 2024 were laid before the Scottish Parliament. These amendments come

into force on 28 March 2024, and the FSS has been revised in anticipation of these amendments.

- 3.6 The revised FSS, which has been reviewed by the Fund actuary (Hymans Robertson), is attached as Appendix 1 to this report.

## **4. Main Report**

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### **Actuarial Valuation of the Pension Funds**

- 4.1 As separately reported to Committee on this agenda, the Fund actuary carried out a valuation of the Funds as at 31 March 2023. These valuations are required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018, and the Actuary has prepared the reports in line with required Technical Actuarial Standards.
- 4.2 The valuation reports contain rates and adjustments certificates setting out employer contribution rates for the 3 years from 1 April 2024. The valuation must be completed before the first anniversary of the valuation date, ie by 31 March 2024. In setting contribution rates, the Actuary must have regard to the FSS and the actuary will certify these rates following Committee approval of the FSS.

### **Employer Consultation**

- 4.3 A draft revised FSS was presented to Committee for approval in December 2023. As required under the Local Government Pension Scheme (Scotland) Regulations 2018, employers must be consulted on changes being made to the FSS. The draft revised FSS was issued to employers in December 2023. Employers were invited to comment on during the consultation period which ran from 11 December 2023 to 31 January 2024.
- 4.4 A summary of the comments received from employers, together with responses to these comments is attached at Appendix 2. The summary will be circulated to all employers via the next Employer Bulletin. As set out in Appendix 2, no changes to the FSS are being made as a result of this feedback.

### **The Local Government Pension Scheme (Scotland) (Amendment) Regulations 2024**

- 4.5 In February 2024, the Local Government Pension Scheme (Scotland) (Amendment) Regulations 2024 were laid before the Scottish Parliament. These amendments include amendments and clarifications relating to employers considering exiting the Fund and the FSS has been revised in anticipation of these amendments.
- 4.6 The FSS was revised in 2022 to introduce the ability for employers to request an indicative exit valuation which would remain valid for 90 days. Previously, employers looking to exit were at the risk of adverse market movements between the time they

received an indicative exit valuation and the date of exit. The 2024 amendments clarify that the 90 days is from the date used in the indicative valuation. In addition, a further condition regarding the provision of exit valuations has been introduced, namely that they will not be provided if the employer has requested an indicative exit valuation within the previous 12 months.

- 4.7 Section 7.11 of the FSS ('Employers Leaving the Fund') has been amended to highlight this latter change. Further, for completeness wording has been added to confirm that when such valuations are carried out, up-to-date membership data will be used. This approach, as opposed to 'rolling forward' membership data from the last triennial valuation, means that liabilities will be valued more accurately and will therefore reduce risk to the Fund and employer.

#### **Review by Fund actuary, Hymans Robertson**

- 4.8 The draft revised FSS was shared with the Fund actuary who reviewed and provided comments for consideration. In the main, comments related to clarification of certain points for ease of reading, however Committee may wish to note the following key amendments:
- References to the suspension of the Contribution Stability Mechanism have been amended to confirm that it previously covered the period to 31 March 2024 to prevent confusion.
  - The table in Section 7.6 (Employer Time Horizons') has been amended to confirm time horizons for specific employers.
  - Section 2.3 ('Principles for determining payment') of the Bulk Transfer policy (Appendix B) has been amended to confirm that transfer terms will be negotiated by the relevant actuaries and that if agreement cannot be reached for any reason, an independent third actuary will be consulted.
  - In Appendix E ('Calculation of Employer Contributions'), the table setting out how the methodology will be applied to individual employers has been amended to ensure that all employers are included. In addition, the Actuary has also provided another version of the table showing the calibration of the Economic Scenario Service as at 31 March 2023. The revised table shows annualised returns for 10, 20 and 40 years compared to 5, 10 and 20 years in the previous version.
  - The salary strain mechanism does not apply to employers which are part of the contribution stability mechanism. In addition, the salary strain monitoring only relates to benefits built up in the scheme before 1 April 2015. Such benefits are final salary benefits and therefore salary increases have a direct impact on the member's benefits on retirement.

## **5. Financial impact**

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- 5.1 The funding strategy is intended to ensure that the Fund has sufficient assets in the long term to meet its liabilities.

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

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- 6.1 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.
- 6.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

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

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- 7.1 None.

## **8. Appendices**

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Appendix 1: Draft revised Funding Strategy Statement.

Appendix 2: Funding Strategy Statement – response to employer comments