Agenda Item	**7**
Report No	**PC/15/26**

HIGHLAND COUNCIL

Committee: **Pensions Committee**

Date: **1 October 2026**

Report Title: **Actuarial Valuation Progress Update**

Report By: **Chief Officer Corporate Finance**

1 Purpose/Executive Summary

1.1 The purpose of this report is to introduce the progress update on the triennial actuarial valuation of the Highland Pension Fund (HPF/the Fund) to be provided by the Fund Actuary (Hymans Robertson) and provide some background context to the presentation. The triennial actuarial valuation process is a three-yearly review completed by the Fund Actuary that compares the value of the pension fund's investments (assets) with the cost of the pensions promised (liabilities) and then sets employer contribution rates to ensure future benefits can be paid in full.

1.2 In section 6 information is provided on the work completed by the Fund Actuary and officers as part of the 2026 triennial actuarial valuation process.

1.3 In section 7 there is information on changes being made to the employer stability rate mechanism contribution limit which limits how much the employer rate can be increased or decreased for three years following a valuation to provide short to medium-term certainty and slide 9 of the Fund Actuary’s presentation (Appendix 1).

1.4 Section 8 of the report sets out the next steps in the triennial actuarial valuation process, which are to consult with employers on the draft FSS and for Pensions Committee to approve the final Valuation report and the Investment Strategy on 11 March 2027.

1.5 Section 9 of this report has details on the training provided to members on the triennial actuarial valuation process.

2. Recommendation

2.1 Members are invited to note the background context provided in this report and the presentation to be provided by the Fund Actuary.

3 Implications

3.1 Resource – resource implications are a key consideration in the Valuation process as the process requires assessing future assets and liabilities and modelling employer rates to ensure funding objectives are met.

3.2 Legal – The Fund is required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 to undertake an actuarial valuation every three years. The valuation is required to be completed and signed off by the scheme actuary by 31 March 2027, with employer contribution rates to be effective from April 2027.

3.3 Community (Equality, Poverty, Rural and Island) – there are no specific community implications for this report.

3.4 Climate Change / Carbon Clever – the effects of possible asset underperformance as a result of climate change will be considered as part of a future climate scenario workshop as part of the valuation process.

3.5 Health and Safety (risks arising from changes to plant, equipment, or people) – there are no Health and Safety (risks arising from changes to plant, equipment, or people) considerations to be included in the report.

3.6 Risk – risks are considered as part of the valuation process and factored into the assumption setting process.

3.7 Gaelic – there were no Gaelic implications to be considered in the report.

4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is an update report and therefore an impact assessment is not required.

5. Introduction

5.1 The Highland Council is the Administering Authority for HPF.

5.2 The actuarial valuation process is a key part of the LGPS risk management and governance framework. The actuarial valuation process ensures there is a continual “financial health check” on Fund HPF solvency and provides the opportunity to analyse actual experience compared to actuarial assumptions and, if necessary, adjust the funding approach.

5.3 The completion of the Actuarial Valuation is a regulatory requirement. In order to comply with The Local Government Pension Scheme (Scotland) Regulations 2018 (Regulation 60), an Administering Authority must obtain:

1) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2020 and on 31 March in every third year afterwards;
2) a report by an actuary in respect of the valuation; and
3) a rates and adjustments certificate prepared by an actuary which sets out employer contribution rates.

5.4 As part of the Actuarial Valuation process, The Local Government Pension Regulations 2018 require Administering Authorities to formulate, consult and publish an FSS, with the draft FSS included for approval by Committee at agenda item 8.

6 HPF Valuation process

6.1 As some background to the valuation process, the following work has been completed:

- in November 2025, an initial valuation meeting was held between officers and the Fund Actuary team.
- during April to May 2026 data collation and cleansing was completed by officers and data validation checks completed by Fund Actuary.
- in June 2026 a report was completed by the Fund Actuary on valuation assumptions with meeting held with officers on 30 June to discuss and confirm final assumptions for valuation.
- in July 2026, contribution modelling for those employers in the pool where the stability rate mechanism applies was completed by the Fund Actuary with meetings held with officers to discuss the output.
- in August 2026, the Fund Actuary provided a draft initial whole fund results report.

6.2 Following on from the above work, at this Pensions Committee meeting the Fund Actuary will be presenting the interim results and provide an update on the progress of the actuarial valuation and next steps. Despite volatility in asset and liability values, the results are that the funding position at 31 March 2026 is 137% (funding position was 136% at 2023 valuation).

7. Employer stability rate mechanism changes

7.1 At agenda item 8, In light of the stable funding position and based on the work and advice of the actuary in discussion with Fund Officers a change has been made to the stability rate mechanism. The stability rate mechanism is in place for Highland Council pooled employers (The Highland Council, Police and Colleges) to provide short to medium-term certainty of employer contribution rates and limit the annual contribution rate changes that can be applied in each three-year valuation period. Further information is provided on slide 9 of the Fund Actuary's presentation (Appendix 1).

7.2 In view of the stable funding position, the limit to the annual pooled employer contribution rate will be changed from 0.5% per year to 1% per year. This reduction is to be fully applied in the first year from April 2027 rather than across three years which will mean an immediate reduction of 3.0% to the pooled employer contribution rate from year 1.

8. Next steps

8.1 As per the Regulations there will be consultation with employers on the updated FSS (agenda item 8).

8.2 The Valuation Report, which will include employer rates and adjustment schedules, will be presented to Pensions Committee for approval on 11 March 2027.

8.3 At a meeting of the Investment Sub Committee on 1 October, an initial investment strategy review will be considered, with a plan to updating the asset allocation and taking an updated Statement of Investment Principles to Pensions Committee for approval alongside the Valuation report on 11 March 2027.

9. Training and governance

9.1 Pensions Committee and Board members are invited to attend a training session on 29 September 2026 which will provide an overview of the actuarial valuation process and the LGPS governance and regulatory requirements. This is to support members with reviewing the triennial actuarial valuation process and approving the draft FSS. There will also be an "Ask the Actuary" session following this Pension Committee meeting.

Designation: Chief Officer Corporate Finance

Date: 18 September 2026

Author: Catriona Stachan, Pensions Manager

Background Papers: LGPS regulations, Actuary reports

Appendix 1 Fund Actuary presentation

HYMANS ROBERTSON

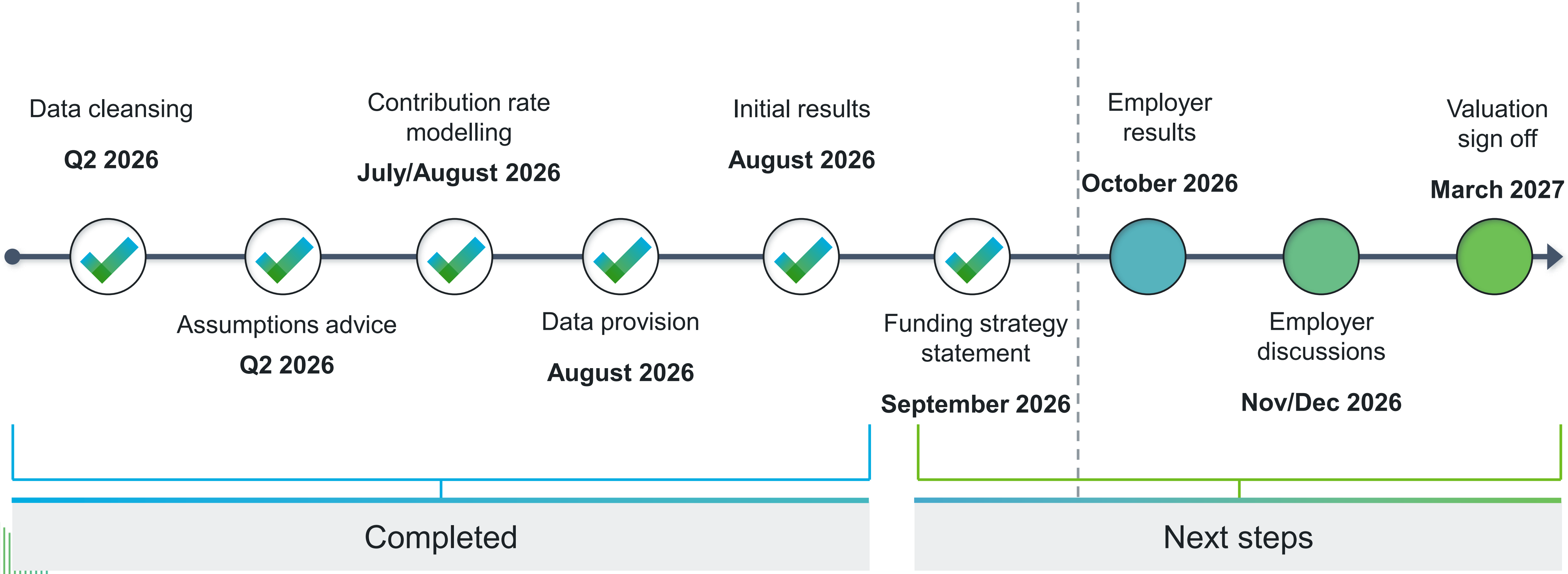
The Highland Council Pension Fund

Pensions Committee Meeting
2026 valuation update

Reece Notman FFA C.Act
Amy McAlister AFA C.Act

1 October 2026

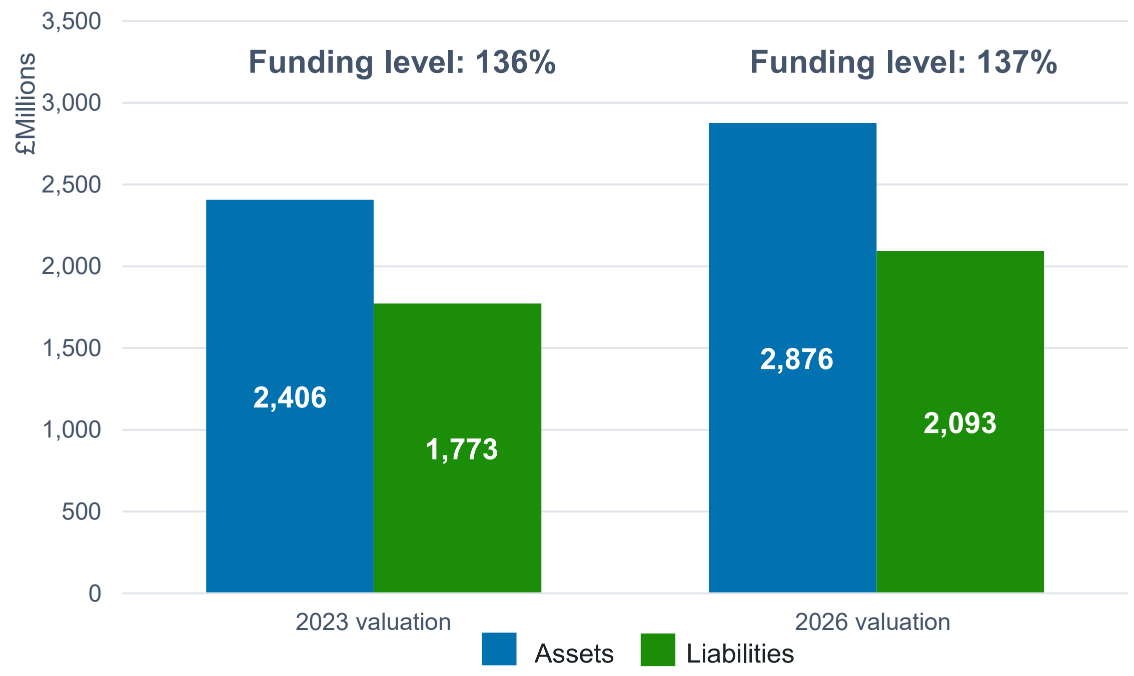
2026 valuation timeline



2026 Valuation – Initial fund level results

2026 valuation results (whole fund)

Change in funding position between 31 March 2023 and 31 March 2026



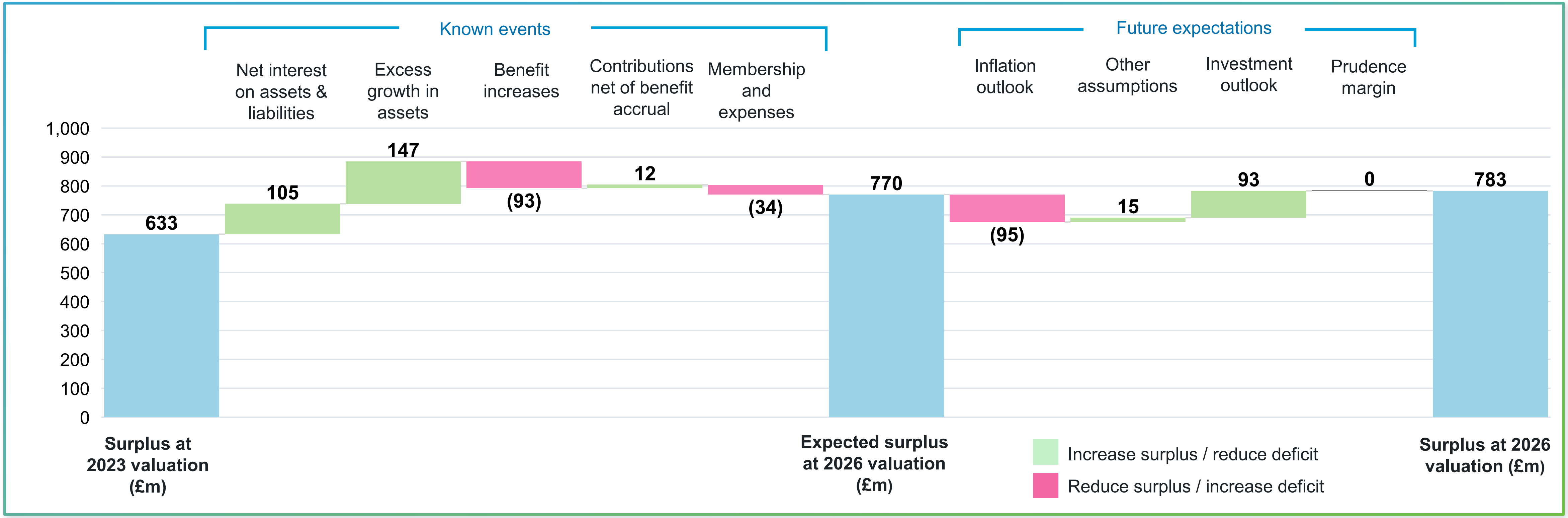
Valuation Date	31 March 2026	31 March 2023
Assets (£m)	2,876	2,406
Total Liabilities (£m)	2,093	1,773
Surplus / (Deficit) (£m)	783	633
Funding Level	137%	136%
Funding metrics	**31 March 2026**	**31 March 2023**
Required return (to be 100% funded)	3.4% p.a.	3.0% p.a.
Likelihood of achieving this return	95%	93%

Funding level has remained broadly stable despite volatility in asset and liability values

Numbers may not sum due to rounding.

2026 valuation analysis (whole fund)

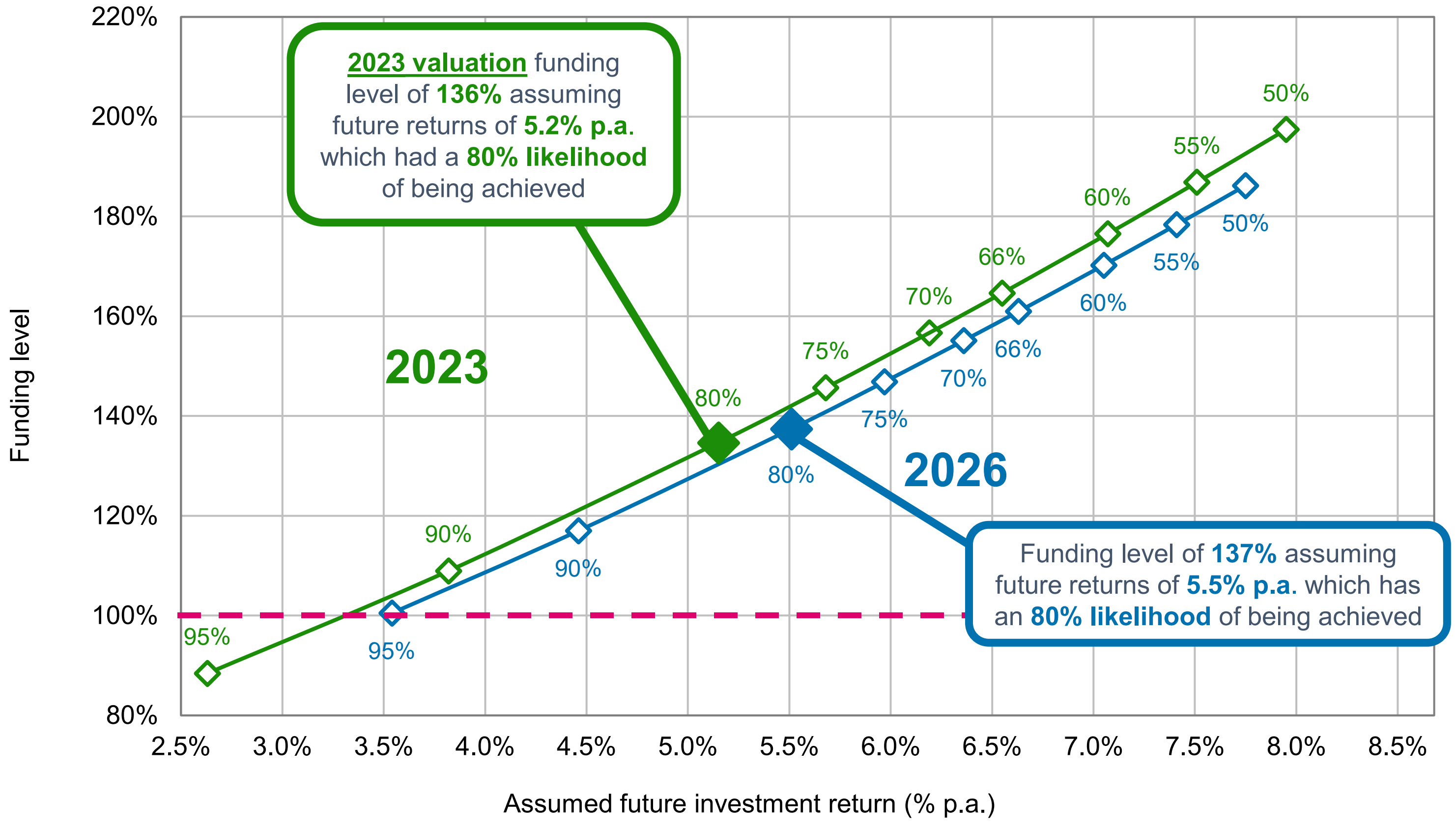
What is driving the change in the whole fund funding position?



No material changes from 2023 valuation

Numbers may not sum due to rounding.

Reviewing prudence



Why retain prudence?

- Ongoing uncertainty around future economic outlook (investment returns, inflation).
- Causes include geo-political tensions, climate change and impact of AI
- Provides buffer to help manage impact on contribution rates from adverse outcomes

Plan to maintain same prudence margin given current environment

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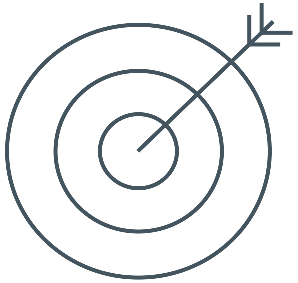
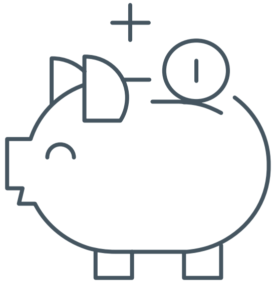
Setting funding strategy

Core funding objectives

Solvency

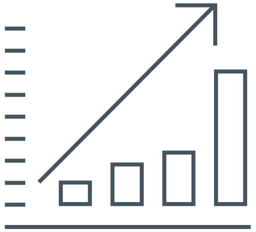


Affordability



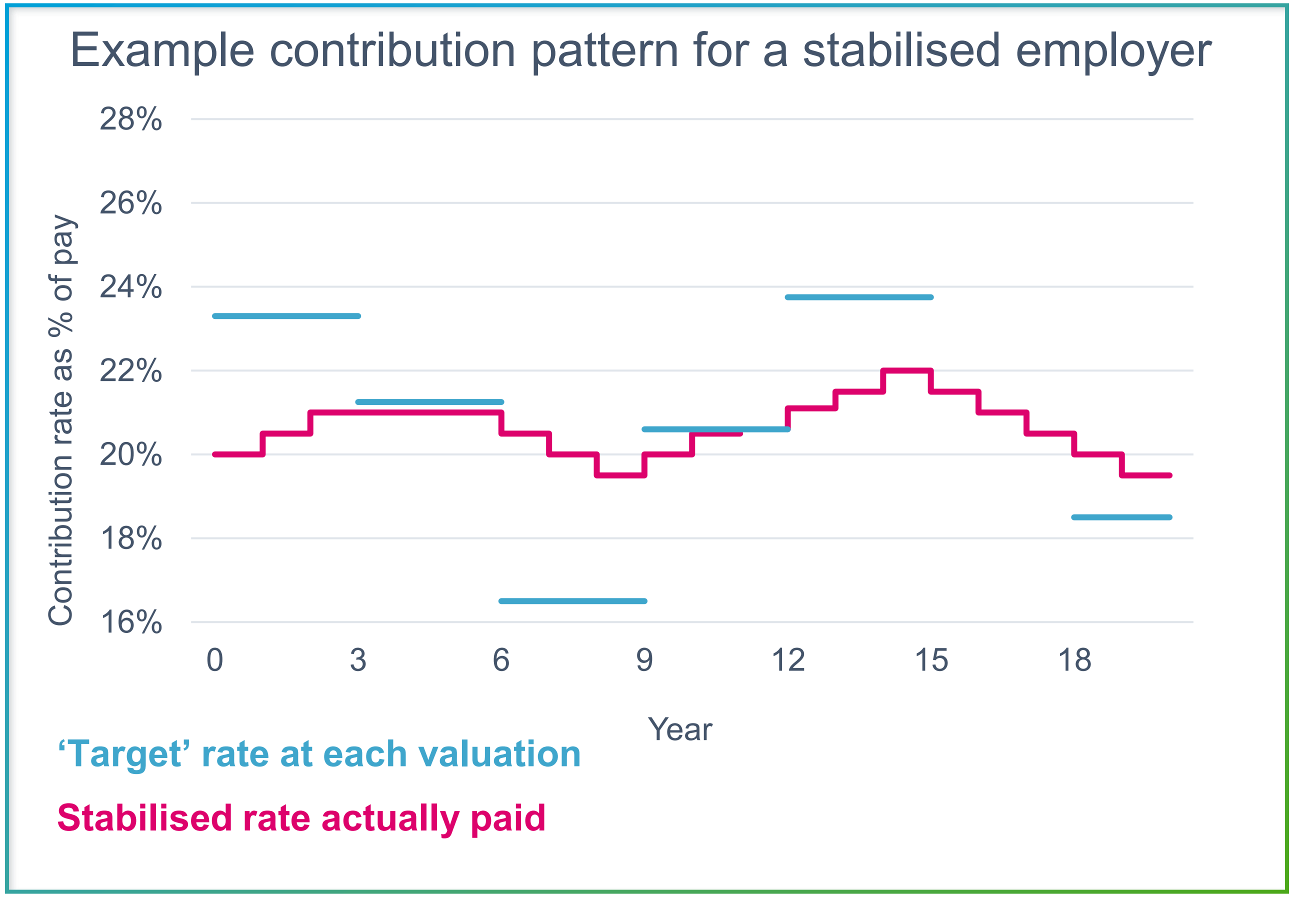
Cost-efficiency

Stability



Funding strategy is set based on individual employer circumstances

Funding strategy – stabilised employers



How it works
Caps annual contribution rate changes

Who it's for
Council, Colleges & Police

Benefit to employers
Provides short to medium-term certainty of contributions

Core design changes
Annual contribution rate changes increased from 0.5% to 1.0%

Immediate reduction of 3.0% of pay to apply in year 1

Funding Strategy Statement Review

- Regulations require review of FSS every three years
- Publicly available document
- No material changes in funding strategy
- Updated to reflect exit credit and 90-day cessation regulations
- New guidance set by preparers of FSS
- Improve accessibility and navigation for stakeholders
- Updated FSS will be sent around for consultation to all employers in the autumn alongside results


The Highland Council
Comhairle na Gàidhealtachd

The Highland Council Pension Fund
Funding Strategy Statement

You will be asked to approve the final FSS at the February meeting

HYMANS ROBERTSON

Next steps

2026 valuation timeline

Data cleansing

Q2 2026

Assumptions advice

Q2 2026

Contribution rate modelling

July/August 2026

Data provision

August 2026

Initial results

August 2026

Funding strategy statement

September 2026

Employer results

October 2026

Employer discussions

Nov/Dec 2026

Valuation sign off

March 2027

Completed

Next steps

Thank you

Questions

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