

Agenda Item	8
Report No	PC/16/26

HIGHLAND COUNCIL

Committee: **Pensions Committee**

Date: **1 October 2026**

Report Title: **Funding Strategy Statement**

Report By: **Chief Officer Corporate Finance**

1. Purpose/Executive Summary

- 1.1 The purpose of this report is to provide information and seek approval of the funding approach outlined in the Funding Strategy Statement (FSS).
- 1.2 The FSS is required by legislation and sets out the funding approach of the Highland Pension Fund (HPF/the Fund) (Appendix 2) including the following:
 - method the Fund uses to calculate employer contributions
 - circumstances in which additional contributions may be payable
 - how the Fund calculates assets and liabilities
 - process when an employer joins the Fund
 - policy on bulk transfer of staff to the Fund
 - policy on employer leaving the Fund
 - statutory reporting requirements
- 1.3 The changes to the FSS since the last valuation are in section 6 and include an amendment to the employer stability rate mechanism from 0.5% per year to 1% per year to be fully applied in the first year as a 3% reduction from April 2027.

2 Recommendations

- 2.1 Members are invited to approve the Funding Strategy Statement to be circulated to employers for consultation.

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 calculating employer rates in respect of this to ensure funding objectives are met.
- 3.2 Legal – the Fund is required under the Local Government Pension Scheme (Scotland) Regulations 2018, to publish a Funding Strategy Statement and consult with all participating employers and the Pensions Committee around the funding approach for the triennial valuation (Regulation 56). The valuation is to be completed and signed off by the scheme actuary by 31 March 2027.
- Information on the LGPS regulations is included in the Funding Strategy Statement (Appendix 2) at Appendix A, Regulatory Framework.
- 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 are also considered in the risk assessment in the Funding Strategy Statement (Appendix 2) at Appendix D, Risks and controls.
- 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 in the Funding Strategy Statement (Appendix 2) at Appendix D, Risks and controls.
- 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 report is a draft of the Funding Strategy that will be issued for consultation with employers. An impact assessment was completed and is at Appendix 1.

5. Introduction

- 5.1 The Highland Council is the Administering Authority for the Fund.
- 5.2 The Actuarial Valuation process is a key part of the LGPS risk management framework. The process ensures there is a continual “health check” on Fund solvency and provides the opportunity to analyse actual experience compared to actuarial assumptions.
- 5.3 The completion of the Actuarial Valuation is a regulatory requirement and in compliance 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. The FSS (Appendix 2) is produced in accordance with the Scheme Advisory Board (SAB)/ Ministry of Housing, Communities and Local Government (MHCLG)/Chartered Institute of Public Finance Accountants (CIPFA) guidance (published January 2025), which affirms the FSS as being a key part of a pension fund’s risk management framework.
- 5.5 The Highland Council Pension Fund FSS was developed with support from the Fund Actuary.

6. Highland Council Pension Fund Funding Strategy Statement (Appendix 2)

- 6.1 The FSS was reviewed by the Fund Actuary and contains the following updates:
- 1) minor changes were made to the FSS to follow the guidance issued by the SAB/ MHCLG/ CIPFA <https://lgpsboard.org/updated-guidance-for-preparing-and-maintaining-a-funding-strategy-statement-fss-is-now-available/>
 - 2) Since the last valuation in 2023, the Scottish Government introduced new Regulations that require cessation valuations to be guaranteed for a period of 90 days and for exit credits to be made payable to ceasing employers. The FSS was updated to incorporate these new regulatory requirements with the aim of ensuring there are no unintended consequences for employers. <https://www.legislation.gov.uk/ssi/2018/141/regulation/61>
 - 3) In light of the stable funding position and based on the work and advice of the Fund Actuary in discussion with officers, a change is to be made to the stability rate mechanism (Appendix 2, section 2.3). 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 contributions and limit the

annual contribution rate changes that can be applied in each three-year valuation period.

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 pooled employer contribution rates from year 1.

7. Consultation

- 7.1 As per the Regulations a draft copy of the FSS will be issued to employers on 2 October 2026 requesting comments by 20 November 2026.

8. Training and governance

- 8.1 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: 21 September 2026

Author: Catriona Stachan

Background Papers: LGPS regulations, Actuary reports

Appendix 1: Integrated Impact Assessment

Appendix 2: HPF Funding Strategy Statement

Appendix 1: Integrated Impact Assessment

About proposal

What does this proposal relate to? Strategy

Proposal name: Funding Strategy Statement

High level summary of the proposal: Approval of draft Funding Strategy Statement by Pensions Committee before circulated to employers as part of consultation. Funding Strategy Statement is required by legislation and sets out the funding approach of the Highland Pension Fund including the following

- method the Fund uses to calculate employer contributions
- circumstances in which additional contributions may be payable
- how the Fund calculates assets and liabilities
- process when an employer joins the Fund
- policy on bulk transfer of staff to the Fund
- policy on employer leaving the Fund
- statutory reporting requirements

Who may be affected by the proposal? Members of the Highland Pension Fund and employer bodies in the Highland Pension Fund.

Start date of proposal: 01/04/2027

End date of proposal: 31/03/2030

Does this proposal result in a change or impact to one or more Council service? No

Does this relate to an existing proposal? No

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Sign off date: 2026-09-25

Equalities, poverty, and human rights

Protected characteristics

Select what impact the proposal will have on the following protected characteristics:

Sex: No impact

Age: No impact

Disability: No impact

Religion or belief: No impact

Race: No impact

Sexual orientation:

Gender reassignment: No impact

Pregnancy and maternity: No impact

Marriage and civil partnership: No impact

Protected characteristics impact details:

Poverty and socio-economic What impact is the proposal likely to have on the following?

Prospects and opportunities: No impact

Places: No impact

Financial: No impact

Poverty and socio-economic impact details:

Human rights

Which of the below human rights will be affected by this proposal? No human rights will be affected

What impact do you consider this proposal to have on the human rights of people? No impact

Human rights impact details:

Equalities, poverty and human rights screening assessment

What impact do you think there will be to equalities, poverty and human rights? No impact

Is a Full Impact Assessment required? No

Children's rights and wellbeing

What likely impact will the proposal have on children and young people?

Which of the below children's rights will be affected by the proposal? No children's rights will be affected

Explain how the children's rights selected above will be affected:

Children's rights and wellbeing screening assessment

What impact do you think there will be to children's rights and wellbeing? No impact

Is a Full Impact Assessment required? No

Data protection

Will your proposal involve processing personal data? No

Data protection screening assessment

What change will there be to the way personal data is processed? No significant change to current processing

Is a Full Impact Assessment required? No

Island and mainland rural communities

Does your proposal impact island and mainland rural communities? No

Island and mainland rural communities screening assessment

What impact do you think there will be to island and mainland rural communities? No difference

Is a Full Impact Assessment required? No

Climate change

Does the proposal involve activities that could impact on greenhouse gas emissions

(CO₂e)? No

Does the proposal have the potential to affect the environment, wildlife or biodiversity? No

Does the proposal have the potential to influence resilience to extreme weather or changing

climate? No

Provide information regarding your selection above:

Climate change screening assessment

Have you identified potential impact for any of the areas above or marked any as not

known? No

Is a Full Impact Assessment required? No



Highland Pension Fund Draft Funding Strategy Statement

Effective from 1 April 2027 (proposed)

Effective date	1 April 2027
Previous valuation date	31 March 2026
Date approved	
Next review	March 2030
Prepared in accordance with guidance dated	January 2025

Contents

	Page
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1	Purpose of the Highland Pension Fund and funding strategy statement	1
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Part A - Key Funding Principles

2	How does the fund calculate employer contributions?	4
3	What additional contributions may be payable?	9
4	How does the fund calculate assets and liabilities?	10

Part B - Employer Events

5	What happens when an employer joins the fund?	11
6	What happens if an employer has a bulk transfer of staff?	13
7	What happens when an employer leaves the fund?	14
8	What are the statutory reporting requirements?	17

Appendices

Appendix A	The regulatory framework
Appendix B	Roles and responsibilities
Appendix C	Glossary
Appendix D	Risks and controls
Appendix E	Actuarial assumptions
Appendix F	Policy on contribution reviews
Appendix G	Policy on bulk transfers
Appendix H	Policy on cessations

1 Purpose of the Highland Pension Fund and the Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for the Highland Pension Fund (HPF).

The Highland Pension Fund is administered by The Highland Council, known as the Administering Authority. The Highland Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2027.

It is a regulatory requirement for the Highland Pension Fund to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact MyPension@highland.gov.uk

1.1 What is the Highland Pension Fund?

HPF is part of the Scottish Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.scotlgpsmember.org. The Administering Authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations

HPF will engage with employers when developing funding strategy in a way which balances the risk appetite of stakeholders.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

- **Scheduled bodies**

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

- **Admission bodies**

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How is the funding strategy specific to the Highland Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

1.5 How often is the Funding Strategy Statement reviewed?

The FSS is reviewed in detail at least every three years ahead of the triennial actuarial valuation and the Fund may carry out an annual check in the intervening years.

Amendments to the FSS may be in the following circumstances:

- material changes to the scheme benefit structure (e.g. Scottish Ministers-led)
 - on the advice of the fund actuary
 - Significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond FSS expectation
 - if there have been significant changes to the fund membership and/or fund maturity profile
 - if there have been significant or notable changes to the number, type, or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure) which could materially impact cashflow and/or maturity profile and/or covenant)
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- if there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS.
- recommendations from Scottish Ministers/GAD.

In undertaking such reviews, the administering authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (e.g. pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the ISS
- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process and ensuring any communication regarding a review won't necessarily lead to rates changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

Any amendments will be consulted on, approved by the Pensions Committee and included in the Committee meeting minutes.

This Funding Strategy Statement is effective from 1 April 2027 and is expected to remain in force until 31 March 2030 at the latest, unless an interim review is carried out prior to then.

1.6 Links to Administration Strategy

The fund maintains an Administration Strategy Statement which outlines the responsibilities, standards and procedures for employers and the fund. A copy of this can be found [here](#).

Adherence with the requirements of the Administration Strategy Statement is crucial to ensure the well-running of the pension fund and any failure to do so may lead to uncertainty around the value of an employer's liabilities and the need for prudent assumptions to fill any data gaps.

1.7 Actuarial valuation report

[Scottish LGPS Regulations](#) (specifically Regulation 60) require an actuarial valuation to be carried out every three years, under which contribution rates for all participating employers are set for the following three years. This Funding Strategy Statement sets out the assumptions and methodology underpinning the 2025 actuarial valuation actuarial exercise. The actuarial valuation report sets out 1) the actuary's assessment of

the past service funding position, and 2) the contributions required to ensure full funding by the end of the time horizon. The Rates and Adjustments certificate shows the contribution rates payable by each employer (which may be expressed as a percentage of payroll and/or monetary amounts).

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations as they apply in Scotland.

Employer contributions are determined by a mandatory actuarial valuation exercise, and are made up of the following elements:

- 1) **the primary contribution rate** – contributions payable towards future benefits
- 2) **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a methodology known as Asset Liability Modelling to set employer contribution rates. Under this methodology, for a given proposed employer contribution rate, the model projects future asset and liability values for the employer under 5,000 different simulations of the future economic environment. Each simulation – generated by Hymans Robertson's Economic Scenario Service (ESS) model - has a different path for future interest rates, inflation rates and the investment return on different asset classes. This approach allows the fund actuary to understand the potential range of future funding outcomes that could be achieved via payment of that contribution rate.

The fund has set *funding strategy criteria* for each employer in the fund which must be satisfied in order for a given employer contribution to be deemed acceptable. The funding strategy criteria are specified in terms of the following four parameters:

- **the target funding level** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the target funding level
- **the funding basis** – the set of actuarial assumptions used to value the employer's (past and future service) liabilities
- **the likelihood of success** – the proportion of modelled scenarios where the target funding level is met.

For example, an employer's funding strategy criteria may be set as follows:

*The employer must have at least a **75% likelihood** of being **100% funded** on the **ongoing participation basis** at the end of a **20 year** funding time horizon.*

The funding strategy criteria used by the fund are set out in Table 1. Further detail on the ESS and on the funding bases used by the fund are set out in [Appendix E](#).

The target funding level may be set greater than 100% as a buffer against future adverse experience. This may be appropriate for long term open employers, where adverse future funding experience may lead to future contribution rises.

The contribution rate setting approach takes into account the maturing profile of the membership when setting employer contribution rates.

The approach taken by the fund actuary helps the fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

The fund permits the prepayment of employer contributions in specific circumstances. Pre-payments will be considered on a case-by-case basis.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers (Community admission bodies (CABs) are employers with a community of interest with another scheme employer. Transferee admission bodies (TABs) provide services for scheme employers). *Will be updated for final FSS after employer consultation*

Type of employer	Scheduled bodies	CABs		TABs
Sub-type	Local authorities, police, colleges & other similar employers	Open to new entrants	Closed to new entrants	(all)
Funding basis (see Appendix E)	Ongoing	Ongoing	Low-risk exit	Ongoing
Target funding level	100%	100%	100%	100%
Minimum likelihood of success	80%	Low risk: 70% Medium risk: 80% High risk: 85%	70%	Low risk: 70% Medium risk: 80% High risk: 85%
Maximum time horizon	20 years	20 years	20 years or average future working lifetime, if less	Outstanding contract term
Stabilised contribution rate?	Yes	No	No	No

Type of employer	Scheduled bodies	CABs		TABs
Sub-type	Local authorities, police, colleges & other similar employers	Open to new entrants	Closed to new entrants	(all)
Contribution phasing	Stabilisation Mechanism	None	None	None

Supplementary funding information:

- **Primary rate approach** - The contributions sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay. The Primary Rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates
- **Secondary rate** - The difference between the total contribution rate payable (determined as per 2.1) and the primary rate. Negative adjustments are expressed as a percentage of payroll and positive adjustments can be expressed as a percentage of payroll or monetary amounts (for mature closed employers).
- **Treatment of surplus** - Negative secondary contribution rates may apply depending on approaches taken to achieve contribution stability.
- **Recognising covenant** – Any specific covenant matters are recognised by adjusting the minimum likelihood of success that applies for the purpose of setting contribution rates.

The fund manages funding risks as part of the wider risk management framework, as documented in the fund's risk register. The funding-specific risks identified and managed by the fund are set out in [Appendix D – Risks and Controls](#).

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 2: current stabilisation approach (2023 valuation, limit was 0.5%)

Type of employer	Local authorities, police, colleges & other similar employers
Maximum contribution increase per year	+1% of pay

**Maximum contribution
decrease per year**

-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

At their absolute discretion the administering authority may permit acceleration or extension of contribution rises and reductions within the contribution stability mechanism.

2.4 Links to investment strategy

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

The investment strategy is designed allowing for the funding position determined on an appropriate and prudent basis, with the objective of achieving the funding objective for each employer group of the specific time horizon. The Investment Strategy Statement is reviewed regularly by the Pension Committee and as part of the Fund's triennial actuarial valuation process. The Statement will also be updated where there are material changes to the Fund's investment strategy, funding position, governance arrangements or legislative requirements.

The fund's current strategic investment strategy as at 31 March 2026 is summarised in the table, with full details available at

<https://www.highlandpensionfund.org/resources/statement-of-investment-principles/>

Asset class	Allocation
Overseas Equity	42.00%
DGF Low Beta	3.70%
Private Equity	3.70%
Index linked Gilts	12.50%
UK Corporate Bonds	10.65%
Multi Asset Credit	4.50%
Infrastructure Equity	5.30%
Property	6.00%
Private Lending	5.40%

Asset Backed Securities	6.25%
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2.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a ‘prudent longer-term view’ of funding liabilities (see [Appendix A](#))

2.6 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with LGPS regulations. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

The Fund’s policy on contribution reviews is set out in Appendix E.

2.7 What is pooling?

The Administering Authority operates contribution rate pools for some types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren’t disclosed to pooled employers, unless agreed by the Administering Authority.

CABs that are closed to new entrants aren’t usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.8 What are the current contribution pools?

The Highland Council Pool includes all councils, local authority funded schools and smaller related employers and certain ceased contractor arrangements.

2.9 Administering Authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the Administering Authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Administering Authority may allow greater flexibility to the employer's contributions if added security is provided or there are other justifiable factors. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The Fund may consider prepayment of employer contributions in specific circumstances. Pre-payments will be considered on a case-by-case basis.

2.10 Non cash funding

The Fund will not accept any form of non-cash assets in lieu of contributions.

2.11 Managing surpluses and deficits

The funding strategy is designed to ensure that all employers are at least fully funded on a prudent basis at the end of their own specific time horizon. The uncertain and volatile nature of pension scheme funding means that it is likely there will be times when employers are in surplus and times when employers are in deficit. The funding strategy recognises this by 1) including sufficient prudence to manage the effect of this over the time horizon, and 2) making changes to employer contribution rates to ensure the funding strategy objectives are met.

Fluctuations in funding positions are inevitable over the time horizon, due to market movements and changing asset values, which could lead to the emergent of deficits and surplus from time to time, and lead to changes in employer contribution rates.

Table 1 sets out the Fund's approach to setting contribution rates for each employer group.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread if the Administering Authority agrees as follows:

Scheme employers	up to 5 years
Community Admission Bodies	up to 3 years
Transferee Admission Bodies	payable immediately

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may result in a large change to their funding position. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.3 below).

3.3 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then the employer's contribution to the Fund each year may be reduced by the amount of the insurance premium. This is at the sole discretion of the Administering Authority.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix E](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body.

On joining, the fund will determine the assets and liabilities for that employer within the fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement or some other form of risk sharing).

5.2 New admission bodies as a result of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. The Fund may consider how they may be reflected in the contribution rate payable and asset allocation for the new contractor. It is the responsibility of the letting authority and contractor to notify the Administering Authority about the existence of any specific pension risk sharing clauses for the outsourcing.

5.3 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

5.4 Risk assessment for new admission bodies

Under LGPS Regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes

insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the Administering Authority's satisfaction.

After considering the assessment, the Administering Authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely,
 - allowance for the risk of assets performing less well than expected,
 - allowance for the risk of liabilities being greater than expected,
 - allowance for the possible non-payment of employer and member contributions,
 - admission body's existing deficit.
-

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- The fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities.
- The fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The Fund's full policy on bulk transfers is set out in Appendix G.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The Administering Authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the Administering Authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the fund.

7.2 What happens on cessation?

The Administering Authority must protect the interests of the remaining fund employers when an employer leaves the fund.

When an employer ceases, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities of the exiting employer to determine whether a deficit or surplus exists.

The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix E](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using the Fund's risk-based cessation approach, outlined in Appendix H.
 - (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation.
 - Where the guarantor is a guarantor of last resort (i.e. where the guarantee will cease to have affect after the cessation event and final settlement), this will have no effect on the cessation valuation.
-

- If this isn't the case (i.e. if the guarantee continues to apply in respect of the former employer's obligations post cessation), cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms. This is known as 'subsumption' of the assets and liabilities.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or guarantor, or, if no authority/guarantor exists, shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund's cessation policy is set out in Appendix H.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities, the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

Further details on the Fund's exit credit policy are set out in Appendix G.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
 - if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.
-

More detail of the flexibilities available to employers on exit can be found in the Fund's cessation policy (See Appendix G).

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a Deferred Debt Agreement (DDA)/DSA (Deferred Spreading Arrangement). Beyond this they have no further obligation to the fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers on a pro-rata basis.

7.6 Partial cessations

The Fund will consider requests for partial cessations on a case-by-case basis.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report to the Scottish Public Pensions Agency (SPPA), acting on behalf of Scottish Ministers, on each of the LGPS funds in Scotland after every three-year valuation, in what's usually called a section 13 report. The report includes advice on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Administering Authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD and SPPA on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Standard information about the fund's approach to solvency of the pension fund and long-term cost efficiency will be provided in a uniform dashboard format in the valuation report to facilitate comparisons between funds.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) (Scotland) regulations require funds to maintain and publish a funding strategy statement (FSS) to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the desirability of maintaining as **constant and stable primary contribution rate as possible**, as defined in Regulation 60(5) of the LGPS Regulations 2018*
- *ensure that the regulatory requirements to set contributions to ensure the **solvency and long-term cost efficiency** of the fund are met.*
- *explain how the fund **balances the interests of different employers**.*
- *explain how the fund deals with **conflicts of interest** and references other policies/strategies.*

To prepare this FSS, the administering authority has used guidance jointly prepared by the England and Wales Scheme Advisory Board, the Ministry of Housing, Communities and Local Government, and by the Chartered Institute of Public Finance and Accountancy, dated January 2025. Separate Guidance for LGPS Funds in Scotland has not been published but the Fund Actuary understands that the SPPA expect LGPS Funds in Scotland to follow the January FSS Guidance.

The fund has a fiduciary duty to scheme members and obligations to employers to administer the scheme competently to keep employer contributions at an affordable level. The funding strategy statement sets out how the fund meets these responsibilities.

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “*persons the authority considers appropriate*”. This should include ‘*meaningful dialogue... with council tax raising authorities and representatives of other participating employers*’.

The consultation process included issuing a draft version of the FSS for comments or questions to all participating employers.

A3 How is the FSS published?

The FSS is:

- Published on the Fund's website
- Published as part of Pensions Committee Agendas
- Available freely on request

The FSS is published at [Link]. *Will be updated after employer consultation when FSS is final.*

A4 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements which include the Statement of Investment Principles, Governance policy and Administration strategy. The Fund's annual report and accounts also includes up-to-date fund information.

You can see all Fund documentation at www.highlandpensionfund.org.

Appendix B – Roles and responsibilities

B1 The Administering Authority is required to:

- 1 operate a pension fund and follow all LGPS (Scotland) regulations
- 2 collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- 3 have an escalation policy in situations where employers fail to meet their obligations
- 4 pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- 5 invest surplus monies in accordance with the relevant regulations
- 6 ensure that cash is available to meet liabilities as and when they fall due
- 7 ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- 8 take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- 9 manage the valuation process in consultation with the fund's actuary
- 10 prepare and maintain an FSS and associated funding policies and SIP/ISS, after proper consultation with interested parties
- 11 monitor all aspects of the fund's performance and funding, and amend the FSS/ISS accordingly
- 12 establish a policy around exit payments and payment of exit credits/debits in relation to employer exits
- 13 effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- 14 enable the local pension board to review the valuation and FSS review process and as set out in their terms of reference
- 15 support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice

B2 Individual employers are required to:

- 1 Ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- 2 provide the fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer

paying higher contributions than otherwise would be the case if their data was of high quality

- 3 pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date
- 4 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- 5 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- 6 notify the administering authority promptly of all changes to active membership that affect future funding
- 7 Pay any exit payments on ceasing participation in the fund timely provide the fund with accurate data and understand that the quality of the data provided to the fund will directly impact on the assessment of their liabilities and their contributions. In particular, any inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

B3 The fund actuary should:

- 1 prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency based on the assumptions set by the administering authority and having regard to the FSS and the LGPS Regulations
- 2 provide advice so the fund can set the necessary assumptions for the valuation
- 3 prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- 4 provide advice and valuations to the fund so that it can make decisions on the exit of employers from the fund
- 5 provide advice to the fund on bonds or other forms of security against the financial effect on the fund of employer default
- 6 assist the fund in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
- 7 ensure that the fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the fund.
- 8 Identify to the fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the fund and other clients.

B4 Local Pension Boards (LPB):

Local Pension Boards have responsibility to assist the administering authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. It will be for each fund to determine the input into the development of the FSS (as appropriate within fund's own governance arrangements) however this may include:

- 1 Assist with the development and review the FSS
- 2 Review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation
- 3 Assist with the development of and review communications in relation to the FSS.

B5 Other parties:

- 1 internal and external investment advisers ensure the Statement of Investment Principles (SIP) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the Statement of Investment Principles
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the Administering Authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures
- 6 the SPPA/Scottish Ministers (assisted by the Government Actuary's Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements

Appendix C – Glossary

Actuarial certificates

A statement of the contributions payable by the employer (see also rates and adjustments certificate). The effective date is 12 months after the completion of the valuation.

Actuarial valuation

An investigation by an actuary, appointed by an Administering Authority into the costs of the scheme and the ability of the fund managed by that authority to meet its liabilities. This assesses the funding level and recommended employer contribution rates based on estimating the cost of pensions both in payment and those yet to be paid and comparing this to the value of the assets held in the Fund. Valuations take place every three years (triennial).

Administering Authority (referred to as ‘the fund’)

A body listed in Schedule 3 of the regulations who maintains a fund within the LGPS and a body with a statutory duty to manage and administer the LGPS and maintain a pension fund (the fund). Usually, but not restricted to being, a local authority.

Admission agreement

A written agreement which provides for a body to participate in the LGPS as a scheme employer

Assumptions

Forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation, and investment returns,

Code of Practice

The Pensions Regulator’s General Code of Practice.

Debt spreading arrangement

The ability to spread an exit payment over a period of time

Deferred debt agreement

An agreement for an employer to continue to participate in the LGPS without any contributing scheme members

Employer covenant

The extent of the employer’s legal obligation and financial ability to support its pension scheme now and in the future.

Funding level

The funding level is the value of assets compared with the liabilities. It can be expressed as a ratio of the assets and liabilities (known as the funding level) or as the difference between the assets and liabilities (referred to as a surplus or deficit).

Fund valuation date

The effective date of the triennial fund valuation.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the fund can consider the employer's covenant to be as strong as its guarantor's.

Local Pension Board

The board established to assist the Administering Authority as the Scheme Manager for each Fund.

Non-statutory guidance

Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents

Notifiable events

Events which the employer should make the Administering Authority aware of

Past service liabilities

The cost of pensions already built up or in payment

Pension committee

A committee or sub-committee to which an administering authority has delegated its pension function

Pensions Administration Strategy

A statement of the duties and responsibilities of scheme employers and Administering Authorities to ensure the effective management of the scheme

Primary and secondary employer contributions

Primary employer contributions meet the future costs of the scheme and Secondary employer contributions meet the costs already built up (adjusted to reflect the experience of each scheme employer). Contributions will therefore vary across scheme employers within a Fund.

Rates and adjustments certificate

A statement of the contributions payable by each scheme employer (see actuarial certificates)

Scheme Manager

A person or body responsible for managing or administering a pension scheme established under section 1 of the Public Sector Pensions Act 2013. In the case of the LGPS, each Fund has a Scheme Manager which is the Administering Authority.

Appendix D – Risks and controls

D1 Managing risks

The Administering Authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board's constitution which is available in the Fund's governance policy at available at www.highlandpensionfund.org

Details of the key fund-specific risks and controls are set out below.

D2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation monitoring of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure key outcomes. Chosen option considered to provide the best balance; reviewed at least every three years.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning.

Risk	Summary of Control Mechanisms
	Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the additional cost will be met by the Fund's remaining employers.
Effect of possible asset underperformance as a result of climate change	The Fund actively considers this risk when allocating assets and appointing fund managers

D3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience can be monitored, and external insurance is an option for employers.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

D4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.
Time, cost and/or reputational risks associated with any SPPA/Scottish Ministers intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.
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D5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

Risk	Summary of Control Mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals. Reviewing contributions well ahead of cessation if thought appropriate.
An employer ceasing to exist resulting in an exit credit being payable by the Fund	The Administering Authority monitors admission bodies coming up to cessation. The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

D6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authority, Police, Fire, Colleges	Tax-raising or government-backed, no individual assessment required	n/a
Admission bodies (including TABs & CABs)	Covenant assessment carried out by Fund Officers to assign employers a risk rating of 'high risk', 'medium risk' or 'low risk'	The Fund will review employers periodically or when a significant event occurs

Any change in covenant over the inter-valuation period may lead to a contribution rate review

D7 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy.

The Fund has carried out climate scenario analysis incorporating both stress testing, and narrative-based scenario analysis for the local authority employers at the 2026 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific extreme, downside risk (in this instance a food shock) and constructing narratives around potential policy and market responses, noting these may be sub-optimal. This approach allows consideration to be given to the impact of sudden, severe downside risks in the short term, the interdependencies that arise and potential immediate actions. Coupling this approach with stress testing (to better understand the impact of possible climate scenarios) has allowed the Fund to assess a range of outcomes that may arise, and assess the resilience of the Fund under these scenarios.

The results show that:

1. When considering climate scenario stress tests, the Fund appears to be generally resilient to different climate scenarios, with generally modest impacts versus the base case modelled
2. The results of the downside, narrative analysis suggest that the Fund is likely to be resilient in the face of some severe downside risk events (in comparison to the base case), but not all.

Climate scenario analysis helps assess risks and tests the resilience of current and long-term strategies under various scenarios. This helps to identify vulnerabilities across both assets and liabilities. Identification of these vulnerabilities can inform risk management processes,

helping the Fund ensure appropriate controls and mitigations are in place. Scenario analysis therefore supports informed decision making, and may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

This climate analysis was not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the climate analysis to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy which was last agreed by Pensions Committee in February 2022.

D8 Gender Pension Gap reporting

The SPPA recently consulted on amendments to scheme regulations, that included reporting on the gender pensions gap. Administering authorities are expected to be required to report on the gender pensions gap as part of the 2026 valuations, in a similar way to the requirements set for the 2025 valuation of the LGPS in England and Wales's.

The Fund will report on Gender Pension GAP statistics based on the requirements set out in guidance issued by the Government Actuary's Department

Appendix E – Actuarial assumptions

The key outputs from an employer's funding valuation are its contribution rate requirement (see Section 2 for further details) and its funding level (see Section 4). For both calculations the fund actuary requires actuarial assumptions.

The fund typically reviews and sets the actuarial assumptions used for funding purposes as part of the triennial valuation. Those assumptions are then used until the next triennial valuation (updated for current market conditions where appropriate).

The fund has reviewed the actuarial assumptions used for funding purposes as part of the 2026 valuation. These are set out below.

E1 What are actuarial assumptions?

Actuarial assumptions are required to value the fund's liabilities because:

- There is uncertainty regarding both the timing and amount of the future benefit payments (the actual cost can't be known until the final payment is made). Therefore, to estimate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments
- The assets allowed to an employer today are a known figure. However, the future investment return earned on those assets and future cashflows into the fund are uncertain. An assumption is needed about what those future investment returns will be

There are two types of actuarial assumptions that are needed to perform an actuarial valuation: **financial assumptions** determine the expected amount of future benefit payments and the expected investment return on the assets held to meet those benefits, whilst **demographic assumptions** relate primarily to the expected timing of future benefit payments (i.e. when they are made and for how long).

All actuarial assumptions are set as best estimates of future experience with the exception of the discount rate assumption which is deliberately prudent to meet the regulatory requirement for a 'prudent' valuation.

Any change in the assumptions will affect the value that is placed on future benefit payments ('liabilities'), but different assumptions don't affect the actual benefits the fund will pay in future.

E2 What funding bases are operated by the Fund?

A *funding basis* is the set of actuarial assumptions used to value an employer's (past and future service) liabilities. The fund operates two funding bases for funding valuations: the *ongoing participation basis* and the *low-risk exit basis*. All actuarial assumptions are the same for both funding bases with the exception of the discount rate – see further details below.

E3 What financial assumptions are used by the fund?

Discount rate

The discount rate assumption is the average annual rate of future investment return assumed to be earned on an employer's assets from a given valuation date.

The fund uses a risk-based approach to setting the discount rate which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions') and the Fund's investment strategy.

The discount rate is determined by the prudence level. Specifically, the discount rate is calculated to be:

The average annual level of future investment return that can be achieved on the Fund's assets over a 20 year period with a x% likelihood.

The prudence level is the likelihood. The prudence levels used by the fund are as follows:

Funding basis	Prudence level
Ongoing participation	80%
Low-risk exit	85% (lower bound of corridor) 95% (upper bound of corridor) 90% (mid point of the cessation corridor)

The discount rate for the low risk exit basis is not set using risk-based methodology.

The low risk exit basis discount rate is set equal to the annualised yield on long dated conventional government bonds at the valuation date.

CPI inflation

The CPI inflation assumption is the average annual rate of future Consumer Price Index (CPI) inflation assumed to be observed from a given valuation date. This assumption is required because LGPS benefit increases (in deferment and in payment) and revaluation of CARE benefits are in line with CPI.

The fund uses a risk-based approach to setting the CPI inflation assumption which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions').

The CPI inflation assumption is calculated to be:

The average annual level of future CPI inflation that will be observed over a 20 year period with a 50% likelihood

Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 0.8% above the CPI inflation assumption plus a promotional salary scale.

E4 Further detail on the calculation of financial assumptions

The ongoing participation basis discount rate and CPI inflation assumptions are calculated using a risk-based method. To assess the likelihood associated with a given level of investment return or a given level of future inflation, the fund actuary uses Hymans Robertson's propriety economic scenario generator; the *Economic Scenario Service (or ESS)*. The model uses statistical distributions to project a range of 5,000 different possible outcomes for the future behaviour of different asset classes and wider economic variables, such as inflation.

The table below shows the calibration of the model as at 31 March 2026 for some sample asset classes and economic variables. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years. Yields and inflation refer to the simulated yields at that time horizon.

Annualised total returns									Economic Variables				
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	CorpMediu m A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	3.5%	1.7%	2.2%	0.1%	-0.5%	0.2%	2.5%	2.2%	1.4%	1.2%	1.5%	4.8%
	50th %'ile	4.3%	4.5%	4.3%	8.2%	8.2%	6.8%	4.9%	3.8%	2.4%	2.8%	2.4%	5.8%
	84th %'ile	5.1%	7.5%	6.2%	16.4%	16.9%	14.1%	7.1%	5.3%	3.3%	4.3%	3.3%	7.1%
10 years	16th %'ile	3.6%	2.7%	4.2%	2.5%	2.1%	2.3%	4.5%	1.3%	0.8%	0.8%	0.8%	3.9%
	50th %'ile	4.6%	4.7%	5.4%	8.6%	8.5%	7.3%	6.0%	3.0%	2.1%	2.5%	2.1%	5.3%
	84th %'ile	5.8%	6.9%	6.5%	14.6%	14.8%	12.7%	7.3%	4.6%	3.3%	4.1%	3.3%	7.1%
20 years	16th %'ile	3.1%	2.9%	5.0%	3.8%	3.7%	3.5%	5.5%	1.0%	-0.5%	0.7%	-0.5%	1.6%
	50th %'ile	4.5%	4.6%	5.8%	8.4%	8.3%	7.3%	6.5%	2.5%	1.2%	2.3%	1.3%	3.6%
	84th %'ile	6.3%	6.4%	6.5%	12.9%	13.1%	11.3%	7.4%	4.2%	3.0%	3.9%	3.0%	6.2%
	Volatility (Disp) (1 yr)	0%	7%	5%	16%	19%	15%	7%	1%		1%		

The ESS model is recalibrated monthly. The fund actuary uses the most recent calibration of the model (prior to the valuation date) to set financial assumptions for each funding valuation.

E5 What demographic assumptions are used by the fund?

The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in the assumptions that apply to them.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2025 version of the continuous mortality investigation (CMI) model published by the actuarial profession. The core parameters of the model apply, however, the starting point has been adjusted by +0.25% (for males and females) to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at death. At age 65 this is assumed to be 55% for males and 54% for females). Dependant of a male is 3.5 years younger than him Dependent of a female is 0.6 years older than her
Commutation	70% of maximum under HMRC limits.
50:50 option	0% of members will choose the 50:50 option.

E6 Rates for demographic assumptions

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		III-health tier 1		III-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	293.40	530.63	0.00	0.00	0.00	0.00

25	117	0.21	193.80	350.50	0.11	0.02	0.13	0.02
30	131	0.26	137.47	248.62	0.21	0.03	0.23	0.03
35	144	0.30	107.39	194.21	0.41	0.14	0.46	0.15
40	151	0.51	86.41	156.28	0.62	0.26	0.69	0.24
45	159	0.86	50.50	127.87	0.99	0.51	1.09	0.49
50	167	1.37	39.12	99.05	1.86	1.31	2.59	1.45
55	173	2.15	37.58	95.15	5.83	4.52	4.67	3.11
60	174	3.86	33.47	84.74	9.91	6.97	3.87	2.65

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.11	236.43	406.55	0.00	0.00	0.00	0.00
25	117	0.11	159.05	273.48	0.09	0.13	0.09	0.10
30	131	0.16	133.29	194.81	0.13	0.18	0.12	0.13
35	144	0.27	82.11	168.02	0.25	0.34	0.24	0.25
40	151	0.44	68.29	139.74	0.37	0.51	0.36	0.37
45	159	0.71	56.22	135.34	0.49	0.68	0.48	0.50
50	167	1.04	42.84	103.12	0.90	1.23	1.11	1.13
55	173	1.37	40.07	96.47	3.28	4.43	2.32	2.35
60	174	1.75	32.22	77.56	6.91	9.30	2.38	2.40

Appendix F – Policy on contribution reviews

Effective date of policy	1 April 2027
Date approved	
Next review	

Introduction

The purpose of this policy is to set out the Administering Authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

F1 Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

F2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

F3 Guidance and regulatory framework

[Regulation 61](#) of the Local Government Pension Scheme (Scotland) Regulations 2018 sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 61 (6) – allows the Administering Authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 61A - sets out specific circumstances where the Administering Authority may revise contributions between valuations (including where a review is requested by one or more employers).

F4 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The Administering Authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations. It will also consider requests from employers to do so.
- The decision to make a change to contribution rates rests with the Administering Authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

F5 Policy

F5.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

F5.2 Employer requests

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The Administering Authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the Administering Authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

F5.3 Other employers

When undertaking any review of contributions, the Administering Authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The Administering Authority will consult with other fund employers as necessary.

F5.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider financial market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

F5.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the Administering Authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

F6 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

Appendix G – Policy on bulk transfers

Effective date of policy	1 April 2027
Date approved	
Next review	

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

G1 Aims and Objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the Fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

G2 Background

Bulk transfers into and out of the Fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active Fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the Fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services or college mergers); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the

voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

G3 Guidance and regulatory framework

G3.1 Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), including:

- Regulation 93 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 94 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 95 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a [Club scheme](#) (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with “non-Club” accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the Administering Authority.
- Regulation 97 - states that any transfer between one LGPS fund and another LGPS fund where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

G3.2 Local Authorities

[The Statutory Guidance to Local Authorities on Contracting](#), which came into force on 10 August 2006, applies to contracting by local authorities and to any exercise which involves the consideration of a change of service provider or where the transfer of local authority staff is at issue. The statutory guidance:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority
- where a broadly comparable scheme is provided, the new employer’s pension scheme should allow transferring employees the option of moving their accrued credits into that scheme on a fully protected basis, and
- provides that the provision of pension protection is enforceable by the employee.

The Guidance also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

Where the service provider recruits or allocates staff to work on a local authority contract alongside employees transferred from the local authority, all new recruits should be offered access to pension provision which, where applicable, can be equated broadly comparable to that enjoyed by originally transferred local authority employees.

G3.3 Other employers

For all scheme employers that do not fall under the statutory guidance there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the Fund, subject to complying with the Administering Authority's requirements (e.g. having a bond or guarantor in place).

In the absence of a bulk transfer agreement the Administering Authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate [Government Actuary's Department \(GAD\) guidance](#).

G4 Statement of principles

This statement of principles covers bulk transfer payments into and out of the Fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated based on CETVs for the members concerned. The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
 - the use of cessation assumptions where unsecured liabilities are being left behind;
 - use of ongoing assumptions based on the employer's share of Fund assets (capped at 100% of the value of the liabilities) where this may be more appropriate; or
 - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the Fund the bulk transfer should equal the asset share of the employer in the transferring Fund regardless of whether this is greater or lesser than the value of past service liabilities for members.

- There may be situations where the Fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the Fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the Administering Authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

G5 Policy

The following summarises the various scenarios for bulk transfers in or out of the Fund, together with the Administering Authority's associated policies.

G5.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 97 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the Fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: Actives only transferring: CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's). All members transferring (i.e. all actives, deferred and pensioners): Receive all assets attributable to the membership within the transferring scheme.	The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis.
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 97 of the Local Government Pension Scheme (Scotland)	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached:	The Fund's default policy is to offer a transfer value that is equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer

Regulations 2018	Some (but not all) actives transferring (i.e. remaining members left behind): CETV in accordance with GAD guidance using transferring fund's actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV's). All actives transferring (i.e. deferred and pensioner members left behind): Assets will be retained by the Fund to cover the liabilities of the deferred and pensioner members calculated using the Fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme. All members transferring (i.e. all actives, deferred and pensioners): Transfer all assets attributable to the membership to the receiving scheme.	before agreeing to a negotiated bulk transfer arrangement. Discretion exists to amend this to reflect specific circumstances of the situation.
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G5.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 93 of the Local Government Pension Scheme (Scotland) Regulations 2018 or	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer	The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the Club transfer-out formulae. Discretion exists to amend this to reflect

	Club Memorandum	out formulae in accordance with GAD guidance.	specific circumstances of the situation.
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G5.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 93 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

G6 Practicalities and process

G6.1 Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

G6.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in past service funding position, for example where the deterioration in position is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

G6.3 Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

G6.4 Approval process

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

G6.5 Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

G6.6 Costs

Actuarial and other professional costs will be recharged in full to the employer.

G7 Related Policies

The Fund's general approach to bulk transfers is set out in the Funding Strategy Statement, specifically "Section 6 –What happens if an employer has a bulk transfer of staff?"

Appendix H – Policy on cessations

Effective date of policy	1 April 2027
Date approved	
Next review	

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework and the Fund's discretionary policies (see below).

H1 Aims and Objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities under Regulation 61 (2) for employers leaving the Fund.
- To confirm the approach for the treatment and valuation of liabilities for employers who have requested an indicative valuation under Regulation 61 (2A).
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the Administering Authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

H2 Background

As described in the section 7 of the Funding Strategy Statement, a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Administering Authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists under Regulation 61 (2). The Fund has full discretion over the repayment terms of any deficit.

A scheme employer may also propose to become an exiting employer at a future date and request an indicative valuation at a specific date under Regulation 61 (2A). If the employer ceases participation in the Fund within a 90-day period of the indicative cessation date, the results of the indicative cessation valuation must be used to determine whether a deficit or surplus exists. As in the case of a cessation valuation under Regulation 61 (2) the fund has

full discretion over the repayment terms of any deficit, however is liable for any surplus through the payment of an exit credit.

H3 Guidance and regulatory framework

The Local Government Pension Scheme (Scotland) Regulations 2018 contain relevant provisions regarding employers leaving the Fund ([Regulation 61](#)) and include the following:

- Regulation 61 (2) – this regulation states that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer, or the excess of assets in the fund over the liabilities in respect of that employer.
- Regulation 61 (2A) – this regulation states that a person proposing to become an exiting employer may request the appropriate administering authority to obtain:
 - a) An indicative actuarial valuation at a specific date of the liabilities of the fund in respect of benefits in respect of that person's current and former employees, and
 - b) A revised rates and adjustments certificate showing the exit payment that would be due from such an employer, or the excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2A)(a).

and the indicative actuarial valuation must for a period of up to 90 days from the specific date be used in substitution for any valuation at the employer's exit date carried out under paragraph (2).

- Regulation 61 (2C) states that the administering authority must provide an indicative valuation unless a request has been made within the previous 12 months.
- Under Regulation 61 (2D) an administering authority must determine the amount of an exit credit, which may be zero, and make the payment within six months. The administering authority must notify its intention to make a determination to:
 - The exiting employer
 - Any other body that has provided a guarantee to the exiting employer; and
 - The awarding authority in the event that the exiting employer is an admission body providing a service
- On payment of an exit credit to an exiting employer, no further payments are due from the administering authority (Regulation 61 (2E)).
- Regulation 61 (2F) sets out the factors that the administering authority must have regard to when determining the amount of any exit credit which include:
 - The extent to which there is an excess of assets in the fund over liabilities

- The proportion of this excess of assets which has arisen because of the value of the employer's contributions
 - Any representations to the administering authority made by the exiting employer
 - Any guidance or statement under Regulation 56 (4) or any other guidance relating to the preparation of a funding strategy statement issued or endorsed by the Scottish Ministers
 - Any other relevant factors
- Regulation 61 (3) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.
 - Regulation 61 (4B-4G) – the Administering Authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of a cessation debt despite having no active members.
 - Regulation 61 (5) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining Fund employers may be amended.
 - Regulation 61 (6) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
 - Regulation 61 (7) – following the payment of an exit payment to/from the Fund, no further payments are due to the Fund from the exiting employer.
 - Regulation 61B (1) – the Administering Authority may set out a policy on spreading exit payments.

In addition to the 2018 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

These regulations relate to all employers in the Fund.

H4 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- It is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- The Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per the FSS and section 3.1 below). This would extinguish any liability to the Fund by the exiting employer.
- The Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers who are ultimately responsible for meeting any additional costs arising in respect of the pension obligations of ceased employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of any cessation debt.

H5 Policies

On considering an exit from the Fund, an employer may request the fund to instruct the actuary to carry out an indicative valuation to determine whether there is a surplus or deficit at the proposed date of exit. A period of at least 12 months must have elapsed since any such previous request from the employer.

On exit from the Fund, and in the event where an indicative valuation has not been carried out, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Where there is a deficit following a cessation or indicative valuation, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this deficit, known as the cessation debt, is paid in full in a single lump sum within 28 days of the employer being notified or within 28 days of exit from the Fund in the even that an indicative valuation has been carried out.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid to the exiting employer in line with the Regulations.

If there is any doubt about the applicable LGPS benefit structure at the date of exit, the Fund's actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit payment or credit.

H5.1 Approach to cessation valuations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as summarised below:

Local Authorities, Police, Fire	Risk-based cessation approach ¹	Shared between other Fund employers
Colleges	Risk-based cessation approach ¹	Shared between other Fund employers
Admission bodies ("TABs" – typically contractors)	Ongoing basis ²	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies ("CABs" – typically any	Risk-based cessation approach	Shared between other Fund employers (if no guarantor exists)

ABs other than
contractors)

¹Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

²Where a TAB has taken, in the view of the Administering Authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on the risk-based cessation approach.

Risk-based cessation approach

The Fund uses a risk-based approach to set employer funding strategies, including within cessation calculations. In particular, the likelihood of the Fund's assets achieving particular future investment returns is analysed.

Where appropriate, the Fund will use this approach to set an upper and lower amount (or "corridor") in order to consider the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, an employer is deemed to have a deficit if its assets are below the lower amount and a surplus if its assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

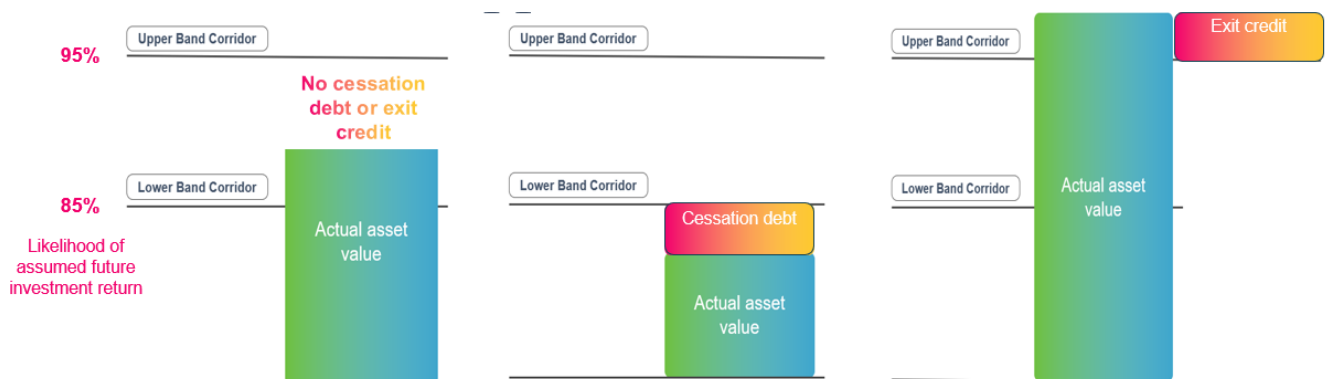
The upper bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 95% of outcomes over the next 20 years (based on the Fund's investment strategy at the calculation date).

The lower bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 85% of outcomes over the next 20 years (based on the Fund's investment strategy at the calculation date).

When calculating the liabilities, all other financial and demographic assumptions are as set out in the Funding Strategy Statement with the exception of future longevity improvements, where a long-term improvement of 1.75% pa is assumed.

The Administering Authority reserve the right to adopt alternative assumptions if felt necessary to protect the interests of the Fund.

The picture below illustrates how the corridor operates in practice.



The Fund reserves the right to review the definition of the corridor as part of any review of this policy.

H5.2 Approach for indicative valuations (*Policy points will need discussed before final approval*)

If an employer requests an indicative valuation under Regulation 61 (2A) the following principles will apply:

- The fund will adopt a future investment return assumption that has been calculated based on a 95% likelihood of success of being generated by the Fund's current investment strategy
- An estimate of any additional liability that will be earned by current employees of the employer over 90 days will be included within the calculations, by comparing the cost of accrual against the expected contributions payable.
- Any increases in liability that occur following the indicative valuation that arise in respect of early retirements, benefit augmentations, ill-health early retirements or salary increases in excess of those assumed within the indicative valuation will be charged to the employer in addition to any cessation debt (or deducted from any cessation surplus)
- The specific date of the indicative valuation must be no earlier, and within 1 month of, the date of the employer's request.

The risk-based corridor approach does not apply for indicative valuations.

H5.3 Repayment flexibility on exit payments

Flexibility on repayment of exit payments will only be considered in the case where a cessation valuation calculation has been carried out following exit from the Fund. Where an indicative valuation has been carried out to determine the exiting surplus or deficit no flexibility will be offered on repayment.

Deferred spreading arrangement (DSA)

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the Administering Authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within three months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund reserves the right to require that the exiting employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, to be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by Fund Officers, in consultation with the Chair, if an urgent decision is required between Committee meetings.
- All costs of the arrangement are to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

Deferred debt agreement (DDA)

When an exiting employer is unable to pay the required cessation payment as a single lump-sum, the Fund's preferred policy is to spread the payment via a deferred spreading

arrangement (DSA). However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in [Regulation 61 \(4B\)](#).

Where a DDA is in place, the employer must continue to meet all regulatory and Fund-specific requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active Fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The Administering Authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.

- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their exit basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

G5.4 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund after 1 June 2018. .

The results of an indicative valuation carried out under Regulation 61 (2A) will not be used for the purposes of determining an exit credit. The surplus of assets in excess of liabilities will be assessed via a cessation valuation carried out under Regulation 61 (2).

- a) the extent to which there is an excess of assets in the fund relating to that employer over the liabilities,
- b) the proportion of this excess of assets which has arisen because of the value of the employer's contributions,
- c) any representations to the administering authority made by the exiting employer and, where that employer participated in the scheme by virtue of an admission agreement, any body listed in paragraphs 8(a) to (d)(ii) of Part 2 of schedule 2 of these Regulations,
- d) Any guidance or statement specified under Regulation 56(4) or any other guidance relating to the preparation of a funding strategy statement issued or endorsed by the Scottish Ministers,
- e) Any other relevant factors

Admitted bodies

- i. No exit credit will be payable in respect of admissions who joined the fund before 1 June 2018 unless it is subject to a risk sharing arrangement as per paragraph c) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and

this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any 1 June 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund.

- ii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.
- iii. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in ii), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- iv. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- v. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vi. The decision of the Fund is final in interpreting how any arrangement described under c), e), f) and g) applies to the value of an exit credit payment.

Scheduled bodies

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.
- iv. If a scheduled body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body leaves on a low-risk cessation basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- vi. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 61 (2D).
- vii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.
- viii. The fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.
- ix. The final decision will be made by the Chief Financial Officer of the Administering Authority, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- x. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.
- xi. Where there is an exit credit payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date or such longer time as the administering authority and the exiting employer may

agree. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

- xii. The guidelines above at point e) in the 'Admitted Bodies' section, and at points a) and b) in the 'Scheduled bodies' section, make reference to the fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 1 (section 2.1) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 69-73 of the LGPS (Scot) Regulations 2018 would apply.

H6 Practicalities and process

H6.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).
- meet the cost of all fees and charges incurred by the Fund in the course of cessation including, but not limited to, the cost to obtain the cessation valuation report from the Fund Actuary and the cost of implementing a flexible repayment option (as set out in section 3.2).

H6.2 Responsibilities of Administering Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
 - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.

- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

H6.3 Responsibilities of the actuary

Following commission of a cessation valuation by the Administering Authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

H7 Related Policies

The Fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?".

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.