FUNDING STRATEGY

STATEMENT

MARCH 2018

Contents

1. Introduction

This is the Funding Strategy Statement (FSS) of Lothian Pension Fund ("the Fund"). It is prepared and maintained by the City of Edinburgh Council, the Administering Authority for the Fund, in consultation with the Fund's Actuary and following a period of consultation with participating employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

This FSS is produced in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) revised statutory guidance "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme (LGPS) 2016", which affirms the FSS as being a key part of a pension fund's risk management framework.

This statement was agreed by the Pensions Committee on 26 March 2018 and is effective from 1 April 2018. It replaces all previous Funding Strategy Statements and policies on funding.

1.1 Maintenance

The Administering Authority will review the FSS every three years in conjunction with actuarial valuations or more frequently if considered appropriate

1.2 Availability

This document is available on the Fund's website (www.lpf.org.uk). Printed copies are available on request.

2. Purpose of the Funding Strategy Statement

CIPFA's "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016" states that the purpose of the FSS "is best defined by reference to the discussion paper issued by the Office of the Deputy Prime Minister (ODPM) on 23 July 2003, 'Local Government Pension Scheme – Strategy Proposals: Stocktake Discussion Paper – Funding Strategy Statement Proposals', namely:

- to establish "a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- supports the desirability of maintaining as nearly constant a primary contribution rate as possible, ….; and
- takes a prudent longer-term view of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.

The FSS shall also ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the fund, as defined by the Public Service Pensions Act 2013, are met.

The statement and appendices set out how the Administering Authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis. Specific clarity is provided as to the Fund's policies in respect of:

- employers being admitted to the Fund;
- employers leaving the Fund (cessations);
- bulk transfers; and
- the charging for services and recovery of costs incurred.

2.1 Regulatory Framework

Pension benefits accrued by members of Lothian Pension Fund are determined by statute.

The contributions paid by the members of the Fund are fixed in the Scheme Regulations. Employers pay the balance of the cost of delivering the benefits, however, in line with the requirements of the Public Service Pensions Act 2013, the Scheme Regulations incorporate a cost sharing mechanism to ensure sustainability of the Scheme over the long term.

The FSS focuses on the pace at which employers pay for the benefits i.e. the approach used to determine contribution rates. It forms part of a framework that includes:

- the Local Government Pension Scheme) (Scotland) Regulations 2014 (as amended), the Local Government Pension Scheme (Governance) (Scotland)

Regulations 2015 and the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010;
- the Pensions Committee, the Pensions Audit Sub-Committee and the Pension Board;
- the Rates and Adjustments Certificate, which can be found appended to the Fund Actuary's valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Fund's Annual Report, including the Annual Governance Statement, the Governance Compliance Statement and the Statement of Investment Principles.

This is the framework within which the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund.

3. Aims and Purpose of the Fund

3.1 Aims of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- seek returns on investment within reasonable risk parameters; and
- enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to scheduled and admitted bodies, whilst achieving and maintaining fund solvency and long-term cost efficiency. This should be assessed taking appropriate cognisance of the risk profile of the fund and employers and the risk appetite of the administering authority and employers alike.

3.2 Purpose of the Fund

The Fund provides benefits to members and their dependants. The purpose of the Fund is to:

- receive monies in respect of contributions, transfer payments and investment income and recover costs and charges, pay pension benefits, transfer values and administration costs, charges and expenses; and
- make investments to meet the future costs of pension promises made to members of the Scheme.

4. Responsibilities of the Key Parties

The sound and effective management of the Fund can only be achieved if all interested parties exercise their statutory responsibilities conscientiously. Although a number of these parties, including investment managers and external auditors, have a responsibility to the Fund, the following may be considered of particular relevance to the funding strategy:

4.1 The Administering Authority should:

- operate the Fund as per the Regulations;
- collect and account for employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Scheme regulations;
- invest surplus monies in accordance with the regulations;
- ensure that sufficient cash is available to meet liabilities as and when they fall due;
- pay relevant benefits from the Fund as set out in the Scheme regulations;
- manage the actuarial valuation process in consultation with the Fund's Actuary, including providing all required data and employer covenant analysis;
- prepare and maintain a Funding Strategy Statement and Statement; of Investment Principles after proper consultation with interested parties;
- monitor all aspects of the Fund's performance and funding, and amend the Funding Strategy Statement/Statement of Investment Principles accordingly;
- take measures as set out in the Scheme regulations to safeguard the Fund against the consequences of employer default;
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer;
- manage any cessation valuation in consultation with the Fund's Actuary;
- prepare and maintain admission, cessation, bulk-transfer and charging policies. The admission, cessation and charging policies are included in this document,
- enable the Pension Board to review the valuation process as set out in their Constitution; and
- fulfil all other duties as specified in Lothian Pension Fund's Pensions Administration Strategy – available in the 'Publications' section of the Fund's website www.lpf.org.uk

4.2 The Individual Employers should:

- calculate an employee's contribution rate and deduct the correct contributions from members' salaries;
- pay employee and employer contributions to the Administering Authority on a timely basis and provide appropriate supporting documentation in a format and timescale specified by the Fund;
- develop and maintain a policy where discretion can be exercised within the regulatory framework (e.g. granting enhanced benefits) bearing in mind costs;
- make additional contributions, in accordance with agreed arrangements, for example, augmentation of scheme benefits and early retirement strain costs;

- notify the Administering Authority promptly of organisation changes for example, changes in ownership or structure, TUPE transfers which could affect future funding;
- notify the Administering Authority of a possible ending of its admission agreement/participation in the Fund within the terms of that agreement or otherwise as required by the Regulations (typically a 3 month notice period is required), including closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment);
- pay any exit payments due on ceasing participation in the Fund in line with provisions set out in the Fund's Policy on employers leaving the Fund (see Appendix C);
- meet costs as specified in the Charging Policy (see Appendix D); and
- fulfil all other duties as specified in the Fund's Pensions Administration Strategy. This includes provision of all data required for effective administration and record-keeping, and payment of any charges levied by the Fund following poor performance by the employer.

4.3 The Fund Actuary should:

- prepare actuarial valuations to assess the solvency of the Fund and the required employers' contribution rates;
- engage with the Administering Authority in consultation processes;
- 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.;
- provide advice and valuations on the on the exit of employers from the Fund;
- provide advice to the Administering Authority as required on bonds or other forms of security against the financial effect on the fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the regulations; and
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the Fund.

5. General Funding and Solvency Issues

5.1 Funding Principles

The cost of the benefits is not known in advance. The approach to funding determines the pace at which employers pay for the benefits and the ways in which the Fund ensures that it will have enough money to pay the benefits due to its members.

5.2 Solvency

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at “such level as to ensure that the scheme’s liabilities can be met as they arise”.

It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if the rates of employer contributions are set to target a funding level (assets divided by liabilities) for the whole fund of 100% over appropriate time periods and using appropriate actuarial assumptions.

If the conditions above are met, then it is expected that the Fund will be able to pay scheme benefits as they fall due.

The Fund’s Actuary is required to report on the solvency of the Funds and recommend future employer contribution rates every three years. In assessing the solvency and employer contribution rates, the Actuary must make a number of financial and demographic assumptions (see below). The solvency of the Funds and the contribution rates can be very sensitive to these assumptions.

In calculating solvency, the Actuary values the benefits using the assumptions described below. Assets are taken into account at their market value.

The Regulations specify the principles which must be used in the funding strategies. However, it is the responsibility of the Administering Authority, acting on the advice of the Fund’s Actuary, to determine the precise approach and the financial and demographic assumptions to be used in the actuarial valuation.

The principal issues facing the solvency of the Funds include the ability to finance liabilities as and when they arise, the rate or volatility in the rate of contribution paid by the employers, the pace at which deficits are recovered (or surpluses used up) and the returns on the Fund’s investments.

The Fund carries out regular employer covenant reviews to gather a range of key financial and non-financial information. This includes a request for details of funding sources and for annual financial statements to be provided. In addition, membership numbers are regularly reviewed to monitor membership maturity. The results of the covenant review are used to rank employers on risk level, with details being provided to the Fund’s Actuary to inform the actuarial valuation.

As required under Section 13(4)(c) of the Public Service Pensions Act, The Scottish Public Pensions Agency has appointed the Government Actuary's Department to report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scottish Local Government Pension Scheme, so far as relating to the Fund. Such reports must be made following each triennial valuation of the Fund.

When developing this Funding Strategy, the Administering Authority has had regard to the review under Section 13(4)(c).

5.3 Long term cost efficiency

The notes to the Public Service Pensions Act 2013 state "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time".

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, the review under Section 13(4)(c) may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

5.4 Financial Assumptions and Link to Investment Strategies

The key financial assumption in calculating the solvency and contribution rates is the rate of return which will be achieved on the Funds' investments. The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns (resulting from the investment strategy). To the extent that investment returns may be lower than expected, then higher contributions may be required from employers, and vice versa. Hence, the funding and investment strategy are inextricably linked.

The expected return is based on the yield on UK government bonds (gilts) at the time of the actuarial valuation. If appropriate, allowance is made for the fact that the investment strategy includes assets other than gilts which are expected, over the long term, to deliver a higher return for the Fund.

The discount rate(s) adopted in the actuarial valuation is derived by considering the expected rate of investment return which is anticipated to be achieved by the underlying investment strategy.

The Funds invest in assets other than gilts in order to reduce the cost to the employers in the long term, subject to the alignment to the expected duration and admission basis of the individual employer's membership. However, the investments are not guaranteed to deliver returns in excess of gilts. This means that the funding level can be volatile, particularly in the short term. In order to minimise the degree of short-term change in employer contribution rates, expected investment returns are considered over the long term.

The Pensions Committee is responsible for setting investment strategies after taking professional investment advice.

A formal review of the Funds' investment strategies is undertaken at least every three years to ensure appropriate alignment with liabilities. This is typically after the results of the triennial Actuarial Valuation are known and the Pensions Committee is responsible for agreeing that the strategies are appropriate. Implementation of the investment strategies is delegated to the Executive Director of Resources of the City of Edinburgh Council, under the advice of the Investment Strategy Panel.

The Panel comprises the Chief Executive Officer and Chief Investment Officer of Lothian Pension Fund together with a minimum of two external, independent expert advisers. The Panel meets quarterly to monitor the risk, return and implementation of investment strategy, and to discuss current issues, including asset allocation. This involves an appraisal of the current investment market opportunities and risks and the distribution of the Funds' investments across different assets, countries, sectors and companies to ensure that overall risk is being managed appropriately.

Further information on the investment strategies can be found in the Funds' Statement of Investment Principles which is available on the Fund's website (www.lpf.org.uk).

5.5 Demographic Assumptions

The Actuary makes a number of demographic assumptions including mortality, salary growth, rates of retirement, commutation experience and withdrawal. They are intended to be best estimates of the future experience of the Funds.

The assumptions take into account the past experience of the employer and Funds, other Local Government Pension Schemes and/or the general population, as considered appropriate by the Actuary.

5.6 Contributions

Employee contributions are determined by the Local Government Pension Scheme (Scotland) Regulations 2014. A member's contribution rate is calculated by the employer on an annual basis, dependent on their actual pensionable pay at 31 March each year and allowing for any election made under Regulation 10 (50:50 option).

Employer contributions are calculated by the Fund Actuary. They are made up of two elements:

A the primary rate of the employers' contribution. This is the contribution rate required to meet the cost of the future accrual of benefits expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any employer specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer, the actuarial method chosen and/or the employer's covenant, and,

B the secondary rate of the employers' contribution. This is an adjustment to the primary rate to arrive at the rate each employer is required to pay. If there is a surplus, there may be a contribution reduction, if there is a deficit there may be a contribution increase. For all employers, contributions to cover any deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll. The period over which any funding deficit or surplus is spread for each Fund is covered further in Sections 6, 7 and 8 below. Any deficit contributions should be paid in equal monthly instalments along with the primary rate contributions, or by prior arrangement as a one off lump sum at the start of the year.

For any employer, the rate they are required to pay is the sum of the primary and secondary rates.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. The contributions stated are minimum amounts – employers can pay more than this. The Actuary will take account of any higher amounts paid at subsequent valuations.

All employers are required to pay the estimated additional cost (strain cost) of **non-ill health early retirements**, to allow for the fact that the pension is paid earlier and for longer. This is calculated at the time of the early retirement. The Fund's general policy is that strain costs are payable as a one-off payment at the time of the early retirement, however at the Fund's discretion, alternative arrangements may be permitted if the early retirement occurs at the time of cessation, depending on the employer's circumstances.

The Administering Authority monitors the actual contributions received to ensure they are in line with those expected. As set out in the Fund's Pensions Administration Strategy, employers are expected to provide requisite detailed information on a monthly basis to assist this monitoring exercise and to substantiate the payments made.

6. Funding – Scottish Homes Pension Fund

Scottish Government acts as guarantor to the Scottish Homes Pension Fund. A bespoke funding strategy has been developed for the Scottish Homes Pension Fund. This has been agreed by the Administering Authority, the Fund's Actuary and the Scottish Government (previously known as the Scottish Executive).

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

The funding strategy is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time, with a reducing allocation to equities over time reflecting the requirement of the Scottish Government to lock away any surpluses that may occur over time by accelerating the transfer into bonds.

7. Funding – Lothian Buses Pension Fund

The Lothian Buses Pension Fund closed to new members in 2008 and the liabilities are expected to mature over time.

The objectives of the funding strategy include:

- to ensure solvency of the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- reduce the risk of the investment strategy over time;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment

When determining employer contributions at the triennial valuation the Administering Authority may (after consultation with the Fund Actuary) take into account any events that arise after the valuation date, but before the formal valuation report is signed off (which must occur within one year of the valuation date), that materially affect the employer contributions. In doing so, the Fund will aim to achieve the objectives of the funding strategy.

Changes in employer contributions may be phased over time in order to minimise the degree of short-term change. The Administering Authority in consultation with the Fund's Actuary decides how any reductions or increases to contribution rates are introduced.

8. Funding – Lothian Pension Fund

8.1 Objectives of the Lothian Pension Fund's Funding Strategy

The objectives of the funding strategy include:

- to ensure the long-term solvency of the overall Fund;
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment;
- to help employers manage their pension liabilities; and
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

8.2 Investment Strategy

The Fund has put in place three investment strategies for differing employer risk profiles.

<u>Primary Strategy</u>

This strategy adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer.

This strategy applies to the following types of employers:

- Large employers with enduring membership which are open to new entrants (including but not limited to Councils and other statutory bodies);
- Transferee Admitted Bodies;
- Employers part of the small employer 'pool' and
- Employers admitted to the Fund following a transfer of staff from another Fund employer and the ceding employer has agreed the employer can be treated as Transferee Admitted Bodies for funding purposes.

Other than employers which are part of the small employer 'pool', Employers invested in the Primary Strategy will have individual contribution rates certified by the Actuary.

<u>Lower Risk Strategy</u>

This strategy adopts a lower-risk approach for employers which have a short expected duration in the Fund and invests in index-linked government bonds to reduce the degree of short-term change in funding level and employer contribution rates in the period prior to the employer leaving the Fund and hence manage risks for both the individual employer and for the Fund as a whole.

This strategy was first introduced with effect from 1 April 2015.

This strategy applies to the following types of employers:

- Employers who have left the Fund (excluding bodies which may be aligned);
- Employers which are closed to new entrants and:
  - Have fewer than five active members and/or
  - Average membership age of 55 or higher.

Such employers will have individual contribution rates certified by the Actuary.

Medium Risk Strategy

This strategy adopts a balanced investment strategy reflecting the maturing membership and liability profile of the relevant employers. It is intended to act as a transition between the Primary Strategy and the Lower Risk Strategy, for those employers which are closed to new entrants. Accordingly, investments will be targeted to represent 50% allocation from the Primary Strategy and the Lower Risk Strategy. This will serve to reduce the degree of change in employer contribution rates which would result from moving immediately from the Primary Strategy to the Lower Risk Strategy. This strategy was first introduced with effect from 1 April 2018.

This strategy applies to the following types of employers:

- Employers which are closed to new entrants but do not meet the criteria for Strategy 2.

Such employers will have individual contribution rates certified by the Actuary

Allocation to strategies

Relevant employers will move between strategies as appropriate following the 2017 valuation on 1 April 2018.

An employer will change to an alternative Strategy with immediate effect between valuations in the following situations:

- An employer part of the small employer pool closing to new entrants will move to Strategy 2 or 3 as appropriate;
- An employer part of Strategy 3 which falls below five active members will move to Strategy 2.

In these circumstances, the Actuary will provide revised employer contribution rates.

Where an employer has closed to new entrants, it will not be able to reverse this decision and offer membership to new staff without the agreement of the Administering Authority and where applicable, the body acting as guarantor.

The Fund may consider a request for an employer to be assigned to an alternative investment strategy to that which strict application of the criteria would indicate, but only in circumstances where a higher risk strategy is supported by an explicit guarantor and/or where the Fund would not consider such to represent a scenario of greater risk exposure to other employer(s). The Fund may also consider a request for a riskier investment strategy should provision of satisfactory security over assets be offered.

It is not practical for the Fund to offer individual employers full flexibility on asset allocation.

8.3 Employer Asset Tracking

The Lothian Pension Fund is a multi-employer fund. Previously, individual employer asset shares have been calculated triennially at formal valuations by the Fund's Actuary using an analysis of surplus technique and tracked between valuations using a cash flow or roll forward approach. However, in order to enhance the transparency, accuracy and auditability of individual employer asset allocations and reduce any cross-subsidy between participating employers, from 1 April 2014 the Fund introduced an employer asset tracking system based on cash flows. This is a form of unitisation of investments, where each investment or disinvestment of monies involves the purchase or selling of units in the fund. By sub-dividing the assets into units, the fund can more easily and accurately track each individual employer's assets. Changes in the value of the underlying assets are reflected by changes in unit prices.

Such unitisation therefore provides an efficient way of accurately apportioning assets to individual employers by allowing for employer cash flows and investment returns achieved by the Fund. In addition, this provides a mechanism for facilitating and managing a range of investment strategies within the single Fund to meet the needs of employers with different maturity profiles, funding levels or investment objectives.

8.4 Grouping

Changes in employer contributions may be phased over time in order to minimise the degree of short-term change and enhance affordability. The Administering Authority, in consultation with the Fund's Actuary decides how any reductions or increases to contribution rates are introduced, taking into account specific employer circumstances.

The **large employers** in the Fund are required to fund the benefits of their own employees; the Actuary calculates a different contribution rate specific to each large employer.

Individual contribution rates will also apply to:

- Transferee Admission Bodies;
- employers who have closed membership of the LGPS to new entrants;
- other small employers who do not qualify for inclusion in the pool due to the funding level criteria (see below); and
- those employers admitted to the Fund owing to the transfer of members from another Fund employer and the ceding employer has agreed to the treatment of the employer as a Transferee Admission Body for funding purposes (unless, by exception, the ceding employer and Administering Authority are content with the body being included within the smaller employer "pool", as described below).

Other **smaller employers** who are grouped together for the purposes of calculating contribution rates at the actuarial valuation. This grouping provides some protection against changes in the contribution rate of a small employer from one actuarial valuation to the next.

Criteria are set for the purpose of determining which employers should be part of the Pool in order to manage the risk for both the individual employer and for the Fund as a whole. The Administering Authority has ultimate discretion in determining whether or not an employer joins and remains in the Pool and may remove an employer from the Pool if its experience or characteristics are extreme or untypical compared to other employers in the Pool. To be included, an employer should:

- have fewer than 100 total members and/or;
- an average full time equivalent annual salary of less than £40,000;
- have a funding level of at least 80% at each of the current and previous actuarial valuations;
- be open to new entrants, including not being “deemed closed”. Any employer who does not admit any new entrants within a reasonable period is deemed to be closed to new entrants. For the purposes of this statement, a reasonable period is an inter-valuation period (i.e. three years between formal valuations of the Fund). Any employer who elects to close to new entrants will be excluded from the Pool. Any employer classed as ‘deemed closed’ which takes on new staff who join the Scheme will revert to the Open Rate with immediate effect;
- have its membership of the Pool be supported by any guarantor or aligned body.

The Pool criteria and individual employer’s participation in the Pool will be reviewed at each valuation. For example, if a small employer’s funding level has recovered, it will re-join the Pool and pay the appropriate Pool contribution rate at the next valuation.

8.5 Contribution Stability

The policy of the Fund is to operate a Contribution Stability Mechanism on an ongoing basis, subject to regular reviews, in order to provide certainty of pension contributions to Fund employers for future years, together with ensuring appropriate assurance of funding level to the Fund. Contribution stability will not be offered to all employers – each employer’s particular circumstances will be considered, in particular the strength of the covenant offered and the extent of membership commitment to the Fund. Employers are not obliged to participate in the Contribution Stability Mechanism, but if they wish to opt out, they must make an election at the outset. This election will cover the entire duration of the current Contribution Stability Mechanism (6 years from the 2014 actuarial valuation) as well as future reviews of the Contribution Stability Mechanism. Any decision to allow an employer to join the Contribution Stability Mechanism at a later date will be at the discretion of the Administering Authority.

An employer which chooses not to participate will instead pay the theoretical contribution rate as set by the Fund Actuary at the actuarial valuation.

Employers which are open to new entrants and have contribution rates calculated based on their individual circumstances will be offered contribution stability subject to

- satisfactory assessment of the employer covenant, and;
- agreement by their guarantor to inclusion of the employer in the contribution stability mechanism (where appropriate).

An employer's participation in the Contribution Stability Mechanism is expected to extend to the full duration of the mechanism. However, contribution stability will be subject to ongoing review by the Fund which reserves the right to remove an employer from the Contribution Stability Mechanism should particular circumstances deem it prudent to do so, for example assessment of employer covenant, financial or demographic experience. In addition, if an employer closes to new entrants they will be removed from the Contribution Stability Mechanism and a recalculation of their contribution rate may be required.

Contribution stability will not be afforded to the following employers:

- Employers which are closed to new entrants;
- Transferee Admission Bodies; and
- Community Admission Bodies which are part of the Pool.

Full information on the Contribution Stability Mechanism is available on the Fund's website.

The Fund has, in conjunction with the Actuary reviewed the Contribution Stability Mechanism introduced at the 2014 valuation. This review concluded that the Contribution Stability Mechanism remains appropriate for long-term secure employers at the 2017 actuarial valuation, however the valuation should set contributions only for the following three years (from 1 April 2018). However, to reflect financial prevailing circumstances at the 2017 actuarial valuation, contribution rates for stabilised employers from 1 April 2018 will either:

- remain frozen (if rates on the Contribution Stability Mechanism were due to reduce; or
- increase by a maximum of 0.5% per annum.

The Actuary recommended that a full review of the Contribution Stability Mechanism be undertaken before the next triennial valuation in 2020. Pensions Committee approved the recommendations made by the Actuary.

8.6 Deficit/Surplus Spreading

In deciding the period over which any funding deficit or surplus is spread, the Administering Authority considers a number of factors including the objective of minimising the degree of short term change in employer contribution rates and employers' ability to meet their commitments to the Fund.

The deficit recovery periods used for different employers range from 20 years for Councils, to the remaining contract period for Transferee Admission Bodies which can in some cases be a matter of months. The differences in deficit recovery periods reflect the financial strength of the employers and the perceived long-term commitment to the Fund.

The following table shows the employers in the Fund for which are required to fund the benefits of their own employees, setting out the key characteristics of each type of employer which influence the period over which any surplus/deficit has been spread.

Where an employer can offer security over assets or otherwise improve their covenant, the Fund may, at its discretion, allow a longer recovery period to be used.

	Employer	Deficit Recovery Period (Years)
Councils/Large Scheduled bodies	City of Edinburgh Council	20
	Midlothian Council	
	West Lothian Council	
	East Lothian Council	
	Scottish Fire & Rescue Service (Civilians)	
	Scottish Police Authority	
	Lothian Valuation Joint Board	
	Scottish Water	
	Lothian Buses	FWL [1]
Universities / Colleges	Heriot-Watt University	15
	Newbattle Abbey College	
	Queen Margaret University College	
	Napier University	
	Edinburgh College	
	West Lothian College	
	Scottish Rural University College	FWL [1]
	University of Edinburgh	
Other Large employers	Audit Scotland	15
	Barony Housing Association	
	Convention of Scottish Local Authorities	
	Visit Scotland	
	West Lothian Leisure	FWL[1]
	Edinburgh Leisure	
	EDI	
	CHAS	
	The Improvement Service	
	SESTRAN	
Transferee Admission Bodies		Shorter of FWL [1] or contract period
Other employers (including Small employer 'Pool')		FWL[1]

[1] Future Working Lifetime of current active members or duration in Fund if shorter

8.7 Admission Bodies – Affordability constraints

As noted in section 5.6 above, the Actuary certifies minimum contributions which each employer is required to pay. In circumstances where an employer's membership of the Fund is not mandated by Regulations and that employer is unable to meet the minimum certified contributions, then its membership will be terminated, with notice period of three months being applied by the Fund.

At each valuation, therefore, every employer will require to confirm its commitment to meet the certified minimum contributions, otherwise, following the notice period as specified above, the Administering Authority will terminate the admission agreement, and Appendix C: "Policy on employers leaving the Fund" will apply. Specifically, the Fund will arrange for a cessation valuation to be carried out to assess the level of the employer's liabilities. The Fund will then engage with the employer on repayment of any cessation debt.

8.8 Post Valuation Adjustments

When determining future employer contributions at the triennial actuarial valuation the Administering Authority may (after consultation with the Fund Actuary) take into account any events that arise after the valuation date, but before the formal valuation report is signed off (which must occur within one year of the valuation date), that materially affect the employer contributions referred to above. In doing so, the Fund will aim to minimise the degree of short-term change in employer contribution rates while still ensuring the long-term solvency of the overall Fund.

The contribution rates are subject to review and change if there are changes in employer circumstances between actuarial valuations, for example, if an employer has closed to new members or has left the Fund. In the latter case, any residual liability may impact upon the rate(s) payable by employer(s) remaining in the Fund. In all instances, any such changes would be determined by the Administering Authority and require certification by the Fund Actuary.

8.9 Employers Joining the Fund

Appendix A sets out in full the Fund's policy on employers joining the Fund.

Bodies applying to join the Fund will be provided with a copy of this Statement and will be required to provide a written undertaking that they understand and are aware of the long-term financial implications of participation in the Fund.

8.10 Employers Leaving the Fund

Appendix C sets out in full the Fund's policy on employers leaving the Fund in any of the following circumstances:

- When the employing authority is wound up or liquidated;
- When the last active member leaves or retires from an employer;

- When the admission agreement is otherwise terminated by either the employing authority or the admission authority, subject to the notice period specified in the admission agreement;
- In the case of Transferee Admission Bodies, when the contract comes to an end and is not renewed and;
- In the case of scheduled bodies, when the body no longer has an active member contributing to the Fund or through changes in over-riding legislation or Government policy can no longer contribute to the Local Government Pension Scheme.

Where an employer has an active admission agreement, but no active members and no new members will join in the future, then the admission agreement will be terminated and actions detailed in Appendix C will apply, other than where specific provision exists in the admission agreement for such circumstances.

8.11 Bulk Transfers

The treatment of bulk transfers of pension rights to and from the Fund are detailed in Appendix B.

9. Key Risks and Controls

The Administering Authority has an active risk-management programme in place. The risk register is reviewed periodically with a quarterly summary provided to the Pensions Committee. The following extract from the risk register, with Impact and Likelihood for each risk scored on a scale of 0-10, highlights those risks which can be considered of particular relevance to the funding strategy:

Risk	Existing controls	Impact	Likelihood	Current Risk
Adverse Investment performance leading to pressure on employer contributions	• Regular actuarial valuations & review of funding strategy, including longevity assessment. • Regular asset liability studies. • Frequent performance assessment by Investment Strategy Panel. • Bespoke investment strategy offered to employers.	5	4	20
The collapse of an Employer body member, leading to pressure on other employers	• Improved and enhanced Admissions Policy including use of guarantees. • Regular contact with employers. • Education to improve understanding, including grant funding implications. • Employer covenants review. Membership and employer monitoring • Funding Strategy now consistent with cessation policy • Funding agreements in place for payment of cessation debt	4	8	32
Employers make HR decisions without considering the impact on the pension fund	• Monitoring via actuarial valuation. • Employer training programme. • Communications - employer bulletin and employer events programme • Individual employer contribution rates. • Pensions Administration Strategy. • Funding Strategy Statement. • Staff Training. • Membership monitoring • Take note/action when last active member leaves or retires.	4	4	16
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	• Regular actuarial valuations and review of funding strategy, including longevity assessment. • Pooling for small employers to reduce volatility. • Regular contact with employers. • Contribution stability in place • Monitoring of Transfer-Out volumes and processes. • Scheme cost monitoring by the Scheme Advisory Board • Scrutiny through data quality team.	5	7	35

Appendix A: Admission Policy

1. Background

The Local Government Pension Scheme (LGPS) (Scotland) Regulations contain powers for the City of Edinburgh Council (CEC) to admit bodies into the Lothian Pension Fund. Those bodies must meet certain conditions, generally relating to their purpose and aims, contained in the regulations before being considered for admission.

This document sets out the policy of CEC as Administering Authority of Lothian Pension Fund ('the Fund') in applying discretion to admit, on application, a new body into the fund for the purposes of allowing employees of that body access to the LGPS.

This policy will be reviewed as and when considered necessary.

2. General application of discretion to admit new bodies

The Pensions Committee of the City of Edinburgh Council (CEC), as the executive body responsible for the administering authority function, delegates power to approve or reject applications to the Executive Director of Resources.

The Executive Director of Resources will consider all applications from bodies who meet the conditions of the scheme regulations. In making his decision, due weight will be given to the merit of the body's financial covenant.

Approved applications will be subject to the conclusion of an admission agreement containing the appropriate matters prescribed in scheme regulations. Appropriate legal advice will be obtained in drafting and concluding admission agreements.

The body will be provided with a copy of the current Funding Strategy Statement of the Fund and will be required to provide a written undertaking that they understand and are aware of the long-term financial implications of participation in the Fund.

A bi-annual report will be submitted to the Pensions Committee providing details of the delegated decisions made during the year.

3. Policy in relation to Bodies admitted following the transfer of services from a Scheme Employer (TABs)

Such organisations will be admitted, subject to the conclusion of an admission agreement between CEC, the scheme employer (where different) and the TAB. The Scheme employer will also be required to act as a guarantor and undertake to meet any amounts due to the Fund in respect of any funding or contribution shortfall either during or at the cessation of the contract.

4. Policy in relation to other admission bodies

The applying organisation must provide documentary evidence of their:

- aims and objectives;
- articles of association;
- latest annual accounts; and
- future income streams including the source and timing.

The organisation will be expected to find a guarantor who will undertake to meet any amounts due to the Fund in respect of any funding or contribution shortfall either during or cessation of the admission agreement. The body must supply documentary evidence of the guarantee obtained and, where considered necessary by CEC, of the financial security of the guarantor.

Appendix B - Bulk Transfer Policy

1. Introduction

This is the policy of Lothian Pension Fund ("the Fund") as regards the treatment of bulk transfers of pension rights to and from the Fund.

These procedures and policies apply to employers participating in the Main Fund and the Lothian Buses Pension Fund**.**

1.1 Regulatory Framework

The Local Government Pension Scheme (Scotland) Regulations 2014 outline the general framework for employees and employers participating in the Local Government Pension Scheme in Scotland.

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employees transferring rights.

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

2. Principles

2.1 Overriding Principles

The purpose of bulk transfer negotiations is to determine the amount of service credits to be awarded and transfer payment to be paid when a number of members transfer their benefits from one pension scheme or Fund to another.

On transfers out from the scheme, it is the Fund's general policy that the bulk transfer amount should not leave the Fund (and the specific employer concerned) with insufficient assets to meet the remaining members' liabilities. Further, where possible, all bulk transfers should be "cost neutral" for the ceding employers, i.e. there should be no financial impact on them, positive or negative, based on the ongoing valuation basis.

On transfers in from another scheme, it is the Fund's general policy that bulk transfers be treated in the same manner as a transfer out.

However, it should be noted that if a deficit arises as a result of a bulk transfer, either into the Fund or out of the Fund, the employer may, at the discretion of the Administering Authority, be required to repay this deficit as a lump sum or, depending on their financial circumstances, through their ongoing contribution rates.

On transfers from one Fund employer to another existing Fund employer, assets equal to 100% of the transferring liabilities will be notionally transferred, unless otherwise agreed.

On transfer from one Fund employer to a new Fund employer, the following principles will apply:

- A fully funded transfer, on the ongoing valuation basis, will be notionally transferred to the new employer, if the new employer is a TAB, unless otherwise agreed; and
- A share of deficit transfer, on the ongoing valuation basis, will be notionally transferred to the new employer for all other types of employer, unless otherwise agreed.

2.2 Interaction with Funding Policy

It is the Fund's policy that each employer is responsible for the funding of all Fund benefits of its own members, including current and previous employees. Whilst employer contributions may be pooled in the interests of stability and administrative ease for the purpose of triennial funding valuations the individual funding position for each employer is tracked by the Actuary at each triennial valuation.

Any transfer of pension rights may have an effect on the valuation position of the employer and an individual contribution rate may be calculated depending on the effect of the transfer.

2.3 Principles for Determining Payment

The Fund will determine the transfer payment and service credits having taken actuarial advice.

The assumptions proposed / accepted by the Actuary are to be, at a minimum, as strong as those set as at the latest formal valuation of the Fund updated for financial conditions on the date of transfer.

For transfers out of the scheme, the transfer amount will be set equal to the value of benefits accrued to the transfer date for transferring members based on the agreed transfer basis, adjusted to take account of any underfunding in the transferring employer's share of the Fund such that the maximum transfer value is not greater than the reserves held for the transferring members. This approach is known as a 'share of fund' or 'share of deficit' approach.

If, as a result of the transfer out, the employing authority within LPF no longer has any active membership, then a cessation valuation may be triggered. If this is the case, the transfer value may be adjusted such that the reserves of the employer, following transfer, are equal to the value of the remaining deferred pensioner and pensioner benefits within the scheme on the appropriate cessation basis as outlined in the Fund's cessation policy.

For transfers in from a funded scheme, the actuary will be instructed to agree terms where the minimum transfer amount from the ceding scheme should be cost neutral to that scheme. This approach is consistent to the calculation of the transfer amount if there was a transfer out of LPF. If the transfer is from an unfunded scheme, the actuary will be instructed to ensure the transfer value is equal to the value of transferring benefits based on the ongoing valuation basis of LPF based on financial conditions at the date of transfer.

There is normally a lag between the date of the actual transfer of staff and the date of payment. During this period, on transfers out, the agreed transfer value will be adjusted by a factor determined by an estimate of the movement in the investments as determined by the asset allocation of the Fund (or sub-Fund if appropriate) and the respective market indices.

This method of rolling up the transfer payment is to be recommended for incoming bulk transfers as well.

3. Process

3.1 Responsibilities of ceding/receiving employers

An employer which is aware of a transfer from or into the Fund is required to:

- advise the Fund, in writing, of the transfer. This communication should indicate where members are transferring to/from and how many members will potentially transfer;
- provide information and data as requested by City of Edinburgh Council and the actuary to the Fund which is relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements), contact details for the ceding/receiving scheme, etc.; and
- assist in the administration of option forms to transferring members as and when required.

3.2 Responsibilities of Administering Authority

The Administering Authority will gather information as required, including, but not limited to, the following:

- details of the transfer – where are members transferring to/from, how many members are involved and (where a transfer out to a non-LGPS scheme) if the receiving scheme is broadly comparable to the LGPS;
- complete membership data for the transferring members;
- commission the Fund actuary to carry out bulk transfer negotiations where necessary;

- where applicable, liaise with the employer and ensure they are aware of their responsibilities, in particular for any residual deficit or risk associated with the transfer; and
- ensure that payments or receipts of transfer value payments are carried out on the agreed dates.

3.3 Responsibilities of the Actuary

Following commission of bulk transfer negotiations by the Administering Authority, the Fund Actuary will:

- on notification of the transfer, ensure that the data and information required is collated;
- propose / agree assumptions and transfer values based on the policies set out by Lothian Pension Fund;
- propose / agree service credits in line with relevant legislation and policies; and
- negotiate and agree the final transfer payment date and amount.

Appendix C: Policy on employers leaving the Fund

1. Introduction

This is the policy of Lothian Pension Fund ('the Fund') as regards the treatment of employers of the Fund.

This policy replaces all previous policies on employer termination and is effective from 1 April 2015.

1.1 Scope of Policy

This policy covers employers leaving the Fund in any of the following circumstances:

- when the employing authority is wound up or liquidated;
- when the last active member leaves or retires from an employer;
- when the admission agreement is otherwise terminated by either the employing authority or the admission authority, subject to the notice period specified in the admission agreement;
- in the case of Transferee Admission Bodies, when the contract comes to an end and is not renewed; and
- in the case of scheduled bodies, when the body no longer has an active member contributing to the Fund or through changes in over-riding legislation or Government policy determines that members can no longer contribute to the Local Government Pension Scheme;

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Scheme Regulations relevant to employers leaving the Fund.

2. Principles

2.1 Overriding Principles

If an employer leaves the Fund, or their admission agreement is otherwise terminated, the Administering Authority will instruct the Fund's Actuary to carry out a valuation of that employer's liabilities (a 'cessation valuation').

Payment of any deficit does not guarantee that the assets in the fund will be sufficient for the liabilities in the future: the actual cost of benefits will only be known after the last dependant dies and there is a risk that the amount estimated in the cessation valuation does not cover the actual cost of the liabilities. In this situation, the Fund would seek recourse from the body which acted as guarantor to the employer, or alternatively the body which the employer was aligned.

The basis used to carry out such a valuation will depend on the circumstances of the change. The Fund's general policy is that the valuation will be carried out on a more prudent basis than that used in the ongoing actuarial valuation. However the Fund may take into account the covenant strength of any successor body and/or guarantor which may be in place after the cessation date.

The employer, successor body and/or guarantor may be required to pay additional contribution(s) or capital payments to the Fund.

In normal circumstances, the Actuary will use the following assumptions for the cessation valuation:

- A discount rate equivalent to the gilt yield at the date of the cessation, with no allowance for outperformance of investments;
- An increase in the liabilities by 5% reflecting anticipated additional future improvements to life expectancies (over and above the ongoing valuation assumption); and
- Other assumptions would be consistent with the most recent actuarial valuation.

However, where the employer leaving the Fund is a Transferee Admission Body or if an employer was admitted owing to the transfer from another Fund employer (and the ceding employer has agreed to the treatment of the employer as a Transferee Admission body for funding purposes), the ongoing basis will be used. On joining the Fund, Transferee Admission Bodies are set up on a fully funded basis with contribution rates calculated based on the duration of the contract in order to reduce the likelihood of a deficit arising on leaving.

If an employer becomes insolvent and it, or its guarantor, is unable to meet any deficit, additional contributions will be required from each remaining employer in the Fund, in proportion to their liabilities. This means that the majority of any deficit will fall on the large employers. However, where it has been established that there is a specific alignment to one or more other employers, then the pension liability will be assigned or apportioned accordingly to those other employer(s).

In the event of a Transferee Admission Body leaving the Fund and being unable to pay additional contributions to the Fund, the employer granting the contract will be liable for the additional contributions or capital payments.

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund. Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Fund will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Fund will also pursue guarantor, for payment where appropriate.

It is the Fund's policy that the determination of any surplus or deficit on termination 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.

2.2 Principles for Determining Payment of Cessation Debt

The Administering Authority will determine the deficit/surplus attributable to the employer on cessation having taken actuarial advice.

If the employer is in surplus, there is no mechanism by which this surplus can be repaid by the Fund. If an employer is aware that it will be leaving the Fund for any reason in the near future, it should alert the Administering Authority as soon as it is aware and request a valuation as required under the Scheme regulations. If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate. The Administering Authority will monitor potentially affected employers in order to reduce the risk that an irrecoverable surplus is left in the Fund. In particular, the Authority will carry out periodic reviews of Transferee Admission Bodies whose contract is due to end before the next triennial valuation.

If it is determined that there is a deficit and the employer will be required to make a payment to the Fund, the administering authority will advise the employer of the amount required. The Fund's general policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund. In exceptional circumstances, and where it considers that this does not pose a material risk to the solvency of the Fund, the Fund may consider:

- allowing payment of cessation debt over longer terms rather than insisting on payment as a one-off payment or over shorter terms previously agreed;
- agreeing repayment of debt less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet); and
- seeking, where appropriate, suitable "anti-embarrassment" provisions in legal agreement covering future increase in employer asset values.

The Fund may take into account the covenant strength of any successor body and/or guarantor which may be in place after the cessation date. In this instance, interest at a rate advised by the Actuary will be applied to determine the appropriate payments to be made.

Adopting such principles would protect the interests of the Fund as a whole.

Appendix D Charging Policy

This appendix sets out Lothian Pension Fund's policy on meeting the cost of actuarial fees and other service costs which are recharged to employers. It covers the main circumstances where fees are payable, but is not exhaustive.

The Fund will obtain the consent of the employer or member before carrying out any work which is likely to lead to fees being recharged.

1. Costs recharged to Scheme members

The costs of general pension administration are not recharged to members of the pension fund. However costs associated with complex pieces of work, as well as costs of providing certain other confirmation may be recharged. This includes (but is not limited to) the following:

- costs associated with providing valuations under the Family Law (Scotland) Act 1985;
- costs of implementing pension sharing orders;
- costs of providing further cash equivalent transfer values where this information has already been provided once in the last twelve months; and
- costs of appointments with the Fund's independent medical advisers where appointments have been repeatedly missed without good reason, or where habitual requests for assessment are received without new medical evidence.

Details of the costs payable can be found on the Fund's website (www.lpf.org.uk). These costs will increase annually each April by CPI over the 12 months to the previous September.

2. Costs recharged to Scheme employers

Employers should always contact the Fund in the first instance to establish whether fees will be recharged for any administration process or obtaining professional advice, and to obtain an estimate of likely fees.

Actuarial charges will be met by Lothian Pension Fund where the work is common to all or most employers, or where the work is required by the Scheme regulations and the employer has no choice whether the work is carried out.

However, where work is carried out or advice obtained at the request of a single or small number of employers, is not required by other employers, and is not a regulatory requirement, then the charges for that work or advice are generally recharged to the employer(s) concerned.

The schedule below sets out these activities for which fees will be charged to the Fund and those that will be recharged to the commissioning employer.

3. Schedule

3.1 Actuarial Fees

Activities for which Lothian Pension Fund should be charged:

- all matters relating to the triennial actuarial valuation, except additional work done at the direct request of an individual employer;
- interim actuarial valuations if and when the Administering Authority require such valuations;
- actuarial advice regarding questions concerning the interpretation of Scheme Regulations and matters pertaining to the administration of Fund benefits;
- preparation for and attendance at the Fund meetings; and
- any other matters which affect, or are likely to affect all or a significant number of Fund employers.

Activities for which actuarial fees will be recharged to an employer:

- extra, non-standard triennial actuarial valuation work done for and at the direct request of an individual employer;
- a common actuarial service used by most employers is the provision of figures for IAS19/FRS17/FRS102 accounting disclosure purposes. As this information is for the benefit of individual employers and not the Fund itself, the relevant costs are recharged to the individual employers;
- interim valuations where these are not a requirement for all employers but are either: -
    - required by an employer's admission agreement or;
    - not required but specifically requested by the employer concerned;
- calculations etc. in respect of the admission of a new Fund employer;
- Best Value and other outsourcing calculations and consequent interim valuations;
- where an employer has been admitted to the Fund and is required to provide a bond or indemnity to meet any shortfall in funding in the event of the employer ceasing to participate in the Pension Fund, the cost of assessment and subsequent annual reassessment of the value of the bond or indemnity;
- assessing whether a potential/actual contractor's pension arrangement is "broadly comparable" to the Local Government Pension Scheme;
- any other interim valuations for an employer that is required through some action, or failure to act, by that employer;
- bulk transfer work in respect of transfers out of or into the Fund;
- cessation valuations; and
- any other charges specific to one employer, or specific to such a small number of employers that it would be unreasonable to spread the cost between the membership as a whole. Where a number of employers are involved, the charges will be proportioned in light of the circumstances of the case.

3.2 Other charges

In addition to recharging actuarial fees as specified above, certain requests which result in:

- additional administrative work and advice over and above the norm;
- complex calculations;
- specific work for high earners; and
- the requirement for the Fund to seek advice or commission work from other providers e.g. lawyers will be charged to employers on a full cost recovery basis where this work is specific to one employer or specific to such a small number of employers that it would be unreasonable to spread the cost across all employers. Where more than one employer is involved, charges will be proportioned depending on the circumstances of the case.

Activities for which fees will be recharged to an employer:

- disclosure of information relating to Senior Officers and Councillors for inclusion in Local Authority Accounts:
  - provision of Cash Equivalent Transfer Value calculations and appropriate pension benefit calculations;
  - charges applied per case;
- setting up an Admission Agreement with the Fund for new employers joining the Fund;
  - costs to cover legal fees incurred by the Fund in drafting and finalising the Admission Agreement;
  - See note 1 below;
- attendance at meetings and associated work in connection with Employer projects involving transfers of staff (e.g. outsourcing, mergers etc);
  - a charge will be made where the Fund considers the work undertaken to be in excess of normal advice to employers;
  - costs will be based on Fund Officers time plus VAT; and
- interest payable on a cessation valuation where the Fund allows payment to be spread over and agreed period; and interest will be charged at a rate advised by the Fund Actuary

Regulatory recharges

Where an employer has chosen to award compensation in the form of additional membership under Part III of the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, for ease of administration the Fund will pay the compensation pension to the member along with the funded pension. The compensation pension will be recharged to the employer on a monthly basis. However, should the awarding employer cease to exist, the compensation pension will cease. The funded pension would be unaffected.

Notes:

1. Any additional costs arising if specialist actuarial, legal etc advice is requested will be charged in full in addition to the figures quoted above.

2. The Fund will act in accordance with relevant procurement guidance in obtaining external professional services.