



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 2

19th March 2025

Funding Update

Purpose of Report:

To provide an update on:

- SPF's funding position; and
- a regulatory change relating to funding and the Funding Strategy Statement.

Recommendations:

The Committee is asked:

- **to NOTE** the contents of this report; and
- **to APPROVE** the proposed amendment to SPF's Funding Strategy Statement – subject to consultation as described.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

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1 Background

SPF exists to make provision for and pay members' pensions now and in the future. The Funding Strategy Statement (FSS) describes how SPF ensures that sufficient resources are available to meet all pension liabilities as they fall due. The funding position is formally assessed every 3 years in the triennial actuarial valuation carried out by the Fund's actuaries, Hymans Robertson. Hymans also provide tools and reporting to facilitate monitoring of the interim funding position between formal valuations.

2 Funding Update

Hymans Robertson's Funding Update Report as at 28th February 2025 is attached for information. The report shows an improvement in the funding level from **147%** at the last formal valuation date – 31st March 2023 - to **179%** at end February.

3 Scheme Developments

3.1 Consultation – Exit Credits

On 9th May 2024, Scottish Ministers initiated a [consultation](#) seeking views on a potential change to the regulations. The proposed change would create a discretion for administering authorities to determine the amount of exit credit which should be payable to an employer leaving the Local Government Pension Scheme.

Under the current regulations, the exit credit is calculated by the actuary, with no discretion on the part of the administering authority. Under the amended regulations the administering authority is required to determine the amount of the exit credit taking into account the actuarial calculation alongside various factors which are specified in the regulation. The amount determined may be zero.

The short technical consultation lasted for 3 weeks from 9th May to 30th May, and the [Local Government Pension Scheme \(Scotland\) \(Amendment\) \(No.2\) Regulations 2024](#) were due to come into force on 29th June.

On 1st July 2024, SPPA advised that they were still considering the larger than expected number of comments received during the consultation. They intended to have further dialogue with stakeholders, and the Scheme Advisory Board had set up a sub group to work on draft guidance. Therefore possible changes to the draft regulations were put on hold.

3.2 SPPA Response

On 13th February 2025, SPPA published its [response to the consultation](#).

The response:

- sets out the background to the consultation;
- provides a summary of consultation responses;
- confirms Scottish Ministers' intention to bring forward the proposed amendments to come into force on 2nd April 2025; and
- proposes that Scottish administering authorities adopt the approach set out in the '[Guidance for Preparing and Maintaining a Funding Strategy Statement \(FSS\)](#)' recently published by the Local

Government Pension Scheme Advisory Board in England and Wales. This guidance is intended to assist employers and funds when agreeing 'an exit strategy'.

3.3 Guidance

Employer Exits are dealt with in Section C - Employer events. Paragraphs 88 to 91 are particularly relevant and are included as **Appendix A** to this report.

The guidance provides that the FSS should:

- set out the fund's policy on employers leaving the fund;
- include a statement of principles to be followed in relation to process and calculations;
- set out the termination assumption basis;
- the factors that may be considered and the process to be followed in exercising any discretion in decisions;
- be clear on the decision-making process and principles; and
- state how and when exiting employers and others affected by the decision (such as guarantors) will be able to make representations, timescales for making decisions and any rights or options to have decisions reconsidered, including reference to the appeals and adjudication provisions contained in the relevant LGPS Regulations.

4 SPF Funding Strategy Statement (FSS)

4.1 Current FSS

[SPF's current FSS](#) was approved for publication at the conclusion of the 2023 actuarial valuation in March 2024. Employer exits are dealt with in Appendix 4 – Funding Strategy for Individual Employers. Section 4.7 of the Appendix deals with Cessation Policy.

4.2 SPF Policy and Practice

In establishing the amount of any exit payment or credit, SPF seeks to protect the interests of other employers remaining in the Fund from the likelihood of any material loss emerging in future in respect of the exiting employer's liabilities. This requires the actuary to adopt valuation assumptions which provide a higher probability of achieving the funding target than those that are used for ongoing employers. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis.

In most instances it is not anticipated that the change to the regulations should result in a change to SPF's current practice. The actuarial approach adopted already protects the Fund and its remaining employers against future adverse outcomes.

There may be some exceptions, typically where the employer's circumstances give rise to a lack of clarity over the "ownership" of the funding surplus which constitutes the exit credit. This is most likely to occur where:

- the employer's participation in SPF has resulted from a transfer of staff from another employer; and/or

- another employer has been exposed to funding risk by providing a guarantee for the exiting employer; and/or
- the exiting employer's participation in SPF has been of short duration.

In these circumstances the revised regulations would require consultation with the related employer before a determination is made.

4.3 Proposal - Revised FSS

To address this development it is proposed that SPF's current FSS should be amended as follows:

- delete the current wording at section 4.7 of Appendix 4; and
- insert the revised wording set out in **Appendix B** to this report.

Subject to consultation – see below - this amendment would be effective as and when the revised regulations come into force.

4.4 Consultation

Regulation 56 (3) of the Local Government Pension Scheme (Scotland) regulations 2018 require SPF to consult with such persons as it considers appropriate before making any change to its FSS. It is proposed that SPF would publish the amended FSS on its website for open consultation for a period of 4 weeks after the revised regulations come into force.

4.5 Review

SPF's FSS will next be reviewed as part of the 2026 actuarial valuation process.

4.6 Determinations – Committee Approval

Exit arrangements are managed by officers in accordance with the FSS and the regulations and with assistance and advice from the actuary. Exit credits and exit payments are made under the delegated authority to manage SPF liabilities.

In future, before any exit credit is paid, the SPF Committee will be asked to review and approve any determination which is required by the regulations.

5 Policy and Resource Implications

Resource Implications:

Financial: None at this time.

Legal: None at this time.

Personnel: None at this time.

Procurement: None at this time.

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.***

The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts :

Does the proposal support the Council's Equality Outcomes 2022-25?

Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.

What are the potential equality impacts as a result of this report?

No specific equalities impacts.

Please highlight if the policy/proposal will help address socio economic disadvantage.

N/a.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:

Not directly.
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What are the potential climate impacts as a result of this proposal?

N/a.

Will the proposal contribute to Glasgow's net zero carbon target?

N/a.

Privacy and Data Protection Impacts:

Are there any potential data protection impacts as a result of this report
Y/N

No.

If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out

N/a.

The Committee is asked:
to note the contents of this report; and

Appendices

- A *'Guidance for Preparing and Maintaining a Funding Strategy Statement (FSS)' – extract***
- B Proposed amendment to Strathclyde Pension Fund Funding Strategy Statement (SPF FSS)**

Attachments

- 1 Funding Update Report as at 28 February 2025**

‘Guidance for Preparing and Maintaining a Funding Strategy Statement (FSS)’ – extract

Preparing for exit and events which may trigger termination

88. The FSS should also set out the fund’s policy in the annex or clearly signpost to any separate policy on employers leaving the fund and the events which trigger or allow an exit from the fund.

89. While each case needs to be treated on its own merits, funds should include in their FSS a statement of principles to be followed in relation to process and the calculations involved with employer exits. That statement should explain how it intends to balance the interests of the fund, the scheme members, the interests of the exiting employer and the interests of the remaining employers. The FSS should clearly outline the justification and principles which would contribute to decisions around employer exits. Although, the FSS cannot be too prescriptive, the FSS should outline the decision-making process to allow the document to be a practical aid to employers on the decision-making process which is followed. If the fund has a separate policy on exiting, then this should be clearly signposted in the FSS.

90. The FSS should also set out in general terms the termination assumptions basis on which surpluses or deficits will be calculated. Where the fund has a discretion in decisions on the level of exit payment to be paid, the FSS should set out the factors that may be considered and the process to be followed in exercising that discretion. Funds may wish to note that some helpful advice was given in the judgment of the High Court at paragraph 161 in the case of *Enterprise Managed Service Ltd & Anor, R (On the Application Of) v Secretary of State for the Ministry of Housing, Communities and Local Government* [2021] EWHC 1436 (Admin) (27 May 2021).

91. Although approaches to exit credits may vary by employer type and case specific factors the FSS should be clear on the decision-making principles and process to be considered. In terms of process, the FSS should state how and when exiting employers and others affected by the decision (such as guarantors) will be able to make representations, timescales for making decisions and any rights or options to have decisions reconsidered, including reference to the appeals and adjudication provisions contained in the relevant LGPS Regulations.

Proposed amendment to Strathclyde Pension Fund Funding Strategy Statement (SPF FSS)

4.7 Exit Policy

4.7.1 Exiting Employers

Employers' participation in the Fund is generally assumed to be open-ended. However, there are circumstances where an employer's participation ceases and it becomes an exiting employer. These include:

- where the employer no longer has an employee contributing towards the Fund;
- where either party voluntarily terminates the admission agreement by giving an appropriate period of notice to the other party (or parties);
- the employer ceasing to be eligible under the regulations to participate in the Fund;
- the insolvency, winding up or liquidation of the employer;
- any breach by the employer of any of its obligations under the admission agreement that they have failed to remedy to the satisfaction of the Fund; or
- a failure by the employer to pay any sums due to the Fund within the period required by the Fund.

Employer exits are managed in accordance with the regulations ([regulation 61](#)) which require a revised actuarial valuation and certificates to be obtained in respect of the exiting employer.

In managing employer exits the administering authority will seek to protect its interests and the interests of other employers remaining in the Fund from the likelihood of any material loss emerging in future in respect of the exiting employer's liabilities.

Members' interests - their accrued pension rights - are fully protected and are not impacted by the amount of the exit payment.

4.7.2 Revised Actuarial Valuation

In carrying out the revised valuation on exit the actuary will generally adopt a valuation assumptions basis which provides a higher probability of achieving the funding target than the basis that is used for ongoing employers where the Fund has ongoing recourse to the employer to make good any future funding shortfall. This approach results in a higher value being placed on the liabilities on a cessation basis than would be the case under a valuation on the ongoing funding basis. The administering authority determines the appropriate assumptions basis having taken advice from the actuary. The current cessation funding basis is summarised in schedule 7 to this FSS.

4.7.3 Exit Payments

An exiting employer is liable under the regulations to make or receive an exit payment after which no further payments are due to or from that employer in respect of its liabilities.

Where the revised actuarial valuation establishes that there is an excess of liabilities in the Fund relating to that employer over the assets, the exit payment due

from the employer will be the amount of that excess as at the exit date as calculated and certified by the actuary on the cessation funding basis.

Where the revised actuarial valuation establishes that there is an excess of assets in the Fund relating to that employer over the liabilities, the Fund will determine the amount of the exit credit payable to the employer, which may be zero.

4.7.4 Exit Payment Arrangements

Any exit payment will initially be calculated as a single capital sum for immediate payment. In the first instance payment of this sum, less any amount recoverable from a bond or indemnity, will be sought from the exiting employer. Alternative payment arrangements will be considered and may be implemented subject to agreement of suitable terms. These include:

- where the exiting employer has a guarantor which is a participating employer in the Fund, the assets and liabilities of the exiting employer may be transferred to the account of the guarantor and the exit payment recovered through ongoing contributions by the guarantor;
- where the exiting employer has a guarantor which is not a participating employer in the Fund, payment may be sought from the guarantor;
- payment by instalments spread over a number of years may be agreed; or
- a deferred debt agreement, whereby a suspension notice is issued in respect of the exit payment, the employer continues to pay contributions at an agreed amount, and the debt and contributions are re-assessed at subsequent triennial valuations.

Under any of these arrangements, the administering authority may agree to accept security against the exit debt to facilitate a more flexible payment arrangement.

4.7.5 Unpaid Amounts

In the event that the Fund is not able to recover the exit payment in full directly from the exiting employer or from any guarantor, bond or indemnity, the unpaid amounts will be shared amongst all of the remaining employers in the Fund. The Fund will take all reasonable steps to avoid this situation by enforcing the exit debt on the departing employer and actively working with employers to manage the exit process.

4.7.6 Exit Credits - Determination

The actuarial approach adopted already protects the Fund and its remaining employers against future adverse outcomes. So SPF's default approach will be to determine that the exit credit payable will be the amount of the excess of assets in the Fund relating to that employer over the liabilities as at the exit date as calculated and certified by the actuary on the cessation funding basis.

However, each case will be considered on its own merits and there may be some exceptions. In exercising its discretion to determine the amount of any exit credit the administering authority will have regard to the following factors:

- the extent to which there is an excess of assets in the fund relating to that employer over the 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 and, where that employer participates in the scheme by virtue of an admission agreement, any related body as listed in the regulations;
- any other relevant factors, which might include:
 - the terms of any admission agreement or guarantee;
 - the exiting employer's obligations to SPF and the extent of its exposure to investment and funding risks while participating in SPF;
 - the methodology used to calculate the employer's funding position during the period of its participation – including on admission and exit;
 - whether the employer's participation in SPF has resulted from a transfer of staff from another employer;
 - whether another employer has been exposed to funding risk by providing a guarantee for the exiting employer;
 - whether the exiting employer's participation in SPF has been of short duration;
 - whether the employer's participation commenced before the exit credit regulations became effective in 2018;
 - whether the employer's termination has terminated earlier than anticipated, and if so the reason for termination;
 - any outstanding amounts due to SPF, which may be deducted from any exit credit before payment.

4.7.7 Exit Credits – Process

The process to be followed will as far as possible be as follows:

- once exit has been confirmed, SPF will notify the employer, and any other relevant body of its intention to make a determination;
- the employer and any other relevant body will have a period of one month after notification to make any representations unless otherwise agreed between the parties;
- SPF will determine the proposed amount of the exit credit (which may be zero) as soon as possible after the exit date and will notify the employer and any other relevant body;
- the employer and any other relevant body will again have a period of one month after notification to make any representations unless otherwise agreed between the parties;
- SPF will then make a determination of the final amount of the exit credit;
- in the event of any remaining disagreement, the employer or other relevant body should request that SPF review the decision in the first instance, or may seek to have the determination reconsidered under any provisions contained in the relevant regulations;
- the exit and the amount of the exit credit will be recorded in a minute of agreement; and
- SPF will then arrange payment within 6 months of the exit date or such longer period as may be agreed.

4.7.8 Exit Management and Planning

SPF will actively manage the exit process by:

- seeking to identify exiting employers ahead of the likely exit date;
- setting contribution rates to anticipate any imminent exit;
- providing employers with details of their individual funding position, including exit

- debt/credit figures, at each actuarial valuation or at other times on request; and
- engaging with employers on the exit payment and other arrangements.

Employers are encouraged to contact SPF well in advance of any planned or potential exit.