Aberdeenshire COUNCIL

Business Services

REPORT TO AUDIT COMMITTEE – 20 SEPTEMBER 2018

EXTERNAL AUDIT – PROGRESS REPORT AT 30 SEPTEMBER 2018

1 Recommendation

1.1 The Committee is recommended to comment on this paper.

2 Background / Discussion

2.1 This report provides an update on progress against the 2017/18 audit plan.

2.2 The opportunity has also been taken to inform the Audit Committee of the outcome of the latest Local Government Pension Scheme (LGPS) actuarial valuation. An actuarial valuation of pension funds is required every three years. The latest was concluded by 31 Mach 2018 in respect of the position of all Scottish funds as at 31 Mach 2017.

2.3 The Committee is asked to discuss and note the progress report, attached as appendix 1.

2.4 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3 Scheme of Governance

3.1 The Committee is able to consider/comment on this item in terms of Section G.1.5 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to the Council's relationship with its external auditors.

4 Equalities, Staffing and Financial Implications

4.1 An equality impact assessment is not required because this report informs the Committee on progress with planned audit activity and does not have a differential impact on any of the protected groups.

4.2 There are no staffing and financial implications as a direct result of this report.

4.3 The external audit process identifies risks and reports risks in the areas subject to review.

Ritchie Johnson
Director of Business Services

Report prepared by Anne MacDonald
Senior Audit Manager, Audit Scotland
29 August 2018

Aberdeenshire Council

Progress Report 2017/18

AUDIT SCOTLAND

Prepared for Aberdeenshire Council Audit Committee

20 September 2018

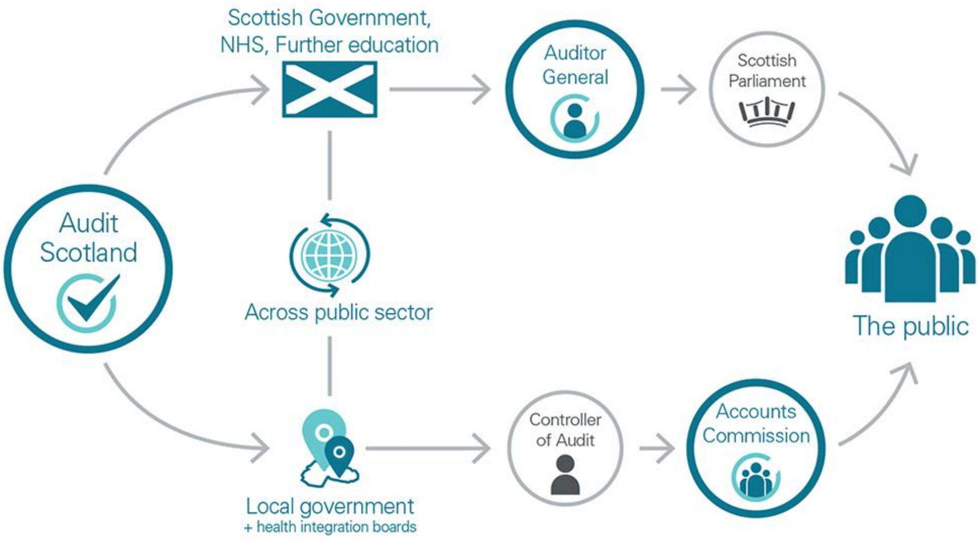
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Planned work and other matters

1. This report aims to provide an update of progress with the 2017/18 audit. Our roles and responsibilities were set out in our 2017/18 Annual Audit Plan which was considered by the Audit Committee in March 2018. A significant element of our work relates to gathering the assurances required to support our opinion on the council's financial statements.

Progress against 2017/18 audit plan

2. In agreeing our fee for the audit, we agreed to deliver the following outputs in relation to the 2017/18 audit. A summary of progress against our plan is set out below.

Exhibit 1
2017/18 Audit outputs

Audit Output	Target date for Audit Committee	Actual date	Complete	Comments
Governance				
Local Scrutiny Plan 2018/19	June 2018	24 May 2018	Yes	
Interim Report	5 July 2018	5 July 2018	Yes	
Financial statements				
Communication of audit matters to those charged with governance - Annual Report on the 2017/18 audit	20 September 2018	20 September 2018	Yes	
Independent auditor's report on the financial statements	20 September 2018	20 September 2018	Yes	
Audit opinion on charitable trusts accounts	20 September 2018	20 September 2018	Yes	

3. Exhibit 2 sets out the returns we are required to certify and submit to Audit Scotland and /or the Scottish Government. While we do not routinely bring these documents to committee, we use our discretion when concluding these pieces of work to highlight areas of interest and/or concern for the committee's attention.

Such matters would be reported either through this regular progress report or our Annual Audit Report.

Exhibit 2
2017/18 Audit outputs

Audit Output	Submission date	Actual date	Complete	Comments
Performance Audit				
Health and social care integration part 2	Spring 2018	2 April 2018	Yes	Commentary provided to Audit Committee in May 2018.
Roads maintenance – impact assessment	Spring 2018	30 April 2018	Yes	Commentary provided to Audit Committee in May 2018.
Social Work in Scotland – impact assessment	Spring 2018	30 April 2018	Yes	Commentary provided to Audit Committee in May 2018.
National Fraud Initiative – Data Return	28 February 2018	28 February 2018	Yes	Commentary provided to Audit Committee in May 2018.
Fraud Returns	27 April 2018	27 April 2018	Yes	
Overview Report – Data Return	30 September 2018			
Grants				
Education Maintenance Allowance	31 July 2018	6 July 2018	Yes	
Audit opinion on Whole of Government Accounts	30 September 2018			
Non Domestic Rates Income return	5 October 2018			
Housing Benefit Subsidy	30 November 2018			

Other matters - Local Government Pension Scheme Triennial Actuarial Valuation 2017

4. This section of the report informs the Audit Committee of the outcome of the latest Local Government Pension Scheme (LGPS) actuarial valuation. An actuarial valuation of pension funds is required every three years. The latest was concluded by 31 March 2018 in respect of the position of funds as at 31 March 2017.

Background

5. There are 11 local government pension schemes in Scotland with assets of £42bn and estimated liabilities in excess of £50bn. A detailed list is set out in Appendix 2. Pensions and other benefits paid by pension funds are funded through employer and employee contributions and returns from investments. Over the last decade pension funds experienced falling numbers of employees making contributions but this trend has been changing since the introduction of auto-enrolment. There has also been a rise in the age of retirement and significant changes to pension benefits. Overall, there was a reduction in cash inflow to the fund from employees but also, where retirement or early retirement had occurred, an increase in the cash outflow. Consequently, pension funds have been experiencing rising employee and employer contributions.

6. Employee contribution rates are set through regulations. A 'tiered' approach for employee contributions now exists, with higher earnings subject to higher employee contributions rates.

7. A new Local Government Pension Scheme (LGPS) was implemented with effect from 1 April 2015. Known as the CARE scheme, members accrue pension on a Career Average Revalued Earning basis. The associated regulations, the Local Government Pension Scheme (Scotland) Regulations 2014 sets out the requirements for the administration of the scheme including the obtaining of actuarial valuations, the calculation of employer contributions and publishing a funding strategy statement.

8. This report sets out a summary of the results of the latest LGPS actuarial valuation exercise.

Valuation rules

9. Pension fund regulations require the 11 administering authorities to obtain an actuarial valuation of assets and liabilities of their pension funds every third year. The latest actuarial valuation process was concluded by 31 March 2018 based on data as at 31 March 2017. The main purposes of the triennial valuation are to:

- assess the financial health of the pension fund at a point in time i.e. in this case 31 March 2017, by comparing the fund's assets with its liabilities, i.e. past service costs accrued by fund members

- develop a funding strategy with appropriate assumptions so that the fund is able to meet its future liabilities

- set the employer contribution rates required for the next three years - the actuary assesses the level of each participating employer and agrees contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits. This enables a contribution rate to be set for the next 3 year period.

10. In carrying out the valuation, the actuary must have regard to the following:

- existing and prospective liabilities

- the desirability of maintaining as nearly constant a common rate as possible

- the administering authority's funding strategy

- the requirement to secure the solvency of the fund and the long term cost efficiency of the scheme.

Funding/solvency levels

11. Exhibit **1** shows the funding level for each fund following the 2017 valuation compared with the previous position at 2014. This is the level of assets held by the funds to meet their liabilities (estimated current cost of past service benefits). In most cases the funding level has increased and in six cases, the level is now greater than 100% which means that funds have more assets than liabilities

Exhibit 1: 2017 Valuation – Pension Fund: Funding Levels

Pension Fund	Percentage funded 2014	Percentage funded 2017	Percentage movement in value +/(-)
Dumfries and Galloway	88	92	4
Falkirk	85	92	7
Fife	87	93	5
Highland	96	101	5
Lothian	91	98	7
North East	94	107	13
Orkney Islands	114	113	(1)
Scottish Borders	101	114	13
Shetland Islands	92	90	(2)
Strathclyde	94	105	11
Tayside	99	107	8

12. In summary**:**

- Orkney and Shetland valuations have experienced marginal decreases.
- Scottish Borders was 100% funded in 2014 and has now increased to 114% funded.
- All other funds increased in value by a range of 4% to 11%. Funding positions range from 90% to 114%.
- Funds with the most significant increase compared with the 2014 valuation are: North East, Scottish Borders and Strathclyde Pension Funds.
- While a range of factors affect the valuation, the main reason for the improvement on the 2014 position is the increase in market returns being greater than expected.
- The remaining 5 funds are not fully funded with rates falling in the range 90 to 98%. In each of these cases, the funds have strategies in place to become solvent (100%) over a target number of years.

Funding Strategy

13. Fundamental to the valuation results is the funding strategy adopted by each fund. The preparation of a funding strategy is a statutory requirement and provides an overview of the approach to be used for the actuarial valuation. It outlines the assumptions both economic and demographic to be used in calculating the value of the liabilities built up and the contributions required. It also sets out the strategy and timeframe for making good any funding shortfall or spreading any funding surplus setting out the split between future contributions and future investment returns.

Assumptions used in the valuation process

14. Having considered a pension fund's local circumstances, a number of assumptions are agreed through the funding strategy including:

- assumed rate of future CPI inflation
- real investment returns over and above CPI for past service and for future service
- future pay growth
- baseline life expectancy based on aa scheme-specific mortality study
- future mortality improvements.

15. Appendix 4 (Table 1 and 2) sets out a comparison of the assumptions used by actuaries in the 2017 valuations. For example, Table 1 shows that salary increase assumptions ranged for 2.8% to 3.9% and discount rates ranged from 3.1% to 5.0%. As a reminder, the discount rate is used to calculate the current value of future benefit payments. In setting the rate, account is taken of current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. A higher discount rate results in lower liabilities. The comparisons show that there is variation across the funds which will have an impact on the results of the valuation exercise.

Contribution rates

16. Having considered the solvency of the fund, the actuary looks ahead to the next 3 years (the period until the next valuation) to set the new contribution rates. The contribution is made of two elements:

- Primary Rate – The employer's share of an employee's future benefits. The normal employer contribution rate required to cover the cost of benefits that will be built up after the valuation date. This ignores any past service surplus/deficit but allows for any employer specific circumstances such as its membership profile, the funding strategy adopted for that employer and the actuarial method used
- Secondary Rate – The adjustment to the Primary rate to reflect past service deficit/surplus to arrive at the contribution each employer is required to pay. The funding objective is to achieve and maintain a solvency funding level of 100% of liabilities. Where a surplus/ (deficit) existed at the valuation date, additional contributions/(reduced contributions) may be required to be paid into the fund. The funding strategy sets out the recovery/spread period adopted by a fund.

17. Appendix 3 sets out the contribution rates implemented following the 2017 valuation compared with the previous contribution rates at 2014. Because of the improved funding position at 31 March 2017, most secondary rates are reducing the primary rate so that the funding position should reduce by 2020 i.e. reduce those funds currently with solvency levels in excess of 100% to a level closer to the target level of 100%.

18. Contribution rates have been held in respect of four pension funds - North East, Scottish Borders, Strathclyde and Tayside. These four funds are funded at rates in excess of 100% and consequently, the aim will be to reduce them to 100% over a period of time.

19. There are increases in the contribution rates for Falkirk and Lothian and a reduction in respect of Orkney. Falkirk and Lothian are currently funded at 90+% and will therefore need to aim to increase the solvency level over the next period.

Similarly, Orkney as one of the highest funded funds at 31 March 2017 will continue to reduce its funding level.

20. Contribution rates have been stabilised for two pension funds (Fife and Shetland). Rates were increasing year to year since the 2014 valuation but future rates have been held at the 2017/18 rate. While these funds have stabilised their contribution rates, they are funded 90% and 93% respectively and will be aiming to continue to increase their position over the longer term.

21. Edinburgh has the highest primary contribution rate at 31.8%. It has operated a stability mechanism for a number of years which attempts to provide greater certainty on contribution rates whilst maintaining a target of full funding. The mechanism is reviewed for appropriateness at each triennial valuation.

The Government Actuary - Cost control and the employer cost cap

22. Under Section 13 of the Public Service Pension Act 2013 (the 2013 Act) the Government Actuaries Department (GAD) will review the 2017 triennial valuation on behalf of Scottish Ministers. This review will look at the consistency with which actuaries have undertaken valuations in Scotland and their compliance with regulations. The review will also look at the solvency and long term efficiency of the funds and may make recommendations in relation to future cost sharing between employers and active members of the scheme.

23. The cost sharing mechanism in the LGPS 2015 is designed to ensure that the LGPS remains affordable for employers. Under this mechanism (GAD) has established a Scotland wide LGPS employer cost cap of 15.5%. If the cost of providing benefits to members increases by more than two per cent above the employer cost cap then employee contributions and/or benefits will be reviewed.

24. GAD recently undertook a ‘dry run’ review3 based on the 2014 funding valuations. This raised no concerns about the solvency or longer term efficiency of the LGPS in Scotland but did raise concerns about inconsistencies in valuations by different actuaries across Scotland's 11 pension funds. A follow-up review with GAD will be carried out as part of our work on the next Local Government overview pension supplement.

The Pension Regulator and LGPS

25. The Pension Regulator’s (TPR) statutory objectives are to:

- protect the benefits of pension scheme members
- reduce the risks of calls on the Pension Protection Fund (PPF)
- promote, and improve understanding of, the good administration of work-based pension schemes
- maximise compliance with the duties and safeguards of the Pensions Act 2008.

26. From April 2015, legislation gave TPR an expanded role to regulate the governance and administration of certain public service pension schemes including the LGPS. Its code of practice for the governance and administration of public pension service schemes sets out the standards of conduct and practice it expects of those responsible for public service schemes, as well as practical guidance about how to comply with the legal requirements. The main areas of interest to TPR include how schemes:

- manage board members’ conflicts of interest and ensure there is access to knowledge, understanding and the skills needed to run schemes
- assess and mange risks

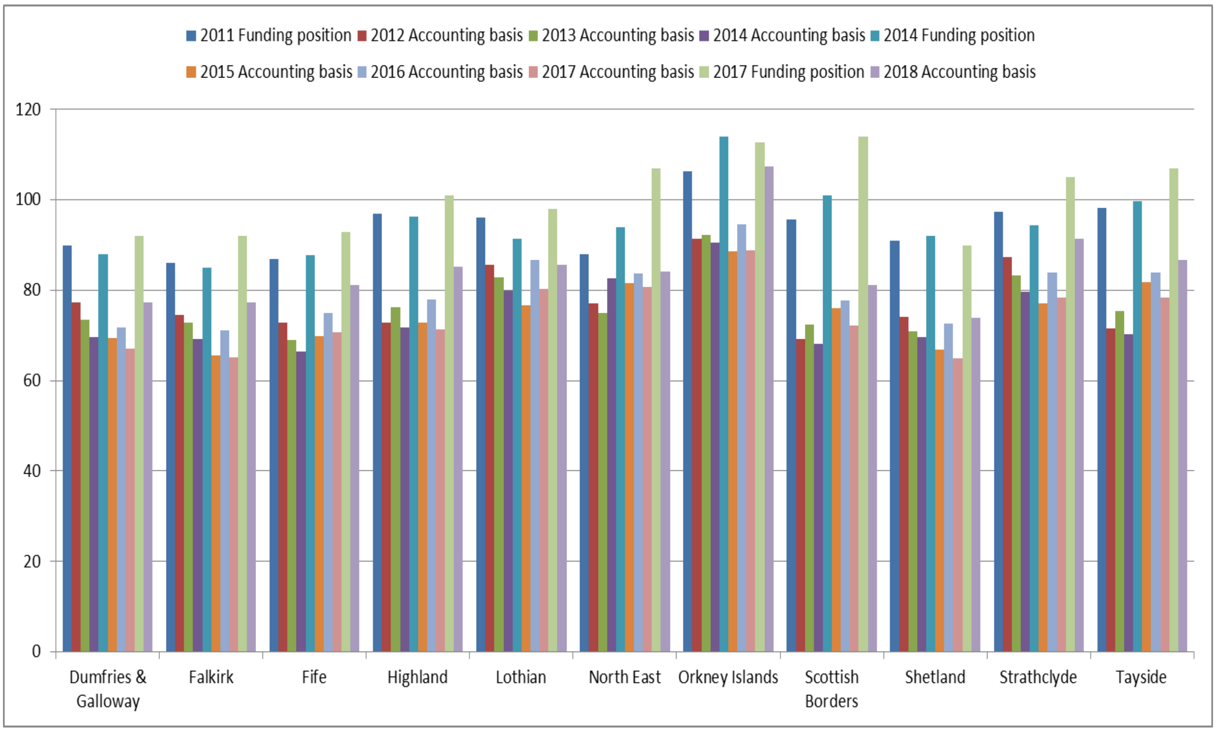
- implement processes to monitor records for accuracy and completeness
- identify, assess and report breaches of the law to TPR.

27. With regard to the triennial valuation, it is important that the data passed to the actuary is accurate and complete. It is now a requirement for schemes to have policies and processes in place to monitor data on an ongoing basis, ensure contributions are received from employers on a timely basis and to undertake a review exercise at least annually.

Funding basis and accounting basis

28. The triennial valuation is carried out to assist funds in making decisions about future funding. Actuaries are also involved in preparing reports in accordance with International Accounting Standard (IAS) 19, covering Employee Benefits, to determine the pension asset/liability to be included in councils' financial statements. An IAS 19 assessment is not carried out to the same level of detail as the full valuations and generally involves adjusting the most recent valuation to reflect latest available data (i.e. a 'roll forward' approach). In general, the assumptions used in IAS 19 assessments are more prescriptive than the triennial valuation. In practice, the accounting position has tended to produce a higher net liability position than the actuarial valuation. This is demonstrated in Exhibit 2

Exhibit 2: Comparison of positions – funding basis and accounting basis



29. Councils' unaudited accounts for 2017/18 are generally showing significantly reduced net pension liabilities. There are early indications from local auditors across local government that due to the roll forward nature of IAS19 reports, differences between estimated figures provided by the actuary (e.g. assets) and actual figures per unaudited accounts may now have a material impact on the net liability position. This matter is being addressed as part of the conclusion of local audits in councils.

Implications for audit

30. Auditors work in response to the triennial valuation and IAS 19 reports will generally include:

- ‘reviewing the work of an expert’, in accordance with auditing standards, in relation to the work of the actuary
- considering a report by PwC, in their role as consulting actuary to Audit Scotland, on the actuarial assumptions used in 2017/18
- considering the Section 13 reports by GAD on the triennial valuation
- reviewing the implications of changes in employer contribution rates for councils’ financial planning and sustainability.

Funding levels

Pension Fund	Actuary	Members Number	Pensioners Number	Deferred Pensioners Number	Scheduled/ admitted bodies Number	Asset Value of fund at 31 March 2017 £m
1. Dumfries and Galloway	Hymans Robertson	5,824	4,448	4,277	1-12	837
2. Falkirk	Hymans Robertson	14,896	9,830	8,284	3-31	2,219
3. Fife	Hymans Robertson	16,234	12,024	10,104	1-26	2,259
4. Highland	Hymans Robertson	12,264	9,151	12,312	2-27	1,765
5. Lothian	Hymans Robertson	32,010	26,309	18,383	4-84	6,595
6. North East	Mercer	25,260	19,159	20,433	3-48	3,815
7. Orkney Islands	Hymans Robertson	2,557	867	1,096	1-6	335
8. Scottish Borders	Barnett and Waddingham	4,435	3,326	2,707	1 - 8	654
9. Shetland Islands	Hymans Robertson	3,166	1,715	2,314	1-11	450
10. Strathclyde	Hymans Robertson	93,481	73,802	55,848	12-165	19,699
11. Tayside	Barnett and Waddingham	18,710	15,175	12,538	3-41	3,515
TOTALS		**228,837**	**175,806**	**148,296**	**32-459**	**42,143**

*For example: 1-12 = one council and 12 admitted/other bodies

Appendix 3 – 2017 triennial valuation – new contribution rates

1. Employer contribution rates

	2014 Valuation			2017 Valuation								
Council Employer	**2014 Triennial Actual Rate**			**2017 Triennial Actual Rate***			**Secondary Rate***			**Primary Rate***		
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**
1. Dumfries and Galloway Pension Fund – Dumfries and Galloway Council	19.5% plus £1.6 Million	19.5% plus £1.7 Million	19.5% plus £1.7 Million	Final report not publicly available								
2.Falkirk Pension fund												
Falkirk Council	21.0%	21.0%	21.5%	22.0%	22.5%	22.5%	4.2%	4.7%	4.7%	17.8%	17.8%	17.8%
Clackmannanshire Council	21.0%	21.0%	21.5%	21.5%	22.0%	22.5%	3.7%	4.2%	4.7%	17.8%	17.8%	17.8%
Stirling Council	21.0%	21.0%	21.5%	21.5%	22.0%	22.5%	4.2%	4.2%	4.7%	17.8%	17.8%	17.8%
3.Fife Council Pension fund	22.7%	23.6%	24.5%	24.5%	24.5%	24.5%	4.6%	4.6%	4.6%	19.9%	19.9%	19.9%
4.Highland Pension Fund												
Highland Council	18.5%	19.0%	19.5%	Final report not publicly available								
Comhairle nan Eilean Siar (Western Isles Council)	18.5%	19.0%	19.5%									

	2014 Valuation			2017 Valuation								
Council Employer	2014 Triennial Actual Rate			2017 Triennial Actual Rate*			Secondary Rate*			Primary Rate*		
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21
5.Lothian Pension Fund												
Edinburgh City Council	20.1%	20.1%	20.1%	20.6%	21.1%	21.6%	-11.2% plus £3m	-10.7% plus £3m	-10.2% plus £3m	31.8%	31.8%	31.8%
East Lothian Council	20.4%	20.4%	20.4%	20.9%	21.4%	21.9%	-11.1% plus £0.5m	-10.6% plus £0.5m	-10.1% plus £0.5m	32.0%	32.0%	32.0%
Midlothian Council	20.2%	20.2%	20.2%	20.7%	21.2%	21.7%	-11.0% plus £0.3m	-10.5% plus £0.3m	-10.0% plus £0.3m	31.7%	31.7%	31.7%
West Lothian Council	20.0%	20.0%	20.0%	20.5%	21.0%	21.5%	-11.4% plus £0.4m	-10.9% plus £0.4m	-10.4% plus £0.4m	31.9%	31.9%	31.9%
6.North East Scotland Pension fund												
Aberdeen City Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-2.0%	-2.0%	-2.0%	21.3%	21.3%	21.3%
Aberdeenshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-2.9%	-2.9%	-2.9%	22.2%	22.2%	22.2%
Moray Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-3.3%	-3.3%	-3.3%	22.6%	22.6%	22.6%
7.Orkney Islands Council	21.4%	19.8%	19.2%	18.2%	17.6%	17.0%	-2.5%	-3.1%	-3.7%	20.7%	20.7%	20.7%

	2014 Valuation			2017 Valuation								
Council Employer	**2014 Triennial Actual Rate**			**2017 Triennial Actual Rate***			**Secondary Rate***			**Primary Rate***		
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**
8.Scottish Borders Council	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	-2.6%	-2.6%	-2.6%	20.6%	20.6%	20.6%
9.Shetland Islands Council	18.7% plus £1.6 Million	19.8%	20.8%	20.8%	20.8%	20.8%	-1.6%	-1.6%	-1.6%	22.4%	22.4%	22.4%
10.Strathclyde Pension Fund												
Glasgow City Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.2%	-8.2%	-8.2%	27.5%	27.5%	27.5%
East Ayrshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.0%	-8.0%	-8.0%	27.3%	27.3%	27.3%
East Dunbartonshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-7.8%	-7.8%	-7.8%	27.1%	27.1%	27.1%
East Renfrewshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.3%	-8.3%	-8.3%	27.6%	27.6%	27.6%
Argyll and Bute Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.4%	-8.4%	-8.4%	27.7%	27.7%	27.7%
Inverclyde Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-9.7%	-9.7%	-9.7%	29.0%	29.0%	29.0%
North Ayrshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.0%	-8.0%	-8.0%	27.3%	27.3%	27.3%
North Lanarkshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-9.7%	-9.7%	-9.7%	29.0%	29.0%	29.0%

	2014 Valuation			2017 Valuation								
Council Employer	**2014 Triennial Actual Rate**			**2017 Triennial Actual Rate***			**Secondary Rate***			**Primary Rate***		
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**
Renfrewshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-6.9%	-6.9%	-6.9%	26.2%	26.2%	26.2%
South Ayrshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.0%	-8.0%	-8.0%	27.5%	27.5%	27.35
South Lanarkshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.2%	-8.2%	-8.2%	27.5%	27.5%	27.5%
West Dunbartonshire Council	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	-8.0%	-8.0%	-8.0%	27.3%	27.3%	27.3%
11.Tayside Pension Fund												
Angus Council	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	-4.5%	-4.5%	-4.5%	21.5%	21.5%	21.5%
Dundee City Council	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	-4.5%	-4.5%	-4.5%	21.5%	21.5%	21.5%
Perth & Kinross Council	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	-4.5%	-4.5%	-4.5%	21.5%	21.5%	21.5%

* The 2017 Triennial actual rate = Primary Rate + Secondary Rate.

- **Primary Rate** – The employer's share of an employee's future benefits. This ignores any past service surplus/deficit but allows for any employer specific circumstances such as its membership profile, the funding strategy adopted for that employer and the actuarial method used.

- **Secondary Rate** – The adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. Funding plans are set to eliminate any deficit (or surplus) attributable to the employer over the set time horizon and therefore get back to a funding level of 100%. To do this, additional contributions (or reduced contributions) may be required to be paid into the fund. These contributions are known as the 'secondary rate'.

Appendix 4 – Funding strategy assumptions

Table 1: General assumptions

Assumptions	Falkirk	Fife	Lothian	North East	Orkney	Scottish Borders	Shetland	Strathclyde	Tayside
Discount Rate %	3.5	3.5	3.2	4.15	3.1	5.0	3.5	Pre 3.7 Post 3.3	4.5
Price inflation % (CPI)	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Salary increase % (long term)	2.9	2.9	2.8	3.9	2.8	3.8	3.0	3.6	3.5
Pension Increase %	2.4	2.4	2.4	2.4	2.4	2.8	2.4	2.4	2.8

Table 2 - Longevity assumptions

	Male 65 now	Male 65 aged 45 now	Female 65 now	Female 65 aged 45 now
Dumfries and Galloway	Report not available in public domain			
Falkirk	21.2	22.7	23.7	25.5
Fife	21.2	22.6	23.8	25.8
Highland	Report not available in public domain			
Lothian	21.7	24.7	24.3	27.5
North East	22.6	25.5	24.8	27.8
Orkney Islands	21.7	23.3	23.8	26.2
Scottish Borders	Information not provided by actuary			
Shetland Islands	22.1	23.9	24.0	26.1
Strathclyde	21.4	23.4	23.7	25.8
Tayside	Information not provided by actuary			