Scottish Local Government Pension Scheme Advisory Board

Annual Report 2024-25

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Opening Remarks from the Chair

On behalf of the Local Government Pension Scheme Advisory Board, I am delighted to be able to present the eight SAB Annual Report. The aim of this Annual Report is to provide a primary source of information about the work of the Board over the last financial year for LPGS members, employers, and other stakeholders. This report summarises the financial position of funds across Scotland, and each local Pensions Fund has made decisions to invest their funds bearing in mind their own fiduciary duty. Although the positions of individual funds vary, overall, across Scotland, the LGPS continues to be fully funded and sustainable, which is very welcome. I hope you find this report useful. The Board welcomes feedback on the information provided and how this can be developed for future reports.
More information can be found about the Board's work at our website:
https://lgpsab.scot/

Cllr David Parker, Chair of SAB for 2024-25

1. Introduction

The Scottish Local Government Pension Scheme Advisory Board (SAB) was established under the Public Services Pension Act 2013 to provide advice to Scottish Government Minister on the desirability of changes to the design of the scheme and the implication of other policy Issues.

The SAB also provides advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the scheme.

The Scheme Advisory Board is responsible for:

- Providing advice on request about the desirability of changes to the design of the scheme; policy issues and changes to scheme regulations.
- Discussing and commenting on the potential implications of future valuation outcomes.
- Making recommendations on adjustments to the Scheme, in the event that costs breach the employer cost cap.
- Providing advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme.

2. Structure and People

The SAB is a bipartite Board comprising equal representation from employers and trade union representatives. It meets at least four times a year and considers Scotland-wide issues relating to the governance of the scheme.

In the past, these have included Fiduciary Duty, “pensions choice”, scheme governance, reviews of pension regulations, and cessation and exit credits.

Current issues include the gender pensions gap, scheme valuation, fund structures, climate risk to investments, local investments, and good governance.

The partnership approach is also reflected in our administration arrangements with joint chairing on a rotational basis between the two sets of representatives and a Joint Secretariat sourced from existing resources within the Employers and Trade Union organisations.

SAB Members (during 2024-25)
Chair – Cllr David Parker, Scottish Borders Council (COSLA)
Vice-Chair – Andy Thompson, GMB
Members representing Scheme Member interests:
Simon Watson, UNISON
Stephen Smellie UNISON (until August 2024)
Arthur Nicoll UNISON (from August 2024)
Dr Davena Rankin, UNISON
Brian Robertson, Unite the Union
Graham McNab, Unite the Union
Andy Thompson, GMB
Annette Drylie, GMB

Members representing COSLA, Scheduled and Admitted Bodies:
Cllr Mandy Watt, City of Edinburgh Council (COSLA)
Cllr David Richardson, East Ayrshire Council (COSLA)
Cllr David Parker, Scottish Borders Council (COSLA)
Cllr Simon Mountford, Scottish Borders Council (COSLA)
Cllr Vaughan Moody, East Dunbartonshire Council (COSLA)
Kirsty Robb, Borders College (Scheduled and Admitted Bodies)
Kenny Dick, Care Inspectorate (Scheduled and Admitted Bodies)
Joint Secretary – Employers Jonathan Sharma, COSLA
Joint Secretary – Trade Unions Simon Watson, UNISON

There are a number of observers and advisers who support the SAB in the deployment of Board business. These include representatives from, and on behalf of, the Scottish Government, formal COSLA officials, pension scheme managers and representatives from professional associations. Representatives of the Government Actuaries Department (GAD) also attend to provide updates on statutory valuations.

Communications

The SAB has developed a bespoke website to act as a unique source of information and advice to all stakeholders. The site includes the SAB meeting papers and minutes along with other governance documentation, guidance documents and details of the Board's membership. The content of the website will develop as the work of the Board continues. It is at https://lgpsab.scot.

Similar information is also published on the local government pages of the Scottish Public Pensions Agency (SPPA) website - www.sppa.gov.uk.

A short bulletin is also published after each meeting covering the key decisions, which is circulated to key stakeholders and on the SAB website.

SPPA links and useful resources for local government employers to each Fund:
https://pensions.gov.scot/local-government/your-local-government-pension-scheme/useful-links
Information on scheme rules: www.scotlgpsmember.org/
Links to local government employer websites: www.cosla.gov.uk/
Links to Funds: https://lgpsab.scot/related-websites/

3. Review of the year 2024-25

Scottish Ministers periodically asks the SAB for its views on the major changes to LGPS funds and governance in England and Wales, including under the 'Fit for the Future' banner. As part of this, they specifically asked the SAB to "investigate and provide a report on how much, if any, each of the funds currently invests in Scottish infrastructure projects and Scottish Equities". Following this, the SAB has surveyed Scottish funds to seek this information.

Funds are required to issue an annual report, and the contents and approach to this were previously set out in CIPFA guidance. However, the CIPFA committee overseeing this was disbanded, so new guidance was produced under the auspices of the England and Wales SAB with input from Scotland. The Scottish SAB recommended that Scottish funds should comply with this new guidance on a 'best endeavours' basis for 2024/25, and fully in subsequent years.

Admitted bodies join and leave the LGPS from time-to-time. Previously, when LGPS funds were in deficit, seceding employers were expected to make a payment to cover any deficit relating to themselves when their last employee left the LGPS. However, as funds have moved into surplus, employers may now be entitled to receive an exit credit (payment) when they leave. The regulations were not written with this in mind but have now been revised and the SAB issued advice on how funds should apply their discretions around calculating this exit credit.

As part of its work supporting good governance, a one-day conference was organised for members of local pension boards and others, to share learning and discuss developments in the sector. Participants discussed the new The Pensions Regulator single code, and Good Governance Project of the England and Wales SAB, and contemporary challenges facing pension boards in Scotland. A report and range of proposals were taken forwards.

As part of improving communications, the links to local pension boards and LGPS funds were examined. The SAB can issue advice to local LGPS boards and administering authorities. In addition, whilst it has a different remit, many issues of common concern are debated by LGPS funds at the Scottish Pension Liaison Group (SPLG). Therefore, the chairs of local boards were given an invitation to attend SAB meetings as observers, and the SPLG kindly invited SAB representatives to attend their meetings and share an update on its work.

During the year, the SAB also considered the criteria and governance around its own chair and received advice from ministers on this matter.

In the 11 Scottish LGPS funds, the pensions committees make decision on investments, but the pension boards have an oversight role. Should there be a disagreement that cannot be resolved, then either party can refer the matter to the SAB for advice. For the first time, this process was activated and the SAB agreed the principles and process for hearing and responding to such circumstances. A working group was then convened to look examine the specific complaint.

The Government Actuaries Department issues a “Section 13 Report” which considers the triennial actuarial valuations of the 11 LGPS funds in Scotland, and whether the funds fulfil the statutory aims of compliance, consistency, solvency, and long-term cost efficiency. The SAB debated and examined this work as it progressed, emphasising the importance of stability and prudence.

A key statutory function of the SAB is to be consulted if the quadrennial scheme valuation results in a breach of the cost collar on employers’ costs. Whilst this has not occurred yet, if it did then there could either be an increase in member benefits (and thus a substantial increase in employers’ costs), or a decrease in members benefits (or increase in member contribution rates). As a way of mitigating a big ‘cliff edge’ change, a working group was set up to consider if a ‘pre-breach’ mechanism would be useful to give an early warning of a breach, and the opportunity to make smaller changes to avoid it.

The working group examining this looked at a similar mechanism used in the England and Wales LGPS. However, its work was overtaken by HM Treasury which introduced an ‘economic check’ which made breaching the cost collar much less likely. Ultimately the SAB agreed that no further work was undertaken at this time.

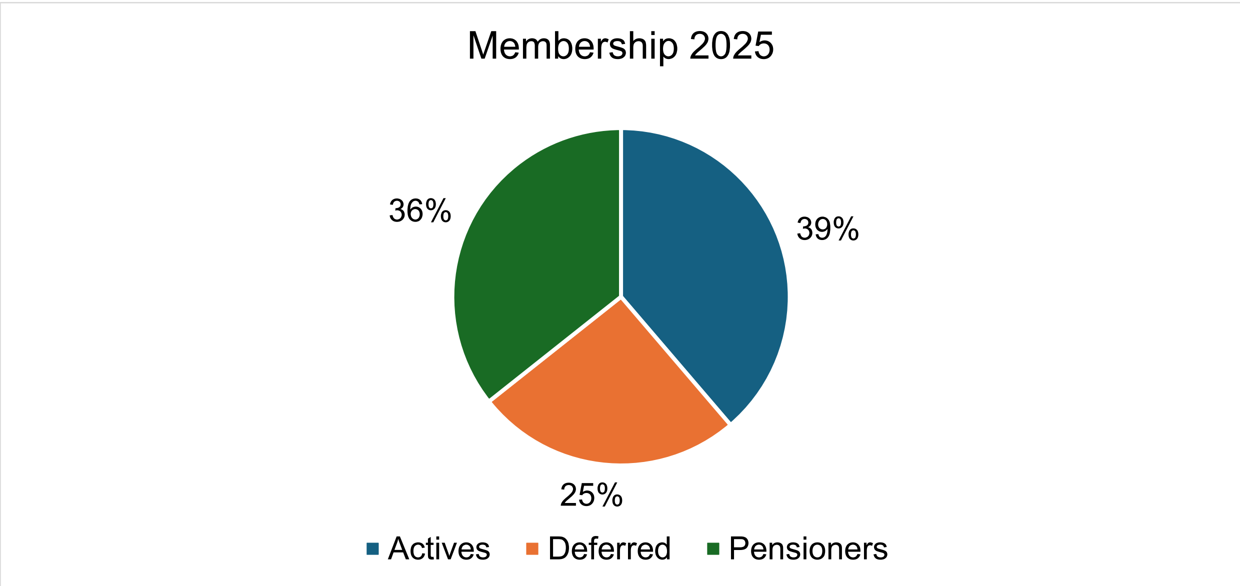
Concerns had previously been raised about The Economic Activity of Public Bodies (Overseas Matters) Bill, which included powers for UK ministers to restrict certain overseas investments by LGPS pension funds. The SAB had expressed concerns over the intrusion of government political agendas into the decision making of funds, but the calling of a general election saw this piece of proposed UK legislation fall.

The SAB had previously agreed to increase its capacity by retaining specialist external consultancy support, and it received a number of briefing notes based on this. However, given the number of active working groups and the potential for expanded policy work, during the year it considered how to increase capacity further. It decided, for the first time, to recruit a part-time policy officer on a trial fixed-term basis to assist the joint secretaries.

4. Membership overview

The membership status of the SLGPS as of 31 March 2025 is shown in Chart 1. In summary, the proportion of active pension members who are still contributing to the scheme was 36 percent (up one percent). The proportion who were counted as deferred and no longer contributing was 25 percent (down one percent and 39 percent were retired and are receiving pension benefits (pensioners, no change).

Chart 1: Membership Status of Scottish Local Government Pension Scheme – 31 March 2025



The membership status of the SLGPS as of 31 March 2025 is further broken down by each pension fund in chart 2 and table 1. As of 31 March 2025, there were 668,036 members in Scotland, the total membership figures range from 4,620 (1 percent of the total) in Orkney to 290,802 (44 percent of the total) in Strathclyde. The total number of pensioners in at the end of 31 March 2025 was 238,288 in

Scotland and the total number of members contributing to the scheme was 258,823.

Chart 2: Membership per individual Scottish Local Government Pension Fund – 31 March 2025

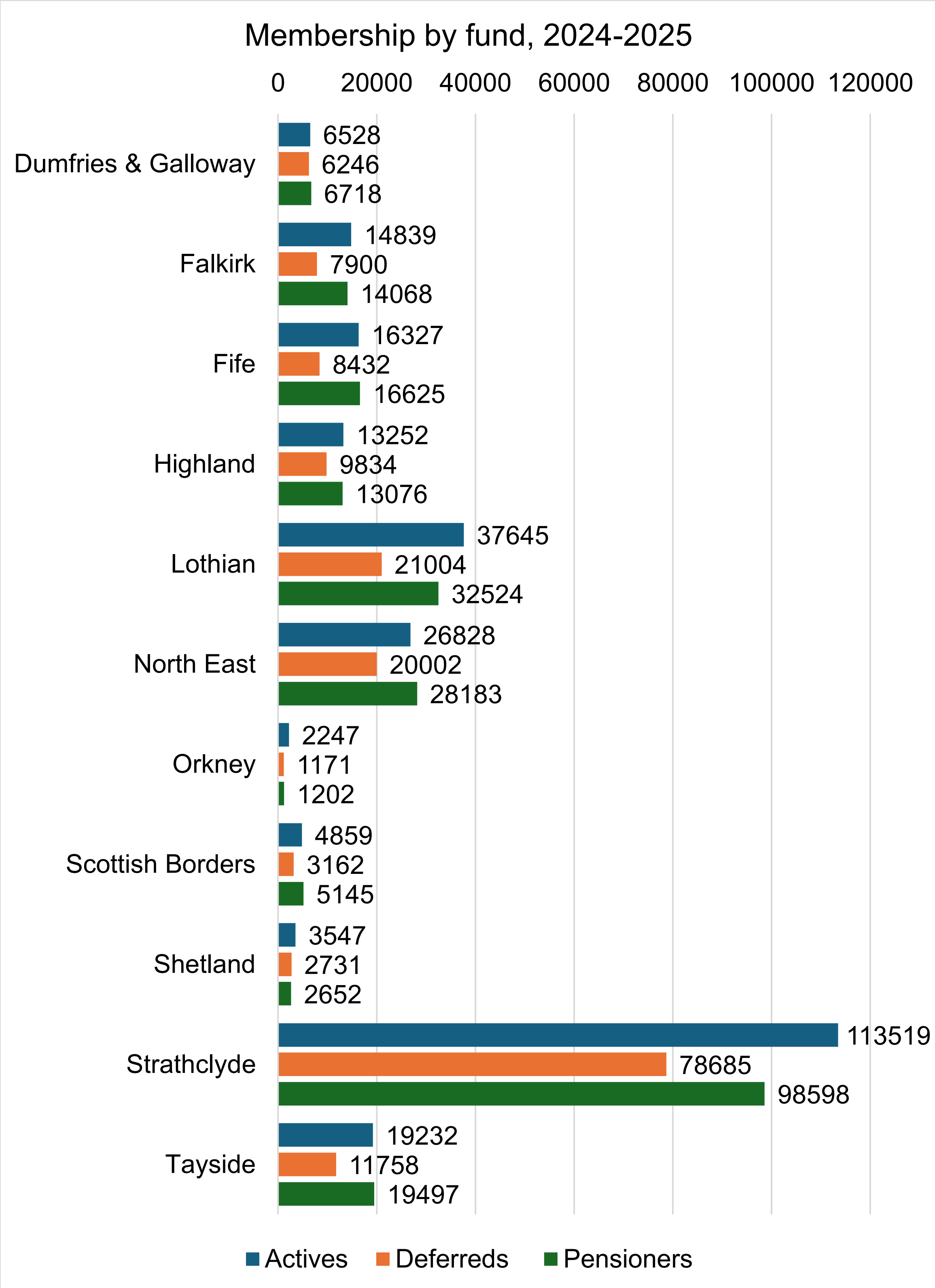


Table 1: Membership per individual Scottish Local Government Pension Fund – 31 March 2025

	Actives	Deferred	Pensioners	Total
Dumfries & Galloway	6,528	6,246	6,718	**19,492**
Falkirk	14,839	7,900	14,068	**36,807**
Fife	16,327	8,432	16,625	**41,384**
Highland	13,252	9,834	13,076	**36,162**
Lothian	37,645	21,004	32,524	**91,173**
North East	26,828	20,002	28,183	**75,013**
Orkney	2,247	1,171	1,202	**4,620**
Scottish Borders	4,859	3,162	5,145	**13,166**
Shetland	3,547	2,731	2,652	**8,930**
Strathclyde	113,519	78,685	98,598	**290,802**
Tayside	19,232	11,758	19,497	**50,487**
Total	**258,823**	**170,925**	**238,288**	**668,036**

5. Financial overview

A breakdown of the financial overview of the Scottish Pension Funds is summarised in Tables 2 to 5. The closing net assets of the scheme in the Fund account for 2024-25 were £66.97 billion, compared to £65.66 billion in 2023/24.

Table 2: Fund Account

Fund Account	**24-25 (£m)**	**23-24 (£m)**
Dealings with Members, Employers and Others Directly Involved in the Fund		
Contributions and other income	1,618.42	1,881.36
Benefits and other payments	(2,387.27)	(1,998.47)
Net Additions (Withdrawals) from dealing with members before management expenses	(768.85)	(117.11)
Fund running costs		
Investment & Fund management costs and expenses (see breakdown below)	(330.5)	(338.60)
Net Additions (Withdrawals) including management expenses	(890.16)	(342.45)
Investment returns		
Investment Income	1,282.72	1,220.55
Taxes on income	(9.25)	(8.12)
Profits and losses on disposal of investments and change in value of investments	1,149.07	4,670.96
Net return on investment	2,377.62	5,832.47
Net increase / (decrease) in the net assets available for benefits during the year	1,317.95	5,407.05
Opening Net Assets of the scheme	**65,656.23**	**60,248.99**
Closing Net Assets of the scheme	**66,974.19**	**65,656.04**

Table 3: Investment & Fund Management Costs & Expenses Breakdown

	24-25 (£m)	23-24 (£m)
Administration and Governance		
Administration	(21.33)	(21.66)
Oversight and Governance	(13.03)	(12.00)
Other	(0.00)	(0.02)
Total Administration and Governance	(34.36)	(33.68)
Investment management costs		
Management fees	(282.09)	(277.84)
Performance fees	(10.54)	(7.84)
Transaction costs	(13.18)	(13.72)
Custody costs	(1.20)	(1.26)
Other costs	(2.14)	(13.39)
Total investment management costs	**(309.15)**	**(314.04)**

The net assets statement and value of investments are shown in table 4 and 5. The total value of net assets at 2024-25 was £66.97 billion up from £65.76 billion in 2023-24. The slight difference between the Fund Account closing assets and total net assets in the Asset Statement is from the inclusion of “Other (inc. net current assets)” in the latter. There are also some minor discrepancies relating to rounding.

Charts 3 and 4 show that change in asset allocation between 2024 and 2025 and the asset allocation breakdown for 2025, respectively. The asset allocation in 2025 was at 48% for Equities, with 16% on Bonds, 6% on Infrastructure. Compared to the last year asset allocation, bonds increased by more than 5% and private equity increased by more than 3%; while equities decreased by more than 4% and asset allocation in infrastructure decreased by more than 5% between 2024 and 2025.

Note in Chart 4 “Property” has been rounded up by the table formula to 9% of the Asset Allocation whereas it is actually 8.4%.

Table 4: Net Assets Statement

Investment Assets	24-25 (£m)	23-24 (£m)
Equities	31,782.31	34,586.24
Bonds	10,876.41	7,380.73
Property	5,612.77	5,362.59
Infrastructure	3,757.42	7,065.89
Private equity	3,495.33	1,318.61
Multi-asset credit	1,537.27	1,566.66
Private debt	1,736.00	455.33
Diversified growth funds (DGF)	2,126.19	1,748.57
Liability Driven Investments (LDI)	0	0
Hedge funds	2,654.98	2,728.44
Derivatives	6.59	9.22
Cash	2,693.54	1,479.02
Other (inc. net current assets)	695.39	2,063.55
Total net assets	66,974.19	65,764.83

Minor discrepancies due to rounding.

Table 5: Investments

Investment Assets	2025 (£m)	2024 (£m)	2025 (as % of total)	2024 (as % of total)	% Change between 2024 and 2025
Bonds	10,876.41	7,380.73	16%	12%	5.5%
Equities	31,782.31	34,586.24	48%	54%	-4.4%
Property	5,612.77	5,362.59	8%	8%	0.4%
Private equity	3,495.33	1,318.61	5%	2%	3.4%
Infrastructure	3,757.42	7,065.89	6%	11%	-5.2%
Multi asset credit	1,537.27	1,566.66	2%	2%	0.0%
Private debt	1,736.00	455.33	3%	1%	2.0%
Diversified growth funds	2,126.19	1,748.57	3%	3%	0.6%
Liability driven investments	0.00	0.00	0%	0%	0.0%
Hedge funds	2,654.98	2,728.44	4%	4%	-0.1%
Derivatives	6.59	9.22	0%	0%	0.0%
Cash	2,693.54	1,479.02	4%	2%	1.9%
Total	**66,278.80**	**63,701.28**			**4.0%**

Minor discrepancies due to rounding.

Chart 3: Change in Asset Allocation between 2024 and 2025

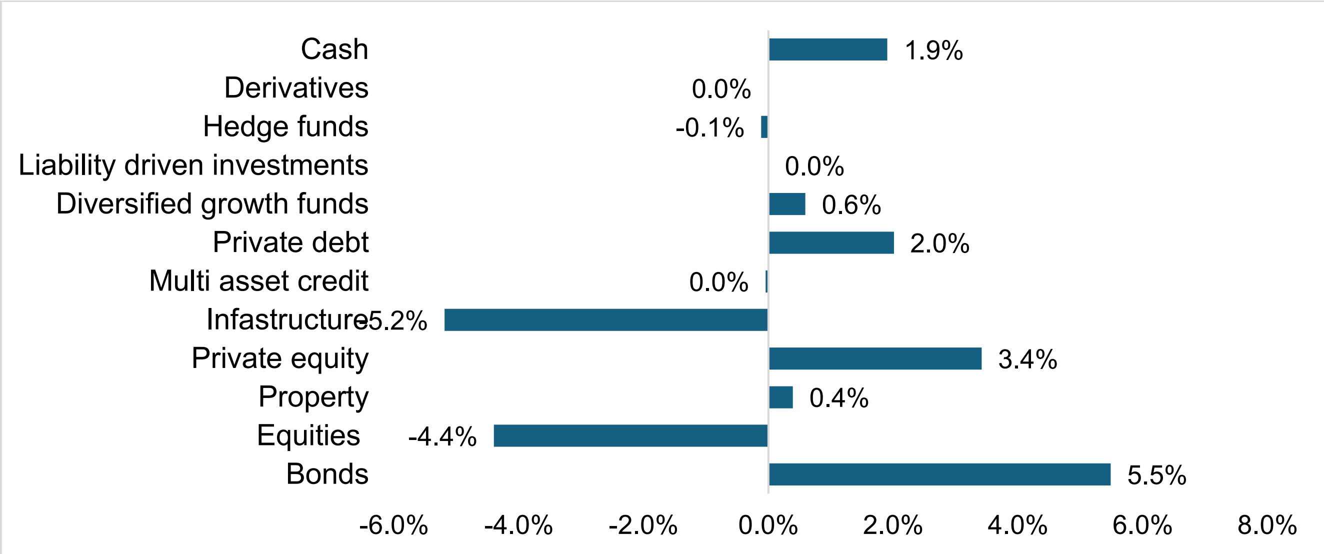


Chart 4: Asset Allocation 2025 breakdown