

# ***Supplementary Committee Agenda***



**Epping Forest  
District Council**

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## ***Finance and Performance Management Cabinet Committee Monday, 19th November, 2007***

**Place:** Civic Offices, High Street, Epping  
**Room:** Committee Room 1  
**Time:** 6.30 pm  
**Committee Secretary:** Gary Woodhall, Research and Democratic Services  
Tel: 01992 564470 Email: gwoodhall@eppingforestdc.gov.uk

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**14. UPDATE ON TRIENNIAL EVALUATION - LOCAL GOVERNMENT PENSION SCHEME (Pages 3 - 6)**

(Director of Finance & ICT) To consider the attached report.

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## **Report to the Finance and Performance Management Cabinet Committee**



**Epping Forest  
District Council**

**Portfolio: Finance, Performance Management and Corporate Support Services**

**Subject: Triennial Valuation of Pension Scheme**

**Officer contact for further information: Bob Palmer – (01992 – 56 4279)**

**Democratic Services Officer: Gary Woodhall - (01992 - 56 4470)**

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### **Recommendations/Decisions Required:**

**1. That Option B, as set out in the Essex County Council Consultation, to phase the impact of the increased pension contributions be recommended to Cabinet for adoption.**

### **Report:**

#### **1 Introduction**

- 1.1 Essex County Council administers the Local Government Pension Scheme (LGPS) within Essex on behalf of the district councils and other various admitted bodies. In order to ensure that the fund is adequately resourced and able to meet its commitments, both now and in the future, valuations are conducted by actuaries on a triennial basis. The outcome of each valuation determines the contributions necessary for the following three years, to achieve the long term objective of the scheme's assets being at least equal to its liabilities.
- 1.2 Contributions are made up of ongoing amounts to fund future benefits and deficit contributions to make good the current position of the scheme being under funded. The ongoing contributions are set as a percentage of pay, whilst the deficit contributions are set as lump sums.

#### **2 Valuation as at 31 March 2004**

- 2.1 The valuation as at 31 March 2004 highlighted a significant deterioration in the overall financial position of the scheme. A deficit had been recognised previously and contributions of £823,000 per annum were being paid to address this. However, the 2004 valuation showed the scheme to be only 71% funded (the value of the scheme's assets only covered 71% of the liabilities) and the level of deficit contributions were increased to £1,674,649 in 2005/06, £1,746,659 in 2006/07 and £1,821,765 in 2007/08.
- 2.2 This position had been anticipated and in order to meet the additional deficit payments and minimise the effect on the Council Tax £2.5 million of capital receipts had been moved to a Pension Deficit Reserve, with the intention of capitalising the additional amounts. Even though the valuation sets contributions for a three-year period, the Department for Communities and Local Government (DCLG) will only issue capitalisation directions for one year at a time.
- 2.3 A capitalisation direction for the full additional amount of £851,649 was obtained for 2005/06. Due to Treasury concerns that at the macroeconomic level excessive capitalisation could threaten the achievement of the Government's fiscal rules an

overall cap was set on the aggregate amount of capitalisation directions for 2006/07. This coincided with a large number of applications to assist authorities in dealing with equal pay claims. These two factors combined to produce directions for all authorities of 57.19% of the amounts that had been applied for. As this decision was only announced on 31 January it did cause some difficulty and a need for some parts of the budget to be re-examined.

- 2.4 Following the difficulties with equal pay claims in 2006/07 DCLG have revised their guidance on capitalisations and introduced a separate procedure for such applications. The procedure, and unfortunately the timescale, for pension deficit applications remain unchanged. Little information has been released by DCLG regarding capitalisations in 2007/08. However they have indicated that there has been a reduction in equal pay applications and on that basis the estimates have been produced on the assumption that a direction will be obtained for the full value of the application in 2007/08.

### 3. Valuation as at 31 March 2004

- 3.1 Indications had previously been received from Essex County Council that the funding level of the scheme had improved but that this needed to be balanced against the changes to LGPS from 1 April 2008 and the need to update some actuarial assumptions. As mentioned above, the total payments made can be split between ongoing and deficit contributions and where different variables are involved the movements in contributions rates will not necessarily be of the same magnitude or in the same direction.
- 3.2 The funding level of the scheme has increased from 71.4% to 81.2% and this means that the level of deficit contributions for the next three years can be reduced. However, there are three factors which each necessitate an increase of 1% in ongoing contributions. These factors are the increased cost of the amended LGPS, increases in life expectancy and a fall in bond yields. Some discretion exists over how these changes are implemented and Essex County Council have issued a consultation setting out two options using a 20 year recovery period (a 17 year recovery period could also be considered but would have more drastic financial consequences and may make it more difficult to obtain capitalisation directions). The two options are set out below:

#### Current Payment 2007/08

Ongoing Contribution	10.1%
Deficit Contribution	£1,821,765

	2008/09	2009/10	2010/11
<b>Option A: Full Increase</b>			
Ongoing Contribution	13.1%	13.1%	13.1%
Deficit Contribution	£1,593,287	£1,666,578	£1,743,241

<b>Option B: Phased Increase</b>			
Ongoing Contribution	11.1%	12.1%	13.1%
Deficit Contribution	£1,795,590	£1,769,416	£1,743,241

- 3.3 To make this data more meaningful the additional payments required under the two options can be set out in terms of capital and revenue (for capital purposes the additional payment is shown net of the pre 2004 £823,000):

	<b>2008/09</b> <b>£'000</b>	<b>2009/10</b> <b>£'000</b>	<b>2010/11</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
<b>Option A</b>				
General Fund	277	277	277	831
HRA	130	130	130	390
Capital	770	844	920	2,534
	<hr/> 1,177	<hr/> 1,251	<hr/> 1,327	<hr/> 3,755
<b>Option B</b>				
General Fund	92	185	277	554
HRA	43	87	130	260
Capital	973	946	920	2,839
	<hr/> 1,108	<hr/> 1,218	<hr/> 1,327	<hr/> 3,653

- 3.4 The above table shows that the overall costs under Option B are lower, although the capital cost would be higher (again the assumption has been made that a capitalisation direction will be obtained). Option B allows the effects of the increased ongoing costs to be phased and the table below illustrates the effect on CSB growth:

	<b>2008/09</b> <b>£'000</b>	<b>2009/10</b> <b>£'000</b>	<b>2010/11</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
<b>Option A</b>	277	0	0	277
<b>Option B</b>	92	93	92	277

- 3.5 This phased introduction reduces the immediate impact and allows compensating savings to be implemented over a longer period.

#### **4. Conclusion**

- 4.1 Whilst it is regrettable that pension costs have increased overall, the flexible approach being taken by the administering authority should be acknowledged and welcomed. As Option B has the lower overall cost and allows a more structured increase in CSB costs Members are asked to recommend this option to Cabinet for adoption.

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