Report to the Finance and Performance Management Cabinet Committee

Report Reference: FPM-022-2010/11.
Date of meeting: 22 November 2010.

Epping Forest District Council

Portfolio: **Finance and Economic Development.**

Subject: **Triennial Valuation of Pension Scheme.**

Responsible Officer: **Bob Palmer** **(01992 564279).**

Democratic Services: **Gary Woodhall** **(01992 564470).**

Recommendations/Decisions Required:

(1) That Scenario 2, as set out in the Essex County Council Consultation, to phase the impact of the increased pension contributions is recommended to Cabinet for adoption.

Executive Summary:

Essex County Council has provided three options for the Council's pension contributions for the next three years. The ongoing contribution is the same under each scenario but the deficit contributions vary. The option being suggested spreads the deficit recovery period over 27 years, instead of 20, and steps the payments.

Reasons for Proposed Decision:

Scenario 2 is recommended as it minimises the impact on the Council's financial position and gives the best chance of obtaining capitalisation directions in the future.

Other Options for Action:

Scenario 1 is not recommended as over the next three years the deficit contributions would be nearly £1.5 million higher and it would be less likely that the Department for Communities and Local Government (DCLG) would provide capitalisations directions under this scenario.

Scenario 3 is not recommended as it would be less likely that the DCLG would provide capitalisations directions under this scenario.

Report:

<u>Introduction</u>

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 it's 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.

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.

Valuation as at 31 March 2007

3. Indications had 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.

4. The funding level of the scheme had increased from 71.4% to 81.2% and this meant that the level of deficit contributions for the next three years could be reduced. However, there were three factors which each necessitated an increase of 1% in ongoing contributions. These factors were the increased cost of the amended LGPS, increases in life expectancy and a fall in bond yields.

5. Members decided to take an option to phase in the increase in ongoing contributions at the rate of 1% per annum; this slowed the increase in the Continuing Service Budget and was in accordance with DCLG guidance. This has helped the Council in gaining full capitalisation directions for 2008/09 and 2009/10. The capitalisation application for 2010/11 has been made but confirmation of whether a direction will be granted or not will not be received until late January.

Valuation as at 31 March 2010

6. The valuation has revealed that the improvement in funding level between 2004 and 2007 has been reversed and the scheme is now back at the 71% level (the value of the scheme's assets only cover 71% of the liabilities). Essex County Council has stated that the reduction in funding level is largely due to the performance of the Fund's investments since 1 April 2007. There is some good news as the County have confirmed there is no need for any further increase in ongoing contributions, with a small reduction from 13.1% to 13% being suggested in all three scenarios.

7. Currently deficit contributions are calculated to recover the deficit over 20 years and this is the basis of the calculation for scenario 1 below. The maximum period currently allowed under the draft 2010 Funding Strategy is 30 years. Rather than move immediately to this position, and thereby limit any future flexibility, the County have calculated extended deficit contribution periods based on maintaining stable contributions. For this Council the suggested period is 27 years and this is the basis for scenarios 2 and 3 below:

Current Payment 2010/11			
Ongoing Contribution	13.1%		
Deficit Contribution	£1,743,241		
	2011/12	**2012/13**	**2013/14**
Scenario 1: 20 Year Recovery			
Ongoing Contribution	13.0%	13.0%	13.0%
Deficit Contribution	£2,126,400	£2,222,088	£2,322,082
Scenario 2: 27 Year Recovery			
Ongoing Contribution	13.0%	13.0%	13.0%
Deficit Contribution - Stepped	£1,651,000	£1,725,295	£1,802,933
Scenario 3: 27 Year Recovery			
Ongoing Contribution	13.0%	13.0%	13.0%
Deficit Contribution - Constant	£1,726,333	£1,726,333	£1,726,333

8. The difference in total payments between scenarios 2 and 3 is only £229. However, scenario 2 is better in terms of cash flow and produces stepped payments as favoured by

DCLG. In making a capitalisation application a number of detailed questions have to be answered; these include “Has the authority pursued all the steps allowed under the LGPS including spreading and stepping options?” If all such options have not been taken an explanation must be provided and it is implied that an authority failing to have taken such options is less likely to receive a capitalisation direction.

Resource Implications:

The reduction in ongoing contributions from 13.1% to 13% will provide a small reduction in the Continuing Services Budget, with the saving of £14,000 being apportioned between the Housing Revenue Account and the General Fund.

Under both scenarios 2 and 3 the deficit contributions in total for the next three years are at a similar level to the current payments.

Legal and Governance Implications:

There are no legal or governance implications.

Safer, Cleaner, Greener Implications:

There are no environmental implications.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

Risk Management
By adopting scenario 2 the Council would minimise the risk of having future capitalisation applications rejected.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.