Report to the Finance and Performance Management Cabinet Committee

Report Reference: FPM-020-2016/17
Date of meeting: 10 November 2016

Epping Forest District Council

Portfolio: Finance

Subject: Triennial Valuation of Pension Scheme

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Recommendations/Decisions Required:

1. **That the option to fund the deficit over 19 years is recommended to Cabinet; and**

2. **That subject to 1. above, Option B as set out in the Essex County Council consultation is recommended to Cabinet.**

Executive Summary:

Essex County Council has provided a number of different 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 first choice is whether to fund the deficit over 19 or 18.5 years. For both 19 and 18.5 years there is then a further choice to be made about the timing of the payments.

The option of 19 years is recommended as the reduction in CSB growth is felt to offer good value relative to the small extension in timescale for repaying the deficit. It should also be noted that this deficit recovery period is still ahead of the schedule set at the previous valuation.

The payment options allow for the deficit payment for the whole period to be paid at the start of the period, at the start of each year or on a monthly basis. Option B is recommended as it allows for the increase in deficit payments to be phased over the three years and takes advantage of the discount allowed for earlier payment without compromising the Council's cashflow position.

Reasons for Proposed Decision:

Essex County Council has set a deadline of mid-January for responses to their consultation and so it is necessary to evaluate and decide on one of the options.

Other Options for Action:

The shorter deficit recovery period could be adopted or Members could choose to either take full advantage of the front loaded payment option or not to front load at all.

Shortening the recovery period would increase CSB growth at a time when there are already budget pressures. Fully front loading the payments could create difficulties in the management of the Council's cashflows and would limit the ability to fund other demands at short notice without additional borrowing.

Report:

Introduction

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.

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 2013

3. This valuation revealed that the reduction in funding level between 2007 and 2010 had been reversed and the scheme funding had increased from 71 % to 77% (the value of the scheme's assets only cover 77% of the liabilities). There was some bad news as the County confirmed that there was a need for an increase in ongoing contributions, with a rise from 13% to 15.9% being suggested in all scenarios.

4. Deficit contributions had been calculated to recover the deficit over 22.5 years, with the maximum period allowed under the draft 2010 Funding Strategy being 24 years. Rather than move immediately to this position, and thereby limit any future flexibility, the County calculated extended deficit contribution periods based on maintaining stable contributions. For this Council the suggested period was 22.5 years and Member's chose this option, together with a phased increase in the deficit payments.

Valuation as at 31 March 2016

5. The valuation shows an improvement in funding level between 2013 and 2016 with the scheme now at an 85% funding level. This position is better than the previous valuation had anticipated and this is what has created the opportunity to recover the remaining deficit over a shorter period. If performance had been in line with expectations then three years on from a 22.5 year recovery we would be looking at a 19.5 year recovery.

6. Figures have been provided for recovery periods of either 19 or 18.5 years, and these are included at Annex 1. The difference in annual increases is summarised below using Option A for both recovery periods –

Financial Year	Increase – 18.5 Years	Increase – 19 Years	Difference
2017/18	£47,341	£17,127	£30,214
2018/19	£47,723	£46,545	£1,178
2019/20	£49,584	£48,360	£1,224

7. Given the level of net savings already required for 2017/18, an option with a £30,214 lower increase is welcome. This is particularly the case as the recovery period is only extended by 6 months and the overall position is still six months better than had been anticipated previously.

8. If the 19 year recovery period is assumed, it is then necessary to choose between the five options set out in Annex 1. As Option C has the same total payments over three

years as Option A but frontloads the increase in payments, Option A is preferable to Option C. Similarly, Option D has the same total payment as Option B but frontloads the increase and so Option B is preferable to Option D. This gets us to the position where the Options A, B and E need to be compared.

9. Options A and B both phase in the increase in payments over three years, the difference is that A spreads payments throughout each year whilst B requires the deficit amount to be paid in one lump in April each year. Option E has one deficit payment for the entire three year period at the start of the three years. As Options B and E have frontloaded payments some element of discount is allowed which reduces the total amounts to be paid.

10. ECC included paying the whole deficit contribution at the start of the first year as one of the options at the last valuation but some of the authorities that took this option were challenged by their external auditors. Additionally, the Council is currently working on a number of projects that may require significant funds at short notice and taking £3.5 million out of the cash flow would make it difficult to meet any further demands. For these reasons Option E is not recommended.

11. The comparison (Annex 2) shows that total payments are £91,424 lower for B than A and that this equates to an approximate discount of 4.9%. As 4.9% greatly exceeds the 0.54% currently being earned on temporary investments Option B is preferable to Option A. Paying £1.2 million in one amount instead of spreading it over the year will be manageable within the cashflow as there is still sufficient time to adjust for this. Therefore, in considering both the total payments necessary and the Council's cash flow Option B is the recommended option.

Ongoing Contributions

12. Having concentrated on the deficit payments, as that is the subject of the decision; it is worth mentioning the ongoing payments as these have increased. The ongoing contribution rate is expressed as a percentage of pensionable pay and is increasing from 15.9% to 18%, in monetary terms this is an increase of £322,434. The comments of the scheme actuary on ongoing contributions are given below –

An ongoing contribution rate is needed to obtain the level of contributions required to meet the cost of new pension benefits and this is usually based on the same assumptions as are used for the deficit.

For the 2016 valuation, the ongoing rate has been affected by the following.

- *Membership movements – this is very employer specific. With all else equal the younger the employer's membership profile the lower the cost as the contributions can be invested for longer. Overall the Actuary is reporting the membership age is slightly up.*

- *Financial assumptions – the Actuary's outlook of investment returns has deteriorated since the last funding valuation increasing the cost of the benefits. This has been the main reason for the increase in the ongoing rate.*

- *Mortality assumptions – after performing an analysis of the mortality over the inter-valuation period the Actuary has adjusted the mortality assumption due to a slight rise in deaths.*

- *Change of benefits – the effect varies due to the accrual rate of 1/60ths moving to 1/49ths for each year of pensionable service following the CARE scheme implementation on 1 April 2013.*

- *50/50 scheme – the assumption at last valuation was higher than the inter-valuation experience this has been reduced following the review of data.*

Resource Implications:
The increase in ongoing contributions is partly off-set by the reduction in deficit payments. If Option B is adopted there will be a saving of £12,189 in 2017/18 to credit to the District Development Fund. This is followed by Continuing Service Budget growth of £33,212 in 2018/19 and £47,172 in 2019/20. Both the saving and the growth will need to be apportioned between the Housing Revenue Account and the General Fund.

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

The options recommended are intended to balance the financial and cashflow risks faced by the Council.

Due Regard Record

This item shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
4/11/16 Director of Resources	There are no equality implications arising from the recommendation of this report. The report concerns a choice between alternative methods of spreading pension payments and does not affect any group of people.