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Item 6

Pension Fund Valuation 2013 and Financing Strategy

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SUMMARY

All Council employees have an opportunity to join the Cumbria Local Government Pension Scheme (the Pension Fund). This is a statutory and funded scheme, governed by the provisions of the Local Government Pension Scheme (LGPS). The Pension Scheme aims to balance liabilities (pensions being paid to former employees and future pensions to be paid to current employees) and assets. Assets are held in a variety of forms, primarily equities and property, which are funded out of the contributions made by employees and employers.

The Cumbria LGPS is administered by Cumbria County Council as administering authority. The Pension Scheme is operated for a number of employing organisations, primarily Cumbria County Council itself and the six district councils. Whilst the scheme assets are managed on an overall basis, the liabilities are specific to each individual employing organisation. At any one time, each employing organisation will have a share of the assets to set against its own liabilities.

This report considers the results of the 2013 Pension Fund valuation, Copeland Council's contribution rates for the next three years and proposes a financial strategy to address the next 3 year component of recovering the deficit.

Executive are asked to:

1. Note the deficit position on the Pension Fund arising from the results of the Triennial review and actuarial advice.
2. Recommend to Council for approval the utilisation of reserves for the purpose of providing a one off lump sum payment as part of the strategy to address the pension fund deficit.
3. Approve the sum of £600K to be financed from general fund reserves £420K and from risk based reserves £180K.
4. Note the changes in the contribution rate for future service.
5. Note the impact on the Medium Term Financial Strategy set out in para 5.4

1. INTRODUCTION

1.1 All Council employees have an opportunity to join the Cumbria Local Government Pension Scheme (the Pension Fund). This is a statutory and funded scheme, governed by the provisions of the Local Government Pension Scheme (LGPS). The Pension Scheme aims to balance liabilities (pensions being paid to former employees and future pensions to be paid to current employees) and assets. Assets are held in a variety of forms, primarily equities and property, which are funded out of the contributions made by employees and employers. The contribution rates are currently between 5.5% and 7.5% (dependent on salary) for employees (these are set nationally) and 20.1% for the Council (this is specific to each employer).

1.2 The Cumbria LGPS is administered by Cumbria County Council as administering authority. The Pension Scheme is operated for a number of employing organisations, primarily Cumbria County Council itself and the six district councils. Whilst the scheme assets are managed on an overall basis, the liabilities are specific to each individual employing organisation. At any one time, each employing organisation will have a share of the assets to set against its own liabilities.

1.3 It is a requirement of the LGPS that, every three years, the administering authority requests its actuary to do a full revaluation of the scheme assets and liabilities to determine what contribution rate will be required from each employing authority to ensure that the fund is solvent in the longer term.

1.4 The rate required of each employing organisation is currently made up of the rate required to fund the liabilities from future service and also to fund liabilities arising from past service.

1.5 Each administering authority is required to produce a Funding Strategy Statement. This requires it to set out what factors are taken into account in setting the contribution rates payable by each employing organisation. The period for recovering the deficit for each employer is one factor to be included.

1.6 The last revaluation was conducted in 2011. This saw the Council's contribution rate increase to 20.1%, made up of future service rate of 11.7% and 8.3% for deficit reduction, with the deficit recovery period of twenty five years.

1.7 As from 1 April 2014, the LGPS will change from a final salary basis. This is the product of the Government's wish to see a cheaper scheme for employers and one that is sustainable in the long-run. The actuary has estimated that, all other things being equal, employers' contribution rates have been reduced by 2 percentage points by the introduction of the new scheme.

2. RESULTS OF VALUATION

2.1 Over the longer term, Cumbria County Council has performed well in the management of the Fund's assets, relative to other administering authorities. However, like all public and private pension funds, recent years have been difficult. Poorer returns, combined with greater longevity of current and future pensioners, puts increasing pressure on the Fund's solvency.

2.2 The level of solvency of the overall fund currently stands at some 83%. Levels of funding can vary quite markedly over any period. For example, this was 88% at the last valuation in 2010, but was only 76% in 2004). As noted above, it is a statutory requirement that the Pension Fund should aim for solvency over the long term, ie liabilities should be fully matched by assets. This requires that any identified deficit is recovered over a reasonable timescale.

2.3 The valuation results as at 31 March 2013, for Copeland, show a funding level of 75%: the deficit of 25 percentage points represents £17.019M. Due to good investment returns, funding had increased to 78% by 31 August 2013: a reduced deficit of £14.016M. Furthermore, the actuary determined that gilt yields (used to calculate the cost of liabilities) were unusually low and has recast his calculation of the deficit using his assessment of the longer term gilt yields. This has reduced the deficit at 31 August 2013 to £10.994M (a funding level of 82%). The annul lump sum deficit contributions (see paragraph 4.5 below) are based on this valuation.

2.4 Cumbria County Council is required to set out the recovery periods that it will allow employing authorities to use to recover their deficits. Cumbria County Council has set a recommended deficit recovery period of 19 years.

3 Contributions for Future Service

3.1 The Employer's contribution at Copeland for April 2014 to March 2017 for future service has been set at 12.4%.

4. Contributions for Recovering the Deficit

4.1 The Council's <u>current</u> contribution rate of 20.1% is made up of 11.7% to cover future service and 8.4% to recover the deficit. Recovering the deficit through an additional percentage contribution has been the historic way of deficit recovery, throughout the LGPS.

4.2 However, on the advice of the actuary, Cumbria County Council (as administering authority) has decided that deficit recovery will be by pre-set lump sums. This is to ensure that declining workforce numbers do not lead to under-funding of deficits. The amount of annual lump sums will be dependent on the term of the recovery period and the level of up front payment which Copeland Borough Council decides to offer.

4.3 In cash terms the Medium term financial plan on existing staffing establishment (prior to any restructuring) equates to 20.1% or £908,700 pa. In future the contribution rate of 12.4% will equate to approximately £560,580 pa. This will leave a balance of £348,120 pa already budgeted to contribute to the requirement to provide a lump sum.

5 RESOURCE REQUIREMENTS

5.1 It is proposed that the council provides a lump sum payment of £600K in advance and separate to the annual payments of the deficit now a lump sum not a percentage contribution. This lump sum will be funded from the following reserves:-

Amount	Reserve	Note
£180K	Risk Based Reserve	Reduces balance
£420K	General Fund	General Fund via EM reserves review £420K and £180K GF

5.2 The risk based reserve provided an element of £180K, anticipating that there may be a shortfall or deficit on the pension fund given the recent performance of the equities and the aging population demographics. This risk has now materialised and so the relevant section for the risk based reserve will be released to meet this, The resulting risk based reserve will drop from £2.1M to approx. £2M – this is also considered as a separate item on this agenda,

5.3 The general fund reserve is also known as the council's contingency and it is proposed that the remaining funding is taken from this £420K. This will result in a limited remaining general fund as the budget proposals for 2014/15 already assume the change programme is smoothed via the use of this one off reserve. The balance on the general fund is also considered as a separate item on this agenda, and is estimated to be £XK>

5.4 Assuming the option is taken to fund the pension deficit by a lump sum of £600K in 2013/14 and then via the annual lump sum method required by the Pension Administrator, the impact on the councils MTFS will be:-

	Impact on MTFS additional in year funding to be found (savings to be identified)
2014/15	£82K
2015/16	£206K
2016/17	£340K

6. CONCLUSION

6.1 The proposal is to provide a lump sum payment to help address the pension fund deficit of £600K and that the repayment is phased over a 19 year period. This lump sum will be funded by using the risk based reserve and the general fund reserve (primarily from the review of EM reserves)

7 STATUTORY OFFICER COMMENTS

7.1 The Monitoring Officer’s comments are: The Council is required to fund the deficit in the pension fund. Council approval is required for use of reserves for a one-off payment as described in the report.

7.2 The Section 151 Officer’s comments are: Contained in the report

7.3 EIA Comments:

7.4 Policy Framework:

8 HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

8.1 Through the monthly budget monitoring process in which management and finance staff work together to ensure financial reports are accurate and timely to assist the decision making process of the Council as a whole. The lump sum payments will be identified as separate cost centres and monitored monthly through Corporate Leadership Team and to Executive on a quarterly basis. It is also good financial practice to report the year-end position on the lump sum payments as part of the revenue outturn budget report.

9 WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

9.1 The council is obliged as employer to meet its legal obligations and to the pension fund.