CHILTERN DISTRICT COUNCIL
CABINET 11th FEBRUARY 2014

Background Papers, if any, are specified at the end of the Report

PENSION FUND

***Contact Officer**: Jim Burness 01494 732095*

RECOMMENDATION

Cabinet are asked to:

1. **Consider, based on the information from the Bucks Actuary whether to increase or not employers contributions, and if so by how much.**

Relationship to Council Objectives

(i) The prudent use of resources is one of the authority's management principles alongside the management of risk, including financial risks. The Pension Fund costs have implications for the authority's medium term financial plan.

Implications

(i)This matter is a key decision within the forward plan

Financial Implications

The decision as to the level of employer contributions to be made from April 2014 will need to be reflected in the 2014/15 budget. The increase in cost could range between nil and £340k depending upon decisions taken.

Risk Implications

There is a financial risk to the authority if the Pension Fund deficit continues to extend thereby increasing interest costs and making the cost of the scheme more expensive for a longer period.

Equalities Implications

None

Sustainability Implications

None.

Report

1. The employees of the Council are eligible to be members of the Local Government Pension scheme, which is a national scheme whose conditions are set in legislation. The pension scheme in Buckinghamshire is administered by Bucks CC, and this includes management of the Pension Fund's investments. The governance of the Pension Fund is by the Pension Fund Committee, which comprises nine Members, six from Bucks CC plus one each from Thames Valley Police, Milton Keynes Council, and a representative of the District Councils. The District Council representative is currently Cllr Gladwin from Chiltern. In addition there is a Pensions Consultative Group with representatives from Employer bodies, pensioners, employees and Trade Unions.

2. Every three years the Actuary for the Fund is required to carry out a revaluation of the Fund with the outcome to certify levels of employer contributions to secure the solvency of the Fund going forward. In 2013 the Actuary undertook his latest revaluation exercise which would lead to contributing authorities reviewing and setting their individual contribution levels for the period 2014/15 to 2016/17.

3. In simple terms the Actuary looks at the projected payments out of the Fund using probability models, and then discounts back these payments to a single "value". The value is then compared with the assets of the Fund and this then leads to the determination of the contribution required to meet the value of annual accrual of benefits in the future. The contributions from employees are defined by the statutory scheme, those of employers vary depending on the overall financial position of their element of the Fund.

4. At the point of a revaluation, if current levels of contribution are not sufficient to meet in full projected liabilities then the Fund has a deficit which will need to be recovered from future contributions. For the period over which any deficit is recovered, the employers contributions will be at a higher level than required just to meet current and future funding needs. Also over the period the deficit is recovered there will be interest costs accruing on the outstanding deficit, and therefore the longer the recovery period the greater will be the interest costs.

5. Although the Bucks Pension Fund is a single fund in terms of its investment strategy and management, for actuarial valuation purposes it is divided into it component elements related to each employing authority (termed "admitted body"). Therefore the Actuary reports on overall position of the whole Fund, and the position for each authority.

The 2013 Revaluation Results

6. The Actuary makes a number of assumptions when arriving at his valuation figures, and these are looking at the long term, 20 years plus, operation of the Fund. These assumptions are not something that the individual authorities can change, but it is something for them to consider when deciding on their response to the valuations. The key assumptions are:

- RPI assumption 3.54%
- CPI assumption 2.74%
- Investment returns - equities 6.9%
  -gilts 3.3%
  - bonds 3.9%
  - property 6.0%
- Pay increases - 2.7% short term, 4.5% long term
- Discount rate on benefits 6.15
- Pension increases 2.7%

7. For the Bucks Fund as a whole the key information from the revaluation is as follows.

	2010 £k	2013 £k	% Change
Value of Fund Assets	1,321,679	1,768,992	+34%
Value of Liabilities	1,670,814	2,157,476	+29%
Deficit	-349,135	-388,484	+11%
Funding Level[1]	79%	82%	+3%

Note: Funding level is deficit related to liabilities

8. The table shows that whilst in cash terms the difference between assets and liabilities has increased over the last three years, this deficit has decreased as a percentage of total liabilities, i.e. the funding level has increased.

9. For Chiltern DC the key figures are:

	2010 £m	2013 £m	Change %
Deficit	11.2	14.7	+31%
Funding Level	73%	71%	-2%
Payroll	5.1	5.4	+6%

10. On advice from the Actuary the reason for the movement in the Chiltern position between 2010 and 2013 can be summarised as follows.

- Chiltern's proportion of the Fund was less well funded than average at 2010 so the investment returns applied to less assets so less return in cash terms.

- In 2010 Chiltern DC chose to increase its employers contribution over more than one year, so less cash contributions were made than would have been the case if the whole increase had been from 2011.

- The various changes in assumptions on the level and timing of liabilities impact differently on employers depending on their liability mix and employers with a higher proportion of retired members got hit harder than those with lower proportions.

11. In 2010 the intention for the employers was to reduce their deficits at that time over a maximum of 20 years. Three years on that would imply recovering the deficit over a maximum of 17 years.

12. There are a range of approaches that the authority could adopt in determining its strategy to the level of contributions to the Pension Fund for the next three years. The approach adopted will be influenced by the relative weighting given to:

    1. Deciding on what is an affordable and acceptable level of employer contribution. Contribution is currently 27.6% of payroll costs.

    2. Reducing the recovery period for the deficit, and thereby the interest costs incurred.

13. The approach will also be influenced by the authority's views on the assumptions made by the Actuary, and whether they may be pessimistic or optimistic, as this may lead the authority to take a different view as to what a level of contribution will achieve.

14. Appended to this paper are a few illustrative scenarios showing the implications of holding contributions at the current level or reducing the deficit recovery period. Some of these scenarios show a stepped increase in the employers contribution over the three years, but others show the effect of making the cumulative three year increase from year one.

15. There is also illustrated the effect of making a one off additional contribution from revenue to reduce the deficit.

16. What the scenarios illustrate is:

- Maintaining the current level of contributions significantly extends the recovery period and interest costs beyond 20 years based on the Actuary's calculations.

- Bringing the recovery period to 20 years increases the contribution level ultimately by £177k or £179k depending on whether there is a stepped increase or not. This equates to approximately 31% of payroll cost.

- Bringing the recovery period to 17 years materially increases the annual cost by up to £340k, or 33% of payroll.

- One off revenue contributions reduce the ongoing level of contribution required by approximately, £70k, 1.2%, per £1m.

17. In broad terms the cost of reducing the recovery period is summarised in the following table.

	Maximum additional cost £k	Interest on Deficit £k
No change to recovery period (29yrs)	-	21,502
Reduce recovery period to 20 yrs	179	11,714
Reduce recovery period to 17 yrs	340	10,305

18. Based on the information and the authority's views on the Actuary's assumptions, the decision to be made can be framed as.

- Should contribution levels be increased, and if so by how much.

- If contributions are increased should that be as a stepped increase, or a single increase.

Background Papers: None

ILLUSTRATIVE SCENARIOS

Scenario	Employer contributions £k			Employer contributions % of payroll			Recovery Period	Interest Cost
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17	Years	£k
No change	1,542	1,584	1,628	27.6%	27.6%	27.6%	29	21,502
Reduce recovery period to 20 yrs – stepped increase	1,679	1,741	1,805	30.1%	30.4%	30.7%	20	12,756
Reduce recovery period to 17 yrs – stepped increase	1,828	1,897	1,968	32.7%	33.1%	33.4%	17	10,305
Reduce recovery period to 20 yrs – non stepped increase	1,713	1,762	1,807	30.7%	30.7%	30.7%	20	11,714
Make £1m one off contribution	1,615	1,674	1,736	28.9%	29.2%	29.5%	20	11,902
	Add cost over no change option £k			Change in Employers contribution rate %			Recovery Period	
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17	Years	
No change	-	-	-	-	-	-	29	
Reduce recovery period to 20 yrs – stepped increase	137	157	177	2.5%	2.8%	3.1%	20	
Reduce recovery period to 17 yrs – stepped increase	286	313	340	5.1%	5.5%	5.8%	17	
Reduce recovery period to 20 yrs – non stepped increase	171	178	179	3.1%	3.1%	3.1%	20	
Make £1m one off contribution	73	90	108	1.3%	1.6%	1.9%	20	