SUBJECT:	Pension Fund Triennial Revaluation
REPORT OF:	Director of Resources

1. Purpose of Report

1.1. The report provides members with the outcome of the triennial revaluation of the Bucks Pension Fund, and the implications for the Council.

2. Links to Council Policies & Plans

2.1 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.

3. Information

3.1. The employees of the Council are eligible to be members of the Local Government Pension scheme. 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.

3.2. 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.

3.3. 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.

3.4. 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.

3.5. 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

3.6. 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%

3.7. For the 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

3.8. 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.

3.9. For South Bucks DC the key figures are:

	2010 £m	2013 £m	Change %
Deficit	6.0	6.9	+15%
Funding Level	82%	83%	+1%
Payroll	3.8	3.6	-5%

3.10. The South Bucks position has remained broadly stable since the last revaluation, even though the deficit has risen in cash terms, the actual funding level has improved slightly. At the current level of contributions it will take 22 years to recover the deficit.

3.11. In 2010 the intention for the employers was to reduce their deficits at that time over a maximum of 20 years. The significance of 20 years is that when the recovery period is greater than this, the actual deficit will continue to grow for a period before it starts to decline. Three years on from 2010 would imply recovering the deficit over a maximum of 17 years if the original strategy is adhered to. Going forward the authority needs to frame its strategy in respect of Pension Fund contributions, by weighing up the following factors.

1. Deciding on what is an affordable level of employer contribution.

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

3.12. Appended to this report 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 year, others the effect of making the cumulative three year increase from year one. Making a single increase as opposed to a stepped increase has the advantage of increasing the benefits from the performance of the assets of the Fund as more funds are being invested for a longer period.

3.13. 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 (22yrs)	-	6,825
Reduce recovery period to 20 yrs	140	5,980
Reduce recovery period to 17 yrs	215	4,833

4. Resource and Wider Policy Implications

4.1 The draft budget for 2014/15 did not contain any provision for increasing the level of employers contributions. If a decision is made to increase contributions then the draft budget will be adjusted accordingly. In the medium term consideration will need to be given to identifying savings to offset any increase in contributions.

4.2 If the recovery period is left unchanged at 22 years then for two years the deficit will increase before it starts to decline.

5. Recommendations

The Cabinet is recommended to:

1. Increase the employers contribution by £140k pa (3.2% of payroll) effective from 2014/15, and the budget be adjusted accordingly.

2. That the savings target for years after 2014/15 be increased by an equivalent amount to fund the ongoing additional cost.

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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	777	799	820	22.9%	22.9%	22.9%	22	6,825
Reduce recovery period to 20 yrs - stepped increase	893	925	958	25.6%	25.8%	26.1%	20	6,004
Reduce recovery period to 17 yrs - stepped increase	963	998	1,035	27.6%	27.9%	28.1%	17	4,850
Reduce recovery period to 20 yrs - non stepped increase	911	935	960	26.1%	26.1%	26.1%	20	5,980
Reduce recovery period to 17 yrs - non stepped increase	981	1,008	1,033	28.1%	28.1%	28.1%	17	4,833
	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	-	-	-	-	-	-	22	
Reduce recovery period to 20 yrs - stepped increase	116	126	138	2.7%	2.9%	3.2%	20	
Reduce recovery period to 17 yrs - stepped increase	186	199	215	4.7%	5.0%	5.2%	17	
Reduce recovery period to 20 yrs - non stepped increase	134	136	140	3.2%	3.2%	3.2%	20	
Reduce recovery period to 17 yrs - non stepped increase	204	209	213	5.2%	5.2%	5.2%	17	