

Committee: Finance & Administration

Agenda Item

Date: 25 March 2010

9

Title: Essex Pension Fund

Author: Stephen Joyce, Chief Finance Officer

Item for information

Summary

1. On 12 February the Finance & Administration Committee Chairman and Chief Finance Officer attended the Essex Pension Fund Employer Forum. This report provides a summary of key issues discussed.
2. The triennial valuation of the Fund will be carried out in 2010. This will result in a new Funding Strategy and deficit recovery plan. The deficit on the Pension Fund has grown significantly since 2007. The new funding strategy will have to balance the requirement to ensure a solvent pension fund with affordability pressures upon membership bodies. Changes to employer's contributions to the fund will take effect from April 2011.
3. District Councils are represented on the Essex Pension Board by two district council members (currently one from Maldon and one from Castle Point). The Chief Finance Officer will attend a forthcoming Board meeting as an observer to gauge the extent to which district councils' interests feature in the Board's discussions.

Recommendations

4. To note this report

Background Papers

[Summary of pension arrangements](#) received by the Performance Select Committee on 29 September 2009

Material presented at the Essex Pension Fund Employers Forum 12 February 2010.

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Health and Safety	None

Human Rights/Legal Implications	None
Finance	In 2010/11 the Council's contribution to the pension fund deficit is £422,000 (General Fund £370,000, HRA £51,000). The contribution to meet new liabilities arising is 12.5% of salary, budgeted to be £737,000 for General Fund and around £100,000 for HRA. An increase in cost is expected from April 2011. Assumptions have been built into the Medium Term Financial Strategy.
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	Approximately 82% of employees are members of the pension scheme.

Pension Fund Deficit & Recovery

5. The Pension Fund is subject to a formal revaluation every three years, with interim valuations in the intervening years. As with all Local Government Pension Schemes, the Essex Pension Fund's assets are less than its liabilities. The following shows the size of the deficit on the Fund as at the date of the last triennial valuation and subsequently.

	31 March 2007 (triennial valuation)	31 March 2009	31 October 2009 (estimated)	12 February 2010 (estimated)
Assets	£3,043m	£2,225m	£2,700m	£2,700m
Liabilities	£3,825m	£4,349m	£4,700m	£4,500m
Deficit	£782m	£2,124m	£2,000m	£1,800m
Asset coverage %	80%	51%	58%	60%

6. The sharp reduction in asset values is primarily due to turbulent financial markets (60% of the Fund's assets are in equities). There has been recovery in 2009/10, however.

7. The performance of Essex Pension Fund in relation to maximising the value of its assets has been slightly below the benchmark level. In the year to 31 March 2009, Essex performed 1.4% below benchmark, although in the 5 years to 31 March 2009, performance was only 0.5% below benchmark.
8. The Fund is carrying out some active management of its investments portfolio to improve performance while ensuring an appropriate balance between risk and return. A reduced exposure to equities markets is being considered.
9. The next triennial valuation will be as at 31 March 2010. Indicative results will be known in October and firmer figures by December, just in time to inform 2011/12 budget setting.
10. A new funding strategy statement will emerge from the valuation that will set out how the deficit is to be reduced. Without mitigating measures, the deficit recovery payments will need to increase by around 5% of salary – this would be about £400,000 for the Council.
11. The funding strategy developed in 2007 (adopted from 2008/09) was for a 20-year deficit recovery period (so there is 18 years left). As the deficit has grown substantially, a longer deficit recovery period is likely to be adopted so that employers can afford to make the required level of contribution. Recovery periods of up to 30-40 years are likely to be examined. The Council will be consulted on the proposals in the Autumn.
12. Based on information provided in late 2009 by Essex Pension Fund, the MTFS assumes an increase in cost equivalent to an additional 1.3% of salary (around £100,000) per year, every year.
13. The next Employers Forum will be in October. Meanwhile, the Chief Finance Officer will monitor developments through the Essex Pension Board. Key issues arising will be reported to this Committee.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Pension deficit payments become unaffordable	2 [mitigation measures likely]	3 [sums involved are potentially significant]	Respond to funding strategy consultation Build latest assumptions into MTFS

- 1 = Little or no risk or impact
 2 = Some risk or impact – action may be necessary.
 3 = Significant risk or impact – action required
 4 = Near certainty of risk occurring, catastrophic effect or failure of project.