| | | |
|---|---|---|
| **Committee:** | **Extraordinary Finance & Administration** | **Agenda Item** |
| **Date:** | **14 December 2010** | **2** |
| **Title:** | **Pension Fund Funding Strategy Consultation** | (item 10 at meeting of 25 November 2010) |
| **Author:** | **Stephen Joyce**<br>**Assistant Chief Executive – Finance**<br>**Tel. 01799 510628** | Item for decision |

**Summary**

1. The Council is an employing authority member of the Essex Pension Fund, administered by Essex County Council.

2. The Pension Fund is subject to a formal triennial valuation; the valuation as at 31 March 2010 has been carried out. This will inform the Pension Fund funding strategy for the three years 2011/12, 2012/13 and 2013/14.

3. Due to a fall in the value of Pension Fund investments, and an increase in the projected future value of liabilities, the deficit on the Pension Fund has increased since the previous valuation. The Council's share of the deficit has increased.

4. The Council is required to pay off the deficit at a rate specified by the Pension Fund Board, based upon independent actuarial advice. The Council is being consulted on the rate of deficit repayment. Five scenarios have been developed of which three would cause a significantly higher annual payment, one would reduce the annual payment, and one would maintain the payment at 2010/11 levels.

**Recommendations**

5. The Committee is recommended to authorise the Assistant Chief Executive – Finance to respond to the consultation on the basis of paragraph 18 of this report.

**Financial Implications**

6. The impact of the recommendation, assuming that the consultation response is accepted by the Pension Fund Board, is to commit the Council to its existing budgeted pension fund deficit contribution of £420,000 pa for the next 3 years, with modest annual increases. This has been built into the Medium Term Financial Strategy so no additional financial pressure will arise. In the unlikely event that the Pension Fund does not accept our response, then the financial implications would be serious. These are detailed in the report below:

**Background Papers**

7. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

   Background Report to Performance Select Committee 21 September 2010

   Draft funding strategy statements and other material provided by Essex County Council

**Impact**

| | |
|---|---|
| Communication/Consultation | The County Council is consulting UDC. |
| Community Safety | None |
| Equalities | None |
| Health and Safety | None |
| Human Rights/Legal Implications | None |
| Sustainability | None |
| Ward-specific impacts | None |
| Workforce/Workplace | None |

**Situation**

8. The Pension Fund deficit has increased since the previous valuation:

| | **31 March 2007** | **31 March 2010** |
|---|---|---|
| Assets | £3.0 billion | £3.1 billion |
| Liabilities | £3.8 billion | £4.3 billion |
| Deficit | £0.8 billion | £1.2 billion |
| Funding level | 80% | 71% |
| | | |
| UDC share of the assets | £42.8 million | £38.9 million (estimate) |
| UDC share of the liabilities | £48.6 million | £52.5 million (estimate) |
| UDC share of the deficit | £5.8 million | £13.6 million |
| UDC funding level | 88% | 74% |

Source: Essex County Council

9. The Pension Fund recognises that significant increases in pension fund deficit payments are not affordable or politically acceptable. The Fund has therefore been examining alternative funding strategies.

10. The previous funding strategy was based on a 20 year deficit recovery period. If the 20 year period remained, the annual payment required by this Council would more than double from the present of level of £420,000 pa. (Scenario 1)

11. The chief measure being proposed is the extension of the deficit recovery period from 20 to 30 years, so that the annual payment is lower.

12. For Uttlesford, extending the recovery period to 30 years would still lead to a significant increase in the annual payment, of c. 50%. (Scenarios 2 and 3)

13. For Uttlesford and other employing authorities in this position, the Fund and its actuary is proposing an alternative scenario which allows for more optimistic predictions of future investment performance. This would actually reduce the size of the annual payment. (Scenario 4)

14. While a reduction in the payment may seem attractive this is not necessarily sensible in the longer term and it not a particularly prudent manoeuvre given the Council's responsibilities as an employer. The effect would likely to be to stack up more significant financial pressures that would impact from the next triennial valuation.

15. At the Council's request a fifth option has been exemplified based upon maintaining the deficit payment at the existing level, with modest annual increases. (Scenario 5).

16. The various scenarios are summarised below. Please note that all figures are the total amount paid by the Council for deficit recovery; approximately 12% of the total is met by the Housing Revenue Account.

| **Scenario** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| All figures £000 | 20 year deficit recovery period | 30 year deficit recovery period (flat rate) | 30 year deficit recovery period (annual increase) | 30 year deficit recovery period (Improved Investment Return) | 30 year deficit recovery period (2010/11 payment) |
| 2011/12 deficit payment | 835 | 623 | 595 | 362 | 420 |
| 2012/13 deficit payment | 873 | 623 | 622 | 362 | 439 |
| 2013/14 deficit payment | 912 | 623 | 650 | 362 | 459 |
| Total payment over 3 years | 2,720 | 1,869 | 1,867 | 1,086 | 1,318 |

17. An increase in pension fund deficit payments had been anticipated for some time and built into the Medium Term Financial Strategy. However, when the MTFS was updated and reported to this Committee in September, the County Council was then indicating that action was being taken to ensure no increase in employer contributions. Accordingly the current MTFS assumes no increase. Any option that increases the deficit payment will therefore put additional pressure onto the MTFS and increase the level of savings required during the next few years.

18. It is recommended that the Council indicate that Scenario 5 is the preferred option, with Scenario 4 as the second most preferable. It is recommended that the Council confirms that Scenarios 1, 2 and 3 are not acceptable.

19. The above figures relate to paying off the historic pension fund deficit. There is also a need to ensure that the cost of new liabilities that accrue from current employed staff are met by employer's superannuation contributions. The 2010/11 contribution rate is 12.5% of pay. The actuary has determined that the rate from 2011/12 shall be 13%. The Council has no discretion over this and accordingly 2011/12 budget are being prepared on this basis. An increase of 0.5% is equivalent to around £35,000 (General Fund) and £6,000 (HRA).

20. For further background information about the Pension Fund, please refer to the report to Performance Select Committee in September. hyperlink

**Risk Analysis**

| Risk | Likelihood | Impact | Mitigating actions |
|---|---|---|---|
| The ECC Pension Fund Board may impose an unaffordable funding strategy | 1 (extremely unlikely based upon statements already made) | 4 (some scenarios would be unaffordable) | Respond to the consultation. |

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.