

Committee: Performance Select
Date: 29 September 2009
Title: Pensions
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Agenda Item

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Item for
information

Summary

- 1 When the Committee approved the draft Statement of Accounts on 30 June, concern was expressed over the size of the Pension Fund deficit and some of the actuarial assumptions. The Committee requested further information about the Pension Fund.
- 2 Summary information is provided in this report. The Committee may wish to request more detailed information about any specific aspect.
- 3 As reported elsewhere, an adjustment to pensions costs in the accounts has been required, which has served to highlight the complexity of this area.

Recommendations

To note this report

Background Papers

[Essex Pension Fund Report and Accounts 2007/08](#)

2008/09 Actuarial information used for the Statement of Accounts

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Finance	No specific implications
Human Rights	None
Legal implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	No specific implications

Essex Pension Fund

- 4 Under the Local Government Pension Scheme Regulations 1997, Essex County Council is required to maintain a pension fund (the Fund) for its employees and those of other Scheduled Bodies within its area. These include district councils and therefore, Uttlesford District Council.
- 5 The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from Scheduled Bodies and community interest bodies. The Fund now contains around 350 separate employing bodies.
- 6 82% of Uttlesford DC's employees are members of the pension scheme.
- 7 Employees who are members of the pension scheme are required to contribute a percentage of their salary into the scheme. Employers are also required to contribute a percentage of scheme members' salary. These contributions are to meet the estimated cost of benefits that scheme members accrue while in employment and will receive when they retire.

Governance of the Pension Scheme

Essex Pension Fund Board

- 8 The Essex Pension Fund is governed by the Essex Pension Fund Board. Membership is as follows:

Six County Council Members	Cllr R L Bass (Chairman) Cllr Mrs T M Chapman (Deputy Chairman) Cllr S Candy Cllr D M Finch Cllr T C Smith-Hughes Vacancy
Two District/Borough Council members	Cllr J P F Archer (Maldon) Cllr Mrs P A Challis (Castle Point)
One Unitary Council member	Cllr A Moring (Southend)
One Essex Police Authority member	Cllr A J Jackson
One Essex Fire Authority member	Cllr E C Johnson
One UNISON member	Mr A Meyrick

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- 9 The Terms of Reference of the Board are:
- a) To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund
 - b) To monitor and oversee the work of the Investment Steering Committee through its quarterly reports.
 - c) To monitor the administration of the Pension Scheme, including the benefit regulations and payment of pensions and their day to day administration including the Internal Disputes Resolution Procedures, and ensure that it delivers best value and complies with best practice guidance where considered appropriate.
 - d) To exercise Pension Fund discretions on behalf of the Administering Authority.
 - e) To determine Pension Fund policy in regard to employer admission arrangements.
 - f) To determine the Pension Fund's Funding Strategy and approve its Funding Strategy Statement
 - g) To receive periodic actuarial valuation reports from the Actuary.
 - h) To coordinate Administering Authority responses to consultations by Central Government, professional and other bodies.
 - i) To consider any views expressed by employing organisations and staff representatives.
- 10 Minutes of Pension Fund Board meetings are viewable on the Essex County Council website.

Investment Steering Committee

- 11 The Investment Steering Committee reports to the Pension Fund Board. Its current membership is as follows:

Six County Council Members	Cllr Rodney L Bass (Chairman), Cllr Mrs Tracey Chapman (Deputy Chairman), Cllr Sarah Candy, Cllr David Finch, Cllr Michael Lager Cllr Tom Smith-Hughes.
One non-voting employers' representative	Cllr J P F Archer (Maldon)
One non-voting scheme members' representative	Mr A Meyrick

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- 12 The Committee's terms of reference:
- a) to approve and annually review the content of the Statement of Investment Principles.
 - b) to appoint and review investment Managers, Custodian and Advisors.
 - c) to assess the quality and performance of each Investment Manager annually in conjunction with investment advisers and the Chief Financial Officer.
 - d) to set the investment parameters within which the Investment Managers can operate and review these annually.
 - e) to monitor compliance of the investment arrangements with the Statement of Investment Principles.
 - f) to assess the risks assumed by the Fund at a global level as well as on a manager by manager basis.
 - g) to approve and review the asset allocation benchmark for the Fund.
 - h) to submit quarterly reports on its activities to the Essex Pension Fund Board.
- 13 The Committee's minutes will soon be available on ECC's website.

Pension Fund Valuations and Deficit

- 14 The Pension Fund's assets and liabilities are valued by an independent actuary every 3 years. The next valuation date is 31 March 2010. The valuation is used to determine how much each scheme employer has to contribute into the Fund.
- 15 The Pensions Fund's assets are its investments, principally equities, managed funds, unit trusts, securities, property and cash deposits. The value of assets are therefore susceptible to fluctuations in share prices and property values.
- 16 The Pension Fund's liabilities are its commitments to make pension payments to scheme members. The value of the liabilities varies according to assumptions about the life expectancy of scheme members and the benefits payable.
- 17 The Pension Fund is in deficit. At the last valuation, March 2007, its assets were approximately 80% of its liabilities. The deficit was valued at £782m.
- 18 Since March 2007, investment values have fallen, although in recent weeks there have been signs of partial recovery. A much larger deficit is expected following the next valuation in March 2010.

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- 19 Scheme employers are required to make contributions to the Fund to pay off the deficit over a period of time determined by the Actuary. The current deficit recovery period is 20 years. This may be extended if the Actuary feels it is prudent to do so. Scheme employers are unlikely to find deficit payments affordable without such an adjustment.
- 20 The deficit in the Essex Pension Fund is mirrored in local government pension schemes across the country and indeed most other pension funds generally.
- 21 Restoring the pension fund to a position of no deficit is unlikely without a significant re-balancing of the financial commitments between employers and employees, and/or a significant adjustment to the benefits realisable by scheme members.

Uttlesford District Council's pensions costs

- 22 The following is a summary of pensions costs in 2008/09. It shows that total costs of routine items. The approximate annual cost was just below £1.4m. 2008/09 saw a one-off additional adjustment to account for future contractual commitments, and a one off transfer to capital expenditure, so that the net revenue cost was £775,000. However, £1.4m is the level of expenditure one would expect in a typical financial year.

£000	General Fund	Housing Revenue Account	Total
Employer's contributions (10.8% of salary)	589	82	671
Deficit recovery payment	371	51	422
Added Years Payments	95	13	108
Financial Strain payments	121	22	143
Other items	24	3	27
Sub-total	1,200	171	1,371
Provision for contractual future year's contractual commitments	454	86	540
Sub-total	1,654	257	1,911
Capitalisation approval	(1,136)	-	(1,136)
Net Revenue Expenditure	518	257	775

Accounting for Pensions Costs

- 23 To prepare the Statement of Accounts, a series of complex accounting adjustments have to be made to comply with accounting rules.
- 24 The objective of the accounting adjustments is to:
- a) Ensure that the accounts show the full economic cost of the ongoing liabilities arising from membership of the Local Government Pension Scheme
 - b) Ensure that the bottom line impact on the General Fund and Council Tax Payer is equal to the cash payments made into the Pension Fund during the year.
- 25 In practice this means:
- a) Charging actual employer's contributions as made via monthly payroll to a revenue account.
 - b) Removing the actual contributions made from the accounts above and replacing it with notional measures of the full economic effects based on information supplied by Essex County Council (initial version received 30 April, finalised version received 4 June). This has to be analysed by service category in accordance with the CIPFA Best Value Accounting Code of Practice (BVACOP). The BVACOP service categories bear no relation to the Council's committee budget structure.
 - c) Reversing out the notional entries so that no notional items impact upon the bottom line.
 - d) Reinstating the actual employer's contributions into the revenue account.
 - e) Ensuring that payments made in relation to the pension fund deficit are properly reflected in the accounts.
 - f) Reflecting the Council's share of the historic pension fund deficit on the balance sheet.
 - g) Ensuring that payments made in relation to Added Years and Financial Strain costs are properly accounted for.
 - h) Ensuring that the accounts recognise contractual commitments to make Financial Strain payments in future years.
 - i) Applying the benefit of any capitalisation approval received.

Outlook

- 26 Uttlesford's share of the pension fund deficit as at 31 March 2007 was estimated to be £6 million. By 31 March 2009, this estimated deficit was £16 million.
- 27 The results of the March 2010 valuation will be translated into revised employer's contributions with effect from 2011/12. As mentioned above, the value of investments has fallen, which will increase the deficit. Employer's contributions will increase.
- 28 Essex County Council has indicated their current estimate of what the increases will be. This is based on assumptions about mitigating measures the actuary may recommend to keep deficit contributions affordable e.g. extending the deficit recovery period. The following table sets out the expected contributions.

£000	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Deficit contribution – General Fund	371	370	370	463	558	654
Deficit contribution – HRA	51	51	50	62	75	88
Total	422	421	420	525	633	742

- 29 Even with mitigating measures, the annual cost will increase by approximately £100,000 per year from 2011/12.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Pensions costs increase and become unaffordable	3 (worsening fund deficit means that increased contributions are inevitable)	3 (the sums potentially involved are considerable)	Mitigating measures by pension fund actuary. Building estimates into Medium Term Financial Strategy.

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Risk	Likelihood	Impact	Mitigating actions
Complexity of pensions accounting leading to adjustments at audit stage	2 (an adjustment was required in 2008/09)	3 (the sums potentially involved are significant)	Re-design of finance system to enable more robust analysis. More intensive review prior to production of draft accounts.

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.