

# Report to Executive

Agenda  
Item:

A.2(d)

Meeting Date: 15 January 2014  
 Portfolio: Finance, Governance and Resources  
 Key Decision: Yes: Recorded in the Notice Ref:KD30/13  
 Within Policy and Budget Framework YES  
 Public / Private Public

Title: PROVISIONAL PENSION FUND VALUATION  
 Report of: DIRECTOR OF RESOURCES  
 Report Number: RD68/13

## Purpose / Summary:

This report provides details of the provisional Actuarial Valuation of the Cumbria Local Government Pension Scheme as at 31 March 2013 in respect of the City Council. The financial implications arising from the valuation, as set out within the report, must be considered and approved by members of the Executive. The appendix to the report provides a summary of the present state of the pension fund based upon the most recent annual report, supplemented by more recent information received as part of the actuarial process.

## Recommendations:

The Executive is requested to:

- (i) Note the information received from the County Council;
- (ii) Approve the contribution rate of 13.6% (up from 11.8%) to be applied in the period 2014/15 to 2016/17 for future service cost and to approve the deficit recovery contributions payable as a lump sum over the same period; and
- (iii) Note the 19 year deficit recovery period.

## Tracking

Executive:	<b>15 January 2014</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>Not applicable</b>

## **1. INTRODUCTION**

- 1.1 The City Council is an employing authority within the Local Government Pension Scheme (LGPS) as administered by Cumbria County Council (the administering authority). This is a funded scheme which means that both the Council and its employees, who are members of the scheme, pay contributions into a fund independent of the Authority's own assets. The employer's contribution rate is determined every three years following an actuarial valuation of the assets and liabilities of the fund. Different rates will apply to different employers dependent upon the future pension liabilities that they will each have to accommodate.
- 1.2 The Pension Fund is revalued every three years and the provisional results of the actuarial valuation as at 31 March 2013 have recently been received from the Fund's Actuary. The new contribution results arising from the valuation will apply for the three year period commencing 1 April 2014.

## **2 PROVISIONAL VALUATION RESULTS**

- 2.1 For the next three year period, no options have been provided for future service contribution rates; instead a fixed contribution rate (of pensionable pay) has been provided based upon a default 19 year deficit recovery period. There is no option to extend this recovery period (however a shorter recovery period can be adopted if required) and no option for a phased implementation.
- 2.2 The provisional results also provide details of the future funding of past service costs. In previous years the actuary provided 2 options; (1) to continue funding past service costs as a percentage of pensionable pay, or (2) to pay an lump sum expressed as a £ amount. However option 1 is no longer permitted and the deficit recovery has only been provided as a cash lump sum. Members will recall that the City Council agreed to fund past service costs as a lump sum as part of the 2010 valuation as it prevented contributions to the scheme falling due to reductions in staff numbers. The Council has benefitted from this decision with only a marginal increase required to overall contributions as part of the 2013 revaluation process.
- 2.3 Table 1 below sets out the assumptions set out in the provisional results of the 2013 Valuation with Table 2 (paragraph 2.4) comparing these to the sums that have been set aside as contained in the revenue budget. It should be noted that these sums are all based upon the current level of payroll costs with no specific provision made for any changes arising from the transformational process, shared services or inflation etc.

**Table 1: Valuation assumptions and Provisional Results**

<b>Current Assumptions</b>				
Pensionable Pay	£10.932m			
Recovery period	19 years			
Future Service Rate	11.8%			
Past service cost	Approx £1.061m			
<b>2013 Valuation provisional results</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	Para
Default rate (19 years)				
• Future service	13.6%	13.6%	13.6%	2.1
• Past service	£972,100	£1,022,600	£1,064,600	2.2
Estimated total employer contributions per actuary:				
2010 Valuation	£2,443,300	£2,443,300	£2,443,300	
2013 Valuation	£2,453,500	£2,504,000	£2,546,000	
Variation Cost/(Saving) (note 1)	<b>£10,200</b>	<b>£60,700</b>	<b>£102,700</b>	

Note 1 - the additional costs for 2015/16 and 2016/17 are indicative only as the true cost will be based upon the percentage of the overall pensionable pay which will be subject to fluctuations.

2.4 The financial implications of implementing these provisional results are summarised in Table 2 below:

**Table 2: Financial Implications**

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME			
2013 Valuation Contribution Rates (19 Year Fixed)			
	2014/15	2015/16	2016/17
	£000	£000	£000
Current Rate (11.8%)	1,563	1,563	1,563
Lump sum	<u>1,061</u>	<u>1,061</u>	<u>1,061</u>
Current budget provision	2,624	2,624	2,624
Proposed Rate			
Future service (13.6%)	1,481	1,481	1,481
Lump sum (note 1)	<u>972</u>	<u>972</u>	<u>972</u>
	2,453	2,453	2,453
Saving and Potential contribution to Reserves (note 2)	171	171	171

Note 1 - The lump sum amount will be subject to annual increases in line with CPI plus a fixed percentage and will increase to £1.023m and £1.065m for 2015/16 and 2016/17 respectively. However for the purposes of this report, no inflation has been assumed to ensure like for like comparisons.

Note 2 – The provisional results can therefore be accommodated within the existing budget provision with the potential to release funds back into reserves; however given the uncertainty regarding the financial impact of auto enrolment and the impact of the proposed changes to the 2014 Pension Regulations with regard to the definition of pensionable pay, it would be prudent to retain the revenue budget and assess the financial impact as part of the 2014/15 outturn position.

### 3. CONSULTATION

#### Consultation to Date

The issue of the triennial review has been raised in various reports brought to members during the budget process but the results of the actuarial valuation were only received towards the end of December 2013 and for this reason could not be presented to the Executive until this meeting.

### 4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Executive is requested to:

- (i) Note the information received from the County Council;

- (ii) Approve the contribution rate of 13.6% (up from 11.8%) to be applied in the period 2014/15 to 2016/17 for future service cost and to approve the deficit recovery contributions payable as a lump sum over the same period; and
- (iii) Note the 19 year deficit recovery period.

To ensure that the Cumbria Local Government Pension Scheme is adequately resourced in the medium term in order that all the employing bodies can meet their future liabilities falling on the Fund. In particular, actuaries have assessed the contributions that the City Council will have to make in the next three years in order to be able to adequately fund these liabilities in the longer term.

## **5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

To ensure that future pension liabilities are adequately provided for with the annual budget process.

**Contact Officer: Alison Taylor Ext: 7290**

**Appendices Appendix A – The Local Government Pension Scheme attached to report:**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- None

### **CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's** – not applicable

**Economic Development** – not applicable

**Governance** – not applicable

**Local Environment** – not applicable

**Resources** – contained within the report.

## The Cumbria Local Government Pension Scheme

The Cumbria Local Government Pension Scheme is one of around 100 separate local authority pension funds within the UK. These funds provide pensions for most local authority employees. The actuarial reserves of the pension funds are owned by the fund members and pensions paid out under the scheme are chargeable to the pension funds and not to the authorities that administer them. As at 31 March 2013, there were approximately 49,000 members of the Cumbria Pension Scheme of which over 16,000 were active members, over 19,500 members had preserved pensions and around 13,500 members and dependants are currently in receipt of benefits. 105 separate employers are members of the scheme as either scheduled bodies e.g. the City Council or as admitted bodies e.g. several of the community centres in Carlisle.

Local authority pension funds are funded schemes unlike, for example, police and fire service pensions which are met out of current expenditure on a pay as you go principle. Teachers' pensions, in contrast, are provided through a nationally funded scheme administered by 'Teachers Pensions' on behalf of the Department for Children, Schools and Families.

The Cumbria Fund has a diversified portfolio, a strategy which spreads the risk associated with any particular form of investment while facilitating the growth potential of the Fund. At as 31 March 2013, the Fund was invested in the following classes of assets:

<b>Investment Assets</b>	<b>£000m</b>	<b>%</b>
Overseas Equities	£499.9m	30%
UK Equities	£453.6m	27%
Index Linked Bonds	£261.6m	16%
Fixed Interest Bonds	£260.5m	16%
Property	£92.2m	6%
Alternatives	£64.7m	4%
Cash	£11.9m	1%
<b>Total</b>	<b>£1.645m</b>	<b>100%</b>

The Fund is currently managed by five separate fund managers which, again, is a strategy designed to spread risk in terms of the performance achieved by each manager.

For the year ending 31<sup>st</sup> March 2013, against a background of market volatility, the Cumbria Scheme achieved an overall return of 13.9% as compared to the local authority universe average of 13.8%. The performance continues to be attributed to the fund managers adopting a defensive investment strategy; however performance is most sensibly viewed over a period of several years and set out below are comparative performance figures over the past decade.

	Fund Return per annum	Ranking (1-100)
Year to 31 March 2013	13.9%	52
3 years to 31 March 2013	9.1%	22
5 years to 31 March 2013	6.4%	51
10 years to 31 March 2013	9.2%	43

Over a three year time frame the Scheme has outperformed against its own return benchmark and ranks at 22 out of 100 Local Government Schemes in the country; this is largely attributable to Cumbrian LGPS's strategy of holding a higher than the average LGPS allocation to bonds (32% compared with an LGPS average of 18%). Pension schemes are by their nature long term investment vehicles and, looking at the medium to longer term, the Scheme has marginally underperformed against its own benchmark. This performance ranks it 51 and 53 out of 100 Local Government Schemes in the country for the 5 year and 10 year periods respectively.

Three years ago the Fund had a funding level of 79% which relates to the ratio between a fund's assets to its future liabilities. As at 31 March 2013, this level had dropped slightly to 78%. However the scheme is designed to become fully funded over the long term and short term deviations are to be expected. Therefore, as the fund currently remains significantly short of this target, employer contribution rates are unlikely to fall in the years ahead unless the Fund's investments achieve an exceptional performance to enable the 100% level to be achieved ahead of current actuarial projections.