

Report to: **Audit Committee**
Date: **21 January 2020**
Title: **Actuarial Pension Position**
Portfolio Area: **Cllr N Jory – Budget Setting Process**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: Hub Committee meeting on 28 January 2020

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RECOMMENDATION

It is RECOMMENDED that the Audit Committee RECOMMEND to the Hub Committee to maintain the deficit recovery period of the Pension Deficit at 17 years, as set out in this report.

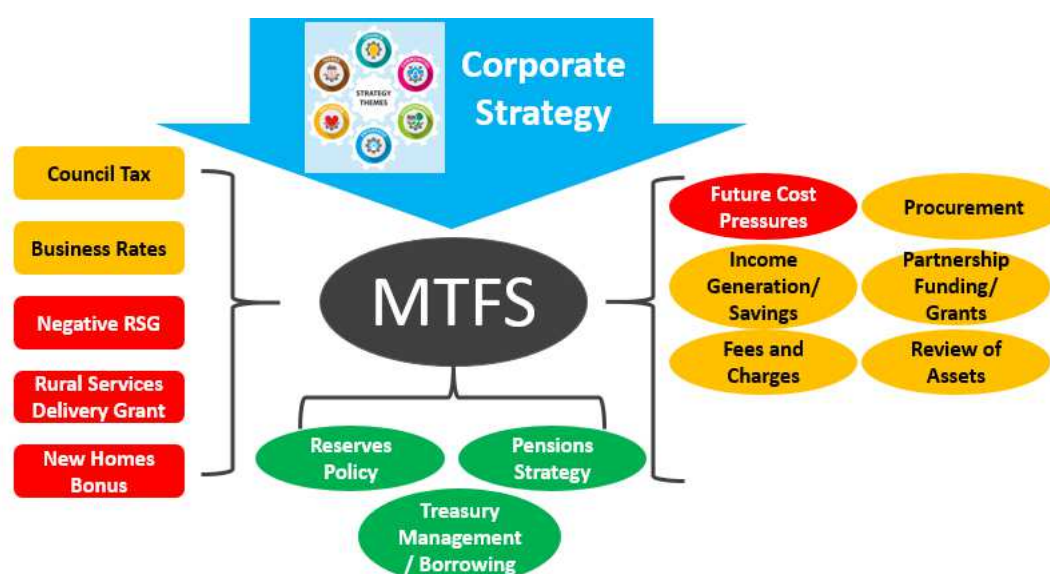
1. Executive summary

- 1.1 Following the Triennial Pension Revaluation, the Council has been notified that its Pension Deficit has reduced from £7.116m (75.8% funded) at 31.3.2016 to £5.076m (84.3% funded) at 31.3.2019. This will result in a reduction in the Pension Employer secondary rate contributions (due to a reduction in the actuarial deficit at 31.3.2019) of £175,000 per annum.
- 1.2 The primary rate, the employer's pension contribution rate is increasing by 1.5% for WDBC from 13.3% to 14.8% producing a cost pressure of £75,000 per annum from 2020/21 for the next three years. The Devon Pension Fund in general is experiencing a 2% increase in the primary rate due to the change in financial assumptions.

2 THE COMPONENTS MAKING UP A MEDIUM TERM FINANCIAL STRATEGY (MTFS)

- 2.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Items in Green denote those elements where the Council has a large degree of control over the setting of policies and strategies. Items in Amber denote those components of the MTFS where the Council has a degree of control. Red items signal components where the Council has hardly any control over funding allocations which are decided by the Government and future cost pressures which can largely be outside of the Council's control or influence.

2019/20 Net Budget £7.1 million



- 2.2 The Pensions Strategy is one of the 'green' component parts to the Medium Term Financial Strategy, as shown above.

3 PENSIONS STRATEGY (ACTUARIAL VALUATION)

- 3.1 The Council has taken specialist pension advice on the options for the Council's Pension position (informing the actuarial valuation), with the aim of reducing the current deficit contributions, increasing affordability, whilst best managing the pension deficit. Options were presented to the Council's Audit Committee on 22nd January 2019 and this work is being progressed by the S151 Officer in accordance with the timetable for the Triennial Pension Revaluation. The S151 Officer attended an employers' meeting on 14th November and has received the results of the Triennial Revaluation of the Pension Fund.
- 3.2 The total pension contribution rates payable for employers consists of two elements, the primary rate and the secondary rate:

- **The primary rate** – this is the anticipated cost to the Council of the pension rights that members will accrue each year in the future. The primary rate, or future service rate is expressed as a percentage of pensionable payroll. The primary rate, the employer’s pension contribution rate is increasing by 1.5% for WDBC from 13.3% to 14.8% producing a cost pressure of £75,000 per annum from 2020/21 for the next three years. The Devon Pension Fund in general is experiencing a 2% increase in the primary rate due to the change in financial assumptions.
- **The secondary rate** – this arises where the cost of pension rights that have already been accrued turn out to be higher than expected, resulting in a deficit. This happens where the Fund experience differs from previous assumptions, and so the contributions paid do not match the cost of the pension rights accrued during a previous period. The secondary rate, or deficit recovery rate is set as a cash figure.

2019 Pension Actuarial Valuation result

- 3.3 The funding level and the movement in the Council’s pension position following the Triennial Pension Revaluation are shown below:

	As at 31st March 2016 (£'000)	As at 31st March 2019 (£'000)
Assets	22,282	27,258
Liabilities	29,398	32,334
(Deficit)	(7,116)	(5,076)
Funding Level	75.8%	84.3%

- 3.4 The Pension Deficit has reduced from £7.116m (75.8% funded) at 31.3.2016 to £5.076m (84.3% funded) at 31.3.2019. The secondary rate, the amount paid to meet the pension deficit, will reduce from £500,000 per annum (the amount budgeted in the base budget) to around £325,000 per annum – an annual saving of £175,000 for the next three years (£500,000 less £325,000). This is on the basis of the pension deficit recovery period remaining at 17 years.
- 3.5 The actuaries have also offered the option of reducing the deficit recovery period to 14 years and this would produce an annual saving of £113,000 (£500,000 less £387,000).
- 3.6 The table below shows the primary rate (shown in a percentage) and the secondary rate (cash amount).

Employer Contribution Rate	Applicable from 1st April 2020	Applicable from 1st April 2021	Applicable from 1st April 2022
Primary Rate (% of Pay)	14.8%	14.8%	14.8%
Secondary Rate (cash amount per annum) based on 14 year deficit recovery period	£387,294	£401,413	£416,048
Secondary Rate (cash amount per annum) based on 17 year deficit recovery period <i>(Option recommended by the S151 Officer)</i>	£325,000	£337,000	£350,000

Note – the amount budgeted for the secondary rate (pension deficit contributions) in the 2019/20 base budget is £500,000 per annum.

- 3.7 ***It is recommended by the S151 Officer that the deficit recovery period is maintained at 17 years and is not reduced to 14 years and an annual saving of £175,000 has been built into Appendix A of the Medium Term Financial Strategy.***

4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		The Hub Committee is responsible for recommending to Council the budgetary framework. The Pensions Strategy falls within the Terms of Reference of the Audit Committee.
Financial implications to include reference to value for money		It is recommended by the S151 Officer that the deficit recovery period is maintained at 17 years and is not reduced to 14 years and an annual saving of £175,000 has been built into Appendix A of the Medium Term Financial Strategy.
Risk		The Actuarial Re-valuation of the Pension Fund takes risk into account as part of the process.

Supporting Corporate Strategy		The Budget report supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change - Carbon / Biodiversity Impact		A Climate Change Action Plan was presented to Council in December 2019. The Pension Fund is administered by Devon County Council.
Comprehensive Impact Assessment Implications		
Equality and Diversity		The Pension Fund is administered by Devon County Council.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Background Papers:

Hub Committee – 17 December 2019 – Budget Proposals report for 2020/21

Council 17 September 2019 – Medium Term Financial Strategy

Audit Committee – 22 January 2019 – Pensions Strategy