

Report to: **Audit Committee**  
Date: **6 February 2020**  
Title: **Actuarial Pension Position**  
Portfolio Area: **Cllr J Pearce – Budget Setting Process**

Wards Affected: **All**

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

Date next steps can be taken: Council 13<sup>th</sup> February 2020

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#### **RECOMMENDATION**

**It is RECOMMENDED that the Audit Committee note the results of the Triennial Revaluation of the Pension Fund as at 31<sup>st</sup> March 2019.**

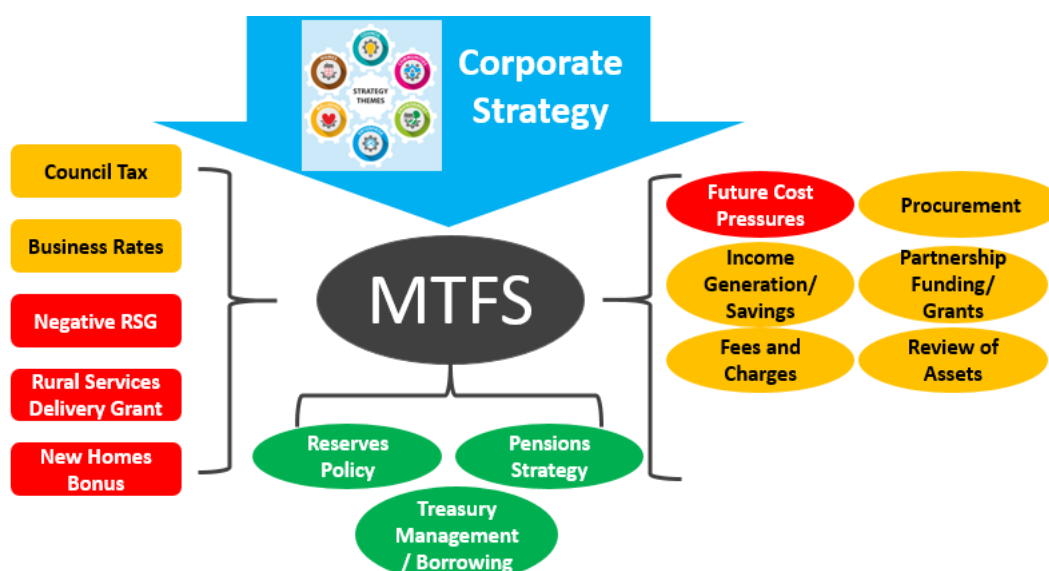
#### **1. Executive summary**

- 1.1 Following the Triennial Pension Revaluation, the Council has been notified that it will have no actuarial pension deficit as at 31.3.2019, resulting in a saving of £200,000 per annum. There is now no need for the Council to pay any lump sum into the Pension Fund as SHDC's pension fund is in a small surplus position, as shown in 3.3.
- 1.2 The primary rate, the employer's pension contribution rate is increasing by 2.2% from 14.6% to 16.8% producing a cost pressure of £140,000 from 2020/21 until the next actuarial pension revaluation. The Devon Pension Fund in general is experiencing a 2% increase in the primary rate due to the change in financial assumptions. An allowance of an additional 2% (£25,000) for the pension contributions for the externalised waste contract has also been built in for 2020/21 onwards.
- 1.3 The net budget impact of the Triennial Revaluation of the Pension Fund is a saving of £35,000 as set out in Section 3.6.

## 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.

**Net Budget £8.8 million 2019/2020**



- 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 31<sup>st</sup> January 2019 and this work has been progressed by the S151 Officer in accordance with the timetable for the Triennial Pension Revaluation. The S151 Officer attended an employers' meeting on 14<sup>th</sup> 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 2.2% for SHDC from 14.6% to 16.8% producing a cost pressure of £140,000 from 2020/21 until the next actuarial pension revaluation. The Devon Pension Fund in general is experiencing a 2% increase in the primary rate due to the change in financial assumptions.

An allowance of an additional 2% (£25,000) for the pension contributions for the externalised waste contract has also been built in for 2020/21 onwards.

- **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:

	<b>As at 31<sup>st</sup> March 2016 (£'000)</b>	<b>As at 31<sup>st</sup> March 2019 (£'000)</b>
Assets	78,440	97,607
Liabilities	82,291	96,570
(Deficit)	(3,851)	1,037
<b>Funding Level</b>	<b>95.3%</b>	<b>101.1%</b>

3.4 The Council will no longer have a pension actuarial deficit as at 31.03.2019, resulting in a saving of £200,000 per annum in employer secondary rate contributions. There is now no need for the Council to pay any lump sum into the Pension Fund as SHDC’s pension fund is in a small surplus position. The funding level and the movement in the Council’s pension position following the Triennial Pension Revaluation is shown in the table above. The table shows that the Council’s pension fund is 101.1% funded as at 31<sup>st</sup> March 2019, a small surplus position. Advice has been sought from the Actuaries in terms of whether the Council’s primary rate could be reduced given this small surplus.

- 3.5 However, the advice of the actuary is that this is only considered for employers where the surplus is 105% or more. This provides an allowance for experience going forward against the actuarial assumptions, with the aim of trying to make sure that employers who are 100% funded don't go back to a deficit position in future years.
- 3.6 A summary of all of the financial implications arising from the Pension Revaluation at 31.3.2019 is shown below:-

<b>Pension Revaluation 31.3.2019</b>	<b>Financial Impact</b>
<b>Increase in the primary rate -</b> i) the employer's pension contribution rate is increasing by 2.2% for SHDC from 14.6% to 16.8%	£140,000
ii) An allowance of an additional 2% (£25,000) for the pension contributions for the externalised waste contract has also been built in for 2020/21 onwards	£25,000
<b>Decrease in the secondary rate</b> iii) The Council will no longer have a pension actuarial deficit as at 31.03.2019, resulting in a saving of £200,000 per annum in employer secondary rate contributions.	(200,000)
<b>Overall saving from the Pension Revaluation at 31.3.2019</b>	<b>(35,000)</b>

Therefore the net budget impact is a saving of £35,000.

#### 4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		The Executive 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		The net budget impact of the Triennial Revaluation of the Pension Fund is a saving of £35,000 as set out in Section 3.6.
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.
<b>Comprehensive Impact Assessment Implications</b>		
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:**

Executive – 19 December 2019 – Budget Proposals report for 2020/21  
Council 26 September 2019 – Medium Term Financial Strategy  
Audit Committee – 31st January 2019 – Pensions Strategy