

**BABERGH DISTRICT COUNCIL**

**FROM: Head of Finance**

**REPORT NUMBER G214**

**TO: STRATEGY COMMITTEE**

**DATE OF MEETING 6 MARCH 2008**

**PENSION FUND**

**1. PURPOSE OF REPORT**

- 1.1 The latest tri-ennial of the Pension Fund, as at 31 March 2007, shows that the estimated deficit has reduced significantly since the previous assessment as a result of investment experience and other factors. However, after allowance is made for increased longevity, potential volatility in the economic outlook and future estimated investment returns, overall future pension contributions will remain the same for the next 3 years.

**2. RECOMMENDATIONS**

- 2.1 That the Council continues with the level of Pension Fund contributions required under Suffolk County Council's Funding Strategy Statement for the financial years 2008/09 to 2010/11.

The Committee is able to resolve the matter.

**3. FINANCIAL IMPLICATIONS**

- 3.1 There will be no additional costs on the budget for 2008/09 or the following 2 years. Contributions will only increase in line with pay in accordance with Suffolk County Council's Funding Strategy Statement.
- 3.2 The reduced deficit on the Pension Fund will result in a lower annual lump sum contribution from the Council than the current annual amount. However, the contribution rate for future service will increase as a result of assumptions on increased longevity and potential future investment returns.
- 3.3 Overall, therefore, the Council will be paying the same level of contributions in cash terms for the next 3 years as it is currently.

**4. RISK MANAGEMENT**

- 4.1 The report links most closely to Significant Business Risk No. 8, Comprehensive Spending Review. Key risks relating to this are set out in the table below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
Investment returns and other factors increase impact the deficit on the Fund	Significant – could be favourable or unfavourable	Marginal or Critical – depending on overall economic conditions	Funding Strategy and Performance measures in place for Investment managers. Regular monitoring of the Fund and interim assessments between tri-ennial valuations
Changes to Pension scheme and longevity affect future service rates	Significant	Marginal	The actuary has made reasonable assumptions on these but, of course, the position could still vary from those assumptions.

## 5. **KEY INFORMATION**

- 5.1 Suffolk County Council administers the Pension Fund and there is a statutory requirement for the fund to be valued every three years. In addition, Suffolk County Council carries out regular interim assessments in conjunction with its actuaries. These valuations show the extent to which estimated Pension Fund assets cover the Council's long-term liabilities.
- 5.2 A comparison of the latest triennial valuation for 31 March 2007 with the position 3 years prior to that is set out below. This shows that the estimated deficit has fallen considerably from £10.5m to £6.7m. This is after the actuary has introduced a provision for increased longevity:

	Valuation 31/3/04 £M	Valuation 31/3/07 £M
Long-term Liabilities	36.8	49.2
Share of Assets	-26.3	-42.5
Estimated Deficit	10.5	6.7
Funding level	71.4%	86.4%

5.3 From the above, it can be seen that:

- Long-term liabilities have increased as a result of assumptions on increased longevity.
- At the same time, however, positive investment returns have resulted in asset values more than offsetting the liabilities increase to produce a greatly improved funding level of over 86%, which is extremely welcome.

- 5.4 The above includes assumptions about the impact of changes that will arise from the new look Local Government Pension Scheme that is being introduced from April 2008. This will involve employees paying between 5.5% and 7.5% of pay depending on their salary. Overall, this will result in higher average contribution levels in future from staff than the current 6% standard contribution rate.
- 5.5 In terms of future service, the actuary is proposing an increase from 13.4% to 16.0% of pay to reflect assumptions on increased longevity and potential future investment returns.
- 5.6 The County Council has considered the overall position on the Pension Fund, which includes all Councils in Suffolk, and whether there was scope to reduce rates for the next 3 years. That could have resulted in a reduction of 1.2% in Babergh's contribution rate in each year (3.6% reduction over the 3 years).
- 5.7 Although that flexibility would have been useful in relation to future financial pressures, it has been decided that such reductions would not be prudent given the current and future potential volatility in the economic situation.
- 5.8 A summary of the main changes in the valuation compared to March 2004 is set out below:

	£M
Deficit at 31 March 2004	10.5
Changes:	
Interest on deficit	+2.1
Changes in financial assumptions/demographics	+5.4
Gains on investments	-8.0
Contributions (normal and towards deficit less benefits accruing)	-3.5
Other factors/assumptions	+0.2
Deficit at 31 March 2007	6.7

- 5.9 On the basis of the valuation at 31 March 2007 and Suffolk County Council's Funding Strategy Statement, the Council will be making contributions into the fund that would meet the deficit over an 8-year period. This will depend, of course, on changes to the various factors that will affect future valuations of the fund.

## 6. **APPENDICES**

None.

## 7. **BACKGROUND PAPERS REFERRED TO:**

Suffolk County Council Funding Strategy Statement.

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