

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 18 MARCH 2014**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **CLWYD PENSION FUND - FUNDING STRATEGY
STATEMENT AND IMPACT FOR FLINTSHIRE
COUNTY COUNCIL**

1.00 PURPOSE OF REPORT

1.01 To provide an update on the Clwyd Pension Funding Strategy Statement and the impact on the budget for Flintshire County Council in 2014/15, 2015/16 and 2016/17 following the triennial Actuary Valuation.

2.00 BACKGROUND

2.01 Flintshire County Council (the Administering Authority) administers the Clwyd Pension Fund (CPF) on a lead authority basis.

2.02 Flintshire (as an employer) is one of the major bodies within the CPF along with Wrexham and Denbighshire Councils and other bodies e.g. colleges, Town and Community Councils.

2.03 Local Government Pension Funds are required to undertake a triennial (three year) actuarial valuation. This determines the funding level of the fund as a whole and provides each employing body in the Fund with the contributions to be paid over the coming three years. These contributions are in relation to:

- Past service deficit (these are lump sum payments)
- Future service (these are paid as percentage of pensionable pay)

2.04 The draft Funding Strategy Statement has been the subject of consultation with employers which took place at the end of 2013. The statement was considered by the Clwyd Pension Fund Panel in February prior to finalisation.

3.00 CONSIDERATIONS

Fund Valuation

- 3.01 The valuation of the CPF (as with any Fund) is on the basis of a number of actuarial assumptions, e.g. future interest rates, inflation, payroll costs, mortality rates, investment return expectations, etc.
- 3.02 Although the current and future costs of pensions is estimated by the actuarial valuation, how these costs will be met is determined by the Funding Strategy Statement (FSS). The FSS outlines:-
- Such assumptions as stated in 3.01 above
 - The maximum period of time to re-pay any deficit
 - Options for stepping any increase in the future service rate
- 3.03 As a result, employers within the Fund can agree a contribution profile with the Actuary over the three year period within the boundaries set in the FSS.
- 3.04 The FSS and Actuary Valuation Report which includes the contributions agreed with each of the employers must be signed by the Actuary prior to the start of the financial year.

Whole Fund Results

- 3.05 The CPF has assets of £1.1bn. The 2013 valuation identified that the CPF had a deficit of £0.617m as at 31st March 2013 giving a funding level of 68%. Through the Funding Strategy Statement, the Fund aims to reach 100% funding over a recovery period, which for the CPF is 20 years. The position is reviewed every three years.
- 3.06 The deficit had increased over the three years since the 2010 valuation from £0.377m to £0.617m. Despite positive investment performance, low bond yields (which are used to value liabilities) have increased the cost of pension provision (what the fund will need to pay out) and the funding deficit has therefore increased significantly.
- 3.07 The Actuary has recognised that bond yields were at an exceptionally low level at the actuarial date of 31st March 2013 and that known post valuation date valuations are reasonable. As a result a revised position has been considered to take account of the position as at 31st August 2013. In discussion with the unitary authorities, the Actuary is fully aware of the affordability issues raised by an increase in employer costs amidst the financial challenges which councils are dealing with in 2014/15 and the coming years. The approach has been to agree a plan which balances affordability with the financial health of the CPF.

- 3.08 Whilst the position reported is for the Fund as a whole, the position of individual employers within the fund (assets to liabilities) is also identified and this is what drives the contributions for that employer. The rates differ based on numbers in the Fund, age profiles, local policies, past decisions on retirements, etc.

Flintshire County Council

- 3.09 For Flintshire, the funding level is 68% with a deficit of £196.972m as at 31st March 2013. The future service rate needs to increase from 11.9% of pensionable pay to 14.1% and for the deficit recovery amount to rise to £10.239m by 2017/18. The deficit recovery period is 19 years which is allowed within the FSS.
- 3.10 In recognising the financial challenges, a stepped approach to the increase has been agreed with the Actuary, which is permitted within the FSS.
- 3.11 The Council's 2014/15 budget includes an additional budget allocation of £0.991m in 2014/15, increasing to £2.738m in 2015/16 and £4.242m in 2016/17, to comply with the requirements of the 2013 valuation. Over the three year period, an estimated amount of £1.3m (£500m in 2014/15) will contribute to the past service deficit and £2.9m (£0.491m in 2014/15) towards future service. The total council fund projected costs for employer's superannuation costs in 2013/14 is £23.5m.

4.00 RECOMMENDATIONS

- 4.01 Members are asked to note the report.

5.00 FINANCIAL IMPLICATIONS

- 5.01 As set out in the report. The costs for 2014/15 are included in the agreed budget and for 2015/16 and 2016/17 are indicated in the Medium Term Financial Plan.

6.00 ANTI POVERTY IMPACT

- 6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

- 7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

- 8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None.

12.00 APPENDICES

12.01 None.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

Clwyd Pension Fund Funding Strategy Statement

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