LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 27 November 2019

LOCAL GOVERNMENT PENSION SCHEME VALUATION

Contact for further information:
Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

Executive Summary

The report sets out the results of the Local Government Pension Scheme Tri-Annual Valuation, as at 31 March 2019.

Recommendation

The Resources Committee is requested to note the position and approve the pre-payment of contributions, net of the surplus drawdown covering the three year period

Information

The 2019 valuation has been published and this shows a marked improvement to the scheme as a whole, assets have grown significantly more than liabilities, hence the scheme as a whole has moved from a 90% funded scheme to 100% funded. Meaning that for the scheme as a whole any deficit recovery costs will be significantly reduced, although it must be recognised that the position will vary for each Authority. (No allowance has been made for the potential impact of the McCloud pension ruling, which has previously bene reported to Members.)

The valuation has also identified that future service rates need to increase by an average of 2.5%, recognising changes to scheme benefits and also changes in future assumptions such as mortality and investment returns.

As Members are aware the overall valuation is extremely volatile, linked to investment returns and changing assumptions.

It is also worth highlighting that the Government has consulted on moving from the current three year valuation cycle to a four year cycle form 2024. If this is agreed the next valuation, effective from 2023, will only set rates for two years to 2025, with the four year cycle commencing thereafter. As part of the process consideration is being given to the ability to undertake interim valuations or for administering authorities to amend employer contributions rates in between valuations, both of which would incur significant additional administrative costs.

Lancashire Fire Authority Fund
As Members will recall at the time of the last tri-annual valuation of the Local Government Pension Scheme the Fire Authority had a funding surplus of £4.3m, which was being drawdown over the agreed 16 year recovery period, £336k per annum.

The latest valuation shows a marked increase in the surplus, now standing at £9.7m, a funding level of 120%. The recovery period over which this is drawdown has also shortened to 13 years (in theory it reduces by 3 years each valuation). As a result the in-year drawdown will increase to £745k in 2020/21 rising to £804k in 2022/23.

Offsetting this is the increase in future service rate, which has increased from 14.7% to 17.1%, an increase of 2.4% which based on our current projected payroll equates to £135k additional cost.

As such our profile of anticipated employer contributions for future service costs and drawdown of the surplus is shown below:-

	Future Service Costs	Surplus Drawdown	Net In-Year Cost
2020/21	£956k	(£745k)	£211k
2021/22	£994k	(£774k)	£220k
2022/23	£1032k	(£804k)	£228k
	£2,982k	(£2,323k)	£659k

(No allowance has been made for the potential impact of the McCloud pension ruling, which has previously bene reported to Members.)

The Service has an option to pre-pay these amounts, either at the start of each year or as a one-off covering all three years, and receives a discount for doing so. Pre-paying this at the start of each year results in an overall saving of £11k, whilst pre-paying all three years in April 2020 results in a saving of £36k, this equates to a return of approx. 3.8% per annum, and as such it is recommended that the Authority takes advantage of the one-off prepayment covering all three years:-

	Future Service Costs	Surplus Drawdown	Net Cost
Monthly charges	£2,982k	(£2,323k)	£659k
Pre-payment each year	£2,927k	(£2,279k)	£648k
Prepaid in one amount	£2,818k	(£2,195k)	£623k

Any variation between actual costs due and the amount pre-paid will be actioned at the end of the valuation period.

McCloud Judgement

As previously reported the McCloud judgement relates to the protection arrangements provided to members that were close to retirement. The Court of Appeal found that these arrangements were unlawful on the grounds of age discrimination. A suitable remedy to this will need to be agreed, and until such time as this is agreed the impact is unknown. However the actuary has undertaken some sensitivity costing based on a possible remedy, and this shows a potential increase in future service costs and a potential reduction in our overall funding surplus, resulting in an annual increase in cost in excess of £0.1m, compared with the position set out above. It must be stressed that this is only to provide an indication of the potential scale of increase that may follow.

Financial Implications

As outlined in the report

Business Risk Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	**Date**	**Contact**
None		
Reason for inclusion in Part II, if appropriate:		