

**LANCASHIRE COMBINED FIRE AUTHORITY**  
Meeting to be held on Monday 19 December 2016

**LOCAL GOVERNMENT PENSION SCHEME VALUATION**

**Contact for further information:**

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**Executive Summary**

The report sets out the results of the Local Government Pension Scheme Tri-Annual Valuation, as at 31 March 2016.

**Recommendation**

The Authority is asked to determine how to treat the surplus.

**Information**

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 deficit of £5.8m. This deficit was being paid off over the agreed deficit recovery period, 19 years, at a cost of approx. £200k-£300k per annum.

Members agreed to utilise in-year underspends in 2014/15 and 2015/16 to pay off this deficit, setting aside £5.2m to do so, as this would reduce any future deficit recovery costs once the outcome of the next valuation in 2016 was agreed. Although it was noted that historically the level of deficit for the scheme as a whole had increased at each valuation, as liabilities had grown at a faster rate than assets, and it was recognised that at the time of the valuation there was no guarantee that a new deficit would not exist.

**Whole Scheme Valuation**

The 2016 valuation has been published and this shows a marked improvement to the scheme as a whole, assets have grown significantly whilst liabilities have only increased marginally, which is completely out of kilter with historic trends

Valuation Date	Assets	Liabilities	Deficit	Funding Level
2004	£2,445bn	£3,077bn	£628bn	80%
2007	£3,689bn	£4,399bn	£710bn	84%
2010	£3,962bn	£4,955bn	£993bn	80%
2013	£5,011bn	£6,388bn	£1,377bn	78%
2016	£6,038bn	£6,728bn	£690bn	90%

Asset values have increased significantly due to investment returns performing better than forecast.

Liabilities have remained broadly static due to changes in actual pay and pensions inflation and changing assumptions and the basis of calculations:-

- pension increases have been limited to CPI;
- pay inflation has been lower than anticipated;
- life expectancy projection have been updated and whilst they have increased since the last valuation they have not increased by the forecast amount;
- the basis of assessing liabilities has been changed this year moving away from the link to gilts and moving to a link to CPI (had this not been the case the reduction in gilt yields would have resulted in a far greater liability).

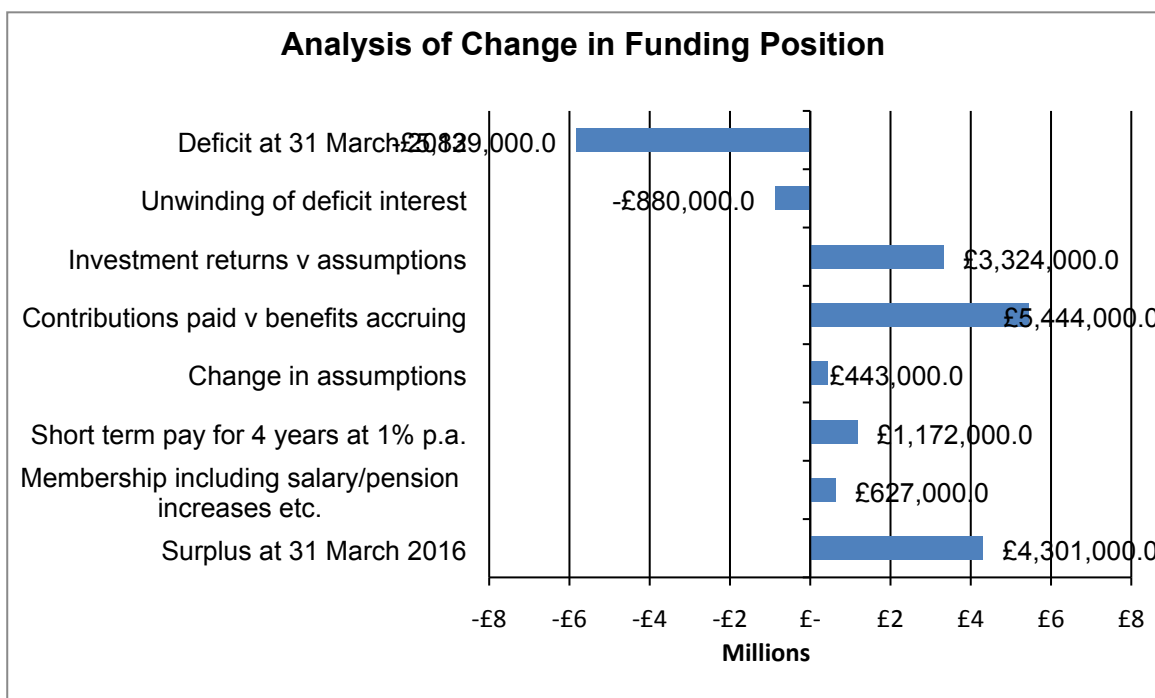
Despite this the majority of schemes are not seeing a reduction in their deficit recovery contribution as this is now being recovered over 16 years as opposed to 19 years (i.e. it has moved on three years).

Not only that but future service contribution rates are increasing reflecting updated assumptions going forward, particularly around real discount rates and removal of the 50/50 scheme allowance (previous assumptions assumed there would be a significant take up of members opting to pay 50% contribution and hence accrue 50% benefits but this has not proved to be the case with very little take up).

### Lancashire Fire Authority Fund

Our future service rate has increased from 12.8% to 14.7%, an increase of 1.9% which based on our current budgeted wage bill equates to £0.1m additional cost.

Our funding position has moved from a deficit of £5.8m to a surplus of £4.3m, this reflects the overall scheme changes highlighted above, and the additional contributions paid into the fund, and can be summarised in the graph below:-



It is worth noting that contributions paid offset by benefits accruing accounts for £5.4m of the reduction (this is the monies we set aside to pay off the 2013 deficit of £5.8m) the remainder of the reduction is due to investments generating £3.3m more returns than forecast with the balance, £1.4m, relating to the net impact of changing assumptions.

Valuation Date	Assets	Liabilities	Deficit/(Surplus)	Funding Level
2010	£23.5m	£28.5m	£4.8m	82%
2013	£31.5m	£37.3m	£5.8m	84%
2016	£43.6m	£39.3m	(£4.3m)	111%

All of the above indicate the extent of volatility that the valuation is subject to, and the difficulty in making medium term predictions.

It should be noted that the surplus is ring fenced for us, it cannot be used by others, and it will earn a return in line with the whole fund, which historically far outstrips our normal return, depending on what decision we make it will be available to offset any future increases that might occur when future revaluations take place.

## Options

Based on this the Authority needs to pay the new employer contribution rate of 14.7%, an increase of 1.9%, which based on our current budgeted wage bill equates to £0.6m an additional cost of £0.1m.

As the fund is now in surplus there is no deficit to pay off, resulting in a saving of £0.2m, this was already reflected in future budgets.

In terms of the surplus on the scheme the Authority has the following options:-

- leave the surplus in situ, to offset any future changes;
- drawdown all of the surplus over the 16 year recovery period, £0.3m per annum (this would still leave approx. £3.3m as a surplus at the next valuation, all other things being equal);
- drawdown the surplus to offset all of the future service pension contributions, £0.6m per annum (this would still leave approx. £2.3m as a surplus at the next valuation, all other things being equal, but we would need scheme approval to do so);
- drawdown part of the surplus over the 16 year recovery period, one option being to draw down a sum equal to the increase in future service contribution, i.e. £0.1m (this would still leave approx. £4.0m as a surplus at the next valuation, all other things being equal).

(Note, the actuary has also confirmed that it is possible to review the extent of any drawdown on an annual basis, subject to scheme approval.)

## 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:		