Part I
Item No: 5(c)
For Decision

WELWYN HATFIELD COUNCIL
SPECIAL COUNCIL – 6 FEBRUARY 2017

Recommendation from the special Cabinet on 24 January 2017:-

Pension Fund Triennial Valuation 2016 (Minute 123)

The Cabinet considered the results of the 2016 valuation and a one-off lump sum contribution into the fund to help manage the annual contribution from the General Fund.

The Local Government Pension Scheme underwent a financial valuation every three years, the results of which were used to determine the contributions that the Council would need to make to the pension fund for the next three years. The latest 2016 valuation reflected the transfer of staff from the Community Housing Trust into the Council's fund. The funding level of the combined fund stood at 83%.

The actuary was required by Regulations to set a prudent contribution rate in order to ensure the long term solvency of the pension fund. The actuary had proposed to increase the cost of the future accrual from 17% currently to 18.3% of pay for the next three years and had also suggested three options to recover the structural deficit of our pension fund.

- Option 1 would require an additional one-off payment of £1.9M in 2016/17 and the contributions for the next three years would remain at £888,000 per annum.

- Option 2 would require an additional one-off payment of a smaller amount of £1.3M in 2016/17 and the annual contributions would be fixed at £1.1M per annum

- Option 3 did not require any additional one-off payment in 2016/17 but would require contributions of £1.5M, £1.6M and £1.7M in each of the next three years

The cost would be split between the General Fund and Housing Revenue Account as the pension fund was now combined into a single scheme.

It was recommended that Option 2 be adopted.

Whilst Option 1 would have the advantage of lowering future payments, it would also result in the Housing Revenue Account deficit being increased beyond a sustainable level in the short term, increasing the borrowing requirement earlier than planned.

By contrast, Option 3 would unduly defer future payments and the Council would fail to optimise the return on an up-front payment.

It was believed that Option 2 provided the best balance between optimising the return on an up-front payment and maintaining adequate Housing Revenue Account reserves.

It also enabled the Council to add £100,000 to an earmarked pension reserve each year from 2017/18 to 2019/20.

Adoption of Option 2 meant that original budget estimates for 2017/18 remained unchanged, as the main impact of the revised (combined) valuation was a change to the one off up-front payment in the 2016/17 financial year.

The Leader permitted Councillor M.Levitt to ask about the approach and preferred option for managing pension deficit payments and it was clarified that this was based on the requirement of Regulations, actuarial advice and the optimum position for the Council's budget.

The Cabinet **RECOMMENDS** to the Council an approach to manage the pension deficit based on:

- an additional lump sum payment of £1.286M in the financial year 2016/17 to be paid into the pension fund on top of the current budgeted lump sum of £888,000 and to be funded from General Fund and Housing Revenue Account reserves.

- the future employer's contribution rate to the pension fund to be fixed at 18.3% of pay plus an annual lump sum to be determined by the actuary but no more than £1.1M in each of the next three years (2017/18 to 2019/20).

- to create an earmarked reserve for pension contributions and to contribute £100,000 in each of the next three years (2017/18 to 2019/20) into this reserve.