

**Report of the Treasurer
Cumbria Local Government Pension Scheme
2004 Valuation – Employer Contribution Rates**

1. Introduction

- 1.1 Details have now been received from the Pension Fund Actuary following the valuation of the Authority's pension fund membership of the Cumbria Local Government Pension Scheme, in respect of Police Staff pensionable service as at 31 March 2004.
- 1.2 The valuation enables the Actuary to certify the future contribution rate to be paid by the Authority for the period commencing 01 April 2005, on the basis that Police Authority share of the deficit can be recovered over an initial period of 15 years. Alternative contribution rates are given for recovery periods of 20 and 25 years as provided for under recent regulations issued by the Secretary of State.
- 1.3 Currently, the Authority's contribution rate has been at 13.8% since 01 April 2002 following the last valuation in 2001.
- 1.4 The Authority is required to determine and notify the recovery period to be assumed by the Actuary for the purposes of enabling him to give his contribution certificate.

2. Increase in Contribution rate from 01 April 2005.

- 2.1 The continuation budget for 2005 – 06 has been prepared on the assumption of a 15% contribution rate, with anticipation that further 1% per annum increases would be required over at least the next two years before the 2007 valuation.
- 2.2 The contribution rate of 14% proposed for Cumbria Police Authority by the Scheme Actuary, assuming the equivalent fifteen year recovery period as used in the 2001 valuation, will provide an immediate saving of £150,000 pa in 2005-06 compared to the rate of 15% used in preparing the budget. In addition it will relieve the Authority of the further annual increases which had been assumed. Thus there can be no further increase before the results of the next valuation at 31 March 2007 are implemented in April 2008.
- 2.3 One of the most significant reasons for such a welcome outcome to the valuation is that the Constabulary have a relatively "young" workforce and, because of the civilianisation process in recent years, and the consequent increase in staff numbers, they have relatively small amounts of past service preceding the valuation date of 31 March 2004. The significance of this is that the deficit on the overall fund is allocated broadly in respect of past service, and so in the case of this valuation the Police Authority is picking up a smaller share than would be the case for an Employer with an older and more mature fund membership.

2.4 The contribution rates certified by the Actuary for the period from 01 April 2005 are shown below together with an estimate of the indicative cost or annual savings compared to the current contribution rate of 13.8% and the 15% contribution rate on which the 2005-06 budget has been prepared:-

Recovery Term Years	Contribution Rate %	(Savings)/Cost over current 13.8% £	(Savings) compared to 15% for 05/06 Budget £
15	14.0	30,000	(150,000)
20	12.9	(135,000)	(315,000)
25	12.2	(240,000)	(420,000)

2.5 Although the regulations now permit an employer to extend the recovery period from the existing limit of 15 years, I would not recommend that the Police Authority should take advantage of that facility on this occasion, for a number of reasons:-

- The recovery period of 15 years represents the most prudent period possible under the current practices.
- The current valuation lasts for just three years and will be undertaken again as at 31 March 2007. At that point newer staff will have started to build up past service and so (all other things being equal) the Authority would pick up a greater share of any past service deficit revealed for the fund as a whole at the next and subsequent valuations, than has been the case on this occasion.
- Whilst there are inevitable pressures in other areas of the Authority's budget, it would not seem prudent to appear to be funding those pressures by increasing the risk exposure to the future contribution rate for the employer's pension fund.
- The contribution rate of 14% required to fund the fifteen-year recovery period is not materially higher than the present rate of 13.8% for the same period and thus properly reflects the "desirability of achieving as nearly a constant rate as possible" espoused by ODPM in their guidance.
- If the outcome of the next valuation in 2007 is more optimistic, then the Authority can look forward to a real reduction in the contribution rate whilst continuing to maintain a prudent and cautious stance to its pension obligations.
- If the outcome of the 2007 valuation shows no improvement on the present position, then any increase in the future contribution rate will have benefited from the maintenance of the current rate over the next three years. On the other hand, a reduction now to take advantage of the longer recovery period allowed under the regulations, would result in a larger increase than under the more prudent route being recommended.

4. Advice from the Office of Deputy Prime Minister

4.1 In anticipation of the current round of increased deficits being revealed for all classes of Pension Fund, the Office of Deputy Prime Minister wrote to all Authorities in the Autumn, giving guidance on the management of the increased deficits anticipated, against the backdrop of the (then proposed) new regulations which would provide for the adoption of longer recovery periods. A copy of the advice is attached.

4.2 In reading the advice, it is clear that the use of the extended regulations is to enable Authorities to

- manage the (anticipated) *increase* in the employers contribution rate,
- to put the LGPS on an affordable and sustainable basis
- to ensure the “desirability of achieving as nearly a constant rate as possible”

In my view it would not seem appropriate to take advantage of the regulations as a general tool of financial management to manage or dilute the broader pressures on local authority budgets. The most important factor is to produce a sustainable and stable environment for the future, which is best achieved by the continuation of the present practice.

4.3 In the case of this Authority, the proposed increase from 13.8% to 14% is so small at £30,000 pa as to fall within the annual scope of the existing budget when regard is had to the fact that it is within the discretion of employees as to whether to join the pension scheme, and so the actual amount of employers contribution can vary from year to year compared to budget.

3. Recommendations.

3.1 Members are recommended to:-

1. note the contribution rates proposed by the Scheme Actuary
2. confirm the continuation of a fifteen year recovery period for the purposes of enabling the Actuary to issue his certificate for the Authority’s contribution rate to the Cumbria Local Government Pension Scheme for the period commencing 01 April 2005.

Douglas Thomas
Treasurer

13 January 2005



Addressees as attached

Web site: www.odpm.gov.uk

10 September 2004

LOCAL GOVERNMENT PENSION SCHEME

1. With the agreement of Ministers, I am writing, particularly to key local authority financial and Local Government Pension Scheme (LGPS) interested parties, about the management of anticipated increases in employers' pension contributions in the Local Government Pension Scheme, with effect from 1 April 2005.

Policy Background

2. ODPM Ministers, on several occasions, have stated their wish to see the LGPS placed on an affordable and sustainable basis. Their programme of policy and regulatory change in the LGPS - based on a strategy of affordable retention - accords with the Government's overall wishes for public service pension schemes. However, the guarantees that underpin these schemes, provided by tax payers, require them to be kept under review, to reflect best practice and to remain cost-effective, both in terms of their provision and their delivery of the statutory pension promise.
3. The 2004 actuarial valuation exercise of LGPS pension funds in England and Wales is underway. Preliminary findings are already emerging. Ministers have expressly indicated that they wish to ensure both in carrying it out, and considering its subsequent outcomes, that local authorities at all levels do everything possible to maintain the affordability and sustainability of the Scheme.
4. LGPS administering authorities, local authority employers and professional advisers engaged in the stewardship of the Scheme are, therefore, asked to note the continuing need to minimise increases to employers' LGPS contributions, which derive from the 2004 valuation exercise, as already required by the regulations.

Implications of the Regulatory Changes in 2004 and Proposed for 2005

6. The requirement in the LGPS Regulations that administering authorities in England and Wales must produce Funding Strategy Statements (FSS's) by 1 April 2005 was announced in the Office's letter of 11 March, covering amending regulations which came into force on 1 April 2004. References in that letter highlighted the important future role to be played by FSS's in the Scheme, particularly in connection with the Strategy and the programme of regulatory amendments announced by Ministers in July 2003. The new

provision also requires that actuaries, engaged in completion of the 2004 valuation, should take such statements into account when setting future employer contribution rates.

7. Draft amending regulations were circulated for consultation on 31 March 2004, seeking views on changes to the Scheme's provisions to ensure the Scheme complies with government policy that 65 years becomes the normal retirement age. The consultation period ended on 30 June. Ministers have sought to ensure that these changes - which in their final form are planned to come into force on 1 April 2005 - coupled with the requirement to produce a Funding Strategy Statement by the same date - will combine to positively influence the outcome of the 2004 actuarial valuation exercise for administering authorities in England and Wales, and help provide a clear view of the financial implications for the Scheme in the medium term up to 2008.
8. LGPS authorities will be anxious to maximise to their advantage the benefits of interaction between Scheme solvency, their FSS's, and each fund's Statement of Investment Principles. This relationship is an important factor in how each administering authority decides to meet anticipated increases in employers' costs for the next triennium, 2005/06 - 2007/08, and beyond.
9. The potential subsequent impact that such increases in employers' costs may have on local authority budgets is something which LGPS interests, including elected members, will assess carefully as the closing stages of the 2004 actuarial valuation exercise are taken into account and in the timescale of their future budget setting processes, and for 2005/06 in particular.

Means to minimise pension cost pressures on local authority employers

10. Ministers have recognised the opportunity available to LGPS administering authorities in England and Wales to maximise their constitutional status when dealing with pension liabilities in the forthcoming and subsequent valuation periods. This is acknowledged also in the comprehensive guidance prepared by CIPFA's Pension Panel earlier this year and which is itself referred to in the 2004 amendment (regulation 76A) to the Scheme regulations.
11. Although the current programme of LGPS regulatory changes should help to establish a significant easing of pressures on local authority budgets, it is also imperative to consider the further scope for minimising annual increases in local authority employers' costs and, therefore, to achieve the lowest prudentially possible percentage increases in local authority employers' pension costs going forward.

The scope to achieve this aim

12. The LGPS regulatory framework already provides administering and employing authorities with the necessary means to minimise the impact of annual employers' cost increases from April 2005, by:-
 - prudentially maximising recovery periods;
 - phasing the level of actuarially-set employers' contribution increases over the forthcoming and subsequent valuation periods, on a year by year basis, where necessary;

- adopting appropriate assumptions for future inflation, pay increases and other actuarially sensitive variables which influence the outcome of the valuation; and
 - prioritising the need for expensive, early retirements.
13. It remains essential, of course, to comply with the current LGPS regulatory requirements to "secure solvency" and to ensure "the desirability of maintaining as nearly constant a rate as possible" for employers. However, the regulations already provide flexibility for administering authorities and their actuaries when setting new levels of employers' contributions, for these to be phased and, if necessary, on a year-by-year basis to minimise the effects of the valuation results. Such an approach can helpfully provide a gradual and planned adjustment of the increases deemed necessary by the actuary as an outcome of the 2004 exercise from 1 April 2005 onwards. Additionally, each administering authority's FSS provides a prudential framework within which to sustain such an approach.
 14. LGPS administering authorities, in consultation with actuarial and other advisers, can consider the most effective and locally appropriate means of achieving the principles set out in this letter, particularly with regard to the initial financial year 2005/06 but also, of course, for the remainder of the 2005/08 valuation period, and subsequent ones.
 15. CIPFA's Pensions Panel has been invited to consider whether supplementary advice to the guidance it so usefully issued in March of this year is required.

Future Steps

15. ODPM stands ready to discuss any matters arising from this letter. Several opportunities are already arranged at which the themes described can be further explored and in the context of other linked policy developments which influence the Scheme's affordability and stability, including the establishment of three year local government finance settlements.

T B J Crossley