



REPORT OF: Executive Member for Finance and Governance

LEAD OFFICER: Director of Finance

DATE: 8th December 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

KEY DECISION: N

TITLE OF REPORT: Lancashire Pension Fund – Triennial Valuation Results

1. PURPOSE

- 1.1 The purpose of this report is to provide the Executive Board with details of the outcome of the triennial valuation of the Lancashire Pension Fund and its implications for Blackburn with Darwen Borough Council.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Executive Board:-
- a) note the outcome of triennial review of the Lancashire Pension Fund and the implications for Blackburn with Darwen Council;
 - b) endorse the decision not to pre-pay the Council's employer contributions for the next 3 years given the estimated net cost of doing so.

3. BACKGROUND

- 3.1 The Lancashire County Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is established by statute with the purpose of providing death and retirement benefits for all eligible employees. The Fund covers the county of Lancashire (including Blackburn with Darwen) and Lancashire County Council act as the Administering Authority.
- 3.2 Within the LGPS, it is a statutory requirement for a valuation of the pension fund to be carried out every 3 years. The valuation is carried out by an Actuary appointed by Lancashire County Council as Administering Authority. The key aim of the valuation is to ensure that there are enough assets in the Fund to pay all members of the LGPS in the fund the benefits that they become entitled to as and when they become due for payment.

- 3.3 The Actuary looks at the assets held and the liabilities for all the individual members (each Major Authority such as Blackburn with Darwen Council plus any other scheduled or admitted bodies) that comprise the Fund, and will make assumptions on future investment returns and inflation rates and how long benefits will be paid for. The Actuary then decides what level of employer contributions are required so that the fund remains able to pay member benefits into the future.

4. RATIONALE

- 4.1 Employer contributions are a key component of the employment costs of Council staff. They are determined with reference to the Council's share of assets and liabilities in the Lancashire Pension Fund. The value of these assets and liabilities is reviewed every 3 years with the results of that review used to determine how much the employer contributions will be for the following 3 years.

5. KEY ISSUES

Outcome of the Triennial Valuation 2022

- 5.1 The last valuation of the Lancashire County Pension Fund was undertaken in 2019 and was used to inform employers contributions for the period 1st April 2020 to 31st March 2023 (the financial years 2020/21, 2021/22 and 2022/23). The outcome of the last valuation for Blackburn with Darwen was that:-
- the Council's share of the assets (£682.9m) was less than the estimated liabilities (£710.1m) by £27.2m meaning a funding level of 96%, i.e. the fund was in deficit;
 - In addition to a future service contribution rate of 17.4% of salary costs, the Council was required to pay a cash lump sum of £5.475m as a contribution to the funding deficit.
- 5.2 The most recent valuation of the Lancashire County Fund, undertaken as at 31st March 2022, indicates that:-
- the Council's share of the assets (£872.8m) is more than the estimated liabilities (£770.3m) by £102.5m meaning a funding level of 113%, i.e. the fund is in surplus;
 - The future service contribution rate would, ordinarily, rise to 18.8% but in view of the surplus on the Fund, the Actuary has permitted a deduction of 1.1% to reflect this surplus thereby giving a total contribution rate of 17.7%. This contribution rate will remain constant for the next 3 financial years, 2023/24 to 2025/26;
 - Additionally, given the Fund is in surplus, no deficit payment is required.
- 5.3 As with the previous valuation, the Pension Fund has offered the option of pre-paying all of the estimated employer contributions for the next 3 years in one lump sum at the start of the next financial year. The benefit of doing so would be a discount of c£2.9m on payments of c£45.9m
- 5.4 However, given prevailing rates of interest, estimates indicate that the cost of funding the pre-payment of £43.0m would be c£4.1m, exceeding the proposed saving by c£1.2m. On this basis, it is not considered prudent to make the pre-payment.

Budgetary Implications of the Valuation Results

5.5 At previous meetings of the Executive Board, Councillors have received details of the Council's Medium Term Financial Plan. In the absence of the outcome of the valuation of the Pension Fund, it has been necessary to make estimates of the likely employers' contributions rates. The estimates used to date comprise:-

- a future service contribution rate of 18.4% in 2023/24, 19.4% in 2024/25 and 20.4 in 2025/26; and
- A deficit payment of £5.175m (£1.725m per year) of which £2.508m (£0.836m per year) is attributable to the Council's General Fund.

5.6 Table 1 below provides a comparison of the financial impact on the Council's Medium Term Financial Plan arising from the outcome of the valuation:-

Table 1: Employers Pension Costs – Impact on Medium Term Financial Plan 2023/26

	2023/24 £000	2024/25 £000	2025/26 £000
Estimated cost in MTFP			
- Future Contributions	1,313	1,948	2,583
- Deficit Payment	0,836	0,836	0,836
	2,149	2,784	3,419
Estimated cost as per Valuation	1,305	1,654	1,895
Adjustment to MTFP	(0.844)	(1,130)	(1,524)

5.7 As indicated, the cost of employers' contributions will be less than estimated and a total saving over the 3 year period of £3.498m will be factored into the next update of the Council's Medium Term Financial Plan for 2023/26.

6. POLICY IMPLICATIONS

6.1 There are no policy implications arising directly from this report.

7. FINANCIAL IMPLICATIONS

7.1 The financial implications are as given in the report.

8. LEGAL IMPLICATIONS

8.1 There are no legal implications arising directly from the contents of this report.

9. RESOURCE IMPLICATIONS

9.1 There are no other resources implications arising from the contents of this report.

10. EQUALITY AND HEALTH IMPLICATIONS

10.1 There are no equality and health implications arising from the contents of this report.

11. CONSULTATIONS

11.1 None arising from the contents of this report.

12. STATEMENT OF COMPLIANCE

12.1 None arising from the contents of this report.

Appendices

None

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	3 rd November 2022
BACKGROUND PAPERS:	None