

## REDDITCH BOROUGH COUNCIL

### **Audit, Governance and Standards Committee**

23rd March 2023

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#### **Pension Fund Update**

Relevant Portfolio Holder	Councillor Ashley – Portfolio Holder for Finance and Governance
Portfolio Holder Consulted	Yes
Relevant Head of Service	Michelle Howell
Report Author: Michelle Howell	Job Title: Head of Finance & Customer Services Contact email: <a href="mailto:michelle.howell@bromsgroveandredditch.gov.uk">michelle.howell@bromsgroveandredditch.gov.uk</a>
Wards Affected	All
Ward Councillor(s) consulted	No
Relevant Strategic Purpose(s)	All
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

#### **1. RECOMMENDATIONS**

**The Audit, Governance and Standards Committee RESOLVE that:**

- 1) The Background to the reductions in budget, and associated assumptions from the 31<sup>st</sup> March 2022 Actuarial Valuations be noted.**

#### **2. BACKGROUND**

- 2.1 The Council is part of the Worcestershire Pension fund. Every three years the fund is revalued. This report sets out the results of the latest revaluation which took place in 2022, with the final report being received by the Council in November 2022.
- 2.2 The valuation of the Pension Fund has a significant impact on the Council's finances as it needs to ensure that it has funding to ensure that the liabilities of its Members can be met. The yearly payments to the Pension Fund from the Council have two elements:
  - A payment for future service amounts
  - A payment for recovery of the overall deficit
- 2.3 For 2022 Actuarial Valuation by Mercer, detailed in Appendix A, sets out that the next three year period:
  - The Funds assets are estimated to be £126.9m and its liabilities £132.0m
  - This means the fund is in deficit by £5.1m. This compares to a deficit of £20.3m in 2019 – an improvement of £15.2m.

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- The Employers future rate of payment into the fund is 19.6% of Salary levels.
  - This means the present deficit will be cleared within a 12 year period, with deficit contributions ceasing in the 2035/36 financial year.
- 2.4 For Redditch Borough Council the fund has:
- 355 active members, which is a reduction of 34 from the 2019 figure of 389.
  - 677 deferred pensioners, which is a reduction of 19 from the 2019 figure of 696.
  - 864 Pensioners and Dependents, which is an increase of 77 from the 2019 figure of 787.
- 2.5 Appendix A also sets out high level notes of the overall Worcestershire Pension Fund Scheme. It highlights:
- That size of employer is an important factor. With positive/negative experiences being less material for larger employers due to averaging over a larger membership. This can be seen when comparing the future service rate of the overall Worcestershire scheme at 18.8% against the Redditch contribution amount of 19.6%.
  - That impact of the potential costs of McCloud has been included in the liability calculation.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The table below sets out the Councils base budget for Pensions. It includes both the future service and deficit recovery amounts. In addition to this, the savings built into the 2023/24 Medium Term Financial Plan (MTFP) have been added. This was done at a high level in the budget. This figure is then compared against the actuarial valuations of both elements.

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Base Budget	3,394,000	3,529,000	3,559,000
Tranche 1 Approved Savings	(580,000)	(580,000)	(580,000)
Tranche 2 Approved Savings	(221,000)	(221,000)	(221,000)
<b>Revised Budget</b>	<b>2,593,000</b>	<b>2,728,000</b>	<b>2,758,000</b>
Future Service Amount – 19.6%	1,921,340	1,998,200	2,078,130
Deficit Recovery Amount	568,000	594,100	621,500
<b>Total Liabilities</b>	<b>2,489,340</b>	<b>2,592,300</b>	<b>2,699,630</b>

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- 3.2 As the table shows, the savings amounts in the MTFP take account of the reduced payment requirements.
- 3.3 In the past, the Council has paid deficit amounts up front at the start of the three year period as a significant savings could be made.
- 3.4 However, given that the Current Public Works Loan Board Interest Rate is 4.47%, should the Council pay the sum up front this would cost the Council £75k a year over the three year period (£225k). This is more than the projected savings of £117k. Therefore, this option will not be taken for this three year cycle.

**4. LEGAL IMPLICATIONS**

- 4.1 There are no direct legal implications arising as a result of this report. The Council has to offer a Local Government Pension Option to its employees.

**5. STRATEGIC PURPOSES - IMPLICATIONS**

**Relevant Strategic Purpose**

- 5.1 The Strategic purposes are included in the Council's Corporate Plan and guides the Council's approach to budget making ensuring we focus on the issues and what are most important for the borough and our communities. Our Financial monitoring and strategies are integrated within all our Strategic Purposes.

**Climate Change Implications**

- 5.2 The Worcestershire Pension Fund has its Investment Strategy and associated policies which includes links to Climate Change.

**6. OTHER IMPLICATIONS**

**Equalities and Diversity Implications**

- 6.1 There are no direct equalities implications arising as a result of this report.

**Operational Implications**

- 6.2 Operational implications have been dealt with as part of the 2023/24 MTFP.

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**7. RISK MANAGEMENT**

- 7.1 Non delivery of savings options, depending on their financial magnitude can have either a small or significant effect on the Council's finances. This is a large savings items over the next three years. However, the risk attached to the savings included in the budget are minimal as the terms of the Actuarial Valuation and corresponding payments have been agreed with the fund.

**8. APPENDICES and BACKGROUND PAPERS**

Appendix A – Redditch Borough Council 31 March 2022 Actuarial Valuation Results.