

## **Finance Sub-Committee**

**7 June 2023**

### **Local Government Pension Scheme and Cheshire Pension Fund**

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**Report of:** Alex Thompson, Director of Finance and Customer Services

**Report Reference No:** FSC/6/23-24

**Ward(s) Affected:** All

#### **Purpose of Report**

- 1 The purpose of this report is to inform the Finance Sub-Committee about the Local Government Pension Scheme (LGPS), its importance in respect of the Council's financial planning and reporting, and to introduce the first in a series of briefing notes in respect of items presented to the Cheshire Pension Fund Committee.

#### **Executive Summary**

- 2 The report is introductory in nature, and will cover: the background to the LGPS; the responsibilities of the Finance Sub Committee for pensions matters; and the responsibilities of Cheshire West & Chester Council as the LGPS administering body and its Pension Fund Committee – including Cheshire East representation on the Committee.
- 3 The report also describes the main items for consideration in Cheshire East's financial planning and reporting for pensions; and how Members will be kept informed of these matters in future meetings.

## RECOMMENDATIONS

The Finance Sub-Committee is asked to note:

1. The contents of this report
2. The Council's processes for making Member appointments to the Cheshire Pension Fund Committee, via Corporate Policy Committee
3. How pensions matters feature in the Council's ongoing financial planning and reporting arrangements, particularly the pensions-related financial assumptions that will be included in the next review of the Medium Term Financial Strategy  
The Finance Sub-Committee is asked to approve
4. That the Sub Committee's work plan will include receiving briefing papers through the year in respect of matters considered at the Pension Fund Committee

## Background

- 4 The LGPS is a national pension scheme for people working in local government, such as local councils, or working for other employers that participate in the scheme.
- 5 The LGPS is one of a number of public service pension schemes and its rules are made with the approval of Parliament – it is a statutory scheme. The Scheme is administered locally by a number of pension funds across the country.
- 6 Scheme members (council employees) pay monthly contributions into the LGPS; the rate of employee contribution is determined with reference to gross salary, under a banded system.
- 7 The balance of the cost of providing for pension benefits is ultimately met by employers (councils) - via contributions paid over to pension funds on a monthly basis – and also the returns made on pension fund investments.
- 8 It is important to note that, with regard to providing for and funding the pension benefits (to be paid out over a period of time in the future) of employees of a large organisation such as Cheshire East Council, a 'long-term view' is always taken.
- 9 Every three years an independent actuary calculates how much the employer should pay into the Scheme. Known as the 'triennial valuation' the actuary makes a valuation of the liabilities of the fund (pension benefits to be paid to individuals) and assets of the fund (investment

returns) – and taking a long-term view of both liabilities and assets determines how much the employer must pay, via its ‘contribution rate’ applied to gross salary costs, over the next three years.

- 10 Further information on the LGPS may be found via the following links:

<https://www.local.gov.uk/our-support/workforce-and-hr-support/local-government-pensions/local-government-pension-scheme>

<https://www.lgpsmember.org/>.

### **Responsibilities of Finance Sub Committee**

- 11 Members will be aware that the purpose of the Finance Sub-Committee is to co-ordinate the management and oversight of the Council’s finances, performance and corporate risk management arrangements. The Sub-Committee will make recommendations to the Corporate Policy Committee regarding the development of the Council’s Medium Term Financial Strategy and the setting and monitoring of the Capital and Revenue Budgets in accordance with the Corporate Plan and the Policy Framework.
- 12 The Sub-Committee’s responsibilities include the determination of finance issues, including but not limited to Treasury Management, Insurance, Procurement, debt write off, settlement payments and virements in line with the Councils Constitution.
- 13 Specifically in the context of this report, the Finance Sub Committee’s responsibilities include oversight, scrutiny and budgetary review of various functions, including ‘Pensions’.

### **Roles and Responsibilities of Cheshire West & Chester Council and its Pension Fund Committee**

- 14 With regard to the administration of the LGPS within the County of Cheshire, overall responsibility for managing the Cheshire Pension Fund lies with the full Council of Cheshire West & Chester Council – the ‘Administering Authority’. Day-to-day management of the Fund is delegated to its Chief Finance Officer (S151 Officer); and the Council reviews the discharge of its responsibilities through its own Audit and Governance Committee.

#### ***Pension Board***

- 15 As part of the established governance arrangements, the 'Local Pension Board' assists the Council to deliver efficient governance and administration of the Pension Fund. The Local Pension Board reviews decisions made and policies set by the Administering Authority to ensure that all aspects of governance and administration of the LGPS, including funding and investments, are compliant with relevant regulations and legislation.
- 16 Under the regulations, the Board must comprise equal numbers of 'scheme member' and 'scheme employer' representatives. Cheshire has chosen to have two scheme members (one nomination being a trade union representative) and two employer representatives (one nomination being made by Cheshire West and Chester Council). The Committee also has an Independent Chair (who will not have any voting rights).

### ***Pension Fund Committee***

- 17 The Pension Fund Committee's key responsibilities are to advise the S151 Officer on the management of the Cheshire Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets, taking advice from a strategic and actuarial investment advisor.
- 18 The Cheshire Pension Fund Committee comprises four elected members each from Cheshire West & Chester Council and Cheshire East Council, one elected member from both Halton Borough and Warrington Borough Councils along with one Employee representative.
- 19 Members will be interested to note that Cheshire East has established procedures for making appointments to 'outside bodies'. It is intended that a report is taken to the June meeting of Corporate Policy Committee on the review of other organisations for which Cheshire East Member representatives are required; and a subsequent report will be made to the July meeting of Corporate Policy Committee relating to the formal appointments being made.
- 20 In the meantime, to maintain representation, there is also an established approach whereby existing Members on outside bodies continue to represent the Council until such formal changes have been approved; and with regard to any 'vacancies' that have arisen (say, due to the outcome of the May election) a 'casual appointments' process is in place to facilitate Member representation being fulfilled on a short-term basis.
- 21 A further update on Cheshire East Council's representation on the Pension Fund Committee will be provided verbally in the meeting.

- 22 Further information on the Cheshire Pension Fund, the Pension Board, the Pension Fund Committee, and other aspects of the governance arrangements of the Fund may be found via the following link:

<https://www.cheshirepensionfund.org/members/about-us/how-we-manage-the-fund/governance-structure/>

### **Pensions planning and reporting in Cheshire East Council**

- 23 The administration of making deductions from salaries and paying over both employee and Council (as employer) contributions to the Cheshire Pension Fund, on a monthly basis, is managed by Transactional Services – a group of payroll and transactional payments and income teams, delivered as a ‘shared service’ for both Cheshire East and Cheshire West & Chester (and hosted by the latter authority).
- 24 From a financial management perspective, the principal focus for Cheshire East may be summarised as:
- (a) Financial planning for pensions contributions – liaising with the Cheshire Pension Fund and their appointed actuary, and reflecting the latest information on the required rate of employer contribution from the Council, in our Medium-Term Financial Strategy (MTFS) and annual budget-setting process
  - (b) Financial reporting of pensions matters – accounting for pensions costs in our statutory Statement of Accounts on an annual basis, including the latest valuation of Cheshire East’s pension fund liabilities and assets in our Balance Sheet

#### ***Financial Planning***

- 25 At the time of Local Government Reorganisation in Cheshire in 2009, the Council had a significant ‘funding deficit’ on its pension fund – the valuation of liabilities exceeding the valuation of assets. In 2013, the Council’s pension scheme was only 75% funded. Strategies were adopted with regard to both investments of the fund, and also the rate of employer contributions required to close the deficit.
- 26 Over time, these strategies have successfully resulted in a significant reduction in the funding gap – with the Council’s scheme reported as 98% funded as at the 31 March 2021 (funding update) – and also further reductions in the Council’s required contribution rate, providing a favourable effect in the MTFS and budget setting for 2023/24-2026 and beyond:

<b>Financial Year</b>	<b>Total Contribution Rate - % of pensionable pay</b>
2019/20	36.8%*
2020/21	30.0%*
2021/22	28.5%*
2022/23	28.1%*
2023/24	26.7%
2024/25	25.2%
2025/26	23.7%

\*Calculated total payover rate based on total paid over to the Cheshire Pension Fund as a percentage of pensionable pay

Note - reducing contribution rate mainly reflects reducing requirement for past service deficit contribution

### ***Financial Reporting***

- 27 As noted above, the Council's annual Accounts include pensions costs and valuations, in accordance with accounting regulations. This is quite a 'technical' area of accounting and reporting, though notes within the Accounts describe the disclosure requirements.
- 28 It is quite usual for there to be significant variations in the Balance Sheet valuations of pension fund liabilities and assets, from one financial year to the next. This may be due a range of factors, including national and international events, performance in the financial markets, etc.
- 29 However, as noted above, the triennial valuations affecting changes in employer contributions always take a long-term view; and in accounting and financial management terms there are no 'immediate' implications of fluctuations in valuations in the annual Accounts.
- 30 The table below shows the valuations of pensions assets and liabilities included in the draft 2022/23 Accounts, and for 2021/22 for comparative purposes.

<b>Cheshire East Council - LGPS</b>	<b>2021/22 – Accounts</b>	<b>2022/23 – draft Accounts</b>
	<b>£m</b>	<b>£m</b>
Pension Assets	1,614	1,601
Pension Liabilities	-1,996	-1,378
Pension Reserve re LGPS*	382	-223

\*The Pension Reserve is a technical accounting entry, as per accounting regulations, ensuring that neither year-to-year valuation changes, nor long-term funding requirements, affect the year's income and expenditure account

Note – whilst the above 2022/23 valuation of assets exceeds that of liabilities, this is an actuarial valuation only for the purpose of accounting as at 31 March 2023; its purpose is not the same as the triennial valuation, which determines the strategic 'funding' position and the required employer contribution rates for the next three years

- 31 Further information may be found in the Statement of Accounts for each financial year published on the Council's website:

[https://www.cheshireeast.gov.uk/council\\_and\\_democracy/your\\_council/council\\_finance\\_and\\_governance/statement\\_of\\_accounts/statement\\_of\\_accounts.aspx](https://www.cheshireeast.gov.uk/council_and_democracy/your_council/council_finance_and_governance/statement_of_accounts/statement_of_accounts.aspx)

### **Latest briefing on matters discussed at Cheshire Pension Fund Committee**

- 32 For information, a briefing paper of the items discussed at the most recent meeting of the Cheshire Pension Fund Committee is attached as an Appendix to this report.

- 33 For further information on meetings, agendas, and minutes of the Pension Committee, please follow the link below:

<https://www.cheshirepensionfund.org/members/about-us/how-we-manage-the-fund/governance-structure/pfc/>

### **Future reporting of pensions matters**

- 34 Further to this introductory report, it is planned to continue to provide the Sub Committee with briefing papers in respect matters considered at the Pension Fund Committee, through the year.

- 35 In addition, as we begin the financial planning cycle for 2024/25-2027/28, information relating to the development of the MTFs will provide further information on the pension contributions of the Council, as part of our budgeting for the next four years.

## **Consultation and Engagement**

- 36 No consultation or engagement is required directly in relation to this report; though the report does describe Cheshire East Council Member representation on the Cheshire Pension Fund Committee.

## **Reasons for Recommendations**

- 37 This is an introductory report is to inform the Finance Sub-Committee about the Local Government Pension Scheme (LGPS) and its importance in respect of the Council's financial planning and reporting. It supports the Corporate Plan priority of being an open and enabling organisation; particularly with regard to ensuring transparency in decision making, and supporting a sustainable financial future for the Council.

## **Other Options Considered**

- 38 Not applicable

## **Implications and Comments**

### *Monitoring Officer/Legal*

- 39 There are no legal implications of this report. The report describes that the Local Government Pension Scheme is a statutory scheme, and summarises key aspects of our local administration and financial management of the scheme.

### *Section 151 Officer/Finance*

- 40 The financial planning and reporting implications with regard to pensions are introduced and summarised in this report.
- 41 In particular, the report notes how previous financial strategies deployed have resulted in an improved position with regard to pensions costs to the Council as employer; and further how the prospects for contributions

required to be made in the coming years are providing beneficial effects on the Council's MTFS.

### *Policy*

- 42 There are no policy change implications relating to this report. As noted above, providing this information for Members supports the Corporate Plan priorities of being an open and enabling organisation, and supporting a sustainable financial future for the Council.

### *Equality, Diversity and Inclusion*

- 43 There are no equality, diversity or inclusion implications of this report and its recommendations.

### *Human Resources*

- 44 There are no human resources implications of this report and its recommendations.

### *Risk Management*

- 45 There are no risk management implications of this report and its recommendations. The management of risk is an inherent part of the work of the Cheshire Pension Fund (e.g. in the determination of its investment strategy) and also their appointed actuary, with regard to fund valuations and policies.

### *Rural Communities*

- 46 There are no implications to rural communities of this report and its recommendations.

### *Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)*

- 47 There are no implications to children and young people, and cared for children, of this report and its recommendations.

### *Public Health*

- 48 There are no public health implications of this report and its recommendations.

### *Climate Change*

- 49 There are no climate change implications of this report and its recommendations.

**Access to Information**

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Appendices:	1 – Briefing Paper on Cheshire Pension Fund Committee Meeting
Background Papers:	Medium Term Financial Strategy 2023/24-2026/27 Statement of Accounts