Report of:	Meeting	Date	Item no.
Councillor Alan Vincent, Resources Portfolio Holder and Clare James, Head of Finance (s.151 Officer)	Cabinet	15 February 2017	6

Local Government Pension Scheme Pension Contributions

1. Purpose of report

1.1 To consider the potential economic benefits to the Council of the pre-payment of the Local Government Pension Scheme (LGPS) employer pension contributions for the three years 2017/18 to 2019/20 and beyond.

2. Outcomes

2.1 To enable revenue savings to be made as a result of prepaying employer pension contributions.

3. Recommendation/s

3.1 The prepayment of pension contributions for the three years 2017/18 to 2019/20, and future triennial review periods, to be agreed in principle, with the actual amount and profiling of any prepayment to be delegated to the Head of Finance (s.151 Officer), subject to a clear economic benefit to the Council.

4. Background

4.1 The Council is a member of the Lancashire County Pension Fund and on 1 April 2017, will enter the first year of a new triennial review period ending on the 31 March 2020. As part of detailed negotiations between local authority members of the Fund with the current actuary Mercer and Lancashire County Council, the option to pre-pay the past service deficit and/or the future service elements of the employer contribution has been offered.

4.2 The current payment schedule requires monthly payments to be made for both the future service and past service deficit recovery elements. The Fund is proposing that local authorities could opt to pay either or both elements annually in advance saving up to £116,800 over the three years. Alternatively, local authorities could opt to pay either or both elements three years in advance saving up to £342,700 over the three years. Different combinations of the aforementioned options will also be permitted.

4.3 By pre-paying the employer contribution amounts the Pension Fund can utilise the larger sums available to generate better returns than it would otherwise be able to with smaller monthly payments, thus allowing local authorities to benefit from reduced contributions.

4.4 An illustration of the employer contributions currently forecast and the pre-payment options are shown in the table below for the period 2017/18 to 2019/20:

Monthly payments				
Year		Future Service	Past Service Deficit Recovery	Total
		£	£	£
2017/18		1,052,100	736,500	1,788,600
2018/19		1,062,600	763,800	1,826,400
2019/20		1,073,300	792,000	1,865,300
Sub-Total		**3,188,000**	**2,292,300**	**5,480,300**
Annual Pre-payment				
Year		Future Service	Past Service Deficit Recovery	Total
		£	£	£
2017/18		1,029,700	720,800	1,750,500
2018/19		1,040,000	747,500	1,787,500
2019/20		1,050,400	775,100	1,825,500
Sub-Total		**3,120,100**	**2,243,400**	**5,363,500**
3 yrs saving vs monthly payment		**67,900**	**48,900**	**116,800**
April 2017 Pre-payment				
Year		Future Service	Past Service Deficit Recovery	Total
		£	£	£
2017/18		2,989,600	2,148,000	5,137,600
2018/19		0	0	0
2019/20		0	0	0
3 yrs saving vs monthly payment		**198,400**	**144,300**	**342,700**

4.5 If elements of the pre-payment options are overestimated then the amounts overpaid would remain in the pension fund to be offset against the next triennial review period, with contributions adjusted accordingly at that time. To help to mitigate the potential for this outcome, the Fund is proposing that those authorities who wish to pre-pay the future service element may only be required to pay 90% in advance with a final adjustment made in the last month of the relevant period to allow for unders/overs to be taken into account.

4.6 The Lancashire County Pension Fund annual report for 2015/16 stated that: "In the year to 31 March 2016, The Fund delivered 4.36% return on assets, outperforming the Lancashire Plan Benchmark of 3.59% and placing Lancashire's investment performance as the best amongst all of the Local Authority Pension Scheme members." Similarly, the draft Funding Strategy Statement published in December 2016 assumes an investment return of 4.4% per annum over the 3 year period.

4.7 The Pension Fund requires a commitment by the end of February 2017 in order for their own approval process to take place and suitable investments to be organised for the pre-payment lump sum.

5. Key issues and proposals

5.1 It is proposed that the option to pre-pay pension contributions for the three years 2017/18 to 2019/20 and subsequent triennial review periods thereafter is agreed in principle, with the final decision to be delegated to the Head of Finance (s.151 Officer). The actual amount and profiling of any prepayment to be subject to a clear economic benefit to the Council, having taken into account all known risks and the current legal position.

5.2 The Council's external auditors have been consulted as part of the decision-making process. The pre-payment is only possible if the accounts reflect the contributions in the year they fall due rather than being accounted for in one year. It would also be necessary to ensure that the actuary issues an updated 'Rates and Adjustments Certificate' to reflect the impact of any pre-payment option taken.

5.3 External legal advice is being procured collectively with other Lancashire authorities to obtain the latest position and any recommendations will form part of the final decision-making process.

5.4 An analysis of the Council's projected cash-flow position has been undertaken, taking into account the anticipated impact of the various profiling options and this will be used to determine the best option for pre-payment. The cash position will be managed to minimise the amount of temporary borrowing required, if any. Should the Council need to undertake temporary borrowing in the period to cover any cash-flow shortfall then the cost will be netted off against the overall saving. Similarly, a reduction in surplus cash to invest will mean that the Council's forecast investment income from interest will need to be adjusted accordingly once an option has been determined.

5.5 The economic advantages assume a positive investment return being obtained by the Fund and if this were not the case then the financial benefits of the arrangement would reduce. A scenario could arise whereby in an extreme case, if investment returns were negative over the three year period, then it would be more beneficial to leave contributions payable in monthly instalments than in advance and this risk must be considered as part of any decision. In practice the extent to which these risks can be mitigated is limited. However the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

Financial and legal implications	
Finance	Considered in detail in the report above.
Legal	Up to date legal advice is being procured and any delegated decision will be taken in line with expert opinion.

<u>Other risks/implications: checklist</u>

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	**✓ / x**
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	**✓ / x**
asset management	x
climate change	x
data protection	x

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List of background papers:		
name of document	date	where available for inspection

<u>List of appendices</u>

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