REPORT TO	DATE OF MEETING
Cabinet	2nd April 2014

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SOUTH RIBBLE BOROUGH COUNCIL
forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Pension Fund Contributions 2014/15 to 2016/17	Finance and Resources	S Guinness	6

SUMMARY AND LINK TO CORPORATE PRIORITIES

A report to Council on 5th March delegated to Cabinet the final decision on the timing of deficit contributions payable to the Pension Fund arising from the latest actuarial valuation of the Fund. At the time, it was understood that the Council had until mid-April 2014 to confirm its decision, coinciding with the due date of first instalment payment for the new financial year. We have now been advised that the Council's position must be confirmed by the 27 March so that he Actuary can conclude the valuation process and issue his certificate by the 31 March. As a consequence, the Chief Executive, in consultation with the Cabinet Member for Finance & Resources, is required to take the decision under Standing Order 38 and to report that the decision has been made to the this Cabinet meeting.

The methodology applied to calculate what the Council is required to pay into the Pension Fund is changing with effect from 1st April. The payment to be made towards the fund's deficit position will now be calculated on a fixed cash sum basis rather than as a percentage of the total pay bill of current pension fund members. The sum required with effect from 1st April 2014 will be fixed over the next three years, from 2014/15 to 2016/17, in accordance with the latest Pension Fund Triennial Revaluation. There is, however, an option to pay the three years' total contribution upfront and thus receive a discount on the original sum due to reflect the fact that it can subsequently be invested by the pension fund. An evaluation of this option has now been undertaken covering the financial and legal implications.

RECOMMENDATION

Members note the decision of the Chief Executive under Standing Order 38 taken in consultation with the Cabinet Member for Finance & Resources for a one-off payment £1.778m to reflect the fact that the Pension Fund will be able to invest the monies accordingly during this time period.

DETAILS AND REASONING

The triennial review of the Pension Fund has recently taken place and will apply to the payments made by the Council for the period covering the review being 2014/15 to 2016/17. The way in which the Council make its payment in respect of the Pension Fund Deficit Recovery Contribution will change with effect from 1st April 2014.

Up until now the total Pension Fund contribution has been calculated as a straightforward percentage applied to the pay bill of pension fund members. The contribution paid has been a consolidation of both elements due to be paid that is, (i) the contribution for current members (future year's contribution) and (ii) a contribution to make up the fund's deficit and achieve a fully funded position over a period of 19 years. Due to widespread reductions in public sector pay bills, deficit contributions have by default been eroded slowing down the deficit's rate of recovery. To overcome this issue the deficit element of the contribution will now be paid as a pre-determined cash amount that will not fluctuate in accordance with pension fund membership numbers. Initial figures published by the Actuary suggested this would total £1.933m over the next three years (£0.619m in 2014/15; £0.644m in 2015/16 and £0.670m in 2016/17). Unless otherwise determined by the Council, these payments would be scheduled to be made on a monthly, equal instalments basis, that is, £51,558 per month in 2014/15, £53,675 per month in 2015/16 and £55,875 per month in 2016/17.

There is now an option, however, to pay the total amount due at the beginning of the three years in April 2014. In doing so the total amount of £1.933m referred to above will be discounted. This equates to a new one-off payment being made of £1.778m to reflect the fact that the Pension Fund will be able to invest the monies accordingly during this time period. This equates to a gross budgetary saving of £0.155m over the three years.

Evaluation of the Proposal

The evaluation process has involved gaining the advice of the Council's external auditor, Grant Thornton. Their advice can be summarised as:

- The Council should be satisfied that the transaction is lawful by acquiring legal advice.
- The Council should be satisfied that there is a financial benefit.

Legal Advice

The Legal Advice received indicates that the arrangement is lawful. Discussions with the External Auditor, Grant Thornton, also confirmed that they are comfortable with the proposal if we account for the transaction in the correct manner, as set out below, and in line with the Actuary's valuation certificate.

Accounting Treatment

The options at the outset of this proposal where to either, (1) account for the total payment of £1.778m in the first financial year and therefore no costs in 2015/16 and 2016/17, or alternatively (2) treat the transaction as a payment in advance (PIA) and account for the cost over the three years. The current advice received from Grant Thornton, however, is that PIA, option (2), would not comply with The Code of Practice on Local Authority Accounting and the 2003 Local Authorities (Capital Finance and Accounting) (England) Regulations.

The impact of Option 1 above on the current MTFS forecasted General Fund Reserve balance is as follows, that is, the balance would reduce in 2014/15 compared to that expected in the MTFS but would increase back to its forecast level in 2016/17 (excluding all other financial matters that may impact on the General Fund Reserve or future budget decisions taken by the Council):-

Year	General Fund Reserve As at 31 March in MTFS £m	Impact of Charging Full Payment in 2014/15 £m
2014/15	3.902	2.743
2015/16	3.770	3.232
2016/17	3.770	3.770

Financial Benefit

The discounted total payment of £1.778m achieves a savings against the budgeted contribution of £0.155m which equates to a return on investment of 8.02%. This is in comparison to an estimated return on investment that could be achieved by the Council of £0.037m (1.91%) over the three years should the funds be retained and paid over on a monthly basis as per the Actuary's initial schedule of payments.

By way of comparison the average historical performance for all the Council's cash investments made over the past three years is as follows:-

Year	% Return on Investment
2013/14 to date	0.80%
2012/13 out-turn	1.30%
2011/12 out-turn	1.03%

Although the return on investment rate of 1.91% shows an improvement on previous performance it remains significantly lower than the 8.02% that could be achieved by making the advance lump sum payment to the Pension Fund. At the current time, a greater return on the Council's cash deposits could only be achieved by substantially increasing our risk appetite as set out in the Treasury Management Strategy and this is not recommended.

CONCLUSION

After considering the outcomes of the advice received and also the financial appraisal undertaken it has been concluded that:

1. Making one payment into the Pension Fund with regard to the Pension Fund Deficit Recovery payment is considered to be lawful.
2. The Actuary's certificate should be consistent with this payment arrangement.
3. The total payment will be accounted for in the general fund in 2014/15 and this accounting treatment is affordable.
4. The General Fund Reserve balance will reduce in 2014/15 but, all things being equal, will increase over the next two years. Thus over the three years there will be no impact on the reserve as a result of this transaction.
5. The financial benefit is that a net budgetary savings of circa £0.118m will be achieved.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	The financial implications are included in the report above. The financial appraisal indicates a net budgetary saving of circa £0.118m will be achieved over the next three years to 2016/17.

LEGAL	The proposal to make an upfront payment of the deficit in order to achieve a significant cost saving is clearly lawful.

RISK	The full risk assessment forms part of the background papers to this report. The main points for consideration are summarised here:- Risk has been mitigated by taking legal advice and consulting with the external auditor Grant Thornton. Also a financial appraisal has been undertaken to evidence the financial benefits achievable.

THE IMPACT ON EQUALITY	There is no impact

OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

Report to Council on 5th March 2014 - Pension Fund Contributions 2014/15 to 2016/17

Following consultation I agree with the delegated decision outlined above.