REPORT TO	DATE OF MEETING
Council	5th March 2014

Report template revised June 2008

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	9

SUMMARY AND LINK TO CORPORATE PRIORITIES

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 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 that it can subsequently be invested by the pension fund. An evaluation of this option is currently underway and will be concluded very shortly after the financial and legal arrangements have been finalised.

RECOMMENDATION

It is recommended that the Council note the contents of this report and delegate to Cabinet the final decision as to whether to pay the Pension Fund Deficit Recovery Contribution, for the period 2014/15 – 2016/17, in one payment in April 2014.

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 makes 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 and will total £1.933m over the next three years (£0.619m in 2014/15; £0.644m in 2015/16 and £0.671m in 2016/17). The actual payments are currently 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 circa £1.800m 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 £0.133m over the three years.

This is in comparison to an estimated return on investment that could be achieved by the Council of £0.015m should the funds be retained and paid over on a monthly basis as per the current schedule of payments. The expected return on investment has been estimated assuming the increase in interest rates as currently forecasted by our Treasury Advisors Capita Asset Services (and shown below) and also the Net Present Value (NPV) of the investment income received over the same three year period to 2016/17.

Current Forecasted bank interest rates as per Capita Asset Services

Effective date	Bank Interest Rates
April 2014 to May 2016	0.50%
June 2016 to August 2016	0.75%
September 2016 to February 2017	1.00%
March 2017	1.25%

Next Steps

- To conclude, initial calculations estimate an overall net budget saving of £0.118m could be realised over the next three years by making the Pension Fund Deficit Recovery Contribution payment in one payment in April 2014 as opposed to 36 monthly instalments. The next stages to finalise the proposal, in addition to the financial appraisal, include confirmation of the technical accounting treatment with our External Auditor.

It is recommended that a report is presented to Cabinet on 2 April 2014 with regard to the final proposal, when all factors are known and the full appraisal is complete. Council is requested, therefore, to delegate the final decision as to whether to accept the proposal to Cabinet.

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 initial financial appraisal indicates a net budgetary saving of circa £0.118m can be achieved over the next three years to 2016/17.

LEGAL	Initial Legal Advice indicates that there are no legal barriers to this proposal and this will be confirmed as the proposal is finalised.

RISK	The full risk assessment forms part of the background papers to this report. The main points for consideration are summarised here:-

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

Risk Assessment