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| **REPORT OF:** | **DIRECTOR OF FINANCE & IT** |
| **TO:** | **COUNCIL FORUM** |
| **ON:** | **20th April 2017** |

**SUBJECT: Treasury Management Update re: Payment of Employer Pension Contributions to the Lancashire Local Government Pension Fund**

## 1.0 PURPOSE OF THE REPORT

Council Forum approves the Treasury Management Strategy and receives updates during the year on Treasury Management activity. The purpose of the report is to provide an update to Council on the option to be taken, following the triennial valuation of the Local Government Pension Scheme, to pay the annual deficit contributions for the next 3 years, as one upfront payment; in doing so the Lancashire Pension Fund will provide a discount for the early payment.

## 2.0 RECOMMENDATIONS

The Council is asked to note the payment of the annual deficit contribution due for 2017/18, 2018/19 and 2019/20 in advance at the end of April 2017.

## 3.0 INTRODUCTION

As an employer the Council makes pension contributions to the Local Government Pension Fund based on the rates that are set, following the triennial actuarial valuation of the Blackburn with Darwen Borough Council pension scheme, and notified to us by the Lancashire County Pension Fund. These Employer contribution rates are set for three years and the new rates, following the 2016 valuation, commence from 1st April 2017.

The contributions we make consist of two elements;

- the first is a % rate applied to the individual salary costs of current BwD employees who have opted into the pension scheme (this is called the future service cost element)
- the second is an annual lump sum payment, made to reduce the value of the BwD pension scheme deficit. The annual payment is intended to recover the deficit over a number of years which, following the recent valuation, has been agreed at 19 years.

The Lancashire Local Government Pension Fund has outlined a range of potential payment options for employers to consider for the next 3 years including:

1. monthly payment of both of the above elements in each of the three years;

2. a lump sum payment in April 2017 of one or both elements for that year only, with payment of the other element monthly;
3. a lump sum payment in April 2017 of one or both elements for all three years;
4. some variant of the prepayment options above e.g. prepay the deficit contribution in full for all three years with the % contribution paid annually up front in each year;

The amounts involved are substantial but result in different levels of pension contribution payments dependent on the option taken as discounts will be applied for early payment.

We have considered the options and concluded that it is not appropriate to make an advance payment of future service contributions, given our staffing establishment is reducing as a result of the workforce reviews and delivery of our savings programme. Such apayment would be based on our current estimated payroll costs whereas the actual contributions to be paid, if made monthly, will be lower given the reductions in staff numbers.

The deficit payments however are fixed payments for the 3 years and are due irrespective of the size of the establishment; as such, payment in advance of the 3 annual payments that are due is financially beneficial due to an early payment discount, as outlined below;

| **Impact of payment** | **2017/18 £'000** | **2018/19 £'000** | **2019/2020 £'000** | **TOTAL £'000** |
|---|---|---|---|---|
| OPTION A | | | | |
| Payable each year if we pay monthly | 4,773 | 4,773 | 4,857 | 14,403 |
| Plus Interest cost based on 3 month rolling borrowing (range from lower and higher interest rates) | N/A | N/A | N/A | N/A |
| **NET COST** | **4,773** | **4,773** | **4,857** | **14,403** |
| OPTION B | | | | |
| Payable each year annually in advance | 4,673 | 4,673 | 4,755 | 14,101 |
| Plus additional interest cost based on 3 month rolling borrowing (range from lower and higher interest rates) | 13 – 18 | 22 – 51 | 24 – 60 | 59 – 129 |
| **NET COST** | **4,686 - 4,691** | **4,695 - 4,724** | **4,779 - 4,815** | **14,160 - 14,230** |
| OPTION C | | | | |
| Payable three years up front | 13,507 | - | - | 13,507 |
| Plus additional interest cost based on 3 month rolling borrowing (range from lower and higher interest rates) | 58 – 79 | 62 – 146 | 21 – 54 | 141 – 279 |
| **NET COST** | **13,565 - 13,586** | **62 – 146** | **21 – 54** | **13,648 - 13,786** |

There is no requirement to take out a specific loan to fund the payment. Payment of the pension deficit is already built into the Council's cashflow forecast and is in line with the Treasury Management Strategy agreed at Finance Council on 27th February 2017 i.e. to continue to maximise the use of daily cashflow, utilising short term borrowing as required to accommodate the peaks and troughs of cashflow requirements. The interest costs outlined above reflect the estimated impact of the change in the deficit payment profile on short term cashflow borrowing costs; they have been calculated using an estimate of both continued low interest rates and also costs arising if rates were to rise.

In summary therefore, advance payment in April 2017 of the 3 annual deficit payments due in 17/18, 18/19 and 19/20 would generate a saving to the Council of between £617k and £755k over the three year period.

Legal advice has been obtained by Lancashire County Council at the request of the Lancashire Chief Finance Officers Group; the majority of the local authorities in Lancashire have adopted one or other of the options provided by the Lancashire Local Government Pension Fund.

Discussions have also taken place with our external auditors, Grant Thornton, and an appropriate accounting treatment for the transaction, along with the supporting narrative required in the statutory accounts , has been established.

## 4.0 POLICY IMPLICATIONS

The proposals outlined in the report are in line with the Treasury Management Strategy and will contribute to the savings programme required to deliver the 2017/18 Budget and Medium Term Financial Strategy; all of these reports were approved by Finance Council on 27th February 2017.

## 5.0 FINANCIAL IMPLICATIONS

The cost to the Council of the pension payments, both in terms of the future service contributions and the pension deficit payments, have been included in the 2017/18 Budget and the Medium Term Financial Strategy 2017/2020.

The financial implications of changing the payment profile of the pension deficit payment are outlined above.

## 6.0 LEGAL IMPLICATIONS

Under the Local Government Act 2003, local authorities must determine their levels of capital investment and associated borrowing. The Prudential Code has been developed to support local authorities in taking these decisions, and the Council is required, under Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as originally published), to have regard to the Code when carrying out its duties under Part 1 of the Local Government Act 2003. The legal advice obtained by LCC states that the proposal to offer an advance contribution discount is permissible under relevant legislation in respect of both elements of the contributions (referred to above).

## 7.0 RESOURCE IMPLICATIONS

There are no additional resource implications as a direct consequence of this report.

## 8.0 EQUALITY IMPLICATIONS

The decisions to be taken do not change policy and do not require any further consideration in respect of equality issues.

## 9.0 CONSULTATIONS

The payment of the pension deficit has been incorporated into the 2017/18 Budget and Medium Term Financial Strategy for the three years to 2019/20 which were subject to consultation.

**CONTACTS:**

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| Date: | 10th April 2017 |
| Version: | 3.0 |