Non-Executive Report of the: **Pensions Committee** 21 September 2017	
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Pension Contribution Prepayment	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	All

Summary

This report considers the potential economic benefits to the Council from the pre-payment of the Local Government Pension Scheme (LGPS) deficit contribution for the three years 2017/18 to 2019/20 by being able to access potentially higher investment returns in the Pension Fund.

Recommendations:

The Pensions Committee is recommended to:

1. Approve the principle of accepting the prepayment of pension deficit contributions into the Pension Fund for the three years 2017/18 to 2019/20 in principle,
2. Delegate to the Corporate Director, Resources, the determination of the actual amount to be pre-paid to equate to the £15m annual instalments per the Actuary's report.

1. REASONS FOR THE DECISIONS

1.1 The Council pays a contribution towards the pension deficit as a lump sum figure calculated by the Actuary. As the pension fund has scope to invest in higher risk investments earning potentially a higher return, there is scope for the Council to prepay the 3 deficit contributions due for 2017/18, 2018/19 and 2019/20 in 2017/18 but at a lower net present value amount of £520,000 per year.

2. ALTERNATIVE OPTIONS

2.1 The Council could continue to pay the deficit contribution annually into the Pension Fund. At present this is a charge of £15m to the Council budget (£11.96m charged to GF, £3.04m charged to HRA).

3. DETAILS OF REPORT

3.1 The Council pays a contribution towards the pension fund deficit as a lump sum on a quarterly basis. The Actuary calculates the deficit contribution required as part of the tri-ennial valuation. The March 2016 Valuation set a deficit contribution of £15m per year, a total of £45m over the three years.

3.2 The Actuary has advised that if the deficit payment for the three year period is prepaid in year 1 (2017/18), the amount paid by the Council will be lower as the pension fund has scope to earn higher investment returns than the Council's lower risk investment strategy.

3.3 The prepayment would be funded from the Council's investment balances of over £400m that are currently earning an interest rate averaging 0.6%. The Actuary assumed that the pension fund will earn an investment return averaging 4.2%, a theoretical 3.6% higher return.

3.4 The net present value of £45m paid halfway through the first year assuming a 3.6% higher return would equate to a payment now of £43.44m (£14.48m each year). **This equates to a £520,000 reduction in the cost charged to the Council each year, a saving of £1.56m over three years**. This will contribute towards the Council's overall savings target. This payment of £43.44m will increase the value of investments that the Pension Fund can make in the near future by nearly £29m more than previously planned.

3.5 The deficit contribution will be charged to revenue over the three year period but at a lower net present value. This is in line with the accounting treatment other Councils have adopted.

3.6 As the balance of Council investments is over £400m, this decision will not require any short-term borrowing. Therefore this will not impact upon the Council's Prudential Code treasury borrowing indicators.

3.7 If the Pension Committee approve the prepayment in principle, officers will finalise the amount payable with the actuary based on the date the prepayment is due to be made.

3.8 The proposed approach has been discussed informally with the Council's external auditors, KPMG. KPMG are unlikely to raise objections on this approach as other councils have adopted this approach, but officers will confirm KPMG have no objections before proceeding.

3.9 There is a risk pension investments might fall in value after investment, but officers will monitor the return achieved from the pre-payment to ensure the deficit liability payment required by the actuarial report is met.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The financial implications of this decision are as set out in the report. As part of the 2017/18 budget process the Council agreed a savings target of £1.5m in 2017/18 and £0.5m in 2018/19 to be delivered through treasury management efficiencies including the early payment of Pension Fund Deficits. The estimated savings of £1.56m over three years referred to in paragraph 3.4 above will contribute towards these targets, which are a necessary part of ensuring the Council delivers a balanced budget annually.

5. LEGAL COMMENTS

5.1 The Council as an employer in the pension fund, must in accordance with section 67 of the Local Government Pension Scheme Regulations 2013, contribute to the fund in each year covered by the triennial actuarial valuation. This will include making an advance payment towards the pension fund deficit contribution which has been calculated in the triennial valuation. In line with the Council's statutory duty to ensure the proper administration and management of the fund, it is appropriate for the Committee to agree the recommendation to make the prepayment and reduce the pension deficit cost to the Council.

5.2 When fulfilling its role as the administering authority for the Pension Fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 No implications.

7. BEST VALUE (BV) IMPLICATIONS

7.1 These proposals will give scope for the deficit charge to the Council to be reduced thus contributing towards savings targets in the medium term financial strategy.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 No implications.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The Council's pension investment strategy is frequently reviewed to manage the risk to the Council in not being able to meet its estimated pension liabilities. The decision will not have a material impact upon the risk and value of the Council's £1.3bn of investments.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 No implications.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- NONE.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

- N/A