

REPORT OF: CHIEF EXECUTIVE

TO: POLICY AND RESOURCES COMMITTEE

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FOR INFORMATION

EMPLOYER CONTRIBUTIONSTO THE LANCASHIRE PENSION FUND (2020/21-2022/23)

PURPOSE OF REPORT

1. The purpose of this report is to:-
 - a) Inform Policy and Resources Committee of the options (and discounts) on offer from the Lancashire Pension Fund for contribution payments due for the 2019 Triennial Valuation, for the period 2020/21 to 2022/23 and
 - b) Inform Policy and Resources Committee of the option taken.

ISSUE

Background

2. This budget process is a key element of the Council's strategic planning process and, as part of the service and financial planning approach adopted by the Council, is a means of ensuring that resources are best placed to enable the Council to meet its objectives as set out in the Strategic Plan.
3. This report follows on from the Budget Reports presented to Policy and Resources Committee in January and February and also Special Budget Council in February 2020. It provides detail on the options behind securing the early pre-payment discount included in the 2020/21 Budget as approved by Council on 27th February 2020.
4. As an employer the Council makes pension contributions to the Pension Fund that are based on amounts set by actuarial advice and notified to the County Council. These contributions consist of two elements. The first is referred to as 'Future Service Cost (FSC)' and is a % rate applied to the estimated annual payroll; the second is a lump sum payment referred to as 'Past Service Deficit (PSD)' payment and is the Council's contribution to its calculated share of the Pension Fund deficit. The latter is intended to recover the deficit over a number of years (16 years for Pendle).

5. Employer contribution rates are set following a Triennial Valuation of the Pension Fund and apply for three years. The new rates, following the 2019 valuation, commence from 1 April 2020. Councillors will be aware that the most recent valuation has provided the Council with favourable results relative to earlier assumptions contained within the Medium Term Financial Plan. These assumptions have been updated and were reported to Policy and Resources Committee in January 2020. They are included in the 2020/21 Budget approved by Council in February 2020.
6. In addition, the Council was presented with three options for making its pension contributions over the three year term:
 - a) Monthly payments of FSC and PSD contributions throughout the term (baseline position with no pre-payment discount);
 - b) Advance (annual) pre-payment in April 2020 for both the FSC and PSD sums as calculated for the year only, with future advance annual payments due in April in each of years two and three;
 - c) Advance (full) pre-payment in April 2020 for the total FSC and PSD sums due for all three years as calculated by the actuary.
7. The amounts involved are substantial and result in different levels of pension contribution payments dependent upon the option taken (ie pre-payment discount or nil discount).
8. Table 1 below compares the above options and total costs over the 2019 three year valuation period with discounts for pre-payment relative to payroll estimates assumed in the Council's Medium Term Financial Plan (20/21-22/23):

Table 1: Projected Pension Contributions 2020/21 – 2022/23

	Option A £000	Option B £000	Option C £000
Projected Contributions – 20/21-22/23	4,881	4,790	4,613
Payroll Estimate (MTEP) – 20/21-22/23	4,828	4,828	4,828
Net Cost/(Saving) of Option	53	(38)	(215)*

*Payroll Estimates include c£80k of discount included in the approved 2020/21 Budget

9. The Committee is recommended to note that the Council has notified the Pension Fund of its preferred option, being advance payment of both the FSC and PSD for the full three year term (option C above), maximising the discount on offer as per the budget approved by Special Budget Council in February.
10. Following the last valuation in 2016, the Council pre-paid its annual FSC contributions each year and pre-paid the full three year PSD contributions. This decision was taken on receipt of legal advice obtained and shared by the Pension Fund and in consultation with the Council's External Auditor. It is noted that the preferred option on this occasion includes advance payment of the FSC for the full three years which represents a change from previous treatment.
11. The full pre-payment option for all three years' contributions entails paying out in excess of £4.6m in April 2020 and charging costs to the General Fund annually over the next three years (compare approved pre-payment of £4.4m in April 2017 comprising £3.635m for the PSD element for the full three years and annual advance of the FSC element in the sum of £0.741m). This cash payment has been considered in the context of the Council's current and projected cashflows, the investment returns on those cashflows and the cost savings (discount) projected from the early pre-payment of pension contributions.

12. The full pre-payment option is not without risks; these include cashflow management, legal and regulatory risks, as well as investment performance risk by the fund itself, including the outcome and potential impact of the McCloud age discrimination case, although it is anticipated that this will not be resolved before the 2022 Triennial Valuation.

IMPLICATIONS

Policy

13. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan. The position reported for 2020/21 and the forward projections represent a significant challenge to service provision in the longer term. There is a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable budget base over the medium term planning period. The Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

Financial

14. The financial implications are as given in the report.

Legal

15. In accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually the Council must calculate and approve its budget requirement for the forthcoming financial year. In discharging this responsibility, the Council has included the pre-payment discount as outlined in the report (Option C) as its value for money option.
16. Legal advice in the context of early Pension contributions (pre-payment) has previously been obtained from the Pension Fund with no reported changes to this position.

Risk Management

17. In relation to the financial risks faced by the Council, there needs to be a balance between maintaining and improving key frontline service delivery and the sustainability of the financial standing of the Council.
18. Specific risks pertaining to pension pre-payment are outlined in the report. The opportunity costs of significant outflows of cash relative to investment returns on offer have been considered in the context of the Council's robust cashflow forecasts; no short-term borrowing requirement is forecast, and at the same time the budgeted investment income of £100k included in the approved 2020/21 budget is not considered to be at risk.
19. The Medium Term Financial Plan currently indicates a significant deficit that is unsustainable. Even using reserves to smooth the effect of expected reductions in funding, still requires substantial budget savings to be made to maintain a balanced budget. Using reserves in excess of the amounts set out in the budget strategy proposed would, in the absence of an increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years of the plan period. Accessing the pre-payment discount provides a positive contribution in the context of medium term planning assumptions.
20. The position on the Council's MTFP is recognised on the Council's Strategic Risk Register as the highest risk for the Council as such there is a continual review of the measures required

to achieve a balanced budget. As the 4 year period of the Comprehensive Spending Review (CSR) 2015 comes to a close, the uncertainty surrounding the detail of the proposed Fair Funding Review and CSR detail beyond the one year only spending review for 2020/21 present a heightened risk to the Council's financial standing.

Health and Safety

21. There are no health and safety implications arising directly from the contents of this report. The budget, within which the pension pre-payment is included, does however include provision for ensuring the Council can meet its health and safety obligations as required.

Sustainability

22. As with health and safety implications, there are no sustainability implications arising directly from this report but the proposed budget includes provision, where necessary, to progress issues of sustainability for the Council.

Community Safety

23. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity

24. There are no equality and diversity issues arising directly from the contents of this report.

APPENDICES

None

LIST OF BACKGROUND PAPERS

Papers held in Financial Services