Pension Contributions

Cabinet Member for Finance and Democratic Services

Date:	12 March 2019
Agenda Item:	9
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Key Decision?	**YES**
Local Ward Members	Full Council

Lichfield district council
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Cabinet

1. Executive Summary

1.1 A contribution rate review that sets a contribution strategy for each employer is currently undertaken by the Pension Fund Actuary on a three yearly basis.

1.2 The contribution strategy is based on two methodologies set by the Actuary:

- A **payroll element** based on **16.2%** of pensionable pay.
- A **past service element** that is fixed irrespective of the level of pensionable pay to reduce the risk of shortfalls occurring in pension contributions given Council payrolls are reducing.

1.3 The last valuation took place in 2016 and covered the three years 2017/18 to 2019/20 and the next valuation will formally take place during 2019 and will cover the three year period 2020/21 to 2022/23.

1.4 To aid financial planning, the Actuary has produced provisional modelling for the 2019 valuation however to finalise the valuation, two decisions need to be taken by each Member Authority specifically for the past service element:

- The contribution strategy to be adopted and;
- The payment frequency either in three annual instalments or in one payment at the start of 2020/21 at a discount of circa **5%**.

1.5 Staffordshire Pension Authority have requested a decision on the Council's preferred contribution strategy by **31 March 2019**.

2. Recommendations

2.1 To approve that the contribution strategy is based on the Pension Fund Actuary's preferred strategy.

2.2 Subject to the approval of 2.1, to further approve the upfront payment of the three year past service element in advance in April 2020 subject to the final level being within the approved Medium Term Financial Strategy (MTFS).

3. Background

3.1 The Pension Fund Actuary undertakes a triannual valuation to check progress against the plan to ensure the Council's Pension Fund liabilities are fully funded. The contribution strategy produced by the Pension Fund Actuary must attempt to close any deficit over a set period of time.

3.2 The next valuation will formally take place in 2019 and will cover the three year period 2020/21 to 2022/23 and **all Authorities currently have a deficit which ultimately must be paid**.

3.3 The contribution strategy is twofold with a percentage of pensionable pay (16.2% for Lichfield DC) and a fixed monetary amount related to the past service element.

3.4 There are a number of alternative options available for the past service element related to:

- The **contribution strategy** to be adopted:
    1. The Actuary's **preferred strategy** where contributions continue to increase annually.
    2. An **alternative strategy** provided by the Actuary with frozen contributions.
    3. A **voluntary strategy** based on option 1 with higher voluntary contributions.
- The **payment frequency** to be adopted:
    1. In **three annual payments**.
    2. In **one upfront payment** in April 2020 resulting in a payment discount of circa **5%**.

Alternative Options

Preferred Strategy of the Pension Fund Actuary

Advantages	Disadvantages
• The cost is within the Approved MTFS with savings. • It is the Pension Fund Actuary's preferred strategy of stepping up contributions if this is affordable. • The risk of a future unsustainable increase beyond the three year period is reduced.	• It does not maximise the potential return (with discounts of circa 5%) on investment available from the pension fund.

Financial Implications:

Details	2020/21	2021/22	2022/23	Total
Annual Payment	£1,063,000	£1,171,000	£1,282,000	£3,516,000
Upfront Payment	**£3,340,200**			**£3,340,200**

Alternative Strategy provided by the Pension Fund Actuary

Advantages	Disadvantages
• The cost is within the Approved MTFS with significant savings.	• It is not the Pension Fund Actuary's preferred strategy. • The risk of a future unsustainable increase beyond the three year period is increased. • The next valuation could coincide with the ending of transitional arrangements for Fair Funding and Business Rates thereby creating a significant budget pressure.

Financial Implications:

Details	2020/21	2021/22	2022/23	Total
Annual Payment	£958,000	£958,000	£958,000	£2,874,000
Upfront Payment	£2,730,300			£2,730,300

A Voluntary Strategy

Advantages	Disadvantages
• It seeks to maximise the potential return (with discounts of circa 5%) on investment available from the pension fund. • The risk of a future unsustainable increase beyond the three year period is further reduced.	• It would create a budgetary pressure that would need to be funded.

Financial Implications:

Details	2020/21	2021/22	2022/23	Total
Annual Payment	£1,115,000	£1,276,000	£1,441,000	£3,832,000
Upfront Payment	£3,640,400			£3,640,400

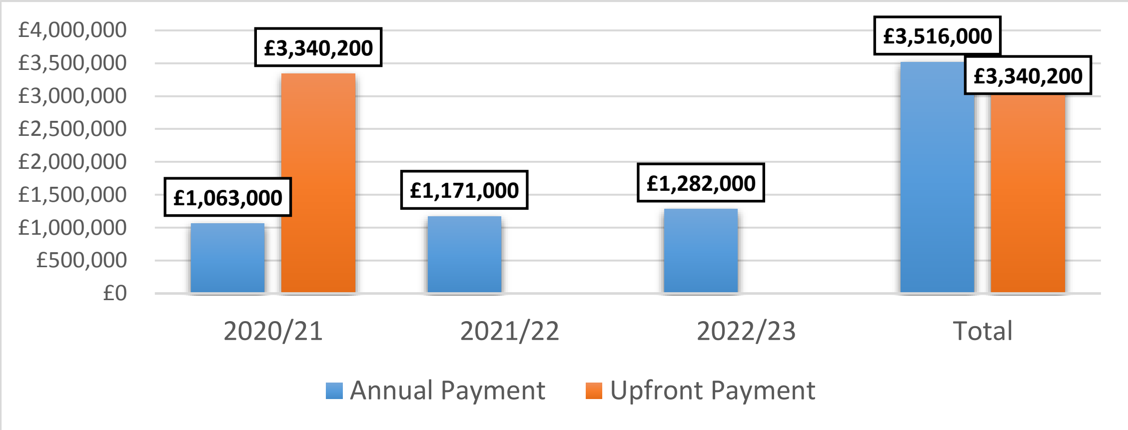
Consultation

There has been no consultation specifically about this Report due to the statutory nature of calculations.

Financial Implications

Cash Flow Implications

1. The cash flow implications of the two payment options based on the Actuary’s preferred strategy are:



2. The single upfront payment in April 2020 would mean over the three years there would be less money available to invest resulting in a loss of investment income at a budgeted rate of **1%**.

Accounting Requirements and Budgetary Implications

3. In the event that the Council decides to make an upfront payment, the entire payment would not be shown in the 2020/21 revenue budget.
4. This is because accounting requirements are that payments are matched to the three years covered by the valuation.
5. To comply with the accounting requirement and reflect that a prepayment of future year’s payments has taken place, adjustments are allowed to be made to the Pension Fund balances in the Council’s Balance Sheet.
6. The budgetary implications can be identified by comparing the preferred strategy’s annual accounting based payment plus the loss of investment income to the Approved Budget:

Details	**2020/21**	**2021/22**	**2022/23**	**Upfront Payment**
Approved Budget[1]	£1,018,000	£1,163,000	£1,308,000	£3,489,000
Accounting based payments under the Preferred Strategy	£1,009,850	£1,112,450	£1,217,900	£3,340,200
Variance	**(£8,150)**	**(£50,550)**	**(£90,100)**	**(£148,800)**
Loss of Investment Income @ 1%	£25,000	£12,000	(£2,000)	£35,000
Variance to Approved Budget	**£16,850**	**(£38,550)**	**(£92,100)**	**(£113,800)**

7. The additional budgetary pressure resulting from the loss of investment income will be managed within existing approved budgets.
8. It is recommended that at this stage until the figures are finalised, the projected savings are held as a contingency amount in the Medium Term Financial Strategy.

[1] Includes an annual contribution from the Joint Waste Service.

Contribution to the Delivery of the Strategic Plan	The Medium Term Financial Strategy (MTFS) underpins the delivery of the Strategic Plan.

Equality, Diversity and Human Rights Implications	None identified in this report.

Crime & Safety Issues	None identified in this report.

GDPR/Privacy Impact Assessment	None identified in this report.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	The provisional figures change	Liaison with pension fund with any changes reflected in Money Matters Reports and the Medium Term Financial Strategy	Green - Tolerable
B	The adoption of the alternative freeze strategy means the Authority needs to consider: • That the probability of much higher increases from 1 April 2023 onwards would increase. • The contribution strategy will be reviewed in three years' time and the Actuary retains the right to change employers' strategies at that time. • Any increases potentially could coincide with transition on changes to Local Government Finance ceasing creating a significant budgetary pressure. • The fairness between current and future generations of taxpayers given a freeze strategy delays payments until later years.	Implementation of the Pension Fund Actuary's recommended preferred contribution strategy	Green - Tolerable

Background documents

- Medium Term Financial Strategy (Revenue and Capital) 2018-2023 (MTFS).
- Contribution rate review for the Staffordshire Pension Fund dated 18 January 2019 plus supplementary information provided by the Actuary.

Relevant web links