

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO EMERGENCY COMMITTEE

Agenda Item No 2

meeting date: 9 MARCH 2020
title: PRE-PAYMENT OF LOCAL GOVERNMENT PENSION SCHEME
CONTRIBUTIONS
submitted by: DIRECTOR OF RESOURCES
principal author: JANE PEARSON

1. PURPOSE

- 1.1 To decide whether this Council should pre-pay our Local Government Pension Scheme (LGPS) employer pension contributions for the three years 2020/21 to 2022/23.

2. BACKGROUND

- 2.1 We are a member of the Lancashire County Pension Fund and on 1 April 2020 will enter the first year of a new triennial valuation period ending on 31 March 2022. As part of the detailed negotiations between local authority members of the Fund, the actuary Mercers and Lancashire County Council, the option to pre-pay any past service deficit and/or the future elements of the employer's contributions has been offered.
- 2.2 This was also offered at the time of the previous triennial review when Councils could opt to pay either or both elements yearly in advance or even three years in advance instead of paying their normal monthly pre-payments over the valuation period. At that time, there was some uncertainty surrounding accounting treatment and views of external auditors (although these were eventually ironed out). We decided to pay our contributions by yearly prepayment, however some other Councils opted to pay all three years contributions up front.
- 2.3 By pre-paying the employer contributions as a lump sum, the Pension Fund can take advantage of investment returns which it would otherwise be unable to via monthly payments thus allowing local authorities to benefit from reduced contributions.
- 2.4 The following table sets out the annual employer contributions currently forecast and compares the payment options available for the period 2020/21 to 2022/23.

Option 1		Monthly payments		
Year		Future Service £	Past Service Surplus £	Total £
2020/21		913,900	-78,500	835,400
2021/22		949,600	-81,600	868,000
2022/23		986,600	-84,700	901,900
Total		2,850,100	-244,800	2,605,300
Option 2		Annual Pre-payment		
Year		Future Service £	Past Service Surplus £	Total £
2020/21		897,000	-77,000	820,000
2021/22		932,100	-80,100	852,000
2022/23		968,400	-83,100	885,300
Total		2,797,500	-240,200	2,557,300
savings from paying yearly upfront		52,600	-4,600	48,000
Option 3		Full Pre-payment April 2020		
Year		Future Service £	Past Service Surplus £	Total £
2020/21		2,693,700	-231,400	2,462,300
2021/22		0	0	0
2022/23		0	0	0
Total		2,693,700	-231,400	2,462,300
savings from paying all 3 years upfront		156,400	-13,400	143,000

- 2.5 It is expected that if elements of the pre-payment options are overestimated then the amounts overpaid would remain in the pension fund to be offset against the next triennial review period, with contributions adjusted accordingly at that time.
- 2.6 We are required to notify the Pension Fund ASAP of our preferred payment option.
- 2.7 Any pre-payment lump sums would be payable to the Fund on 24 April 2020.
- 2.8 After carrying out an analysis of the Council's cash flow forecast we can ensure we are in a position to meet the required 3 year pre-payment due on 24 April 2020. If we chose this option, based on the current base rate, we would expect to lose investment income of £27,700 which is significantly less than the £143,000 saving we would make.

3. CONCLUSION

- 3.1 This Council opted to pay annually upfront at the time of the last triennial valuation because of the uncertainty around the accounting treatment. This has now been resolved.
- 3.2 There are significant cash flow savings to be realised if this Council chose to pay all three years contributions up front

4. RECOMMENDED THAT

- 4.1 We pre-pay our LGPS employer pension contributions for the three years period 2020/21, 2021/22 and 2022/23.



DIRECTOR OF RESOURCES

E1-20/JP/AC
6 MARCH 2020