AGENDA ITEM 11 BUDGET REQUIREMENT 2017/18
ADDITIONAL INFORMATION ON PENSION PRE PAYMENT PROPOSAL

The Council is a member of the Lancashire County Pension Fund and on 1 April 2017, will enter the first year of a new triennial review period ending on the 31 March 2020. As part of detailed negotiations between local authority members of the Fund, Mercers (the Fund's actuary) and Lancashire County Council, the option to pre-pay the past service deficit and/or the future service elements of the employer contribution has been offered.

The current payment schedule requires monthly payments to be made for both the future service and past service deficit recovery elements. The Fund is proposing that local authorities could opt to pay either or both elements annually in advance, or the full 3 year amount in advance.

By pre-paying the employer contribution amounts, the Pension Fund can utilise the larger sums available to generate better returns than it would otherwise be able to with smaller monthly payments, thus allowing local authorities to benefit from reduced contributions. In this respect it should be noted that the Lancashire Pension Fund's investment performance is currently the best amongst all of the Local Authority Pension Schemes.

The Pension Fund requires a commitment by the end of February 2017 in order for their own approval process to take place and suitable investments to be organised for the pre-payment lump sum.

Following an assessment of the issues involved it is proposed that a 3 year prepayment of the deficit recovery contribution is made (£2.9m), and that future service contributions are paid annually in advance (£2.1m per year). This should enable a saving of around £300,000 to be made over the 3 year period after allowing for the loss of investment income from reduced cash investments.

External legal advice has been obtained by the Pension Fund for sharing with the Council (among others) to confirm there are no legal issues with this approach. The Council’s external auditors have also been consulted as part of the decision-making process.

There are a number of risks associated with this approach and the value of the saving achieved could reduce, for example, if there are significant increases in interest rates, there is a significant reduction in the investment returns being obtained by the Pension Fund, or if there are significant cash flow problems. These risks have however been assessed as having a low likelihood.