Report To:	**EXECUTIVE CABINET AND OVERVIEW (AUDIT) PANEL**
Date:	8 February 2017
Executive Member / Reporting Officer:	Councillor Jim Fitzpatrick – Executive Member First Deputy (Finance and Performance) Ian Duncan – Assistant Executive Director (Finance)
Subject:	**ADVANCE PAYMENT OF EMPLOYER PENSION CONTRIBUTIONS**
Report Summary:	The Council currently pays an employer's contribution to the Greater Manchester Pension Fund on a monthly basis for all members of staff who are active members of the Fund. The opportunity has now arisen for the Council to pay its contribution in advance, by up to one, two or three years, in a single lump sum. In return the Pension Fund will agree to a discount depending on how far in advance the payment is made. The recommendation is to pay three years in advance for which a discount of 10% will apply. In the light of past experience, the report also recommends a reduction in the amount paid to the Pension Fund each year to cover the pension strain cost of early retirements.
Recommendations:	That having taken account of the risks set out in the report that the Executive Cabinet RECOMMEND to Council subject to any final amendments/clarifications from the Council's external auditors to 1. make an advance payment equivalent to three years' contributions to the Greater Manchester Pension Fund at the commencement of the 2017/18 financial year. 2. That the amount included in the employer's contribution rate for early retirement be reduced from 1% to 0.5%.
Links to Community Strategy:	The proposal will produce savings to the revenue budget, which supports all aspects of the Community Strategy.
Policy Implications:	None arising from this report.
Financial Implications: **(Authorised by the Borough Treasurer)**	By agreeing to the advance payment the Council can make savings on its revenue budget, as set out in the report.
Legal Implications: **(Authorised by the Borough Solicitor)**	A number of local authorities participating in other LGPS funds made advance payment of contributions following the 2013 actuarial valuation process in return for a discount on the contributions that would otherwise have been payable. The majority of employers who made advance payment of contributions did so in respect of the deficit repayment element of contributions only. There is at least one LGPS fund where some local authority employers paid all contributions due for the forthcoming financial year on 1 April in return for a discount on these contributions. I'm satisfied that the Council has the powers to undertake the proposal as recommended and that in particular the purpose is in the best interests of the residents of the borough to maximise the Council's assets and reduce the cost of pensions.

Risk Management:	The report addresses the risks that exist when making a payment in advance to the Pension Fund. It is considered that risks on pension fund investment returns can exist at any time but it is the long term position that should be the primary consideration
Access to Information:	The background papers relating to this report can be inspected by contacting the report writer Ian Duncan, Assistant Executive Director, Finance by: Telephone: 0161 342 3864 e-mail: ian.duncan@tameside.gov.uk

1. BACKGROUND

1.1 The Council pays an employer's contribution to the Greater Manchester Pension Fund (GMPF) in respect of members of its staff who are current members of the Fund. Unlike most public sector pension schemes the GMPF is a funded scheme and is administered in accordance with legislation that specifically covers the Local Government Pension Scheme.

1.2 All LGPS pension funds must be revalued every three years and individual employer's contribution rates formally determined by an independent actuary so that over a period of time there is enough in the Fund to meet its liabilities (pensions). Contribution rates are currently being assessed by the actuary for the next three financial years.

1.3 In the current financial climate the returns that the Council can earn on its day to day surplus cash are historically low. The current Bank of England Base Rate is 0.25% which influences that rates offered in the market for short term cash deposits. Therefore the opportunity has been explored with officers of GMPF to pay cash in advance to the pension fund for the mutual benefit of both the Council and GMPF.

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2 PROPOSED ARRANGEMENTS

2.1 The aim is to provide local authority employers with the option of making advance contributions at the start of the 2017/18 financial year in respect of some or all of the employer contributions that will fall due over the period 1 April 2017- 31 March 2020. The Fund would be expected to generate additional investment returns as a result of early receipt of the contributions and this is therefore reflected in the contribution rates of the authority making the advance payment (which are discounted at 4% p.a.).

2.2 At the 2016 valuation, GMPF is assuming it will generate a 4.2% p.a. return on its investments. So if contributions are paid to GMPF in advance, then GMPF's actuary can reduce the amount required by around 4% p.a. For example, if an authority was to pay all of the contributions due for the 2017/18 year on 1 April 2017, the amount would reduce by around 2% (as it is being paid 6 months earlier on average than paying it in monthly instalments). For illustration purposes, if the original contribution rate was 21.5% of pensionable salary, then this would reduce to 21.1%.

2.3 If the 2018/19 contributions were paid on 1 April 2017 then a 6% discount would be applied and there would be a discount of around 10% for the 2019/20 contributions. If all 3 years' contributions were paid on 1 April 2017 then the overall discount would be in the region of 6%. This would reduce a contribution rate of 21.5% of Pensionable Salary to 20.3%.

2.4 It should be noted that if the Council proceeds with an advance payment arrangement then the contribution rate it pays will be lower than other employers who are pooled with the Council for actuarial purposes. Also the Council's rate would be lower than that of its maintained schools (see section 4 below). The offer of making advanced payments will only be extended to the 10 local authority employers due to the complexity of the arrangements for GMPF.

2.5 The provisional employer's contribution rate for Tameside MBC for the next three years is currently being evaluated by the Actuary and the provisional results suggest an increase in the rate, from 20.2% to 21.5% (this does not assume an advance payment of contributions). The rate includes 1% to cover the strain on the Fund produced by early retirements, including ill health retirements. The close monitoring and control exercised by the Council has seen the pension strain cost of early retirements in recent years being less than the allowance generated from the 1% contribution. As a result is it proposed that the allowance for early retirement be reduced from 1% to 0.5% from 1st April 2017 (see also para 3.8 below).

2.6 If an advance payment equivalent to 3 years' contributions is made and the allowance for early retirements is reduced then this would effectively reduce the employer's provisional contribution rate from 21.5% to 19.8% for the following three financial years.

2.7 The advance payment will be based on the total pensionable pay assumed by the Actuary in the 2016 triennial valuation multiplied by the reduced employer's contribution rate. For Tameside MBC total assumed pensionable pay was £76,622,000 and when multiplied by the provisional contribution rate of 19.8% would result in an upfront payment of £45,513,468 for a three year period.

3 FINANCIAL CONSIDERATIONS

3.1 The financial benefit to the Council of paying contributions in advance is:

a) £189k if paid one year in advance, equivalent to £63k per annum over a three year period;

b) £993k if paid two years in advance, equivalent to £331k per annum over a three year period;

c) £2,415k if paid three years in advance, equivalent to £805k per annum for three years

This takes into account the interest foregone on the advance payment.

3.2 There are however risks involved in making an advance contribution to the Fund:

- The economic advantages assume investment returns being obtained by the Fund which are above those the local authorities can obtain on their cash balances. The Fund investments can fall in value as well as increase. The largest risk is that due to falling investment markets , when the 31 March 2019 valuation takes place the assets purchased by the Fund with the advance contribution are worth less than the amount of the cash sum paid. This would then feed through to contribution rates that are higher than they otherwise would have been in the period 1 April 2020 – 31 March 2023;

- Paying a large cash contribution concentrates the risk on the market conditions applicable at that time. If this date proves to be unfortunate then it will dilute the financial benefit to the authority; if instead it proves to be advantageous then it will deliver a larger financial benefit;

3.3 It is worth bearing in mind that employee contributions (which average around 6% of Pensionable Pay) will continue to be paid monthly, which reduces the market timing risk to an extent. The risk can be reduced further by making two or more instalments of the advance contributions.

3.4 The risk of market conditions having an adverse effect on the value of pension fund investments cannot be removed but they are of a long term nature and variations in value are likely to be smoothed out over a longer period of time.

3.5 Another consideration is the Council's ability to finance the advance payment. Members will recall from the Treasury Management reports that the Council's cash flow is healthy and has sufficient cash resources to enable the payment to be made. There will be other calls on cash during the next three years, most notably from the capital programme. The financing of the capital programme will be the subject of a separate report but it is expected that the Council's cash position will still be strong. It is also worth bearing in mind that monthly payments of employer's pension contributions will not be paid and this will naturally bring the cash position of pension contributions back into balance.

3.6 A concern existed that the amount of the advanced payment would have to be charged to the revenue account in full in the year it is made. However legal advice exists that it is possible to spread the payment over the duration of the arrangement; the Council's external auditors have also been consulted and have raised no objection to the arrangement.

3.7 However part of the legal advice is that the Council must be satisfied that the arrangement is consistent with its duty to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to the combination of economy, efficiency and effectiveness. Para 3.1 above sets out the financial benefit of the arrangement, which will help towards the challenge the Council faces in managing within a reduced resource envelope. If the Council does not proceed with the proposal then alternative savings will need to be identified from elsewhere in the budget, including the possibility of reductions in some services. As mentioned, there is a risk to market volatility but it is considered this is always present when GMPF makes investment decisions but over a period of time it is considered this volatility will be smoothed out.

3.8 The initiative has been discussed with the Council's external auditor and no objection has been made to the proposed arrangements. At the time of writing this report, discussions on the accounting implications are ongoing.

3.9 Para 2.5 above explains the method by which early retirements are paid for and that the allowance built into the contribution rate for 2017/18 and onwards is reduced to 0.5%. There is a risk that in any one year the cost of early retirements will exceed the reduced allowance; in such circumstances an additional lump sum payment would have to be made to the Fund. On balance it is considered this is a better arrangement as there is an immediate benefit to the revenue budget (of c.£235k per annum) and any additional lump sum payment, if required, can be managed from non-recurrent resources.

4 SCHOOLS ETC.

4.1 The Council is the employer for a number of bodies including maintained schools, GMPF and hosted bodies such as iNetwork etc. The above figures include advance payments in respect of all such bodies but that the benefit of the arrangement is retained in full by the Council to assist in managing its budget plans within a much reduced resource envelope. This approach is being adopted because it is the Council that is making the advance payment.

4.2 This means that the maintained schools and other bodies will pay the full amount of the declared employer's contribution for the three year period i.e. 21.0%. This includes the benefit of the reduction of 0.5% for early retirements (para 3.8 refers). This will compare to the Council's rate of 19.8%.

5 RECOMMENDATIONS

5.1 As stated at the front of the report.