



Report to: Cabinet, 21st March 2017

Report of: Councillor Joy Squires, Cabinet Member for Performance and Resources

Subject: ADVANCE PAYMENT OF PENSION FORWARD FUNDING

1. Recommendation

1.1 That Cabinet recommends to Council the approval of the advance payment of three years forward funding pension costs, estimated to be £2.4m, for a discount of approximately £150k.

2. Background

2.1 As part of the Medium Term Financial Plan savings have been achieved through the advance payment of the pension back-funding contributions. The back-funding is a known lump sum payment which is usually paid monthly. The Worcestershire County Pension Fund offers a discount for advance payment which provides an annual saving of £53k in 2017/18 rising to £87k in 2019/20.

2.2 At the Hereford and Worcester Treasurers Meeting on 3rd February 2017 the opportunity to make savings through the advance payment of the forward-funding was shared. Two discount rates are offered:-

- 2.12% discount for payment of the annual sum in April of the year (12 month advance payment)
- 6.34% discount for the payment of three years forward funding in April 2017 (three years advance payment).

2.3 The cost of pension forward funding is based on a percentage of salary and the advance payment will be based on the estimated forward funding. At the end of each year there will be a reconciliation and an adjustment made for the actual forward funding cost.

3. Preferred Option

3.1 The proposal requires the estimated forward funding of £2.4m for the next three years to be paid over less a 6.34% discount. This discount amounts to £150k which equates to £50k per annum. The treasury management implications are that the net interest for the council is likely to be impacted by £5k p.a. resulting in a net annual saving of £45k.

4. Alternative Options Considered

- 4.1 The other option offered is to pay the estimated current year forward funding contributions in April rather than spread over the twelve months. A discount of 2.12% would save £17k per annum. The estimated interest cost is £2k so the net annual saving would be in the region of £15k.
- 4.2 The other alternative is to accept neither option on offer and to continue to make monthly payments.
- 4.3 Neither of these options is being proposed as the net benefit is less than that achievable from the three year advance payment.

5. Implications

- 5.1 Financial and Budgetary Implications - As outlined above
- 5.2 Legal and Governance Implications - None
- 5.3 Risk Implications - None
- 5.4 Corporate/Policy Implications - None
- 5.5 Equality Implications - None
- 5.6 Human Resources Implications - None
- 5.7 Health and Safety Implications - None

Ward(s): All
Contact Officer: Mark Baldwin – Tel; 01905 722007
Email: mark.baldwin@worcester.gov.uk
Background Papers: None