

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE:
WEDNESDAY 30TH APRIL 2014

CABINET: WEDNESDAY, 7 MAY, 2014

SUPPLEMENTARY ESTIMATE – PENSION FUND BACKFUNDING PAYMENT
REPORT OF THE STRATEGIC DIRECTOR (RESOURCES)

(Contact: Frank Wilson, Tel: (01993) 861291)

(Recommendation (ii) will be recommendation to Council)

I. PURPOSE

To note the action of the Strategic Director (Resources) and recommend to Council the approval of a supplementary estimate in respect of the Oxfordshire County Council Pension Fund backfunding payment for 2014/15. The report is provided to the Finance and Management Overview and Scrutiny Committee for information.

2. RECOMMENDATIONS

It is recommended that the Cabinet:-

- (i) Notes the urgent action taken by the Strategic Director in consultation with the Cabinet Member for Resources and Chairman of Finance and Management Overview and Scrutiny Committee in making a one off rather than monthly payments of backfunding amounts to the OCC Pension Fund;
- (ii) Requests Council to approve a supplementary estimate in the amount of £890,000 for 2014/15;
- (iii) Requests the Strategic Director to make appropriate adjustments to the Medium Term Financial Strategy in future years to compensate the General Fund for the reduction in General Fund Reserves.

3. BACKGROUND

- 3.1. The Local Government Pension scheme in Oxfordshire is administered by Oxfordshire County Council. On a triennial basis the Pension Fund is revalued and adjustments to both the ongoing employer contribution rates and backfunding contribution amounts are recommended by the schemes actuary Barnett Waddington.
- 3.2. In 2013/14 (the final year of the previous valuation period) the Council was paying a rate of 14.4% for ongoing contributions and a cash sum of £430,000 to fund the prior service deficit which had been valued at £8.8m in 2010/11. This would ensure the deficit would be paid off within 25 years.
- 3.3. As part of the 2013/14 revaluation (effective 1 April 2014) the deficit on the Pension Fund has risen slightly to £10.2m. The actuary gave an early indication that this would require the ongoing contribution rate to stay at 14.4% but would require an increase in the backfunding cash contributions on a stepped basis over the next three years.
- 3.4. Based upon the initial views of the actuary the following payments were built into the budget and financial strategy totalling £1,484,000 :-

2014/15	£473,000
2015/16	£494,000
2016/17	£517,000

- 3.5. As part of discussions arising from the actuarial revaluation the actuaries offered the Council the opportunity to pay the backfunding element upfront at the start of the three year period in exchange for a reduction in the overall level of funding over the three year period. The effect of this one off rather than monthly payment is to reduce the overall amount payable by £121,000 to £1,363,000.
- 3.6. The impact of this opportunity meant that the budget would be overspent in 2014/15 by £890,000 but subsequent budgets in 2015/16 and 2016/17 would be underspent by £1,011,000.
- 3.7. Any delay to this payment to seek Council authority in advance would reduce the saving available to the Council and the actuary required a decision prior to formalising the actuarial statement at the end of March 2014. As a consequence, the Strategic Director, in line with Financial Procedure Rules, approved the urgent expenditure after consulting the appropriate Cabinet Member and the Chairman of Finance and Management Scrutiny Committee.
- 3.8. Given the scale of the overspending in 14/15 officers recommend that a supplementary estimate be sought from Council financing the overspend from General Fund Reserves with the General Fund subsequently being refunded in the following two years by an amount equal to the budgeted payments in the financial strategy.

4. FINANCIAL IMPLICATIONS

- 4.1. The upfront payment to the pension fund requires a re-profile of the revenue budget over the next three years. An overspend of £890,000 needs to be financed by supplementary estimate and subsequent budgets need to take account of the fact that payments will not be required in 15/16 and 16/17. To preserve the integrity of the Council's financial strategy the General Fund should be refunded the amount of savings achieved by this action.
- 4.2. There is a small cashflow loss associated with this transaction as funds to make this one off payment will effectively be brought forward by an average of 18 months (single upfront payment compared to 36 monthly payments).
- 4.3. The investment interest foregone by this transaction is estimated to amount to around £20,500 as calculated below:-

Upfront payment	£1,363,000
Investment yield @1%	£1,136 per month
Average length of early payment	18 months
Cashflow Loss	£20,448

- 4.4. The investment yield at 1% represents current 18 month money market rates and exceeds the current rates being achieved on short term funds. An increase in money market funds by each 1% would increase the cashflow loss by £20,448.
- 4.5. For the transaction to become uneconomical then the short term money market rates would need to increase to 6% over the average of the three year period which is considered remote.
- 4.6. The net saving to the Council of this transaction is therefore estimated at around £100,000 over the three year period although this saving will not represent an ongoing saving as the pension fund will be subject to further revaluation.

5. RISKS

- 5.1. The Audit Commission have been considering similar actions taken by other authorities and they have provided advice to Councils via our external auditors. They have raised concerns that such actions might be regarded as ultra vires.
- 5.2. Officers have considered this advice and discussed the matter with the Joint Head of Legal and Property Services and have taken the view that the actions of the Council are legal in this regard. A letter and advice from the Grant Thornton and the Audit Commission is attached at Appendix A.
- 5.3. Officers can confirm that the two bullet pointed issues raised on the first page of the Grant Thornton letter have been complied with and an extract of the actuary's certificate is attached at Appendix B.
- 5.4. Should the actions be deemed ultra vires then the actuary will need to issue a new certificate and the Council and Pension Fund will need to adjust payments accordingly.

6. REASONS

To be recognised as a leading council that provides efficient, value for money services.

Frank Wilson
Strategic Director

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