LONDON BOROUGH OF CAMDEN	**WARD:** All
REPORT TITLE: Prepayment of Secondary Contributions	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Board	**DATE:** 8 October 2020

SUMMARY OF REPORT:

This report to the Pension Committee followed on from a report in November 2018 and sets out phase two of a proposal from the Council, as the major employer in the Fund, to prepay its secondary contributions early for 2020-2023.

The Pension Committee agreed that the Council can prepay its secondary contributions on 1 April 2020 (£57.323m). It agreed a further recommendation to delegate authority to the Executive Director Corporate Services in consultation with the Chair of the Pension Committee to determine which asset class to invest these monies into after taking advice from the Investment Consultant, Independent investment adviser and auditors.

Local Government Act 1972 – Access to Information

No documents required to be listed were used in the preparation of this report.

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RECOMMENDATIONS:

The Pension Board is asked to note the contents of this report

Signed by

Interim Director of Finance **Agreed**

Date ……**29 September 2020…………**

1 INTRODUCTION

1.1 All employers in the Fund pay for the ongoing benefits accruing to staff (known as primary contributions). The Fund’s actuary, Hymans Robertson, sets this rate and for the Council and it is currently 18.2% for 2018/19. Services within the Council are charged an ‘on-cost’ on each and every employee in the Fund to collect these contributions.

1.2 At the last valuation, in March 2016, the Council as an employer was 76% funded meaning that its assets only made up this proportion of estimated liabilities. In order to redress this all employers in the Fund also pay secondary contributions which aim to achieve 100% funding. These contributions (for the Council) are repaid over a 17.5 year deficit recovery period and are cash payments rather than a percentage of employee costs. This ensures that given a reducing headcount employers still put in the necessary funds for deficit repair.

1.3 In the latest valuation of the Fund as at 31 March 2019 the Actuary set out the following secondary contributions for the Council:

2020/21	**2021/22**	**2022/23**
£19.675m	£20.421m	£21.166m

1.4 The Council has already prepaid the 2019/20 secondary contributions early on 1 April 2019 (the last year of the current triennial valuation). It paid £18.58m versus the actuary’s assessed figure of £18.93m (assumed to be paid at the mid-point of the year). The Fund agreed to the first year and then asked to reconsider this policy for the next three years and so this report is updating committee on this proposal.

1.5 The Council is now asking to make a further prepayment on 1 April 2020 for the three financial years 2020/21, 2021/22, and 2022/23. This forms the period of the next triennial valuation cycle. Many other Councils have also taken this approach.

1.6 In exchange for the Council paying its secondary contributions early it is proposed that the Fund would discount the cash amount by the asset outperformance assumption (4.5%) the actuary has set in the latest 2019 triennial valuation for asset growth of the Fund. This prepayment would effectively be put to use early in the asset strategy and so, as long as there is growth in the Fund's assets, would accrue growth in-line with the Fund's investment strategy earlier.

1.7 The table below shows the Fund's asset returns over the recent past and shows that in only one of seven years has the Fund experienced a negative return. Obviously past experience is not a predictor of future performance:

	11/12	12/13	13/14	14/15	15/16	16/17	17/18
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Fund Value (year end)	994,269	1,123,636	1,163,975	1,265,377	1,249,295	1,516,601	1,580,215
Growth	38,588	129,275	40,339	101,402	-16,082	267,345	63,614
%	4.04%	13.00%	3.59%	8.71%	-1.27%	21.40%	4.19%

1.8 The Funding Strategy Statement which governs how employers make contributions to the Fund allows for the Council (under stabilisation) to make additional payments over and above those certified by the Actuary.

1.9 Based on this it is estimated that paying the 2020/21 – 2022/23 secondary contributions early would amount to a saving of £3.939m in the amount the Fund would accept from the Council in order to receive their secondary contributions early on 1 April 2020 (instead of accruing monthly throughout the three years).

1.10 Therefore the Fund could accept a one off payment early on 1 April 2020 of £57.323m rather than payments of £19.675m, £20.421m and £21.166m in the next three years from 2020/21to 2022/23 (which total £61.262m).

1.11 Appendix A is the Actuary's assessment of the benefits of prepayment and sets out some of the risks.

1.12 Our auditor, Mazars, have been consulted on this proposal and have made the following points:

- Any prepayment should be made on 1 April 2020 or shortly afterwards and not any earlier. The Council is planning to make this payment on the 1 April.
- The Actuary should state in the Rates & Adjustments certificate that the secondary contributions are 'payable' for each year covered in the next valuation period and can be prepaid. The Actuary will ensure the wording reflects this.
- That the prepayment represents value for money for the Council. This is not something for the Pension Committee to consider but given the £3.939m discount to the Council this can be demonstrated
- That the Council should finance this prepayment from working balances and should not borrow for a revenue purpose. Whilst this is not a consideration for Pension Committee the Council has sufficient investment balances to be able to cash flow this.

1.13 It is also worth noting that Mazars were happy with the same proposal to prepay the 19/20 contributions agreed by Pension Committee last year and this year have indicated that they will be happy to sign this off based on the above points.

1.14 If Pension Committee agrees this approach then the approach will be cleared with the Fund's Auditors, Mazars. If the auditor agrees the approach this Committee will need to agree how to deploy the assets it receives early for 2020/21-2022/23.

2 FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

2.1 The finance comments of the Executive Director Corporate Services are contained within the report.

3 LEGAL COMMENTS OF THE BOROUGH SOLICITOR

3.1 This report proposes that the Council, acts in accordance with the Local Government Pension Scheme Regulations 2013, and contributes to the fund in line with the triennial actuarial valuation. This includes making advance payments towards the pension fund deficit contribution, which has been calculated in the triennial valuation. The Council has a duty to ensure the proper administration and management of the fund. It is appropriate for the Committee to agree the recommendation to make the prepayment in order to reduce the pension deficit cost.

APPENDICES

Appendix A – Hymans Robertson paper on Contribution Options