

DECISION-MAKER:	CABINET
SUBJECT:	BUDGET MATTERS - LGPS EMPLOYER CONTRIBUTIONS
DATE OF DECISION:	17 JANUARY 2023
REPORT OF:	CABINET MEMBER FOR FINANCE & CHANGE

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director for Finance, Commercialisation & S151 Officer	
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STATEMENT OF CONFIDENTIALITY	
<p>Appendix 1 contains information deemed to be exempt from general publication based on Category 3 (information relating to the financial or business affairs of any particular person (including the Authority holding that information)) of paragraph 10.4 of the Council's Access to Information Procedure Rules. In applying the public interest test this information has been deemed exempt from publication due to confidential sensitivity. It is not considered to be in the public interest to disclose this information as it would reveal information relating to the Authority's own financial or business affairs.</p>	
BRIEF SUMMARY	
<p>The triennial valuation of the Hampshire Pension Fund as at 31 March 2022 has been completed. The council has been notified of a new employer contribution rate and given options for treating the surplus in the Fund.</p>	
RECOMMENDATIONS:	
<p><u>It is recommended that Cabinet:</u></p>	
	<p>(i) Approve SCC taking the option of the lower contribution rate of 16.8% in order to generate an annual budget saving to the General Fund of around £1.44M</p>
	<p>(ii) Notes the option of an upfront payment to Hampshire Pension Fund as outlined in paragraphs 8 and 9 and that a decision will be taken by the Executive Director for Finance and Commercialisation, based on whether the estimates of the upfront payment discount offered benefits the Council more than the cash flow costs of borrowing to make the early payment.</p>
REASONS FOR REPORT RECOMMENDATIONS	
1.	<p>The council is facing severe financial challenges and this proposal would contribute towards reducing the forecast budget deficit.</p>

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Not to take up the option of the lower contribution and retain the additional surplus in the Hampshire Pension Fund. This would generate a saving to the General Fund of around £0.41M instead of the proposed saving of around £1.44M
DETAIL (Including consultation carried out)	
3.	Southampton City Council (SCC) currently contributes 18.2% of employee's pensionable pay for members of the Local Government Pension Scheme to Hampshire Pension Fund.
4.	Every three years the actuary carries out a valuation of the Hampshire Pension Fund. The main purpose is to monitor the assets of the Fund against the liabilities of the pension benefits payable. The employer contribution rate to be paid for the following three years is determined at this valuation.
5.	The actuarial valuation of Hampshire Pension Fund as at 31 March 2022 has been completed and draft results have been issued indicating SCC's employer contribution rate will be 17.8% from 1 April 2023. The figures will remain draft until the rates and certificate is signed at the end of March 2023. However, the actuary has confirmed that it is very unlikely that anything will change, and we can use the figures with confidence for budgeting purposes.
6.	The Hampshire Pension Fund has performed well over the last three years and SCC is more than 105% funded. As a consequence, the fund is allowing SCC to decide whether to use the surplus above a funding level of 105% to subsidise our contribution rate for the next three years or retain the additional surplus in the Fund.
7.	SCC has the option to use the additional surplus to pay an employer contribution rate of between 16.8% and 17.8%. Should SCC take the option of the lower contribution rate of 16.8% this would generate an annual budget saving of around £1.44M for three years from 2023/24, if this option is not taken then the annual saving would be around £0.41M for the same period. In the light of the major budget pressures the authority faces it will assist the budget situation over the next three years by taking advantage of this lower contribution rate. We will still be more than fully funded within the LGPS as an employer based on the actuarial outcome.
8.	Hampshire County Council LGPS pension fund has also written to all scheme employers inviting them to make upfront payments of their employer and employee contributions, either an annual advance payment or three year upfront payment option from 1 April 2023. The benefit to the Council for such an early payment would be a reduction of either 2.1% (1 year) or 6.2% (3 years) on the total due, whilst the benefit to the pension fund is it has the cash upfront to make investments and see quicker returns.
9.	Against that potential payment discount benefit to Southampton, the Council needs to factor the cashflow costs of borrowing the money to finance such an upfront payment, which may be up to £50M for an early 3 year upfront payment. Hampshire Pension Fund has asked for notification by 31 January 2023, if an employer wishes to exercise this option for an upfront payment. A further consideration is that any upfront payment made will need to be an estimate, with an adjustment necessary year-by-year for the actual sum due

	(based on active fund membership). If the Council overpays, the sum cannot be recovered but remains in the fund and credited to the council. Any underpayment incurs a penalty charge of 2.1%.
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RESOURCE IMPLICATIONS

Capital/Revenue

10.	Should SCC take the option of the lower contribution rate of 16.8% this would generate an annual budget saving of around £1.44M for three years from 2023/24.
11.	Whatever decision is made on the employer contribution rate this would also apply to all employers “grouped” with SCC.
12.	The HRA will also benefit from a saving of around £44K.
13.	The Finance team is currently comparing the benefit of the upfront payment against the cash flow costs, and a decision will be made by the S151 officer whether this option is taken up with Hampshire Pension Fund. Clearly, the recent sharp rise in the costs of borrowing make this a less attractive option compared to when a similar offer was made by the pension fund in 2020.

Property/Other

14.	none
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LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

15.	As an employer in the pension fund the authority must pay contributions in line with rates determined by the pension fund actuary, these will be set in according with the Local Government Pension Regulations 2013.
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Other Legal Implications:

16.	None
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RISK MANAGEMENT IMPLICATIONS

17.	The Hampshire Pension Fund has performed exceptionally well over the last three years but with the current economic and political uncertainty this situation could reverse over the next three years. Investments do comprise elements of market risk and therefore positive outperformance can never be guaranteed, investments can and do underperform depending upon market circumstances.
18.	Should Hampshire Pension Fund not perform as well over the next three years SCC will no longer have a surplus and may have to pay a higher employer contribution rate from 2026/27 onwards. However, it should be noted that the valuation has made an allowance by setting a 105% funding level for the authority when providing the option above for employer contribution.

POLICY FRAMEWORK IMPLICATIONS

19.	The proposals within this report are in accordance with the Council’s Policy Framework Plans.
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KEY DECISION?	Yes
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WARDS/COMMUNITIES AFFECTED:	none
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	SCC Actuarial Valuation CONFIDENTIAL
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s) None	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None