

# Birmingham City Council

## Report to Cabinet

21 January 2020



**Subject: WEST MIDLANDS PENSION FUND ADVANCE PAYMENT**

**Report of: Director of Finance**

**Relevant Cabinet Member: Councillor Tristan Chatfield**

**Relevant O &S Chair(s): Councillor Sir Albert Bore**

**Report author: Martin Easton, Head of Capital and Treasury**

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 007233/2020		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :		

### 1 Executive Summary

- 1.1 The City Council's forecast employer's pension contributions to the West Midlands Pension Fund (WMPF) total £395.0m over the next three years. WMPF have offered a discount of £25.8m from this amount if the next three years' contributions are paid in advance in April 2020. The cost of interest on the early payment is estimated at £8.3m, producing a net benefit to the Council of £17.5m. Cabinet are recommended to approve the early payment at the discounted amount.

### 2 Recommendations

- 2.1 To approve an advance payment of the City Council's employer's pension contributions of £369.2m (including an early payment discount of £25.8m from the normal monthly payments totalling £395.0m over the period 2020/21 to 2022/23).

### 3 Background

- 3.1 The City Council's employer's pension contributions to the WMPF are due monthly. In recent years, the WMPF has offered each of the West Midlands District Councils a discount for early payment, either annually in advance or for three years in advance. The discount rate takes account of the financial returns expected by WMPF from the earlier investment of the sums received. The City Council is now reaching the end of a three year advance payment period, and WMPF have again offered discounted payment terms for (a) payment annually in advance for the next three years, or (b) payment in advance of all three years' contributions.
- 3.2 The Council's total estimated payment for all three years 2020/21 to 2022/23 is estimated at £395.0m. If the Council pays in advance for all three years, the total discount is £25.8m resulting in an up front payment of £369.2m. The early payment results in an interest cost estimated at £8.3m over the three years, compared with the normal monthly payment profile. The net revenue saving after taking account of the interest cost is therefore £17.5m.
- 3.3 The financial consequences in each of the three years are as follows:

financial year	annual charges:			advance discounts (ie saving)	interest cost of advance	net cost/ (saving)
	if paid monthly	if paid in advance	discount rate			
	£m	£m		£m	£m	£m
2020/21	127.0	124.2	2.2%	(2.8)	4.0	1.2
2021/22	131.6	123.1	6.5%	(8.6)	3.2	(5.4)
2022/23	136.4	121.9	10.6%	(14.4)	1.1	(13.3)
3 year total	395.0	369.2		(25.8)	8.3	(17.5)

- 3.4 Alternatively, the Council could pay one year in advance for each of the next three years. This results in a lower saving of £5.3m (after interest costs), based on a discount rate of 2.2% in each of the three years. This is the assumption which the Council's approved Medium Term Financial Plan is based on. Making a three year advance payment will therefore save the Council an additional £12.2m. This has been built into the financial assumptions within the Council's Budget Consultation 2020+ document.
- 3.5 The advance payment has the effect of temporarily increasing the Council's borrowing, but the additional borrowing reduces to zero by the end of the three years. The borrowing can be accommodated within the Council's Prudential Borrowing limits.

- 3.6 The figures above have been agreed with the WMPF and are estimates of the three years' employer's contributions. WMPF reserves the right to seek additional payments from the Council if pensionable pay is higher than that assumed in determining the actuary's projections. If the pensionable pay is lower than anticipated, WMPF will not return or reduce the current payments proposed.

#### **4 Options considered and Recommended Proposal**

- 4.1 The payment options described above can be compared as follows:

	Pension Contributions £m	interest costs £m	net cost/(saving) £m
Pay monthly for 3 years	395.0	0.0	0.0
Pay annually in advance for 3 years	386.3	3.4	(5.3)
Pay 3 years in advance	369.2	8.3	(17.5)

It is recommended to proceed with the payment of three years in advance.

#### **5 Consultation**

- 5.1 The proposal has been discussed with Cabinet members as part of budget planning for 2020+.

#### **6 Risk Management**

- 6.1 The three year advance payment enables improved investment planning and thus benefits both the WMPF and the City Council, which ultimately ensures that the WMPF's pension obligations to former Council employees under the scheme are met. The Council has some risks relating to interest costs during the three years, if they rise above the assumed level before next April. However, a cautious view of interest rates has been taken, and it is unlikely that this would substantially reduce the net savings to the Council.

#### **7 Compliance Issues:**

- 7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

7.1.1 This proposal has no implications for service users or individual wards, other than by producing financial savings to support the Council's overall budget.

- 7.2 Legal Implications

7.2.1 External legal opinion was obtained at the time of the first three year advance payment in 2017. This confirmed that the Council has powers to make a payment in advance under S1(1) of the Localism Act 2011 (General Power), providing that (as in all decisions) it is satisfied that it represents a

reasonable and proper exercise and fulfils the Council's general fiduciary duty to its taxpayers.

**7.3 Financial Implications**

7.3.1 These are set out in section 4 above.

**7.4 Procurement Implications (if required)**

7.4.1 None

**7.5 Human Resources Implications (if required)**

7.5.1 None

**7.6 Public Sector Equality Duty**

7.6.1 There are no equalities implications.

**8 Appendices**

None

**9 Background Documents**

None