

Urgent Leader Decision

Date: Wednesday, 29 April 2020

Time: 12.00 pm

Venue: Online

Membership

Councillor Izzi Seccombe

Items on the agenda: -

1. **(Urgent) Treasury Management - Early Pension Payment**

3 - 10


Monica Fogarty
Chief Executive
Warwickshire County Council

To download papers for this meeting scan here with your camera



**Decision made under the Council's Urgency Procedure by
the Leader of the Council on 29 April 2020**

Treasury Management – Early Pension Payment

Lead Member	Leader of the Council Councillor Izzi Seccombe
Date of decision	29 April 2020
	Signed 

Decision

That the Leader of the Council delegates authority to the Strategic Director for Resources to be able to make an early payment of pension fund contributions subject to the conditions set out at Section 7.24 of the Appendix and set out in Section 2.3 of the main report.

Reasons for decisions

An urgent decision is required of the Leader to delegate authority to make an early lump sum payment to the pension fund. This decision was a part of the wider Treasury Management Strategy that was approved by Cabinet in February for recommendation to Council for approval in March. Subsequently Council was cancelled so the strategy has not yet been approved.

The early pensions payment element of the strategy is urgent because the window to take this opportunity begins in April and without delegated authority the opportunity is not available, and it is not practicable within this time frame to hold a meeting of the Council.

Although a number of criteria need to be met for the Strategic Director for Resources, which is complicated by the current uncertainty and volatility arising from COVID-19, it is nevertheless important to have the option of early payment available before the

strategy is considered at the next Council meeting, and so this request is precautionary.

1.0 & 2.0 Background information

1.0 Key Issues

- 1.1 The Council has the opportunity to make a lump sum early payment of its pension fund contributions for the next 3 years rather than making the normal monthly payments. An early payment would provide a potentially advantageous return on investment compared to what is possible from treasury management returns.
- 1.2 The pension fund invests over the longer term and therefore can invest in growth assets, however this comes with more volatility than Treasury returns and the eventual net benefit would depend upon market performance with a higher or lower gain, or a loss being possible.
- 1.3 Covid 19 is causing short term cashflow issues for many organisations. The cash position of the Council is fundamentally strong, however making the early payment would reduce the availability of cash for other purposes such as if the Council is called upon to provide cashflow help to other organisations or if the Council experiences extraordinary cashflow issues of its own.

2.0 Options and Proposal

- 2.1 The Council has the opportunity to make a lump sum early payment of its pension fund contributions for the next 3 years rather than making the normal monthly payments. An early payment is likely to provide an advantageous return on investment compared to what is possible from treasury management returns.

Total Payments in Normal Monthly Contributions	Total Payment Single Lump Sum Contribution	Gross Difference
£89.2m	£84.5m	£4.7m

- 2.2 The savings on pension fund contributions would be offset by reductions in returns on treasury investments leading to an expected net benefit of approximately £3.3m.
- 2.3 Appendix 1 sets out an extract from the Treasury Management Strategy reported to Cabinet in February regarding the early payment. Section 7.24 sets out criteria for making a final decision and one additional criterion is proposed to be added below:
 - That the payment can be accommodated in light of any known Covid-19 impacts on cashflow.

3.0 Financial implications

- 3.1 An estimated net benefit of £3.3m is anticipated over the next 3 years. If pension fund performance is significantly better or worse than expected then the gain or loss would be taken into account in the next pension fund valuation and the contributions of the Council to the fund in the following valuation period would be adjusted up or down accordingly.

4.0 Environmental implications

- 4.1 None

5.0 Timescales Associated with the Decision and Next Steps

- 5.1 It is appropriate that this report should be dealt with under the Urgent Decision procedure in the County Council Constitution because the option to make the early payment begins in April 2020 and it is not practicable to arrange a full Council meeting within this time-frame.

Report Author	Chris Norton
Assistant Director	Andrew Felton
Lead Director	Rob Powell
Lead Member	Leader of the Council

Urgent matter?	Yes
Confidential or exempt?	No
Is the decision contrary to the budget and policy framework?	No

List of reports considered

Not applicable

List of background papers

None

List of supporting papers

Treasury Management Strategy 2020/21 – Report to Cabinet 20th February 2020

Members and officers consulted and informed

Portfolio Holder – Councillor Izzi Seccombe

Corporate Board – Monica Fogarty, Rob Powell, Mark Ryder, Nigel Minns

Legal – Jane Pollard

Finance – Andy Felton

Equality – Keira Rounsley

Democratic Services – Paul Williams

Councillors –

Councillor Adrian Warwick (For consent to urgency)

Councillor Izzi Seccombe

Opposition Leaders

Extract from Treasury Management Strategy Report to 20th February Cabinet

Early Payment of Pension Fund Contributions

7.21 The Council intends to pay its 3-year pension fund contributions for the valuation period 2020/21-2022/23 in one lump sum at the start of the valuation period, with the preference being to do this in April 2020. An early payment in April 2020 will be given a discount rate of 3.7% compared to cash payments made at normal monthly intervals. The benefits, costs, and risks this are set out below:

7.22 Benefits

- Reducing the amount of cash being invested in short term treasury deposits and loans that provide relatively low returns.
- A gross saving of £4.7m in the total cash contributions required over the valuation period.

Total Payments in Normal Monthly Contributions	Total Payment Single Lump Sum Contribution	Gross Difference
£89.2m	£84.5m	£4.7m

- A net one-off saving of £3.3m would be made after having regard to the loss of assumed returns that would otherwise have been made on the cash before it was paid out in pension contributions (refer to Section 7.22 below for alternative returns).
- The total early payment described above relates only to Warwickshire County Council and excludes a small number of independent schools and contractors who if they had been included would see the total early payment figure being £85.8m.

7.23 Early payment entails the following costs and risks:

- Timing / volatility risk – Pension fund investments provide a higher rate of return but at a higher level of volatility. Therefore although over time the returns are likely to be better, at any one moment in time the value of the fund could be unusually high or low and across shorter period of time the return could be more distant above or below the expected average. By placing all the cash into the fund at one moment in time the exposure to volatility and therefore to losses is higher. However making the payments more spread out to reduce this risk would also reduce the opportunity to benefit.
- The pension fund contributions to cover future service costs normally vary with the payroll bill by being calculated as a % of payroll but with an up-front payment this cannot happen naturally. Therefore the pension fund will reserve the right to ask for top up payments if the total payroll costs increase

significantly enough. This needs to be planned for but this would amount to a correction for costs that would have to be paid anyway – it would not mean a loss. The Council will undertake to pay any such adjustments and holds a Pension Deficit Reserve to assist in providing cover for future pension fund deficits.

- The County Council will run lower cash balances, however the Council will have the facilities to maintain enough cash to manage its operations. The cash position will also gradually over the 3 year period move back to what it would have been if monthly payments had been made, but adjusted to reflect the lower total amount required to be paid.
- The County Council will earn less interest on cash balances which will offset the benefits. For example, if returns of 1.05% were earned on cash balances (in line with the Quarter 2 position in 2018/19) then the interest foregone would amount to £1.4m and this would offset the reduction in pension fund contribution payments above.
- The Council could not invest this cash in other new investment opportunities. For example if the funds were to be invested in high return stocks or property funds. However other opportunities entail different risks, for example with property funds entailing liquidity risks and stocks entailing higher volatility risks. As early payment action has an effect over a period of a few years with most of the impact being in the early part of that time frame it does not preclude the Council from considering wider opportunities in the longer term. There is an intention to review wider opportunities during 2020/21.
- Scenarios in which the Council would suffer reductions in benefits or incur losses are:
 - If there is volatility in the pension fund investment valuation – in particular if there are significant falls in volatile assets after the point of payment.
 - If new treasury investment opportunities with a better risk/return profile become available elsewhere then the cash to pursue those opportunities would be less or would be delayed.
 - If lump sum payment is made later than April 2020 then the expected financial benefit would be less as the duration of the benefit would be less, the amounts would be less, and the discount rate may be less. However exposure to timing and volatility risk would also be less.
 - If a loss were experienced this would manifest in the next pension fund valuation and would be recovered through future contributions to the pension fund as determined by the next valuation.

7.24 The early payment is a cash flow measure, it does not mean the Council is paying more than it should into the pension fund. From the period April 2020 to March 2023 the Council's cash position will gradually move back to the same position that it would have been in March 2023, except for the net benefit or loss arising from the early payment. The preference is to make the payment in April 2020, but the strategy is to include the option to make an early payment later if necessary. Payment will only be made subject to the following conditions being met.

- Obtaining legal/counsel confirmation that the payment is lawful.
- That external auditors are content with the payment and its accounting treatment.
- Having the approval of the Section 151 officer and Monitoring Officer.
- Having the agreement of the Pension Fund Actuaries.
- Having a Rates and Adjustment Certificate from the Pension Fund actuaries setting out the amount payable, which may be varied from the above quoted figure to reflect the final Warwickshire County Council related payment.
- That the payment can be accommodated within the overall treasury position, having regard to wider investment and borrowing commitments.

This page is intentionally left blank