

Deficit Payment Options - A v B

Notes

1. As the amount and timing of the ongoing contributions is identical in each option these are ignored.
2. Under Option A payments are split equally over each year. This means the whole amount is available to be invested at the start of the year and nothing at the end. As a reasonable approximation for this analysis half the total is treated as available for the whole year.
3. Under Option B payments are made at the start of the year.
4. The average rate currently being earned on short term deposits is 0.73% and this is unlikely to vary significantly over this period.

Deficit Payments

	2014/15	2015/16	2016/17	Total
	£	£	£	£
Option A	1,410,696	1,474,702	1,541,612	4,427,010
Option B	1,371,484	1,433,710	1,498,760	4,303,954
Saving on B	<u>39,212</u>	<u>40,992</u>	<u>42,852</u>	<u>123,056</u>

Investment Comparison

	2014/15	2015/16	2016/17	Total
	£	£	£	£
Option A	1,410,696	1,474,702	1,541,612	
Half Invested	<u>705,348</u>	<u>737,351</u>	<u>770,806</u>	
Interest Earned	5,149	5,383	5,627	16,159
Saving on B	39,212	40,992	42,852	123,056
Net Saving on B	<u>34,063</u>	<u>35,609</u>	<u>37,225</u>	<u>106,897</u>
Rate of Interest to equal B	5.56%	5.56%	5.56%	

It is extremely unlikely that the Council will be able to earn more than 5% on temporary investments during this period. Therefore, Option B is recommended as it is less expensive than Option A.

Deficit Payment Options - B v E

Notes

1. To fund E would probably require calling back early a long term deposit currently earning 1.3% per annum, and so this rate has been used in the calculation below.

2. All payments are made at the start of the year.

Deficit Payments

	2014/15	2015/16	2016/17	Total
	£	£	£	£
Option B	1,371,484	1,433,710	1,498,760	4,303,954
Option E	4,065,536	0	0	4,065,536
	<u>-2,694,052</u>	<u>1,433,710</u>	<u>1,498,760</u>	<u>238,418</u>
Start balance	2,694,052	2,729,075	1,312,204	
Less payment	0	-1,433,710	-1,498,760	
Invested	2,694,052	1,295,365	-186,556	
Add interest	35,023	16,840	-2,425	
End balance	<u>2,729,075</u>	<u>1,312,204</u>	<u>-188,981</u>	

This shows that retaining the funds and investing them at 1.3% would leave a £189,000 shortfall compared to Option E.

Break even - using 5.8% as the interest rate

	2014/15	2015/16	2016/17
	£	£	£
Start balance	2,694,052	2,850,307	1,498,760
Less payment	0	-1,433,710	-1,498,760
Invested	2,694,052	1,416,597	0
Add interest	156,255	82,163	0
End balance	<u>2,850,307</u>	<u>1,498,760</u>	<u>0</u>

This shows that if it was possible to invest the balance at 5.8% there would be no overall saving from Option E. As stated above, it is unlikely that an interest rate close to 5.8% will be seen before the end of 2016/17.