Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**	**Date:**	**29TH APRIL 2020**
Heading:	**PENSION ASSUMPTIONS FOR 2019/20 STATEMENT OF ACCOUNTS**		
Portfolio Holder:	**N/A**		
Ward/s:	**N/A**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

The report is to allow members to consider the proposed assumptions to be used by the Pension Fund Actuary in preparing the International Accounting Standard (IAS) 19 – Employee Benefits figures to be reported in the Council's Annual Statement of Accounts for 2019/20.

Recommendation(s)

Members are asked to consider the Actuary's briefing note attached as Appendix A and the proposed IAS 19 assumptions detailed within it, and to agree the assumptions as the basis for the calculation of the pension figures required for the 2019/20 Statement of Accounts.

Reasons for Recommendation(s)

It is best practice that the actuarial assumptions intended to be used in preparing the IAS 19 figures in the Statement of Accounts are considered prior to their application and use in the compilation of the Actuary's report. As such, this report delivers the Council's obligations as part of the closure of the 2019/20 Statement of Accounts.

Alternative Options Considered

Members could recommend that a bespoke report be used for the calculation of the Council's figures. This would incur an additional cost and require reasoning for the departure from the proposed assumptions.

Detailed Information

1.1 IAS 19 - Employee Benefits, is one of the financial reporting standards that the Council must comply with when producing its annual Statement of Accounts. IAS 19's basic requirement is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

1.2 To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the Nottinghamshire County Council Pension Fund schemes Actuary, Barnett Waddingham, use certain assumptions to reflect expected future events, which may affect those costs. The assumptions used are designed to lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

1.3 The calculated costs and the underlying assumptions, based upon the advice of the Actuary and the administering authority, Nottinghamshire County Council will be used in preparing the Council's 2019/20 Accounts.

1.4 Ashfield District Council's net pension liability (the difference between the assets held and projected liabilities) as at 31 March 2019 was calculated at £94.738m. This is a material component of the Council's balance sheet, and therefore its net worth. As such it is important that the Council is supportive of the assumptions being made by the actuary in their calculations. This year's net position will be affected by the assumptions used.

1.6 The results of the overall valuation can be volatile from year to year as the fund's investments are in a range of asset types whose performance will vary from year to year while liabilities are assessed on the basis of corporate bond yields. The results to some degree reflect the relative movements in these financial instruments.

1.7 The responsibility for setting the assumptions rests with the employer and alternative assumptions can be used by the Actuary. However, the Actuary would impose additional fees for this work. The accounting requirements of IAS 19 do not require that every individual estimate is a "best estimate". Directors (or equivalent) of the organisation should be satisfied that the combined effect of the assumptions as a whole is reasonable.

1.8 The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used, and this year's proposed assumptions are listed below and detailed in the Actuary's briefing note at Appendix A.

1.9 The proposed financial assumptions for 2019/20 are detailed below:

- **Expected Return on Assets.** The Actuary anticipates that a typical local Government Pension Fund might achieve a return of around -2% to 31 March 2020. Although this may vary depending on the individual funds investment strategy. Asset performance has been volatile over the year, particularly in recent months due to the COVID-19 crisis.
- **Discount Rate.** The discount rate is applied to the employer's liabilities to calculate their future values. This discount rate applied by the Actuary is derived by reference to market yields on high quality corporate bonds and by calculating a Single Equivalent Discount Rate (SEDR). The rates used are those that match the duration of the employer's liability. This is consistent with the approach proposed by the Actuary and adopted by Ashfield District Council last year.
- **Inflation Expectations.** The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI). As there is limited information on CPI- linked assets the Actuary derives an implied Retail Prices Inflation (RPI) assumption and adjusts for the differences between RPI and CPI. The levels of future Retail Prices Inflation (RPI) are assessed based on the yields on fixed interest and index linked government securities over the period of the duration of the liabilities by calculating a Single Equivalent Inflation Rate

(SEIR). The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of between 0.8% and 0.9%. This is a reduction from the previous year's assumption of a difference of 1%. This is due to UK Statistical Authority proposing changes to how RPI is calculated, which is expected to reduce the gap and although the changes has not come in yet the market has already stared to react.

- **Salary Increases** – The Actuary has proposed to use the assumption that salary increases are in line with CPI plus 1.0% p.a. This is updated from last year assumption of CPI to 2020, then CPI plus 1.5%.

1.10 The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Ashfield may be different from the assessment below.

Estimated effect of changes in Actuary's assumptions on employers liability in 2019/20

Assumption	**Duration of Individual Employee Liability (Years)**			
	10	**15**	**20**	**25**
Discount Rate (SEDR)	Decrease of 1%	No change	Increase of 1%	Increase of 2%
Inflation (SEIR)	Decrease of 6%	Decrease of 7%	Decrease of 9%	Decrease of 13%
Overall Expected Impact	Decrease of 7%	Decrease of 7%	Decrease of 8%	Decrease of 10%

1.11 It should be noted that the assumptions are based on the post accounting date pension briefing note, provided by the Actuary on the 6th April 2020 and it is based on market information to 31 March 2020. The market conditions at 31 March 2020 take into the account the impact of the UK exiting the EU on 31 January 2020 and the Covid-19 pandemic.

Supreme Court ruling in McCloud/Sargeant case

1.12 Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

1.13 The first case (McCloud) was ruled in favour of the claimants, while the second case (Sargeant) ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

1.14 On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. We still have to wait for a remedy to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. An adjustment to reflect the decision of the Supreme Court was made in Ashfield's accounts for 2018/19.

Implications

Corporate Plan:

There is no impact to the Long Term Outcomes and Corporate Priorities.

Legal:
There are no legal implications.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications as a result of this report. It sets out assumptions that the Actuary uses to calculate the pension position for the Council under IAS 19 to show the estimated net value of the Council's portion of the pension fund (assets less liabilities). Changes in assumptions will affect the net position, but this has a nil overall change in the resources available to the Council on the balance sheet as any changes to the income and expenditure statement are reversed through statutory accounting entries.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	As above in General Fund
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
Employee Benefits figures reported in the Council's Annual Statement of Accounts for 2019/20 are misstated.	Assumptions are as advised by the Pension Fund Actuary. The assumptions are considered by Audit Committee.

Human Resources:
There are no human resources impacts

Equalities:
There are no equalities impacts

Environment/Sustainability:
There are no environmental or sustainability issues.

Other Implications:
None

Reason(s) for Urgency
N/A

Background Papers
Appendix A – Barnet Waddington Briefing Note including Glossary and FAQ’s.

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