Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**21ST MARCH 2024**
Heading:	**PENSION ASSUMPTIONS FOR 2023/24 STATEMENT OF ACCOUNTS**
Executive Lead Member:	**EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN**
Ward/s:	**ALL**
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 2023/24.

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 2023/24 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 preparation of the 2023/24 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 2023/24 Statement of Accounts.

1.4 The calculation of Ashfield District Council's net pension liability (the difference between the assets held and projected liabilities) as at 31 March 2023 was £26.811m. 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.

1.5 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.

1.6 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.

1.7 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.

1.8 The proposed financial assumptions for 2023/24 are:

- **Expected Return on Assets**. The Actuary anticipates that a typical local Government Pension Fund might achieve a return of around -9% to 31 January 2024. Although this may vary depending on the individual fund's investment strategy.
- **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 in previous years.
- **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 0.2% and 0.75% depending on the duration of the employer liabilities.

- **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 consistent with the standard approach proposed by the Actuary and adopted by Ashfield District Council last year.

1.9 The overall impact of the assumptions for an average employer is set out below. It is to 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. The assessment for 2023/24 is based on the consideration of maturity of employers.

- Employers may be considered "Very Mature" if they have a liability duration under 10 years at the accounting date;
- Employers may be considered "Mature" if they have a liability duration of between 10 and 20 years at the accounting date;
- Employers may be considered "Immature" if they have a liability duration over 20 years at the accounting date.

Estimated effect of changes in Actuary's assumptions on employers' liability in 2023/24

Discount Rate (SEDR)	Discount Rate		
	31st January 2024	31st March 2023	Estimated impact of change on liabilities
Very Mature	4.7% to 4.85%	4.8% to 4.85%	Decrease of 0% to Increase of 1%
Mature	4.85% to 5%	4.8%	Decrease of 0% to 4%
Immature	5.00%	4.80%	Decrease of 4% to over 5%
Inflation (SEIR)			
	31st January 2024	31st March 2023	
Very Mature	3.25% to 3.50%	3.40% to 3.50%	
Mature	3.00% to 3.25%	3.20% to 3.40%	
Immature	2.95% to 3.00%	3.15% to 3.20%	
Inflation CPI	CPI Inflation		
	31st January 2024	31st March 2023	Estimated impact of change on liabilities
Very Mature	2.70% to 2.80%	2.65% to 2.85%	Decrease of 1% to Increase of 1%
Mature	2.70% to 2.80%	2.85% to 2.95%	Decrease of 1% to 4%
Immature	2.70% to 2.75%	2.85% to 2.90%	Decrease of 2% to 4%
Overall Expected Impact	Estimated effect of change in financial assumptions on employer's liabilities		
Very Mature	Decrease of 1% to Increase of 1%		
Mature	Decrease of 1% to 7%		
Immature	Decrease of 7% to over 9%		

1.10 The assumptions are based on the pre accounting date pension briefing note, provided by the Actuary on the 13th February 2023 and it is based on market information to 31 January 2023.

Supreme Court ruling in McCloud/Sargeant case

1.11 Regulations in respect of the McCloud and Sargeant judgements came into force on 1 October 2023. These may affect the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report. An allowance for the McCloud remedy will have been made in the liabilities which is consistent with the method adopted at the last actuarial valuation.

Implications

Corporate Plan:

There is no impact to the long-term outcomes and corporate priorities.

Legal:

There are no legal implications. [RLD 11/03/2024]

Finance: [PH 11/03/2024].

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications as a result of this report. The report 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). This is a balance sheet figure and charges to the Comprehensive Income and Expenditure Statement are reversed through statutory accounting entries.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	As above
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
Employee Benefits figures reported in the Council's Annual Statement of Accounts for 2023/24 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 implications. [KB 12/03/2024]

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

Equalities:
There are no equalities implications.

Background Papers
Appendix A – Barnet Waddington Briefing Note
Appendix B - Barnet Waddington Glossary

Report Author and Contact Officer
Clive Howey
INTERIM CHIEF ACCOUNTANT
Clive.howey@ashfield.gov.uk
01623 457548

Sponsoring Director
Craig Bonar
EXECUTIVE DIRECTOR - TRANSFORMATION
Craig.bonar@ashfield.gov.uk
01623 457203