Report To:	**AUDIT COMMITTEE**	**Date:**	**19 MARCH 2018**
Heading:	**PENSION ASSUMPTIONS FOR 2017/18 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 figures reported in the Council's Annual Statement of Accounts for 2017/18.

Recommendation(s)

Member are asked to consider the actuary's briefing note attached as appendix A and the proposed IAS 19 assumptions, and agree them as the basis for the calculation of the figures required for the 2017/18 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 within the 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 2017/18 Statement of Accounts.

Alternative Options Considered

Members could recommend that a bespoke report is 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

a. IAS 19 - Employee Benefits, is one of the financial reporting standards that the Council must comply with when producing its annual 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.

b. To calculate the cost of earned benefits for inclusion in the 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.

c. 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.

d. Ashfield District Council's net pension liability (the difference between the assets held and projected liabilities) as at 31 March 2017 was calculated at £104.262m. 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 within the Balance Sheet will be affected by the assumptions used. There will be no impact on the Revenue position in the short-term as charges have been agreed until 2019/20 as part of the triennial review undertaken by the Actuary in 2016/17.

e. 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 2017/18 Accounts.

f. 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.

g. The proposed financial assumptions for 2017/18 are detailed below:

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:-

- **Corporate bond yields.** This is used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability. The actuary has revised their methodology for 2017/18 which is detailed in Appendix A.
- **Expected Return on Assets.** The actuaries anticipate that a typical local Government Pension Fund might achieve a negative return of around 8% in the year to 31 March 2018 although this may vary depending on the individual funds investment strategy.
- **Inflation Expectations.** The levels of future Retail Prices Inflation (RPI) are assessed on the basis of the yields on fixed interest and index linked government securities over the period of the duration of the liabilities. The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI) which historically is lower than the Retail Prices Index. The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of 1.0%.
- **Salary Increases** – The actuaries have proposed that salary increases are in line with CPI to 2020, then they increase in line with CPI plus 1.5%. Due to expected changes in pay award proposals Ashfield District Council has asked that these standard assumptions be used in place of the 1% to 2020 assumptions that had been adopted in the previous 2 financial years.

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.

Changes in Actuary's Assumptions from 2016/17

Assumption	**Duration of Individual Employee Liability (Years)**			
	Less than 12.5	**12.5 to 17.5**	**17.5 to 22.5**	**Greater than 22.5**
Effect of change in discount rate on employer's liability	Decrease of up to 5%	Between a decrease of 1% and an increase of 6%	Increase between 4% and 8%	Increase between 7% and 8%
Change in inflation on employer's liabilities	Between a decrease of 1% and an increase of 1%	Decrease between 1% and 4%	Decrease between 5% and 8%	Decrease of 10%
Overall Impact	Decrease between 1% and 4%	Between a decrease of 1% and an increase of 2%	Decrease of 1%	Decrease between 3% and 4%

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, as it sets out assumptions that the actuary uses to calculate the pension position for the Council under IAS 19. 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. The actual employer contributions payable by the Council into the Fund were agreed as part of the Actuary's Triennial Review which covered the period 2017/18 to 2019/20.
General Fund – Capital Programme	None

Housing Revenue Account – Revenue Budget	As above in General Fund
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
None	

Human Resources:
There are no human resources impacts

Equalities:
There are no equalities impacts

Other Implications:
None

Reason(s) for Urgency
N/A

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

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